

**REPORT OF THE MANAGEMENT BOARD
ON BANK ZACHODNI WBK GROUP
PERFORMANCE IN 2009**

2009



WBK

Bank Zachodni WBK

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I. Overview of the Group's Performance

Below is a summary of the financial performance of Bank Zachodni WBK Group in 2009 and the external and internal factors underlying it.

Financial Highlights

- **Total income** increased by 1% y-o-y to PLN 3,289.1 m.
- **Total costs** decreased by 2.2% y-o-y to PLN 1,644.8 m, of which the staff and administrative expenses reduced by 3.2% y-o-y to PLN 1,498.3 m.
- **Profit-before-tax** was PLN 1,163 m and down 3.9% y-o-y.
- **Profit-after-tax attributable to the Bank Zachodni WBK shareholders** was PLN 886.2 m and up 3.6% y-o-y.
- **Capital adequacy ratio** at 12.97% (10.74% as at 31 December 2008).
- **Return on Equity** at 17.5% (20.8% as at 31 December 2008).
- **Cost to income** ratio improved to 50% (51.6% for 2008).
- **Net impairment losses on loans and advances** amounted to PLN 481 m compared with PLN 364.6 m in 2008.
- **NPL ratio** increased to 5.5% (2.9% as at 31 December 2008), while the ratio of impairment losses to the average credit volumes was 1.31% (1.23% as at 31 December 2008).
- **Loans to deposits ratio** of 83.9% as at 31 December 2009 compared with 82.1% as at 31 December 2008.

Key Factors Affecting the Group's Profit and Activity in 2009

Business Factors

- Stable level of credit volumes compared with the end of December 2008 as a result of the increase in cash loans (+19.6% y-o-y) and home mortgages (+11.2% y-o-y) with a concurrent decrease in loans to institutional customers (-4.4% y-o-y) and lease receivables (-8.5% y-o-y).
- Decline in deposits from customers (-3.7% y-o-y) as the decrease in institutional deposits (-16% y-o-y) outpaced the growth of personal deposits (+5.7% y-o-y). Excluding several high-value short-term deposits held by institutional customers as at 31 December 2008 that did not roll over in 2009, the deposits from institutional customers decreased slightly (-1.1% y-o-y) while total customer deposit base expanded (+3% y-o-y).
- Increase in the number of users of BZWBK24 electronic banking (+21% y-o-y) and Moja Firma Plus package (+20% y-o-y).
- Rapid expansion of the debit cards base (+20% y-o-y) due to the broad product offering and linked services.
- Increase in the value of assets of mutual funds and private portfolios by 26% as a result of reversal of the adverse trends in the equity market in March 2009.
- Deterioration of the financial standing of some borrowers in the difficult macroeconomic environment.
- Continued tightening of lending criteria since Q4 2008 and execution of risk mitigation strategies.
- Strict cost discipline reflected in the reduced staff and other administrative expenses.

External Factors

- Notable deceleration of economic growth in Poland in the first half of 2009 triggered by global financial and economic crisis. Gradual improvement of the economic activity in Poland and symptoms of recovery in the main global economies in the second half of 2009.
- Decrease in industrial production in Poland and weaker performance of companies at the beginning of the year with gradual recovery in the subsequent quarters.
- Slight decrease in fixed investments (-0.3% y-o-y) as infrastructural projects were financed from the EU funds.
- Sudden decline in foreign trade transactions, with the level of trade deficit limited as the fall in imports outpaced the fall in exports.
- Slower credit delivery with lower lending to businesses and weaker personal loan growth (some recovery observed only at the year-end).
- Adverse trends in the labour market (reduced employment and lower wage bill growth), but not as negative as previously expected (decline in employment slowed towards the year-end).
- Marked increase in share prices on the Warsaw Stock Exchange after a sharp decline in 2008 and early 2009.
- Gradual reduction in deposit pricing costs (although still suffering appreciable negative margin) and stabilisation in the interbank market.
- After a significant weakening of the zloty in January and February, high FX rate volatility in the subsequent months, with a tendency to zloty appreciation.
- Reduction of the main interest rates by the Monetary Policy Council and their stabilisation at historically low level (reference rate at 3.5%) in the second half of the year.
- Moderate fall in house prices in major cities. Signs of recovery in demand and an increase in the number of transactions in the second half of the year.
- Weakening in private consumption growth, however not too rapid due to moderate scale of layoffs and improving perception of the labour market.

II. Basic Information

1. History and Profile of Bank Zachodni WBK

Background

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

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

Scope of Activities

Bank Zachodni WBK is a universal bank which provides a full range of services for personal customers, SMEs and large companies. The bank's offering is modern, comprehensive and satisfies diverse customer needs with regard to current/personal accounts, credit, savings, investment, settlement, insurance and card products. The bank aligns its product structure with the requirements of individual customer segments and combines its products into packages around current/personal accounts to provide their users with a precisely defined, tailored and comprehensive service. The financial services of Bank Zachodni WBK also include trade finance and transactions in the capital, FX and money markets as well as in derivatives. The bank's own product range is complemented by specialist products offered by its connected companies, including: Dom Maklerski BZ WBK S.A., BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., BZ WBK AIB Asset Management S.A., BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A. and BZ WBK Faktor Sp. z o.o., BZ WBK - Aviva Towarzystwo Ubezpieczen Ogolnych S.A. and BZ WBK - Aviva Towarzystwo Ubezpieczen na Zycie S.A. In co-operation with all these companies, the bank offers its customers access to brokerage services, mutual funds, insurance, leasing and factoring products.

Distribution Network

As at 31 December 2009, Bank Zachodni WBK operated through 512 outlets, which is the third largest branch network in Poland. As a result of the rapid expansion of the branch network in 2007-2008, the bank's branches are present in all the provinces of Poland.

High net worth individuals can also use the comprehensive investment service from the Private Banking offices in Warsaw, Poznan and Wrocław.

For customers looking for basic, inexpensive and fast service, Bank Zachodni WBK operates a network of 89 agency outlets under the brand of "Bank Zachodni WBK Partner" located in small towns and residential districts of big cities.

Business customers are serviced through 15 Business Banking Centres located across all key markets in Poland. Corporate customers are serviced through the Corporate Business Centres in Warsaw, Poznan and Wrocław.

Through its modern Telephone and Electronic Sales Centre equipped with specialist infrastructure, the bank provides customers with information on its products and services, offers over-the-phone access to transactions and standard products, and renders after-sales service.

Bank Zachodni WBK offers a modern package of electronic banking services called BZWBK24 which gives retail and business customers a convenient and safe access to their accounts and products via the Internet, phone or mobile. Thanks to technologies, the Bank ensures the highest security of electronic services.

2. Share capital, Ownership Structure and Share Price

Ownership Structure of Share Capital

As at 31 December 2008, the share capital of Bank Zachodni WBK amounted to PLN 729,602,840 and was divided into 72,960,284 ordinary bearer shares with a nominal value of PLN 10 each.

On 10 July 2009, the share capital was increased to 73,076,013 shares, reflecting take-up of H series shares issued under the 1st BZWBK Share Incentive Scheme (by force of resolution of General Meeting of Shareholders of 4 July 2006) by the eligible employees.

According to the information held by the bank's Management Board, as at 26 February 2010 (i.e. the date of Annual Report 2009 sign-off), 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.

Shareholder	Number of Shares Held		% in the Share Capital		Number of Votes at AGM		Voting Power at AGM	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
AIB European Investments Ltd.	51,413,790	51,413,790	70.4%	70.5%	51,413,790	51,413,790	70.4%	70.5%
Other	21,662,223	21,546,494	29.6%	29.5%	21,662,223	21,546,494	29.6%	29.5%
Total	73,076,013	72,960,284	100%	100%	73,076,013	72,960,284	100%	100%

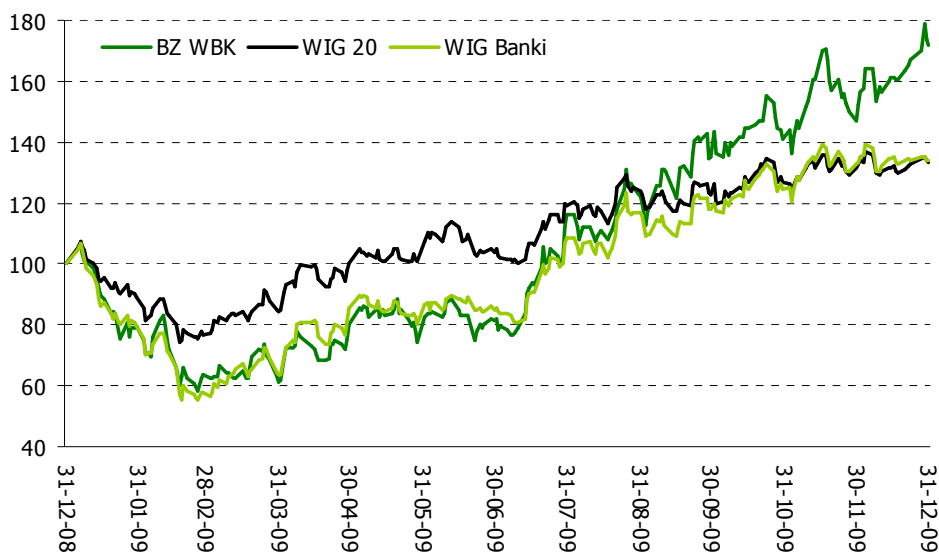
As at the date of approving Annual Report 2009, the Management Board of Bank Zachodni WBK was not aware of any agreements that in the future might lead to changes in the current ownership structure.

Share Price

In 2009, the global economy was in recession and created quite a difficult environment for the equity market. However, starting from February 2009 the world stock indices were gradually rising, reflecting an improvement in the capital market environment and stabilisation of the financial sector. The observed increases were correlated with an improvement in the Leading Indicators, growth of commodity prices and the higher risk appetite among international investors.

After many months of continued downward trend and hitting a low point on 18 February 2009, the Warsaw Stock Exchange saw a dynamic upward rise. During 2009 the WIG index increased by 46.9%, WIG20 by 33.5% and WIG-Banki index by 33.7%. The price of Bank Zachodni WBK shares, which is included in these indices, increased by 71.5% from PLN 110.80 on 31 December 2008 to PLN 190.00 on 31 December 2009.

BZWBK Share Quotations and Indices (31-12-2008 = 100)



BZWBK capitalisation:
PLN 8,083,999,467

BZWBK capitalisation:
PLN 13,884,442,470

3. Composition of Bank Zachodni WBK Group

Subordinated Undertakings:

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

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

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

Compared with the end of December 2008, the Group includes an additional company – BZ WBK Finanse Sp. z o.o., formed by the bank on 18 December 2008 and registered on 14 January 2009. Bank Zachodni WBK acquired 100% stake in the company's share capital. The new entity is a holding company set up to centralise management of the bank's subsidiaries involved in provision of

services to business customers, i.e. BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A. oraz BZ WBK Faktor Sp. z o.o. (see Chapter IV, Section "Investment Banking" and Chapter XI., Section "Changes to the Management Organisation" for more details).

Joint Ventures and Associated Undertakings:

In the consolidated financial statements of Bank Zachodni WBK Group for the period ending 31 December 2009, the following companies are accounted for using the equity method in accordance with IAS 28 i 31:

Joint Ventures:

- 1) BZ WBK-Aviva Towarzystwo Ubezpieczen Ogolnych S.A.
- 2) BZ WBK-Aviva Towarzystwo Ubezpieczen na Zycie S.A.

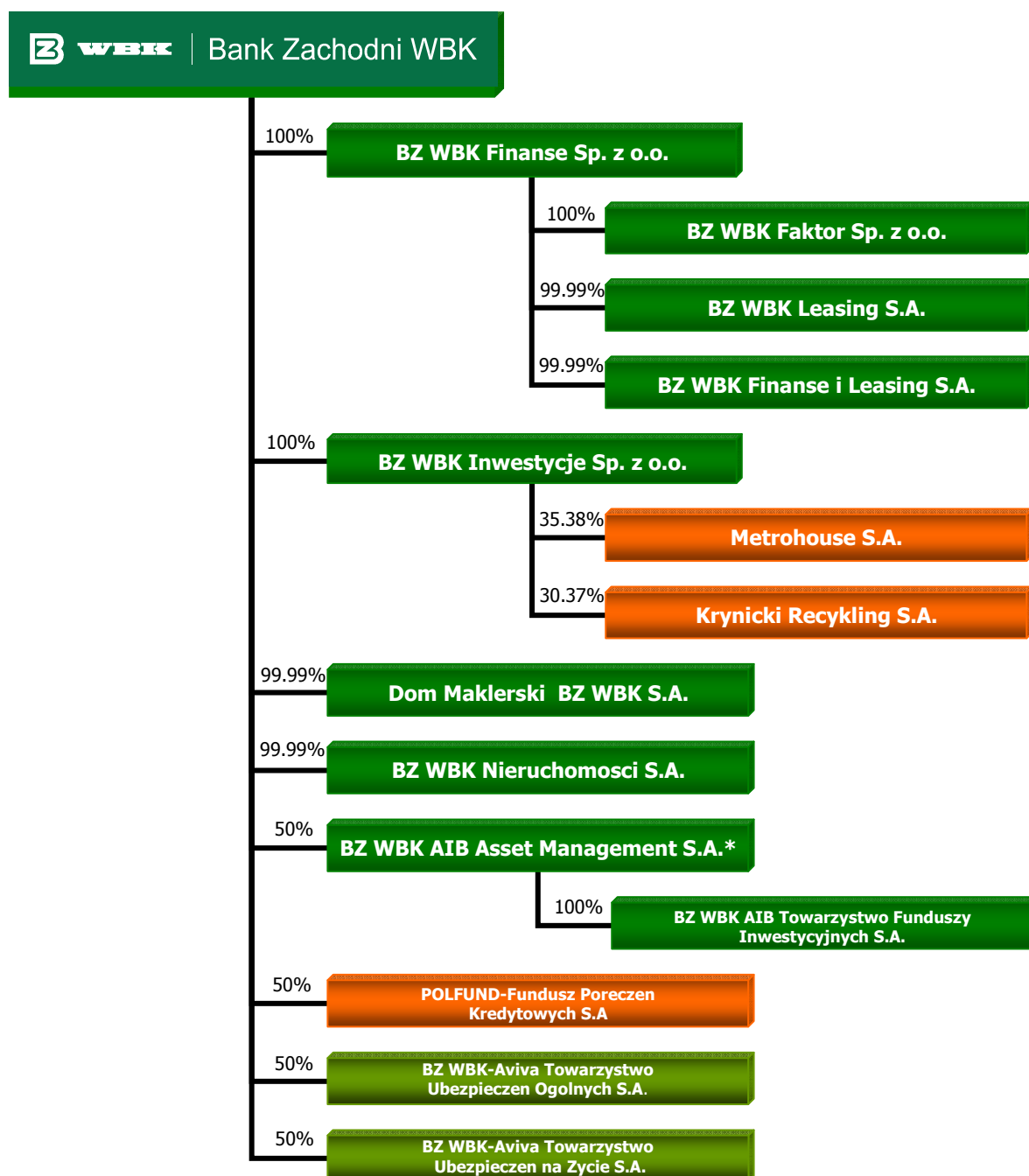
Associated Undertakings:

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

In addition to the joint ventures and POLFUND - Fundusz Poreczen Kredytowych S.A., which is the bank's investment of long standing, the equity method approach is also used to account for Metrohouse S.A. and Krynicki Recykling S.A., the associates of BZ WBK Inwestycje Sp. z o.o. (bank's subsidiary). Both companies are classified as associates as the bank has a significant impact on their operations. The respective shareholdings were acquired as part of the bank's strategy to build a portfolio of "pre-IPO" investments.

As compared with the end of 2008, the list of associated undertakings has been extended by Krynicki Recykling S.A. In December 2008, BZ WBK Inwestycje Sp. z o.o. acquired 3.1 m newly issued shares of the company, representing 30.37% of the share capital. The capital increase was registered on 2 February 2009.

Organisational Chart of Bank Zachodni WBK Group



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

Legend:

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

4. Other Equity Investments

As at 31 December 2009, Bank Zachodni WBK Group owned a shareholding higher than 5% in the following entities:

No.	Company	Share in the Share Capital	Voting Power at ATM
1.	Krajowa Izba Rozliczeniowa S.A.	11.48%	11.48%
2.	Aviva Powszechnie Towarzystwo Emerytalne Aviva BZ WBK S.A.	10%	10%
3.	Aviva Towarzystwo Ubezpieczen na Zycie S.A.	10%	10%
4.	Aviva Towarzystwo Ubezpieczen Ogolnych S.A.	10%	10%
5.	Centrum Klima S.A.	9.91%	9.91%
6.	ARKA BZ WBK Fundusz Rynku Nieruchomosci 2 Specjalistyczny FIZ	6.48%	-
7.	Gorzowski Rynek Hurtowy S.A.	5.70%	5.70%
8.	AWSA Holland II B.V.	5.44%	5.44%
9.	Biuro Informacji Kredytowej S.A.	5.14%	5.14%
10.	NFI Magna Polonia S.A.	5.06%	5.06%

III. Macroeconomic Environment in 2009

Economic Growth

After the recession that hit the world's major economies (GDP fall for 4-5 quarters in the euro-zone and the USA), the economy rebounded in the third quarter of 2009 due to fiscal and monetary stimulus packages. The serious economic downturn abroad had a strong adverse impact on the Polish economy. The economic growth in Poland decelerated strongly, but the decline was much smaller than in highly-developed countries and less severe than expected at the beginning of the year. According to the preliminary data of the Polish Central Statistical Office (GUS), the GDP growth in Poland slowed down to 1.7% y-o-y, which was the only positive figure among the other EU countries.

The figures for the whole of 2009 and the resulting estimates for the fourth quarter of 2009 (3% growth y-o-y) confirmed that the Polish economy is on a recovery path. Also, the structure of the GDP growth points to the relatively strong consumption demand and a minimal fall in investments. These are historical figures, though, and they in no way reduce the likelihood of a second wave of the global crisis, which is the key risk factor affecting the mid-term economic growth outlook for Poland.

Labour Market and Consumption

Private consumption weakened (to 2.3% y-o-y in 2009 compared with 5.9% y-o-y in 2008) due to negative changes in the labour market. As a result of a decrease in employment and the marked reduction in the average wage growth, the wage bill growth slowed substantially. On the other hand, social security benefits increased in 2009. In addition, the disposable income of households was positively affected by the changes in Personal Income Tax (PIT) and Value Added Tax (VAT).

Investments

According to the preliminary data of the GUS, the growth in gross fixed investments in 2009 was -0.3%, which was much above the pessimistic forecasts from the start of the year. The growth in investments was slightly below zero only in the second and the third quarter. At the same time, the bank's estimates indicate that the investment growth in the fourth quarter was positive at 1.5% y-o-y. This is associated with the strong activity in public investments supported by the EU funds, which amply compensated for the weak investment activity in the private sector.

Foreign Trade

2009 saw a rapid decline in foreign trade turnover. Based on the preliminary NBP data, the value of exports in euro fell by ca. 17% y-o-y while imports shrank by nearly 26%. The domestic exports was supported by the weak zloty. In zloty terms, exports increased almost by 2% y-o-y (+10.5% in the fourth quarter), while imports fell by 8.2% (-2.8% in the fourth quarter). The weaker domestic demand led to a deep fall in imports, ensuring a positive contribution of the net exports to the GDP growth (ca. 2.6% in 2009). The deeper fall in imports than in exports helped to reduce Poland's deficit in foreign trade and the balance of payments. The cumulated current account deficit relative to the GDP decreased to 1.5% at the year-end, compared with 5.1% in December 2008.

Inflation

After CPI inflation decreased to 2.8% y-o-y in January 2009, it was gradually rising in the subsequent months due to significant increases in the prices of fuel and energy and as a result of the significant weakening of the zloty observed until February 2009. Consequently, the CPI inflation increased to 4% y-o-y in April and then started to fall. Still, until August, the CPI inflation stayed above the upper limit of allowed fluctuations around the Central Bank target (3.5%). The last months of the year brought a decline of the CPI inflation below this level and a rebound to 3.5% y-o-y in December, amid a decrease in the annual growth rate of energy prices and an increase in the annual growth rate of fuel prices. The impact of the significant zloty depreciation on inflation in the first half of the year was partly offset by the strong deceleration in economic growth, while the zloty recovery in the second half of the year supported lower prices growth. The substantial weakening of the internal demand and reduction of the tensions in the labour market acted towards weakening of the inflationary pressures.

Interest Rates

In 2009, the Monetary Policy Council (MPC) reduced the main interest rates four times (all rate cuts in the first half of the year), by a total of 1.5 pp. The monetary policy easing was a response to substantial deterioration in economic growth prospects coupled with favourable mid-term inflation outlook. The substantial reduction in the Central Bank interest rates was followed by a decline in WIBOR rates – by 2.2 pp for 1-month period and 1.9 pp for 3-month and 12-month periods. However, the WIBOR rates did not reflect the true cost of money as the inter-bank money market was liquid only for very short tenors. The MPC also decided to reduce the reserve requirement rate by 50 bps to 3% in order to increase liquidity in the banking system and revive credit activity. The high short-term overliquidity of the banking sector resulted in significant decline of the O/N and T/N rates, which stayed below the reference rate.

Exchange Rate

The first months of 2009 saw a significant weakening of the zloty, triggered by a surge in risk aversion in international financial markets and investors' negative view of the markets in the Central and Eastern Europe, resulting from serious problems of some countries in the region (Baltic states, Hungary, Ukraine). However, towards the end of the first quarter the zloty began to recover as the risk appetite returned to the global markets and the foreign investors showed more interest in buying assets in the CEE region due to support of the financial stability of the countries in the region by international institutions. Until August, the zloty remained relatively stable, with the EUR/PLN rate fluctuating in range of 4.06-4.30. The gradual appreciation of the euro versus the dollar was accompanied by a decline in the USD/PLN rate. The dollar substantially recovered in the international markets at the end of the year, though despite reduction in the risky asset positions the zloty did not suffer much.

IV. Business Development in 2009

1. Review of Key Business Development Directions of Bank Zachodni WBK Group

In 2009, Bank Zachodni WBK Group continued to implement its strategy for the years 2009-2011, striving to be distinctive in the market by its customer proposition, service quality and by taking actions to improve its brand image and awareness. At the same time, the Group flexibly responded to the challenging environment, taking appropriate measures to sustain its deposit base and ensure security of its credit portfolio. Efforts were taken to reduce costs and mitigate risks in all areas of activity.

The most important areas of the Group's activity in 2009 are summarized below:

- Acquiring deposits by offering attractively structured savings and investments products.
- Encouraging the customers with "business potential" to deepen their relationship with the bank through individual contact with advisors, CRM campaigns and other sales and promotional initiatives.
- Continuing extension of the range of personal accounts, current accounts and other products and services to better align the bank's proposition to the diverse customer needs.
- Amending the retail and business lending policy to maintain a high quality of credit exposures.
- Focusing credit delivery on active and loyal customers (sales campaigns/preferential prices).
- Tightening debt monitoring as part of credit risk management.
- Expanding the existing Business Banking Centres to bring the bank closer to a wider group of businesses and establish a quality relationship with them.
- Developing further the quality and number of key delivery channels and integrating them closer.
- Improving functionality and security features of e-banking and supporting development of safe internet transactions, contactless/prepaid cards and other innovative solutions.
- Enhancing continuously customer service quality, the bank's operating efficiency and streamlining procedures for customers.
- Controlling tightly operating costs, renegotiating contracts with suppliers and implementing gradually savings initiatives.

2. Business Development of Bank Zachodni WBK

2.1. Segmentation and Customer Relationship Management (CRM)

In Bank Zachodni WBK segmentation combines two approaches: income-based and socio-demographic one. The bank's retail segments include among others young customers (aged 13 - 30), active customers above 50 years of age, Prestige and VIP customers, while the business segments are as follows: micro, small, business and corporate (see Chapter XI, "Changes to the Organisation of Management" for more details). Against the background of the volatile social and economic situation, the bank analyses customers' propensity to buy and reviews its segmentation approach on a regular basis.

The bank's CRM practices are based on segmentation of the customer base and deploy two service models responding to different customer requirements for banking products and services.

The customers who use sophisticated products and expect customised service are approached proactively by the bank in order to better understand their needs and strengthen the relationship. Direct contact with a dedicated advisor allows for providing a tailored service, satisfaction of diverse needs and establishment of a relationship based on loyalty and trust.

Customers who require standardised products and services and focus mainly on time and effectiveness are serviced through electronic channels or the branch network in accordance with the highest quality standards.

The bank contacts both groups of customers through sales campaigns, using all available communications channels to enhance effectiveness of such initiatives. The number of customers who leave or reduce their business with the bank is tracked on an ongoing basis and actions are taken to minimise the attrition rate.

Proactive contact with customers, quality service and sales campaigns are supported by the IT infrastructure which is aligned with the information requirements resulting from segmentation and CRM.

In 2009, Bank Zachodni WBK focused on the strategy for the years 2009-2011 which aims at strengthening the bank’s image as a dependable financial institution and on fostering the loyalty of its customers. Based on its experience, the bank developed and implemented “CRM Rules” which specify types and frequency of contacting retail and business customers via the main delivery channels (branches, Telephone and Electronic Sales Centre) during sales, information and service campaigns.

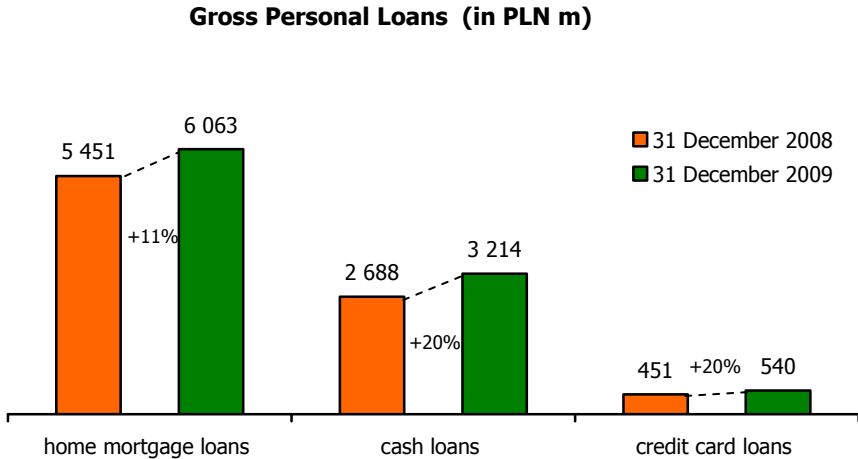
2.2. Retail Banking

Personal Loans

Bank Zachodni WBK offers personal customers a credit product range that is both comprehensive and competitively priced. The mortgage lending offer includes a home mortgage and equity release. Customers seeking current expense funding are offered cash loans (including loans secured with liquid assets), credit cards and overdrafts. The product proposition also consists of car loans, loans for the purchase of shares on the primary market and brokerage loans.

In 2009, amid deteriorating macroeconomic environment and growing credit risk, Bank Zachodni WBK aligned its consumer finance policy and proposition. The lending focus was on the existing customers and respective sales efforts were effectively supported with incentives for customers who actively used their current accounts and other facilities.

Predictable and stable policy of the bank translated into a growth of mortgage sales above the market rate. Due to the attractive customer proposition and sales strategies, cash loan sales increased considerably and so did the entire cash loan-book. More active use of credit cards was reflected in higher receivables under this business line.



Mortgage Loans

Due to the substantial volatility of the currency market and the high cost of acquiring funds from the money market, in March 2009 the bank ceased mortgage lending in foreign currencies (CHF, EUR, USD, GBP).

In 2009, the bank decided to join the government's programme of subsidised housing loans "Rodzina na swoim" ("Family in their First Home"). The programme aims at facilitating access to home mortgage loans for families (for the acquisition of apartments/houses) and at alleviating the consequences of the crisis in the residential construction industry. The new preferential loan has been delivered since September 2009 under the agreement with Bank Gospodarstwa Krajowego signed on 21 August 2009.

As a result of a revision of the bank's mortgage pricing policy, effective from 16 September 2009 a new pricing grid was implemented which differentiates prices quoted to individual customers dependent on the scope and quality of their relationship with the bank. Individual pricing provides for a number of incentives (including a promotional margin at 1.35 pp) for customers who actively use their accounts and products offered by the bank. In addition, customers can choose to repay their mortgage loans at a fixed interest rate applicable for closed 5-year periods.

According to Expander's rating for Gazeta Wyborcza (14 September 2009), the mortgage loan offered by the bank was the most competitive in the Polish market. This information was leveraged during the advertising campaign at the turn of October and November 2009 ("Najtanszy kredyt mieszkaniowy" (Cheapest Mortgage Loan)).

Cash Loans

In 2009, Bank Zachodni WBK was shaping its cash loan policy, pricing and sales methods to accommodate the changing market environment. The sales campaigns were mainly targeted at the internal customer base and were structured as tailored credit proposals. The bank was able to offer competitive cash loan prices with its flexible individual pricing process whereby the interest rate was adjusted to the borrower's individual risk profile. In addition, the maximum available loan amounts were increased under the pre-sanctioning processes, based on observation of cash flows in individual accounts. Also, a uniform 5% fee was applied to all customers and distribution channels. The bank's proposition was recognised as one of the most attractive in the market, which is confirmed by the cash loan rankings (e.g. the ranking published by Expander on 13 May 2009).

In December 2009, the bank's credit offer was enriched with the car loan facility. The main advantages of the product are fast turnaround time and no requirement to indicate the vehicle at the application stage.

Personal Accounts

In line with its retail strategy, Bank Zachodni WBK offers a wide array of current accounts to satisfy diverse needs of its customers. The retail proposition includes standard, prestige and "tailored" accounts for individual customer segments as well as a unique Moneyback account whose holders get back 1% of what they have paid with their Moneyback cards.

In May 2009, the range of the bank's personal accounts was expanded to include the Konto Aktywni 50+, an account designed for persons above 50 years of age who comprise an increasingly numerous and demanding customer segment. The key features of the account include an attractive maintenance fee, Visa Electron Aktywni+ card and a "medical assistance" package providing, among others, doctors' help in urgent cases and discounts in selected pharmacies of the "Dbam o Zdrowie" chain.

Since November the bank has offered Konto na Obcasach ("High Heels Account"). It is the first account in Poland designed specifically for women. The account comes with a number of additional benefits for its holders, including refund of 1% of all payments made with the accompanying card, a specialist insurance package (medical, car and home assistance) and discounts with a number of partner companies of the bank. The product was designed in response to needs voiced by women and came top in the ranking of bank accounts with features attractive for women which was organised by

Comperia.pl. This account was also recognised with prestigious "Laur Klienta 2010" award in the "Discovery of 2009" category.

In 2009, Bank Zachodni WBK promoted the sale of its products and services to the Polish abroad by enabling the opening of USD and GBP accounts through e-applications. Other projects were also continued to improve remote availability of the bank's products and services to the customers staying abroad.

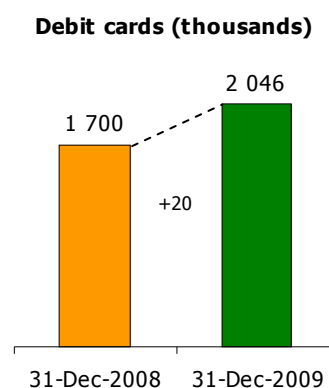
Since early 2009, the bank worked on solutions to facilitate transfer of personal accounts from other banks. In February 2009, procedures on notifying Tax Office and employers of changed account numbers were put in place. In October 2009, the bank was also first to launch an e-Konwerter – a tool allowing customers to transfer beneficiaries of their payments to BZWBK24.

Payment Cards

The bank offers a wide array of credit, debit and pre-paid cards to meet the diverse needs of its customers. The bank issues payment cards of the two main organisations, i.e. Visa and MasterCard. The cards come with a chip to ensure the highest security of card transactions in accordance with the EMV standard (EuroPay, MasterCard, Visa). As a standard, cards linked to BZWBK current accounts allow for cash-back service and secure on-line payments thanks to the 3D-Secure feature (transactions confirmed with a token or text messages).

Debit Cards

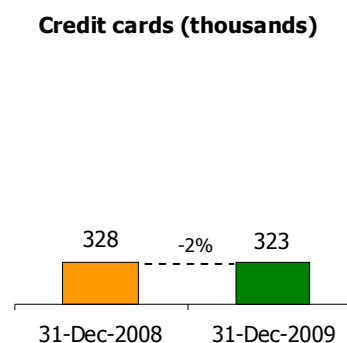
In 2009, the bank upgraded its range of debit cards with three cards coming with newly opened accounts (two personal accounts and a savings account). They include the Maestro savings card attached to the "a la Lokata" Savings Account. The card was introduced as a feature that increases attractiveness of the bank's deposit offering and makes it distinctive in the Polish market. Another new product is the Visa Electron card "Aktywni 50+" coming with the personal account "Aktywni 50+" addressed to the persons above 50 years of age. The card provides its holders with extra benefits, including discounts in the "Dbam o zdrowie" pharmacy chain. The newest product is the "High-heeled" Visa card bundled with the "High-heeled Account", which facilitates contactless payments and provides 1% money back on all purchases.



In September 2009, Bank Zachodni WBK became the official partner of the PAYBACK Bonus Programme and introduced the MasterCard PAYBACK debit card. Card holders gain loyalty points on daily purchases (in store and online) that may be swapped for rewards under the multi-partner PAYBACK loyalty programme. The PAYBACK card is available in all distribution channels and it can be issued for any account offered by the bank.

Credit Cards

Having a rich and innovative credit cards proposition, in 2009 Bank Zachodni WBK focused on the issues connected with handling these instruments and activating credit card holders. Following the review of the personal lending policy, the bank raised the minimum requirements for the customers applying for a new card or card renewal. The functionality of the BZWBK24 electronic banking system was upgraded to allow its users to manage their cards on their own, e.g. to activate their cards, set up or change the PIN, view the card blockade status or activate additional security features for on-line transactions using the 3D-Secure authentication technology.



In order to make the bank's credit card proposition more attractive for customers, the offer of Gold and Platinum cards was complemented with assistance (car, home and medical assistance in Poland), informational and concierge services.

Contactless Cards

The bank continued its strategy of development of contactless payments by increasing the volume of cards equipped with such a functionality. Debit cards, credit cards and pre-paid contactless cards issued by Bank Zachodni WBK operate in the PayPass technology and facilitate payments by simply waving the card in front of a secure reader. At the end of December 2009, the bank's customers held nearly 173 k contactless cards (including more than 120 k debit cards). The bank's efforts to expand its range of contactless cards and to promote contactless payments were recognised by the "Twój Styl" monthly which awarded the "Alicja 2008" prize to the bank in early 2009.

Pre-paid Cards

In 2009, the range of pre-paid cards was enhanced with the issue of cards with special graphics for seasonal occasions. Also, the bank introduced a pre-paid contactless card MasterCard PayPass and a pre-paid bearer card designed solely for making online payments.

The bank improved the sale of pre-paid cards in its branches and started distribution and after-sales service of the pre-paid cards through the Telephone and Electronic Sales Centre. Throughout the past year, the bank used its pre-paid cards in many sales and image-building campaigns.

Deposit and Investment Products

The customers of Bank Zachodni WBK may diversify their savings in line with their individual preferences and investment objectives, being able to choose from a number of current and term deposits, savings accounts, mutual funds and structured products.

Deposit Products

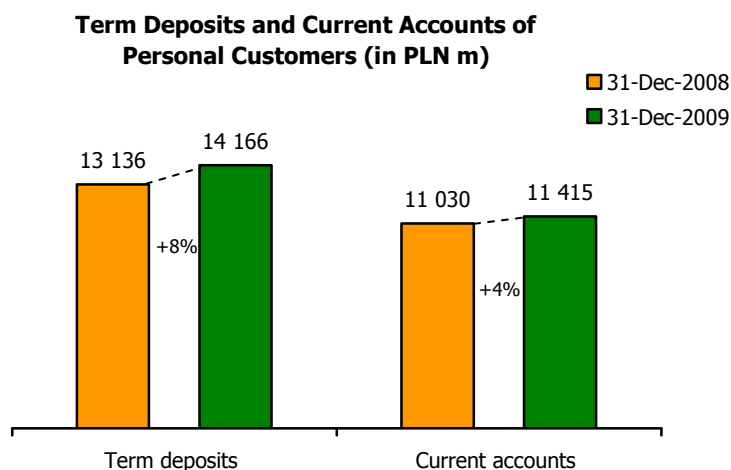
In 2009, Bank Zachodni WBK was building its deposit base with the focus on term deposits in particular. In order to make its deposit offer more attractive and to gain new financial resources, the bank introduced several new products and launched wide-ranging marketing campaigns to support their sales.

9 February 2009 saw implementation of the "a la Lokata" Savings Account coming with Maestro savings card. Holders of the account enjoy an attractive interest rate and are free to use the funds without losing accrued interest. The account is available in all the sales channels: in branches, in the BZWBK24 Internet banking tool and via the on-line or phone-based e-application. The account is accompanied by the Maestro savings card which has all the features of a traditional Maestro debit card added to personal accounts.

From 20 April to 19 June 2009, the bank was selling the "Account with a Lottery" – a 3-month deposit with the maximum interest rate of 5.5%. In addition to the attractive interest rate, the product offered an added value in the form of the chance to win the main lottery prize of PLN 2 m as well as additional prizes, including pre-paid cards and net books. The account with a lottery was supported by the campaign "Earn on your deposit and win PLN 2,000,000", including a series of TV commercials featuring the well-known actor Danny DeVito.

Another new product is the "Anti-Crisis Deposit" launched on 27 April 2009 for retail customers. This is a 12-month, non-renewable, attractively priced deposit with the deposit amount from PLN 3,000 to PLN 20,000, coming with an insurance against the loss of income source.

In early August 2009, the bank's deposit offer was expanded to include a new product "Easily Earning Deposit". This is a 4-month automatically renewable deposit that can be terminated before maturity without full loss of interest. The Easy Earning Deposit has become one of the most popular deposit products of Bank Zachodni WBK.



In the wake of initiatives delivered in 2009, the bank registered an appreciable y-o-y growth in term deposits from personal customers and kept the balance in current accounts at a similar level. This was achieved in spite of a fierce price competition on the Polish deposit market throughout most of 2009 and a strong growth trend on the Warsaw Stock Exchange which started in March.

Structured Products

For customers seeking profitable and safe investment instruments, in 2009, the bank introduced new structured products. These instruments ensure 100% capital protection at maturity and provide additional profit potential based various investment strategies. The main items were as follows:

- the seventh issue of the Investment Policy;
- BZ WBK Platinum bonds;
- BZ WBK Platinum+ bonds;
- BZ WBK Nowa Era bonds;
- two issues of BZ WBK Infrastruktura+ bonds;
- three issues of WIG20 Profit bonds;
- TOP5 Profit bonds.

Apart from large-scale issues of structured products, the bank made special offers to VIP customers, which were available in the Personal Banking network via VIP Advisors. These products combined features of a traditional deposit and investment in the FX market.

Bank Zachodni WBK is one of the leaders of the Polish structured product market, in terms of the volume of sales to retail customers.

Mutual Funds

In 2009, the bank continued distribution of the open-end mutual funds Arka BZ WBK (managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.), including the funds specialising in specific geographic markets and industries, such as Arka BZ WBK Akcji Srodkowej i Wschodniej Europy FIO (Arka CCE Equity Fund), Arka BZ WBK Rozwoju Nowej Europy FIO (Arka New Europe Development Fund) and Arka BZ WBK Energii FIO (Arka Energy Fund). The bank also launched sales of a new investment programme called "Moja Przyszlosc" ("My Future") which offers long-term regular investments into all Arka funds in accordance with the investment strategy chosen by the client. In addition, a newly started InPlus BZWBK Investment Programme was made available to customers. This is a new product developed in co-operation with BZ WBK Aviva Towarzystwo Ubezpieczen na Zycie S.A. that combines life assurance features with investments in 21 insurance equity funds with different risk and profitability profiles.

Advisory Programme

Throughout 2009, Bank Zachodni WBK worked on the Advisory Programme in order to develop and implement an advisory model for personal customer service with respect to savings and investment products. This initiative will be supported by an innovative IT system for analysis and evaluation of customer profiles and development of tailored asset portfolios. The new system will come with advanced analytical functionalities for the advisors. The application to support the investment advisory model will be fully integrated with the branch IT platform, in line with the general concept of a standardized and user-friendly IT environment in the branches. The advisors will undergo proper training to be able to render high quality customer service and use the system to its full potential. The bank intends to make the advisory service available to its best customers in 2010, in selected branches and organizational units.

Insurance Products

The bancassurance line was further developed throughout 2009. The bancassurance joint venture companies established in 2008 (i.e. BZ WBK-Aviva Towarzystwo Ubezpieczen na Zycie S.A. and BZ WBK-Aviva Towarzystwo Ubezpieczen Ogolnych S.A.) worked with the bank on the development of modern insurance products, insurance-investment products and hedging instruments, and gradually extended their product offer. Other efforts covered effective distribution of products and development of the staff skills in the insurance area.

The Investment Policy prepared by the bank jointly with BZ WBK-Aviva Towarzystwo Ubezpieczen na Zycie S.A. was offered for subscription in late January/early February. The bank has also been the first Polish financial organisation to introduce a deposit combined with an unemployment insurance policy. A new investment-and-insurance product (InPlus BZWBK) was brought to the market in August, which facilitates investments in a number of various funds (for more details on these products, see the "Deposit and Investment Product" section above). November saw the launch of a special insurance package addressed specifically to female customers, bundled with the "High-heeled account". This policy includes women's cancer cover as well as a comprehensive assistance package (health insurance, service package and assistance hotline for women). The "Payment Protection" insurance policy was introduced in December to provide a comprehensive cover against the risk of unemployment, temporary disability and a hospital treatment.

Loans for Micro, Small and Other Companies

Retail Banking Division of Bank Zachodni WBK is responsible for servicing the segment of micro and small companies, i.e. enterprises with an annual turnover up to PLN 30 m and a credit exposure up to PLN 3 m.

A comprehensive loan offer from Bank Zachodni WBK meets the current and long-term business financing requirements from micro, small and larger companies. Available facilities include overdrafts, working capital loans, merchant loans, revolving loans, investment loans, co-financing of EU projects, factoring and leasing. The item which differentiates the bank in the market is the universal Business Express loan extended to micro, small and business enterprises (SME sector) within 24 hours from submission of a complete application. This facility may be allocated to any business purpose. The bank's competitive edge is based on prompt and simplified credit delivery process in respect of borrowers whose total exposure with the bank does not exceed PLN 200k. The borrowers may also obtain an additional security cover in the form of a credit guarantee from Polfund S.A. which maintains a working relationship with the bank.

In 2009, the bank's credit delivery focused on periodic sales campaigns targeted at the existing business customers. Tailored credit offers were prepared on the basis of account history analysis and prospective borrowers were notified of the sanctioned pre-limit. This procedure enabled the customers to make an effective draw-down within 24 hours from placing a credit application.

Current accounts, Deposits and Account-Related Products for Micro, Small and Other Companies

Current Accounts

On 1 March 2009, Bank Zachodni WBK introduced three Business Packages (Minimum, Optimum and Maximum) into its offer targeted at business customers. The available account options differ in terms of the account maintenance fee and transaction processing charges. Each package includes a current account, Visa Business Electron payment card and Internet services. With this solution, the Bank can better align the products and prices to the customer's requirements and scale of business. The main advantages of these packages are: constant access to funds in the account, possibility to process transactions 24h/7 (via Moja Fima Plus and BZWBK24 e-banking platforms) and assistance from the customer advisor.

The bank has also prepared a new offer for non-governmental organisations. It includes preferential maintenance terms for the current account, placement of transfer orders as well as account lodgments and withdrawals.

The bank launched a dedicated sales-and-information hotline for prospective and current customers from the small and micro company segment, supported by the Telephone and Electronic Sales Centre (T&ESC). The customers may also use the new channel to gain information as well as open current accounts (as part of the Business Package offer) via e-Wniosek. Under this procedure, the account agreement is signed in the branch or at the customer's site. In line with the strategy of enhancing the cross-channel integration, T&ESC will be acquiring product and service applications from prospective business customers and refer these clients to dedicated specialists in branches.

Account-Related Products and Services

As regards cards for business customers, the bank focused on the growth of sales. The delivered initiatives included a mailing campaign targeted at current account holders without a debit card, promoting the Visa Business Electron card.

In 2009, the bank extended the scope of additional services provided to business customers in cooperation with external partners. Apart from web-based accounting and hosting services (provision of servers, development of internet portals, etc.), customers were offered remote access to the Internet, special prices for mobile phone subscription and hand-sets, car leasing products and the option to purchase notebooks with an installed operating system and ensured maintenance service.

Moreover, Bank Zachodni WBK launched a community portal www.superfirma.pl where the business customers may share knowledge and experience. Another objective was to promote the bank's solutions, products and services addressed to enterprises.

Deposits

In 2009, the bank introduced Business Impet term deposits for business customers (available both in the branches and via the Internet). Apart from standard term deposits (Business Impet and short-term deposits) denominated in PLN and FX, customers may also avail of negotiable term deposits where the interest rate depends on the amount and maturity of the product.

Training Initiatives

The bank's initiatives delivered under the corporate responsibility policy include EU co-financed educational programmes for small and micro enterprises. In 2009, Bank Zachodni WBK finalized the first edition of the programmes in the Pomorskie province and launched a consecutive one in the Kujawsko-Pomorskie province. Both consists of a series of workshops on topics in the area of economy, finance and law and will cover a total of 720 enterprises.

2.3. Business and Corporate Banking

Business Banking

In April 2009, a network of Business Banking Centres was established from the former structures with a purpose to pursue the bank's comprehensive services strategy in respect of business customers with an annual turnover between PLN 30 m and PLN 150 m and credit exposure below PLN 15 m. According to the adopted operating model, the Centres are designed to manage the relationship with eligible customers supported by specialists from a variety of the bank's business lines. This approach ensures high service quality through direct interaction between the advisor and the customer, and the fast decision-making process enabled by the substantial credit discretions vested in the Centres. It is the key feature of the Bank Zachodni WBK Business Banking Centres that the credit decision makers and the staff selling leasing or factoring facilities are based locally.

The Business Banking Centres offer diversified financial solutions, including working capital and project finance as well as operational support at any business activity stage. In addition to loans, guarantees, factoring and leasing products, the business customers may also avail of deposit and investment products (including overnight and negotiable deposits), trade finance and treasury transactions. With the transactional banking tools (BZWBK24 or Moja Firma Plus) as well as the alternative PC-banking Minibank24, they also have access to the solutions which facilitate mass transfers, standing orders, direct debits/credits and electronic identification of receivables.

Apart from day-to-day operating activity, most of 2009 was devoted to organisation and development of the Banking Centres, business re-orientation and consolidation of portfolios as a result of modified segmentation criteria. Also, marketing actions were launched to make the existing and new customers aware of the bank's new structure and business opportunities.

Corporate Banking

The services offered to corporate customers include a wide array of credit facilities ranging from working capital to long-term asset financing to meet general expansion needs, acquisition (leveraged buy-outs) and project finance. The bank also provides a broad range of deposit, Treasury and cash management products, including FX and interest rate management products, international trade finance, cash pooling, mass payments, electronic banking and others. In liaison with its subsidiaries, the bank also offers specialised services, including brokerage, equity and asset management services as well as leasing and factoring. In addition, the Bank Zachodni WBK branch network offers special incentive packages for staff of corporate customers.

The bank's corporate lending strategy is to actively support business development of the existing customers and to establish relations with new customers who have a strong market position and robust business strategy. Due to the deteriorating macroeconomic situation, in 2009 the bank operated a conservative credit policy focusing on providing finance to its existing, well-performing business customers and supporting the safest projects. With such an approach, the bank was able to maintain the good quality of its credit portfolio.

2.4. Investment Banking

Advisory Services

In 2009, Bank Zachodni WBK, in liaison with Dom Maklerski BZ WBK S.A., acted as an advisor in the following initiatives:

- secondary public offering of series G shares of PBG S.A. with a value of PLN 190 m through an increase of share capital;
- private placement of the shares of Tesgas S.A. with a value of PLN 9 m through an increase of share capital (shares to be traded at the alternative stock exchange market NewConnect).

Also, together with Dom Maklerski BZ WBK S.A. – the bank became an advisor for Polish Railways (in a syndicate with McKinsey & Company and the law firm Weil Gotshal & Manges) in the process of restructure and privatisation of PKP Cargo, a railway carrier.

The bank also rendered analytical and advisory services on public offerings, mergers and acquisitions, and provided financial advice to:

- Nafta Polska S.A. (as part of a syndicate of advisors with Raiffeisen Investment AG, Raiffeisen Investment Polska and Lazard & Co. Limited) in the sale of shares of Ciech S.A., Zakłady Azotowe S.A. and ZAK S.A.;
- Petrobaltic S.A. - valuation of the group of companies for the purpose of contribution by the State Treasury of a 30% shareholding in Petrobaltic S.A. to Lotos S.A.

Arrangement of Debt Securities Issues

In 2009, Bank Zachodni WBK arranged the issue of non-treasury securities for 9 entities with a total value of PLN 405.6 m. These issues were taken up by the entities indicated by the issuers. At the request of a corporate client, PLN 14 m worth of bonds were issued as part of the issue programme arranged by the bank with a maximum value of PLN 15 m.

In 2009, the total value of the agreements for the issue of non-Treasury securities amounted to PLN 205.5 m.

Equity Portfolio Management

In order to increase share capital in BZ WBK Finanse Sp. z o.o., in February 2009 the bank contributed to the company all its holdings in the shares of BZ WBK Leasing S.A. and BZ WBK Faktor Sp. z o.o., while in March all its shareholdings in BZ WBK Finanse & Leasing S.A. The capital increase was registered by the court in May 2009.

In March 2009, the bank sold all its 100,800 shares in MTS-CeTO S.A. The transaction generated a profit of PLN 0.3 m.

In May 2009, the bank acquired 122 registered ordinary shares of the new issue (series F) of Commercial Union Polska Towarzystwo Ubezpieczen Ogolnych S.A. (renamed to Aviva Towarzystwo Ubezpieczen Ogolnych S.A. on 1 June 2009) with a nominal share value of PLN 2,000 and the issue price of PLN 20,000. Furthermore, in June 2009 - under the new issue of shares of Aviva TUO S.A. - the bank made a subscription for 123 registered shares of series H and paid them up. The nominal value per share was PLN 2,000 with the issue price at PLN 20,000. The share capital increase was registered by the District Court in the National Court Register (KRS) in the third quarter of 2009. The bank's stake in the company's share capital remained unchanged at 10%.

In June, the bank sold all its 2,797 shares in MasterCard Inc., achieving a profit of PLN 1.5 m.

In September 2009, Bank Zachodni WBK sold its 19,142 VISA Inc. shares for USD 70.735 per share. The profit from the transaction was PLN 1.5 m.

2.5. Treasury

Despite the challenging external environment, 2009 witnessed continued strong Treasury performance, particularly on Wholesale markets.

Wholesale markets activity reported very strong gains, primarily through strategic interest rate positions taken in anticipation of lowering PLN interest rates. The continued reduction in interest rates has supported the strong accrual from these positions. In addition, proprietary trading activities have performed very well, producing exceptional and consistent returns from interest rate and FX trading activity in what were quite volatile markets.

The bank's Treasury Services business held up robustly despite the downturn in economic activity and the impact this had on the client base. Appropriate and prudent fair value adjustments have been made for contracts with clients who experienced difficulties in the earlier part of 2009 and since the end of Q2 the bank has seen a steady improvement in the client portfolio, which is supported by a more stable and stronger zloty and a gradual improvement in the trading outlook for many clients.

Towards the end of 2009, the Treasury Services business was reorganised so as to be more closely aligned to the structure of the Business Banking activity. This is believed to support an enhanced service approach to the existing client base and to optimise the bank's ability to attract business from new clients.

Treasury has responsibility for the day-to-day funding and liquidity management of the Group Balance Sheet. Conditions, particularly in FX funding eased somewhat in the second half-year from what were extremely difficult conditions in the first quarter. However, market conditions remain somewhat fragile and therefore there continues to be a concentrated focus on managing the balance sheet conservatively in this period. As is evident in a customer loan/deposit ratio of 84% at the year-end and the holding of a large portfolio of high quality Polish Government Bonds, the bank continues to maintain a conservative liquidity and funding position that provides sufficient contingency against a liquidity shock.

2.6. Electronic Services to Financial Institutions

Bank Zachodni WBK is one of the biggest service providers for banks and financial institutions with regard to payments, cash processing, card issuance/handling and ATM management. Using its own experience, the bank enhances its products and functionalities to suit the requirements of its customers. The bank proposes and implements innovative solutions, including the technologies that meet the requirements of MasterCard, Visa and SEPA standards. The bank's partners are offered a modern IT infrastructure and a real-time access to transaction data as well as the high quality and security of stripe and chip cards, confirmed by the certifications obtained from payment organisations.

As a result of the successful acquisition activities, the bank has gradually expanded its card and ATM services to financial institutions. In 2009, agreements were signed with new partners for the provision of access to the bank's ATM network and card services, including services for contactless cards. In addition, the bank implemented a new service – intermediation in card purchases for the institutions co-operating with Bank Zachodni WBK which aims to optimise the costs involved.

At the end of December 2009, Bank Zachodni WBK maintained business relations with more than 20 banks and financial institutions, handling 3.7 m of third party cards and a network of approximately 1,300 ATMs of third party institutions.

2.7. International Settlements

Payment Services

International Payment Orders

In March 2009, Bank Zachodni WBK expanded its product range with urgent and express payment orders in PLN. Currently, fast transfers can be made in EUR, USD, GBP and PLN.

In July 2009, the bank joined SEPA (Single Euro Payments Area), the paneuropean system that allows it to receive payments in favour of its own customers and those of third party banks for whom the bank acts as an intermediary via the domestic Euroelixir system. As in the case of standard payment orders, Bank Zachodni WBK does not charge fees for SEPA payments received to the credit of its customers' accounts, which makes the bank distinctive against competitors.

To meet the needs of other banks and its own customers who send EUR payments in large numbers, the bank implemented a solution that will allow the dispatch of SEPA payments through SFT (Secure File Transfer) using similar rules to those governing the settlement of Mass Direct Debits. Projects were also launched to support outgoing SEPA payments in electronic channels (BZWBK24 and Minibank24) and the bank's branch network.

With constant improvement of the clearing processes, the payment messages generated by the bank have been for many years characterised by high quality, which reduces the related costs. The efficient organisation of the payment handling process and the high quality of customer service is best proven by the bank being placed among the institutions that comply with the ISO 9001-2000 standard for international payment orders. This is additionally confirmed by the regular awards received from the

key EUR and USD correspondents for the high STP (Straight Through Processing) rate of its SWIFT messages.

Western Union

The bank continues to provide Western Union transfer services through its branch network or through subagents. At the end of 2009, the bank co-operated with 43 agents who operated a total of 109 outlets.

In October a special web site was launched (www.westernunion.bzwbk.pl) to promote Bank Zachodni WBK as the Western Union agent.

In December 2009, the users of the Western Union transfers were offered a loyalty programme with a pre-paid card dedicated to the Western Union customers.

Cash Lodgements to the Accounts in Bank Zachodni WBK

The bank uses a network of foreign agents (in the UK, Ireland and Holland) to accept and send cash transfers to PLN accounts in Poland.

In May 2009, the bank implemented the Transcash service, i.e. cheap transfers from the UK to Poland. By means of Transcash, customers may send funds from the British post offices to a PLN or FX account in Bank Zachodni WBK using special forms ordered via the contact centre (Infolinia) and obtained by post.

Trade Finance

Bank Zachodni WBK offers a wide range of products for the settlement and funding of international trade transactions. The bank also has an extensive network of correspondent banks, which ensures smooth and cost-effective completion of transactions. The bank's pricing offer remains competitive, particularly with regard to documentary transactions and settlement of international cheques.

The constant improvement and innovation of transaction processing helps to maintain high level of customer satisfaction. The bank's dedication to the highest service standards is confirmed by the certified Management System (ISO 9001:2000), covering documentary transactions and cheques.

Due to the global economic crisis, in 2009 the value of documentary transactions decreased by 22%. Despite the adverse external environment, an increase was noted in the value of exports collections and the non-recourse cheques cashed by 44% and 31%, respectively.

3. Development of distribution channels in Bank Zachodni WBK

Traditional and Specialised Channels of Distribution

Branch Network

In 2009, Bank Zachodni WBK launched 11 branches, closed 4 outlets and moved 7 others to their new locations. Consequently, on 31 December 2009 the bank's branch network consisted of 512 branches and was the third biggest in Poland.

As a result of the rapid expansion of the bank's branch network in 2007-2008, it spans nationwide with the heaviest concentration of branches in the Poznan Region, the Lower and Upper Silesia, the Warsaw Region and other major cities in Poland. Last year, the major development activity focused on Warsaw, Krakow and Lodz. Projects are underway to open several new branches in 2010.

In 2009, more than twenty branches were modernised to improve customer service standards and create dedicated services areas for selected customer groups. Efforts were also continued to upgrade the infrastructure, including the implementation of new solutions aimed at the cash service optimisation.

Last year the bank completed the first two stages of the strategic programme New Branch Front-End which is implemented across the branch network. The programme aims to provide the staff at branches with an integrated IT platform that will replace the several existing systems and will improve customer service. The New Front End will support CRM, sales, product service, scoring and many other processes. The first two stages covered the functionality connected with customer information quality and SME lending.

Integration of Mobile Sales with the Branch Network

As part of the Multi-Channel Integration project, in 2009 the Financial Advisors from the Mobile Sales structures were allocated to co-operation with the Branch Network and became involved in the branch sales processes.

Mobile Banking services are still mainly addressed to the external customers acquired through individual and group meetings. The Financial Advisors also manage customer requests received via the bank's website. Such sales are closed in the branch, which then becomes responsible for further relations with the customer. In 2009, the range of products available in the Mobile Sales channel was expanded, and now includes: cash loan, credit card, personal account, overdraft, savings account, business packages and SME finance.

At the end of December 2009, the bank offered services through 200 Financial Advisors.

Private Banking

Private Banking is a channel that focuses on high net worth individuals. Private Banking offices operate in Warsaw, Poznan and Wroclaw. Customers are serviced by two-person specialist teams, frequently outside of the bank premises. The channel specialises in the sale of savings and investment products. A key feature in the bank's investment offering are structured products of the bank and other financial institutions addressed to selected customers. Another key product is an umbrella of Luxembourg funds which allow affluent customers to invest into closed-end funds whose pricing compares favourably with the proposition available in Poland. The range of available products also includes tailor-made investment and financial solutions. The Private Banking customers can use a dedicated IT platform with passive access to their investment portfolio.

Personal Banking

Other affluent customers are referred to the Personal Banking channel. In 2009, Bank Zachodni WBK introduced a new Personal Banking model to provide tailored service – within the branch structure – to the possibly widest population of VIP customers. The number of VIP advisors was increased and their responsibilities were expanded to include the outlets reporting to the branches in which they are employed. In addition, the incentive scheme and the management information system have been upgraded to improve the work of the VIP advisors with regard to service quality and relationship building. The range of products addressed to the VIP customers has been expanded and individual investment solutions were introduced to allow customers to diversify the risks attaching to their savings.

Business & Corporate Banking Centres

At the beginning of 2009, the bank restructured and expanded its business service model.

The number of Business Banking Centres increased to 15 units located in the key economic centres of Poland (compared with 8 Business Centres as at 31 December 2008). Their role is to provide a comprehensive service to business customers, offering them efficient credit delivery through highly qualified and skilled personnel.

Corporate customers are managed by dedicated Corporate Business Centres in Warsaw, Poznan and Wroclaw. The Warsaw Centre also has departments responsible for preparation of customised structured finance.

Both the Business Banking Centres and Corporate Business Centres operate under the bank's Customer Relationship Management model, whereby a corporate customer's designated relationship

manager controls the credit process and has overall responsibility for managing other areas of the relationship.

Electronic Distribution Channels

BZWBK24

The BZWBK24 electronic banking system which gradually evolves into a multi-functional "virtual branch" has become increasingly important as a delivery channel. Its functionality includes opening of savings accounts and deposits, buying Arka fund units, obtaining information on the credit limits available under the simplified procedure as well as the possibility to top up GSM mobiles and actively support debit cards.

The bank ensures the highest security of electronic services by having transactions authorized through the text message (smsKod) or token while access to BZWBK24 Internet is safeguarded by a masked password. Besides, customers can monitor the IP addresses that are used for logging onto BZWBK24 and secure their Internet-based transactions with the 3-D Secure technology (confirming payments by means of smsKod or token).

In January 2009, the bank implemented the framework agreement called "Electronic Services Agreement", which allowed the BZWBK24 users to enter into online contracts for selected banking products without having to visit a branch. This solution is the basis of the automatic sales process in the new BZWBK24 electronic banking application available to users since October 2009. The new version of the application offers a "buy by click" functionality (no need to sign and return banking document), facilitates personal data management and provides customers with information on credit cards, loan repayment schedules and other items. The bank has also refreshed the look of the application, made it more ergonomic and secure, and optimised the order placing process.

The new application is an important communication platform between the bank and customers. It allows the bank to direct personalised messages to the users, initiate cross-sell proposals and encourage customers to strengthen their relationship with the bank. In 2009, the bank used the tools available under BZWBK24 service in the campaigns aimed to promote loans for selected customer groups, protect the bank's deposit base and activate customers to make card and electronic payments or top up their mobiles.

Telephone and Electronic Sales Centre

The Telephone and Electronic Sales Centre (CSTiE) is responsible for direct sales, primarily through active sales campaigns with CRM and cross-selling objectives. In 2009, the campaigns focused on credit cards, cash loans, personal overdrafts, personal accounts, insurance and products for SMEs. Products were offered via the contact centre line and on-line. During customer service, cross-selling and up-selling opportunities were sought. Product sale initiated by the CSTiE or through the customer's online application is closed in a Bank Zachodni WBK branch chosen by the customer, or via courier.

To expand direct banking, 2009 saw implementation of the initiatives that optimised the sales process in the customer-facing environment. New tools were put in place (e.g. SMS channel and chat) to increase the activity of the existing customers and to acquire new ones.

ATMs

Bank Zachodni WBK also has a wide-ranging network of ATMs in convenient and most frequented locations. As at 31 December 2009, the ATM network of Bank Zachodni WBK comprised 1,042 machines, i.e. 38 more than 12 months before. All the machines complied with the technical requirements of the EMV (Europay, MasterCard, Visa) standard for microchip cards.

August 2009 saw implementation of the Dynamic Currency Converter in the entire Bank Zachodni WBK ATM network. With this innovative solution funds withdrawn by third party banks' customers from GBP, EUR or USD accounts are immediately converted into PLN with an indication of the exchange rate and debit amount.

In September 2009, the ATMs were equipped with the latest software to support implementation of new services and improve security of the transactions. All the machines had the RKL (Remote Key Loading) service implemented to eliminate the manual loading of ATM encryption keys. This ensures remote and easy replacement of keys, increases security and reduces workload. In addition, 350 anti-skimming devices were installed, and a number of ATM bunkers were equipped with centrally-managed combination locks. Audits conducted last year confirmed the quality certificates awarded to the bank for its ATM network.

External Distribution Channels

Bank Zachodni WBK Partner - Agency Outlets Network

At the end of December 2009, the bank's agency network consisted of 89 outlets compared with the 56 outlets operating a year before. To enhance the profile of this network and to improve its market position, the bank's Management Board decided to give its own brand support and rename it to "Bank Zachodni WBK Partner" (previously "Minibank"). The rebranding process started in November 2008 and was completed in April 2009 across the network.

The agency outlets provide customers with an increasing range of basic banking products and services. In 2009, their customer proposition was expanded to include the standard cash loan, retail deposits, credit cards, personal accounts (BZWBK24, BZWBK24 Prestige, Account<30, Moneyback Account, Active 50+, High-Heeled Account) and electronic banking services. The agents also accept cash lodgements (including Western Union transfers) and act as intermediaries in the sale of home and business loans. The pace of development of the agency outlets is going to be maintained.

4. Business Development of the Subsidiaries of Bank Zachodni WBK

Dom Maklerski BZ WBK S.A.

In January and February 2009 share prices suffered severe cuts followed by sudden increases in March, which continued until the year-end. In this volatile environment, the total annual stock trading increased by 7.2% y-o-y.

The stock trading by Dom Maklerski BZ WBK (BZ WBK Brokerage House) followed the market trend, increasing by 7.1% y-o-y to PLN 39.1 bn. With this performance the company maintained its 11% market share and advanced to the second position in Poland.

In the secondary market, the company arranged placements of Pekao shares belonging to LOT (offer worth PLN 127 m), and shares of Bank Zachodni WBK (offer worth PLN 170 m) and Cersanit (offer worth PLN 45 m) belonging to the State Treasury.

In the futures market, which is the second most important stock market in Poland, Dom Maklerski BZ WBK acted as an agent for concluding 3,355 k transactions. This is an 18% increase y-o-y, which secures the company the third position in Poland and a market share of 12.5% (+0.85 pp y-o-y). The growth is attributable, among others, to a more attractive offer and pricing.

Last year, Dom Maklerski BZ WBK offered its customers a number of new structured bonds: Platinum, Platinum+, Nowa Era, Infrastruktura+, Nowa Infrastruktura+, WIG20 Profit, WIG20 Profit 2, WIG20 Profit3 oraz TOP 5 Profit. The total value of bonds sold in 2009 was PLN 320 m. In addition, the brokerage house carried out 3 public offers of shares (PBG, Kopex, Tesgas) in the primary market as the arranger (acquiring PLN 356 m) and participated in 4 syndicated share offers (Aplisens, Delko, Bogdanka, PGE) in the secondary market of (acquiring PLN 110 m). Dom Maklerski BZ WBK also procured subscriptions for 16 offers of shares with subscription rights (of which the most important was PKO BP offer with PLN 92 m raised).

In 2009, the brokerage house upheld its top position as an issuers' liquidity trader (50 companies) and came second as a market maker (41 companies). In terms of turnover value, Dom Maklerski BZ WBK ranked third (fourth in 2008) as a market maker in the equity market and fourth in the futures market (the same position as in 2008).

In 2009, Dom Maklerski BZ WBK processed over 97% of the retail customers trading on the equity and 99% on the futures market of the Warsaw Stock Exchange via remote channels, mainly the Internet and phone.

According to Forbes' ranking (10/2009) of brokerage houses, based on a survey of mutual funds corporations and open pension funds, Dom Maklerski BZ WBK was second in terms of the quality of service for business customers.

BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.

March 2009 saw reversal of the downward trend in the world's stock markets and, after 15 months, brought the first increase in the value of assets managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych (BZ WBK AIB Mutual Fund Corporation). The situation was gradually improving over the subsequent months and at the end of December 2009 net assets under management totalled PLN 10,497.6 m, an increase of 25.3% y-o-y. This volume of assets secured the company the second position in the Polish mutual funds market with a share of 11.2% (11.3% at the end of December 2008).

In 2009, customers were mainly interested in equity funds, particularly Arka BZ WBK Akcji FIO (Arka Equity Fund), which attracted more than 50% of the funds invested by customers into Arka and Lukas funds in that period. Last year also saw a change in the structure of assets. The contribution of equity, balanced and stable growth funds to total net assets increased to 81% from 71% in 2008.

On 17 August 2009, BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych started a new investment programme called "My Future", which offers long-term regular investments into all Arka funds in accordance with the investment strategy chosen by the client. The product replaced the "Secure Pension" programme.

In co-operation with Wola Info, the company implemented the Eden Bis system, which is used for importing and verifying the customer data received from the transfer agent. The system also has a reporting and order simulation module. Live implementation took place in April 2009. With its extensive analytical functions, the tool helps the company improve its customer service quality.

Like in the previous years, in 2009, BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych achieved excellent results in asset management, often coming first in the mutual fund rankings published by e.g. Gazeta Gieldy Parkiet and Gazeta Prawna. In the 2009 summary ranking of asset management professionals and mutual funds, Puls Biznesu (7 January 2010) gave the first position to the manager of Arka BZ WBK Srodkowej i Wschodniej Europy FIO (CEE Equity Fund) with an increase in value over the year of 86.8% and BZ WBK Rozwoju Nowej Europy FIO (New Europe Development Fund) was recognized as the best mutual fund with a 91% increase in value over the year.

BZ WBK AIB Asset Management S.A.

As at 31 December 2009, the value of the assets in the private portfolios managed by BZ WBK AIB Asset Management was PLN 1,939.6 m, an increase of 31% y-o-y. The changes in the asset volume and structure reflect developments in the capital markets. Compared with the portfolio structure at end of December 2008, there was a material increase in the share of equity-based investments and concurrent decrease in the contribution of stable growth portfolios.

BZ WBK Inwestycje Sp. z o.o.

In 2009, the company kept building its proprietary trading portfolio and searching for investors interested in buying its shareholdings.

On 6 January 2009, Centrum Klima S.A. made a debut on the Warsaw Stock Exchange. The company was second in the history of WSE to change markets and move from the alternative NewConnect to the WSE main floor. This move was in line with the company's development strategy.

On 9 February 2009, the Management Board of Krynicki Recykling S.A., waste glass recycler, announced that the Regional Court in Olsztyn registered the increase in the company's share capital through the issue of 3,076,852 ordinary bearer shares, series D. The shares were acquired by BZ WBK

Inwestycje. In effect, the subsidiary of Bank Zachodni WBK became a significant shareholder of Krynicki Recykling S.A. with a stake of 30.37%. The investment is a part of the process of building the pre-IPO investments portfolio, which now includes the shares of Centrum Klima S.A. (producer and distributor of air conditioning and ventilation equipment) and Metrohouse S.A. (real estate agency).

BZ WBK Finanse Sp. z o.o.

In December 2008, the bank established a new subsidiary named BZ WBK Finanse Sp. z o.o. and acquired 100% stake in it. This is a holding company designed to centrally manage the bank's subsidiaries active in the business banking segment, namely: BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A. and BZ WBK Faktor Sp. z o.o.

In the first quarter of 2009, the bank increased the share capital in its subsidiary BZ WBK Finanse Sp. z o.o. The new stock was paid up by contributing to the company all the bank's holdings in the shares of BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A. and BZ WBK Faktor Sp. z o.o. The transfer of ownership of these shares results from reorganisation of the management processes within the Group.

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

The leasing companies of Bank Zachodni WBK, namely BZ WBK Finanse & Leasing and BZ WBK Leasing, offer a wide range of fixed asset funding facilities. With capital support from the bank, they are able to cope with various challenges related to project finance.

The companies operate within their specialist areas. The main focus of BZ WBK Finanse & Leasing is on the lease of machines and equipment, real estate, computers and office equipment to businesses. This is complemented with an offer targeted at selected professions. BZ WBK Leasing leases vehicles to business and personal customers.

The offering comes with a wide array of insurance products offered in liaison with the leading insurers. In 2009, it was expanded with new insurance products from Towarzystwo Ubezpieczen Wzajemnych Concordia Wielkopolska S.A. and Towarzystwo Ubezpieczen na Zycie Cardif Polska S.A.

In September 2009, BZ WBK Finanse & Leasing and Bank Zachodni WBK expanded their product range with Hi-Tech Leasing, an innovative product in Poland that allows corporate clients to finance specialist IT equipment and state-of-the-art technology. Hi-Tech Leasing is offered in co-operation with Commonwealth Bank of Australia/Equigroup.

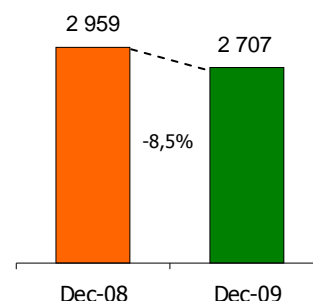
In response to the deteriorating market, in 2009 the leasing companies focused on improving sales via the existing channels (130 Leasing Advisors in 68 Regional Offices and intermediary of more than 500 Bank Zachodni WBK branches) and raising the quality of service. Risk assessment procedures and processes were enhanced with a view to ensuring better security of transactions.

Bank Zachodni WBK leasing companies claimed sixth position in the market for the overall sales in 2009 (based on the data of the Polish Leasing Association). The net value of leased assets amounted to PLN 1,319.2 m, a decrease by 27% y-o-y amid the leasing market decline by 30% y-o-y. 2009 saw a slowdown in sales of vehicles and machinery & equipment accompanied by a substantial increase in property leasing (+48% y-o-y). This performance reflects the prevailing macroeconomic trends and their negative impact on investments in Poland.

BZ WBK Faktor Sp. z o.o.

BZ WBK Faktor provides recourse and non-recourse factoring, export factoring and reverse factoring in domestic and international trade. Since May 2009 the company has been using the new Ebi Faktor system in its day-to-day operations.

Gross financial lease receivables of the BZ WBK Group (PLN m)



The economic slowdown reduced the growth of the Polish factoring market by ca. 9%, and a similar decrease in turnover was observed by BZ WBK Faktor. The total value of receivables purchased by the company was PLN 1,659.4 m, a 7% decrease y-o-y. Exposure in respect of finance provided was PLN 239.5 m, a decrease by 23% y-o-y. Lower turnover was attributable to weaker domestic demand and poor financial standing of companies.

5. Service Quality Improvement

Customer Excellence

Last year, Bank Zachodni WBK Group continued its Customer Excellence programme, whose objective is to become distinctive in the banking market and to maintain competitive edge in terms of service quality.

The Programme was developed based on customer expectations and feedback from customer satisfaction surveys. Its objective is to exceed customer expectations in the areas that are critical to loyalty-building. The Programme included 4 groups of objectives for 2009 ensuring the highest standards of direct customer service, i.e. reducing wait times, simplifying delivery of the key products, and giving special treatment to long-standing customers. These objectives involve several dozens of corrective and improvement initiatives whose progress has been monitored by a steering committee.

"Service Standards+: Be Ready to Go the Extra Mile"

In the period from April to June 2009, the new "Service Standards+" were implemented in the bank's branch network and in its subsidiaries. The idea behind these standards is encapsulated in the very strap-line "Be Ready to Go the Extra Mile". The standards promote personal commitment in dealing with customers, giving more than expected and managing customer experience in difficult situations. Random sample of branches undergoes a monthly mystery shopping with feedback provided to individual staff members.

Customer Satisfaction Index

In 2009, Bank Zachodni WBK recorded the highest Customer Satisfaction Index (CSI) in its history. The global CSI, including all the measured quality attributes, amounted to 89.2%, which is higher than the CSI achieved by the bank's competitors under the same methodology. At the same time, the bank exceeded its CSI-based targets for all the areas covered by the Customer Excellence Programme. The most spectacular score was recorded in face-to-face customer service with the branch index coming in at 91.2%.

Position in Rankings

In 2009, the service quality of Bank Zachodni WBK was highly rated in independent external rankings (see Chapter X "Awards and Recognitions" for more details).

V. Human Resources and Corporate Values

1. Human Resources Management

Human Resources

As at 31 December 2009, the number of FTEs in Bank Zachodni WBK Group was 9,453 and lower by 768 y-o-y. This comes in the wake of the Management Board decision to freeze employment and not to fill in natural vacancies. The decision was driven by the sharp slowdown in economic environment and the need to align the resources (much expanded as a result of the dynamic growth in 2007-2008) to the new market conditions. Regardless of the economic climate, the lower y-o-y employment was also related to the continued centralization of certain functions and processes as well as IT changes progressed in Bank Zachodni WBK Group.

HR Initiatives

In 2009, Bank Zachodni WBK Group focused on reduction of staff costs, keeping high HR management standards and supporting staff relations and team spirit in compliance with corporate values.

The senior management of the Group was committed to ensure maximum protection of jobs and minimise redundancies. With this mindset, a number of tailored solutions were implemented to curb staff costs, including: reduction of working hours, career breaks and unpaid leaves. These were applied dependent on staff preferences and capacities of individual organisational units and brought appreciable staff cost savings without having to resort to more significant staff reductions.

The agenda of the management in 2009 gave high priority to initiatives aimed to keep staff motivated and engaged, and also to maintain quality two-way communication to make employees well aware of the impact of the prevalent situation on the Group and increase their sense of participation in the affairs of the organisation. With a view to ensuring high quality of management at all levels, newly promoted managers across the organisation went through dedicated training to prepare them for their new roles including, among others, staff support and development processes.

The Group continues its Performance Management Process (PMP), based on objectives set in three performance areas: business focus, customer focus and people focus. The process includes individual objectives performance monitoring and assessment. Due to regular performance reviews, the staff understand their role in the overall strategy and receive support and feedback. Based on the analysis of strengths and weaknesses of the PMP process, at the beginning of 2009 new IT tools were implemented to facilitate it.

Training

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

In 2009, most of the training projects were addressed to the branch banking staff with frequent use of e-learning (90% of all trainings). Training for branches covered the following topics: flagship products, sales techniques, SME lending, hands-on training for the users of the New Front End in the branches. The Group also supported the professional development of BZ WBK Partner staff through induction programmes as well as training on products and sales techniques.

In 2009, the Group launched two training projects co-financed by the European Social Fund, aimed at the customer service improvement. Both initiatives ("BZ WBK Advisor – towards professional excellence" and "Professional sale – development for the sales staff and customer service staff in BZ WBK") are scheduled for the years 2009-2010 and target the Branch Banking employees.

The Group continued to invest in the development of management skills of its leaders by pursuing such programmes as Talent Management (selected branch directors) and Leaders of the Future (top performers with leadership potential). In line with its leadership development strategy, the Group also carried out programmes addressed to the management at particular levels, e.g. Development Programme for Microbranch Managers, Programme for Newly Appointed Managers.

The total number of participants in the development programmes held in 2009 exceeded 130 k and was 54% higher than in 2008. Training costs were reduced by 61% y-o-y due to the wider use of e-learning system and internal resources (e.g. bank experts) in the training process.

Performance Share Programme

Every year from 2006 through to 2008, Bank Zachodni WBK launched a 3-year incentive scheme for the key employees of Bank Zachodni WBK Group, allowing them to purchase the bank's shares on preferential terms, subject to achievement of performance targets in the years covered by the scheme.

The incentive schemes have been designed to motivate the key employees of the bank and its subsidiaries to continue their efforts, inspire strong dedication to the organisation's strategic objectives and thus to ensure high competitiveness and financial efficiency of Bank Zachodni WBK Group in the long-term perspective as well as to bring benefit to the shareholders.

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

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

The long term programme is monitored to ensure if any of the employees might have lost their participant status. As of 31 December 2009, the number of shares vested under the 2nd and 3rd edition of the Programme was 341,701 compared with 361,200 a year before.

2. Corporate Values

Code of Business Ethics

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

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

The Code of Business Ethics is supported by detailed policies and procedures which are regularly reviewed and updated. In 2009, stricter regulations were introduced with a view to preventing the conflicts of interest.

Corporate Culture

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

The Group constantly seeks to reinforce the professional and ethical behaviour of its employees. Training on business ethics is mandatory for all new entrants. Also, an ongoing Compliance and Business Ethics training programme (COMeT) addressed to all employees from the Group has been continued. The programme is designed to raise awareness of the staff and to encourage proper behaviours should they be faced with a conflict of interest, suspected fraud or situations which may raise ethical dilemmas. Throughout 2009, employees of the Group were required to participate in further training (e-learning) on ethical issues, fraud prevention, personal data protection and best practice in bancassurance.

3. Corporate Responsibility

As per the declaration in the Code of Business Ethics, the bank is involved in the matters of local communities by participating in various social programmes

One of the areas which Bank Zachodni WBK is committed to is promotion of entrepreneurship. Bank Zachodni WBK co-operates with the Fundacja Polska Przedsiębiorcza (Entrepreneurial Poland Foundation) and the National Bank of Poland organising conferences, workshops and seminars for young and active people from selected academic centres. The co-operation is a part of the "Polish Entrepreneurship Days" programme, which seeks to encourage business initiatives and entrepreneurship in Poland. In 2009, the cities covered by the programme included Poznan, Bialystok, Slupsk and Torun.

In 2009, Bank Zachodni WBK started an educational project called "Your Modern Firm" targeted at the owners and employees of micro and small companies from the Kujawsko-Pomorskie and Pomorskie Provinces (for more details see Chapter IV, section "Current Accounts and Other Products for Micro, Small and Other Companies").

In collaboration with the Civil Development Foundation, the bank helps disseminate economic knowledge through comic books selected in a competition procedure. Based on the works received through the competition, an anthology of comic books was created, which was then used to devise lessons on entrepreneurship for primary and secondary schools.

Corporate responsibility manifests itself through social consultations. In 2009, a cycle of meetings were organised between Bank Zachodni WBK employees and the Friends of Integration Association. The consultations led to starting a pilot project whereby 57 branches will be audited by the Association's experts in terms of their accessibility to the disabled. Bank Zachodni WBK also issued 40 thousand internet cards coming with the "Integration Magazine". The card holders can make on-line payments without having an account with Bank Zachodni WBK. A part of the interchange fee earned by the bank is donated to the Association. As part of the social consultations, the bank also developed a banking proposition dedicated to non-governmental organizations.

Charity programmes are carried out by the Bank Zachodni WBK Foundation with the main focus on projects dedicated to children from destitute families. In the first half of 2009, the Foundation initiated an educational subsidy programme for destitute children. The bank subsidised such initiatives as computer training, language courses, educational tours, training for volunteers working with children. 200 organisations, schools and local day-care centres across Poland benefited from the programme. Financial support was also provided to employees and their relatives who suffered major accidents.

The Foundation granted scholarships to and promoted gifted students from destitute families. Music scholarship holders took part in the concert "Young Talents" as part of the international festival, "Pearl of Baroque", and Chopin concerts during Warsaw Fashion Street. Science scholarship winners were

invited to an international project in the Institute of Physical Chemistry at the Polish Academy of Science.

In July 2009, Bank Zachodni WBK started the "Orlik Academy" in Warsaw. This is a programme designed to find 6-8-year old children gifted in sports and offer them participation in a professional football school for 12 months. In 2009, the Orlik Academy programme was run as a pilot in the four provinces: Dolnoslaskie, Lodzkie, Mazowieckie and Pomorskie. The programme is led together with the Polish Association of Former Footballers, including Dariusz Dziekanowski. The Ministry of Sport and Tourism became a patron of the programme.

Bank Zachodni WBK has been supporting football in Poland for several years, notably as a sponsor of the Polish national team. The bank also provides organisational and financial assistance (purchase of equipment) to the local youth clubs.

In the summer of 2009, the bank arranged a series of free music concerts under the name "Rest with Chopin" in six Polish cities. The concerts started in Warsaw and were performed, among others, by the artists sponsored by Bank Zachodni WBK. This gave them an opportunity to make a public appearance among recognised pianists. This is an example of how the bank's sponsoring and corporate-giving activity can be combined. All the concerts provided an excellent opportunity to strengthen or build the awareness of the bank's brand and proposition.

VI. Financial Situation

1. Profit and Loss Account

The table below presents major developments in key categories of the profit and loss account of the Bank Zachodni WBK Group in 2009 compared with the previous year.

PLN m

Condensed Profit and Loss Account	2009	2008	Change
Total income	3,289.1	3,258.0	+1.0%
Total costs	(1,644.8)	(1,682.1)	-2.2%
Impairment losses on loans and advances	(481.0)	(364.6)	+31.9%
Loss attributable to the entities accounted for using equity method	(0.3)	(0.7)	-57.1%
Profit-before-tax	1,163.0	1,210.6	-3.9%
Tax	(222.8)	(256.3)	-13.1%
Net profit for the period	940.2	954.3	-1.5%
<i>- Net profit attributable to shareholders of the parent</i>	<i>886.2</i>	<i>855.4</i>	<i>+3.6%</i>
<i>- Net profit attributable to minority shareholders</i>	<i>54.0</i>	<i>98.9</i>	<i>-45.4%</i>

Despite the accumulation of the adverse developments in the macroeconomic environment, the income of Bank Zachodni WBK Group for the 12 months of 2009 increased by 1% y-o-y. Excluding the gains on the sale of the Bank's equity investments (PLN 3.6 m in 2009 compared with PLN 66 m in 2008), total consolidated income increased by 2.9% y-o-y.

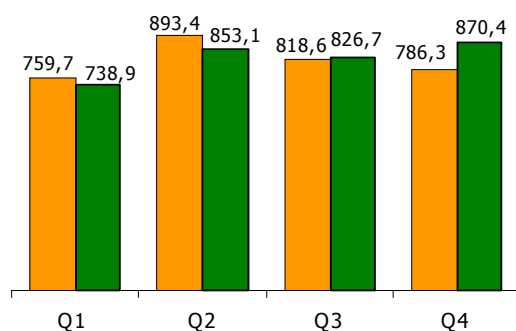
The income earned reflects the diversification of the income streams and enhancement of the Group's sales potential in the previous years as well as the effective strategy and strong business activity of the Group in the individual product areas in 2009.

With the implementation of further savings projects, optimisation of procurement processes and tight monitoring of cost efficiency in each business area, in 2009 the Group's cost base decreased by 2.2% y-o-y, including 6.4% reduction of administrative expenses.

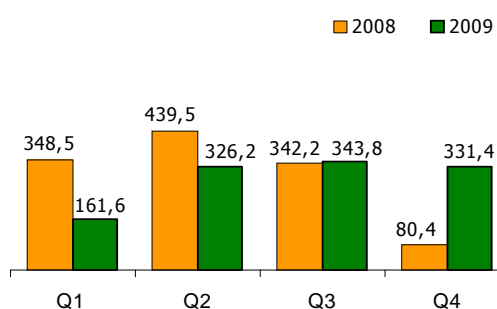
However, the cost of credit risk increased as a result of deteriorating financial standing of borrowers in the difficult macroeconomic environment.

In effect, Bank Zachodni WBK Group posted a profit-before-tax of PLN 1,163 m, a decrease of 3.9% y-o-y on 2008. The profit-after-tax attributable to the shareholders of Bank Zachodni WBK was PLN 886.2 m and 3.6% higher y-o-y.

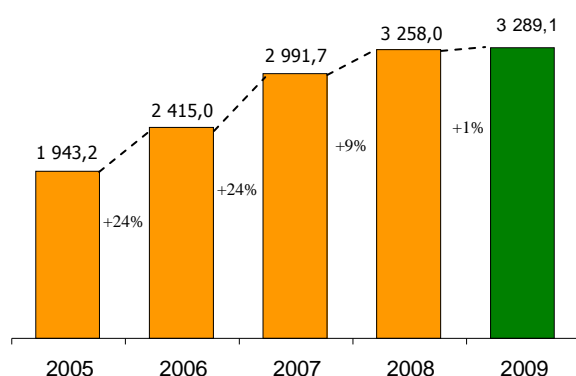
Total income of the BZWBK Group in the individual quarters of 2008 and 2009 (PLN m)



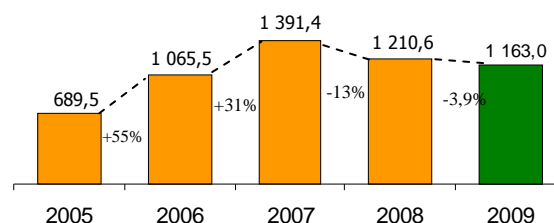
Profit-before-tax of the BZWBK Group in the individual quarters of 2008 and 2009 (PLN m)



**Total income of the BZWBK Group
in the years 2005-2009 (PLN m)**



**Profit-before-tax of the BZWBK Group
in the years 2005-2009 (PLN m)**



Income

In 2009, the total income of Bank Zachodni WBK Group was PLN 3,289.1 m and 1% up y-o-y. The main constituents of the total income were as follows:

PLN m

Total Income	2009	2008	Change
Net interest income	1,563.2	1,635.1	-4.4%
Net commission income	1,315.5	1,373.8	-4.2%
Dividend income	96.6	70.3	+37.4%
Net trading income and revaluation	270.3	52.8	+411.9%
Other non-interest income *	43.5	126.0	-65.5%
Total	3,289.1	3,258.0	+1.0%

* other non-interest income includes: 1) profit on disposal of subsidiaries and associates; 2) profit on other financial instruments; 3) other operating income

Net Interest Income

Net interest income amounted to PLN 1,563.2 m and decreased by 4.4% y-o-y despite the favourable changes in the Group's balance sheet structure resulting from the growth of the personal deposit and credit base. The decrease was caused by the negative impact of deposits which in 2009 were usually priced above the inter-bank rates. This in turn reflects the sharp price competition that has been a feature of the deposits market since September 2008. Further downward pressure on deposit margins was caused by a series of interest rate cuts which commenced in November 2008 and continued until June 2009. The higher costs of raising deposits were partly offset by increased credit margins.

Taking into account other interest-related income from FX Swaps and Basis Swaps (PLN 215.4 m for 2009 and PLN 91.2 m in the corresponding period), which are disclosed under "net trading income and revaluation", the underlying net interest income increased by 3% y-o-y.

Net Commission Income

PLN m

Net Commission Income	2009	2008	Change
Direct banking *	273.1	236.7	+15.4%
Account maintenance and cash transactions	250.7	232.5	+7.8%
Mutual fund distribution and asset management	236.5	366.0	-35.4%
FX fees	226.5	235.0	-3.6%
Credit fees **	153.5	108.3	+41.7%
Brokerage fees	98.5	106.2	-7.3%
Insurance (bancassurance) fees	75.6	72.1	+4.9%
Other ***	1.1	17.0	-
Total	1,315.5	1,373.8	-4.2%

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

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

*** other net income includes, among others, fees for distribution of structured products

Net commission income amounted to PLN 1,315.5 m and decreased by 4.2% y-o-y mainly due to the sharp downturn in the capital markets which persisted until March 2009 and investors' uncertainty about continuation of the growth trends observed in the equity market in the subsequent months. These sentiments led to a decrease in the level of the Group's asset management and mutual fund fees (-35.4% y-o-y).

While the brokerage fees in the secondary equity market increased, the fees in the primary equity market declined, which adversely affected the growth of the total brokerage fees (-7.3% y-o-y).

The income from FX fees decreased by 3.6% y-o-y due to the tightening of FX exposure limits and significantly reduced business and corporate customer FX activity in the market place.

Other business lines reported substantial increases in their net income figures. Credit fees increased by 41.7% y-o-y, mainly due to alignment of the bank's pricing policy to the changing external environment. This growth was also aided by the falling credit intermediation costs as a result of modification of the Mobile Sales structures. The net commission income from e-business and payments was 15.4% higher y-o-y on account of strong growth of two product lines from this area: "services to third-party financial institutions" and "debit cards". The account maintenance and cash transactions fees increased by 7.8% y-o-y, driven by personal accounts which generated a higher level of income following acquisition of new customers and modification of selected items of the schedule of fees and charges of Bank Zachodni WBK. Despite the rising sale of insurance products, the bancassurance line was higher only by 4.9% y-o-y. The figure was impacted by the Group's decision to make a provision for the expected reimbursement of insurance premiums to customers, which is primarily related to the early repayment of loans.

Dividend Income

Dividend income of PLN 96.6 m increased by 37.4% y-o-y mainly as a result of the dividends paid by the Aviva companies included in the bank's equity investment portfolio (Aviva Towarzystwo Ubezpieczen na Zycie S.A. and Aviva Powszechna Towarzystwo Emerytalne Aviva BZ WBK S.A.). In 2009, these entities disbursed PLN 88.7 m in dividends to the bank as compared to PLN 64.7 m a year before.

Net Trading Income and Revaluation

Net trading income and revaluation amounted to PLN 270.3 m, up by 411.9% y-o-y. The movement in this line was most strongly affected by the wholesale FX Swaps transacted, among others, as part of the management of the EUR- and CHF-denominated credit portfolio. In addition to income from FX Swap transactions, this line discloses income from the Basis Swap transactions. Both items can be treated as interest-like income and in 2009 they added up to PLN 215.4 m versus PLN 91.2 m in the comparable period. Net trading income and revaluation also includes a write-down of derivative instruments related to counterparty risk, totalling PLN 28.8 m. In 2008, the corresponding write-down amounted to PLN 81 m. The heading also contains PLN 38 m representing the positive fair value adjustment to Cross Currency Swaps based on the revised estimate of such instruments which was prompted by a substantial increase in market spreads observed since 2008 year-end. The mark-to-market valuation of these derivatives will continue to revert to zero on a case-by-case basis over their remaining life. There was no such adjustment in 2008.

Other Non-interest Income

Other non-interest income totalled PLN 43.5 m and was 65.5% lower y-o-y due to large once-off items recognised in the comparable period in the equity market, such as profit on the disposal of the shareholding in Mastercard Inc. (PLN 22.4 m) and Commercial Union PTE BPH CU WBK S.A. (PLN 20.6 m) as well as the income from the transactions connected with Visa Inc. (PLN 23.2 m). In addition, the income for 2008 was characterised by higher revenues from the sale of services, including IT services to the AIB Group.

Impairment

After the 12 months of 2009, the loan impairment charge to the profit and loss account was PLN 481 m compared with PLN 364.6 m in the corresponding period.

PLN m

Impairment Losses on Loans and Advances	2009	2008
Impairment recognised on incurred and reported losses (individual and collective)	(438.7)	(192.3)
Impairment recognised on incurred but not reported losses (IBNR)	(56.3)	(176.1)
Recovered debts	17.5	10.2
Impairment recognised on off-balance sheet items	(3.5)	(6.4)
Total	(481.0)	(364.6)

The impairment level has been driven by the deteriorating macroeconomic environment. Slowdown has affected most sectors of the Polish economy, resulting in the reduced ability of businesses to meet their liabilities. Developments in the macroeconomic environment also adversely affected the labour market and thus impaired debt repayment capacity within the personal customer segment.

Under the individual approach, credit exposures are reviewed quarterly whereas under the collective approach impairment charges are updated on a monthly basis. This procedure ensures timely and adequate recognition of individual and collective impairment provisions, including IBNR. Every effort is made to reduce the risks identified and pursue effective restructure/recovery of impaired debts.

Costs

Total costs of Bank Zachodni WBK Group amounted to PLN 1,644.8 m and were lower by 2.2% y-o-y as a result of the HR policy and intensified implementation of administrative, technological and procedural measures aimed to reduce the Group's costs. This is also due to the development of cost-saving mindset among employees.

PLN m

Total Costs	2009	2008	Change
Staff and other administrative expenses, including:	(1,498.3)	(1,547.2)	-3.2%
- staff expenses	(889.3)	(896.4)	-0.8%
- other administrative expenses	(609.0)	(650.8)	-6.4%
Depreciation/amortisation	(123.5)	(107.3)	+15.1%
Other operating costs	(23.0)	(27.6)	-16.7%
Total	(1,644.8)	(1,682.1)	-2.2%

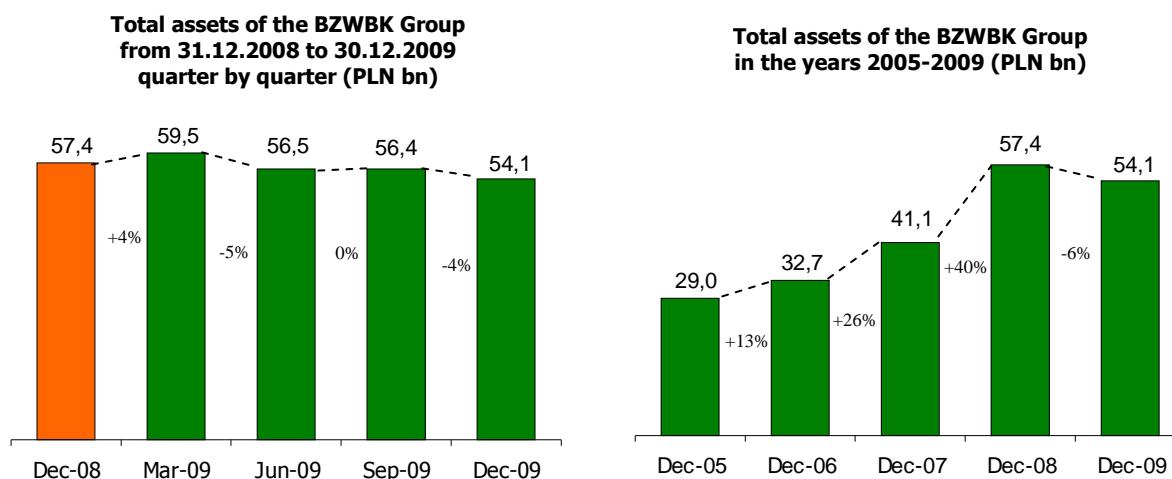
Staff costs decreased by 0.8% y-o-y to PLN 889.3 m, primarily due to reduction in the average employment in the Group by 122 FTEs y-o-y. Training costs were also appreciably reduced by limiting training courses to those that were critical to the Group's business and by placing heavy reliance on e-learning and internal training resources, including in-house experts. The effects of the savings initiatives were partly absorbed by the higher accruals for staff bonuses for the performance in 2009.

The Group's other administrative expenses decreased by 6.4% y-o-y to PLN 609 m. This change was most apparent in the reduced advertising and marketing spend and reflected the smaller scale of promotional campaigns held in 2009. Savings were also achieved in consultancy costs which went down with completion of projects requiring third party expert support. The slower development of the Bank Zachodni WBK branch network led to a substantial reduction of the branch fit-out costs. In addition, efforts were increased to rationalise the cost base. Following a review of the existing policies, procedures, processes and contracts, a number of cost-saving initiatives were implemented and non-cost effective processes were improved.

After the four quarters of 2009, depreciation was PLN 123.5 m and 15.1% higher y-o-y due to the increase in the value of fixed assets as a result of expansion and upgrade of the bank's branch network.

2. Financial Position

As at 31 December 2009, total assets of Bank Zachodni WBK Group amounted to PLN 54,058.4 m and were 5.9% down on 31 December 2008. The value and structure of the Group's financial position is determined by the bank (parent) which accounts for 96.1% of the consolidated total assets.



Assets

The table below presents major developments in key categories of the consolidated assets of the Bank Zachodni WBK Group at the end of December 2009 versus the end of December 2008.

PLN m

Assets	31.12.2009	Structure 31.12.2009	31.12.2008	Structure 31.12.2008	Change
Loans and advances to customers*	34,570.7	64.0%	35,137.2	61.2%	-1.6%
Investment securities	13,292.6	24.6%	12,916.0	22.5%	+2.9%
Cash and operations with the Central Bank	2,660.7	4.9%	3,178.1	5.5%	-16.3%
Financial assets held for trading	1,342.6	2.5%	3,224.9	5.6%	-58.4%
Loans and advances to banks	663.0	1.2%	1,364.5	2.4%	-51.4%
Fixed and intangible assets	777.8	1.4%	811.4	1.4%	-4.1%
Other assets	751.0	1.4%	801.0	1.4%	-6.2%
Total	54,058.4	100.0%	57,433.1	100.0%	-5.9%

* net of impairment losses

The downward movement in total assets throughout 2009 was mainly affected by the "financial assets held for trading", which decreased by 58.4% y-o-y due to a strategic reduction in the volumes of FX derivative business traded and the maturity of a significant number of transactions that were not replaced. The reduction in the "loans and advances to banks" (-51.4% y-o-y) was a reflection of the prudent liquidity management of the Group balance sheet and the increased demand for State Treasury debt securities. The bank's investments into Treasury bonds were only partly reflected in the increase in "investment securities" (+2.9% y-o-y) due to the decision by the NBP Management Board which permitted early redemption of the NBP bonds with a nominal value of PLN 573 m at the beginning of 2009. The decrease in the "cash and operations with the Central Bank" (-16.3% y-o-y) is, among other things, a sign of stabilisation of the liquidity position of the banking sector after the disruptions occurring late in 2008. "Net loans and advances to customers" decreased by 1.6% y-o-y driven by loans to institutional customers (business and public sector customers).

Credit Portfolio

PLN m

Gross Loans and Advances to Customers	31.12.2009	31.12.2008	Change
Loans and advances to business and public sector customers	22,348.6	23,374.7	-4.4%
Loans and advances to personal customers	10,632.4	9,239.6	+15.1%
Finance lease receivables	2,706.5	2,959.0	-8.5%
Other*	22.9	453.1	-94.9%
Total	35,710.4	36,026.5	-0.9%

* other receivables include reverse-repo transactions (PLN 10.1 m as of 31.12.2009 vs. PLN 441.8 m as of 31.12.2008)

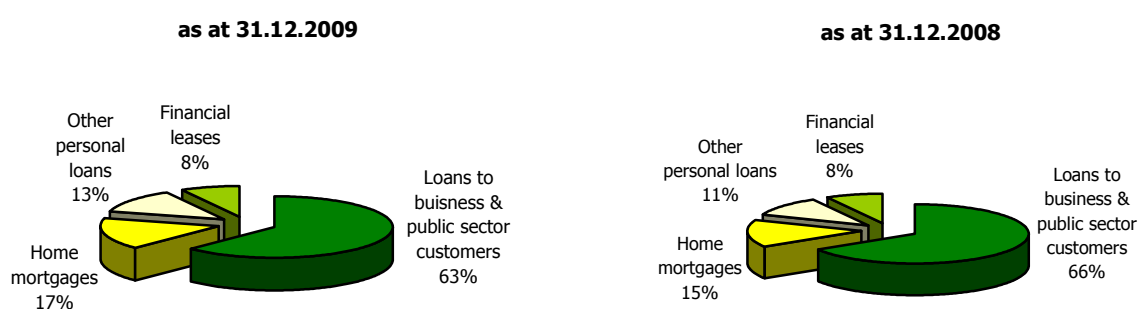
In 2009, the strong credit delivery to personal customers was offset by a decrease in loans and advances to business and public sector customers, and the decline in finance lease receivables. In effect, at the end of December 2009, gross loans and advances to customers decreased by 0.9% y-o-y to PLN 35,710.4 m.

In 2009, the loans and advances to personal customers increased by 15.1% to PLN 10,632.4 m due to the attractive credit proposition and effective sales campaigns. The strongest growth in this portfolio was recorded in cash loans (+19.6% y-o-y), which amounted to PLN 3,214.4 m, while home mortgages increased by 11.2% y-o-y to PLN 6,062.5 m.

Loans and advances to business and public sector customers decreased by 4.4% y-o-y to PLN 22,348.6 m. Included in this loan-book are property loans which amounted to PLN 11 490 m as at end December 2009 and remained stable y-o-y. The decline in total loans and advances to institutional customers was a result of the reduced business activity of companies, pro-active approach of the Group to the sectoral risk and revision of its risk assessment methods to reflect the new economic realities. These conditions also affected the financial leasing portfolio which fell by 8.5% y-o-y to PLN 2,706.5 m.

At the end of December 2009, the impaired loans accounted for 5.5% of the gross portfolio versus 2.9% recorded 12 months before. The provision cover ratio for the impaired loans was 39.1% compared with 55% as at 31 December 2008, reflecting the higher share of well-collateralized property loans in the total non-performing loan-book.

Structure of Loans and Advances to Customers of BZWBK Group



Equity and liabilities

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

PLN m

Equity and Liabilities	31.12.2009	Structure 31.12.2009	31.12.2008	Structure 31.12.2008	Change
Deposits from customers	41,222.9	76.3%	42,810.7	74.5%	-3.7%
Deposits from banks	3,830.8	7.1%	4,095.5	7.1%	-6.5%
Amounts owed to the Central Bank	1,519.2	2.8%	1,242.6	2.2%	+22.3%
Financial liabilities held for trading	733.9	1.4%	3,153.9	5.5%	-76.7%
Other liabilities	696.0	1.2%	918.0	1.6%	-24.2%
Total equity	6,055.6	11.2%	5,212.4	9.1%	+16.2%
Total	54,058.4	100.0%	57,433.1	100.0%	-5.9%

On the liabilities side, a significant decrease was noted in the "financial liabilities held for trading" (-76.7% y-o-y) as a result of a strategic reduction in the volumes of FX derivative business traded and the maturity of a significant number of transactions that were not replaced. The "deposits from banks" also decreased (-6.5% y-o-y) with repayment of loans drawn by leasing companies to finance their core activities. The "deposits from customers" decreased by 3.7% y-o-y. Adjusting however for large short-term deposits held by institutional customers at the end of 2008 and not rolled-over on maturity, the Group's deposit base increased by 3% y-o-y. As at 31 December 2008, the "other liabilities" included the Group's debt securities in issue of PLN 153.9 m, which reduced to nil in 2009 due to the redemption of the matured bonds issued by the leasing subsidiaries. Compared with the

end of 2008, a 22.3% increase was noted in the "amounts owed to the Central Bank" driven by the reverse repo transactions. The Group's "total equity" increased by 16.2% y-o-y in the wake of the decision made by the General Meeting of Shareholders of 21 April 2009 on allocating the entire profit earned by Bank Zachodni WBK for 2008 to reserve funds and general reserve.

Deposit Base

PLN m

Deposits from Customers	31.12.2009	31.12.2008	Change
Deposits from retail customers	25,613.7	24,239.1	+5.7%
Deposits from business and public sector customers*	15,609.2	18,571.6	-16.0%
Total	41,222.9	42,810.7	-3.7%

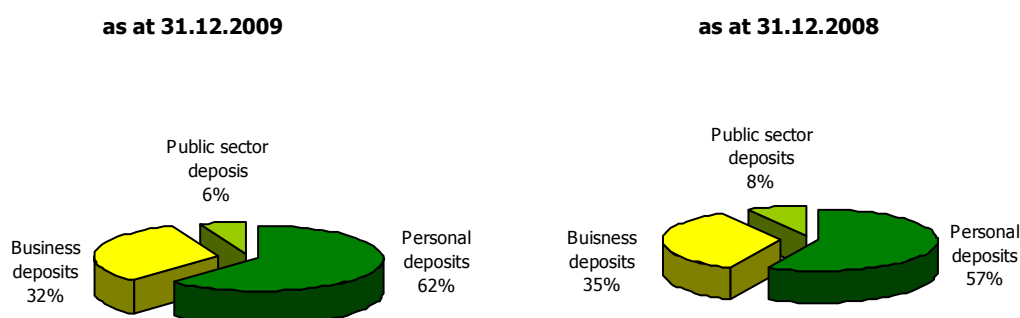
* Deposits from business and public sector as at 31 December 2008 include PLN 2,786 m of short-term deposits which were not rolled-over on maturity.

Deposits from customers, which represent 76.3% of the Group's total equity and liabilities are the primary source of funding of the Group's lending business. Compared with the end of the previous year, customer deposits decreased by 3.7% to PLN 41,222.9 m as at 31 December 2009. This value comprises the funds deposited in current accounts (PLN 17,441.7 m, up 4.3% y-o-y), term deposits (PLN 23,267.5 m, down 9.5% y-o-y) and other liabilities.

Excluding a number of high-value short-term deposits held by business and public sector customers at the end of 2008 (PLN 2,786 m in total), which - in accordance with the Group's expectations - were not rolled over on their respective maturities, the deposits from both sectors decreased by 1.1% y-o-y to PLN 15,609.2 m, while the total customer deposit base grew by 3% y-o-y. In 2009, businesses suffered from a tighter liquidity and had to resort to a greater extent to cash inflows and balances in banking accounts to fund their regular activities and investments.

Concurrently, the Group's deposits from retail customers increased by 5.7% to PLN 25,613.7 m, which is attributable to the bank's attractive deposit offer for this segment, both with regard to current accounts and term deposits.

Structures of Deposits from Customers of BZWBK Group



3. Key Financial Ratios

Selected Financial Ratios	31.12.2009	31.12.2008
Total costs/Total income	50.0%	51.6%
Net interest income/Total income	47.5%	50.2%
Net interest margin *	3.34%	3.90%
Net commission income/Total income	40.0%	42.2%
Customer deposits/ Total equity & liabilities	76.3%	74.5%
Customer loans/Total assets	64.0%	61.2%
Customer loans/Customer deposits	83.9%	82.1%
NPL ratio	5.5%	2.9%
NPL coverage ratio	39.1%	55.0%
Impairment losses on loans and advances / Average loans	1.31%	1.23%
ROE **	17.5%	20.8%
ROA ***	1.6%	1.7%
Capital adequacy ratio	12.97%	10.74%
Book value per share (in PLN)	82.87	71.44
Earnings per share (PLN)	12.13	11.72

The following were used in computations:

* *Net interest margin includes interest-related income on FX Swaps and Basis Swaps.*

** *Net profit attributable to shareholders of Bank Zachodni WBK for the 12-month period and equity as at the end of the reporting period, net of current year's profit and non-controlling interests;*

*** *Net profit attributable to shareholders of the parent for the 12-month period and average assets derived from the two comparative periods.*

4. Interest Rates on Loans and Deposits

In principle, in 2009 Bank Zachodni WBK continued its policy to offer interest rate corresponding to inter-bank interest rates and risk attaching to individual transaction/customer. However, with limited supply in wholesale inter-bank markets, the demand for retail and business deposits increased considerably which was reflected in substantially higher deposit interest rates offered by competitive banks. This had a major impact on the relation between interest rates offered by Bank Zachodni WBK versus the inter-bank market and the National Bank of Poland. While in 2008 interest rates on deposits were close to or below the inter-bank market, in 2009 they were above that threshold for the majority of deposits.

Development of the credit risk assessment models permitted diversification of credit pricing for the majority of credit facilities. Currently, the credit margin reflects both the cost of risk and funding. In the case of sizable transactions, a tailored pricing and risk assessment process is used. A portfolio-based approach is applied to retail exposures so that the similar prices are applied to customers with similar risk profiles.

5. Bank Zachodni WBK Rating

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

In 2009, the agency released three rating announcements on the bank which are summarised below along with the 2008 rating:

Fich Ratings Announcements on BZWBK				
Rating	Rating as of 25.09.2009*	Rating as of 13.02.2009	Rating as of 15.01.2009	Rating as of 17.07.2008**
Long-term Issuer Default Rating	BBB+	BBB+	BBB+	A+
Short-term Issuer Default Rating	F2	F2	F2	F1
Long-term and Short-term Rating Outlook	negative	negative	stable	negative
Individual Rating	C	C	C	C
Support Rating	3	3	2	1

* valid as at 31 Dec 2009

** valid as at 31 Dec 2008

Reduction of the Long-term IDR, Short-term IDR, Support Rating and Rating Outlook results from lower rating of the bank's controlling shareholder (AIB) and reflects its lower ability to provide potential support to its subsidiaries. The AIB's individual rating was changed in 2009 from "B" to "C" and "D" due to the fall of its asset quality as a result of the deteriorating macroeconomic conditions and the negative outlook for further economic development in the Republic of Ireland.

The Long-term IDR, Short-term IDR and Individual Rating of Bank Zachodni WBK are now based on the stand-alone strength of the bank and reflect its strong market position, solid balance sheet, profitability and liquidity as well as adequate capitalisation. The support rating reflects the moderate likelihood of potential support from the Polish government. The negative rating outlook is indicative of the less favourable macroeconomic environment and its negative impact on operating margin, NPL level, cost of risk and the provision coverage of the NPL portfolio.

VII. Future Growth Prospects

1. Strategic Directions for 2009-2011

Mission Statement of Bank Zachodni WBK Group: The 3rd Largest Institution in Poland

Bank Zachodni WBK Group intends to strengthen its position in the financial market, as a universal bank which offers a full array of financial services in the retail, business and investment banking segment. The mission statement of Bank Zachodni WBK Group assumes the following:

- growth of the share in specific market segments;
- high prestige and awareness of bank brand, based on attractive offers;
- customer proposition that is distinctive by its competitiveness and service quality;
- strong and stable financial base for the development of credit delivery operations, including the adequate level of liquidity and a strong capital position;
- numerous and diversified sources of income in three basic segments: retail banking, business banking and investment banking area;
- efficient risk management as required by stakeholders;
- shareholders satisfied with the volume and sustainability of generated profits.

Bank Zachodni WBK Group aspires to leverage off its extended delivery network (third biggest in Poland) to achieve 10% share in the banking sector and a higher position in terms of assets, equity and number of customers.

Strategic Priorities for 2009-2011

Key priorities of Bank Zachodni WBK Group include generating high and sustainable profits from diversified income sources, growth of the market share and consistent development of a strong national brand.

The global financial crisis and spreading recession have changed the prospects for macroeconomic development in Poland, shifting a sharper focus to the following key objectives:

- strengthening the Group's capital base and maintaining appropriate capital adequacy ratio;
- active management of credit, operational and market risk;
- further diversification of income sources and search for new ones;
- diversification of the deposit base;
- credit/deposit ratio maintained at the level confirming adequate liquidity;
- active management of costs and low cost/income ratio;
- maximum leverage of the potential generated by 2007 and 2008 investments;
- expanding the capacity of the organisation to respond to customer needs and market demands;
- continued embedding of "compliance culture".

Brand Image: A Dependable Nationwide Bank Giving More to its Customers than its Competitors

The Bank Zachodni WBK image will combine advantages of a large and secure financial organization with the distinguishing features of young dynamic banks which fight for their market share by presenting attractive offers. Thanks to expansion of the branch network and brand communication the bank will be recognised as a national brand.

Customers will see Bank Zachodni WBK Group as a large nationwide organization, which:

- provides more value to the customer compared to other financial institutions and strives to outperform its market competitors;
- guarantees financial stability and protection of funds;
- offers products which are easy to understand and use;
- stands out in the market, with its modern and innovative solutions.

Corporate Values

Bank Zachodni WBK Group focuses on providing value to its customers through increased focus on:

- building the relationship based on trust and ethical values;
- performance focus;
- professional and timely delivery of tasks;
- readiness to learn;
- demonstrating respect for work and sense of ownership for the actions taken;
- ethical conduct, compliance with law, internal regulations and best practice.

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

Customer Acquisition and Retention

Retail Banking: Increased Customer Acquisition and a Distinctive Customer Service

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

The Group will also mobilise its resources to strengthen loyalty of the existing customers and increase the scope and value of its customer relations. To this effect, the Group will use its IT capability, CRM and customer information systems to ensure above-average quality of service, and will offer a wide scope of savings, credit and settlement products. It will also strengthen its leadership position on innovative savings products market, based on deposits, investment and insurance products.

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

Retail customers will be serviced by a nationwide network of Bank Zachodni WBK branches. Supplementary service will be available from Partner outlets, a call centre, Internet, mobile agents and other distribution channels.

The priority of the Group is to integrate the distribution channels so that its customers can choose and fully avail of such method of contact with the bank that works best for them. The integration means wider access to products and processes as well as standardized customer information in all distribution channels.

Business and Corporate Banking: Diversified Business and Development of Corporate and Business Centres

Business customers will be serviced by a nationwide network of Business Banking Centres operating in all major cities. Strategic corporate customers will be serviced by dedicated units in Warsaw, Poznan and Wroclaw. All business customers will be serviced by professional advisors, on an individual basis. Bank Zachodni WBK Group will pursue two strategic objectives: business diversification and take-over of the entire relationship with business customers by business advisors. Diversification will be achieved in three dimensions:

- diversification of the loan portfolio by industry;
- diversification of the income streams geographically;
- diversification of income streams by products, in particular by increasing revenues from non-credit products.

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

Investment Banking: Maintained Financial Performance and New Income Sources

In the time of economic slowdown, Bank Zachodni WBK Group focuses on probing new income sources, continued strengthening of the prestige of the brand, raising the service quality, attaining competitive investment performance and expanding the share in individual capital market segments (mutual funds, asset management, brokerage service) as well as on growing business in other lines such as advisory services, M&A (Mergers and Acquisitions) and LBOs (Leveraged Buy-outs).

Operational Efficiency and Cost Savings: A Leaner Organisation and Faster Changes

Bank Zachodni WBK Group will continue its cost optimisation initiatives, in particular it will:

- streamline the operating processes and customer service processes;
- centralize and automate control and back-office processes in the branches;
- seize any opportunity to reduce costs, through the implementation of savings programs, more efficient management, monitoring of contracts with key suppliers, utilization of advanced IT technologies, etc.

2. Business Growth Environment Expected in 2010

The following factors are expected to impact the financial performance and operations of Bank Zachodni WBK Group in 2010:

- Gradual economic recovery in the world, including Poland's key trading partners, which will lead to an improvement in Polish exports and investment activity, stimulating the demand for credit and other banking products.
- The increasing unemployment will continue to have an adverse impact on personal loans portfolio.
- The uncertainty around the global economic revival with concerns that the downturn trend might reappear as governments and central banks gradually withdraw from stimulus policies.
- The new Monetary Policy Council is unlikely to change the basic interest rates of the National Bank of Poland throughout most of the year given the falling inflation and uncertainty about the further developments in the global and Polish economy (interest rate increases possible towards the end of 2010).

- Gradual reduction of the Central Bank actions supporting liquidity of the Polish banking sector.
- Continued significant volatility in the global financial markets, constraining investors' interest in mutual funds accompanied by a moderate increase in deposits due to the improvement in the performance of companies and despite the still difficult financial position of households.
- Moderate appreciation of the zloty against the main foreign currencies as a result of relatively good assessment of the Polish economy and the gradual rebuilding of the risk appetite in the global financial markets.
- Gradual increase in demand for properties and home loans given the improved outlook for the economy and the labour market.

VIII. Risk Management

1. Risk Management Structure

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

Risk is managed within the predetermined acceptable risk level, which is reflected in the internal limit system. The applicable risk management policies govern the process of identifying, measuring and reporting the risk level and the process of setting limits for individual risks on a regular basis. The bank modifies and expands its risk management procedures on a regular basis, taking into account changes of market conditions, product offer, regulatory environment and evolving best sectoral practice in the sector.

The Bank Zachodni WBK Management Board, which is responsible for shaping and implementing the risk management structure, sets up committees, which are directly accountable for developing risk management methods and monitoring risk levels in specific areas. The activities of these committees are supervised by Bank Zachodni WBK Risk Management Committee which defines the risk management strategy in Bank Zachodni WBK Group, in particular identifies key risks, specifies the acceptable risk levels and methods of their measurement, controlling, monitoring and reporting. The following Committees report to Risk Management Committee: Credit Policy Forum, Credit Committee, Provisions Committee, ORMCo, Market Risk Committee, Assets and Liabilities Management Committee (ALCO/ICAAP Forum), Equity Investment and Underwriting Committee, Interbank Limits Committee, Disclosure Committee, Deposit Working Group and Private Banking Investment Committee.

2. Credit Risk Management

Credit Policy

In its lending activity Bank Zachodni WBK Group focuses on a balanced growth of a high quality profitable loan-book and on customer satisfaction.

High quality credit exposure is ensured by applying principles of loan sanctioning and monitoring, which mitigate the credit risk.

Bank credit policy is composed of a set of principles and guidelines, which constitute credit policies and procedures introduced by Management Board resolutions, ordinances of Management Board Members and ordinances of the Chairman of Credit Policy Forum, and guidance communicated internally in response to changes in the business environment.

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

The business lending policy sets a direction for lending and conditions under which the bank would finance specific groups of customers. The policy governs, inter alia, financing of specific segments, lending purposes and mitigation of acceptable risk.

Internal limits are crucial components of the bank lending policy. They facilitate monitoring of exposure concentration within individual sectors, geographical regions and foreign currencies.

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

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

The bank's lending policies and procedures, credit grading and risk assessment systems are subject to approval of the Credit Policy Forum, which is chaired by the Chief Credit Officer.

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

The "Risk Appetite Statement" as approved by the Risk Management Committee and the Supervisory Board, is the fundamental document which defines the credit risk profile of the Group. The document sets out strategic limits and their acceptable levels within business operations of the bank and the Group.

Credit Risk Management

Credit Risk

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

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

The Group's credit risk management involves actions taken as a result of the on-going analysis of the macroeconomic environment and the internal review of the particular credit portfolios. The advanced credit risk assessment tools allow quick remedial action to be taken in response to the first signals of changes in the portfolio quality or structure. In 2009, due to the economic slowdown, the Group tightened its already conservative lending policies and implemented new risk assessment models, adjusting the credit management process to the volatile market conditions. The high quality of the credit portfolio confirms that these actions have been effective.

Credit Grading

Intensive work has been undertaken for further development of the credit risk assessment tools to conform to the Basel requirements and International Accounting Standards/International Financial Reporting Standards IAS/IFRS. The Group uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, home loans, income-producing real estates, cash loans, credit cards and personal overdrafts.

In 2009, new risk assessment models were implemented for credit cards and cash loans to incorporate customers' behavioural features established on the basis of data available from BIK (the National Credit Bureau), and a new SME model for external customers.

The Group runs a systematic monitoring of credit grading pursuant to the rules described in the lending 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 days past due or behavioural features analysis. Credit grade may also be verified at subsequent sanctions.

Calculation of Impairment

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

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

The Bank compares the assumptions and parameters used for impairment calculations with the actual situation every year. The comparison includes changes of economic conditions, amendments to bank credit policies and recovery process. The process provides assurance that impairment charges are recognized correctly. The responsibility for ensuring an adequate level of charges rests with the Provisions Committee.

Credit Risk Stress Testing

Stress testing is a part of the credit risk management process used to evaluate potential effects of specific events or movement of a set of financial and macroeconomic variables or change in risk profile on the bank's condition. Stress tests are composed of assessment of potential changes in credit portfolio quality when faced with adverse conditions. The process provides also management information about adequacy of agreed limits and internal capital allocation.

Return on Risk

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

Credit Decision Making Process

The credit decision-making process as part of the risk management policy is based upon Individual Discretionary Credit Limits vested in credit officers, commensurate with their knowledge and experience relating to particular activities (retail, business and corporate banking). Credit exposures in excess of PLN 25 m are referred to the Credit Committee composed of senior management and top executives.

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

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

Credit Reviews

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

3. Market Risk and Liquidity Risk Management

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

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

Market Risk

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

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

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

Identification and Assessment of Market Risk

Qualified staff, using appropriate systems and controls, identifies, on an on-going basis, the market risk connected with retail and commercial activities and transfers it to the Treasury Division. The Treasury Division then executes relevant transactions (e.g. in the inter-bank market, in securities, derivatives, etc.) in order to maintain the risk at an acceptable level.

Market risk is measured and its compliance with the stated risk limits is monitored by qualified personnel independent of the unit which manages and generates the risk. Exposure to market risk is regularly reviewed by ALCO. Risk limits are periodically reviewed to align them with the bank's strategy and current objectives.

Interest rate and FX risks are monitored using the Value at Risk (VaR) methodology which is a standard industry tool for the measurement of interest rate and FX risk. VaR methodology uses a statistical process to determine the Probable Maximum Loss (PML) in economic value of a transaction or a portfolio of transactions as a result of an adverse change in market parameters. The Group applies the VaR methodology to both the trading and banking portfolio.

Liquidity Risk

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

The Group's liquidity policy is to counter-balance the expected outflows with expected inflows and/or sale of liquid assets (mainly debt securities) to resist any extraordinary or crisis situations triggered by internal factors (e.g. sudden increase in the value of facilities drawn under the sanctioned credit lines) or external ones (e.g. material liquidity contraction on the inter-bank market). The policy covers all assets and liabilities as well as off-balance sheet items impacting the liquidity level.

In order to manage liquidity in a challenging economic environment in 2009, Bank Zachodni WBK Group focused on keeping its loan-to-deposit ratio at a safe level and on maintaining a significant level of unencumbered liquid assets to provide an appropriate liquidity buffer (mainly government debt securities). Actions taken by the Group to keep customer deposits at an appropriate level through large scale marketing campaigns and tailored product offer ensured high stability of customer deposits (the main source of funding for Bank Zachodni WBK) despite fierce competition among banks.

Liquidity Risk Management

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

Also, direct liquidity management is centralised within the Treasury Division in order to keep the risk within the set limits. Compliance with the limits is measured and monitored on a daily basis by qualified staff, who are independent of risk-generating units and the managing unit.

Liquidity risk reports and results of stress tests are regularly reviewed by the senior management and by ALCO.

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

Identification and Assessment of Liquidity Risk

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

According to the Group's policy, the bank should have funds sufficient to cover outflows expected over one-month time horizon in full. The liquidity position over a longer time horizon and the level of easily marketable assets are monitored as well.

In 2009, the bank's funds significantly exceeded the level required to cover the expected outflows.

At the same time, the bank complied with Resolution no. 386/2008 of the Polish Financial Supervision Authority (KNF) on liquidity management, in respect of, inter alia, liquidity monitoring, measurement and reporting.

The bank met the regulatory quantitative requirements for liquidity throughout 2009. Key regulatory indicators (i.e. short term liquidity ratio and ratio of coverage of non-liquid assets and assets of limited liquidity with own funds and core external funds) comfortably exceeded the required levels.

4. Operational Risk Management

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

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

Bank Zachodni WBK Group applies "Operational Risk Management Policy" and "Operational Risk Management Framework". In addition, detailed procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated.

The Operational Risk Management Committee (ORMCo) created by the Management Board sets the strategic direction for operational risk activities, in relation to, inter alia, BCM, information security and fraud prevention. ORMCo is a forum for official discussions on operational risk and it 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 assessment of operational risk

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

Each 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 taken.
- Analysis of risk indicators

Risk indicators are financial and operational indicators which depict the risk level present in Bank Zachodni WBK Group and provide early warning of emerging threats and operational losses.
- Business continuity management (BCM)

Each 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. 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 reports include, inter alia: 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 Professional Indemnity.

5. Legal and Regulatory Risk Management

Legal and Regulatory Risk

According to the guidelines of the Basel Committee, legal and regulatory risk is the risk of sanctions imposed by supervision authorities, significant financial loss or reputation damage which the Group may be exposed to whenever the regulations, standards and codes of conduct applicable to the Group's business operations are breached.

Identification and Assessment of Risk

Accountabilities of the Compliance Area include ensuring compliance with legal and regulatory requirements applicable to business operation, including prevention of money laundering, protection of confidential information and protection of personal data. Tasks of identifying, interpreting and propagating knowledge of other legal and regulatory requirements across the Group were assigned to units having competence in such areas.

The HR Management Division is responsible for compliance with the labour law, the Finance Division is responsible for compliance with the tax law, and the Finance and Risk Management Divisions are responsible for compliance with prudential regulations.

The Compliance Area coordinates the semi-annual process of assessing key legal and regulatory risks in Bank Zachodni WBK Group. The process includes estimating risk weights, potential impact of risk on business and effectiveness of controls, which are in place to mitigate the risks. Legal and regulatory risk reviews focus on threats to which the Group may be exposed to over the coming three years, including risks associated with implementation of new regulations, enhanced controls carried out by supervision authorities (so called regulators) and increased requirements of the shareholders.

The risks to which Bank Zachodni WBK Group is exposed are discussed by the Risk Management Committee and the Audit Committee of the Supervisory Board. As regards the above-mentioned process, the Compliance Area, in liaison with business units, uses the risk management model to identify, assess and control key non-compliance risks at the level of individual units. The identified legal and regulatory risks are included in operational risk self-assessment of the units.

Risk Management and Controls

The policy for ensuring compliance with legal and regulatory requirements was adopted by the Bank Management Board and, subsequently, approved by the Supervisory Board. Under the policy, the Compliance Area has been established and vested with appropriate powers, as a unit which supports senior managers in effective management of non-compliance risk. Key compliance risks are reviewed by the Audit Area every six months to get assurance that the risks are managed appropriately.

The Bank Risk Management Committee is responsible for ensuring compliance with regulatory requirements and approves principles of internal control and the compliance policy framework, ensuring that the Compliance Area is independent of business units and has adequate resources.

The Compliance Area is responsible, in particular, for:

- independent identification, assessment and monitoring of the non-compliance risk to which the Group is exposed to;
- advising and reporting to the Risk Management Committee, the Bank Management Board and the Audit Committee of the Supervisory Board in respect of effectiveness of compliance with legal and regulatory requirements which fall within its remit;
- providing the management and staff with guidance on the non-compliance risk and non-compliance risk management policies and procedures;

- monitoring, at the request of specialist units, of high non-compliance risks in respect of legal and regulatory requirements which are not related to the business profile, i.e. in respect of tax law, commercial law, labour law, environment protection law and health and safety at work regulations.

In Bank Zachodni WBK Group, the legal and regulatory risk management is coordinated by the Compliance Area, which reports to the Management Board Member in charge of the Legal and Compliance Division. To the extent permissible by law, the Area coordinates and supervises the process of managing the non-compliance risk by compliance units of the subsidiaries.

6. Capital Management

Introduction

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

The New Basel Capital Accord 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.

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

The Bank Management Board delegated the day-to-day capital management to ALCO/ICAAP Forum. The Committee assesses capital adequacy, including capital adequacy under stressed scenarios, on an ongoing basis. Also, the Committee monitors the capital level and initiates transactions which affect the capital held (recommending, e.g. the dividend pay-out level). ALCO/ICAAP Forum defines the capital policy, principles of capital management, principles of capital adequacy assessment both in the bank and the Group, reviews and approves capital plans, and sets out principles of capital allocation to individual business segments when assessing their profitability.

Capital Policy

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

Under the Bank Zachodni WBK capital management policy, the target minimum solvency ratio is 10% at both the bank and Group level.

At the same time, the Tier 1 capital ratio (which is the ratio of core equity capital to risk-weighted assets for credit, market and operational risks) may not be lower than 8% for both the bank and the Group (additional requirement may be also applied as part of Supervisory Review and Evaluation Process in Pillar 2).

Solvency Ratio

Pillar 1 risks and capital required for such risks are assessed quantitatively. The bank uses regulatory approaches to the measurement of these risks. In 2009 and 2008, with regard to:

- credit risk – the bank used the standardised approach for all portfolios;
- operational risk – the bank used the standardised approach;
- 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 table below shows rates used to calculate the solvency ratio for the Group as of 31 December 2009 and 31 December 2008.

PLN m

	31.12.2009	31.12.2008
Total capital requirement	3,332.4	3,532.9
Capital and funds after deductions	5,402.2	4,743.6
Solvency ratio	12.97%	10.74%

Until the end of 2008, regulations of the Banking Supervisory Commission (KNB) applied. The regulations were binding for 2008 year-end financial statements.

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, 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 actual and potential Pillar 2 risks. 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.

IX. Corporate Governance

1. Compliance with Best Practice

In 2009, Bank Zachodni WBK complied with all the corporate governance rules contained in the document "Best Practice in Public Companies" which was implemented by the Warsaw Stock Exchange Board on 4 July 2007 (Resolution no. 12/1170/2007) and became effective from 1 January 2008. The practices were transposed to the bank's regulations by virtue of Management Board resolution no. 87/2007 of 5 December 2007 and Supervisory Board resolution no. 1/2008 of 22 January 2008. The practices are available from the bank's website ("Investor Relations" section).

The bank's corporate documents, including the Statutes, General Meeting Regulations and the Terms of Reference of the Management Board and the Supervisory Board fully comply with the existing version of the "Best Practice". Compliance with the best practice and external relations standards are supported by the bank's internal procedures which specify the roles of individual units in this regard.

In the previous years, the bank adhered to the rules set out in the "Best Practice in Public Companies 2005" (in the years 2005-2007) and the "Best Practice in Public Companies in 2002" (in the years 2002-2004).

2. Equity Securities Issued by the Bank

Significant Shareholding

According to the information held by the bank's Management Board, at the sign-off date of Annual Report 2009 of Bank Zachodni WBK Group (26 February 2010), the only significant shareholder of the bank was Dublin-based AIB European Investments Ltd. (see Chapter II, part 2 "Share Capital, Ownership Structure and Share Price" for more details).

Rights and Restrictions Attaching to the Issuer's Securities

Bank Zachodni WBK did not issue any securities that would give its holders any special control rights or would limit their equity rights. Likewise, there are no restrictions on the transfer of title to the issuer's shares.

3. Governing Bodies

General Meeting of Shareholders

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

General Meeting takes decisions on issues within its remit, as defined by the Commercial Companies Code, Banking Law and the bank's Statutes.

Shareholders' Rights

Shareholders' rights and the way they are exercised are provided for in the bank's GM Regulations and pursue the Commercial Companies Code.

The Last Annual General Meeting of Shareholders

The Annual General Meeting of BZWBK Shareholders (AGM) held on 21 April 2009, approved the 2008 financial statements submitted by the Management Board and the Supervisory Board, resolved on distribution of the net profit and dividend payment and granted discharge to the Management and Supervisory Board members for the performance of their duties in the previous year. The AGM approved changes to the bank's Statutes and adopted its consolidated version. The changes resulted from the need to adjust the Statutes to the existing operations of the bank and the powers of its executive directors. The amended Statutes also reinforce independence of the internal audit by extending the Supervisory Board's oversight of the bank's internal control system, in accordance with the Banking Law and the Resolution of the Polish Financial Supervision Authority no. 383/2008 of 17 December 2008. The changes to the bank's Statutes were approved by the Polish Financial Supervision Authority and recorded in the National Court Registry on 13 May 2009.

Method of Changing the Statutes

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

Composition of the Supervisory Board

As at 31 December 2009, the composition of the Bank Zachodni WBK Supervisory Board was as follows:

Role	Composition as at 31.12.2009
Chairman of the Supervisory Board:	1. Aleksander Szwarc
Members of the Supervisory Board:	2. Gerry Byrne
	3. Waldemar Frąckowiak
	4. Aleksander Galos
	5. Maeliosa OhOgartaigh
	6. John Power
	7. Jacek Ślotała

The persons listed above were appointed by the AGM of 18 April 2008 for a new 3-year term of office. The original composition included James O'Leary, who stepped down from the Supervisory Board on 21 April 2009.

Role of the Supervisory Board

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

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

Supervisory Board Committees

The Supervisory Board may establish committees and designate individuals responsible for managing the work of such committees. The following Supervisory Board committees operate in the bank: Social Responsibility Committee, Remuneration and Nominations Committee and Audit Committee.

Composition of Supervisory Board Committees as at 31 December 2009:

Supervisory Board Committee	Role	Composition
Social Responsibility Committee	1. Chairman 2. Member	Gerry Byrne Jacek Ślotała
Remuneration and Nominations Committee	1. Chairman 2. Members: 3.	Gerry Byrne Aleksander Szwarc Jacek Ślotała
Audit Committee	1. Chairman 2. Members: 3. 4.	John Power Waldemar Frąckowiak Aleksander Galos Maeliosa OhOgartaigh

The Social Responsibility Committee supervises the efforts aimed to achieve the desired perception and awareness of the bank's brand. It also monitors the bank's CSR policy as well as the budget for marketing, promotion and corporate giving.

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

The Audit Committee supervises the bank's financial reporting, risk management and internal control processes and monitors independence of chartered auditor. The Audit Committee was composed mostly of independent Supervisory Board members.

As at 31 December 2009, the following members of the Supervisory Board held an independent status: Waldemar Frąckowiak, Aleksander Galos, John Power, Aleksander Szwarc and Jacek Ślotała.

The annual Reports on Activities of the Supervisory Board and its Committees as well as the Supervisory Board's reports on Examination of the bank's and the Group's Annual Report along with the assessment of their operations are published in current reports which convey the resolutions passed by the AGMs. As of the date of the sign-off of Annual Report 2009, such information was last published in the current report no. 10/2009 on AGM held on 21 April 2009 and concerned the operations of the bank, Bank Zachodni WBK Group and Supervisory Board in 2008.

Composition of the Management Board

As at 31 December 2009, the composition of the Bank Zachodni WBK Management Board was as follows:

Role	Composition as at 31.12.2009
President of the Management Board:	1. Mateusz Morawiecki
Members of the Management Board:	2. Paul Barry
	3. Andrzej Burliga
	4. Declan Flynn
	5. Justyn Konieczny
	6. Janusz Krawczyk
	7. Jacek Marcinowski
	8. Michael McCarthy
	9. Marcin Prell
	10. Mirosław Skiba
	11. Feliks Szyszkowiak

The persons listed above were appointed by the Supervisory Board on 21 April 2009 for a joint 3-year term of office.

Compared with 31 December 2008, one new member joined the Management Board. On 16 December 2008, the Bank Zachodni WBK Supervisory Board nominated Michael McCarthy as Management Board Member in charge of the newly created Business and Corporate Banking Division effective from 1 February 2009.

Appointment and Removal of Executives

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

The bank's Management Board consists of at least three persons (including the Management Board President) appointed by the Supervisory Board for a joint three-year term of office. At least half of the Management Board members should be Polish citizens. Two Management Board members, including the Management Board President, are appointed with the approval of the Polish Financial Supervision Authority (KNF). Management Board members may be removed by the Supervisory Board or the General Meeting at any time.

Powers of Executives

The Bank Zachodni WBK Management Board manages and represents the bank. The Management Board has all powers that are not restricted by law or Statutes to the remit of other governing bodies of the bank.

The Management Board takes decisions to raise obligations or transfer assets whose total value for one entity exceeds 5% of the bank's own funds. The Management Board can also, by way of resolution, delegate its powers to take such decisions to other committees or persons in the bank. The Management Board members run the bank's affairs jointly, and in particular: define the bank's mission, set long-term action plans and strategic objectives, prepare assumptions for the bank's business and financial plans, approve the plans and monitor their performance, regularly report to the Supervisory Board on the bank's position in the scope and at the dates agreed with the Supervisory Board, appoint permanent and ad hoc committees and designate individuals responsible for managing

the work of such committees. The committees are composed of both Management Board members and persons from outside the Management Board. Permanent committees operative in the bank include: Risk Management Committee, Credit Committee, Provisions Committee, Credit Policy Forum, Assets and Liabilities Management Committee, Operational Risk Management Committee, Market Risk Management Committee, Interbank Limits Committee, Value Management Committee, Deposit Working Group.

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

Role of the Management Board

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

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

The Management Board takes decisions in the form of resolutions which are adopted by absolute majority of votes in an open voting. Secret ballot is held in the cases stipulated by law, in personal matters or at the request of any Management Board member accepted by the Management Board also in a secret ballot. The Management Board meetings are held as needed. The Management Board Members convene at the same time in a single location or in different locations communicating via telephone or video links.

Other Executive and Non-Executive Information

Remuneration of the Supervisory and Management Board Members

Information on the remuneration of the Bank Zachodni WBK Supervisory and Management Board members for 2009 and the comparable period is presented in Note 46 to the "Consolidated Financial Statements of Bank Zachodni WBK Group for 2009".

Agreements between Bank Zachodni WBK and its Executive Directors

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

Shares in Possession of the Supervisory and Management Board Members

As at the date of Annual Report 2009 of Bank Zachodni WBK Group, none of the members of the Supervisory Board held any shares of Bank Zachodni WBK. Changes in shareholdings held by Supervisory Members:

Member of the Supervisory Board	No. of BZWBK shares	
	31.12.2009	31.12.2008
Waldemar Frąckowiak	-	278
Other Members	-	-

Under the 1st BZWBK Share Incentive Scheme, launched in 2006, Members of the Management Board were allocated 23,084 out of 115,729 of H series shares issued as part of the conditional increase of the share capital (the shares were registered by the National Depository of Securities/Krajowy Depozyt Papierow Wartosciowych S.A. on 10 July 2009). On top of that, the Management Board members have a conditional right to acquire shares under the 2nd and 3rd Incentive Scheme. Below are shares and rights held by the Management Board Members as of 31 December 2009.

Member of the Supervisory Board	31.12.2009		31.12.2008	
	No. of BZWBK shares	Rights	No. of BZWBK shares	Rights
Mateusz Morawiecki	3,591	9,961	-	13,552
Paul Barry	-	-	-	-
Andrzej Burliga	1,606	4,417	-	6,023
Declan Flynn	-	-	-	-
Justyn Konieczny	3,591	7,847	-	11,438
Janusz Krawczyk	3,397	6,661	-	10,058
Jacek Marcinowski	3,397	6,661	-	10,058
Michael McCarthy	-	-	-	-
Marcin Prell	2,530	6,661	-	9,191
Mirosław Skiba	1,575	2,813	-	4,388
Feliks Szyszkowiak	3,438	6,661	-	10,058
Total	23,125	51,682	-	74,766

4. Control System of Financial Statements

Internal Control System and Risk Management

Bank Zachodni WBK Group operates an internal control system which supports the decision-making processes and contributes to efficient operation of the organisation, reliability of financial reporting and compliance with the internal and external regulations. The internal control system is adjusted to the organisational structure and risk management system and includes the Business Support Centre, branches and subsidiaries. Development, implementation and maintenance of the written strategies and procedures of the internal control system is the responsibility of the bank's Management Board. The Supervisory Board has oversight over implementation of the internal control system and evaluates its adequacy and effectiveness.

Financial data preparation for the purpose of statutory reporting is automated and based on the consolidated General Ledger and Data Warehouse. Data inputs in the source systems are subject to formal operational and approval procedures which state responsibilities of individual staff members. A set of specialist controls is also applicable to the data processing for the financial reporting purposes. Any manual corrections or management overrides are under strict control.

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

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

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

Internal Control Compliant with the Sarbanes-Oxley Act

Bank Zachodni WBK as a subsidiary of the AIB Group must fulfil the requirements arising from the Sarbanes-Oxley (SOX) Act insofar as it relates to the Group. This regulation introduced strict rules with respect to exercising internal control over the company's financial reporting. As part of AIB Group SOX certification for 2009, Bank Zachodni WBK Management has confirmed that no events have occurred in Bank Zachodni WBK Group which could materially impact relevant processes or effectiveness of internal controls over the financial reporting.

Selection of Auditor

In accordance with §32 point 10 of the Statutes of Bank Zachodni WBK and the industry practice, on 24 June 2009 the bank's Supervisory Board passed a resolution appointing KPMG Audyt Sp. z o.o. as an auditor to review the bank's stand-alone and consolidated financial statements for 2009 and to audit the full accounts for 2009. KPMG Audyt Sp. z o.o. audited the bank's financial statements for the prior years and through other KPMG companies provided consulting services permitted by law and the bank's internal regulations, in a manner that ensured impartiality and independence of the auditor.

Remuneration of Auditor

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

PLN k

Remuneration of KPMG Audyt Sp. z o.o.	Reporting Year ended on 31.12.2009	Reporting Year ended on 31.12.2008
Audit fees in respect of the parent bank *	1 019	1 158
Audit fees in respect of the subsidiaries	451	474
Audit fees related to the assurance services, including the review of the parent bank **	360	563
Total	1 830	2 195

* based on the Agreement on Audit of Financial Statement and Group Report of 15 December 2009

** based on the Agreement on Review of Financial Statement and Group Report of 25 June 2009

X. Awards and Recognitions

In 2009, Bank Zachodni WBK and its subsidiaries received a number of awards. The key ones are presented below.

Awards for Bank Zachodni WBK	
Second position in the ranking of accuracy of projections	The economists of Bank Zachodni WBK came second in the ranking of accuracy of macroeconomic forecasts for 2008 published by the stock newspaper Parkiet (January 2009).
The best managed company in the financial sector	The stock exchange newspaper Parkiet awarded the Bull and Bear statuettes to the leaders of capital markets. The award for the "best managed company in the financial sector" went to Bank Zachodni WBK.
Award in the competition "Mother Friendly Company"	In February 2009, Bank Zachodni WBK received one of the three main awards in the nation-wide competition "Mother Friendly Company".
"Service Quality" accolade	In the prestigious ranking of Newsweek (March 2009) Bank Zachodni WBK was given the "Service Quality" accolade for taking the third position in the "banks, finance and insurance" sector. Quality assessment was based on observation and feedback from consumers.
Highly trusted bank	On 25 March 2009, the Rzeczpospolita daily published a ranking showing the banks that customers trust most. 33% of the respondents said they trust Bank Zachodni WBK as a depositor. The bank took the third position in the ranking after PKO BP and Pekao S.A.
"Alicja 2008" award	For the fourth time, Bank Zachodni WBK received the "Alicja" award presented by the Twój Styl monthly to financial institutions for their most interesting and innovative products and services that are both favourable and safe for customers – in this case, the award was given for the contactless card.
One of the most-valued companies in Poland	In April 2009, Newsweek Poland and the consulting firm A.T. Kearney placed Bank Zachodni WBK in the thirteenth position among the most-valued Polish companies (and third among banks).
One of the top three banks for SMEs	In a survey conducted by the INDICATOR Marketing Research Institute and the Warsaw Institute of Banking, Bank Zachodni WBK was indicated as the third most popular bank among small and medium-sized enterprises (Rzeczpospolita, 5 May 2009).
"Partner of the Year" title	The judging panel of the 4 th Electronic Economy Congress awarded Bank Zachodni WBK with the "Partner of the Year" title (May 2009) for its contribution to building the electronic economy and information society in Poland (contactless and pre-paid cards, 3D Secure service)
"Support Leader" title	Help Desk Institute Poland awarded the bank's Department of IT Service Support and Development with the title "Support Leader 2008" (June 2009) in the category "Project of the Year". The recognised project was "Optimisation and improvement of BZ WBK business through consolidation of IT services".
"HR Management Leader"	Bank Zachodni WBK was recognised in the 10th edition of the Poland-wide competition "HR Management Leader" for "promoting equal opportunities" (June 2009). The recognition was accorded to the bank for a number of projects which create the company's image as a learning organisation, supporting expecting and new mothers and encouraging staff innovation.
Senior-Friendly Bank	In the Newsweek's ranking "Friendly Bank" (September 2009), Bank Zachodni WBK was awarded for its second position in the category "Senior-Friendly Bank". In the general category of friendly banks, the bank ranked 5 th out of 23 banks. This is the highest position among its peers.

"Customer Friendly Firm"	The bank received another accolade "Customer Friendly Firm" (October 2009) as a result of the positive assessment of its customer service in a three-stage certification procedure that covered: quality management policy, knowledge of the quality procedures among the front-line staff and customer satisfaction.
Responsible companies ranking – employee relations	In the ranking of "responsible companies" organised by the Responsible Business Forum, PriceWaterhouseCoopers and Gazeta Prawna, Bank Zachodni WBK achieved the 23 rd position in the overall category and the 4 th in the category "Banking and Insurance". As the only financial institution the bank scored top in the category "Employee Relations".
"Effie Awards"	Bank Zachodni WBK (together with Universal McCann Media House) received the highest award in the category "Financial Services" and a silver statuette for its cash loan campaign featuring John Cleese in a competition organized by the Marketing Communications Association and Management Department of the Warsaw University (October 2009).
Bank Keeping Close to customers	In the ranking of the Gazeta Prawna daily (December 2009), Bank Zachodni WBK came first in the category "Friendly Website".
"Innovative card of 2009"	The internet card of Bank Zachodni WBK was awarded at the conference "Central European Electronic Card – Warsaw" as the innovative card of 2009" (December 2009).
Oracle Innovation Awards	As the only Polish company, Bank Zachodni WBK received the Oracle Innovation Award in the category of system integration (December 2009). The award goes to the international companies that are distinctive by their innovative approach to system integration using Oracle products.

Awards for Dom Maklerski BZ WBK S.A.

The highest share in the NewConnect market trading	At the meeting titled "2008 - investment companies and the Stock Market: Success in Difficult Conditions" held on 19 February 2009, the Warsaw Stock Exchange awarded Dom Maklerski BZ WBK for its biggest share in the NewConnect market trading in 2008, exclusive of market-making activity.
The best brokerage house in Poland	Dom Maklerski BZWBK came top in the ranking of brokerage houses in Poland in 2008 on account of its good performance and profit growth in the equity and futures market.
The best website	Dom Maklerski BZ WBK received the first position in the ranking of websites of stockbroking companies, published by Gazeta Prawna (on 30 January 2009). It is one more time that Dom Maklerski BZ WBK S.A. topped the ranking (previous editions run on 25 February 2008 and 25 September 2008).
High quality of service for institutional customers	According to Forbes' ranking (10/2009) of brokerage houses based on a survey of mutual funds corporations and open pension funds, Dom Maklerski BZ WBK was second in terms of the quality of service for institutional customers.

Awards for BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.

Top positions in rankings	BZ WBK AIB Towarzystwo funduszy Inwestycyjnych topped the ranking of the best mutual funds in Poland in the first half of 2009 (Gazeta Prawna, 3 July 2009). Seven funds managed by the company were among leaders in their respective categories.
Best fund and fund manager in 2009	The manager of Arka BZ WBK Srodkowej i Wschodniej Europy FIO (CEE Equity Fund) was recognised as the best asset management professional in 2009 (the fund recorded a y-o-y increase in value of 86.8%). Arka BZ WBK Rozwoju Nowej Europy FIO (New Europe Development Fund) became the best fund of the year with a y-o-y increase in value of 91% (Puls Biznesu, 7 January 2010).

XI. Other Events and Supplementary Information

1. Changes to the Management Organisation

Business Support Centre of Bank Zachodni WBK

Business & Corporate Banking Division

Following the adoption of new rules of business customer segmentation, early in 2009 the bank commenced the process of implementing changes to its business functions. On 1 February 2009, the Business and Corporate Division was established with a responsibility for managing the relations with the companies that meet the following criteria:

- business customers, i.e. companies with a turnover from PLN 30 m to 150 m and credit exposure up to PLN 15 m;
- corporate customers, i.e. companies with a turnover higher than PLN 150 m and credit exposure greater than PLN 15 m.

The Business Banking Centres took over the relationship with all the business customers while the Corporate Business Centres retained responsibility for corporate customers.

Retail Banking Division

Following the separation of the Corporate and Business Banking Division, the Customer Relationship and Sales Division was transformed into the Retail Banking Division. Its structures include, among others, the Small Enterprise Department responsible for the support of companies with an annual turnover up to PLN 30 m and a credit exposure up to PLN 3 m.

In May 2009, the Direct Banking Area, which was previously outside of the divisional structure, was merged with the Retail Banking Division. The Direct Banking Area is responsible for the card and ATM business, and for development of distribution channels such as: phone banking, electronic banking, intermediaries, BZWBK24 and mobile advisors. The merger aims to enhance the capacity of the two units to develop the bank's offering and sales across all distribution channels.

Branch Network Management Structure

As part of reorganization of the branch network management structures (initiated in 2008) further modifications were prepared and implemented to make the management more efficient and improve the operating processes. On 1 October 2009, the number of regions was reduced from 12 to 10. Their administrative boundaries and branch reporting lines were accordingly adjusted.

Management Structure for Subsidiaries Servicing Business Customers

BZ WBK Faktor Sp. z o.o.

BZ WBK Finanse Sp. z o.o. was created on 18 December 2008 and registered on 14 January 2009. It was established to manage the following subsidiaries of Bank Zachodni WBK: BZ WBK Finanse i Leasing S.A., BZ WBK Leasing S.A. and BZ WBK Faktor Sp. z o.o. It also supports the above-mentioned companies in the planning and delivery of purchases from external suppliers.

2. Strategic IT Programmes

At the end of 2008, Bank Zachodni WBK Group revised its action plans for upcoming years in view of the global economic crisis. A Strategic Programme Portfolio was developed, including projects considered as vital for the delivery of the bank's business objectives.

The Strategic Programme Portfolio for 2009 covered the following initiatives:

- **New Front End** – creation of a new integrated branch environment based on business processes, specifically: development of automated sale processes within a single application, improvement of the data density and quality, optimization of processes; two out of the three Programme stages have been delivered.
- **Loan Factory** – creation of a central unit to provide end-to-end operating support for the credit delivery process; effective separation of operating and decision-making functions in the credit delivery process; centralisation, standardisation and further automation of tasks in order to improve process quality; the programme is underway.
- **Securities Centre** – centralisation and optimisation of the establishment and management of collateral by the Securities Centre; improvement of respective processes in all business lines across the Bank Zachodni WBK Group; consecutive deployments are planned for 2010–2011.
- **Parasol** – establishment of insurance companies (BZ WBK-Avica Towarzystwo Ubezpieczen Ogolnych S.A. and BZ WBK-Aviva Towarzystwo Ubezpieczen na Zycie S.A.) with all of the required functions and structures, including the IT infrastructure interfaced with the bank; most implementations have been completed.
- **BZWBK Partner** – further development of the partner branch network; introduction of deposits and loans into the product offer; development of the platform to support the operating activity of BZWBK Partner; some of these projects have been finalized while others are underway.
- **Direct Banking** – extension of the product offer in DBB channels addressed to private and business customers, changes to the bank's website (new layout and more user-friendly navigation), including the launch of a new version of the BZWBK24 transactional portal; most of the products were implemented in 2009.
- **Arrears Management Future** – customisation and optimisation of the collection and recovery process in line with the "Best in Class" model; improvement of the efficiency of the customer communication process by means of new tools; introduction of MIS reports and operating reports to track the key ratios in the collection and recovery process; project has been put in place.
- **Branch without Back Office** – the project complements initiatives progressed as part of the new Front End and Loan Factory programmes; aimed to simplify, optimize and centralize the branch operations as well as reduce workload and operating costs in the branches; most of them are scheduled for 2010.

3. Capital Expenditure

In 2009, Bank Zachodni WBK Group focused on completion of the investments started in the previous years. The capital expenditure throughout the year amounted to PLN 90.9 m (PLN 255.8 m in 2008).

Apart from the above-listed "strategic IT programmes", the key initiatives also covered the improvement of ATM security as well as enhancement of stability, reliability and security of bank systems, which included implementation of the Payment Card Industry security standard designed to ensure better protection of card holders (payment card numbers are now stored, sent and displayed on the screen in an encrypted format). Also, investments were made into increased production of contactless cards.

The remaining capital expenditures were connected with development of the bank's delivery channels. 11 new branches were launched, more than twenty outlets were modernised and 7 others were moved to their new locations. The bank also started to install in branches new devices to optimise the cash desk service. In April 2009, the process of rebranding Bank Zachodni WBK agency outlets network from "Minibank" to "Bank Zachodni WBK Partner" was brought to completion.

4. Supplementary information

Deposits by Geographies

PLN m

Bank Zachodni WBK				
Ref.	Province	Deposits from Customers		
		31.12.2009	31.12.2008	
1.	Dolnoslaskie	9,805.4	9,744.6	
2.	Kujawsko-Pomorskie	1,392.6	1,238.8	
3.	Lubelskie	160.4	172.6	
4.	Lubuskie	1,985.4	2,030.2	
5.	Lodzkie	849.7	858.4	
6.	Malopolskie	1,159.7	983.2	
7.	Mazowieckie	5,657.7	6,388.3	
8.	Opolskie	1,359.8	1,336.4	
9.	Podkarpackie	173.6	149.6	
10.	Podlaskie	255.2	246.8	
11.	Pomorskie	1,904.9	1,940.8	
12.	Slaskie	1,656.6	1,666.9	
13.	Swietokrzyskie	324.8	327.4	
14.	Warminsko-Mazurskie	213.8	211.0	
15.	Wielkopolskie	11,660.9	11,365.5	
16.	Zachodniopomorskie	1,551.7	1,607.5	
	Non-allocated	1,150.0	3,113.9	
Subsidiaries				
	Total	993.7	532.0	
Bank Zachodni WBK Group				
	Intercompany	-1,033.0	-1,103.2	
	Total	41,222.9	42,810.7	

Garnishee Orders and Value of Collateral

The table below shows the number and value of the garnishee orders issued by Bank Zachodni WBK in 2009 compared to 2008.

PLN m

Facility	2009		2008	
	Volume	Value	Volume	Value
Cash loans and overdrafts	24,073	188.9	11,975	81.0
Credit cards	12,699	44.7	5,521	15.6
Business loans	476	394.0	172	22.5
Mortgage loans	53	18.3	63	6.7
Total	37,301	645.9	17,731	125.8

As at 31 December 2009, the value of collateral on customer's accounts or assets amounted to PLN 30,520.2 m compared with PLN 31,120.2 m as at 31 December 2008.

Transactions with Connected Entities

Transactions between the bank and its subsidiaries are banking operations carried out on the arms length basis as part of the ordinary business and represent mainly loans, deposits and guarantees.

As at 31 December 2009, total exposure originating from loans to subsidiaries (mainly BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A., BZ WBK Faktor Sp. z o.o., Dom Maklerski BZ WBK S.A.) was PLN 1,121.8 m versus PLN 852.8 m as at 31 December 2008. Guarantees to subsidiaries (BZ WBK Finanse & Leasing S.A., BZ WBK Leasing S.A., BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.) totalled PLN 254.8 m versus PLN 50,3 m as at 31 December 2008.

As at 31 December 2009, the deposits held by all the subsidiaries with Bank Zachodni WBK totalled PLN 1,033.0 m versus PLN 1,103.2 m a year before.

The intercompany items have been eliminated from the consolidated accounts.

Guarantees

As at 31 December 2009, guarantees sanctioned by Bank Zachodni WBK Group amounted to PLN 876.2 m as compared with PLN 901.7 m a year before.

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

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

Selected off-Balance Sheet Items

Commitments and Derivatives

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

PLN m

Guarantees and Commitments	31.12.2009	31.12.2008
Financial commitments:	6,345.1	9,528.8
- credit lines	5,442.5	8 406.9
- credit cards	845.5	879.9
- other	57.1	242.0
Guarantees	876.2	901.7
Total	7,221.3	10,430.5

PLN m

Derivatives by Nominals	31.12.2009	31.12.2008
Derivatives - Forward (hedging)	1,773.7	2,704.7
Derivatives - Forward (trading)	50,171.0	139,222.6
Current FX transactions	1,119.6	957.3
Trading in equities	47.9	0.9
Total	53,112.2	142,885.5

Operating Leases

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

PLN m

Lease Payments by Maturity	31.12.2009	31.12.2008
up to 1 year	142.3	119.3
1 - 5 years	456.5	374.4
over 5 years	325.9	311.1
Total	924.7	804.8

Significant Court Proceedings

As at 31 December 2009, no case was pending before any court or state administration agencies with relation to any claims made by or against the bank or its subsidiaries that would equal or exceed 10% of the Group's equity.

The value of all litigations totalled PLN 247.9 m which is ca. 4.1% of the Group's equity as at end December 2009 (compared to PLN 251.6 m as at 31 December 2008 which is ca. 4.8% of the Group's equity). This amount includes PLN 48 m claimed by the Group, PLN 71.9 m in claims against the Group and PLN 128 m of the Group's receivables due to bankruptcy or arrangement cases.

XII. Representations of the Management Board

True and Fair Presentation of the Financial Statements

According to the Management Board's best knowledge and belief, the financial figures and the comparable data presented in the Consolidated Financial Statements of Bank Zachodni WBK Group for 2009 were prepared in keeping with the applicable accounting policies and give a true and fair view of the state of affairs and earnings of Bank Zachodni WBK Group. The Management Board's Report contained in this document shows a true picture of the Group's development, achievements and position (including the underlying risks) in 2009.

Selection of Auditor

The auditing firm responsible for reviewing the consolidated financial statements of Bank Zachodni WBK Group for 2009 was selected in compliance with the applicable legislation. The auditing firm and its auditors satisfied the necessary conditions to ensure they provide an unbiased and independent report compliant with Polish law and professional standards.

Corporate Governance

In 2009, the bank's duly complied with the corporate governance rules contained in the document "Best Practice in Public Companies" adopted by the Warsaw Stock Exchange Supervisory Board on 4 July 2007. No corporate governance breaches were reported.

Date	Name & surname	Role	Signature
26-02-2010	Mateusz Morawiecki	President of the Board	
26-02-2010	Paul Barry	Member of the Board	
26-02-2010	Andrzej Burliga	Member of the Board	
26-02-2010	Declan Flynn	Member of the Board	
26-02-2010	Justyn Konieczny	Member of the Board	
26-02-2010	Janusz Krawczyk	Member of the Board	
26-02-2010	Jacek Marcinowski	Member of the Board	
26-02-2010	Michael McCarthy	Member of the Board	
26-02-2010	Marcin Prell	Member of the Board	
26-02-2010	Mirosław Skiba	Member of the Board	
26-02-2010	Feliks Szyszkowiak	Member of the Board	