

**CONSOLIDATED FINANCIAL STATEMENTS  
OF BANK ZACHODNI WBK GROUP FOR 2009**

2009



**WBK**

Bank Zachodni WBK



Dear All,

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

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

Other successes of the last year include the maintenance of the loans to deposits ratio under 84%, which is very safe and one of the best in the sector, stable loan volumes, including a nearly 20% growth in sales of cash loans and more than 11% growth in the sales of home loans, which have become our flagship product, very popular and highly assessed by customers. On the deposit side we expanded the array of our products and strengthened our market position.

We also expanded our personal account proposition, which supported on its own merits and by marketing campaigns, was well-received by customers and the market and allowed us to become the third biggest player in terms of the personal accounts number.

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

Though 2009 was the most difficult year for the Polish economy in the recent history, the total income of Bank Zachodni WBK Group increased by nearly 3% excluding gains on non-recurring capital markets transactions. Owing to savings initiatives, we reduced our total costs by 2.2% last year and recorded the cost/income ratio at 50% - one of the lowest ratios in the sector. The solvency ratio of Bank Zachodni WBK Group is at a very good level - 12.97% while the return on equity (ROE) is at 17.5%. And finally, the most important indicator for investors - profit. Bank Zachodni WBK Group closed 2009 with the profit-before-tax of PLN 1 163 m, which with the Group's profit attributable to the parent of PLN 886 m.

The year 2009, given the economic environment and huge fluctuations in stock prices, was very difficult for the largest subsidiaries of Bank Zachodni WBK. This refers in particular to Dom Maklerski BZ WBK (Brokerage House), BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych (Investment Fund Corporation) and BZ WBK AIB Asset Management. Despite the challenging market, all the companies have defended their market positions.

Dom Maklerski BZ WBK took the second position on the stock market and its market share is 11%. As regards the futures market, the second most important one, our brokerage house came third, yet its market share was higher and stood at 12.5%. Moreover, it is worth highlighting that last year Dom Maklerski BZ WBK conducted ten sales offers on the primary and secondary markets.

In 2009, BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych kept its second position with an over 11% market share. Last year, the company again recorded very good management results, often the best in Poland, and offered a new investment program 'My Future' to its customers.

It is worth noting that other companies from Bank Zachodni WBK Group, including leasing and factoring companies, also defended their market positions in 2009.

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

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

Mateusz Morawiecki

President of the Management Board

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## Consolidated income statement

		01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
For reporting period:			
Interest and similar income		3 226 088	3 232 124
Interest expense and similar charges		(1 662 897)	(1 597 019)
<b>Net interest income</b>	Note 5	<b>1 563 191</b>	<b>1 635 105</b>
Fee and commission income		1 535 565	1 606 669
Fee and commission expense		(220 101)	(232 854)
<b>Net fee and commission income</b>	Note 6	<b>1 315 464</b>	<b>1 373 815</b>
Dividend income	Note 7	96 592	70 306
Net trading income and revaluation	Note 8	270 256	52 802
Gains (losses) from other financial securities	Note 9	(6 085)	58 152
Net loss on sale of subsidiaries and associates	Note 10	-	(196)
Other operating income	Note 11	49 702	67 999
Impairment losses on loans and advances	Note 12	(481 034)	(364 551)
Operating expenses incl.:		(1 644 764)	(1 682 075)
<i>Bank's staff, operating expenses and management costs</i>	Note 13, 14	(1 498 316)	(1 547 174)
<i>Depreciation/amortisation</i>		(123 473)	(107 331)
<i>Other operating expenses</i>	Note 15	(22 975)	(27 570)
<b>Operating profit</b>		<b>1 163 322</b>	<b>1 211 357</b>
Share in net profits (loss) of entities accounted for by the equity method		(334)	(777)
<b>Profit before tax</b>		<b>1 162 988</b>	<b>1 210 580</b>
Corporate income tax	Note 16	(222 832)	(256 294)
<b>Profit for the period</b>		<b>940 156</b>	<b>954 286</b>
of which:			
attributable to Company's equity holders		886 192	855 446
attributable to non-controlling interests		53 964	98 840
Net earnings per share (PLN/share)	Note 17		
Basic earnings per share		12,13	11,72
Diluted earnings per share		12,08	11,68

## Consolidated statement of comprehensive income

		01.01.2009 - 31.12.2009	01.01.2008 - 31.12.2008
For reporting period:			
<b>Profit for the period</b>		<b>940 156</b>	<b>954 286</b>
<b>Other comprehensive income:</b>			
Available for sale financial assets valuation		61 681	(5 313)
Cash flow hedges valuation		26 590	(24 673)
<b>Other comprehensive income for the period, net of income tax</b>		<b>88 271</b>	<b>(29 986)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>1 028 427</b>	<b>924 300</b>
Attributable to:		1 028 427	924 300
company's equity holders		972 690	829 000
non-controlling interests		55 737	95 300

Notes presented on pages 15 – 105 constitute an integral part of these Consolidated Financial Statements.

**Consolidated statement of financial position**

	as at:	31.12.2009	31.12.2008
<b>ASSETS</b>			
Cash and balances with central banks	Note 18	2 660 658	3 178 107
Loans and advances to banks	Note 19	663 027	1 364 543
Financial assets held for trading	Note 20	1 342 620	3 224 867
Hedging derivatives	Note 21	10 801	347
Loans and advances to customers	Note 22	34 570 697	35 137 202
Investment securities	Note 23,24	13 292 572	12 916 041
Investments in associates and joint ventures	Note 25	81 887	72 221
Intangible assets	Note 26	181 620	173 934
Property, plant and equipment	Note 27	596 154	637 486
Current income tax due		43 373	-
Net deferred tax assets	Note 28	273 751	210 495
Other assets	Note 29	341 200	517 826
<b>Total assets</b>		<b>54 058 360</b>	<b>57 433 069</b>
<b>LIABILITIES</b>			
Deposits from central bank	Note 30	1 519 208	1 242 574
Deposits from banks	Note 31	3 830 776	4 095 477
Hedging derivatives	Note 21	32 933	68 562
Financial liabilities held for trading	Note 20	733 861	3 153 932
Deposits from customers	Note 32	41 222 871	42 810 727
Debt securities in issue	Note 33	-	153 918
Current income tax liabilities		-	13 638
Other liabilities	Note 34	663 157	681 800
<b>Total liabilities</b>		<b>48 002 806</b>	<b>52 220 628</b>
<b>Equity</b>			
Parent company equity		5 947 216	4 972 569
Share capital	Note 35	730 760	729 603
Other reserve funds	Note 36	3 566 999	2 716 687
Revaluation reserve	Note 37	422 005	335 507
Retained earnings		341 260	335 326
Profit of the current period		886 192	855 446
Non-controlling interests in equity		108 338	239 872
<b>Total equity</b>		<b>6 055 554</b>	<b>5 212 441</b>
<b>Total equity and liabilities</b>		<b>54 058 360</b>	<b>57 433 069</b>

Notes presented on pages 15 – 105 constitute an integral part of these Consolidated Financial Statements.



**Movements on consolidated equity**

<b>MOVEMENTS ON CONSOLIDATED EQUITY</b>	<b>Share capital</b>	<b>Other reserve funds</b>	<b>Revaluation reserve</b>	<b>Retained earnings and profit for the period</b>	<b>Non-controlling interests</b>	<b>Total</b>
<b>Opening balance as at 31.12.2008</b>	<b>729 603</b>	<b>2 716 687</b>	<b>335 507</b>	<b>1 190 772</b>	<b>239 872</b>	<b>5 212 441</b>
Total comprehensive income	-	-	86 498	886 192	55 737	1 028 427
Share issue related to vesting the share incentive scheme	1 157	-	-	-	-	1 157
Share scheme charge	-	1 547	-	-	-	1 547
Dividend relating to 2008	-	-	-	-	(187 271)	(187 271)
Transfer to other capital	-	848 765	-	(848 765)	-	-
Other	-	-	-	(747)	-	(747)
<b>As at 31.12.2009</b>	<b>730 760</b>	<b>3 566 999</b>	<b>422 005</b>	<b>1 227 452</b>	<b>108 338</b>	<b>6 055 554</b>

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

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

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

Notes presented on pages 15 – 105 constitute an integral part of these Consolidated Financial Statements.

**Consolidated statement of cash flows**

	<b>01.01.2009</b>	<b>01.01.2008</b>
<b>for the period</b>	<b>- 31.12.2009</b>	<b>- 31.12.2008</b>
<b>Profit before tax</b>	<b>1 162 988</b>	<b>1 210 580</b>
<b>Total adjustments:</b>	<b>(952 800)</b>	<b>1 648 419</b>
Share in net profits (losses) of entities accounted for by the equity method	334	777
Depreciation	123 473	107 331
Impairment losses	(233)	3 465
Gains (losses) on exchange differences	(6 339)	60 420
Interests and similar charges	74 090	23 338
Dividend received	(96 592)	(70 306)
(Profit) loss from investing activities	4 147	(60 229)
Change in provisions	24 078	(66 804)
Change in trading portfolio financial instruments	(284 798)	311 834
Change in loans and advances to banks	(553)	18 920
Change in loans and advances to customers	572 829	(11 299 918)
Change in deposits from banks	578 396	362 219
Change in deposits from customers	(1 792 608)	13 094 802
Change in liabilities arising from debt securities in issue	(3 736)	(99 510)
Change in other assets and liabilities	235 010	(405 323)
Paid income tax	(381 098)	(333 749)
Other adjustments	800	1 152
<b>Net cash flow from operating activities</b>	<b>210 188</b>	<b>2 858 999</b>
<b>Inflows</b>	<b>4 674 429</b>	<b>2 441 177</b>
Sale of shares or interests in subsidiaries, associates and joint ventures	-	3 021
Sale/maturity of investment securities	4 575 394	2 350 787
Sale of intangible assets and property, plant and equipment	2 433	17 053
Dividends received	96 592	70 306
Proceeds from other investments	10	10
<b>Outflows</b>	<b>(3 825 266)</b>	<b>(5 040 584)</b>
Purchase of subsidiaries, associates and joint ventures	(10 000)	(38 131)
Purchase of investment securities	(3 722 853)	(4 745 050)
Purchase of intangible assets and property, plant and equipment	(90 849)	(255 758)
Other investments	(1 564)	(1 645)
<b>Net cash flow from investing activities</b>	<b>849 163</b>	<b>(2 599 407)</b>
<b>Inflows</b>	<b>442 447</b>	<b>974 792</b>
Drawing of long-term loans	441 290	974 792
Proceeds from issuing shares	1 157	-
<b>Outflows</b>	<b>(1 263 052)</b>	<b>(933 619)</b>
Repayment of long-term loans	(821 359)	(384 445)
Debt securities buy out	(150 182)	(99 533)
Dividends and other payments to shareholders	(187 271)	(309 036)
Other financing outflows	(104 240)	(140 605)
<b>Net cash flow from financing activities</b>	<b>(820 605)</b>	<b>41 173</b>
<b>Total net cash flow</b>	<b>238 746</b>	<b>300 765</b>
<b>Cash at the beginning of the accounting period</b>	<b>5 318 344</b>	<b>5 017 579</b>
<b>Cash at the end of the accounting period</b>	<b>5 557 090</b>	<b>5 318 344</b>

Notes presented on pages 15 – 105 constitute an integral part of these Consolidated Financial Statements.

## Additional notes to consolidated financial statements

### 1. General information about issuer

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

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

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

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

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

Group of Bank Zachodni WBK consists of the following entities:

Subsidiaries:

Subsidiaries	Registered office	% of votes on AGM 31.12.2009	% of votes on AGM 31.12.2008
1. BZ WBK Finanse Sp. z o.o.	Poznań	100,00	-
2. BZ WBK Faktor Sp. z o.o.	Warszawa	100% of AGM votes is held by BZ WBK Finanse Sp. z o.o.	100,00
3. BZ WBK Inwestycje Sp. z o.o.	Poznań	100,00	100,00
4. Dom Maklerski BZ WBK S.A.	Poznań	99,99	99,99
5. BZ WBK Finanse & Leasing S.A.	Poznań	99,99% of AGM votes is held by BZ WBK Finanse Sp. z o.o.	99,99
6. BZ WBK Leasing S.A.	Poznań	99,99% of AGM votes is held by BZ WBK Finanse Sp. z o.o.	99,99
7. BZ WBK Nieruchomości S.A.	Poznań	99,99	99,99
8. BZ WBK AIB Asset Management S.A.*	Poznań	50,00	50,00
9. BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.	Poznań	100% of AGM votes is held by BZ WBK AIB Asset Management S.A.	100% of AGM votes is held by BZ WBK AIB Asset Management S.A.

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

## Associates:

Associates	Registered office	% of votes on AGM 31.12.2009	% of votes on AGM 31.12.2008
1. POLFUND - Fundusz Poręczeń Kredytowych S.A.	Szczecin	50,00	50,00
2. Metrohouse S.A.*	Warszawa	35,38	35,38
3. Krynicki Recykling S.A.*	Warszawa	30,37	-

\*Metrohouse S.A. and Krynicki Recykling S.A are the associates of BZ WBK Inwestycje Sp. z o.o.

In 2009 BZ WBK Inwestycje Sp. z o.o. (bank's subsidiary) acquired 3 077 k newly issued shares of Krynicki Recykling S.A. (capital increase registered on 2 February 2009), representing 30.37% of the share capital. Krynicki Recykling S.A. is classified as an associate entity and accounted for using the equity method. Purchase of shares was a part of building a portfolio of pre-IPO type own investment.

Additional information about acquisitions is available in note 48.

## Joint ventures:

Joint ventures	Registered office	% of votes on AGM 31.12.2009	% of votes on AGM 31.12.2008
1. BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Poznań	50,00	50,00
2. BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A.	Poznań	50,00	50,00

In 1H 2008 Bank Zachodni WBK S.A. in cooperation with Aviva International Insurance Ltd. formed two jointly controlled entities: BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A. The parent companies have 50% share in both joint ventures' share capital and agreed to share the influence. The main business of the new entities is providing insurance services for the clients of the Bank.

Compared with the end of 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 13 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 specialised services to business customers, i.e. BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A. and BZ WBK Faktor Sp. z o.o.

## 2. Basis of preparation of financial statements

### Statement of compliance

The annual consolidated financial statements of the BZWBK Group for the year ended 31 December 2009 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and with other requirements of existing legislation.

### Changes in accounting policies

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

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

Since January 2009 The Group have been presenting segmental information in accordance with the requirements of IFRS 8. The change has been applied retrospectively and any effect on financial data is described in a section "Comparability with results of previous periods".

### Comparability with results of previous periods

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

a) consolidated income statement:

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

b) consolidated statement of financial position:

- According to IAS 28 adjustments of equity made by the Bank's associate – POLFUND - Fundusz Poręczeń Kredytowych S.A. were applied consistently in consolidated statement of financial position of BZ WBK Group. In comparable period as at 31.12.2008 "Retained earnings" were increased by PLN 20 250 k, "Net deferred tax assets" were decreased by PLN 4 750 k, "Investments in associates and joint ventures" were increased by PLN 25 000 k,
- As a result of changes in the interpretation of IAS 12, the presentation of deferred tax assets and liabilities was changed. Since June 2009 the assets and liabilities have been presented as a net value. The change is reflected also in comparable period therefore the total assets in the consolidated statement of financial position decreased in the amount of PLN 425 254 k as at 31.12.2008,
- As at 31.12.2008 there was no regular way purchase or sale of financial assets,

c) consolidated statement of cash flows:

- As a result of changes in the interpretation of IAS 7, the definition of cash components was revised and applied. Since January 2009 cash components have included other liquid financial assets with maturity up to 3 months. The details of reclassification are presented in the table below.

		31.12.2008		31.12.2007	
		Before revision	After revision	Before revision	After revision
<b>Cash components:</b>					
Deposits in other banks, current account	(1)	20 355	1 355 817	26 571	2 549 232
Cash and current accounts in central bank		3 178 107	3 178 107	2 206 265	2 206 265
Debt securities held for trading	(2)	-	168 618	-	53 447
Debt securities available for sale	(3)	-	615 802	-	208 635
<b>Total</b>		<b>3 198 462</b>	<b>5 318 344</b>	<b>2 232 836</b>	<b>5 017 579</b>

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

- Change in loans and advances to banks,
- Change in trading portfolio financial instruments,
- Purchase of investment securities.

d) As a result of adoption of IFRS 8, which replaced IAS 14, segmental information was restated in order to conform to the requirements of this standard and the reportable segments are consistent with those identified by management accounting. A change is reflected also by the restated financial statements of a comparable period.

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

Standard or interpretation	Description of changes	Effective from	Impact on the Group
Amendments to IAS 39 Financial Instruments: <i>Recognition and Measurement</i>	Amendments provide for the application of hedge accounting in respect of inflation component of financial instruments and options used as hedging instruments.	1 January 2010	Amendments to IAS 39 will not have a material impact on the financial statement.
Amendments to IFRS 2 <i>Share-based Payment</i> (pending EU approval)	Amendments to IFRS 2 specify financial reporting if a cash-settled share-based payment is undertaken. The definitions of share-based payment and share-based payment agreement have been amended. The scope of IFRS 2 has been amended. Guidance on financial reporting of group share-based payment transactions have been included.	1 January 2010	Amendments to IFRS 2 will not have a material impact on the financial statement.

IAS 39 <i>Financial Instruments</i>	The issued amendments are related to cash flow hedges. According to the amendments, profit or loss on cash flow hedges should be reclassified from equity to profit or loss relative to the period cash flow hedges affect profit or loss.	1 January 2010	Amendments will not have a material impact on the financial statement.
IAS 39 <i>Financial Instruments</i>	According to the amendments, the prepayment option is deemed to be an embedded derivative that is closely related to the financial instrument where prepayment is up to the present value of lost interest for the remaining term of the contract.	1 January 2010	Amendments will not have a material impact on the financial statement.
IFRS 5 <i>Non-current Assets Held for Sale and Discontinued Operations</i>	According to the amendments, the disclosures of non-current assets or groups of assets held for sale are limited to disclosures defined in IFRS 5.	1 January 2010	Amendments will not have a material impact on the financial statement.
IFRS 9 <i>Financial Instruments –</i>	Changes in classification and measurement – the existing categories of financial instruments to be replaced by two measurement categories, i.e. amortised cost and fair value.	1 January 2013	The Group has not completed its analysis of changes.
IAS 32 <i>Financial Instruments: Presentation</i>	The amendment pertains to the classification of rights issue.	1 January 2011	The Group has not completed its analysis of the changes.
IFRIC 18 <i>Transfer of Assets from Customers</i>	The interpretation provides guidance on how to account for transfers of assets and cash from customers to acquire or construct an item of property.	1 January 2010	Amendments will not have a material impact on the financial statement.
IFRIC 17 <i>Distribution of Non-cash Assets to Owners</i>	This interpretation provides guidance on how to account for the distribution of non-cash assets to owners.	1 January 2010	Amendments will not have a material impact on the financial statement.
IFRS 3 <i>Business Combinations</i>	The updated IFRS 3 sets out rules and requirements relating to financial recognition and measurement of individual components (acquired assets and liabilities, non-controlling interest and goodwill) by the acquirer.	1 January 2010	The amended IFRS has no impact on the financial statement.

<i>IAS 27 Consolidated and Separate Financial Statements</i>	Amendments to IAS 27 define when companies are required to prepare consolidated financial statements, how parent companies should recognise changes in their ownership interest in subsidiaries and how losses of a subsidiary are allocated to controlling and non-controlling interest.	1 January 2010	Amendments will not have a material impact on the financial statement.
<i>IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments</i>	The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability are "consideration paid" in accordance with IAS 39.41. The above described equity instruments shall be measured at the fair value and the difference between the carrying amount of the financial liability extinguished and the initial measurement of the equity instruments issued should be recognized in profit or loss	1 January 2011	The Group has not completed its analysis of changes.

### **Basis of preparation**

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

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

The Group measures fixed assets held for sale at the lower of its carrying amount and fair value less cost to sell.

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

The accounting policies have been applied consistently by Group entities.

### **Accounting estimates and judgments**

The preparation of financial statements in conformity with IFRSs requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.



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

### ***Main estimates and judgments made by the Group***

#### ***Loan impairment***

The estimation of potential loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, economic climates, conditions in various industries to which BZWBK Group is exposed and other external factors such as legal and regulatory requirements. A provision is made against problem loans when, in the judgement of management, the estimated repayment realizable from the obligor, including the value of any security available, is likely to fall short of the amount of exposure outstanding on the obligor's loan or overdraft account. The amount of provision made in BZWBK Group's consolidated financial statements is intended to cover the difference between the assets' carrying value and the present value of estimated future cash flows discounted at the assets' original effective interest rates. The management process for the identification of loans requiring provision is underpinned by independent tiers of review. Credit quality and loan loss provisioning are independently monitored by head office personnel on a regular basis. A groupwide system for grading advances according to agreed credit criteria exists with an important objective being the timely identification of vulnerable loans so that remedial action can be taken at the earliest opportunity. Credit rating is fundamental to the determination of provisioning in BZWBK Group; it triggers the process which results in the creation of provision on individual loans where there is doubt on recoverability. IBNR (Incurred But Not Reported) provisions are also maintained to cover loans, which are impaired at the end of the reporting period and, while not separately identified, are known from experience to be present in any portfolio of loans. IBNR provisions are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements, historic loan loss rates, changes in credit management, procedures, processes and policies, economic climates, portfolio sector profiles/industry conditions and current estimates of loss in the portfolio. Estimates of loss take into account the following key factors:

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

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

#### ***Write-down due to impairment of non-financial assets***

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

In case of goodwill and intangible assets not yet available for use, recoverable value is determined at the end of each reporting period.

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

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

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

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

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

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

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

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

### **Basis of consolidation**

#### ***Subsidiaries***

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

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

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

***Purchase method of accounting***

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

***Joint ventures***

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

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

***Associates***

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

They are recognised in line with the equity method in consolidated financial statements.

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

***Transactions eliminated on consolidation***

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

**Foreign currency*****Foreign currency transactions***

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

**Financial assets and financial liabilities*****Classification***

The Group classifies its financial instruments into the following categories:

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

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

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

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

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

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

***Loans and receivables***

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

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

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

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

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

- (a) loans and receivables,

- (b) held-to-maturity investments or
- (c) financial assets at fair value through profit or loss.

### ***Other financial liabilities***

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

### **Recognition**

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

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

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

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

### **Derecognition**

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

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

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

### **Measurement**

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

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

- (a) loans and receivables which shall be measured at amortised cost using the effective interest method;
- (b) held-to-maturity investments, which are measured at amortised cost using the effective interest rate;

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

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

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

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

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

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

### **Reclassification**

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

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

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

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

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

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

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

### **Offsetting financial instruments**

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

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

### **Repurchase transactions**

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

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

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

### **Derivative financial instruments**

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

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

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

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

### **Hedge accounting**

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

At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged. The

Group also documents, at inception and on ongoing basis, an assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value.

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

The Group discontinues hedge accounting when:

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

### ***Fair value hedge***

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

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

### ***Cash flow hedge***

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

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

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

Interest income and expenses from cash flow hedge instruments are recognised in profit or loss as net interest income.

## **Impairment of financial assets**

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

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

- (a) significant financial difficulty of the issuer or obligor;



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

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

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

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

The analysis of impairment is carried out:

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

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

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

For the purpose of the collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of the Group's credit risk evaluation or the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant

factors). The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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

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

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

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

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

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

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

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss

is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

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

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

### ***Contingent liabilities***

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

## **Property, plant and equipment**

### ***Owned assets***

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

### ***Leased assets***

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

### ***Subsequent expenditure***

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

### ***Depreciation***

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

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

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

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

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

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

### **Intangible assets**

#### ***Computer software***

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

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

#### ***Other intangible assets***

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

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

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

#### ***Amortisation***

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of particular intangible assets. The estimated useful lives are from 3 to 5 years.

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

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

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

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

#### ***Other liabilities***

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

## Equity

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

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

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

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

The result of valuation of profit sharing scheme is included in reserve capital (IFRS 2.53). The revaluation reserve is comprised of adjustments relating to the valuation of available-for-sale financial assets and adjustments relating to the valuation of effective cash flow hedges taking into account deferred tax.

The revaluation reserve is not distributable.

Apart from equity, minority capital is also recognised in Group capital.

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

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

## Dividends

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

## Employee benefits

### *Short-term service benefits*

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

### *Long-term service benefits*

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

***Profit Sharing Scheme***

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

***Share based payments***

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

Vesting conditions included in the terms of the grant are not taken into account in estimating fair value except where those terms relate to market conditions. Non-market vesting conditions are taken into account by adjusting the number of awards included in the measurement of the cost of employee services so that ultimately, the amount recognized in the income statement reflects the number of vested awards. The expense related to share based payments is credited to the shareholder's equity. Where the share based payment arrangements give rise to the issue of new shares, the proceeds of issue of the shares are credited to share capital (nominal amount) and share premium (if any) when awards are exercised.

**Provisions**

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

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

**Net interest income**

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

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

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

### **Net commission income**

Fees and commissions settled under effective interest rate are listed above. Fees on overdrafts, revolving loans, credit cards and off balance sheet liabilities are brought in a straight-line method to the profit and loss account. Other fees and charges, which are not settled according to effective interest rate, are taken to profit and loss account in accordance with accrual method. Net commission income from FX transactions in the branch network includes elements of revaluation.

### **Net trading income and revaluation**

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

### **Dividend income**

Dividends are taken to the profit and loss account at the moment of acquiring rights to them.

### **Profit on disposal of subsidiaries, associates and joint ventures**

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

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

### **Other operating income and costs**

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

### **Operating lease payments**

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

**Finance lease payments**

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

**Corporate income tax**

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

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

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

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



### 3. Segmental reporting

Operational activity of the BZ WBK S.A. Group has been divided into five segments: Retail Banking, Business Banking, Investment Banking, Treasury and Centre. They were identified based on customers and product types. Income and costs assigned to a given segment are generated on the sale of products and services in the segment, according to description presented below. Such income and costs are recognized in the profit and loss account for the Group and may be assigned to a given segment either directly or based on reasonable assumptions. Settlements among business segments apply to payments for delivered services and include:

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

Income and cost allocations are based on individual rates agreed between segments for specific services or agreements concerning the breakdown of total income and/or cost.

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

#### **Retail Banking**

Retail Banking segment includes products and services targeted at personal customers as well as small and micro companies.

In the offer for customers of this segment there are a wide range of savings products, consumer and mortgage loans, credit and debit cards, insurance and investment products, clearing services, GSM phones top-ups, foreign payments and Western Union and private-banking services. For small and micro companies the segment additionally provides services such as cash management, leasing, factoring, trade finance and guarantees.

#### **Business Banking**

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

#### **Investment Banking**

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

#### **Treasury**

Treasury involves the management of interest rate, currency and liquidity risks. The income is generated on currency and inter-bank transactions, including derivative instruments and debt securities transactions.

## **Centre**

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

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



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

31.12.2009	Retail Banking	Business Banking	Investment Banking	Treasury	Centre	Total
Loans and advances to customers	15 420 209	19 070 131	67 467	-	12 890	34 570 697
Investments in associates and joint ventures	31 277	-	50 610	-	-	81 887
Other assets	7 006 518	4 355 138	1 102 630	5 827 535	1 113 955	19 405 776
<b>Total assets</b>	<b>22 458 004</b>	<b>23 425 269</b>	<b>1 220 707</b>	<b>5 827 535</b>	<b>1 126 845</b>	<b>54 058 360</b>
Deposits from customers	31 919 150	8 514 438	765 983	23 300	-	41 222 871
Other liabilities and equity	1 973 310	5 312 389	336 544	4 687 553	525 693	12 835 489
<b>Total liabilities</b>	<b>33 892 460</b>	<b>13 826 827</b>	<b>1 102 527</b>	<b>4 710 853</b>	<b>525 693</b>	<b>54 058 360</b>

## Consolidated income statement (by business segment)

31.12.2008	Retail Banking	Business Banking	Investment Banking	Treasury	Centre	Total
<b>Interest and similar income</b>	<b>1 019 453</b>	<b>468 912</b>	<b>26 237</b>	<b>70 742</b>	<b>49 761</b>	<b>1 635 105</b>
incl. internal transactions	-	(48 401)	74 632	-	(26 231)	-
<b>Other income</b>	<b>827 077</b>	<b>82 811</b>	<b>485 088</b>	<b>121 647</b>	<b>35 949</b>	<b>1 552 572</b>
incl. internal transactions	139 020	28 179	(96 280)	(73 298)	2 379	-
<b>Dividend income</b>	<b>-</b>	<b>-</b>	<b>70 306</b>	<b>-</b>	<b>-</b>	<b>70 306</b>
<b>Operating costs</b>	<b>(1 177 224)</b>	<b>(188 741)</b>	<b>(164 057)</b>	<b>(35 851)</b>	<b>(8 871)</b>	<b>(1 574 744)</b>
incl. internal transactions	13 742	(53 038)	(5 321)	21 766	22 851	-
<b>Depreciation/Amortisation</b>	<b>(86 271)</b>	<b>(9 099)</b>	<b>(8 338)</b>	<b>(2 960)</b>	<b>(663)</b>	<b>(107 331)</b>
<b>Impairment losses on loans and advances</b>	<b>(139 214)</b>	<b>(225 353)</b>	<b>15</b>	<b>-</b>	<b>1</b>	<b>(364 551)</b>
<b>Share in net profits of entities accounted for by the equity method</b>	<b>(1 417)</b>	<b>-</b>	<b>640</b>	<b>-</b>	<b>-</b>	<b>(777)</b>
<b>Profit before tax</b>	<b>442 404</b>	<b>128 530</b>	<b>409 891</b>	<b>153 578</b>	<b>76 177</b>	<b>1 210 580</b>
Corporate income tax						(256 294)
Profit of the period attributable to non-controlling interests						(98 840)
<b>Profit for the period</b>						<b>855 446</b>

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

31.12.2008	Retail Banking	Business Banking	Investment Banking	Treasury	Centre	Total
Loans and advances to customers	14 290 054	20 341 916	66 294	427 572	11 366	35 137 202
Investments in associates and joint ventures	32 114	-	40 107	-	-	72 221
Other assets	7 044 761	3 933 785	999 896	8 938 084	1 307 120	22 223 646
<b>Total assets</b>	<b>21 366 929</b>	<b>24 275 701</b>	<b>1 106 297</b>	<b>9 365 656</b>	<b>1 318 486</b>	<b>57 433 069</b>
Deposits from customers	32 349 169	9 921 340	505 609	34 609	-	42 810 727
Other liabilities and equity	1 851 389	5 318 425	282 319	5 967 034	1 203 175	14 622 342
<b>Total liabilities</b>	<b>34 200 558</b>	<b>15 239 765</b>	<b>787 928</b>	<b>6 001 643</b>	<b>1 203 175</b>	<b>57 433 069</b>

#### 4. Risk management

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

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

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

#### Operating risk

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

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

Bank Zachodni WBK Group operates the 'Operational Risk Management Policy' and the 'Rules of Operational Risk Management'. In addition, detailed procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated.

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

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

- Identification and estimation of operational risk

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

- Reporting on operational incidents and lessons learned

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

- Analysis of risk indicators

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

- Business continuity management

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

- Regular reporting to the Risk Management Committee and Supervisory Board

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

- Insurance

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

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



## **Credit risk**

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

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

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

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

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

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

### ***Credit Policy Forum***

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

### ***Credit Policies***

Credit policies contain guidelines for the identification and assessment of areas where specific types of risks manifest themselves and also provide the methods of limiting those risks to a level acceptable to the bank (e.g. FX risk in the case of foreign currency loans).

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

### ***Credit Grading***

Intensive work has been undertaken to further develop credit risk assessment tools to conform to the Basel requirements and IAS/IFRS.

These efforts are accomplished based on AIB Group expertise and best practices, as well as in close liaison with external, internationally recognized advisors.

Currently the Group uses new credit risk grading models for its key credit portfolios, including corporate customers, SMEs, housing loans, income-generating real estate, cash loans, credit cards and retail overdrafts.

In 2009, new risk assessment models were implemented for credit cards and cash loans to incorporate customers' behavioural features prepared against data available from BIK (Credit Information Office). 2009 also saw a new model implemented for SME customers.

The Group runs a systematic verification of credit grading pursuant to the rules described in the Credit Manuals. In 2009, the monitoring was intensified and adjusted to the current situation. Additionally, for selected models automated process of credit grade verification is carried out based on the number of overdue days or behavioral features analysis. Credit grade may also be verified at subsequent credit assessments.

### ***Calculation of Impairment***

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

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

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

### ***Credit risk stress testing***

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

### ***Return on Risk***

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

### ***Credit Decision Making Process***

The credit decision-making process as part of the risk management policy is based upon Individual Credit Discretions vested in credit officers, commensurate with their knowledge and experience relating to particular

activities (retail banking, corporate banking and SMEs). Credit exposures in excess of PLN 25 m are referred to the Credit Committee composed of senior management and top executives of Bank Zachodni WBK S.A.

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

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

### ***Credit Reviews***

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

### **Credit risk concentration**

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

- PLN 1 080 437 k (20% of Group's own funds) in the case of exposures to subsidiary or dominant entities or to subsidiary entities of the entity dominant for the bank,
- PLN 1 350 546 k (25% of Group's own funds) in other cases.

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

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

As at 31 December 2009, the Group had credit exposures (balance sheet and off-balance sheet) exceeding 10% of its own funds attributable to 2 entities which accounted for 29.1% of own funds (against the permissible norm of 800%).

A list of the 20 largest borrowers of Bank Zachodni WBK SA Group (performing loans) as at 31.12.2009 (including exposures of individual customers towards subsidiaries of BZ WBK).

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure incl. towards subsidiaries	Committed credit lines, guarantees, treasury limits and capital investments
68	REAL ESTATE SERVICES	861 629	840 677	20 952
68	REAL ESTATE SERVICES	708 252	639 764	68 488
41	CONSTRUCTION	421 171	238 261	182 910
68	REAL ESTATE SERVICES	360 892	315 464	45 428
68	REAL ESTATE SERVICES	358 652	279 780	78 872
41	CONSTRUCTION	357 888	301 617	56 271
68	REAL ESTATE SERVICES	335 301	307 938	27 363
41	CONSTRUCTION	313 954	311 915	2 039
68	REAL ESTATE SERVICES	309 509	231 893	77 616
68	REAL ESTATE SERVICES	303 746	229 323	74 423
68	REAL ESTATE SERVICES	276 241	260 741	15 500
68	REAL ESTATE SERVICES	275 335	241 254	34 081
41	CONSTRUCTION	264 952	230 384	34 568
68	REAL ESTATE SERVICES	255 881	225 842	30 039
41	CONSTRUCTION	233 742	233 742	-
16	PRODUCTION SPECIALISED	210 108	112 755	97 353
43	CONSTRUCTION	207 160	67 433	139 727
41	CONSTRUCTION	203 038	202 781	257
63	INFORMATION	201 129	174 026	27 103
84	ADMINISTRATION	200 000	-	200 000
<b>Total gross exposure</b>		<b>6 658 580</b>	<b>5 445 590</b>	<b>1 212 990</b>

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

The tables below present Group's exposure to credit risk.

**Credit Exposures by classes**

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

	Provision cover	Loans and advances to customers		Loans and advances to banks		Investment securities		Financial assets held for trading*	
		31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008	31.12.2009	31.12.2008
<b>Individually impaired</b>									
	<i>up to 50 %</i>	709 928	305 165						
	<i>50% - 70%</i>	133 609	96 352						
	<i>70% - 85%</i>	15 903	26 284						
	<i>over 85 %</i>	83 929	170 799		5 969				
<b>Gross amount</b>		<b>943 369</b>	<b>598 600</b>	-	<b>5 969</b>	-	-	-	-
Allowance for impairment		(307 410)	(299 339)		(5 969)				
<b>Net amount</b>		<b>635 959</b>	<b>299 261</b>	-	-	-	-	-	-
<b>Collectively impaired</b>									
	<i>up to 50 %</i>	563 703	147 395						
	<i>50% - 70%</i>	120 197	73 444						
	<i>70% - 85%</i>	212 527	109 216						
	<i>over 85 %</i>	117 627	108 522						
<b>Gross amount</b>		<b>1 014 054</b>	<b>438 577</b>	-	-	-	-	-	-
Allowance for impairment		(458 700)	(271 774)						
<b>Net amount</b>		<b>555 354</b>	<b>166 803</b>	-	-	-	-	-	-
<b>Not impaired portfolio (past-due and non-past due)</b>									
	<i>up to 0,10 %</i>	8 379 136	7 873 787	663 027	1 364 543	13 292 572	12 916 041	1 342 620	3 224 867
	<i>0,10% - 0,30%</i>	8 365 331	9 678 028						
	<i>0,30% - 0,65%</i>	5 163 227	6 999 737						
	<i>over 0,65 %</i>	11 763 337	9 930 962						
<b>Gross amount</b>		<b>33 671 031</b>	<b>34 482 514</b>	<b>663 027</b>	<b>1 364 543</b>	<b>13 292 572</b>	<b>12 916 041</b>	<b>1 342 620</b>	<b>3 224 867</b>
Allowance for impairment		(373 566)	(318 170)						
<b>Net amount</b>		<b>33 297 465</b>	<b>34 164 344</b>	<b>663 027</b>	<b>1 364 543</b>	<b>13 292 572</b>	<b>12 916 041</b>	<b>1 342 620</b>	<b>3 224 867</b>
<b>Other receivables</b>		<b>81 919</b>	<b>506 794</b>	-	-	-	-	-	-
<b>Off- balance sheet exposures</b>									
Financing granted		6 345 103	9 528 754						
Guarantees		876 197	901 717						
Nominal value of derivatives -purchased								36 882 698	115 462 834
<b>Off- balance sheet exposure- total</b>		<b>7 221 300</b>	<b>10 430 471</b>	-	-	-	-	<b>36 882 698</b>	<b>115 462 834</b>

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

**IBNR portfolio**

	Loans and advances to customers	
	31.12.2009	31.12.2008
<b>Non-past due</b>	<b>32 294 289</b>	<b>33 175 381</b>
<b>Past-due</b>	<b>1 376 742</b>	<b>1 307 133</b>
<i>1-30 days</i>	1 048 180	1 068 200
<i>31-60 days</i>	243 283	180 260
<i>61-90 days</i>	81 813	55 101
<i>&gt;90 days</i>	3 466	3 572
<b>Gross amount</b>	<b>33 671 031</b>	<b>34 482 514</b>

Portfolio of loans with incurred but not reported losses (IBNR) included loans that in the past had renegotiated terms of agreements. For the current reporting period it was PLN 568 055 k and PLN 104 019 k as at 31.12.2008.

**Allowances for impairment by classes**

Provision cover	Loans and advances to customers		Loans and advances to banks	
	31.12.2009	31.12.2008	31.12.2009	31.12.2008
<b>Individual allowances for impairment</b>				
<i>up to 50 %</i>	(132 917)	(51 924)		
<i>50% - 70%</i>	(79 295)	(56 840)		
<i>70% - 85%</i>	(12 692)	(20 942)		
<i>over 85 %</i>	(82 506)	(169 633)		(5 969)
<b>Total individual allowances for impairment</b>	<b>(307 410)</b>	<b>(299 339)</b>	-	<b>(5 969)</b>
<b>Collective allowances for impairment</b>				
<i>up to 50 %</i>	(112 501)	(33 345)		
<i>50% - 70%</i>	(70 547)	(44 336)		
<i>70% - 85%</i>	(163 156)	(87 211)		
<i>over 85 %</i>	(112 496)	(106 882)		
<b>Total collective allowances for impairment</b>	<b>(458 700)</b>	<b>(271 774)</b>	-	-
<b>IBNR</b>				
<i>up to 0,10 %</i>	(5 643)	(4 346)		
<i>0,10%-0,30%</i>	(14 177)	(19 795)		
<i>0,30%-0,65%</i>	(22 274)	(32 718)		
<i>over 0,65 %</i>	(331 472)	(261 311)		
<b>Total IBNR</b>	<b>(373 566)</b>	<b>(318 170)</b>	-	-
<b>Total allowances for impairment</b>	<b>(1 139 676)</b>	<b>(889 283)</b>	-	<b>(5 969)</b>

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

## Collateral

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

### Individual customers

Type of loan	Type of collateral
Cash loan	bills, guarantees, credit insurance
Credit on liquid assets	guaranty deposit, amounts frozen on account, investment funds
Student loan	sureties
Housing loan	mortgage, credit insurance, transfer of claim
Leasing	bills, guarantees, transfer of rights to bank's account; court registered pledge on movables; deposit mortgage;

### Business customers

Type of loan	Type of collateral
Commercial credit	guaranty deposit, registered pledge, bills
Revolving credit	assignment of credit, bills, guarantees, registered pledge
Building credit	mortgage
Investment credit	mortgage, sureties, warranty
Granted and with supplements	guarantees, warranty
Leasing	bills, guarantees, transfer of rights to bank's account; court registered pledge on movables; deposit mortgage;

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

### Industry concentration

The credit policy of Bank Zachodni WBK Group envisages lending to low risk industries and reduction of exposures to medium and high risk industries. In order to ensure adequate portfolio diversification and control the risk of overexposure to a single industry, the Group provides funding to sectors and groups or capital units representing a variety of industries. As at 31.12.2009, the highest concentration level was recorded in the "property" sector (20% of the BZ WBK Group exposure), "production" (13%) and "construction" (13%).

Groups of PKD by industries:

	Industry	Exposure	
		31.12.2009	31.12.2008 *
	Property	7 235 227	6 912 714
	Production	4 689 363	5 366 549
	Construction	4 811 392	4 937 385
	Distribution	3 833 393	4 122 842
	Transportation	777 504	1 084 463
	Agriculture	811 084	933 419
	Financial sector	649 046	877 210
	Energy	382 949	358 023
	Other industries	1 760 346	1 612 444
<b>A</b>	<b>Total Business Loans</b>	<b>24 950 304</b>	<b>26 205 049</b>
<b>B</b>	<b>Retail (including mortgage loans)</b>	<b>10 678 150</b>	<b>9 314 642</b>
<b>A+B</b>	<b>BZWBK Group portfolio</b>	<b>35 628 454</b>	<b>35 519 691</b>
<b>C</b>	<b>Other receivables (commercial bonds, reverse repo)</b>	<b>81 919</b>	<b>506 794</b>
<b>A+B+C</b>	<b>Total BZ WBK Group</b>	<b>35 710 373</b>	<b>36 026 485</b>

\* 2008 data changed as a result of change in presentation data in carrying value

## Market risk

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

## General principles of market risk management

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

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

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

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

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



Additionally, in order to curtail losses on the trading portfolio, a stop-loss limit is in place, which allows trading positions to be closed in the event of losses exceeding the stated limit. Within the Treasury Division, there is a dedicated market risk control unit responsible to ensure that the risk measurement methodologies used are appropriate for the risk being taken and that risk monitoring and control procedures are in place.

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

## Measurement methods

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

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

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

## Interest rate risk

The risk is that changes in interest rate will have adverse effects on earnings and on the value of BZWBK's assets and liabilities. The main source of interest rate risk are transactions entered in the bank's corporate centres or branches and transactions entered in the money market by the Treasury Division. Additionally, interest rate risk can be generated by transactions concluded by other units, e.g. through acquisition of municipal / commercial bonds, or the bank's borrowings in the interbank market. However all positions which generate a repricing risk are transferred by way of a system of internal contracts to the Treasury Division. Then the bank's dealers are responsible for investing surplus funds in relevant instruments in order to ensure a risk and reward balance for the interest rates affecting the bank's statement of financial position and instruments portfolio.

The bank's subsidiaries also try to mitigate their interest rate risk – if there is a mismatch between the repriced assets and liabilities the companies enter into standard placements or derivative transactions with the bank, which – from the transaction date – manages this risk under a limit approved by the Management Board.

Interest rate risk is managed by setting limits on Value at Risk from the open interest rate risk of Treasury. VaR is determined as a difference between the market value of the interest rate position calculated using the current profitability curve and the worst-case profitability curve, which is based on a volatility of interest rates at a 99% confidence level for a three-year interest rate history. Volatility is based on a one-month position maintenance period. VaR is set both for the trading portfolio and the banking portfolio. The measurement excludes the securities portfolio managed by ALCO and used to hedge against the structural balance sheet risk. A stop-loss limit framework is also used to manage the risk of loss from positions that are subject to mark-to-market accounting. Stress tests are used to supplement above measures by estimating possible losses that may occur under extreme market conditions. These are based on current sensitivity reports and sets of assumed extreme 1 day and 1 month rates movements reported over the last 7 years.

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

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

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

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

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

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

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

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

The structural balance sheet risk is defined as the Bank's sensitivity to income volatility in its non-trading activity arising from movements in interest rates. Interest rate volatility affects the Bank's income from the investment of capital and from free current account balances (net interest rate insensitive liabilities (NIRIL)). The key objective of such approach is to smooth level of Net Interest Income over time.

The supervision role over that risk is also an ALCO responsibility. The level of such risk is closely monitored and actively managed through separate assets portfolios (NIRIL Portfolios): capital NIRIL (funding of capital over the fixed assets), business NIRIL (funding of non interest bearing liabilities). The NIRIL Portfolios consists of safe and liquid assets, which are also treated as liquidity reserve. The decision maker role in relation to those portfolios is taken by ALCO and Treasury executes such decisions.

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

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

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

### ***FX risk***

FX risk is the risk that adverse movements in foreign exchange rates will result in losses. This risk is managed by setting limits on the Value at Risk based on the total open FX position of the bank. VaR is determined by means of a statistical modelling process. VAR is the potential loss on open FX positions at a 99% confidence level where open positions are maintained for 10 business days. Statistical parameters are set on the basis of a 3-year history of exchange rates. Stress tests are used to supplement the above measure by estimating possible losses that may

occur under extreme market conditions. These are based on current FX exposure and assumed extreme rates movements scenarios over the last 3 years (calculations are provided for 1 day and 10 days holding periods).

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

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

Open positions of subsidiaries are negligible and are not included in the daily risk assessment.

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

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

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

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

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

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

31.12.2009	PLN	EUR	CHF	OTHER	TOTAL
<b>ASSETS</b>					
Cash and balances with central bank	2 486 441	101 876	4 785	67 556	2 660 658
Loans and advances to banks	178 321	372 346	26 909	85 451	663 027
Loans and advances to customers	22 438 451	9 245 367	2 282 271	604 608	34 570 697
Investment securities	12 695 810	442 185	-	154 577	13 292 572
<b>Selected assets</b>	<b>37 799 023</b>	<b>10 161 774</b>	<b>2 313 965</b>	<b>912 192</b>	<b>51 186 954</b>
<b>LIABILITIES</b>					
Deposits from central bank	1 519 208	-	-	-	1 519 208
Deposits from banks	1 990 851	1 494 813	34 828	310 284	3 830 776
Deposits from customers	37 162 348	3 001 781	31 295	1 027 447	41 222 871
<b>Selected liabilities</b>	<b>40 672 407</b>	<b>4 496 594</b>	<b>66 123</b>	<b>1 337 731</b>	<b>46 572 855</b>

31.12.2008	PLN	EUR	CHF	OTHER	TOTAL
<b>ASSETS</b>					
Cash and balances with central bank	2 798 697	256 638	7 954	114 818	3 178 107
Loans and advances to banks	1 086 308	135 771	2 982	139 482	1 364 543
Loans and advances to customers	22 834 828	9 086 764	2 425 021	790 589	35 137 202
Investment securities	12 177 768	655 240	-	83 033	12 916 041
<b>Selected assets</b>	<b>38 897 601</b>	<b>10 134 413</b>	<b>2 435 957</b>	<b>1 127 922</b>	<b>52 595 893</b>
<b>LIABILITIES</b>					
Deposits from central banks	1 242 574	-	-	-	1 242 574
Deposits from banks	1 928 298	1 949 447	56 040	161 692	4 095 477
Deposits from customers	38 608 995	2 945 022	41 642	1 215 068	42 810 727
Debt securities in issue	153 918	-	-	-	153 918
<b>Selected liabilities</b>	<b>41 933 785</b>	<b>4 894 469</b>	<b>97 682</b>	<b>1 376 760</b>	<b>48 302 696</b>

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

### ***Price risk of equity instruments portfolio***

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

This risk is measured based on industry standard Value at Risk.

In October 2008, the variance-covariance risk assessment method was substituted by the historical analysis method, in which Value at Risk is determined by the distribution of 250 historical changes in the current portfolio value. Variability is defined as a respective percentile of the distribution. The advantage of the new method is a more precise measurement of risk, taking into account the spread between particular forward positions in the portfolio. The historical method is supplemented by the stress tests.

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

The table below presents risk levels in 2009 and comparable period:

Equity Risk (PLN k)	<i>Value at Risk</i>		<i>Stress Scenario</i>	
1 month holding period:	<i>2009</i>	<i>2008*</i>	<i>2009</i>	<i>2008*</i>
<i>Average</i>	1 030	1 172	2 144	2 076
<i>High</i>	5 168	3 217	12 282	6 784
<i>Low</i>	49	43	63	55
<i>31<sup>st</sup> December</i>	630	143	696	544

\* values calculated by using the new method of risk measurement (historical analysis)

BH operates within an operational limit that has been increased up to PLN 5 000 k in 2009. Once off excess above the VaR limit has been rectified and reported to relevant Bank's Units.

## **Liquidity Risk**

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

### ***Liquidity Risk Management***

The BZ WBK Group Liquidity Management Policy is designed to:

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

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

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

### ***Management and Reporting***

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

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

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

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

***Risk Assessment***

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

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

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

***Risk Assessment***

Liquidity profile as at 31.12.2009 and 31.12.2008:

31.12.2009	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	total
Cash and balances with central banks	2 660 658	-	-	-	-	-	-	2 660 658
Loans and advances to bank	653 748	-	-	9 278	1	-	-	663 027
Financial assets held for trading	487 904	136 629	282 993	182 229	115 203	90 995	46 667	1 342 620
Loans and advances to customers	2 465 765	2 259 389	8 203 478	9 083 657	5 159 576	8 538 508	(1 139 676)	34 570 697
Investment securities	49 876	1 743 454	1 589 738	4 479 935	2 771 513	1 992 640	665 416	13 292 572
Other items	-	-	-	-	-	-	1 528 786	1 528 786
<b>Long position</b>	<b>6 317 951</b>	<b>4 139 472</b>	<b>10 076 209</b>	<b>13 755 099</b>	<b>8 046 293</b>	<b>10 622 143</b>	<b>1 101 193</b>	<b>54 058 360</b>
Deposits from Central Bank and banks	2 268 025	1 108 071	1 594 365	357 253	12 286	9 984	-	5 349 984
Financial liabilities held for trading	52 811	109 628	341 767	110 481	60 952	58 222	-	733 861
Deposits from customers	27 157 382	8 182 487	4 732 946	1 033 820	113 948	2 288	-	41 222 871
Other items	-	-	-	-	-	-	6 751 644	6 751 644
<b>Short position</b>	<b>29 478 218</b>	<b>9 400 186</b>	<b>6 669 078</b>	<b>1 501 554</b>	<b>187 186</b>	<b>70 494</b>	<b>6 751 644</b>	<b>54 058 360</b>
<b>Gap-balance sheet</b>	<b>(23 160 267)</b>	<b>(5 260 714)</b>	<b>3 407 131</b>	<b>12 253 545</b>	<b>7 859 107</b>	<b>10 551 649</b>	<b>(5 650 451)</b>	
<b>Contingent liabilities- sanctioned</b>								
Financing related	473 643	633 233	3 741 833	863 509	123 898	522 896	(13 909)	<b>6 345 103</b>
Guarantees	39 914	102 024	222 681	463 236	45 178	4 808	(1 644)	<b>876 197</b>
<b>Derivatives settled in gross terms</b>								
Inflows	4 857 751	2 001 095	3 168 144	572 313	702 425	902 592	-	<b>12 204 320</b>
Outflows	4 807 501	2 012 709	3 267 617	572 498	658 082	902 350	-	<b>12 220 757</b>
<b>Gap – off-balance sheet</b>	<b>(463 307)</b>	<b>(746 871)</b>	<b>(4 063 987)</b>	<b>(1 326 930)</b>	<b>(124 733)</b>	<b>(527 462)</b>	<b>15 553</b>	



31.12.2008	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	total
Cash and balances with central banks	3 178 107	-	-	-	-	-	-	3 178 107
Loans and advances to bank	1 214 633	141 342	-	8 568	-	-	-	1 364 543
Financial assets held for trading	396 879	580 752	1 589 727	408 857	106 242	139 768	2 642	3 224 867
Loans and advances to customers	2 022 186	2 369 861	7 818 786	9 408 624	5 037 030	9 369 998	(889 283)	35 137 202
Investment securities	15 956	599 846	2 604 010	3 441 705	4 080 804	1 518 129	655 591	12 916 041
Other items	-	-	-	-	-	-	1 612 309	1 612 309
<b>Long position</b>	<b>6 827 761</b>	<b>3 691 801</b>	<b>12 012 523</b>	<b>13 267 754</b>	<b>9 224 076</b>	<b>11 027 895</b>	<b>1 381 259</b>	<b>57 433 069</b>
Deposits from Central Bank and banks	2 036 229	1 318 739	526 526	1 338 669	107 914	9 974	-	5 338 051
Financial liabilities held for trading	739 379	569 451	1 153 673	515 704	92 033	83 692	-	3 153 932
Deposits from customers	30 705 400	8 841 754	2 682 976	433 786	146 799	12	-	42 810 727
Debt securities in issue	-	69 142	84 974	-	-	-	(198)	153 918
Other items	-	-	-	-	-	-	5 976 441	5 976 441
<b>Short position</b>	<b>33 481 008</b>	<b>10 799 086</b>	<b>4 448 149</b>	<b>2 288 159</b>	<b>346 746</b>	<b>93 678</b>	<b>5 976 243</b>	<b>57 433 069</b>
<b>Gap-balance sheet</b>	<b>(26 653 247)</b>	<b>(7 107 285)</b>	<b>7 564 374</b>	<b>10 979 595</b>	<b>8 877 330</b>	<b>10 934 217</b>	<b>(4 594 984)</b>	
<b>Contingent liabilities- sanctioned</b>								
Financing related	286 259	665 912	3 736 426	2 870 291	649 283	1 330 152	(9 569)	<b>9 528 754</b>
Guarantees	63 263	120 909	263 998	312 785	137 475	5 694	(2 407)	<b>901 717</b>
<b>Derivatives settled in gross terms</b>								
Inflows	6 825 726	3 473 051	5 673 685	1 254 096	44 325	215 983	-	<b>17 486 866</b>
Outflows	7 076 843	3 601 837	5 783 481	1 411 690	38 059	191 366	-	<b>18 103 276</b>
<b>Gap – off-balance sheet</b>	<b>(600 639)</b>	<b>(915 607)</b>	<b>(4 110 220)</b>	<b>(3 340 670)</b>	<b>(780 492)</b>	<b>(1 311 229)</b>	<b>11 976</b>	

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

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

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

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

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

### **Derivative transactions connected with market risks**

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

Individual types of transactions are characterised below:

#### **FX transactions**

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

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

## Interest transactions

The Group enters into the following interest rate transactions:

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

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

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

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

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

## Capital Management

### Introduction

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

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

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

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

The Management Board delegated on-going capital management to ICAAP/ALCO Forum. This body is responsible for tracking the actual and required capital levels and initiates transactions affecting these levels (e.g. by recommending the value of dividends to be paid). The ALCO/ICAAP Forum is the first body in the bank to define capital policy and rules for assessment of capital adequacy both for the bank and the Group. It also approves capital plans and sets out rules underpinning allocation of capital into individual segments when estimating

profitability of the same. However, any ultimate decisions regarding increase or decrease of capital are taken by relevant authorities of the bank in accordance with the applicable law and the bank's Statutes.

### **Capital Policy**

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

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

At the same time Tier 1 capital ratio (core equity capital to Risk Weighted Assets for credit, market and operational risk) should be maintained at a minimum level of 8% both for the bank and the Group (an additional requirement may be also applied here, as part of SREP process of Pillar 2).

### **Solvency Ratio**

The risks under Pillar 1 and the minimum capital required for such risks are assessed in a quantitative method. The bank uses regulatory approaches to the measurement of these risks, applying precisely defined rules and parameters to calculate the capital requirement needed to cover the risks. In 2009 and 2008, with regard to:

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

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

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

		PLN k	31.12.2009	31.12.2008
<b>I</b>	<b>Total Capital requirement (Ia+Ib+Ic+Id)</b>		<b>3 332 447</b>	<b>3 532 896</b>
	Incl.:			
Ia	- due to credit risk		2 834 737	3 001 689
Ib	- due to market risk		17 720	20 830
Ic	- due to settlement / counterparty risk		41 983	116 691
Id	- due to operational risk		438 007	393 686
II	Total own funds		5 652 078	4 886 845
III	Reductions		249 895	143 276
<b>IV</b>	<b>Own funds after reductions (II+III)</b>		<b>5 402 183</b>	<b>4 743 569</b>
<b>V</b>	<b>CAD [IV/(I*12.5)]</b>		<b>12,97%</b>	<b>10,74%</b>

### **Internal Capital**

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

A key element of Pillar 2 is the internal capital adequacy assessment process (ICAAP). Under this process the bank is required to estimate (determine), allocate and maintain the required level of internal capital to ensure

secure conduct of its banking business, taking into account the bank's risk profile set out in the Risk Appetite Statement.

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

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

## **Legal & compliance risk**

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

### **Risk Identification & Assessment**

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

The scope of the Compliance Area responsibilities relates to "conduct of business" compliance obligations, including anti-money laundering, protection of sensitive information and personal data. The identification, interpretation and communication roles relating to other legal and regulatory obligations have been assigned to functions with specialist knowledge in those areas.

All issues regarding compliance with employment law is assigned to HR Management Division, taxation law to Financial Division and prudential regulation to Financial Division & Risk Management Division in respective aspects.

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

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

## **Risk management and mitigation**

The Bank Management Board adopted a policy statement on compliance with legal & regulatory obligations which was then approved by the Supervisory Board. The policy mandates the Compliance Area and ensures its sufficient independence to support management in effective compliance risk management. Every six months, the Audit Committee reviews key compliance risks to assess the extent to which they are being managed effectively. The Risk Management Committee ensures execution of applicable regulations and approves principles of internal control and compliance policy framework. It also ensures independence & sufficient resources of the Compliance Area. The Compliance Area major responsibilities include:

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

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

## **Risk monitoring & reporting**

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

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

## 5. Net interest income

<b>Interest and similar income</b>	<b>01.01-31.12.2009</b>	<b>01.01-31.12.2008</b>
Loans and advances to enterprises	1 286 163	1 403 175
Loans and advances to individuals of which:	919 215	745 966
<i>Mortgage loans</i>	<i>278 119</i>	<i>299 277</i>
Debt securities incl.:	739 254	602 740
<i>Investment portfolio held to maturity</i>	<i>376 940</i>	<i>90 252</i>
<i>Investment portfolio available for sale</i>	<i>316 303</i>	<i>487 932</i>
<i>Trading portfolio</i>	<i>46 011</i>	<i>24 556</i>
Leasing agreements	192 085	226 053
Loans and advances to banks	71 880	174 861
Other from public sector	18 860	32 296
Reverse repo transactions	14 951	42 907
Interest recorded on hedging IRS	(16 320)	4 126
<b>Total</b>	<b>3 226 088</b>	<b>3 232 124</b>
<b>Interest expense and similar charges</b>	<b>01.01-31.12.2009</b>	<b>01.01-31.12.2008</b>
Deposits from individuals	(976 496)	(798 347)
Deposits from enterprises	(375 410)	(401 981)
Repo transactions	(131 037)	(107 823)
Public sector	(94 693)	(98 338)
Deposits from banks	(82 433)	(174 809)
Debt securities in issue	(2 828)	(15 721)
<b>Total</b>	<b>(1 662 897)</b>	<b>(1 597 019)</b>
<b>Net interest income</b>	<b>1 563 191</b>	<b>1 635 105</b>

As at 31 December 2009 net interest income includes interest on impaired loans of PLN 92 356 k (as at 31.12.2008 - PLN 58 117 k).

## 6. Net fee and commission income

<b>Fee and commission income</b>	<b>01.01-31.12.2009</b>	<b>01.01-31.12.2008</b>
eBusiness & payments	370 585	313 145
Current accounts and money transfer	250 732	232 504
Asset management fees	277 283	429 135
Foreign exchange commissions	226 534	235 014
Brokerage commissions	123 076	126 932
Credit commissions (including factoring)	101 429	80 643
Insurance commissions	75 586	74 737
Credit cards	68 250	54 733
Off-balance sheet guarantee commissions	11 767	12 550
Other distribution-related fee	10 296	20 190
Distribution fees due to asset management	8 662	15 846
Issue arrangement	6 147	8 557
Finance lease commissions	3 729	800
Other commissions	1 489	1 883
<b>Total</b>	<b>1 535 565</b>	<b>1 606 669</b>
<b>Fee and commission expense</b>	<b>01.01-31.12.2009</b>	<b>01.01-31.12.2008</b>
eBusiness & payments	(97 450)	(76 470)
Distribution fees	(32 423)	(53 147)
Brokerage commissions	(24 558)	(20 704)
Commissions paid to credit agents	(17 708)	(25 829)
Asset management fees and other costs	(17 048)	(25 816)
Credit cards	(7 084)	(8 054)
Finance lease commissions	(6 860)	(6 593)
Insurance commissions	-	(2 640)
Other	(16 970)	(13 601)
<b>Total</b>	<b>(220 101)</b>	<b>(232 854)</b>
<b>Net commission income</b>	<b>1 315 464</b>	<b>1 373 815</b>

Included above is fee and commission income on credits, credits cards, off-balance sheet guarantees and finance leases of PLN 185 175 k (31.12..2008: PLN 148 726 k) and fee and commission expenses on credit cards, finance leases and paid to credit agents of PLN (31 652) k (31.12.2008: PLN (40 476) k) other than fees included in determining the effective interest rate, relating to financial assets and liabilities not carried at fair value through profit and loss.

## 7. Dividend income

<b>Dividend income</b>	<b>01.01-31.12.2009</b>	<b>01.01-31.12.2008</b>
Dividends from investment portfolio entities	94 271	68 249
Dividends from trading portfolio entities	2 321	2 057
<b>Total</b>	<b>96 592</b>	<b>70 306</b>

## 8. Net trading income and revaluation

<b>Net trading income and revaluation</b>	<b>01.01-31.12.2009</b>	<b>01.01-31.12.2008</b>
Profit on interbank FX transactions	151 481	59 177
Profit/(loss) on derivative instruments	73 951	(40 875)
Other FX related income	31 274	22 993
Profit on market maker activity	11 046	9 298
Profit on debt instruments	2 504	2 209
<b>Total</b>	<b>270 256</b>	<b>52 802</b>

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

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

In comparable period there were no such adjustments.

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

<b>Gains (losses) from other financial securities</b>	<b>01.01-31.12.2009</b>	<b>01.01-31.12.2008</b>
Profit on equity shares	3 561	67 196
Loss on debt securities	(7 223)	(11 735)
Charge due to impairment losses	-	(110)
<b>Total profit (losses) on financial instruments</b>	<b>(3 662)</b>	<b>55 351</b>
Change in fair value of hedging instruments	17 443	(34 388)
Change in fair value of underlying hedged positions	(19 866)	37 189
<b>Total profit (losses) on hedging and hedged instruments</b>	<b>(2 423)</b>	<b>2 801</b>
<b>Total</b>	<b>(6 085)</b>	<b>58 152</b>

## 10. Net (loss)/gains on sale of subsidiaries and associates

<b>Net (loss)/gains on sale of subsidiaries and associates</b>	<b>01.01-31.12.2009</b>	<b>01.01-31.12.2008</b>
Sale of subsidiaries	-	520
Sale of associates	-	(716)
<b>Total</b>	<b>-</b>	<b>(196)</b>

Additional information about acquisitions and disposals of investments is available in note 48.

## 11. Other operating income

<b>Other operating income</b>	<b>01.01-31.12.2009</b>	<b>01.01-31.12.2008</b>
Income on sale of services	13 425	32 926
Release of provision for legal cases and other assets	12 959	9 440
Reimbursements of BGF charges	5 826	1 657
Recovery of other receivables	3 981	2 610
Insurance indemnity received	2 280	1 957
Settlements of stock-exchange dealings	1 315	1 366
Settlements of leasing agreements	1 070	470
Financing premium from EBRD	960	1 351
Bailiff reimbursement	825	860
Other	7 061	15 362
<b>Total</b>	<b>49 702</b>	<b>67 999</b>



**12. Impairment losses on loans and advances**

<b>Impairment losses on loans and advances</b>	<b>01.01-31.12.2009</b>	<b>01.01-31.12.2008</b>
Collective and individual impairment charge	(438 698)	(192 276)
Incurred but not reported losses charge	(56 297)	(176 061)
Recoveries of loans previously written off	17 458	10 205
Off balance sheet credit related items	(3 497)	(6 419)
<b>Total</b>	<b>(481 034)</b>	<b>(364 551)</b>

**13. Employee costs**

<b>Employee costs</b>	<b>01.01-31.12.2009</b>	<b>01.01-31.12.2008</b>
Salaries and bonuses	(747 164)	(735 771)
Salary related costs	(113 200)	(104 310)
Staff benefits costs	(20 782)	(21 208)
Professional trainings	(9 474)	(24 062)
Retirement fund, holiday provisions and other employee-related costs	1 282	(11 041)
<b>Total</b>	<b>(889 338)</b>	<b>(896 392)</b>

**14. General and administrative expenses**

<b>General and administrative expenses</b>	<b>01.01-31.12.2009</b>	<b>01.01-31.12.2008</b>
Maintenance and rentals of premises	(199 243)	(159 423)
IT systems costs	(88 395)	(89 943)
Marketing and representation	(73 618)	(105 275)
Postal and telecommunication costs	(53 349)	(54 402)
Car, transport expenses, carriage of cash	(30 782)	(31 922)
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities	(26 369)	(16 429)
Other external services	(25 625)	(33 848)
Stationery, cards, cheques etc.	(19 192)	(24 841)
Consulting fees	(18 734)	(37 617)
Data transmission	(16 760)	(16 825)
Sundry taxes	(16 171)	(18 069)
KIR, SWIFT settlements	(12 583)	(11 776)
Security costs	(12 324)	(12 511)
Costs of repairs	(5 672)	(18 095)
Other	(10 161)	(19 806)
<b>Total</b>	<b>(608 978)</b>	<b>(650 782)</b>

**15. Other operating expenses**

<b>Other operating expenses</b>	<b>01.01-31.12.2009</b>	<b>01.01-31.12.2008</b>
Charge of provisions for legal cases and other assets	(5 156)	(5 482)
Debt recovery costs	(2 739)	(1 540)
Donation paid	(1 564)	(1 645)
Costs of legal proceedings	(1 443)	(1 066)
Costs of purchased services	(1 255)	(283)
Losses from past-due receivables	(1 156)	(1 106)
Paid compensations, penalties and fines	(999)	(1 536)
Other	(8 663)	(14 912)
<b>Total</b>	<b>(22 975)</b>	<b>(27 570)</b>

## 16. Corporate income tax

Income tax charge	01.01-31.12.2009	01.01-31.12.2008
Current tax charge	(306 791)	(298 358)
Deferred tax charge	83 959	42 064
<b>Total</b>	<b>(222 832)</b>	<b>(256 294)</b>

Corporate total tax charge information	01.01-31.12.2009	01.01-31.12.2008
Profit before tax	1 162 988	1 210 580
Tax rate	19%	19%
Tax calculated at the tax rate	(220 968)	(230 010)
Non tax-deductible expenses	(6 392)	(12 464)
Loss on sale of receivables	(11 872)	(6 958)
Non-taxable income (dividends)	17 867	397
Other:		
- write-offs on receivables	(2 049)	(1 128)
- other non tax-deductible costs	-	(4 494)
- other	582	(1 637)
<b>Total income tax expense</b>	<b>(222 832)</b>	<b>(256 294)</b>

Deferred tax recognised directly in equity	31.12.2009	31.12.2008
As at 31 December the amount of deferred tax recognised directly in equity totaled:		
Relating to equity securities available-for-sale	(96 995)	(97 298)
Relating to debt securities available-for-sale	(1 166)	13 604
Relating to cash flow hedging activity	(450)	5 787
	<b>(98 611)</b>	<b>(77 907)</b>

## 17. Earning per share

Earning per share	01.01-31.12.2009	01.01-31.12.2008
Profit attributable to ordinary shares	886 192	855 446
Weighted average number of ordinary shares	73 076 013	72 960 284
<b>Basic earnings per share (PLN)</b>	<b>12,13</b>	<b>11,72</b>
Profit attributable to ordinary shares	886 192	855 446
Weighted average number of ordinary shares	73 076 013	72 960 284
Weighted average number of potential ordinary shares	309 001	298 400
<b>Diluted earnings per share (PLN)</b>	<b>12,08</b>	<b>11,68</b>

## 18. Cash and balances with central banks

Cash and balances with central banks	31.12.2009	31.12.2008
Current accounts in central banks	1 697 190	2 004 861
Cash	963 465	1 173 243
Equivalents of cash	3	3
<b>Total</b>	<b>2 660 658</b>	<b>3 178 107</b>

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

## 19. Loans and advances to banks

Loans and advances to banks	31.12.2009	31.12.2008
Loans and advances	596 793	831 331
Reverse-repo transactions	-	518 826
Current accounts	66 234	20 355
<b>Gross receivables</b>	<b>663 027</b>	<b>1 370 512</b>
Impairment write down	-	(5 969)
<b>Total</b>	<b>663 027</b>	<b>1 364 543</b>

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

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

## 20. Financial assets and liabilities held for trading

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

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

Financial assets and liabilities held for trading	31.12.2009		31.12.2008	
	Assets	Liabilities	Assets	Liabilities
<b>Trading derivatives</b>	<b>707 795</b>	<b>733 861</b>	<b>2 353 619</b>	<b>3 153 932</b>
<b>Interest rate transactions</b>	<b>289 497</b>	<b>304 699</b>	<b>906 590</b>	<b>884 101</b>
Options	-	-	8	8
IRS	281 105	295 221	664 182	637 919
FRA	8 392	9 478	242 400	246 174
<b>Currency derivatives</b>	<b>418 298</b>	<b>429 162</b>	<b>1 447 029</b>	<b>2 269 831</b>
CIRS	128 700	289 168	63 259	410 610
Forward	58 527	29 198	352 024	210 347
FX Swap	165 554	46 239	683 470	1 259 958
Spot	1 003	1 325	4 182	3 787
Options	64 514	63 232	344 094	385 129
<b>Debt and equity securities</b>	<b>634 825</b>	<b>-</b>	<b>871 248</b>	<b>-</b>
Debt securities	587 097	-	868 605	-
Government securities:	187 369	-	868 583	-
- bills	71 808	-	549 120	-
- bonds	115 561	-	319 463	-
Central Bank securities:	399 728	-	-	-
- bills	399 728	-	-	-
Other securities:	-	-	22	-
- bonds	-	-	22	-
Equity securities:	47 728	-	2 643	-
- listed	47 728	-	2 643	-
<b>Total financial assets/liabilities</b>	<b>1 342 620</b>	<b>733 861</b>	<b>3 224 867</b>	<b>3 153 932</b>

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

In comparable period there were no such adjustments.

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

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

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

All financial assets measured at fair value through profit and loss are assigned to this category due to the trading character of the transactions. At 31.12.2009 and in comparable periods there were no cases of instruments designated to financial assets measured at fair value through profit and loss at initial recognition.

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

<b>Derivatives' nominal values</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
<b>1. Term derivatives (hedging)</b>	<b>1 773 682</b>	<b>2 704 674</b>
a) Single-currency interest rate swaps	573 682	1 854 674
b) Macro cash flow hedge	1 200 000	850 000
<b>2. Term derivatives (trading)</b>	<b>50 171 003</b>	<b>139 222 595</b>
a) Interest rate operations	22 490 837	91 494 888
- Single-currency IRS	18 480 996	47 134 667
- FRA - purchased amounts	4 000 000	44 350 000
- Options	9 841	10 221
b) FX operations	27 680 166	47 727 707
- FX swap – purchased amounts	7 219 044	14 425 872
- FX swap – sold amounts	7 094 264	14 983 627
- Forward- purchased amounts	1 345 501	3 696 166
- Forward- sold amounts	1 309 044	3 538 979
- Double-currency interest rate swaps – purchased amounts	4 216 324	2 500 262
- Double-currency interest rate swaps – sold amounts	4 393 303	2 849 197
- FX options -purchased	1 051 343	2 866 802
- FX options -sold	1 051 343	2 866 802
<b>3. Currency transactions- spot</b>	<b>1 119 621</b>	<b>957 290</b>
spot-purchased	559 649	478 844
spot-sold	559 972	478 446
<b>4. Transactions on equity instruments</b>	<b>47 938</b>	<b>928</b>
Futures	47 938	928
<b>Total</b>	<b>53 112 244</b>	<b>142 885 487</b>

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

## 21. Hedging derivatives

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

## 22. Loans and advances to customers

<b>Loans and advances to customers</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
Loans and advances to enterprises	22 265 448	23 289 013
Loans and advances to individuals, of which:	10 632 415	9 239 641
<i>Home mortgage loans</i>	<i>6 062 546</i>	<i>5 450 515</i>
Finance lease receivables	2 706 516	2 959 037
Loans and advances to public sector	83 106	85 668
Reverse-repo transactions	10 083	441 783
Other	12 805	11 343
<b>Gross receivables</b>	<b>35 710 373</b>	<b>36 026 485</b>
Impairment losses in loans and advances to customers	(1 139 676)	(889 283)
<b>Total</b>	<b>34 570 697</b>	<b>35 137 202</b>

As at 31.12.2009 the fair value adjustment due to hedged risk on corporate loans was PLN 1 565 k (as at 31.12.2008 - PLN 1 607 k). Finance lease receivables are presented in additional note 44. Fair value of loans and advances to customers is presented in note 40.

<b>Movements on impairment losses on loans and advances to customers</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
<b>Individual and collective impairment</b>		
As at the beginning of the period	(571 113)	(439 545)
Charge/write back of current period	(438 698)	(192 276)
Write off's	250 992	65 646
Transfer	(10 866)	480
Impact of exchange rate	3 575	(5 418)
<b>Balance at the end of the period</b>	<b>(766 110)</b>	<b>(571 113)</b>

<b>IBNR</b>		
As at the beginning of the period	(318 170)	(145 423)
Charge/write back of current period	(56 297)	(176 061)
Transfer	-	3 723
Impact of exchange rate	901	(409)
<b>Balance at the end of the period</b>	<b>(373 566)</b>	<b>(318 170)</b>
<b>Total</b>	<b>(1 139 676)</b>	<b>(889 283)</b>

### 23. Investment securities available for sale

Investment securities available for sale	31.12.2009	31.12.2008
<b>Available for sale investments - measured at fair value</b>	<b>6 623 017</b>	<b>6 527 764</b>
<b>Debt securities:</b>	<b>5 957 601</b>	<b>5 872 173</b>
Government securities:	5 873 630	5 092 878
- bills	1 105 854	1 369 842
- bonds	4 767 776	3 723 036
Central Bank securities:	-	599 731
- bonds	-	599 731
Commercial securities:	83 971	179 564
- bonds	83 971	179 564
<b>Equity securities</b>	<b>613 011</b>	<b>606 319</b>
- listed	24 151	22 014
- unlisted	588 860	584 305
<b>Investment certificates</b>	<b>52 405</b>	<b>49 272</b>
<b>Total</b>	<b>6 623 017</b>	<b>6 527 764</b>

As at 31.12.2009 fixed interest rate debt securities measured at fair value amount to PLN 5 208 458 k, variable interest rate securities amount to PLN 749 143 k.

As at 31.12.2008 fixed interest rate debt securities measured at fair value amount to PLN 4 244 739 k, variable interest rate securities amount to PLN 1 627 434 k.

As at 31.12.2009 fair value adjustment resulting from fair value hedge on available for sale bonds totaled PLN (1 510) k (as at 31.12.2008: PLN 27 300 k)

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

Fair value of "Investment securities available for sale" is presented in note 40.

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
<b>As at 1 January 2009</b>	<b>5 872 173</b>	<b>655 591</b>	<b>6 527 764</b>
Additions	4 341 806	6 457	4 348 263
Disposals (sale and maturity)	(4 275 978)	(6 105)	(4 282 083)
Fair value adjustment (AFS)	28 313	8 684	36 997
Movements on interest accrued	17 178	-	17 178
F/X differences	(25 891)	789	(25 102)
<b>As at 31 December 2009</b>	<b>5 957 601</b>	<b>665 416</b>	<b>6 623 017</b>

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
<b>As at 1 January 2008</b>	<b>9 052 095</b>	<b>711 574</b>	<b>9 763 669</b>
Additions	5 127 467	32 649	5 160 116
Transfers	-	975	975
Disposals (sale and maturity)	(2 261 845)	(85 413)	(2 347 258)
Fair value adjustment (AFS)	78 801	(4 915)	73 886
Movements on interest accrued	134 149	-	134 149
Provision for impairment	-	(125)	(125)
F/X differences	148 079	846	148 925
Reclassification*	(6 406 573)	-	(6 406 573)
<b>As at 31 December 2008</b>	<b>5 872 173</b>	<b>655 591</b>	<b>6 527 764</b>

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

## 24. Financial assets held to maturity

Financial assets held to maturity	31.12.2009	31.12.2008
Government securities:	6 669 555	6 388 277
-bonds	6 669 555	6 388 277
<b>Total</b>	<b>6 669 555</b>	<b>6 388 277</b>

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

Movements on financial assets held to maturity	31.12.2009	31.12.2008
<b>As at 1 January</b>	<b>6 388 277</b>	-
Additions	553 616	-
Disposals (sale and maturity)	(300 361)	-
Reclassification*	-	6 406 573
Fair value amortisation	13 498	3 049
Movement on interest accrued	14 525	(21 345)
<b>As at end of reporting period</b>	<b>6 669 555</b>	<b>6 388 277</b>

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

## 25. Investments in associates and joint ventures

Investment in associates and joint ventures	31.12.2009	31.12.2008
Associates	50 610	40 107
Joint ventures	31 277	32 114
<b>Total</b>	<b>81 887</b>	<b>72 221</b>

Movements on investments in associates and joint ventures	31.12.2009	31.12.2008
<b>As at 1 January</b>	<b>72 221</b>	<b>37 128</b>
Share of profits/(losses)	(334)	(777)
Transfers	-	2 225
Sale/acquisition	10 000	33 645
<b>As at the end of the period</b>	<b>81 887</b>	<b>72 221</b>

Fair value of investments in associates and joint venture is presented in note 40. Details of sale/acquisition of associates and joint ventures are disclosed in note 48.

## Investments in associates and joint ventures as at 31.12.2009

Name of entity	POLFUND - Fundusz Poręczeń Kredytowych S.A.*	BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Metrohouse S.A.*	Krynicki Recykling S.A.**	Total
<b>registered office</b>	Szczecin	Poznań	Poznań	Warszawa	Olsztyn	
<b>type of connection</b>	associate	joint venture	joint venture	associate	associate	
<b>% of holding***</b>	50,00	50,00	50,00	35,38	30,37	
<b>balance sheet value</b>	36 373	12 872	18 405	4 084	10 153	<b>81 887</b>
<b>total assets</b>	79 575	239 349	145 609	3 495	n/a	<b>468 028</b>
<b>own funds of entity, of which:</b>	72 746	25 744	36 809	1 662	18 514	<b>155 475</b>
share capital	16 000	21 750	27 000	650	n/a	65 400
other own funds, of which:	56 746	3 994	9 809	1 012	n/a	71 561
from previous years	-	(1 014)	(2 414)	(756)	n/a	(4 184)
net profit (loss)	1 827	(2 641)	3 205	188	836	3 415
<b>liabilities of entity</b>	6 829	213 605	108 800	1 833	n/a	<b>331 067</b>
<b>revenues</b>	7 893	176 768	62 213	5 838	n/a	<b>252 712</b>
<b>costs</b>	5 438	179 770	58 240	5 652	n/a	<b>249 100</b>

\* financial highlights as at end of November 2009

\*\*financial highlights as at end of September 2009

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

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

## Investments in associates and joint ventures as at 31.12.2008

Name of entity	POLFUND - Fundusz Poręczeń Kredytowych S.A.*	BZ WBK CU Towarzystwo Ubezpieczeń na Życie S.A.*	BZ WBK CU Towarzystwo Ubezpieczeń Ogólnych S.A.*	Metrohouse S.A.*	Total
<b>registered office</b>	Szczecin	Poznań	Poznań	Warszawa	
<b>type of connection</b>	associate	joint venture	joint venture	associate	
<b>% of holding**</b>	50,00	50,00	50,00	35,38	
<b>balance sheet value</b>	35 964	17 082	15 032	4 143	<b>72 221</b>
<b>total assets</b>	75 781	104 209	61 354	3 362	<b>244 706</b>
<b>own funds of entity, of which:</b>	21 929	30 064	34 164	2 285	<b>88 442</b>
share capital	16 000	21 750	27 000	500	65 250
other own funds, of which:	5 929	8 314	7 164	1 785	23 192
from previous years	2 638	-	-	(756)	1 882
net profit (loss)	2 817	1 049	(1 854)	(460)	1 552
<b>liabilities of entity</b>	53 852	74 145	27 190	1 077	156 264
<b>revenues</b>	5 961	58 090	42 428	4 342	<b>110 821</b>
<b>costs</b>	2 163	57 041	44 283	4 802	<b>108 289</b>

\* financial highlights as at end of November 2008

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

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

## 26. Intangible assets

Intangible assets Year 2009	Licences, patents etc.	Other	Capital expenditures	Total
<b>Gross value - beginning of the period</b>	<b>551 999</b>	<b>8 032</b>	<b>93 634</b>	<b>653 665</b>
<b>Additions from:</b>				
- purchases	-	-	41 016	<b>41 016</b>
- intangible assets taken for use	60 725	-	-	<b>60 725</b>
<b>Disposals from:</b>				
- liquidation	(5 423)	-	-	<b>(5 423)</b>
- intangible assets taken for use	-	-	(60 725)	<b>(60 725)</b>
- transfers	-	-	(167)	<b>(167)</b>
<b>Gross value - end of the period</b>	<b>607 301</b>	<b>8 032</b>	<b>73 758</b>	<b>689 091</b>
<b>Accumulated depreciation - beginning of the period</b>	<b>(468 051)</b>	<b>(7 853)</b>	<b>(3 827)</b>	<b>(479 731)</b>
<b>Additions/disposals from:</b>				
- current year	(33 033)	(130)	-	<b>(33 163)</b>
- liquidation	1 596	-	3 827	<b>5 423</b>
<b>Accumulated depreciation - end of the period</b>	<b>(499 488)</b>	<b>(7 983)</b>	<b>-</b>	<b>(507 471)</b>
<b>Balance sheet value</b>				
Purchase value	607 301	8 032	73 758	<b>689 091</b>
Accumulated depreciation	(499 488)	(7 983)	-	<b>(507 471)</b>
<b>As at 31 December 2009</b>	<b>107 813</b>	<b>49</b>	<b>73 758</b>	<b>181 620</b>



<b>Intangible assets Year 2008</b>	<b>Licences, patents etc.</b>	<b>Other</b>	<b>Capital expenditures</b>	<b>Total</b>
<b>Gross value - beginning of the period</b>	<b>508 575</b>	<b>8 030</b>	<b>56 399</b>	<b>573 004</b>
<b>Additions from:</b>				
- purchases	-	-	87 182	<b>87 182</b>
- intangible assets taken for use	49 580	2	-	<b>49 582</b>
<b>Disposals from:</b>				
- liquidation	(6 153)	-	-	<b>(6 153)</b>
- intangible assets taken for use	-	-	(49 582)	<b>(49 582)</b>
- transfers	-	-	(365)	<b>(365)</b>
- other	(3)	-	-	<b>(3)</b>
<b>Gross value - end of the period</b>	<b>551 999</b>	<b>8 032</b>	<b>93 634</b>	<b>653 665</b>
<b>Accumulated depreciation - beginning of the period</b>	<b>(450 003)</b>	<b>(7 721)</b>	<b>-</b>	<b>(457 724)</b>
<b>Additions/disposals from:</b>				
- current year	(22 438)	(132)	-	<b>(22 570)</b>
- liquidation	4 389	-	-	<b>4 389</b>
- other	1	-	-	<b>1</b>
Write down/Reversal of impairment write down	-	-	(3 827)	<b>(3 827)</b>
<b>Accumulated depreciation- end of the period</b>	<b>(468 051)</b>	<b>(7 853)</b>	<b>(3 827)</b>	<b>(479 731)</b>
<b>Balance sheet value</b>				
Purchase value	551 999	8 032	93 634	<b>653 665</b>
Accumulated depreciation	(468 051)	(7 853)	(3 827)	<b>(479 731)</b>
<b>As at 31 December 2008</b>	<b>83 948</b>	<b>179</b>	<b>89 807</b>	<b>173 934</b>

## 27. Property, plant and equipment

Property, plant & equipment Year 2009	Land and Buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
<b>Gross value at the beginning of the period</b>	<b>612 534</b>	<b>311 930</b>	<b>48 279</b>	<b>291 540</b>	<b>80 141</b>	<b>1 344 424</b>
<b>Additions from:</b>						
- purchases	-	-	-	-	49 833	<b>49 833</b>
- leasing	-	-	2 188	-	-	<b>2 188</b>
- donation	-	1	-	-	-	<b>1</b>
- fixed assets taken for use	45 789	30 357	-	25 092	-	<b>101 238</b>
- transfers	-	-	756	-	74	<b>830</b>
<b>Disposals from:</b>						
- sale, liquidation, donation	(5 775)	(17 015)	(7 378)	(4 213)	(244)	<b>(34 625)</b>
- fixed assets taken for use	-	-	-	-	(101 238)	<b>(101 238)</b>
- transfers	-	-	(282)	-	-	<b>(282)</b>
<b>Gross value at the end of the period</b>	<b>652 548</b>	<b>325 273</b>	<b>43 563</b>	<b>312 419</b>	<b>28 566</b>	<b>1 362 369</b>
<b>Accumulated depreciation at the beginning of the period</b>	<b>(246 028)</b>	<b>(252 007)</b>	<b>(18 279)</b>	<b>(190 624)</b>	-	<b>(706 938)</b>
<b>Additions/disposals from:</b>						
- current year	(27 967)	(25 180)	(10 706)	(26 457)	-	<b>(90 310)</b>
- sale, liquidation, donation	4 016	16 890	6 870	3 933	-	<b>31 709</b>
- transfers	7	(7)	(707)	-	-	<b>(707)</b>
Write down/Reversal of impairment write down	-	-	-	31	-	<b>31</b>
<b>Accumulated depreciation at the end of the period</b>	<b>(269 972)</b>	<b>(260 304)</b>	<b>(22 822)</b>	<b>(213 117)</b>	-	<b>(766 215)</b>
<b>Balance sheet value</b>						
Purchase value	652 548	325 273	43 563	312 419	28 566	<b>1 362 369</b>
Accumulated depreciation	(269 972)	(260 304)	(22 822)	(213 117)	-	<b>(766 215)</b>
<b>As at 31 December 2009</b>	<b>382 576</b>	<b>64 969</b>	<b>20 741</b>	<b>99 302</b>	<b>28 566</b>	<b>596 154</b>

<b>Property, plant &amp; equipment Year 2008</b>	<b>Land and Buildings</b>	<b>Equipment</b>	<b>Transportation means</b>	<b>Other fixed assets</b>	<b>Capital expenditures</b>	<b>Total</b>
<b>Gross value at the beginning of the period</b>	<b>572 424</b>	<b>291 697</b>	<b>37 337</b>	<b>254 089</b>	<b>55 556</b>	<b>1 211 103</b>
<b>Additions from:</b>						
- purchases	-	-	-	-	168 576	<b>168 576</b>
- leasing	-	-	20 998	-	-	<b>20 998</b>
- fixed assets taken for use	52 961	44 866	480	45 945	-	<b>144 252</b>
- transfers	-	21	219	267	371	<b>878</b>
<b>Disposals from:</b>						
- sale, liquidation, donation	(12 805)	(24 638)	(10 686)	(8 671)	(110)	<b>(56 910)</b>
- fixed assets taken for use	-	-	-	-	(144 252)	<b>(144 252)</b>
- transfers	-	(8)	-	-	-	<b>(8)</b>
- other	(46)	(8)	(69)	(90)	-	<b>(213)</b>
<b>Gross value at the end of the period</b>	<b>612 534</b>	<b>311 930</b>	<b>48 279</b>	<b>291 540</b>	<b>80 141</b>	<b>1 344 424</b>
<b>Accumulated depreciation at the beginning of the period</b>	<b>(225 716)</b>	<b>(250 493)</b>	<b>(17 194)</b>	<b>(174 474)</b>	-	<b>(667 877)</b>
<b>Additions/disposals from:</b>						
- current year	(24 323)	(25 640)	(9 936)	(24 862)	-	<b>(84 761)</b>
- sale, liquidation, donation	4 008	24 116	10 217	8 322	-	<b>46 663</b>
- transfers	-	4	(1 421)	(80)	-	<b>(1 497)</b>
- other	3	6	55	75	-	<b>139</b>
Write down/Reversal of impairment write down	-	-	-	395	-	<b>395</b>
<b>Accumulated depreciation at the end of the period</b>	<b>(246 028)</b>	<b>(252 007)</b>	<b>(18 279)</b>	<b>(190 624)</b>	-	<b>(706 938)</b>
<b>Balance sheet value</b>						
Purchase value	612 534	311 930	48 279	291 540	80 141	<b>1 344 424</b>
Accumulated depreciation	(246 028)	(252 007)	(18 279)	(190 624)	-	<b>(706 938)</b>
<b>As at 31 December 2008</b>	<b>366 506</b>	<b>59 923</b>	<b>30 000</b>	<b>100 916</b>	<b>80 141</b>	<b>637 486</b>

## 28. Net deferred tax assets

Deferred tax asset	31.12.2009	31.12.2008
Provisions for loans	200 861	150 113
Unrealized liabilities due to derivatives	100 051	283 261
Other provisions which are not yet taxable costs	67 610	62 307
Deferred income	59 518	45 255
Difference between balance sheet and taxable value of leasing portfolio	40 850	36 856
Unrealized interest on deposit and securities	31 851	32 738
Additional deferred tax assets resulting from art. 38 a of Corporate Tax Act	-	7 399
Other	16 073	22 571
<b>Total</b>	<b>516 814</b>	<b>640 500</b>

Deferred tax liability	31.12.2009	31.12.2008
Revaluation of financial instruments available for sale	(98 161)	(83 694)
Unrealised receivables on derivatives	(70 737)	(260 418)
Unrealised interests from loans, securities and interbank deposits	(45 035)	(55 356)
Provision due to application of investment relief	(2 778)	(2 967)
Cash flow hedges valuation	(450)	5 787
Other	(25 902)	(33 357)
<b>Total</b>	<b>(243 063)</b>	<b>(430 005)</b>

Net deferred tax assets	273 751	210 495
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As at 31 December 2009 the calculation of deferred tax asset did not include purchased receivables of PLN 19 982 k and loans that will not be realised of PLN 39 833 k.

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

Movements on net deferred tax	31.12.2009	31.12.2008
<b>As at beginning of the period</b>	<b>210 495</b>	<b>161 160</b>
changes recognised in income statement	83 959	42 064
changes recognised in equity	(20 704)	7 271
<b>As at end of the period</b>	<b>273 750</b>	<b>210 495</b>

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

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

## 29. Other assets

Other assets	31.12.2009	31.12.2008
Sundry debtors	198 290	261 583
Settlements of stock exchange transactions	62 642	40 994
Interbank and interbranch settlements	41 998	175 679
Prepayments	35 168	36 108
Assets held for sale	2 502	2 502
Other	600	960
<b>Total</b>	<b>341 200</b>	<b>517 826</b>

### Assets held for sale – BZ WBK Group

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

There were no changes of assets held for sale in the comparable period.

**30. Deposits from central bank**

<b>Deposits from central bank</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
Repo transactions	1 519 208	1 242 574
<b>Total</b>	<b>1 519 208</b>	<b>1 242 574</b>

Fair value of deposits from central banks is presented in note 40.

**31. Deposits from banks**

<b>Deposits from banks</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
Repo transactions	1 531 795	1 358 084
Loans from other banks	1 518 901	2 127 825
Term deposits	745 682	568 972
Current accounts	34 398	40 596
<b>Total</b>	<b>3 830 776</b>	<b>4 095 477</b>

As at 31.12.2009 fair value adjustment for hedged deposit totalled PLN (1 850) k (as at 31.12.2008 - PLN 5 289 k).  
Fair value of deposits from banks is presented in note 40.

**32. Deposits from customers**

<b>Deposits from customers</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
Deposits from individuals	25 613 714	24 239 092
- term deposits	14 166 157	13 135 776
- current accounts	11 414 712	11 029 970
- repo transactions	-	1 927
- other	32 845	71 419
Deposits from enterprises	13 284 728	15 066 460
- term deposits	8 319 717	10 608 820
- current accounts	4 484 720	4 146 018
- credits	227 614	26 352
- repo transactions	-	1 827
- other	252 677	283 443
Deposits from public sector	2 324 429	3 505 175
- term deposits	781 613	1 958 735
- current accounts	1 542 259	1 545 909
- other	557	531
<b>Total</b>	<b>41 222 871</b>	<b>42 810 727</b>

As at 31.12.2009 deposits held as collateral totalled PLN 165 796 k (31.12.2008 – PLN 232 239 k).  
Fair value of deposits from customers is presented in note 40.

**33. Debt securities in issue**

<b>Debt securities in issue</b>	<b>Average coupon</b>		<b>Nominal value</b>	
	<b>31.12.2009</b>	<b>31.12.2008</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
		WIBOR 1M		
Bond 3 Y-3Z0209	-	+ 0,44%	-	35 000
Bond 3 Y-3S0809	-	fixed; 4,9%	-	58 244
Bond 2-Y-2S0209	-	fixed; 5,0%	-	32 296
Bond 2-Y-2S0409	-	fixed; 5,0%	-	10 169
Bond 2-Y-2Z0809	-	WIBOR 6M	-	14 296
<b>Total nominal value</b>			-	<b>150 005</b>
<b>Total carrying value</b>			-	<b>153 918</b>

As at 31.12.2008 the nominal value was increased by interest of PLN 4 111 k, bond valuation of PLN (198) k related to hedging activities.

**34. Other liabilities**

<b>Other liabilities</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
Provisions:	203 440	179 363
<i>Employee provisions</i>	<i>170 163</i>	<i>140 745</i>
<i>Provisions for legal claims</i>	<i>17 725</i>	<i>26 642</i>
<i>Provisions for off balance sheet credit facilities</i>	<i>15 552</i>	<i>11 976</i>
Interbank and interbranch settlements	133 380	131 255
Other deferred and suspended income	70 493	43 112
Accrued liabilities	70 471	85 218
Sundry creditors	67 260	148 637
Settlements of stock exchange transactions	65 408	41 056
Public and law settlements	40 446	35 880
Financial lease related settlements	12 251	16 431
Other liabilities	8	848
<b>Total</b>	<b>663 157</b>	<b>681 800</b>

The Group raises provisions for disputable or expected, certain or highly probable, future liabilities that can be reliably estimated. The liabilities result from past events and fund outflow is probable to satisfy them. Employee related provisions and accruals consists of items outlined in note 51.

<b>Movements on provisions</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
<b>As at the beginning of the period</b>	<b>179 363</b>	<b>246 167</b>
Employee provisions and accruals	140 745	215 849
Provisions for legal claims	26 642	29 202
Provisions for off balance sheet credit facilities	11 976	1 116
<b>Provision charge</b>	<b>208 711</b>	<b>172 429</b>
Employee provisions and accruals	151 959	141 687
Provisions for legal claims	2 070	1 793
Provisions for off balance sheet credit facilities	54 682	28 949
<b>Utilization</b>	<b>(116 270)</b>	<b>(212 785)</b>
Employee provisions and accruals	(115 880)	(212 476)
Provisions for legal claims	(469)	(547)
Provisions for off balance sheet credit facilities	79	238
<b>Write back</b>	<b>(68 364)</b>	<b>(30 651)</b>
Employee provisions and accruals	(6 661)	(4 315)
Provisions for legal claims	(10 518)	(3 806)
Provisions for off balance sheet credit facilities	(51 185)	(22 530)
<b>Transfer</b>	<b>-</b>	<b>4 203</b>
Employee provisions and accruals	-	-
Provisions for legal claims	-	-
Provisions for off balance sheet credit facilities	-	4 203
<b>As at the end of the period</b>	<b>203 440</b>	<b>179 363</b>
<b>Employee provisions and accruals</b>	<b>170 163</b>	<b>140 745</b>
<b>Provisions for legal claims</b>	<b>17 725</b>	<b>26 642</b>
<b>Provisions for off balance sheet credit facilities</b>	<b>15 552</b>	<b>11 976</b>

## 35. Share capital

### 31.12.2009

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

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

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

Increase of the bank's share capital by PLN 1 157 k results from vesting of the first edition of BZWBK Incentive Scheme introduced in 2006. Details are presented in note 52.

### 31.12.2008

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

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

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

## 36. Other reserve funds

Other reserve funds	31.12.2009	30.06.2008
General banking risk fund	649 810	529 810
Share premium	261 699	261 699
Other reserves	2 655 490	1 925 178
<b>Total</b>	<b>3 566 999</b>	<b>2 716 687</b>

### Other reserve funds:

Share (issue) premium is created from surplus over the nominal value of shares sold less costs of share issuance and constitutes the Bank's supplementary capital.

As at 31.12.2009 other reserves consist of reserve capital of PLN 2 447 519 k (including share scheme charge of PLN\_17\_429\_k) and supplementary capital PLN 207 971 k.

As at 31.12.2008 other reserves consist of reserve capital of PLN 1 725 080 k (including share scheme charge of PLN\_15\_882\_k) and supplementary capital PLN 200 098 k.

Other movements of other reserve funds are presented in "movements on consolidated equity" for 2008 and 2009.

Statutory reserve (supplementary) capital is created from profit allocations in line with the prevailing banking legislation and the Bank's statute. The capital is not subject to split and is earmarked for covering balance sheet losses. Allocations from profit of the current year to reserve capital should amount to at least 8 % of profit after tax and are made until supplementary capital equals at least one third of the Bank's share capital. The amount of allocations is adopted by the General Meeting of Shareholders.

Reserve capital is created from profit allocations in the amount adopted by the General Meeting of Shareholders. The decision on reserve capital use is taken by the General Meeting of Shareholders.

### 37. Revaluation reserve

Revaluation reserve	31.12.2009
As at 31 December 2008	335 507
<i>Net change in available for sale investments, of which:</i>	<i>69 813</i>
<i>Increase:</i>	<i>80 773</i>
- related to debt investments purchased before current reporting period	50 903
- related to equity investments purchased before current reporting period	6 801
- related to debt investments purchased/assigned in the period	23 069
<i>Decrease:</i>	<i>(10 960)</i>
- related to equity investments purchased/assigned in the period	(10 960)
Gross valuation related to cash flow hedge	32 827
Decrease in revaluation reserve related to sale of investments	4 562
Deferred tax adjustment	(20 704)
<b>As at 31.12.2009</b>	<b>422 005</b>

Revaluation reserve	31.12.2008
As at 31 December 2007	362 963
<i>Net change in available for sale investments, of which:</i>	<i>24 936</i>
<i>Increase</i>	<i>35 609</i>
- related to debt investments purchased before current reporting period	32 435
- net change in available for sale investments matured in the period	3 031
- transferred from associates	143
<i>Decrease</i>	<i>(10 673)</i>
- related to debt investments purchased/assigned in the period	(9 162)
- related to equity investments purchased before current reporting period	(1 483)
- related to equity investments purchased/assigned in the period	(28)
Gross valuation related to cash flow hedge	(30 460)
Decrease in revaluation reserve related to sale of investments	(29 203)
Deferred tax adjustment	7 271
<b>As at 31.12.2008</b>	<b>335 507</b>

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

As at 31.12.2008 the revaluation reserve includes the difference between the fair value valuation and purchase price of financial assets reclassified during the reporting period from 'Available for sale' category to 'Held to maturity' (see note 24) of PLN (35 893) k and as at 31.12.2009 of PLN (22 396) k.

### 38. Hedge accounting

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

#### Fair value hedge

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

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



- Fixed rate debt securities denominated in PLN, forming a group of assets covered with an interest rate hedge.
- Fixed rate debt securities denominated in American dollars, forming a group of assets covered with an interest rate hedge.

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

The tables below contain details about individual groups of hedge transactions for 2009 and 2008:

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

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

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

31.12.2009	BZ WBK Leasing S.A.	BZ WBK Finance&Leasing S.A
Nominal value of the hedged position	PLN 499 146 k	PLN 308 115 k
Fair value adjustment of hedged instrument due to hedged risk asset/(liability)	PLN 2 302 k	PLN 1 415 k
Hedged risk	Movements in the fair value resulting form currency risk and interest rate risk	
Period over which the instruments have an impact on the companies' results	up to 2014	up to 2014

31.12.2008	BZ WBK Leasing S.A.	BZ WBK Finance&Leasing S.A
Nominal value of the hedged position	PLN 469 919 k	PLN 298 244 K
Fair value adjustment of hedged instrument due to hedged risk asset/(liability)	PLN 2 922 k	PLN 2 323 k
Hedged risk	Movements in the fair value of the bond issue and loans arising from changes in market interest rates	Movements in the fair value of the bond issue and loans arising from changes in market interest rates
Period over which the instruments have an impact on the companies' results	up to 2009	up to 2009

### Cash flow hedging

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

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

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

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

As at 31 December 2009, the consolidated statement of financial position, on liabilities side, contains treasury bills and bonds traded under sell-buy-back transactions amounting of PLN 3 051 003 k (PLN 2 604 412 k as at 31.12.2008).

A related item being the deposit representing obligations in respect the repo transactions is held on the assets side of the consolidated statement of financial position and amounts to 3 218 246 k (PLN 2 655 853 k as at 31.12.2008).

As at 31.12.2009, in the consolidated statement of financial position, buy-sell-back transactions amount to PLN 10 083 k (31.12.2008 – PLN 960 609 k).

All risks and rewards related to the holding of the underlying debt securities in the sell-buy-back transactions remains with the Bank, as well as power to dispose them.

Financial instruments held as security for (reverse) repurchase agreements may be sold or repledged under standard agreements, the obligation to return these to the counterparty on maturity of the transaction.

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

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

#### 40. Fair value

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

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

	31.12.2009		31.12.2008	
	Book Value	Fair Value	Book Value	Fair Value
<b>Assets</b>				
Cash and balances with the central bank	2 660 658	2 660 658	3 178 107	3 178 107
Loans and advances to banks	663 027	663 040	1 364 543	1 364 704
Financial assets held for trading	1 342 620	1 342 620	3 224 867	3 224 867
Hedging derivatives	10 801	10 801	347	347
Loans and advances to customers	34 570 697	34 194 648	35 137 202	34 400 683
Investment securities	13 292 572	13 373 812	12 916 041	12 974 506
Investments in associates and joint ventures	81 887	81 887	72 221	72 221
<b>Equity and liabilities</b>				
Deposits from central bank	1 519 208	1 519 208	1 242 574	1 242 574
Deposits from banks	3 830 776	3 830 769	4 095 477	4 095 029
Hedging derivatives	32 933	32 933	68 562	68 562
Financial liabilities held for trading	733 861	733 861	3 153 932	3 153 932
Deposits from customers	41 222 871	41 225 768	42 810 727	42 808 299
Debt securities in issue	-	-	153 918	153 918

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

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

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

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

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

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

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

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

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

*Debt securities in issue* The securities are measured at amortised cost less adjustments in hedge accounting.

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

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

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

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

Level II includes the following derivatives: IRS, CIRS, FRA, FX SWAP.

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

*Level III (measurement methods using material non-market parameters):* The level includes equity securities that are not quoted in the active market, measured using the expert valuation model; investment certificates measured at the balance sheet date at the price announced by the mutual fund; debt securities (commercial and municipal bonds) for which the Bank independently estimates the credit spread for the counterparty risk, FX forward transactions and the options for which the Bank independently estimates the credit spread for counterparty risk).

In 2009, the Group transferred IRS, CIRS and fx swap transactions with non-bank clients from II to III fair value Level due to the fact that the counter-party risk has been included in fair value measurement.

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

31.12.2009	Level I	Level II	Level III	Total
<b>Financial assets</b>				
Financial assets held for trading	580 848	376 146	385 626	1 342 620
Hedging derivatives	-	10 801	-	10 801
Financial investment assets – debt securities	5 208 456	665 174	83 971	5 957 601
Financial investment assets – equity securities	22 652	-	642 764	665 416
<b>Total</b>	<b>5 811 956</b>	<b>1 052 121</b>	<b>1 112 361</b>	<b>7 976 438</b>
<b>Financial liabilities</b>				
Financial liabilities held for trading	-	609 385	124 476	733 861
Hedging derivatives	-	32 933	-	32 933
<b>Total</b>	-	<b>642 318</b>	<b>124 476</b>	<b>766 794</b>

31.12.2008	Level I	Level II	Level III	Total
<b>Financial assets</b>				
Financial assets held for trading	816 970	1 711 779	696 118	3 224 867
Hedging derivatives	-	347	-	347
Financial investment assets – debt securities	4 244 739	1 447 870	179 564	5 872 173
Financial investment assets – equity securities	22 014	-	633 577	655 591
<b>Total</b>	<b>5 083 723</b>	<b>3 159 996</b>	<b>1 509 259</b>	<b>9 752 978</b>
<b>Financial liabilities</b>				
Financial liabilities held for trading	-	2 558 456	595 476	3 153 932
Hedging derivatives	-	68 562	-	68 562
<b>Total</b>	-	<b>2 627 018</b>	<b>595 476</b>	<b>3 222 494</b>

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

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

In 2008 the Group reclassified T-bonds to held-to-maturity portfolio. As at 31 December 2008 fair value of those instruments amounted to PLN 6 482 636 k and the carrying value amounted to PLN 6 388 277 k.

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

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

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

Gain on derivative financial instruments classified by the Group to the III Level and still kept in the portfolio as at the end of the reporting period amounted to PLN 160 508 k.

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

Level III		Financial Assets			Financial liabilities
31.12.2009	Financial assets held for trading	Financial investment assets - debt securities	Financial investment assets - equity securities	Financial liabilities held for trading	
<b>Beginning of the period</b>	<b>696 118</b>	<b>179 564</b>	<b>633 577</b>	<b>(595 476)</b>	
Profits or losses	(6 895)	1 872	3 243	(3 712)	
<i>recognised in income statement</i>	<i>(6 895)</i>	-	<i>337</i>	<i>(3 712)</i>	
<i>recognised in equity</i>	-	<i>1 872</i>	<i>2 906</i>	-	
Purchase	-	87 774	6 457	-	
Sale	-	(56 075)	(513)	-	
Matured	(566 182)	(129 164)		506 758	
Transfer	262 585			(32 046)	
<b>At the period end</b>	<b>385 626</b>	<b>83 971</b>	<b>642 764</b>	<b>(124 476)</b>	

Level III		Financial Assets			Financial liabilities
31.12.2008	Financial assets held for trading	Financial investment assets - debt securities	Financial investment assets - equity securities	Financial liabilities held for trading	
<b>Beginning of the period</b>	<b>73 850</b>	<b>252 935</b>	<b>685 436</b>	<b>(120 173)</b>	
Profits or losses	634 113	(866)	(13 491)	(673 830)	
<i>recognised in income statement</i>	<i>634 113</i>	-	-	<i>(673 830)</i>	
<i>recognised in equity</i>	-	<i>(866)</i>	<i>(13 491)</i>	-	
Purchase	-	6 906	24 750	-	
Sale	-	-	(62 993)	-	
Impairment	-	-	(125)	-	
Matured	(11 845)	(79 411)		198 527	
<b>At the period end</b>	<b>696 118</b>	<b>179 564</b>	<b>633 577</b>	<b>(595 476)</b>	

#### 41. Contingent liabilities

##### Significant court proceedings

As at 31 December 2009 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Group or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 247 865 k, which is ca 4.09 % of Group's equity. This amount includes PLN 47 990 k claimed by the Group, PLN 71 911 k in claims against the Group and PLN 127 964 k are Group's receivables due to bankruptcy or arrangement cases.

As at 31 December 2008 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Group or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 251 642 k, which is ca 4.83% of Group's equity. This amount includes PLN 58 249 k claimed by the Group, PLN 55 596 k in claims against the Bank and PLN 137 797 k are Group's receivables due to bankruptcy or arrangement cases.

Provisions for legal claims are presented in note 34.

## Contingent liabilities

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

Contingent liabilities - sanctioned	31.12.2009	31.12.2008
<b>Liabilities sanctioned</b>		
<b>- financial</b>	<b>6 345 103</b>	<b>9 528 754</b>
- credit lines	5 442 474	8 406 859
- credit cards debits	845 493	879 874
- term deposits with future commencement term	27 933	182 000
- import letters of credit	29 203	60 021
<b>- guarantees</b>	<b>876 197</b>	<b>901 717</b>
<b>Total</b>	<b>7 221 300</b>	<b>10 430 471</b>

## 42. Assets and liabilities pledged as collateral

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

Accordingly, as at 31 December 2009 Bank Zachodni WBK S.A. pledged as collateral PLN 167 100 k of debt securities (PLN 150 561 k as at 31.12.2008).

In 2009 a deposit for PLN 239 958 k was placed with another bank as a collateral for the day-to-day Treasury business (in 2008 it was PLN 182 306 k).

In 2009 another bank placed as collateral in BZ WBK a deposit for PLN 4 724 k.

Other assets pledged as collateral are disclosed in notes 39 and 32.

## 43. Trust activities

In 2008 and 2009 BZ WBK Group did not provide custodian services.

## 44. Finance and operating leases

### *Financial leases*

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

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

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

Finance leases gross receivables- maturity	31.12.2009	31.12.2008
less than 1 year	1 194 202	1 185 293
between 1 and 5 years	1 777 014	2 126 247
over 5 years	203 702	137 902
<b>Total</b>	<b>3 174 918</b>	<b>3 449 442</b>

<b>Present value of minimum lease payments- maturity</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
less than 1 year	1 127 262	1 133 217
between 1 and 5 years	1 477 389	1 760 913
over 5 years	101 865	64 907
<b>Total</b>	<b>2 706 516</b>	<b>2 959 037</b>

<b>Reconciliation between the gross investment and the present value of minimum lease payments</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
Finance lease gross receivables	3 174 918	3 449 442
Unearned finance income	(468 402)	(490 405)
Impairment of finance lease receivables	(61 307)	(37 887)
<b>Total</b>	<b>2 645 209</b>	<b>2 921 150</b>

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

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

#### ***Operating leases***

The BZW BK Group leases offices in compliance with operational leasing agreements. As a standard, agreements are concluded for 5-10 years. A small part of the offices is subleased outside the Group. In 2009 and 2008 rentals totalled PLN 139 483 k and PLN 100 273 k respectively. These payments are presented in the profit and loss account under "operating expenses".

The table below shows the total obligations under irrevocable operating lease agreements concluded by the Bank (including the value of perpetual usufruct of land)

<b>Payments - maturity</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
less than 1 year	142 291	119 302
between 1 and 5 years	456 484	374 372
over 5 years	325 885	311 110
<b>Total</b>	<b>924 660</b>	<b>804 784</b>

#### **45. Consolidated statement of cash flows- additional information**

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

<b>Cash components</b>	<b>31.12.2009</b>	<b>31.12.2008</b>
Cash and current accounts in central bank	2 660 658	3 178 107
Debt investment financial instruments	1 793 330	615 802
Deposits in other banks, current account	653 748	1 355 817
Debt securities held for trading	449 354	168 618
<b>Total</b>	<b>5 557 090</b>	<b>5 318 344</b>

BZ WBK S.A. holds another cash balances pledged as collateral, which are presented in note 32, that are not available for use.

#### **46. Related party disclosures**

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



Transactions between entities of BZWBK Group	31.12.2009	31.12.2008
<b>Assets</b>	<b>2 269 450</b>	<b>2 101 411</b>
Loans and advances to banks	1 050 201	1 128 384
Financial assets held for trading	6 145	335
Hedging derivatives	73 059	99 355
Loans and advances to customers	1 124 842	857 055
Investment securities	-	19
Other assets	15 203	16 263
<b>Liabilities</b>	<b>2 269 450</b>	<b>2 101 392</b>
Deposits from banks	1 121 781	852 810
Hedging derivatives	183	154
Financial liabilities held for trading	79 021	99 356
Deposits from clients	1 033 001	1 103 157
Debt securities in issue	-	180
Other liabilities	35 464	45 735
The difference on transaction between subsidiaries as at 31.12.2008 in the amount of PLN 19 k results from prepaid expenses which are recognized in profit and loss account.		
<b>Income</b>	<b>214 210</b>	<b>285 405</b>
Interest and similar income	88 534	122 987
Fee and commission income	102 280	146 952
Other operating income	8 994	7 973
Net trading income and revaluation	14 402	7 493
<b>Expenses</b>	<b>214 210</b>	<b>285 386</b>
Interest expense and similar charges	100 867	127 821
Fee and commission expense	102 300	146 852
Operating expenses incl.:	11 043	10 713
-Bank's staff, operating expenses and management costs	11 009	10 653
-Other	34	60
<b>Contingent liabilities</b>	<b>3 222 998</b>	<b>1 211 568</b>
Sanctioned:	1 611 499	605 784
- financing-related	1 356 686	555 510
- guarantees	254 813	50 274
Received:	1 611 499	605 784
- financing-related	1 356 686	555 510
- guarantees	254 813	50 274
<b>Derivatives' nominal values:</b>	<b>3 487 320</b>	<b>2 674 910</b>
Cross-currency interest rate swaps- purchased	1 637 460	1 124 026
Cross-currency interest rate swaps- sold	1 791 175	1 305 961
Single-currency interest rate swaps	58 685	244 923

Transactions with associates and joint ventures	31.12.2009	31.12.2008
<b>Assets</b>	<b>842</b>	<b>1 014</b>
Loans and advances to customers	842	1 014
<b>Liabilities</b>	<b>90 352</b>	<b>121 191</b>
Deposits from clients	90 352	121 191
<b>Income</b>	<b>5 882</b>	<b>2 183</b>
Interest and similar income	62	41
Fee and commission income	5 663	2 084
Other operating income	157	58
<b>Expenses</b>	<b>8 340</b>	<b>6 620</b>
Interest expense and similar charges	6 199	5 073
Operating expenses incl.:	2 141	1 547
-Bank's operating expenses and management costs	2 141	1 547

Transactions with the parent company (AIB Group)	31.12.2009	31.12.2008
<b>Assets</b>	<b>495 282</b>	<b>575 145</b>
Loans and advances to banks	376 170*	254 035**
Financial assets held for trading	117 274	187 878
Investment securities	-	129 164
Other assets	1 838	4 068
* incl.: deposits in the amount of PLN 376 075 k and current accounts of PLN 95 k.		
* *incl.: deposits in the amount of PLN 253 549 k and current accounts of PLN 486 k.		
<b>Liabilities</b>	<b>1 918 015</b>	<b>2 572 892</b>
Deposits from banks	1 631 612*	1 885 144**
Hedging derivatives	1 564	1 489
Financial liabilities held for trading	272 417	671 136
Other liabilities	12 422	15 123
* incl.: loans granted to BZ WBK subsidiaries in the amount of PLN 819 759 k, repo transactions of PLN 305 653 k and deposits of PLN 506 200 k.		
** incl.: loans granted to BZ WBK subsidiaries in the amount of PLN 834 572 k, repo transactions of PLN 588 159 k and deposits of PLN 462 413 k.		
<b>Income</b>	<b>76 120</b>	<b>(312 479)</b>
Interest and similar income	4 375	19 057
Fee and commission income	1 042	33
Other operating income	2 951	17 206
Net trading income and revaluation	60 686	(340 410)
Gains/losses from other financial securities	7 066	(8 365)
<b>Expenses</b>	<b>62 822</b>	<b>98 464</b>
Interest expense and similar charges	30 405	67 912
Fee and commission expense	-	288
Other operating expenses incl.:	32 417	30 264
<i>-Bank's staff, operating expenses and management costs</i>	<i>32 417</i>	<i>30 264</i>
<b>Contingent liabilities</b>	<b>44 319</b>	<b>188 563</b>
Sanctioned	7 419	165 000
<i>- financing-related</i>	<i>7 419</i>	<i>165 000</i>
Received	36 900	23 563
<i>- financing-related</i>	<i>36 900</i>	<i>23 563</i>
<b>Derivatives' nominal values:</b>	<b>11 062 622</b>	<b>13 161 424</b>
Cross-currency interest rate swaps- purchased	1 337 015	480 590
Cross-currency interest rate swaps- sold	1 402 642	590 082
Single-currency interest rate swaps	3 364 991	3 954 781
FRA	-	150 000
Options	9 841	10 221
FX swap – purchased amounts	1 961 714	2 441 470
FX swap – sold amounts	1 927 627	2 465 307
FX options -purchased	507 319	1 226 585
FX options -sold	547 364	1 761 203
Spot-purchased	2 055	39 224
Spot-sold	2 054	41 961

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

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

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

As at 31.12.2009 there were no such transactions.

**TRANSACTIONS WITH MEMBERS OF MANAGEMENT AND SUPERVISORY BOARDS****REMUNERATION OF BANK ZACHODNI WBK S.A. MANAGEMENT AND SUPERVISORY BOARD MEMBERS****31.12.2009**

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

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

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

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

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

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

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

Members of the Management Board have signed non-competition agreements which remain in force after they step down from their function.

If a Member of the Management Board is removed from their function or not appointed for another term, he/she is entitled to a once-off severance pay. The severance pay does not apply if the person accepts another function in the Bank.

### 31.12. 2008

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

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

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

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

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2008-31.12.2008	1 214.64	638.10
Paul Barry*	Member of the Management Board	01.10.2008-31.12.2008	189.37	272.73
Andrzej Burliga	Member of the Management Board	01.01.2008-31.12.2008	566.47	59.56
Declan Flynn*	Member of the Management Board	01.01.2008-31.12.2008	995.91	792.85
Michał Gajewski	Member of the Management Board	01.01.2008-31.05.2008	415.29	29.02
Justyn Konieczny	Member of the Management Board	01.01.2008-31.12.2008	854.28	69.99
Janusz Krawczyk	Member of the Management Board	01.01.2008-31.12.2008	762.57	45.30
Jacek Marcinowski	Member of the Management Board	01.01.2008-31.12.2008	729.29	56.24
James Murphy*	Member of the Management Board	01.01.2008-30.09.2008	518.58	439.00
Marcin Prell	Member of the Management Board	01.01.2008-31.12.2008	729.02	70.83
Mirosław Skiba	Member of the Management Board	22.07.2008-31.12.2008	252.28	17.80
Feliks Szyszowski	Member of the Management Board	01.01.2008-31.12.2008	732.45	64,20

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

In 2008, none of the Members of the Management Board or the Supervisory Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities.

If a Member of the Management Board is removed from their function or not appointed for another term, he/she

is entitled to a once-off severance pay. The severance pay does not apply if the person accepts another function in the Bank.

### **31.12.2009**

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

As of 31.12.2009, the total finance lease receivable provided to members of the Management Board of BZ WBK S.A. by the subsidiaries and associates amounted to PLN 23 k.

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

### **31.12.2008**

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

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

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

### **Profit sharing scheme**

In 2006 selected subsidiaries of BZWBK Group introduced a motivation scheme for their key management in a form of a long term profit sharing scheme classified as other long-term benefits in accordance with IAS 19. The formal framework of the scheme is based on an issue of shares that are purchased by entitled individuals.

Considering underlying characteristics of the scheme it has been classified as a long term profit sharing scheme and recognized as a liability in the consolidated financial statements.

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

In December 2009, the Group decided to change the incentive scheme model for a group of key employees. Under the new scheme the title to shares was replaced with a right of participation in profit linked to the profit growth.

For other participants, the award-winning principles remain unchanged.

The value of the liability resulting from the scheme as at 31 December 2009 amounted to PLN 14 344 k and the amount recognized as the scheme related expense in the profit and loss account for the period was PLN 12 304 k.

The value of the liability resulting from the scheme as at 31 December 2008 amounted to PLN 17 712 k and the amount recognized as the scheme related expense in the profit and loss account for the period was PLN 20 309 k.

## TRANSACTIONS WITH EMPLOYEES

### 31.12.2009

As of 31.12.2009, the total of loans and advances drawn by BZWBK S.A. employees was PLN 565 923 k (including the debt of PLN 1 406 k shown in joint accounts) and PLN 33 812 k in the case of employees of BZWBK subsidiaries and associates.

In the same period, the total of loans and advances drawn by BZWBK S.A. employees from the Social Fund was PLN 15 542 k.

These facilities have been sanctioned on regular terms and conditions.

On current accounts and term deposits employees of the bank held balances of PLN 179 331 k, (of which joined current accounts - PLN 40 116 k). Amount relating to employees of subsidiaries and associates totaled PLN 20 090 k.

### 31.12.2008

As of 31.12.2008, the total of loans and advances drawn by BZWBK S.A. employees was PLN 551 617 k (including the debt of PLN 1 154 k shown in joint accounts) and PLN 41 096 k in the case of employees of BZWBK subsidiaries and associates.

In the same period, the total of loans and advances drawn by BZWBK S.A. employees from the Social Fund was PLN 15 151 k.

These facilities have been sanctioned on regular terms and conditions.

On current accounts and term deposits employees of the bank held balances of PLN 191 443 k, (of which joined current accounts - PLN 37 720 k). Amount relating to employees of subsidiaries and associates totalled PLN 20 242 k.

## 47. Information of number and value of banking writs of executions

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

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

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

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

## 48. Acquisitions and disposals of investments in subsidiaries and associates

### Acquisitions of investments in subsidiaries and associates in 2009 and 2008

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

On 14 January 2009 a new company BZ WBK Finanse Sp. z o.o. was registered.

The Bank acquired in BZ WBK Finanse Sp. z o.o. 1 000 shares with the nominal value of PLN 50 each which accounts for 100% of the share capital and 100% of votes at the General Meeting. The Bank acquired the shares for the total of PLN 50 k. The core business of the Company will be operating financial holdings.

The Bank's purchase of the shares in BZ WBK Finanse Sp. z o.o. is a long-term investment and has been financed with the Bank's own funds.

Additionally, an agreement was entered into by and between the Bank and the registered subsidiary on transferring the ownership title to shares of the Bank's selected Pursuant to the Agreement, the Bank transferred onto BZ WBK Finanse the ownership title to:

1. 1 216 919 shares of BZ WBK Leasing S.A. with a total nominal value of PLN 121 691 900.00 representing 99.99 % of the share capital and votes at the company's AGM, with the total value equalling the carrying value in the Bank's books of PLN 61 257 096.09. The value of shares in the BZ WBK Finanse books will total PLN 61 257 096.09;
2. 100 shares of BZ WBK Faktor Sp. z o.o. with a total nominal value of PLN 50 000.00 representing 100% of the share capital and votes at the company's AGM, with the total value equalling the carrying value in the Bank's books of PLN 6 200 073.20. The value of shares in the BZ WBK Finanse books will total PLN 6 200 073.20.
3. 504 999 shares of BZ WBK Finanse i Leasing S.A., with a total nominal value of PLN 50 499 900.00 representing 99.99% of the share capital and votes at the company's AGM, with the total value equalling the carrying value in the Bank's books of PLN 50 512 484.00. The value of shares in the BZ WBK Finanse books will total PLN 50 512 484.00;

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

#### ***Purchase of shares of a new subsidiary Krynicki Recykling S.A.***

BZ WBK Inwestycje Sp. z o.o. (the Bank's subsidiary) acquired in Krynicki Recykling S.A. 3 076 852 shares of its new issue (representing 30.37 % of the share capital) with the nominal value of PLN 3.25 each. The company acquired the shares for the total of PLN 9 999 769.00. The agreement was signed on 19<sup>th</sup> of December 2008, the registration of the share capital increase – on 2<sup>nd</sup> of February 2009.

The company was classified as an associate therefore is accounted for using the equity method.

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

Purchase of shares was a part of building a portfolio of pre-IPO type own investment.

#### ***Purchase of shares of a new subsidiary Metrohouse S.A.***

In July 2008, BZ WBK subsidiary - BZ WBK Inwestycje Sp. z o.o. purchased shares of Metrohouse S.A. The purchase price was PLN 4 600 000.00, number of shares - 2 300 000 i.e. 35.38 % of Metrohouse share capital.

The company was classified as an associate therefore is accounted for using the equity method.

Metrohouse S.A has been set up to develop the biggest chain of real estate agents in Poland. The company offers services related to buying, selling and letting properties in Greater Warsaw, Gdańsk and Olsztyn, as well as acts as an credit intermediary. Purchase of shares of Metrohouse SA was a part of building a potfolio of pre-IPO type own investment.

## Disposals of investments in subsidiaries and associates in 2009 and 2008

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

Disposals in 2008	Net assets	Revenue	Gains/loss on sale
Brytyjsko-Polskie Towarzystwo Finansowe WBK CU Sp. z o.o.	680	1 200	520
NFI Magna Polonia S.A.	2 537	1 821	(716)
<b>Total</b>	<b>3 217</b>	<b>3 021</b>	<b>(196)</b>

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

### 49. Investments in joint ventures

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

The Bank invested in:

- BZ WBK-CU Towarzystwo Ubezpieczeń Ogólnych S.A. - 13 500 ordinary registered shares of A series with nominal value of PLN 1 000 each and issue price per share of PLN 1 334 which accounts for 50% of the share capital and 50% of votes at a general meeting. The carrying value of the shares taken up by the Bank totaled PLN 17 082 k,
- BZ WBK-CU Towarzystwo Ubezpieczeń na Życie S.A. – 10 875 ordinary registered shares of A series with value of PLN 1 000 each and issue price per share of PLN 1 334 which accounts for 50% of the share capital and 50% of votes at a general meeting. The carrying value of the shares taken up by the Bank totaled PLN 15 031 k.

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

Both joint ventures are classified to available-sale portfolio and are accounted for by using the equity method. As at 31.12.2009 carrying value of these entities totaled PLN 18 405 k and PLN 12 872 k respectively.

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

### 50. Events after the balance sheet date

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

The consolidated financial statements of Bank Zachodni WBK Group were authorised for issue on 26<sup>th</sup> of February 2010 by the Management Board of Bank Zachodni WBK S.A. The financial statements will be approved by the shareholders at their Annual General Meeting.

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

On 28 January 2010 a financing agreement was commenced between the European Investment Bank and Bank Zachodni WBK S.A. with regard to fund projects promoted by small and medium-sized enterprises in the sectors of industry and services.



The maximum credit line extended to Bank Zachodni WBK for this purpose is EUR 100 000 k.

The contract stipulates that the financing may be drawn in three tranches at least of EUR 25 000 k each. The repayment term is set independently for each tranche, ranging from minimum three years to maximum eight years from the tranche drawdown.

## 51. Staff benefits

Staff benefits include the following categories:

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

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

### Provisions for accrued holiday leaves

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

### Provisions for employee bonuses

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

### Provisions for retirement allowances

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

### Other staff-related provisions

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

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

Provisions	31.12.2009	31.12.2008
Provisions for accrued holiday leaves	19 636	22 166
Provisions for employee bonuses	112 554	79 220
Provisions for retirement allowances	35 208	34 056
Other staff-related provisions	2 765	5 303
<b>Total</b>	<b>170 163</b>	<b>140 745</b>

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

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

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

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

## 52. Share based incentive scheme

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

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

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

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

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

Share based payments granted:

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

The following table summarizes the share based payments activity:

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

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

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

The total expense recognized with corresponding increase in equity (other reserve capital) for 12 months of 2009 and 2008 amounts to PLN 1 547 k and PLN 1 734 k respectively.

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

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

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

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

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

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

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

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

### 53. Average staff level with break down into professional group

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

As at this date, in subsidiaries there were 661 persons employed (incl. 43 persons working in the Bank, too), i.e. 644 FTE's.

In 2009, the average staffing level in Bank Zachodni WBK S.A. was 8 977 FTE's whereas an average staffing level in subsidiaries was 660 FTE's.

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

Education	No. of staffs	Structure %
University/college degree	6 590	68.9
High school degree	2 771	29.0
Vocational	26	0.3
Other	168	1.8
<b>Total</b>	<b>9 555</b>	<b>100.0</b>

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

As at this date, in subsidiaries there were 718 persons employed (incl. 54 persons working in the Bank, too), i.e. 706 FTE's.

In 2008, the average staffing level in Bank Zachodni WBK S.A. was 9 073 FTE's whereas an average staffing level in subsidiaries was 686 FTE's.

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

<b>Education</b>	<b>No. of staffs</b>	<b>Structure %</b>
University/college degree	6 858	66.9
High school degree	3 179	31.0
Vocational	28	0.3
Other	189	1.8
<b>Total</b>	<b>10 254</b>	<b>100.0</b>

#### **54. Dividend per share**

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

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

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

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