FINANCIAL STATEMENTS OF BANK ZACHODNI WBK S.A. FOR 2009

2009

Bank Zachodni WBK

Dear All,

Last year was the most difficult period in the history of Bank Zachodni WBK given the crisis in the world financial markets as a result of which the Polish economy slowed down significantly, enterprise performance weakened and unemployment increased. Despite such serious turbulence, we closed the year in a good condition. In 2009, Bank Zachodni WBK impressed with its activity and creativity which allowed us to strengthen our position in the lead of the largest and most profitable Polish banks. This augurs well for the execution of our strategy in the years to come.

In 2009, our bank distinguished itself positively against the banking sector. First of all, unlike many of our competitors we managed to avoid group redundancies. The savings programme, which was innovative in the Polish market and applied to all the bank's employees across the board, allowed us to put the growth in staff costs on hold and keep them at a low level. Good work organisation, optimum location of our branches and primarily the efforts taken by our people prevented our bank, unlike many others, from closing its branches. On the contrary, in 2009 we opened more than ten new outlets and additionally we materially expanded out partner network. Thanks to that we can invite our customers and all other people interested in our products and services to more than 600 outlets with Bank Zachodni WBK logo.

Other successes of the last year include the maintenance of the loans to deposits ratio under 79%, which is very safe and one of the best in the sector, stable loan volumes, including a nearly 20% growth in sales of cash loans and more than 11% growth in the sales of home loans, which have became our flagship product, very popular and highly assessed by customers. On the deposit side we expanded the array of our products and strengthened our market position.
We also expanded our personal account proposition, which supported on its own merits and by marketing campaigns, was well-received by customers and the market and allowed us to become the third biggest player in terms of the personal accounts number.

It is also worth noting that we are still in the group of banks with the best bad loan ratio. Moreover, last year we also kept diversifying our business and increasing our activity in new business areas, including bancassurance and third party services.

Though 2009 was the most difficult year for the Polish economy in the recent history, the total income of Bank Zachodni WBK increased by nearly 11% excluding gains on non-recurring capital markets transactions. Owing to savings initiatives, we reduced our total costs by 1.4% last year and recorded the cost/income ratio at 47.9% - one of the lowest in the sector. The solvency ratio of Bank Zachodni WBK is at a very good level – 12.3% while the return on equity (ROE) is at 21.9%. And finally, the most important indicator for investors – profit. Bank Zachodni WBK closed 2009 with the profit-after-tax of PLN 986 m, which is nearly PLN 177 m higher than in 2008, and with the profit-before-tax of PLN 1 159 m, which was as much as 17% higher than a year ago.

The difficult past year confirmed the soundness of the diversification strategy which we started to implement in 2007. With its sustainable growth, focus on income streams and development of many business lines, today Bank Zachodni WBK is one of the safest universal banks operating on the Polish market. What is more, the strategy executed in the difficult macroeconomic environment taught our organisation how to be flexible and how to leverage market niches. This is an invaluable asset that we will benefit from in the years to come.

Last year, like no other, proved that the good business strategy, consistency in its execution, cost discipline, and first of all professionally prepared management team at all levels and engaged employees are the great asset of Bank Zachodni WBK. I would like to thank all the employees for the very good performance in this exceptionally difficult period and to emphasise the responsibility for the bank, for their colleagues by participating jointly in the savings programme. I would also like to indicate that Bank Zachodni WBK would not have recorded such good results in 2009 if there had not been such a good co-operation between the Management Board and the Supervisory Board.

Mateusz Morawiecki
President of the Management Board

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in thousands of PLN

Income statement of Bank Zachodni WBK S.A.

For reporting period:		01.01.2009-31.12.2009	01.01.2008-31.12.2008
Interest and similar income		3 043 456	3 017 121
Interest expense and similar charges		(1 627 917)	(1 525 654)
Net interest income	Note 4	**1 415 539**	**1 491 467**
Fee and commission income		1 160 141	1 095 619
Fee and commission expense		(137 231)	(121 477)
Net fee and commission income	Note 5	**1 022 910**	**974 142**
Dividend income	Note 6	337 553	218 331
Net trading income and revaluation	Note 7	268 934	45 343
Gains (losses) from other financial securities	Note 8	(6 139)	55 890
Net gain on sale of subsidiaries and associates	Note 9	-	226
Other operating income	Note 10	49 684	54 283
Impairment losses on loans and advances	Note 11	(449 700)	(351 889)
Operating expenses incl.:		(1 479 881)	(1 500 360)
Bank's staff, operating expenses and management costs	*Note 12,13*	*(1 351 650)*	*(1 386 807)*
Depreciation/amortisation		*(112 155)*	*(97 611)*
Other operating expenses	*Note 14*	*(16 076)*	*(15 942)*
Operating profit		**1 158 900**	**987 433**
Profit before tax		**1 158 900**	**987 433**
Corporate income tax	Note 15	(172 672)	(178 268)
Profit for the period		**986 228**	**809 165**
Net earnings per share (PLN/share)	Note 16		
Basic earnings per share		13,50	11,09
Diluted earnings per share		13,44	11,05

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

For reporting period:	01.01.2009-31.12.2009	01.01.2008-31.12.2008
Profit for the period	**986 228**	**809 165**
Other comprehensive income:		
Available for sale financial assets valuation	57 459	2 445
Cash flow hedges valuation	26 590	(24 673)
Other comprehensive income for the period, net of income tax	**84 049**	**(22 228)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1 070 277**	**786 937**

Notes presented on pages 15 – 94 constitute an integral part of these Financial Statements.

in thousands of PLN

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

	as at:	31.12.2009	31.12.2008
ASSETS			
Cash and balances with central banks	Note 17	2 660 649	3 178 099
Loans and advances to banks	Note 18	647 559	1 347 832
Financial assets held for trading	Note 19	1 301 037	3 222 357
Hedging derivatives	Note 20	10 801	347
Loans and advances to customers	Note 21	32 626 176	32 654 263
Investment securities	Note 22,23	13 265 805	12 894 385
Investments in associates, subsidiaries and joint ventures	Note 24	234 349	234 225
Intangible assets	Note 25	162 693	155 459
Property, plant & equipment	Note 26	581 132	618 705
Current income tax due		55 817	-
Net deferred tax assets	Note 27	223 680	168 141
Other assets	Note 28	169 918	337 243
Total assets		**51 939 616**	**54 811 056**
LIABILITIES			
Deposits from central bank	Note 29	1 519 208	1 242 574
Deposits from banks	Note 30	2 301 492	1 957 609
Hedging derivatives	Note 20	32 933	68 562
Financial liabilities held for trading	Note 19	812 882	3 253 289
Deposits from customers	Note 31	41 262 174	43 381 905
Current income tax liabilities		-	10 971
Other liabilities	Note 32	517 388	475 588
Total liabilities		46 446 077	50 390 498
Equity			
Share capital	Note 33	730 760	729 603
Other reserve funds	Note 34	3 354 289	2 543 577
Revaluation reserve	Note 35	422 262	338 213
Profit of the current period		986 228	809 165
Total equity		5 493 539	4 420 558
Total equity and liabilities		**51 939 616**	**54 811 056**

Notes presented on pages 15 – 94 constitute an integral part of these Financial Statements.

in thousands of PLN

Movements on equity of Bank Zachodni WBK S.A.

MOVEMENTS ON EQUITY	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Total
Opening balance as at 31.12.2008	**729 603**	**2 543 577**	**338 213**	**809 165**	**4 420 558**
Total comprehensive income	-	-	84 049	986 228	1 070 277
Share issue related to vesting the share incentive scheme	1 157	-	-	-	1 157
Share scheme charge	-	1 547	-	-	1 547
Transfer to other capital	-	809 165	-	(809 165)	-
As at 31.12.2009	**730 760**	**3 354 289**	**422 262**	**986 228**	**5 493 539**

As at the end of the period revaluation reserve in the amount of PLN 422 262 k comprises of debt securities of PLN 4 972 k and equity shares classified as available for sale of PLN 415 372 k and additionally cash flow hedge activities PLN 1 918 k.

MOVEMENTS ON EQUITY	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Total
Opening balance as at 31.12.2007	**729 603**	**1 951 251**	**360 441**	**809 474**	**3 850 769**
Total comprehensive income	-	-	(22 228)	809 165	786 937
Share scheme charge	-	1 733	-	-	1 733
Dividend relating to 2007	-	-	-	(218 881)	(218 881)
Transfer to other capital	-	590 593	-	(590 593)	-
As at 31.12.2008	**729 603**	**2 543 577**	**338 213**	**809 165**	**4 420 558**

As at the end of the period revaluation reserve in the amount of PLN 338 213 k comprises of debt securities of PLN (51 895) k and equity shares classified as available for sale of PLN 414 781 k and additionally cash flow hedge activities PLN (24 673) k.

Notes presented on pages 15 – 94 constitute an integral part of these Financial Statements.

in thousands of PLN

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

For reporting period:	01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
Profit before tax	**1 158 900**	**987 433**
Total adjustments:	**(2 001 740)**	**2 055 344**
Depreciation	112 155	97 611
Impairment losses	(31)	(467)
Interests and similar charges	(5 398)	(103 005)
Dividend received	(337 553)	(218 331)
(Profit) loss from investing activities	4 161	(58 123)
Change in provisions	38 023	(36 205)
Change in trading portfolio financial instruments	(284 434)	395 987
Change in loans and advances to banks	-	21 828
Change in loans and advances to customers	28 087	(10 503 630)
Change in deposits from banks	620 517	54 788
Change in deposits from customers	(2 119 731)	13 117 171
Change in liabilities arising from debt securities in issue	-	(99 348)
Change in other assets and liabilities	256 160	(446 188)
Paid income tax	(314 496)	(168 195)
Other adjustments	800	1 451
Net cash flow from operating activities	**(842 840)**	**3 042 777**
Inflows	**4 914 520**	**2 546 576**
Sale of shares or interests in subsidiaries and associates	-	3 021
Sale/maturitiy of investment securities	4 574 972	2 308 655
Sale of intangible assets and property, plant and equipment	1 985	16 559
Dividends received	337 553	218 331
Proceeds from other investments	10	10
Outflows	**(3 807 487)**	**(5 056 107)**
Purchase of subsidiaries and associates	(50)	(81 831)
Purchase of investment securities	(3 722 853)	(4 737 223)
Purchase of intangible assets and property, plant and equipment	(83 053)	(235 468)
Other investments	(1 531)	(1 585)
Net cash flow from investing activities	**1 107 033**	**(2 509 531)**
Inflows	**1 157**	**-**
Proceeds from issuing shares	1 157	-
Outflows	**(24 809)**	**(233 163)**
Dividends and other payments to shareholders	-	(218 881)
Other financing outflows	(24 809)	(14 282)
Net cash flow from financing activities	**(23 652)**	**(233 163)**
Total net cash flow	**240 541**	**300 083**
Cash at the beginning of the accounting period	**5 310 351**	**5 010 268**
Cash at the end of the accounting period	**5 550 892**	**5 310 351**

Notes presented on pages 15 – 94 constitute an integral part of these Financial Statements.

Additional notes to financial statement of Bank Zachodni WBK S.A.

1. General information about the issuer

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

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

Bank Zachodni WBK S.A. is a universal commercial bank that offers a wide range of banking services for individual and business customers and operates in domestic and interbank foreign markets. Additionally, through its subsidiaries, BZ WBK offers the following services:

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

2. Basis of preparation of financial statements

Statement of compliance

The annual unconsolidated financial statements of Bank Zachodni WBK S.A. for the year ended 31 December 2009 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and with other requirements of exisiting legislation.

Changes in accounting policies

Since January 2009 the Bank has changed the accounting policy concerning the recognition or derecognition from financial statement of purchase or sale of financial asset using the trade date accounting rather than the settlement date.

Since January 2009 the Bank has applied changes to IAS 1 "Presentation of Financial Statements" by presenting statement of comprehensive income.

The effect on financial data is described in a section "Comparability with results of previous periods".

Comparability with results of previous periods

To ensure comparability, the following significant changes were made to the presentation of financial data compared to 2008 in:

in thousands of PLN

a) income statement:

- change of presentation of income from FX forward transactions - currently in "Net trading income and revaluation" while previously the amount of PLN 15 855 k was classified as "Net fee and commission income"

b) statement of financial position:

- As a result of changes in the interpretation of IAS 12, the presentation of deferred tax assets and liabilities was changed. Since June 2009 the assets and liabilities have been presented as a net value. The change is reflected also in the comparable period therefore the total assets in the statement of financial position decreased in the amount of PLN 399 028 k as at 31.12.2008,
- As at 31.12.2008 there was no regular way purchase or sale of financial assets.

c) 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 January 2009 cash components have included other liquid financial assets with maturity up to 3 months. The details of reclassification are presented in the table below.

		31.12.2008		31.12.2007	
Cash components:		Before revision	After revision	Before revision	After revision
Deposits in other banks, current account	(1)	12 371	1 347 832	19 331	2 541 927
Cash and current accounts in central bank		3 178 099	3 178 099	2 206 259	2 206 259
Debt securities held for trading	(2)	-	168 618	-	53 447
Debt securities available for sale	(3)	-	615 802	-	208 635
Total		**3 190 470**	**5 310 351**	**2 225 590**	**5 010 268**

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

1) Change in loans and advances to banks,
2) Change in trading portfolio financial instruments,
3) Purchase of investment securities.

New standards and interpretations or changes to existing standards or interpretations that are not yet effective and have not been early implemented

Standard or interpretation	Character of changes	Effective from	Impact on the Bank
Amendments to IAS 39 *Financial Instruments: Recognition and Measurement*	Amendments provide for the application of hedge accounting in respect of inflation component of financial instruments and options used as hedging instruments.	1 January 2010	Amendments to IAS 39 will not have a material impact on the financial statement.

Amendments to IFRS 2 *Share-based Payment* (pending EU approval)	Amendments to IFRS 2 specify financial reporting if a cash-settled share-based payment is undertaken. The definitions of share-based payment and share-based payment agreement have been amended. The scope of IFRS 2 has been amended. Guidance on financial reporting of group share-based payment transactions have been included.	1 January 2010	Amendments to IFRS 2 will not have a material impact on the financial statement.
IAS 39 *Financial Instruments*	The issued amendments are related to cash flow hedges. According to the amendments, profit or loss on cash flow hedges should be reclassified from equity to profit or loss relative to the period cash flow hedges affect profit or loss.	1 January 2010	Amendments will not have a material impact on the financial statement.
IAS 39 *Financial Instruments*	According to the amendments, the prepayment option is deemed to be an embedded derivative that is closely related to the financial instrument where prepayment is up to the present value of lost interest for the remaining term of the contract.	1 January 2010	Amendments will not have a material impact on the financial statement.
IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*	According to the amendments, the disclosures of non-current assets or groups of assets held-for-sale are limited to disclosures defined in IFRS 5.	1 January 2010	Amendments will not have a material impact on the financial statement.
IFRS *9 Financial Instruments*	Changes in classification and measurement - the existing categories of financial instruments to be replaced by two measurement categories, i.e. amortised cost and fair value.	1 January 2013	The Bank has not completed its analysis of amendments changes.
IAS 32 Financial *Instruments: Presentation*	The amendment pertains to the classification of rights issue.	1 January 2011	The Bank has not completed its analysis of the amendment yet.

in thousands of PLN

IFRIC 18 *Transfer of Assets from Customers*	The interpretation provides guidance on how to account for transfers of assets and cash from customers to acquire or construct an item of property.	1 January 2010	Amendments will not have a material impact on the financial statement.
IFRIC 17 *Distribution of Non-cash Assets to Owners*	This interpretation provides guidance on how to account for the distribution of non-cash assets to owners.	1 January 2010	Amendments will not have a material impact on the financial statement.
IFRS 3 *Business Combinations*	The updated IFRS 3 sets out rules and requirements relating to financial recognition and measurement of individual components (acquired assets and liabilities, non-controlling interest and goodwill) by the acquirer.	1 January 2010	The amended IFRS has no impact on the financial statement.
IAS 27 *Consolidated and Separate Financial Statements*	Amendments to IAS 27 define when companies are required to prepare consolidated financial statements, how parent companies should recognise changes in their ownership interest in subsidiaries and how losses of a subsidiary are allocated to controlling and non-controlling interest.	1 January 2010	Amendments will not have a material impact on the 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 Bank has not completed its analysis of changes.

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.

Fixed assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

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

Accounting estimates and judgments

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

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

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

Key estimates made by the bank

Loan impairment

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

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

- PD - Probability of default, based on historical observations together with EP is considered to be best indicator of existing but not directly identifiable impairment,
- 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,
- EP - Emergence period i.e. estimated time between the occurrence of event of default and its identification by the bank,
- 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 of non-financial assets

The measurement of fixed assets is reviewed at the end of the reporting period to specify whether there are reasons for write-down due to impairment. If there are such reasons, the recoverable value of assets should be determined.
In case of goodwill and intangible assets not yet available for use, recoverable value is determined as at the end of each reporting period.
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 the impairment amount is recognised considering the expected recoverable amounts, and for long term other receivables discounting is applied.
Assets held for sale are recorded at the lower of carrying amount and estimated fair value less estimated costs to sell.

Fair value of financial instruments

Some of the bank's financial instruments are carried at fair value, including all derivatives, other financial assets measured at fair value through profit or loss and financial instruments available for sale. Financial instruments are either marked-to-market or priced by using a valuation model. Where the fair value is calculated using financial-markets pricing models, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices. The calculation of fair value for any financial instrument may require an adjustment of quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used).

Other accounting estimates and judgements

Provisions for employee benefits paid on termination of employment, i.e. post-employment benefits, are estimated on the basis of an actuarial valuation. The actuarial valuation of those accruals is updated at least on an annual basis.
Provisions for legal claims have been estimated considering the expected loss arising on individual cases.

Foreign currency

Foreign currency transactions

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

Financial assets and financial liabilities

Classification

The bank classifies its financial instruments into the following categories:

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

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

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

(a) Classified as held for trading. A financial asset or financial liability is classified as held for trading if:
  (i) it is acquired or incurred principally for the purpose of selling or repurchasing in the near term;
  (ii) it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking;
  (iii) derivatives are held for trading unless the derivative is a designated and effective hedging instrument.

(b) Upon initial recognition it is designated by the bank at fair value through profit or loss. As at the balance sheet date the bank doesn't hold this category of financial instrument.

Held-to-maturity investments

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

Loans and receivables

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

(a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;

(b) those that the entity upon initial recognition designates as available for sale;

(c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

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

Available-for-sale financial assets

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

(a) loans and receivables

(b) held-to-maturity investments

(c) financial assets at fair value through profit or loss.

Other financial liabilities

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

Recognition

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

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

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

Derecognition

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

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

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

Measurement

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

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

(a) loans and receivables which shall be measured at amortised cost using the effective interest method;

(b) held-to-maturity investments, which are measured at amortised cost using the effective interest rate;

(c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

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

(a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value,

(b) financial liabilities resulting from transferring a financial asset that is not to be derecognised.

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

Reclassification

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

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

Gains and losses on subsequent measurement

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

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

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

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

Offsetting financial instruments

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

(a) a legally enforceable right to set off the recognised amounts

(b) and when there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Subsidiaries, associates and joint ventures

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

Repurchased transactions

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

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

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

Derivative financial instruments

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

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

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

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

Hedge accounting

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

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

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

The bank discontinues hedge accounting when:

(a) it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;

(b) the derivative expires, or is sold, terminated, or exercised;

(c) the hedged item matures or is sold or repaid.

Fair value hedge

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

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

Cash flow hedge

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

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

(b) could affect the statement of comprehensive income.

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

Impairment of financial assets

Assets carried at amortised cost – loans and receivables

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

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

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

impairment loss is the current effective interest rate determined under the contract. The carrying amount of the asset shall be reduced through identification of a provision. The amount of the loss shall be recognised in profit or loss.
The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The bank periodically reviews its loan portfolio to check whether there is any objective evidence that a financial asset or group of financial assets are impaired.
The analysis of impairment is carried out:

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

With regard to impairment, the review of individual loan exposures is carried out once a quarter or more often, if needed. Impairment of individual loan exposures is based on the amount of prospective receivables (defined as the current value of expected cash flows discounted by the effective interest rate). Impairment for the portfolio, which is assessed jointly, is verified monthly. The bank carries out validation (so called 'back tests') of parameters which are used to calculate provisions under collective approach, on the basis of historical observations, at least once a year.
If the bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised by the bank are not included in a collective assessment of impairment.
For the purpose of the collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of the bank's credit risk evaluation or the bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.
Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.
Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the bank and their magnitude). The bank reviews regularly the methodology and assumptions used for estimating future cash flows in order to reduce any differences between loss estimates and actual loss experience.
In the case of credit exposures for which no indications of impairment were identified, the bank carries out the impairment analysis based on the concept of losses already incurred but not yet reported and connected with loan

impairment (IBNR – Incurred But Not Reported), which is estimated on the basis of the historical loss experience for loans with a similar risk profile, on the basis of estimated period between the occurrence of impairment and the identification as well as evidencing loss, and on the basis of historical data adjustments, as described above.
If, in a subsequent period, the amount of the impairment loss decreases and the decrease is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting the provision. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss.
When a loan has been subject to a specific provision and the prospects of recovery do not improve, eventually it may be concluded that there is no real prospect of recovery. When this point is reached, the amount of the loan which is considered to be non-recoverable is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

Available-for-sale financial assets

For financial assets classified as available-for-sale for which there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in other comprehensive income shall be removed and recognised in profit or loss. The amount of the cumulative loss that is removed from other comprehensive income and recognised in profit or loss shall be the difference between the acquisition cost (net of any principal repayments and amortisation) and current fair value. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.
If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Held-to-maturity investments

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

Contingent liabilities

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

Property, plant and equipment

Owned assets

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

Leased assets

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

Subsequent expenditure

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

Depreciation

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

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

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

Fixed assets held for sale

On the initial date of classification of non-current assets as assets held-for-sale, the bank measures them at the lower of the 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 are recognised in the profit and loss account.

Intangible assets

Computer software

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

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

Other intangible assets

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

Subsequent expenditure

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

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are 3 to 5 years.
Depreciation rates are verified annually. On the basis of this verification, depreciation periods might be changed.

Other items

Other trade and other receivables

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

Other liabilities

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

Equity

Equity comprises capital and funds created in accordance with applicable law, acts and the Statutes. Equity also includes retained earnings and prior year losses carried forward.
Share capital is stated at its nominal value in accordance with the Statutes and the entry in the court register.
Supplementary capital is created from profit allocations and share issue premiums.
Reserve capital is created from profit allocations and is earmarked for covering balance sheet losses.
The result of valuation of profit sharing scheme is included in reserve capital (IFRS 2.53).
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. The revaluation reserve is not distributable.

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

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

Dividends

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

Employee benefits

Short-term service benefits

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

Long-term service benefits

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

Share based payments

The bank operates a share based compensation plan. For share options after 7 November 2002 (IFRS 2.53), the fair value of the employee services received is measured by reference to the fair value of awards granted on the day of the grant. The cost of the employee services received in exchange for awards granted is recognized in the income statement over the period during which the employees become unconditionally entitled to the share based payments, which is the vesting period. The amount expensed is determined by reference to the fair value of awards granted. The fair value of awards granted is determined using the share based payments pricing models, which take into account the exercise price of the award, the share price at date of grant, the risk free rate, the expected volatility of the share price over the life of the award and other relevant factors. The bank assesses probability of the programme vesting, which affects the value of the programme in cost reported for 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 relate to 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 the shareholder's equity. Where the share based payment arrangements give rise to the issue of new shares, the proceeds of issue of the shares are credited to share capital (nominal amount) and share premium (if any) when awards are exercised.

Provisions

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

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

Net interest income

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

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the bank shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees (e.g. arrangement, drawdown, renewal, restructure fees and fees for annexes which modify payments) and amounts paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

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

Net commission income

Fees and commissions settled under effective interest rate are listed above. Fees on overdrafts, revolving loans, credit cards and off balance sheet liabilities are brought in a straight-line method to the profit and loss account.

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

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

Net trading income and revaluation

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

Dividend income

Dividends are taken to the bank’s profit at the moment of acquiring rights to them.

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

Other operating income and costs

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

Operating lease payments

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

Finance lease payments

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

Corporate income tax

Corporate income tax comprises current and deferred tax. Income tax is recognised in profit and loss except to the extent that it relates to items recognised in other comprehensive income.
Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.
Deferred income tax is provided, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the end of the reporting period and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences will be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.
Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

3. Risk management

BZWBK assumes a variety of risks in its ordinary business activities. These include credit risk, market risk, liquidity risk and operational risk. The role of risk management is to ensure that BZWBK continues to take risk in a controlled way in order to enhance shareholder value. BZWBK's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits continually. BZWBK continues to modify and enhance its risk management practices to reflect changes in Market, products, regulatory environment and evolving best practice.

Primary responsibility for risk management establishment and framework lies with the Management Board (MB). MB formally approves the overall business strategies and policies, reviews bank's financial performance, risk management activities and controls. MB has established committees, which are responsible for risk developing and monitoring in their specified areas. Overall strategy for risk management in Bank Zachodni WBK S.A. is set by Risk Management Committee, which activities include: identification of key risks, defining acceptable risk level and methods for risk measurement, controlling, monitoring and reporting. Risk Management Committee supervises activities of other risk managing committees in BZ WBK: the Credit Policy Forum, Credit Committee, the Provisions Committee, Asset and Liabilities Committee (ALCO), Operational Risk Management Committee (ORMCo) and Market Risk Management Committee.

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

Operating risk

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

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

Bank Zachodni WBK S.A. operates the 'Operational Risk Management Policy' and the 'Rules of Operational Risk Management'. 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 Management Board.

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

- Identification and estimation of operational risk

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

- Reporting on operational incidents and lessons learned

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

- Analysis of risk indicators

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

- Business continuity management

  Each organizational unit is required to develop and update their business continuity management plans to ensure that critical business processes remain uninterrupted following an unplanned disruption. The plans also provide for absence of 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, risk indicators, operational risk self-assessment.

- Insurance

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

Bank Zachodni WBK S.A. co-operates closely with the AIB Group in the area of development and implementation of strategies and policies for operational risk management, selection and launch of supporting instruments, and ensuring compliance with the requirements of the New Capital Accord.

Credit risk

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

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

Credit risk arises mainly from lending activities on the retail, corporate and inter-bank markets. This risk is managed as part of the policy approved by the Management Board on the basis of the adopted credit procedures as well as on the basis of discretionary limits allocated to individual credit officers based on their knowledge and experience. The bank's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan book.

Continued pro-active credit risk management is recognised as key to the Bank's performance in the volatile markets and deteriorating economic growth conditions. During 2009 the Bank has taken the following actions:

- active management of property loan portfolio, orientated at strict monitoring of existing exposures and balancing the share of property loans in the total credit portfolio,
- significantly reduced new FX lendings,
- continuously verifying its approach to credit risk management by adopting methods of risk assessments to new parameters and tightening existing credit policies.

The high quality of the credit portfolio confirms that these actions have been effective.

Credit Policy Forum

To manage the credit risk effectively, Bank Zachodni WBK S.A. established the Credit Policy Forum whose key role is to provide and approve the best sectoral practice, analyses, credit policies as well as grading and assessment systems aimed at ensuring sustainable growth of the credit portfolio, addressed for the Bank's Branch Network and Business Support Centre units directly responsible for business development and support.

Credit Policies

Credit policies 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 a level acceptable to the bank (e.g. FX risk in the case of foreign currency loans).

At the same time, credit policies are subject to periodical reviews aimed to bring these guidelines up to date with the bank's current needs.

Credit Grading

Intensive work has been undertaken for further development of the credit risk assessment tools to conform to the Basel requirements and IAS/IFRS. These efforts are accomplished based on AIB Group expertise and best practices, as well as in close liaison with external, internationally recognized advisors.

Currently the bank uses new credit risk grading models for its key credit portfolios, including corporate customers, SMEs, housing loans, income-generating real estate, cash loans, credit cards and retail overdrafts.
In 2009, new risk assessment models were implemented for credit cards and cash loans to incorporate customers' behavioural features prepared against data available from BIK (Credit Information Office). 2009 also saw a new model implemented for SME customers.
The Bank runs a systematic verification of credit grading pursuant to the rules described in the Credit Manuals. In 2009, the monitoring was intensified and adjusted to the current situation. Additionally, for selected models automated process of credit grade verification is carried out based on the number of overdue days or behavioral features analysis. Credit grade may also be verified at subsequent credit assessments.

Calculation of Impairment

In Bank Zachodni WBK S.A., 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 inccurred but not reported losses).
The Bank systematically compares the assumptions and parameters used for loss calculations with the actual situation. The comparison includes changes of economic conditions, amendments to bank 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.

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

Return on Risk

Bank Zachodni WBK S.A. continues to develop and implement risk based methods of grading loans, allocating capital and measuring returns. Currently for all significant portfolios risk valuation models based on EVA (Economic Value Added) are being implemented.

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 relating to particular activities (retail banking, corporate banking and SMEs). 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 S.A.

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

In order to ensure better risk management, the bank implemented scoring techniques for retail customers, SMEs and home mortgages. The scoring systems are continuously refined to enhance the quality of risk management and the decision-making process.

Credit Reviews

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

Credit risk concentration

Bank Zachodni WBK adheres to the standards provided for in the Banking Law with regard to the concentration of risk bearing exposures to a single entity or a group of entities connected in terms of capital or organisation. As at 31.12.2009, pursuant to art. 71 of the Banking Law Act, the maximum limits for the bank totalled:

- PLN 938 673 k (20% of bank's own funds) in the case of exposures to subsidiary or dominant entities or to subsidiary entities of the entity dominant for the bank,
- PLN 1 173 342 k (25% of bank's own funds) in other cases.

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

The analysis of the bank's exposures in terms of sector concentrations, carried out at the end of December 2009, proved that the bank does not have any exposures in excess of the limits imposed by the regulator.

As at 31 December 2009, the bank had credit exposures (balance sheet and off-balance sheet) exceeding 10% of its own funds attributable to 2 entities (excluding exposures to subsidiaries) which accounted for 33.4% of own funds (against the permissible norm of 800%).

in thousands of PLN

A list of the 20 largest borrowers of Bank Zachodni WBK SA (performing loans) as at 31.12.2009.

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure	Committed credit lines and guarantees
64	FINANCIAL SERVICES	1 084 948	473 504	611 444
64	FINANCIAL SERVICES	1 058 871	426 924	631 947
68	REAL ESTATE SERVICES	861 388	840 436	20 952
68	REAL ESTATE SERVICES	708 252	639 764	68 488
64	FINANCIAL SERVICES	688 500	221 084	467 416
41	CONSTRUCTION	421 171	238 261	182 910
68	REAL ESTATE SERVICES	360 892	315 464	45 428
68	REAL ESTATE SERVICES	358 646	279 774	78 872
41	CONSTRUCTION	357 888	301 617	56 271
68	REAL ESTATE SERVICES	334 389	307 026	27 363
41	CONSTRUCTION	313 954	311 915	2 039
68	REAL ESTATE SERVICES	309 509	231 893	77 616
68	REAL ESTATE SERVICES	303 746	229 323	74 423
68	REAL ESTATE SERVICES	275 335	241 254	34 081
41	CONSTRUCTION	264 952	230 384	34 568
68	REAL ESTATE SERVICES	255 881	225 842	30 039
68	REAL ESTATE SERVICES	242 543	227 043	15 500
41	CONSTRUCTION	233 742	233 742	-
16	PRODUCTION	210 108	112 755	97 353
43	SPECIALISED CONSTRUCTION	207 035	67 308	139 727
Total gross exposure		**8 851 750**	**6 155 313**	**2 696 437**

Credit risk management

The bank's credit risk management depends on internal ratings that, for presentational purposes, are grouped by classes.

The tables below present the bank exposure to credit risk.

in thousands of PLN

Credit Exposures by classes

The table below presents breakdown of financial instruments into classes which correspond to different levels of impairment. There are separate percentage levels for unimpaired portfolio (both for the past-due and non-past due) and for impaired portfolio (identical for individually and collectively impaired).

	Provision cover	Loans and advances to customers		Loans and advances to banks		Investment securities		Financial assets held for trading*	
		31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
Individually impaired									
	up to 50 %	684 470	288 661						
	50% - 70%	133 609	96 352						
	70% - 85%	15 903	26 284						
	over 85 %	83 929	170 799		5 969				
Gross amount		**917 911**	**582 096**	**-**	**5 969**	**-**	**-**	**-**	**-**
Allowance for impairment		(299 829)	(295 231)		(5 969)				
Net amount		**618 082**	**286 865**	**-**	**-**	**-**	**-**	**-**	**-**
Collectively impaired									
	up to 50 %	460 541	105 383						
	50% - 70%	114 548	71 023						
	70% - 85%	212 527	109 216						
	over 85 %	98 598	97 617						
Gross amount		**886 214**	**383 239**	**-**	**-**	**-**	**-**	**-**	**-**
Allowance for impairment		(410 621)	(250 092)						
Net amount		**475 593**	**133 147**	**-**	**-**	**-**	**-**	**-**	**-**
Not impaired portfolio (past-due and non-past due)									
	up to 0,10 %	9 503 969	8 730 796	647 559	1 347 832	13 265 805	12 894 385	1 301 037	3 222 357
	0,10% - 0,30%	5 899 110	6 992 635						
	0,30% - 0,65%	4 895 743	6 999 737						
	over 0,65 %	11 516 762	9 308 798						
Gross amount		**31 815 584**	**32 031 966**	**647 559**	**1 347 832**	**13 265 805**	**12 894 385**	**1 301 037**	**3 222 357**
Allowance for impairment		(365 002)	(304 554)					-	
Net amount		**31 450 582**	**31 727 412**	**647 559**	**1 347 832**	**13 265 805**	**12 894 385**	**1 301 037**	**3 222 357**
Other receivables		**81 919**	**506 839**	**-**	**-**	**-**	**-**	**-**	**-**
Off- balance sheet exposures									
Financing granted		7 317 366	9 847 961						
Guarantees		1 130 010	950 992						
Nominal value of derivatives -bought								37 730 770	116 147 308
Off- balance sheet exposure- total		**8 447 376**	**10 798 953**	**-**	**-**	**-**	**-**	**37 730 770**	**116 147 308**

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

in thousands of PLN

IBNR portfolio

	Loans and advances to customers 31.12.2009	Loans and advances to customers 31.12.2008
Non-past due	**30 920 009**	**31 178 095**
Past-due	**895 575**	**853 871**
0-30 days	680 334	736 450
31-60 days	160 480	86 124
61-90 days	51 998	29 175
>90 days	2 763	2 122
Gross amount	**31 815 584**	**32 031 966**

Portfolio of loans with incurred but not reported losses (IBNR) included loans that in the past had renegotiated terms of agreements. For the current reporting period it was PLN 560 150 k and PLN 100 926 k as at 31.12.2008.

Allowances for impairment by classes

	Provision cover	Loans and advances to customers		Loans and advances to banks	
		31.12.2009	31.12.2008	31.12.2009	31.12.2008
Individual allowances for impairment					
	up to 50 %	(125 336)	(47 816)		
	50% - 70%	(79 295)	(56 840)		
	70% - 85%	(12 692)	(20 942)		
	over 85 %	(82 506)	(169 633)	-	(5 969)
Total individual allowances for impairment		**(299 829)**	**(295 231)**	**-**	**(5 969)**
Collective allowances for impairment					
	up to 50 %	(85 790)	(23 762)	-	-
	50% - 70%	(67 400)	(42 981)	-	-
	70% - 85%	(163 156)	(87 211)	-	-
	over 85 %	(94 275)	(96 138)	-	-
Total collective allowances for impairment		**(410 621)**	**(250 092)**	**-**	**-**
IBNR					
	up to 0,10 %	(5 643)	(4 368)	-	-
	0,10% - 0,30%	(10 478)	(13 169)	-	-
	0,30% - 0,65%	(20 776)	(32 718)	-	-
	over 0,65 %	(328 105)	(254 299)	-	-
Total IBNR		**(365 002)**	**(304 554)**	**-**	**-**
Total allowances for impairment		**(1 075 452)**	**(849 877)**	**-**	**(5 969)**

As at 31 December 2008, as a result of significant changes in the economic environment, the bank has made adjustments to the level of incurred but not reported losses, which are still largely in place as at 31 December 2009.

in thousands of PLN

Collateral

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

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

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

Industry concentration

The credit policy of Bank Zachodni WBK envisages lending to low risk industries and reduction of exposures to medium and high risk industries. In order to ensure adequate portfolio diversification and control the risk of overexposure to a single industry, the bank provides funding to sectors and groups or capital units representing a variety of industries. As at 31 December 2009, the highest concentration level was recorded in the "property" (21% of the BZ WBK exposure), in " construction" (14%) and in "production" (11%).

Groups of PKD by industries:

	Industry	Exposure	
		31.12.2009	31.12.2008 *
	Property	7 155 425	6 821 977
	Construction	4 554 195	4 663 122
	Production	3 873 451	4 450 316
	Distribution	3 083 488	3 452 185
	Financial sector	1 740 490	1 704 692
	Agriculture	521 308	687 715
	Energy	353 275	316 499
	Transportation	338 314	411 468
	Other industries	1 425 977	1 279 031
A	**Total Business Loans**	**23 045 923**	**23 787 005**
B	**Retail (including mortgage loans)**	**10 573 786**	**9 210 296**
A+B	**BZWBK portfolio**	**33 619 709**	**32 997 301**
C	**Other receivables (commercial bonds, reverse repo)**	**81 919**	**506 839**
A+B+C	**TOTAL BZ WBK**	**33 701 628**	**33 504 140**

* 2008 data changed as a result of change in presentation data (nominal to carrying value)

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).

General principles of market risk management

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

Market risk activities and strategies are directly supervised by ALCO which also recommends policies and strategies to the Management Board for approval. BZWBK's market risk policies establish a number of measurement and risk limitation parameters in the form of limits, mandatory and monitoring ratios. The key risk limits are set in relation to the capital base level which can be used to cover potential losses. Measurement and limits setting methodologies are described below. Risk limits are periodically reviewed to align them with the bank's strategy and the current objectives of the bank.

Interest rate and FX risks incurred in other Divisions are transferred on to Treasury Division where qualified personnel using the appropriate systems and controls manage them centrally.

In order to reduce the structural balance sheet risk and ensure a stable income stream for the bank, a special debt securities portfolio was established funded by a pool of net interest rate insensitive liabilities. According to the Policy approved by the Management Board, any decisions relating to the value or structure of this portfolio are taken by ALCO. Treasury Division as a unit managing BZWBK's centralized market risk exposure has responsibility for the funding and liquidity management as well as executing deals on behalf of ALCO.

For the above reason the market risk policies include the operational Treasury limit set by the Bank Director in charge of Treasury Division. This limit is established in accordance with Treasury business strategy and approved at AIB Group level.

Additionally, in order to curtail losses on the trading portfolio, a stop-loss limit is in place, which allows trading positions to be closed in the event of losses exceeding the stated limit.

Within the Treasury Division, there is a dedicated market risk control unit responsible to ensure that the risk measurement methodologies used are appropriate for the risk being taken and that risk monitoring and control procedures are in place.

Measurement methods

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

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

in thousands of PLN

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 Treasury Division. Additionally, interest rate risk can be generated by transactions concluded by other units, e.g. through acquisition of municipal / commercial bonds, or the bank's borrowings in the interbank market. However all positions which generate a repricing risk are transferred by way of a system of internal contracts to the Treasury Division. Then the bank's dealers are responsible for investing surplus funds in relevant instruments in order to ensure a risk and reward balance for the interest rates affecting the bank's balance sheet and instruments portfolio.

Interest rate risk is managed by setting limits on Value at Risk from the open interest rate risk of Treasury. VaR is determined as a difference between the market value of the interest rate position calculated using the current profitability curve and the worst-case profitability curve, which is based on a volatility of interest rates at a 99% confidence level for a three-year interest rate history. Volatility is based on a one-month position maintenance 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 reported over the last 7 years.

The table below presents risk levels in 2009 and 2008 (both measures assume 1 month holding time horizon):

Interest Rate Risk (PLN k)	***Value at Risk***		***Stress Scenario***	
1 month holding period	*2009*	*2008*	*2009*	*2008*
Average	30 520	20 995	137 162	142 177
High	39 996	28 596	185 874	177 608
Low	17 563	12 698	82 710	101 898
31st December	36 458	20 059	142 906	102 707

in thousands of PLN

The Treasury Division operates within an operational VaR risk limit, which amounted to PLN 61 623 k (EUR 15 000 k) at the end of December 2009.

Interest rate risk management is centralised to enhance its effectiveness, while maintaining segregation of risk measurement and risk control functions.

In managing interest rate risk, a distinction is made between trading and banking/investment activity. The trading book includes securities and derivatives that are held for trading purposes in Treasury. These are revalued daily at market prices and any changes in value are recognised in the profit and loss account. BZWBK's banking book consists of branch banking loans and deposits, Treasury investment portfolio and derivatives dedicated for hedge accounting purposes.

The tables below present the sensitivity of trading and banking portfolios of the bank at the end of 2009 and comparable period:

Interest Rate Risk (PLN k)	***Sensitivity 31-12-2009***		
parallel increase of yield curves by 1 bp	Trading book	Banking book	Total
0-3m	(10)	(53)	(63)
3m-1Y	(3)	77	74
1Y-5Y	(28)	(501)	(529)
over 5Y	5	(24)	(19)
Total	**(36)**	**(501)**	**(537)**

Interest Rate Risk (PLN k)	***Sensitivity 31-12-2008***		
parallel increase of yield curves by 1 bp	Trading book	Banking book	Total
0-3m	12	30	42
3m-1Y	5	(71)	(66)
1Y-5Y	(25)	(280)	(305)
over 5Y	2	(15)	(13)
Total	**(6)**	**(336)**	**(342)**

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 supervision role over that risk is also in 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, which are also treated as liquidity reserve. The decision maker role in relation to those portfolios is taken by ALCO and Treasury executes such decisions.

in thousands of PLN

The following tables present interest rate sensitivities of each NIRIL portfolios at the end of 2009 and 2008:

Interest Rate Risk (PLN k)	Sensitivity 31-12-2009		
parallel increase of yield curves by 1 bp	Business portfolio	Capital portfolio	Total
0-3m	(9)	(7)	(16)
3m-1Y	(42)	(29)	(71)
1Y-5Y	(911)	(557)	(1 468)
over 5Y	-	(871)	(871)
Total	**(962)**	**(1 464)**	**(2 426)**

Interest Rate Risk (PLN k)	Sensitivity 31-12-2008		
parallel increase of yield curves by 1 bp	Business portfolio	Capital portfolio	Total
0-3m	-	-	-
3m-1Y	(52)	(26)	(78)
1Y-5Y	(1 036)	(590)	(1 626)
over 5Y	-	(471)	(471)
Total	**(1 088)**	**(1 087)**	**(2 175)**

FX risk

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

According to it's policy the Bank does not maintain open positions in FX options. Transactions concluded with clients are at the same time closed at the inter-bank market, thus the Bank is not exposed to market risk. As a result of recent high volatility of FX rates, individual clients' exposures have been analysed, stress-tests have been made both for inter-bank and commercial counter-parties. Having analysed exposures and the financial standing of clients, the Bank has made fair value adjustments of particular exposures against the credit risk of potential default in settlement.

The table below presents risk levels in 2009 and 2008 (data for both measures are scaled to 1 month holding period to make it comparable):

FX Risk (PLN k)	Value at Risk		Stress Scenario	
1 month holding period:	*2009*	*2008*	*2009*	*2008*
Average	2 030	897	13 186	4 370
High	4 440	3 240	27 182	14 706
Low	435	160	3 388	842
31st December	2 163	886	14 725	6 228

in thousands of PLN

Stress test average value increase resulting from reflection of extreme FX market movements noted in September 2008 after Lehman bankruptcy in tests conducted in 4Q 2008 and 2009.

The Treasury Division operates within an operational VaR risk limit, which amounted to PLN 6 158 k (EUR 1 500 k). Untill October 2009 the operational limit was PLN 4 067 k (EUR 990 k). It was increased due to a revision of the bank's strategy. Excesses above the limit have been rectified and reported to relevant Bank's Units.

FX risk management is centralised for maximum effectiveness, while maintaining segregation of risk measurement and risk control functions.

The tables below present a currency breakdown of the selected balance sheet items as at 31.12.2009 and 31.12.2008.

31.12.2009	PLN	EUR	CHF	OTHER	TOTAL
ASSETS					
Cash and balances with central banks	2 486 433	101 876	4 785	67 555	2 660 649
Loans and advances to banks	168 123	371 693	26 592	81 151	647 559
Loans and advances to customers	20 790 330	8 949 246	2 281 999	604 601	32 626 176
Investment securities	12 669 044	442 183	-	154 578	13 265 805
Selected assets	**36 113 930**	**9 864 998**	**2 313 376**	**907 885**	**49 200 189**
LIABILITIES					
Deposits from central bank	1 519 208	-	-	-	1 519 208
Deposits from banks	1 436 109	520 272	34 828	310 283	2 301 492
Deposits from customers	37 421 686	2 786 368	31 004	1 023 116	41 262 174
Selected liabilities	**40 377 003**	**3 306 640**	**65 832**	**1 333 399**	**45 082 874**

31.12.2008	PLN	EUR	CHF	OTHER	TOTAL
ASSETS					
Cash and balances with central bank	2 798 689	256 638	7 954	114 818	3 178 099
Loans and advances to banks	1 073 549	134 905	2 430	136 948	1 347 832
Loans and advances to customers	20 706 133	8 733 388	2 424 298	790 444	32 654 263
Investment securities	12 156 115	655 238	-	83 032	12 894 385
Selected assets	**36 734 486**	**9 780 169**	**2 434 682**	**1 125 242**	**50 074 579**
LIABILITIES					
Deposits from central bank	1 242 574	-	-	-	1 242 574
Deposits from banks	800 932	938 945	56 040	161 692	1 957 609
Deposits from customers	39 180 665	2 945 924	41 482	1 213 834	43 381 905
Selected liabilities	**41 224 171**	**3 884 869**	**97 522**	**1 375 526**	**46 582 088**

In 2009 BZ WBK reduced FX credit activity but the resulting FX gap changed insignificantly. Those positions were closed by the off-balance sheet transactions i.e. cross-currency forward and swap in order to secure financing these positions and to eliminate impact of exchange rates on the Bank's financial statements.

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 BZWBK Liquidity Management Policy is designed to:

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

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

In addition, the Policy's aim is to ensure an adequate structure of funding the growing scale of BZ WBK 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 raiot, 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.

Management of liquidity is centralised in the Treasury Division, while the liquidity risk control assessment is run independently from risk sources.

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

Risk Assessment

Liquidity is calculated by a modified liquidity gap, which is determined separately for PLN and FX positions. According to the Liquidity Policy, the reported contractual positions are subject to various modifications based on statistical behaviour of deposit and credit base, possibility of selling or establishing pledge over State Treasury securities under repo transactions or NBP Lombard loan, possibility of rolling over transactions on the 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.

At the same time, liquidity is measured in accordance with Resolution no. 386/2008 of KNF (Polish Financial Supervision Authority) on liquidity standards applying to banks.

In 2009, liquidity stress tests that are also used to measure long-term liquidity were extended.

Risk Assessment

Liquidity profile as at 31.12.2009 & 31.12.2008

in thousands of PLN

31.12.2009	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	total
Cash and balances with central banks	2 660 649	-	-	-	-	-	-	2 660 649
Loans and advances to bank	647 559	-	-	-	-	-	-	647 559
Financial assets held for trading	488 469	137 284	283 023	182 351	119 975	90 995	(1 060)	1 301 037
Loans and advances to customers	2 346 405	1 837 961	7 436 975	8 101 061	5 548 231	8 430 995	(1 075 452)	32 626 176
Investment securities	49 876	1 743 454	1 589 739	4 475 703	2 771 513	1 992 640	642 880	13 265 805
Other assets	-	-	-	-	-	-	1 438 390	1 438 390
Long position	**6 192 958**	**3 718 699**	**9 309 737**	**12 759 115**	**8 439 719**	**10 514 630**	**1 004 758**	**51 939 616**
Deposits from central bank and banks	2 246 770	1 038 928	535 002	-	-	-	-	3 820 700
Financial liabilities held for trading	52 811	109 628	420 788	110 481	60 952	58 222	-	812 882
Deposits from customers	26 849 629	8 233 007	5 245 918	920 089	11 243	2 288	-	41 262 174
Other liabilities	-	-	-	-	-	-	6 043 860	6 043 860
Short position	**29 149 210**	**9 381 563**	**6 201 708**	**1 030 570**	**72 195**	**60 510**	**6 043 860**	**51 939 616**
Gap-balance sheet	**(22 956 252)**	**(5 662 864)**	**3 108 029**	**11 728 545**	**8 367 524**	**10 454 120**	**(5 039 102)**	
Contingent liabilities- sanctioned								
Financing related	243 175	857 168	3 470 031	1 862 470	613 787	284 644	(13 909)	**7 317 366**
Guarantees	56 308	106 121	434 686	276 680	253 051	4 808	(1 644)	**1 130 010**
Derivatives settled in gross terms								
Inflows	4 905 568	2 042 795	3 730 157	655 913	786 025	902 592	-	**13 023 050**
Outflows	4 854 745	2 053 791	3 910 551	654 662	740 246	902 350	-	**13 116 345**
Gap – off-balance sheet	**(248 660)**	**(974 285)**	**(4 085 111)**	**(2 137 899)**	**(821 059)**	**(289 210)**	**15 553**	

in thousands of PLN

31.12.2008	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	total
Cash and balances with central banks	3 178 099	-	-	-	-	-	-	3 178 099
Loans and advances to bank	1 206 490	141 342	-	-	-	-	-	1 347 832
Financial assets held for trading	396 878	580 752	1 589 705	408 902	106 352	139 768	-	3 222 357
Loans and advances to customers	1 947 967	1 884 200	7 064 739	7 953 736	4 576 451	10 077 047	(849 877)	32 654 263
Investment securities	15 956	599 846	2 604 010	3 437 478	4 080 804	1 518 129	638 162	12 894 385
Other assets	-	-	-	-	-	-	1 514 120	1 514 120
Long position	**6 745 390**	**3 206 140**	**11 258 454**	**11 800 116**	**8 763 607**	**11 734 944**	**1 302 405**	**54 811 056**
Deposits from banks	1 953 985	1 246 198	-	-	-	-	-	3 200 183
Financial liabilities held for trading	739 379	570 716	1 155 256	612 213	92 033	83 692	-	3 253 289
Deposits from customers	31 300 941	8 842 327	2 673 585	418 241	146 799	12	-	43 381 905
Other liabilities	-	-	-	-	-	-	4 975 679	4 975 679
Short position	**33 994 305**	**10 659 241**	**3 828 841**	**1 030 454**	**238 832**	**83 704**	**4 975 679**	**54 811 056**
Gap-balance sheet	**(27 248 915)**	**(7 453 101)**	**7 429 613**	**10 769 662**	**8 524 775**	**11 651 240**	**(3 673 274)**	
Contingent liabilities- sanctioned								
Financing related	255 845	616 947	3 852 153	2 902 112	649 283	1 581 190	(9 569)	**9 847 961**
Guarantees	63 263	120 928	263 099	362 939	137 475	5 694	(2 406)	**950 992**
Derivatives settled in gross terms								
Inflows	7 883 443	4 026 456	6 462 310	2 190 333	44 325	364 073	-	**20 970 940**
Outflows	8 205 177	4 170 829	6 517 716	2 515 655	38 059	364 208	-	**21 811 644**
Gap – off-balance sheet	**(640 842)**	**(882 248)**	**(4 170 658)**	**(3 590 373)**	**(780 492)**	**(1 587 019)**	**11 975**	

in thousands of PLN

Management report of the Treasury Division on anticipated inflows, outflows and possessed liquid / qualified liquid assets:

Liquidity Risk (PLN k)	<1T	<1M	>1M
31-12-2009			
Liquid Assets	11 023 232	-	1 931 412
Treasury Inflows	2 098 604	3 797 865	7 163 425
Other Inflows	1 451 558	593 711	33 840 436
Treasury Outflows	(3 247 340)	(3 782 486)	(9 292 350)
Other Outflows	(3 441 017)	(317 267)	(41 819 783)
Gap	**7 885 037**	**291 823**	**(8 176 860)**
Cumulated Gap	**7 885 037**	**8 176 860**	**-**

Liquidity Risk (PLN k)	<1T	<1M	>1M
31-12-2008			
Liquid Assets	11 382 962	566 552	1 300 540
Treasury Inflows	2 476 074	6 961 845	12 223 334
Other Inflows	629 768	249 314	36 286 296
Treasury Outflows	(2 263 818)	(7 564 051)	(14 016 408)
Other Outflows	(5 284 241)	(516 776)	(42 431 390)
Gap	**6 940 744**	**(303 117)**	**(6 637 627)**
Cumulated Gap	**6 940 744**	**6 637 627**	**-**

At the end of 2009 there was an increase in the duration of retail deposits, which was reflected in the contractual gap. Level of liquid assets was not significantly changed y/y.

In 2009 and 2008 all the regulatory measures have been kept at the required levels.

Derivative transactions connected with market risks

The Bank enters into derivative transactions for trading purposes and to mitigate / hedge against market risks. These transactions predominantly carry interest rate and FX risk, albeit the bank also enters into derivative transactions to fund FX assets, thus mitigating liquidity risk.

Individual types of transactions are characterised below:

FX transactions

The Bank enters into FX forwards and swaps with customers and in the interbank market. The transactions are used for trading purposes or for liquidity management.

FX options are concluded with customers and at the same time it closes the contracts in the interbank market thus avoiding open option positions exposed to market risk.

Interest transactions

The Bank enters into the following interest rate transactions:

- Interest Rate Swaps – IRS
- Cross-currency Interest Rate Swaps – CIRS
- Forward Rate Agreements – FRA
- Interest rate option CAP type

IRSs transactions are concluded on the inter-bank market as well as with Bank's clients. IRSs are used to hedge/cancel open interest rate positions, but are also used for trading purposes.

The Bank uses CIRSs instruments primarily for liquidity management – they ensure medium-term funding for the bank's FX assets.

FRAs are to protect the Bank against a future decline in interest rates. This instrument is also used for speculative reasons in anticipation of interest rate changes. Primarily FRAs are used in trading portfolio.

The bank concludes CAP option contracts with customers and at the same time it closes the contracts in the interbank market thus avoiding open option positions exposed to market risk.

Capital Management

Introduction

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

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

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

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

The Management Board delegated on-going capital management to ICAAP/ALCO 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.

in thousands of PLN

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%.

The bank's capital management policy envisages the target solvency ratio at 10%.

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% (an additional requirement may be also applied here, as part of SREP process of Pillar 2).

Solvency Ratio

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. In 2009 and 2008, with regard to:

a) credit risk – the bank used the standardised approach for all portfolios;
b) operational risk – the bank used the standardised approach;
c) market risk – the bank used the basic measurement methods.

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

The tables below show capital requirement for the Bank as of 31 December 2009 and 31 December 2008.

				31.12.2009	31.12.2008
I	**Total Capital requirement (Ia+Ib+Ic+Id)**			**3 042 079**	**3 220 737**
	Incl.:				
Ia		-	due to credit risk	2 592 133	2 748 200
Ib		-	due to market risk	15 397	20 554
Ic		-	due to settlement / counterparty risk	41 983	116 691
Id		-	due to operational risk	392 566	335 292
II	Total own funds			5 090 339	4 337 694
III	Reductions			396 972	389 614
IV	**Own funds after reductions (II+III)**			**4 693 367**	**3 948 080**
V	**CAD [IV/(I*12.5)]**			**12,34%**	**9,81%**

Internal Capital

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

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

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

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

Legal & compliance risk

Legal & 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 BZWBK as a result of failure to comply with the applicable laws, standards or codes of conduct applicable to its activities.

Risk Identification & Assessment

Within the Bank several bodies have been assigned to manage legal & regulatory (compliance) risk.
The scope of the Compliance Area responsibilities relates to 'conduct of business' compliance obligations, including 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 to Financial Division and prudential regulation to Financial Division & Risk Management Division in respective aspects.
Every six months, the BZWBK Compliance Area coordinates assessment process of the key legal & compliance risks. During the process, risks and their potential impact on the business are assessed, and effectiveness of appropriate controls that may be applied to mitigate these risks is evaluated. Legal & regulatory (compliance) risk reviews take into account any risks the bank may be exposed to within the following three years, including upstream risks in the form of new regulations, increased regulatory scrutiny and increasing demand of the stakeholders.

Risks that BZWBK may be exposed to are discussed by the Risk Management Committee & Audit Committee. The Compliance Area supports and validates this approach by operating a risk framework model that is used in collaboration with business units to identify, assess and manage key compliance risks at business unit level. The identified legal & regulatory risks are then incorporated in operational risk Self Assessment Risks Templates (SART's) prepared by the units.

Risk management and mitigation

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

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

The Compliance Area major responsibilities include:

- Independent identification, assessment and monitoring of compliance risk BZWBK Group is exposed to;
- Providing advice and reporting to the Risk Management Committee, Bank's Management Board & 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 within its scope and on appropriate policies and procedures to mitigate these risks; and
- Providing a monitoring capability for 'non-conduct of business' compliance risks in areas of taxation law, company law, employment law, environmental law, and health and safety law on a risk prioritised basis.

Legal & regulatory (compliance) risk management is coordinated by the Compliance Area reporting to the Management Board Member in charge of Legal & Compliance Division.

Risk monitoring & reporting

The Compliance Area undertakes risk-based monitoring of compliance with relevant policies, procedures and regulatory obligations. Monitoring can be undertaken by dedicated Risk & Compliance Monitoring Office, the AML Office and Compliance Officers in indicated units and capital market subsidiaries, as well as staff of other controlling units acting on behalf of the Compliance Area (for branch network).

Risk prioritised annual compliance monitoring plans are prepared based on the risk assessment process. The monitoring is focused particularly on processes but may also refer to particular organizational units. The annual monitoring plan, accepted by the Audit Committee, is reviewed on a regular basis and updated to reflect changes in the risk profile from emerging risks, changes in risk assessments and new regulatory 'hotspots'. Issues emerging from compliance monitoring are escalated for management attention, and action plans and implementation dates are agreed with the Compliance Area. The implementation of these action plans is monitored by the Compliance Area.

in thousands of PLN

4. Net interest income

Interest and similar income	01.01-31.12.2009	01.01-31.12.2008
Loans and advances to enterprises	1 298 567	1 418 005
Loans and advances to individuals of which:	916 596	742 834
Mortgage loans	*278 119*	*299 277*
Debt securities incl.:	738 991	602 504
Investment portfolio held to maturity	*376 940*	*90 252*
Investment portfolio available for sale	*316 042*	*487 697*
Trading portfolio	*46 009*	*24 555*
Loans and advances to banks	71 930	174 576
Other from public sector	18 744	32 170
Reverse repo transactions	14 948	42 906
Interest recorded on hedging IRS	(16 320)	4 126
Total	**3 043 456**	**3 017 121**

Interest expense and similar charges	01.01-31.12.2009	01.01-31.12.2008
Deposits from individuals	(969 558)	(783 506)
Deposits from enterprises	(416 667)	(465 542)
Repo transactions	(131 037)	(107 823)
Public sector	(94 687)	(98 335)
Deposits from banks	(15 968)	(65 030)
Debt securities in issue	-	(5 418)
Total	**(1 627 917)**	**(1 525 654)**
Net interest income	**1 415 539**	**1 491 467**

As at 31.12.2009 net interest income includes interest on impaired loans of PLN 83 249 k (as at 31.12.2008 - PLN 51 230 k).

5. Net fee and commission income

Fee and commission income	01.01-31.12.2009	01.01-31.12.2008
eBusiness & payments	370 651	313 280
Current accounts and money transfer	251 571	233 747
Foreign exchange commissions	226 534	235 013
Credit commissions	89 309	68 921
Credit cards	68 250	54 734
Insurance commissions	66 895	71 519
Distribution fees due to asset management	59 026	92 092
Off-balance sheet guarantee commissions	12 390	12 786
Other distribution-related fee	6 388	-
Issue arrangement	6 147	9 307
Other commissions	2 980	4 220
Total	**1 160 141**	**1 095 619**
Fee and commission expense	**01.01-31.12.2009**	**01.01-31.12.2008**
eBusiness & payments	(97 450)	(76 470)
Commissions paid to credit agents	(18 534)	(25 264)
Credit cards	(7 084)	(8 054)
Other	(14 163)	(11 689)
Total	**(137 231)**	**(121 477)**
Net commission income	**1 022 910**	**974 142**

Included above is fee and commission income on credits, credit cards and off-balance sheet guarantee commissions of PLN 169 949 k (2008: PLN 136 441 k) and fee and commission expenses on credits cards and paid to credit agents of PLN (25 618) k (2008: PLN (33 318) k other than fees included in determining the effective interest rate), relating to financial assets and liabilities not carried at fair value through profit or loss.

in thousands of PLN

6. Dividend income

Dividend income	01.01-31.12.2009	01.01-31.12.2008
Dividends from subsidiaries	243 446	150 082
Dividends from investment portfolio entities	94 107	68 249
Total	**337 553**	**218 331**

7. Net trading income and revaluation

Net trading income and revaluation	01.01-31.12.2009	01.01-31.12.2008
Profit on interbank FX transactions	151 481	59 177
Profit/(loss) on derivative instruments	88 377	(33 146)
Profit on debt instruments	2 487	2 181
Other FX related income	26 589	17 131
Total	**268 934**	**45 343**

Net trading income and revaluation includes value adjustments of FX derivatives resulting from counterparty risk in the amount of PLN (28 843) k (as at 31.12.2008: PLN (80 996) k).

In 2009, Bank Zachodni WBK revised its estimate of fair value of Cross Currency Swaps on account of substantial increase in market spreads observed since 2008 year-end. The total fair value adjustment to these derivatives was PLN 37 989 k in the reporting period. These instruments are a source of funding and it is the Bank's intention to hold them until maturity. Their mark-to-market valuation will revert to zero on a case by case basis over their remaining life.In comparable period there were no such adjustments.

8. Gains (losses) from other financial securities

Gains (losses) from other financial securities	01.01-31.12.2009	01.01-31.12.2008
Profit on equity shares	3 386	66 122
Loss on debt securities	(7 223)	(13 103)
Reversal (charge) due to impairment losses	-	71
Total profit (losses) on financial instruments	***(3 837)***	***53 090***
Change in fair value of hedging instruments	26 550	(37 803)
Change in fair value of underlying hedged positions	(28 852)	40 603
Total profit (losses) on hedging and hedged instruments	***(2 302)***	***2 800***
Total	**(6 139)**	**55 890**

9. Net gain on sale of subsidiaries and associates

Net gain on sale of subsidiaries and associates	01.01-31.12.2009	01.01-31.12.2008
Sale of subsidiaries	-	982
Sale of associates	-	(756)
Total	**-**	**226**

Additional information about acquisitions and disposals of investments is available in note 46.

10. Other operating income

Other operating income	01.01-31.12.2009	01.01-31.12.2008
Income on sale of services	20 141	31 609
Release of provision for legal cases and other assets	11 691	5 150
Reimbursements of BFG charges	5 826	1 657
Recovery of other receivables	3 981	2 529
Insurance indemnity received	2 280	1 957
Costs of bailiff reimbursement	826	860
Received compensations, penalties and fines	224	404
Other	4 715	10 117
Total	**49 684**	**54 283**

in thousands of PLN

11. Impairment losses on loans and advances

Impairment losses on loans and advances	01.01-31.12.2009	01.01-31.12.2008
Collective and individual impairment charge	(402 312)	(179 418)
Incurred but not reported losses charge	(61 349)	(176 257)
Recoveries of loans previously written off	17 458	10 205
Off balance sheet credit related items	(3 497)	(6 419)
Total	**(449 700)**	**(351 889)**

12. Employee costs

Employee costs	01.01-31.12.2009	01.01-31.12.2008
Salaries and bonuses	(650 474)	(639 146)
Salary related costs	(103 129)	(94 791)
Staff benefits costs	(19 480)	(19 613)
Professional trainings	(8 431)	(21 677)
Retirement fund and holiday provisions and other employee-related costs	1 122	(10 636)
Total	**(780 392)**	**(785 863)**

13. General and administrative expenses

General and administrative expenses	01.01-31.12.2009	01.01-31.12.2008
Maintenance and rentals of premises	(194 986)	(152 388)
IT systems costs	(80 479)	(84 348)
Marketing and representation	(68 741)	(94 546)
Postal and telecommunication costs	(49 217)	(49 883)
Car, transport expenses, carriage of cash	(30 730)	(32 180)
Bank Guarantee Fund and Polish Financial Supervision Authority	(24 809)	(14 282)
Other external services	(23 405)	(31 310)
Stationery, cards, cheques etc	(18 256)	(23 213)
Data transmission	(16 205)	(16 198)
Sundry taxes	(14 007)	(15 190)
Consulting fees	(12 489)	(29 702)
Security costs	(12 281)	(12 440)
KIR, SWIFT settlements	(11 974)	(11 156)
Costs of repairs	(5 424)	(17 363)
Other	(8 255)	(16 745)
Total	**(571 258)**	**(600 944)**

14. Other operating expenses

Other operating costs	01.01-31.12.2009	01.01-31.12.2008
Charge of provisions for legal cases and other assets	(4 965)	(4 949)
Debt recovery costs	(1 889)	(1 415)
Donations paid	(1 531)	(1 585)
Costs of purchased services	(1 193)	(281)
Losses from past-due receivables	(1 143)	(1 093)
Paid compensations, penalties and fines	(881)	(1 056)
Voluntary membership fees	(685)	(692)
Costs of legal proceedings	(534)	(677)
Other	(3 255)	(4 194)
Total	**(16 076)**	**(15 942)**

in thousands of PLN

15. Corporate income tax

Income tax charge	01.01-31.12.2009	01.01-31.12.2008
Current tax charge	(247 925)	(217 115)
Deferred tax charge	75 253	38 847
Total	**(172 672)**	**(178 268)**

Corporate total tax charge information	01.01-31.12.2009	01.01-31.12.2008
Profit before tax	1 158 900	987 433
Tax rate	19%	19%
Tax calculated at the tax rate	(220 191)	(187 612)
Non tax-deductible expenses	(3 264)	(4 959)
Loss on sale of receivables	(11 872)	(6 958)
Non-taxable income (dividends)	64 122	28 520
Other:		
- write-offs	(2 049)	(1 128)
- other non tax-deductible costs	-	(4 494)
- other	582	(1 637)
Total income tax expense	**(172 672)**	**(178 268)**

Deferred tax recognised directly in equity

As at 31 December the amount of deferred tax recognised directly in equity totaled:

Relating to equity securities available-for-sale	(97 433)	(97 294)
Relating to debt securities available-for-sale	(1 166)	12 173
Relating to cash flow hedging activity	(450)	5 787
	(99 049)	**(79 334)**

16. Earnings per share

Earnings per share	01.01-31.12.2009	01.01-31.12.2008
Profit for the period attributable to ordinary shares	986 228	809 165
Weighted average number of ordinary shares	73 076 013	72 960 284
Basic earnings per share (PLN)	**13,50**	**11,09**
Profit for the period attributable to ordinary shares	986 228	809 165
Weighted average number of ordinary shares	73 076 013	72 960 284
Weighted average number of potential ordinary shares	309 001	298 400
Diluted earnings per share (PLN)	**13,44**	**11,05**

17. Cash and balances with central banks

Cash and balances with central banks	31.12.2009	31.12.2008
Current accounts in central banks	1 697 190	2 004 861
Cash	963 456	1 173 235
The equivalents of cash	3	3
Total	**2 660 649**	**3 178 099**

Bank holds an obligatory reserve on a current account in the National Bank of Poland. The figure is calculated as 3% of the monthly average balance of the customer deposits reduced by the equivalent of EUR 500 k.
In 2008 this reserve was calculated as 3.5% of the monthly average balance of the customer deposits.

in thousands of PLN

18. Loans and advances to banks

Loans and advances to banks	31.12.2009	31.12.2008
Loans and advances	587 440	822 604
Reverse-repo transactions	-	518 826
Current accounts	60 119	12 371
Gross receivables	**647 559**	**1 353 801**
Impairment write down	-	(5 969)
Total	**647 559**	**1 347 832**

Fair value of "loans and advances to banks" is disclosed in note 38.

Movements in impairment losses on receivables from banks	31.12.2009	31.12.2008
Balance at 1 January	(5 969)	(5 969)
Write off	5 969	-
Balance at the end of the period	**-**	**(5 969)**

19. Financial assets and liabilities held for trading

The fair value of derivative financial instruments is determined using market quotations, discounted cash flow models and options valuation models, as appropriate.
Option contracts are stated at fair value using the market quotations or the option valuation models, as appropriate.

Financial assets and liabilities held for trading	31.12.2009		31.12.2008	
	Assets	Liabilities	Assets	Liabilities
Trading derivatives	**713 940**	**812 882**	**2 353 774**	**3 253 289**
Interest rate transactions	**289 680**	**304 699**	**906 745**	**886 948**
Options	-	-	8	8
IRS	281 288	295 221	664 337	640 766
FRA	8 392	9 478	242 400	246 174
Currency derivatives	**424 260**	**508 183**	**1 447 029**	**2 366 341**
CIRS	134 662	368 189	63 259	507 120
Forward	58 527	29 198	352 024	210 347
FX Swap	165 554	46 239	683 470	1 259 958
Spot	1 003	1 325	4 182	3 787
Options	64 514	63 232	344 094	385 129
Debt and equity securities	**587 097**	**-**	**868 583**	**-**
Debt securities	587 097	-	868 583	-
Government securities:	187 369	-	868 583	-
- bills	71 808	-	549 120	-
- bonds	115 561	-	319 463	-
Central Bank securities:	399 728	-	-	-
- bills	399 728	-	-	-
Total financial assets/liabilities	**1 301 037**	**812 882**	**3 222 357**	**3 253 289**

In 2009, Bank Zachodni WBK revised its estimate of fair value of Cross Currency Swaps on account of substantial increase in market spreads observed since 2008 year-end. The total fair value adjustment to these derivatives was PLN 37 989 k in the reporting period. These instruments are a source of funding and it is the Bank's intention to hold them until maturity. Their mark-to-market valuation will revert to zero on a case by case basis over their remaining life.

In comparable period there were no such adjustments.

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

in thousands of PLN

Profit and loss from fair value changes of financial assets and liabilities held for trading are disclosed under net trading income and revaluation in the income statement.
"Currency derivatives" comprises a value adjustment of derivative instruments resulting from counterparty risk.

All financial assets measured at fair value through profit and loss are assigned to this category due to the trading character of transactions. At 31.12.2009 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.

Financial assets and liabilities held for trading - trading derivatives include value adjustments resulting from counterparty risk in the amount of PLN (109 839) k.

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

	Derivatives' nominal values	31.12.2009	31.12.2008
1.	**Term derivatives (hedging)**	**1 773 682**	**2 704 674**
a)	Single-currency interest rate swaps	573 682	1 854 674
b)	Macro cash flow hedge	1 200 000	850 000
2.	**Term derivatives (trading)**	**51 914 663**	**140 560 049**
a)	Interest rate operations	22 520 179	91 617 349
-	Single-currency interest rate swaps	18 510 338	47 257 128
-	FRA	4 000 000	44 350 000
-	Interest rate options	9 841	10 221
b)	FX operations	29 394 484	48 942 700
-	FX swap – purchased amounts	7 219 044	14 425 872
-	FX swap – sold amounts	7 094 264	14 983 627
-	Forward- purchased amounts	1 345 501	3 696 166
-	Forward- sold amounts	1 309 044	3 538 979
-	Double-currency interest rate swaps – purchased amounts	5 035 054	3 062 275
-	Double-currency interest rate swaps – sold amounts	5 288 891	3 502 177
-	FX options -purchased	1 051 343	2 866 802
-	FX options -sold	1 051 343	2 866 802
3.	**Currency transactions- spot**	**1 119 621**	**957 290**
-	spot-purchased	559 649	478 844
-	spot-sold	559 972	478 446
Total		**54 807 966**	**144 222 013**

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

20. Hedging derivatives

Hedging derivatives	31.12.2009		31.12.2008	
	Assets	Liabilities	Assets	Liabilities
IRS hedging fair value	1 325	6 982	347	31 700
IRS hedging cash flow	9 476	25 951	-	36 862
Total hedging derivatives	**10 801**	**32 933**	**347**	**68 562**

21. Loans and advances to customers

Loans and advances to customers	31.12.2009	31.12.2008
Loans and advances to enterprises	22 995 582	23 757 297
Loans and advances to individuals, of which:	10 600 060	9 208 049
Home mortgage loans	*6 062 546*	*5 450 515*
Loans and advances to public sector	83 106	85 668
Reverse-repo transactions	10 083	441 783
Other	12 797	11 343
Gross receivables	**33 701 628**	**33 504 140**
Impairment losses in loans and advances to customers	(1 075 452)	(849 877)
Total	**32 626 176**	**32 654 263**

As at 31.12.2009 the fair value adjustment due to hedged risk on corporate loans was PLN 1 565 k (as at 31.12.2008 - PLN 1 607 k). Fair value of "loans and advances to customers" is disclosed in note 38.

in thousands of PLN

Movements on impairment recognised on loans and advances to customers	31.12.2009	31.12.2008
Individual and collective impairment		
As at the beginning of the period	(545 323)	(424 481)
Charge/write back of current period	(402 312)	(179 418)
Write off's	244 476	63 514
Transfer	(10 866)	480
Impact of exchange rate	3 575	(5 418)
Balance at the end of the period	**(710 450)**	**(545 323)**
IBNR		
As at the beginning of the period	(304 554)	(131 612)
Charge/Write back of current period	(61 349)	(176 257)
Transfer	-	3 723
Impact of exchange rate	901	(408)
Balance at the end of the period	**(365 002)**	**(304 554)**
Total	**(1 075 452)**	**(849 877)**

22. Investments securities available for sale

Investment securities available for sale	31.12.2009	31.12.2008
Available for sale investments - measured at fair value	**6 596 250**	**6 506 108**
Debt securities:	**5 953 370**	**5 867 946**
Government securities:	5 869 399	5 088 651
- bills	1 105 854	1 369 842
- bonds	4 763 545	3 718 809
Central Bank securities:	-	599 731
- bonds	-	599 731
Commercial securities:	83 971	179 564
- bonds	83 971	179 564
Equity securities - measured at fair value:	**602 661**	**596 732**
- listed	14 626	13 552
- unlisted	588 035	583 180
Investment certificates	**40 219**	**41 430**
Total	**6 596 250**	**6 506 108**

As at 31.12.2009 fixed interest rate debt securities measured at fair value amount to PLN 5 208 458 k, variable interest rate securities amount to PLN 744 912 k.

As at 31.12.2008 fixed interest rate debt securities measured at fair value amount to PLN 4 244 739 k, variable interest rate securities amount to PLN 1 623 207 k.

As at 31.12.2009 fair value adjustments resulting from fair value hedge on available for sale debt securities totalled PLN (1_510) k (as at 31.12.2008 - PLN 27 300 k).

As at 31 December 2009, the bank reviewed the fair value of its unlisted available-for-sale financial instruments. The review did not reveal any material changes in the disclosed carrying amounts of the instruments. Fair value of the investments into the companies from the Aviva Polska Group was determined for two key investments. Valuation was conducted using the multiplier valuation method (Price/Book Value, P/E) as well as dividend discount model. The remaining non-listed equity instruments are measured at fair value as no active market exists for such instruments and their fair value cannot be reliably established.

Fair value of "Investment securities available for sale" is presented in note 38.

in thousands of PLN

Movements on investment securities	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2009	**5 867 946**	**638 162**	**6 506 108**
Additions	4 341 806	6 457	4 348 263
Disposals (sale and maturity)	(4 275 978)	(5 856)	(4 281 834)
Fair value adjustment (AFS)	28 284	3 328	31 612
Movements on interest accrued	17 203	-	17 203
F/X differences	(25 891)	789	(25 102)
As at 31 December 2009	**5 953 370**	**642 880**	**6 596 250**

Movements on investment securities	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2008	**9 047 923**	**650 384**	**9 698 307**
Additions	5 127 467	24 822	5 152 289
Transfers	-	975	975
Disposals (sale and maturity)	(2 261 845)	(44 649)	(2 306 494)
Fair value adjustment (AFS)	78 786	5 909	84 695
Movements on interest accrued	134 109	-	134 109
Provision for impairment	-	(125)	(125)
F/X differences	148 079	846	148 925
Reclassification*	(6 406 573)	-	(6 406 573)
As at 31 December 2008	**5 867 946**	**638 162**	**6 506 108**

*In October 2008 the bank has the changed classification of State Treasury bonds from the Available For Sale category into the Held To Maturity category. The carrying value of reclassified financial instruments amounted to PLN 6 406 573 k. The change of classification results in the adoption of valuation principles impacting net profit and equity, which are more consistent with the purpose of the instruments. The primary purpose of the portfolio of financial instruments is to manage the structure of the statement of financial position, in particular equity and non-interest bearing current accounts. The bank's intention is to hold these instruments until maturity.

23. Financial assets held to maturity

Financial assets held to maturity	31.12.2009	31.12.2008
Government securities:	6 669 555	6 388 277
- bonds	6 669 555	6 388 277
Total	**6 669 555**	**6 388 277**

Fair value of "Financial assets held to maturity" is presented in note 38.

Movements on financial assets held to maturity	31.12.2009	31.12.2008
As at 1 January	**6 388 277**	**-**
Reclassification*	**-**	6 406 573
Fair value amortisation	13 498	3 049
Additions	553 616	-
Disposals (sale and redemption)	(300 361)	-
Movements on interest accrued	14 525	(21 345)
As at 31 December	**6 669 555**	**6 388 277**

in thousands of PLN

*In October 2008 the bank has changed the classification of State Treasury bonds from the Available For Sale category into the Held To Maturity category. Carrying value of reclassified financial instruments amounted to PLN 6 406 573 k. The change of classification results in the adoption of valuation principles impacting net profit and equity, which are more consistent with the purpose of the instruments. The primary purpose of the portfolio of financial instruments is to manage the structure of the statement of financial position, in particular equity and non-interest bearing current accounts. The bank's intention is to hold these instruments until maturity.

24. Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures	31.12.2009	31.12.2008
subsidiaries	192 818	192 694
associates	8 000	8 000
joint ventures	33 531	33 531
Total	**234 349**	**234 225**

Fair value of investments in subsidiaries, associates and joint ventures is disclosed in note 38.

in thousands of PLN

Investments in subsidiaries, associates and joint ventures as at 31.12.2009

Name of entity	BZ WBK Inwestycje Sp. z o.o.	BZ WBK Finanse Sp. z o.o.	Dom Maklerski BZ WBK S.A.	BZ WBK Nieruchomości S.A.	BZ WBK AIB Asset Management S.A.	POLFUND - Fundusz Poręczeń Kredytowych S.A.*	BZWBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	BZWBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Total
registered office	Poznań	Poznań	Poznań	Poznań	Poznań	Szczecin	Poznań	Poznań	
type of connection	subsidiary	subsidiary	subsidiary	subsidiary	subsidiary	associate	joint venture	joint venture	
% of holding	100,00	100,00	99,99	99,99	50,00	50,00	50,00	50,00	
Balance sheet value	21 350	118 094	45 925	694	6 755	8 000	18 516	15 015	**234 349**
total assets	24 129	118 046	1 032 107	758	138 944	79 575	145 609	239 349	**1 778 517**
own funds of entity, of which:	24 086	118 032	163 565	707	120 883	72 746	36 809	25 744	**562 572**
share capital	50	1 050	44 974	750	13 500	16 000	27 000	21 750	125 074
other own funds, of which:	24 036	116 982	118 591	(43)	107 383	56 746	9 809	3 994	437 498
from previous years	-	-	5 602	(106)	-	-	(2 414)	(1 014)	2 068
net profit (loss)	146	12	52 012	14	94 420	1 827	3 205	(2 641)	148 995
total liabilities	43	14	868 542	51	18 061	6 829	108 800	213 605	**1 215 945**
Revenues	175	165	191 764	372	212 114	7 893	62 213	176 768	**651 464**

* financial highlights as at end of November 2009

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

in thousands of PLN

Investments in subsidiaries, associates and joint ventures as at 31.12.2008

Name of entity	BZ WBK Inwestycje Sp. z o.o.	BZ WBK Faktor Sp. z o.o.	BZ WBK Finanse & Leasing S.A.	BZ WBK Leasing S.A.	Dom Maklerski BZ WBK S.A.	BZ WBK Nieruchomości S.A.	BZ WBK AIB Asset Management S.A.	POLFUND - Fundusz Poręczeń Kredytowych S.A.*	BZWBK - CU Towarzystwo Ubezpieczeń na Życie S.A.	BZWBK - CU Towarzystwo Ubezpieczeń Ogólnych S.A.	Total
registered office	Poznań	Warszawa	Poznań	Poznań	Poznań	Poznań	Poznań	Szczecin	Poznań	Poznań	
type of connection	subsidiary	subsidiary	subsidiary	subsidiary	subsidiary	subsidiary	subsidiary	associate	joint venture	joint venture	
% of holding	100,00	100,00	99,99	99,99	99,99	99,99	50,00	50,00	50,00	50,00	
Balance sheet value	21 350	6 200	50 513	61 257	45 925	694	6 755	8 000	15 015	18 516	**234 225**
total assets	24 397	314 106	1 332 761	1 957 472	753 531	742	343 549	75 781	104 209	61 354	**4 967 902**
own funds of entity, of which:	24 081	13 714	108 539	169 682	166 909	693	321 167	21 929	30 064	34 164	**890 942**
share capital	50	50	50 500	121 692	44 974	750	13 500	16 000	21 750	27 000	296 266
other own funds, of which:	24 031	13 664	58 039	47 990	121 935	(57)	307 667	5 929	8 314	7 164	594 676
from previous years	-	-	-	-	3 697	(228)	-	2 638	-	-	6 107
net profit (loss)	764	4 896	12 087	22 585	58 085	133	278 679	2 817	1 049	(1 854)	379 241
total liabilities	316	300 392	1 224 222	1 787 790	586 622	49	22 382	53 852	74 145	27 190	**4 076 960**
Revenues	2 401	40 407	96 986	157 463	219 433	852	325 038	5 961	58 090	42 428	**949 059**

* financial highlights as at end of November 2008

Name of entity	Business
BZ WBK Inwestycje Sp. z o.o.	trading in shares of commercial companies as well as other securities; seeking investors for companies
BZ WBK Faktor Sp. z o.o.	financial services, granting credit, market research and public opinion survey, business consulting, holding management
BZ WBK Finanse & Leasing S.A.	leasing and renting of fixed assets
BZ WBK Leasing S.A.	whole- and retail sales of vehicles, sales of spare parts and accessories for vehicles, financial leasing, renting cars, other means of transportation, machines and equipment
Dom Maklerski BZ WBK S.A.	offering securities on the primary market, buying and selling securities on customers' account, buying and selling securities on one's own account in order to perform duties related to organization of the regulated market
BZ WBK Nieruchomości SA	organisation of various events, catering and hotel services, agency services
BZ WBK AIB Asset Management SA	brokerage activities: managing customer's share portfolios (listed and not listed)
POLFUND - Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management
BZWBK - CU Towarzystwo Ubezpieczeń na Życie S.A.	life insurance
BZWBK - CU Towarzystwo Ubezpieczeń Ogólnych S.A.	property and personal insurance

in thousands of PLN

25. Intangible assets

Intangible assets Year 2009	Licences, patents etc.	Other	Capital expenditures	Total
Gross value at the beginning of the period	**518 571**	**6 019**	**88 946**	**613 536**
Additions from:				
- purchases	-	-	34 661	**34 661**
- intangible assets taken for use	52 968	-	-	**52 968**
Disposals from:				
- intangible assets taken for use	-	-	(52 968)	**(52 968)**
- transfers	-	-	(74)	**(74)**
Gross value at the end of the period	**571 539**	**6 019**	**70 565**	**648 123**
Accumulated depreciation - beginning of the period	**(452 236)**	**(5 841)**	**-**	**(458 077)**
Additions/disposals from:				
- current year	(27 223)	(130)	-	**(27 353)**
Accumulated depreciation - end of the period	**(479 459)**	**(5 971)**	**-**	**(485 430)**
Balance sheet value				
Purchase value	571 539	6 019	70 565	**648 123**
Accumulated depreciation	(479 459)	(5 971)	-	**(485 430)**
As at 31 December 2009	**92 080**	**48**	**70 565**	**162 693**

Intangible assets Year 2008	Licences, patents etc.	Other	Capital expenditures	Total
Gross value at the beginning of the period	**485 583**	**6 019**	**50 663**	**542 265**
Additions from:				
- purchases	-	-	73 166	**73 166**
- intangible assets taken for use	34 794	-	-	**34 794**
Disposals from:				
- liquidation	(1 806)	-	-	**(1 806)**
- intangible assets taken for use	-	-	(34 794)	**(34 794)**
- transfers	-	-	(89)	**(89)**
Gross value at the end of the period	**518 571**	**6 019**	**88 946**	**613 536**
Accumulated depreciation - beginning of the period	**(433 648)**	**(5 711)**	**-**	**(439 359)**
Additions/disposals from:				
- current year	(18 630)	(130)	-	**(18 760)**
- liquidation	42	-	-	**42**
Accumulated depreciation - end of the period	**(452 236)**	**(5 841)**	**-**	**(458 077)**
Balance sheet value				
Purchase value	518 571	6 019	88 946	**613 536**
Accumulated depreciation	(452 236)	(5 841)	-	**(458 077)**
As at 31 December 2008	**66 335**	**178**	**88 946**	**155 459**

in thousands of PLN

26. Property, plant and equipment

Property, plant & equipment Year 2009	Land and Buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value at the beginning of the period	**607 517**	**296 041**	**39 369**	**283 983**	**79 563**	**1 306 473**
Additions from:						
- purchases	-	-	-	-	48 392	**48 392**
- leasing	-	-	1 915	-	-	**1 915**
- fixeded assets taken for use	45 672	29 449	-	24 761	-	**99 882**
- transfers	-	-	-	-	74	**74**
Disposals from:						
- sale, liquidation, donation	(5 711)	(15 846)	(5 962)	(3 868)	(237)	**(31 624)**
- fixed assets taken for use	-	-	-	-	(99 882)	**(99 882)**
Gross value at the end of the period	**647 478**	**309 644**	**35 322**	**304 876**	**27 910**	**1 325 230**
Accumulated depreciation at the beginning of the period	**(245 165)**	**(241 401)**	**(15 182)**	**(186 020)**	**-**	**(687 768)**
Additions/disposals from:						
- current year	(27 451)	(22 704)	(8 859)	(25 788)	-	**(84 802)**
- sale, liquidation, donation	3 979	15 733	5 892	3 637	-	**29 241**
- transfers	-	-	(800)	-	-	**(800)**
Reversal of impairment write down	-	-	-	31	-	**31**
Accumulated depreciation at the end of the period	**(268 637)**	**(248 372)**	**(18 949)**	**(208 140)**	**-**	**(744 098)**
Balance sheet value						
Purchase value	647 478	309 644	35 322	304 876	27 910	**1 325 230**
Accumulated depreciation	(268 637)	(248 372)	(18 949)	(208 140)	-	**(744 098)**
As at 31.12.2009	**378 841**	**61 272**	**16 373**	**96 736**	**27 910**	**581 132**

in thousands of PLN

Property, plant & equipment Year 2008	Land and Buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value at the beginning of the period	**567 644**	**277 934**	**30 742**	**248 024**	**54 181**	**1 178 525**
Additions from:						
- purchases	-	-	-	-	162 302	**162 302**
- leasing	-	-	17 744	-	-	**17 744**
- fixeded assets taken for use	52 478	40 282	-	44 139	-	**136 899**
- transfers	-	10	-	267	89	**366**
Disposals from:						
- sale, liquidation, donation	(12 605)	(22 185)	(9 117)	(8 447)	-	**(52 354)**
- fixeded assets taken for use	-	-	-	-	(136 899)	**(136 899)**
- transfers	-	-	-	-	(110)	**(110)**
Gross value at the end of the period	**607 517**	**296 041**	**39 369**	**283 983**	**79 563**	**1 306 473**
Accumulated depreciation at the beginning of the period	**(225 170)**	**(240 148)**	**(14 491)**	**(170 689)**	**-**	**(650 498)**
Additions/disposals from:						
- current year	(23 839)	(22 983)	(8 278)	(23 751)	-	**(78 851)**
- sale, liquidation, donation	3 844	21 725	8 872	8 106	-	**42 547**
- transfers	-	5	(1 285)	(81)	-	**(1 361)**
Reversal of impairment write down	-	-	-	395	-	**395**
Accumulated depreciation at the end of the period	**(245 165)**	**(241 401)**	**(15 182)**	**(186 020)**	**-**	**(687 768)**
Balance sheet value						
Purchase value	607 517	296 041	39 369	283 983	79 563	**1 306 473**
Accumulated depreciation	(245 165)	(241 401)	(15 182)	(186 020)	-	**(687 768)**
As at 31.12.2008	**362 352**	**54 640**	**24 187**	**97 963**	**79 563**	**618 705**

in thousands of PLN

27. Net deferred tax assets

Deferred tax asset	31.12.2009	31.12.2008
Provisions for loans	200 861	150 113
Unrealized liabilities due to derivatives	100 051	283 261
Deferred income	59 517	45 255
Other provisions which are not yet taxable costs	47 928	45 919
Unrealized interest on deposit and securities	31 851	31 957
Additional deferred tax assets resulting from art. 38 a of Corporate Tax Act	-	7 399
Other	1 133	3 265
Total	**441 341**	**567 169**

Deferred tax liability	31.12.2009	31.12.2008
Revaluation of financial instruments	(98 599)	(85 121)
Unrealised receivables on derivatives	(70 737)	(260 417)
Unrealised interests from securities and interbank deposits	(44 143)	(55 194)
Provision due to application of investment relief	(2 778)	(2 967)
Cash flow hedges valuation	(450)	5 787
Other	(954)	(1 116)
Total	**(217 661)**	**(399 028)**

Net deferred tax assets	223 680	168 141

As at 31 December 2009 the calculation of deferred tax asset did not include purchased receivables of PLN 19 982 k and loans that will not be realised of PLN 39 833 k.
As at 31 December 2008 the calculation of deferred tax asset did not include purchased receivables of PLN 20 216 k and loans that will not be realised of PLN 41 698 k.

Movements on net deferred tax	31.12.2009	31.12.2008
As at beginning of the period	**168 141**	**124 080**
changes recognised in income statement	75 253	38 847
changes recognised in equity	(19 714)	5 214
As at end of the period	**223 680**	**168 141**

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 used in the course of business.

28. Other assets

Other assets	31.12.2009	31.12.2008
Sundry debtors	98 484	131 585
Interbank and interbranch settlements	41 998	175 679
Prepayments	26 883	27 421
Assets held for sale	2 502	2 502
Other	51	56
Total	**169 918**	**337 243**

Assets held for sale

31 December 2009	Gross value	Amortisation	Carrying value
Land and buildings	4 224	(1 815)	2 409
Equipment	436	(343)	93
Total	**4 660**	**(2 158)**	**2 502**

In the comparable reporting period there were no changes of assets held for sale.

in thousands of PLN

29. Deposits from central bank

Deposits from central banks	31.12.2009	31.12.2008
repo transactions	1 519 208	1 242 574
Total	**1 519 208**	**1 242 574**

Fair value of deposits from central banks is presented in additional note 38.

30. Deposits from banks

Deposits from banks	31.12.2009	31.12.2008
Repo transactions	1 531 795	1 358 084
Term deposits	745 682	568 972
Current accounts	24 015	30 553
Total	**2 301 492**	**1 957 609**

Fair value of deposits from banks is presented in additional note 38.

31. Deposits from customers

Deposits from customers	31.12.2009	31.12.2008
Deposits from individuals	24 988 922	23 817 147
- term deposits	14 149 033	13 122 765
- current accounts	10 807 044	10 621 036
- repo transactions	-	1 927
- other	32 845	71 419
Deposits from enterprises	13 948 852	16 059 686
- term deposits	9 101 280	11 700 253
- current accounts	4 594 813	4 074 077
- repo transactions	-	1 827
- other	252 759	283 529
Deposits from public sector	2 324 400	3 505 072
- term deposits	781 613	1 958 735
- current accounts	1 542 230	1 545 806
- oher	557	531
Total	**41 262 174**	**43 381 905**

As at 31.12.2009 deposits held as collateral totalled PLN 165 882 k. (as at 31.12.2008 - PLN 232 325 k)
Fair value of deposits from customers is presented in additional note 38.

32. Other liabilities

Other liabilities	31.12.2009	31.12.2008
Provisions:	162 573	124 550
Employee provisions	*130 021*	*87 062*
Provisions for legal claims	*17 000*	*25 512*
Provisions for off balance sheet credit facilities	*15 552*	*11 976*
Interbank and interbranch settlements	133 380	131 255
Sundry creditors	64 596	73 004
Other deferred and suspended income	63 950	38 964
Accrued liabilities	58 736	72 980
Public and law settlements	34 153	34 835
Total	**517 388**	**475 588**

The bank raises provisions for disputable or expected, certain or highly probable, future liabilities that can be reliably estimated. The liabilities result from past events and fund outflow is probable to satisfy them.

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

in thousands of PLN

Movements on provisions	31.12.2009	31.12.2008
As at the beginning of the period	**124 550**	**160 755**
Employee provisions and accruals	87 062	131 660
Provisions for legal claims	25 512	27 979
Provisions for off balance sheet credit facilities	11 976	1 116
Provision charge	**171 039**	**136 280**
Employee provisions and accruals	114 451	105 538
Provisions for legal claims	1 906	1 793
Provisions for off balance sheet credit facilities	54 682	28 949
Utilisation	**(67 608)**	**(150 277)**
Employee provisions and accruals	(67 218)	(150 061)
Provisions for legal claims	(469)	(454)
Provisions for off balance sheet credit facilities	79	238
Write back	**(65 408)**	**(26 411)**
Employee provisions and accruals	(4 274)	(75)
Provisions for legal claims	(9 949)	(3 806)
Provisions for off balance sheet credit facilities	(51 185)	(22 530)
Transfer	**-**	**4 203**
Employee provisions and accruals	-	-
Provisions for legal claims	-	-
Provisions for off balance sheet credit facilities	-	4 203
As at the end of the period	**162 573**	**124 550**
Employee provisions and accruals	**130 021**	**87 062**
Provisions for legal claims	**17 000**	**25 512**
Provisions for off balance sheet credit facilities	**15 552**	**11 976**

33. Share capital

31.12.2009

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

in thousands of PLN

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

Increase of the bank's share capital by PLN 1 157 k results from vesting of the first edition of BZWBK Incentive Scheme introduced in 2006. Details are presented in note 50.

31.12.2008

Series / issue	Type of share	Type of preference	Limitation of rights to shares	Number of shares	Nominal value of series / issue
A	bearer	none	none	5 120 000	51 200
B	bearer	none	none	724 073	7 241
C	bearer	none	none	22 155 927	221 559
D	bearer	none	none	1 470 589	14 706
E	bearer	none	none	980 393	9 804
F	bearer	none	none	2 500 000	25 000
G	bearer	none	none	40 009 302	400 093
				72 960 284	**729 603**

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

The shareholder having a minimum 5% of the total number of votes at the BZWBK Annual General Meeting of Shareholders was Dublin-based AIB European Investments Ltd., a wholly-owned subsidiary of Allied Irish Banks p.l.c. (AIB Bank). The company's interest in the share capital and the voting power of Bank Zachodni WBK was 70.5%. The remaining shares are in free float.

34. Other reserve funds

Other reserve funds	31.12.2009	31.12.2008
General banking risk fund	649 810	529 810
Share premium	261 699	261 699
Other reserves	2 442 780	1 752 068
Total	**3 354 289**	**2 543 577**

Other reserve funds:

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 31.12.2009 other reserves consist of reserve capital of PLN 2 331 108 k (including share scheme charge of PLN 17 429 k) and supplementary capital PLN 111 672 k.
As at 31.12.2008 other reserves consist of reserve capital of PLN 1 640 396 k (including share scheme charge of PLN 15 882 k) and supplementary capital PLN 111 672 k.
Other movements of other reserve funds are presented in "movements on equity" for 2008 and 2009.

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.

in thousands of PLN

35. Revaluation reserve

Revaluation reserve	31.12.2009
As at 31 December 2008	338 213
Net change in available for sale investments, of which:	*66 374*
Increase:	*77 334*
- related to debt investments purchased before current reporting period	50 873
- related to equity investments purchased before current reporting period	3 392
- related to debt investments purchased/assigned in the period	23 069
Decrease:	*(10 960)*
-net change in available for sale investments matured in the period	(10 960)
Gross valuation related to cash flow hedge	32 827
Decrease in revaluation reserve related to sale of investments	4 562
Deferred tax adjustment	(19 714)
As at 31.12.2009	**422 262**

Revaluation reserve	31.12.2008
As at 31 December 2007	360 441
Net change in available for sale investments, of which:	*32 221*
Increase:	*41 411*
- related to debt investments purchased before current reporting period	32 420
- related to equity investments purchased before current reporting period	5 817
-net change in available for sale investments matured in the period	3 031
-transferred from associates	143
Decrease:	*(9 190)*
- related to debt investments purchased/assigned in the period	(9 162)
- related to equity investments purchased in the period	(28)
Gross valuation related to cash flow hedge	(30 460)
Decrease in revaluation reserve related to sale of investments	(29 203)
Deferred tax adjustment	5 214
As at 31.12.2008	**338 213**

As at 31.12.2008 the revaluation reserve includes the difference between the fair value valuation and purchase price of financial assets reclassified during the reporting period from 'Available for sale' category to 'Held to maturity' (see note 22) of PLN (35 893) k (as at 31.12.2009 – PLN 22 396 k).

Revaluation reserve comprises equity from the valuation of financial assets available for sale. Revaluation reserve is not distributable. On the day of derecognising 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.

36. Hedge accounting

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

Fair value hedge

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

- Fixed rate loans denominated in foreign currency recognised as a financial asset,

in thousands of PLN

- 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 dollar, forming a group of assets covered with an interest rate hedge.

The hedging items are measured at fair value. Hedged items are measured at amortised cost including fair value adjustment due to hedged risk.
The tables below contain details about individual groups of hedge transactions for 2009 and 2008:

31.12.2009	IRS hedging corporate loan	IRS hedging bonds
Nominal value of hedged position	PLN 39 670 k	PLN 534 012 k
Fair value adjustment of hedging instrument asset/(liability)	PLN (1 561) k	PLN 1 587 k
Fair value adjustment of hedged instrument due to hedged risk asset/(liability)	PLN 1 565 k	PLN (1 510) k
Hedged risk	Movements in the fair value of the underlining instrument arising from changes in market interest rates	
Period over which the instruments have an impact on the bank's results	up to 2011	up to 2018

31.12.2008	IRS hedging corporate loans	IRS hedging bonds
Nominal value of hedged position	PLN 287 674 k	PLN 1 567 000 k
Fair value adjustment of hedging instrument asset/(liability)	PLN (1 545) k	PLN (24 979) k
Fair value adjustment of hedged instrument due to hedged risk asset/(liability)	PLN 1 607 k	PLN 27 300 k
Hedged risk	Movements in the fair value of the underlining instrument arising from changes in market interest rates	
Period over which the instruments have an impact on the bank's results	up to 2011	up to 2017

Cash flow hedging

Starting from 2008 BZWBK Bank applies portfolio cash flow hedging. Hedging transactions are constructed using interest rate swaps. Their purpose is to mitigate risk of cash flow volatility in hedged instruments stemming from changes in market interest rates. BZWBK applies fair value hedge accounting in relation to PLN denominated, floating rate deposits, taking roll-over into consideration.

Hedged items are measured at amortised cost. The hedging items are measured at fair value. When hedge effectiveness conditions are met, change in fair value adjustment of hedging instruments is recognised in equity. As at 31 December 2009 the nominal value of hedging and hedged instruments amounted to PLN 1 200 000 k (31.12.2008 - PLN 850 000 k). Fair value changes of hedging instrument amounts to PLN 2 367 k (31.12.2008 - PLN (30 460) k). The same amount, net of tax, is reflected in revaluation reserve. Hedging instruments are contracted to the year 2015.

in thousands of PLN

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

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at a predetermined price.
As at 31 December 2009, the statement of financial position, on liabilities side, contains treasury bills and bonds traded under sell-buy-back transactions amounting of PLN 3 051 003 k (PLN 2 604 412 k as at 31.12.2008).
A related item being the deposit representing obligations in respect the repo transactions is held on the assets side of the statement of financial position and amounts to 3 218 246 k (PLN 2 655 853 k as at 31.12.2008).
As at 31.12.2009, in the statement of financial position, buy-sell-back transactions amount to PLN 10 083 k (31.12.2008 – PLN 960 609 k).

All risks and rewards related to the holding of the underlying debt securities in the sell-buy-back transactions remains with the Bank, as well as power to dispose them.
Financial instruments held as security for (reverse) repurchase agreements may be sold or repledged under standard agreements, the obligation to return these to the counterparty on maturity of the transaction.

As at 31.12.2009 there were no financial instruments that would be treated as security for the repo transactions whose maturity date is earlier or equal to the maturity date of the underlying transaction.

As at 31.12.2008 financial instruments with nominal value of PLN 10 000 k accepted as security have been repledged under subsequent repurchase transactions, which concluded before the maturity of the original transactions.

38. 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.

	31.12.2009		31.12.2008	
	Book Value	Fair Value	Book Value	Fair Value
Assets				
Cash and balances with the central banks	2 660 649	2 660 649	3 178 099	3 178 099
Loans and advances to banks	647 559	647 572	1 347 832	1 347 993
Financial assets held for trading	1 301 037	1 301 037	3 222 357	3 222 357
Hedging derivatives	10 801	10 801	347	347
Loans and advances to customers	32 626 176	32 250 127	32 654 263	31 917 744
Investment securities	13 265 805	13 347 045	12 894 385	12 952 850
Investments in subsidiaries, associates and joint ventures	234 349	234 349	234 225	234 225
Liabilities				
Deposits from central bank	1 519 208	1 519 208	1 242 574	1 242 574
Deposits from banks	2 301 492	2 301 485	1 957 609	1 957 161
Derivative hedges	32 933	32 933	68 562	68 562
Financial liabilities held for trading	812 882	812 882	3 253 289	3 253 289
Deposits from customers	41 262 174	41 265 071	43 381 905	43 379 477

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

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

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

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

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

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

Investments in subsidiaries, associates and joint ventures: The financial assets representing investments in subsidiaries, associates and joint ventures were presented at cost. 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.

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

As at 31.12.2009 and 31.12.2008 the Bank made the following classification of its financial instruments measured at fair value in the statement of financial position:

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

in thousands of PLN

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

Level III (measurement methods using material non-market parameters): This level includes equity securities that are not quoted in the active market, measured using the valuation model; investment certificates measured at the balance sheet date at the price announced by the mutual fund; debt securities (commercial and municipal bonds) , FX forward transactions and FX options for which the Bank independently estimates the credit spread for counterparty risk).
In 2009, the Bank transferred IRS, CIRS and fx swap transactions with non-bank clients from II to III fair value Level due to the fact that the counter-party risk has been included in fair value measurement.

As at 31 December 2009 and in the comparable period the Bank classified its financial instruments to the following fair value levels.

31.12.2009	Level I	Level II	Level III	Total
Financial Assets				
Financial assets held for trading	533 120	346 423	421 494	1 301 037
Hedging derivatives	-	10 801	-	10 801
Financial investment assets – debt securities	5 208 457	660 942	83 971	5 953 370
Financial investment assets – equity securities	13 127	-	629 753	642 880
Total	**5 754 704**	**1 018 166**	**1 135 218**	**7 908 088**
Financial liabilities				
Financial liabilities held for trading	-	609 385	203 497	812 882
Hedging derivatives	-	32 933	-	32 933
Total	-	**642 318**	**203 497**	**845 815**

31.12.2008	Level I	Level II	Level III	Total
Financial Assets				
Financial assets held for trading	814 327	1 711 912	696 118	3 222 357
Hedging derivatives	-	347	-	347
Financial investment assets – debt securities	4 244 739	1 443 643	179 564	5 867 946
Financial investment assets – equity securities	13 552	-	624 610	638 162
Total	**5 072 618**	**3 155 902**	**1 500 292**	**9 728 812**
Financial liabilities				
Financial liabilities held for trading	-	2 657 813	595 476	3 253 289
Hedging derivatives	-	68 562	-	68 562
Total	-	**2 726 375**	**595 476**	**3 321 851**

As at 31 December 2009 and in the comparable period there were no transfers between the first and the second fair value level.

in thousands of PLN

Both in current and comparable reporting period, for fair value measurements in Level 3, the Bank did not change any of the inputs to reasonably possible alternative assumptions [IFRS 7.27B (e)].

In 2008 the Bank reclassified T-bonds to held-to-maturity portfolio. As at 31 December 2008 fair value of those instruments amounted to PLN 6.482.636 k and the carrying value amounted to PLN 6 388 277 k.

As at 31 December 2009 fair value of those instruments amounted to PLN 6 750 795 k and the carrying value amounted to PLN 6 669 555 k.

The fair value gain that would be recognised if the financial asset had not been reclassified, amounts to PLN 58 465 k as at 31 December 2008 and PLN 58 844 k as at 31 December 2009.

As at 31 December 2008 gain on financial assets classified as held-to-maturity recognised in profit or loss amounted to PLN 90 252 k, whereas at 31 December 2009 amounted to PLN 376 940 k.

Gain on derivative financial instruments classified by the Bank to the III Level and still kept in the portfolio as at the end of the reporting period amounted to PLN 117 355 k.

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

Level III	Financial Assets			Financial Liabilities
31.12.2009	**Financial assets held for trading**	**Financial investment assets - debt securities**	**Financial investment assets - equity securities**	**Financial liabilities held for trading**
Beginning of the period	**696 118**	**179 564**	**624 610**	**(595 476)**
Profits or losses	(6 895)	1 872	(877)	(3 712)
recognised in income statement	*(6 895)*	-	*337*	*(3 712)*
recognised in equity	-	*1 872*	*(1 214)*	-
Purchase	-	87 774	6 458	-
Sale	-	(56 075)	(438)	-
Matured	(566 182)	(129 164)		506 758
Transfer	298 453			(111 067)
At the period end	**421 494**	**83 971**	**629 753**	**(203 497)**

Level III	Financial Assets			Financial Liabilities
31.12.2008	**Financial assets held for trading**	**Financial investment assets - debt securities**	**Financial investment assets - equity securities**	**Financial liabilities held for trading**
Beginning of the period	**73 850**	**252 935**	**627 119**	**(120 173)**
Profits or losses	634 207	(866)	2 942	(673 689)
recognised in income statement	*634 207*	-	-	*(673 689)*
recognised in equity	-	*(866)*	*2 942*	-
Purchase	-	6 906	16 923	-
Sale	-	-	(22 249)	-
Impairment	-	-	(125)	-
Matured	(11 939)	(79 411)		198 386
At the period end	**696 118**	**179 564**	**624 610**	**(595 476)**

in thousands of PLN

39. Contingent liabilities

Significant court proceedings conducted by Bank Zachodni WBK S.A

As at 31 December 2009, no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank amounting to a minimum of 10% of the Bank's equity.
The value of all litigation amounts to PLN 225 185 k, which is ca. 4.1 % of the Bank's equity. This amount includes PLN 26 751 k claimed by the Bank, PLN 70 470 k in claims against the Bank and PLN 127 964 k are Bank's receivables due to bankruptcy or arrangement cases.

As at 31 December 2008, no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank amounting to a minimum of 10% of the Bank's equity.
The value of all litigation amounts to PLN 244 677 k, which is ca. 5.53 % of the Bank's equity. This amount includes PLN 54 896 k claimed by the Bank, PLN 54 381 k in claims against the Bank and PLN 135 400 k are Bank's receivables due to bankruptcy or arrangement cases.

Provisions for legal claims are presented in note 32.

Contingent liabilities

The break-down of contingent liabilities 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.

Contingent liabilities - sanctioned	31.12.2009	31.12.2008
Liabilities sanctioned		
- financial	**7 317 366**	**9 847 961**
- credit lines	6 414 737	8 726 066
- credit cards debits	845 493	879 874
- term deposits with future commencement term	27 933	182 000
- import letters of credit	29 203	60 021
- guarantees	**1 130 010**	**950 992**
Total	**8 447 376**	**10 798 953**

40. 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, Bank Zachodni WBK S.A. calculated this fund using 0.4% rate of the annual contribution base.
Accordingly, as at 31 December 2009 Bank Zachodni WBK S.A. pledged as collateral PLN 167 100 k of debt securities (PLN 150 561 k as at 31.12.2008).
In 2009 a deposit for PLN 239 958 k was placed with another bank as a collateral for the day-to-day Treasury business (in 2008 it was PLN 182 306 k).
In 2009 another bank placed as collateral in BZ WBK a deposit for PLN 4 724 k.
Other assets pledge as collateral are presented in notes 37 and 31.

41. Trust activities

In 2008 and 2009 Bank Zachodni WBK S.A. did not provide custodian services.

in thousands of PLN

42. Financial and operating leases

Finance leases

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

Finance leases gross liabilities (maturity)	31.12.2009	31.12.2008
Less than 1 year	903	1 514
1-5 years	25 676	32 300
Total	**26 579**	**33 814**
Present value of lease payments (maturity)	**31.12.2009**	**31.12.2008**
Less than 1 year	596	1 153
1-5 years	16 705	24 115
Total	**17 301**	**25 268**
Reconciliation between the gross investment and the present value of minimum lease payments	**31.12.2009**	**31.12.2008**
Finance leases gross liabilities	26 579	33 814
Unearned financial costs	(9 278)	(8 546)
Present value of minimum lease payments	**17 301**	**25 268**

Operating Leases

The BZWBK leases offices in compliance with operational leasing agreements. As a standard, agreements are concluded for 5-10 years. A small part of the offices is subleased outside the Bank. In 2009 and 2008 rentals totalled PLN 136 449 k and PLN 97 690 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)	31.12.2009	31.12.2008
Less than 1 year	142 291	119 302
1-5 years	456 484	374 372
over 5 years	325 885	311 110
Total	**924 660**	**804 784**

43. Cash flow statement – additional information

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

Cash components	31.12.2009	31.12.2008
Cash and current accounts in central bank	2 660 649	3 178 099
Debt investment financial instruments	1 793 330	615 802
Deposits in other banks, current account	647 559	1 347 832
Debt secutities held for trading	449 354	168 618
Total	**5 550 892**	**5 310 351**

Bank Zachodni WBK S.A. holds another cash balances pledged as collateral, which are presented in note 31, that are not avaliable for use.

in thousands of PLN

44. Related party disclosures

The tables below contain information about balances of transactions effected by the bank and its related entities. Most of the transactions are banking transactions made as part of ordinary business activities and mainly include loans, deposits and guarantees.

Transactions with subsidiaries	31.12.2009	31.12.2008
Assets	**1 134 672**	**856 331**
Financial assets held for trading	6 145	155
Loans and advances to customers	1 121 872	852 828
Other assets	6 655	3 348
Liabilities	**1 129 222**	**1 227 740**
Financial liabilities held for trading	79 021	99 356
Deposits from clients	1 032 909	1 103 139
Other liabilities	17 292	25 245
Income	**128 855**	**157 143**
Interest and similar income	37 347	44 600
Fee and commission income	68 180	97 187
Other operating income	8 926	7 863
Net trading income and revaluation	14 402	7 493
Expenses	**52 572**	**77 454**
Interest expense and similar charges	49 110	75 707
Fee and commission expense	1 364	90
Operating expenses incl.:	2 098	1 657
-Bank's staff, operating expenses and management costs	*2 064*	*1 608*
-Other	*34*	*49*
Contingent liabilities	**3 222 998**	**1 211 568**
Sanctioned:	1 611 499	605 784
- financing-related	*1 356 686*	*555 510*
- guarantees	*254 813*	*50 274*
Received:	1 611 499	605 784
- financing-related	*1 356 686*	*555 510*
- guarantees	*254 813*	*50 274*
Derivatives' nominal values:	**3 487 320**	**2 674 910**
Cross-currency interest rate swaps- purchased	1 637 460	1 124 026
Cross-currency interest rate swaps- sold	1 791 175	1 305 961
Single-currency interest rate swaps	58 685	244 923

Transactions with associates and joint ventures	31.12.2009	31.12.2008
Liabilities	**90 352**	**121 191**
Deposits from clients	90 352	121 191
Income	**5 743**	**2 144**
Fee and commission income	5 586	2 086
Other operating income	157	58
Expenses	**8 324**	**6 620**
Interest expense and similar charges	6 183	5 073
Operating expenses incl.:	2 141	1 547
-Bank's operating expenses and management costs	*2 141*	*1 547*

in thousands of PLN

Transactions with the parent company (AIB Group)	31.12.2009	31.12.2008
Assets	**495 162**	**575 145**
Loans and advances to banks	376 170*	254 035**
Financial assets held for trading	117 274	187 878
Investment securities	-	129 164
Other assets	1 718	4 068
* incl.: deposits in the amount of PLN 376 075 k and current accounts of PLN 95 k.		
* *incl.: deposits in the amount of PLN 253 549 k and current accounts of PLN 486 k.		
Liabilities	**1 097 926**	**1 738 320**
Deposits from banks	811 523*	1 050 572**
Hedging derivatives	1 564	1 489
Financial liabilities held for trading	272 417	671 136
Other liabilities	12 422	15 123
* incl.: repo transactions of PLN 305 653 k and deposits of PLN 505 870 k.		
** incl.: repo transactions of PLN 588 159 k and deposits of PLN 462 413 k.		
Income	**67 969**	**(306 982)**
Interest and similar income	4 375	19 057
Fee and commission income	30	33
Other operating income	2 951	17 206
Net trading income and revaluation	60 686	(340 410)
Ganis/losses from other financial securities	(73)	(2 868)
Expenses	**40 208**	**70 974**
Interest expense and similar charges	8 139	40 969
Operating expenses incl.:	32 069	30 005
-Bank's staff, operating expenses and management costs	*32 069*	*30 005*
Contingent liabilities	**44 319**	**188 563**
Sanctioned	7 419	165 000
- financing-related	*7 419*	*165 000*
Received	36 900	23 563
- financing-related	*36 900*	*23 563*
Derivatives' nominal values:	**11 062 622**	**13 161 424**
Cross-currency interest rate swaps- purchased	1 337 015	480 590
Cross-currency interest rate swaps- sold	1 402 642	590 082
Single-currency interest rate swaps	3 364 991	3 954 781
FRA	-	150 000
Options	9 841	10 221
FX swap – purchased amounts	1 961 714	2 441 470
FX swap – sold amounts	1 927 627	2 465 307
FX options - purchased	507 319	1 226 585
FX options - sold	547 364	1 761 203
Spot-purchased	2 055	39 224
Spot-sold	2 054	41 961

In November 2008 BZ WBK entered into several short-term buy-sell-back transactions with the following investment funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.:

- Arka BZ WBK Zrównoważony FIO
- Arka BZ WBK Stabilnego Wzrostu FIO
- Arka BZ WBK Ochrony Kapitału FIO

They were collateralized with Government bonds. As at 31.12.2008 balance of those transactions amounted to PLN 427 572 k and accrued interest amounted to PLN 3 216 k.

As at 31.12.2009 there were no such transactions.

in thousands of PLN

TRANSACTIONS WITH MEMBERS OF MANAGEMENT AND SUPERVISORY BOARDS

REMUNERATION OF BANK ZACHODNI WBK S.A. MANAGEMENT AND SUPERVISORY BOARD MEMBERS

31.12.2009

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

First and last name	Position	PLN k
Aleksander Szwarc	Chairman of the Supervisory Board	203.7
Waldemar Frąckowiak	Member of the Supervisory Board	163.7
Aleksander Galos	Member of the Supervisory Board	163.7
Jcek Ślotała	Member of the Supervisory Board	139.7
John Power	Member of the Supervisory Board	205.6
James O'Leary	Member of the Supervisory Board	53.7

Two Members of the Supervisory Board: Gerry Byrne and Maeliosa OhOgartaigh decided not to be remunerated.

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

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2009-31.12.2009	1 217.74	324.20
Paul Barry*	Member of the Management Board	01.01.2009-31.12.2009	715.89	854.57
Andrzej Burliga	Member of the Management Board	01.01.2009-31.12.2009	622.87	73.57
Declan Flynn*	Member of the Management Board	01.01.2009-31.12.2009	947.35	642.63
Justyn Konieczny	Member of the Management Board	01.01.2009-31.12.2009	859.13	70.83
Janusz Krawczyk	Member of the Management Board	01.01.2009-31.12.2009	750.66	103.48
Jacek Marcinowski	Member of the Management Board	01.01.2009-31.12.2009	725.31	55.34
Michael McCarthy*	Member of the Management Board	01.02.2009-31.12.2009	989.60	782.00
Marcin Prell	Member of the Management Board	01.01.2009-31.12.2009	723.36	93.43
Mirosław Skiba	Member of the Management Board	01.01.2009-31.12.2009	562.55	132.75
Feliks Szyszkowiak	Member of the Management Board	01.01.2009-31.12.2009	739.32	122.22

*In respect of Messrs Barry, Flynn and McCarthy (on assignment to BZWBK from Allied Irish Banks plc, Dublin, Ireland), whose terms of assignment cover payment of salaries in their home country currency. Furthermore, their terms of assignment include reimbursement of Allied Irish Banks plc's costs in respect of pension contributions, medical insurance cover, Allied Irish Banks plc profit sharing scheme and other benefits. Costs in respect of accommodation and school fees are also paid by BZWBK in specific cases.

in thousands of PLN

In 2009, none of the Members of the Management Board or the Supervisory Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities.

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

31.12.2008

Remuneration paid to the members of Bank Zachodni WBK Supervisory Board

First and last name	Position	PLN k
Aleksander Szwarc	Chairman of the Supervisory Board	201.7
Waldemar Frąckowiak	Member of the Supervisory Board	177.2
Aleksander Galos	Member of the Supervisory Board	163.0
Jacek Ślotała	Member of the Supervisory Board	119.0
John Power	Member of the Supervisory Board	214.8
James O'Leary	Member of the Supervisory Board	93.6

Two Members of the Supervisory Board: Gerry Byrne and Maeliosa OhOgartaigh decided not to be remunerated.

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

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2008-31.12.2008	1 214.64	638.10
Paul Barry*	Member of the Management Board	01.10.2008-31.12.2008	189.37	272.73
Andrzej Burliga	Member of the Management Board	01.01.2008-31.12.2008	566.47	59.56
Declan Flynn*	Member of the Management Board	01.01.2008-31.12.2008	995.91	792.85
Michał Gajewski	Member of the Management Board	01.01.2008-31.05.2008	415.29	29.02
Justyn Konieczny	Member of the Management Board	01.01.2008-31.12.2008	854.28	69.99
Janusz Krawczyk	Member of the Management Board	01.01.2008-31.12.2008	762.57	45.30
Jacek Marcinowski	Member of the Management Board	01.01.2008-31.12.2008	729.29	56.24
James Murphy*	Member of the Management Board	01.01.2008-30.09.2008	518.58	439.00
Marcin Prell	Member of the Management Board	01.01.2008-31.12.2008	729.02	70.83
Mirosław Skiba	Member of the Management Board	22.07.2008-31.12.2008	252.28	17.80
Feliks Szyszkowiak	Member of the Management Board	01.01.2008-31.12.2008	732.45	64.20

*In respect of Messrs Barry, Flynn and Murphy (on assignment to BZWBK from Allied Irish Banks plc, Dublin, Ireland), whose terms of assignment cover payment of salaries in their home country currency. Furthermore, their terms of

assignment include reimbursement of Allied Irish Banks plc's costs in respect of pension contributions, medical insurance cover, Allied Irish Banks plc profit sharing scheme and other benefits. Costs in respect of accommodation and school fees are also paid by BZWBK in specific cases.
In 2008, none of the Members of the Management Board or the Supervisory Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities.

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

31.12.2009

Loans and advances made by the Bank to the Members of the Management Board of BZ WBK S.A. and to their relatives were PLN 9 193 k. These facilities have been sanctioned on regular terms and conditions.

As of 31.12.2009, the total finance lease receivable provided to members of the Management Board of BZ WBK S.A. by the subsidiaries and associates amounted to PLN 23 k.
Social Fund loans and advances provided to Board Members totalled nil.

31.12.2008

Loans and advances made by the Bank to the Members of the Management Board of BZ WBK S.A. and to their relatives were PLN 8 769 k. These facilities have been sanctioned on regular terms and conditions.

As of 31.12.2008, the total of finance lease receivable provided to members of the Management Board of BZ WBK S.A. by the subsidiaries and associates amounted to PLN 30 k.

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

TRANSACTIONS WITH EMPLOYEES

31.12.2009

As of 31.12.2009, the total of loans and advances drawn by BZWBK S.A. employees was PLN 565 923 k (including the debt of PLN 1 406 k shown in joint accounts).
In the same period, the total of loans and advances drawn by BZWBK S.A. employees from the Social Fund was PLN 15 542 k.
These facilities have been sanctioned on regular terms and conditions.
On current accounts and term deposits employees of the bank held balances of PLN 179 331 k, (of which joined current accounts – PLN 40 116 k).

31.12.2008

As of 31.12.2008, the total of loans and advances drawn by BZWBK S.A. employees was PLN 551 617 k (including the debt of PLN 1 154 k shown in joint accounts).

In the same period, the total of loans and advances drawn by BZWBK S.A. employees from the Social Fund was PLN 15 151 k.
These facilities have been sanctioned on regular terms and conditions.
On current accounts and term deposits employees of the bank held balances of PLN 191 443 k, (of which joined current accounts - PLN 37 720 k).

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

In 2009 Bank issued 37 301 banking writs of execution with total amount of PLN 645 942 k, of which:

- corporate loans - 476 cases of PLN 394 049 k
- cash loans and overdrafts – 24 073 cases of PLN 188 907 k,
- credit cards – 12 699 cases of PLN 44 703 k
- mortgage loans – 53 cases of PLN 18 283 k.

In 2008 Bank issued 17 731 banking writs of execution with total amount of PLN 125 800 k, of which:

- cash loans and overdrafts – 11 975 cases of PLN 81 001 k,
- corporate loans - 172 cases of PLN 22 451 k
- credit cards – 5 521 cases of PLN 15 628 k
- mortgage loans – 63 cases of PLN 6 720 k.

46. Acquisitions and disposals of investments in subsidiaries and associates

Acquisitions of investments in subsidiaries and associates in 2009

Purchase of shares and registration of the Bank's new subsidiary

On 14 January 2009 a new company BZ WBK Finanse Sp. z o.o. was registered.
The Bank acquired in BZ WBK Finanse Sp. z o.o. 1 000 shares with the nominal value of PLN 50 each which accounts for 100% of the share capital and 100% of votes at the General Meeting. The Bank acquired the shares for the total of PLN 50 k. The core business of the Company will be operating financial holdings.
The Bank's purchase of the shares in BZ WBK Finanse Sp. z o.o. is a long-term investment and has been financed with the Bank's own funds.
Additionally, an agreement was entered into by and between the Bank and the registered subsidiary on transferring the ownership title to shares of the Bank's selected Pursuant to the Agreement, the Bank transferred onto BZ WBK Finanse the ownership title to:

1. 1 216 919 shares of BZ WBK Leasing S.A. with a total nominal value of PLN 121 691 900.00 representing 99.99 % of the share capital and votes at the company's AGM, with the total value equalling the carrying value in the Bank's books of PLN 61 257 096.09. The value of shares in the BZ WBK Finanse books will total PLN 61 257 096.09;
2. 100 shares of BZ WBK Faktor Sp. z o.o. with a total nominal value of PLN 50 000.00 representing 100% of the share capital and votes at the company's AGM, with the total value equalling the carrying value in the Bank's books of PLN 6 200 073.20. The value of shares in the BZ WBK Finanse books will total PLN 6 200 073.20.

in thousands of PLN

3. 504 999 shares of BZ WBK Finanse i Leasing S.A., with a total nominal value of PLN 50 499 900.00 representing 99.99% of the share capital and votes at the company's AGM, with the total value equalling the carrying value in the Bank's books of PLN 50 512 484.00. The value of shares in the BZ WBK Finanse books will total PLN 50 512 484.00;

The above shares represent the Bank's non-cash contribution to the BZ WBK Finanse capital with a total value of PLN 117 969 653.29.

In 2008 Bank Zachodni WBK SA did not made any purchase.

Disposals of investments in subsidiaries and associates in 2008 and 2009

In 2009 Bank Zachodni WBK SA did not sell any of its subsidiary or associate.

Disposals in 2008	Net assets	Revenue	Impairment loss	Gains/loss on sale
Brytyjsko-Polskie Towarzystwo Finansowe WBK CU Sp. z o.o.	218	1 200	-	982
NFI Magna Polonia S.A.	1 821	1 821	(756)	(756)
Total	**2 039**	**3 021**	**(756)**	**226**

Bank Zachodni WBK S.A. made a transaction of partial disposal of NFI Magna Polonia shares. Shares representing 22.47% of votes at the AGM of NFI Magna Polonia were sold, whereas the rest (5.06%), is recognized as investment securities.

47. Investments in joint ventures

BZ WBK-CU Towarzystwo Ubezpieczeń Ogólnych Spółka Akcyjna and BZ WBK-CU Towarzystwo Ubezpieczeń na Życie Spółka Akcyjna were established on 30 July 2008.

The Bank invested in:

- BZ WBK–CU Towarzystwo Ubezpieczeń Ogólnych S.A. - 13 500 ordinary registered shares of A series with nominal value of PLN 1 000 each and issue price per share of PLN 1 334 which accounts for 50% of the share capital and 50% of votes at a general meeting. The carrying value of the shares taken up by the Bank totals PLN 18 516 k,
- BZ WBK–CU Towarzystwo Ubezpieczeń na Życie S.A. – 10 875 ordinary registered shares of A series with value of PLN 1 000 each and issue price per share of PLN 1 334 which accounts for 50% of the share capital and 50% of votes at a general meeting. The carrying value of the shares taken up by the Bank totals PLN 15 015 k

These represent long-term investments and have been financed from the Bank's own funds.

They were classified as available for sale and value at acquisition price.

On 01.06.2009 these entities has changed their names to: BZ WBK–Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK–Aviva Towarzystwo Ubezpieczeń na Życie S.A. respectively.

48. Events after the balance sheet date

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

The financial statements of Bank Zachodni WBK S.A. were authorized for issue on the 26th of February 2010 by the Management Board of Bank Zachodni WBK S.A. The financial statements will be approved by the shareholders at their Annual General Meeting.

Financing Agreement between the European Investment Bank and Bank Zachodni WBK S.A.

On 28 January 2010 a financing agreemnent was commenced between the European Investment Bank and Bank Zachodni WBK S.A. with regard to fund projects promoted by small and medium-sized enterprises in the sectors of industry and services.
The maximum credit line extended to Bank Zachodni WBK for this purpose is EUR 100 000 k.
The contract stipulates that the financing may be drawn in three tranches at least of EUR 25 000 k each. The repayment term is set independently for each tranche, ranging from minimum three years to maximum eight years from the tranche drawndown.

49. Staff benefits

Staff benefits include the following categories:

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

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

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

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

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

Other staff-related provisions
These are provisions for the National Fund of Rehabilitation of the Disabled, redundancies, overtime and staff training. These liabilities are stated at the amounts of expected payment without discounting.
The balances of the respective provisions are shown in the table below:

in thousands of PLN

Provisions	31.12.2009	31.12.2008
Provisions for accrued holiday leaves	17 314	19 651
Provisions for employee bonuses	74 935	28 316
Provisions for retirement allowances	35 007	33 792
Other staff-related provisions	2 765	5 303
Total	**130 021**	**87 062**

Detailed information about movements on staff-related provisions is available in additional note 32.

Awards for the year 2007 paid in 2008 to the Members of the Management Board of Bank Zachodni WBK S.A.

First and last name	Position	Period	Awards for 2007
Mateusz Morawiecki	President of the Management Board	01.01.2008-31.12.2008	1 440.00
Paul Barry	Member of the Management Board	01.10.2008-31.12.2008	0.00
Andrzej Burliga	Member of the Management Board	01.01.2008-31.12.2008	540.00
Declan Flynn	Member of the Management Board	01.01.2008-31.12.2008	1 015.60
Michał Gajewski	Member of the Management Board	01.01.2008-31.05.2008	840.00
Justyn Konieczny	Member of the Management Board	01.01.2008-31.12.2008	840.00
Janusz Krawczyk	Member of the Management Board	01.01.2008-31.12.2008	684.00
Jacek Marcinowski	Member of the Management Board	01.01.2008-31.12.2008	504.00
James Murphy	Member of the Management Board	01.01.2008-30.09.2008	555.99
Marcin Prell	Member of the Management Board	01.01.2008-31.12.2008	504.00
Mirosław Skiba	Member of the Management Board	22.07.2008-31.12.2008	0.00
Feliks Szyszkowiak	Member of the Management Board	01.01.2008-31.12.2008	648.00

In 2009 the Members of the Management Board did not receive any awards for the year 2008.

50. Share based incentive scheme

In 2006 the Bank has introduced the Incentive Scheme ("the Scheme") on terms approved by the shareholders. The scheme is designed to provide market-competitive incentives for senior executives, in the context of the Bank's long-term performance against stretching growth targets over the three financial years period 2006 – 2008. Conditional awards of shares are made to employees with vesting to take place on the date of the AGM approving financial statements for the last year of the scheme. Subject to vesting conditions the scheme will be realized by distribution of shares only.

The initial vesting was in Q2 2009. All outstanding awards have been subscribed and fully paid in May-June 2009.

in thousands of PLN

For second and third editions, shares will vest on a linear pattern between 25% and 100% contingent on EPS growth adjusted by Consumer Price Index (CPI). The range of the scale requires EPS growth adjusted for CPI between 8% and 16% for 2007 and 2008 editions.

During 2007 conditional awards of shares were granted to no more the 100 individuals. In 2008 third edition has been granted to no more than 600 individuals.

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

Share based payments granted:

	2008	2007
Number of share based payments	288 112	78 341
Share price	149.00	292.50
Exercise price (PLN)	10	10
Vesting period	3 years	3 years
Expected volatility	40.82 %	40.69 %
Award life	3 years	3 years
Risk free rate	6.87 %	4.90 %
Fair value per award	133.01 zł	267.53 zł
Dividend yield	2.01%	2.05%

The following table summarizes the share based payments activity:

	12 months of 2009 Number of share based payments	12 months of 2008 Number of share based payments
Outstanding at 1 January	476 929	200 722
Granted	-	288 112
Exercised	(115 729)	-
Forfeited	(19 499)	(11 905)
Expired	-	-
Outstanding at 31 December	341 701	476 929
Exercisable at 31 December	**-**	**-**

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

For the share based payments outstanding as at 31 December 2009 and as at 31 December 2008 the average remaining contractual life is approximately 1.1 years and 1.6 years respectively.

The total expense is recognized in profit and loss account in correspondence with other reserve capital and settlements with subsidiaries. For 12 months of 2009 and 2008 increase of equity amounted to PLN 1 866 k and PLN 994 k respectively.

Taking up the Bank's shares by the Management Board Members under the 2006 Incentive Scheme

On 21.04.2009, the Supervisory Board of Bank Zachodni WBK passed a resolution stipulating that conditions for the first Incentive Scheme of 2006 were met. In May 2009, subscription of H series shares issued by the bank under resolution made by General Meeting of Shareholders of 4 April 2006 on the conditional increase of share capital was completed. In total, 115 729 shares were allocated to 86 employees, of which 23 084 shares to members of the Management Board. On 10 July 2009, the H series shares were registered with the National Depository of Securities.

in thousands of PLN

Details of number of conditional awards (bonds with pre-emptive rights) for the Members of the Management Board are given below.

No. of awards	2009
Outstanding at 1 January	**74 766**
Exercised	(23 084)
Outstanding at 31 December	**51 682**
Exercisable at 31 December 2009	**-**

First and last name	Total as at 01.01.2009	Granted during 2009	Total as at 31.12.2009
Mateusz Morawiecki	13 522	3 591	9 961
Andrzej Burliga	6 023	1 606	4 417
Justyn Konieczny	11 438	3 591	7 847
Janusz Krawczyk	10 058	3 397	6 661
Jacek Marcinowski	10 058	3 397	6 661
Marcin Prell	9 191	2 530	6 661
Mirosław Skiba	4 388	1 575	2 813
Feliks Szyszkowiak	10 058	3 397	6 661
Total	**74 766**	**23 084**	**51 682**

No. of awards	2008
Outstanding at 1 January	**42 949**
Granted	35 535
Granted before MB nomination	2 538
Forfeited	(6 256)
Outstanding at 31 December	**74 766**
Exercisable at 31 December 2008	**-**

First and last name	Total as at 01.01.2008	Forfeited	Granted before MB nomination	Granted during 2008	Total as at 31.12.2008
Mateusz Morawiecki	6 149	-	-	7 403	13 552
Paul Barry*	-	-	-	-	-
Andrzej Burliga	2 691	-	-	3 332	6 023
Declan Flynn*	-	-	-	-	-
Michał Gajewski	6 256	(6 256)	-	-	-
Justyn Konieczny	6 256	-	-	5 182	11 438
Janusz Krawczyk	5 616	-	-	4 442	10 058
Jacek Marcinowski	5 616	-	-	4 442	10 058
Marcin Prell	4 749	-	-	4 442	9 191
Mirosław Skiba	-	-	2 538	1 850	4 388
Feliks Szyszkowiak	5 616	-	-	4 442	10 058
Total	**42 949**	**(6 256)**	**2 538**	**35 535**	**74 766**

*Members of Management Board on assignment to BZWBK from Allied Irish Banks plc do not participate in BZWBK Incentive Scheme.

in thousands of PLN

51. Average staff level with the break-down into professional groups

31.12.2009

As at 31 December 2009 the Bank employed 8 937 persons, i.e. 8 809 FTE's.

In 2009, the average staffing level in Bank Zachodni WBK was 8 977 FTE's.

The table below presents the employment structure in the Bank with a break-down according to education:

Education	No. of staffs	Structure %
University/collage degree	6 073	67.95
High school degree	2 671	29.89
Vocational	25	0.28
Other	168	1.88
Total	**8 937**	**100.00**

31.12.2008

As at 31 December 2008 the Bank employed 9 590 persons, i.e. 9 515 FTE's.

In 2008, the average staffing level in Bank Zachodni WBK was 9 073 FTE's.

The table below presents the employment structure in the Bank with a break-down according to education:

Education	No. of staffs	Structure %
University/collage degree	6 306	65.76
High school degree	3 068	31.99
Vocational	27	0.28
Other	189	1.97
Total	**9 590**	**100.00**

52. Dividend per share

Bank Zachodni WBK will propose an allocation to dividends 29.64 % of profit for the current reporting period of PLN 292 304 052 i.e. PLN 4.00 per one share. Outstanding profit of PLN 693 923 867.10 will be allocated to other reserve capital.

On 21.04.2009 the Annual General Meeting of Bank Zachodni WBK Shareholders divided the net profit of 2008 to the reserve capital and to the general risk fund. Therefore, Bank Zachodni WBK S.A. did not pay a dividend out of its income generated in 2008.

in thousands of PLN

SIGNATURES			
Signatures of Members of the Management Board			
Date	**Name**	**Function**	**Signature**
26-02-2010	Mateusz Morawiecki	President	
26-02-2010	Paul Barry	Member	
26-02-2010	Andrzej Burliga	Member	
26-02-2010	Declan Flynn	Member	
26-02-2010	Justyn Konieczny	Member	
26-02-2010	Janusz Krawczyk	Member	
26-02-2010	Jacek Marcinowski	Member	
26-02-2010	Michael McCarthy	Member	
26-02-2010	Marcin Prell	Member	
26-02-2010	Mirosław Skiba	Member	
26-02-2010	Feliks Szyszkowiak	Member	

Signature of a person who is responsible for maintaining the book of account			
Date	**Name**	**Function**	**Signature**
26-02-2010	Wojciech Skalski	Financial Accounting Area Director	