# Interim Consolidated Financial Statements of Bank Zachodni WBK Group for the 6-month Period Ended 30 June 2008

Bank Zachodni WBK S.A.

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In thousands of PLN

## 1. Consolidated income statement

| For reporting period: | | 01.01.2008 - 30.06.2008 | 01.01.2007 - 30.06.2007 |
|---|---|---|---|
| Interest and similar income | | 1 458 180 | 944 665 |
| Interest expense and similar charges | | (681 050) | (350 589) |
| **Net interest income** | Note 9 | **777 130** | **594 076** |
| Fee and commission income | | 831 760 | 868 907 |
| Fee and commission expense | | (119 142) | (113 233) |
| **Net fee and commission income** | Note 10 | **712 618** | **755 674** |
| Dividend income | Note 11 | 69 634 | 64 446 |
| Net trading income and revaluation | Note 12 | 47 872 | 32 691 |
| Gains (losses) from other financial securities | Note 13 | 12 833 | 3 470 |
| Gains from investment in subsidiaries and associates | Note 14 | (196) | - |
| Other operating income | Note 15 | 33 280 | 21 249 |
| Impairment losses on loans and advances | Note 16 | (19 837) | 24 359 |
| Operating expenses incl.: | | (845 285) | (717 257) |
| *Bank's staff, operating expenses and management costs* | Note 17,18 | *(784 148)* | *(627 649)* |
| *Depreciation/amortisation* | | *(50 558)* | *(68 098)* |
| *Other operating expenses* | Note 19 | *(10 579)* | *(21 510)* |
| **Operating profit** | | **788 049** | **778 708** |
| Share in net profits of entities accounted for by the equity method | | (44) | 36 |
| **Profit before tax** | | **788 005** | **778 744** |
| Corporate income tax | Note 20 | (160 133) | (147 221) |
| **Profit for the period** | | **627 872** | **631 523** |
| of which: | | | |
| attributable to the Company's equity holders | | 567 538 | 558 596 |
| attributable to the Minority equity holders | | 60 334 | 72 927 |
| Net earnings per share (PLN/share) | Note 21 | | |
| Basic earnings per share | | 7,78 | 7,66 |
| Diluted earnings per share | | 7,77 | 7,65 |

In thousands of PLN

## 2. Consolidated balance sheet

| | as at: | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|---|
| **ASSETS** | | | | |
| Cash and balances with central bank | Note 22 | 2 469 407 | 2 206 265 | 762 897 |
| Loans and advances to banks | Note 23 | 2 760 567 | 2 576 878 | 2 736 901 |
| Financial assets held for trading | Note 24 | 1 514 527 | 1 251 653 | 423 353 |
| Hedging derivatives | Note 25 | 45 047 | 35 851 | 30 662 |
| Loans and advances to customers | Note 26 | 28 273 070 | 23 949 714 | 20 650 181 |
| Investment securities | Note 27 | 10 448 974 | 9 763 669 | 8 996 182 |
| Investments in associates and joint ventures | Note 28 | 43 353 | 13 378 | 35 936 |
| Intangible assets | Note 29 | 126 524 | 115 280 | 111 515 |
| Property, plant & equipment | Note 30 | 559 880 | 543 226 | 479 189 |
| Deferred tax assets | Note 31 | 385 720 | 368 449 | 464 758 |
| Other assets | Note 32 | 435 869 | 495 557 | 535 430 |
| **Total assets** | | **47 062 938** | **41 319 920** | **35 227 004** |
| **LIABILITIES** | | | | |
| Deposits from banks | Note 33 | 5 438 463 | 4 483 526 | 3 555 187 |
| Hedging derivatives | Note 25 | 1 196 | 2 054 | 5 588 |
| Financial liabilities held for trading | Note 24 | 1 294 135 | 990 274 | 279 667 |
| Deposits from customers | Note 34 | 33 723 646 | 29 765 687 | 25 218 039 |
| Debt securities in issue | Note 35 | 282 368 | 352 961 | 589 675 |
| Current income tax liabilities | | 12 973 | 49 115 | 60 056 |
| Deferred tax liabilities | Note 36 | 239 639 | 202 777 | 334 677 |
| Other liabilities | Note 37 | 1 278 559 | 896 825 | 1 035 514 |
| Total liabilities | | 42 270 979 | 36 743 219 | 31 078 403 |
| **Equity** | | | | |
| Parent company equity | | 4 588 665 | 4 341 527 | 3 996 275 |
| Share capital | Note 38 | 729 603 | 729 603 | 729 603 |
| Other reserve funds | Note 39 | 2 721 094 | 2 061 578 | 2 054 612 |
| Revaluation reserve | Note 40 | 255 353 | 362 963 | 420 775 |
| Retained earnings | | 315 077 | 232 688 | 232 689 |
| Profit of the current period | | 567 538 | 954 695 | 558 596 |
| Minority interest | | 203 294 | 235 174 | 152 326 |
| Total equity | | 4 791 959 | 4 576 701 | 4 148 601 |
| **Total equity and liabilities** | | **47 062 938** | **41 319 920** | **35 227 004** |

In thousands of PLN

## 3. Movements on consolidated equity

| | Equity | | | | | |
|---|---|---|---|---|---|---|
| **MOVEMENTS ON CONSOLIDATED EQUITY** | **Share capital** | **Other reserve funds** | **Revaluation reserve** | **Retained earnings and profit for the period** | **Minority interest** | **Total** |
| **Opening balance as at 31.12.2007** | **729 603** | **2 061 578** | **362 963** | **1 187 383** | **235 174** | **4 576 701** |
| Change in available for sale investments - increase | - | - | 22 486 | - | - | 22 486 |
| Change in available for sale investments - decrease | - | - | (125 978) | - | (1 612) | (127 590) |
| Cash flow hedge activities | - | - | 1 608 | - | - | 1 608 |
| Share scheme charge | - | 6 141 | - | - | - | 6 141 |
| Net (gains)/losses recognised in income statement | - | - | (5 726) | - | - | (5 726) |
| Net profit | - | - | - | 567 538 | 60 334 | 627 872 |
| **Total recognised increase in equity in 1H 2008** | **-** | **6 141** | **(107 610)** | **567 538** | **58 722** | **524 791** |
| Dividend relating to 2007 | - | - | - | (218 881) | (90 155) | (309 036) |
| Transfer to other reserve capitals | - | 653 816 | - | (653 816) | - | - |
| Other | - | (441) | - | 391 | (447) | (497) |
| **As at 30.06.2008** | **729 603** | **2 721 094** | **255 353** | **882 615** | **203 294** | **4 791 959** |

As at the end of the period revaluation reserve in the amount of PLN 255 353 k comprises of debt securities and equity shares classified as available for sale of PLN (194 773) k and PLN 448 518 k respectively and additionally cash flow hedge activities PLN 1 608 k.

| | Equity | | | | | |
|---|---|---|---|---|---|---|
| **MOVEMENTS ON CONSOLIDATED EQUITY** | **Share capital** | **Other reserve funds** | **Revaluation reserve** | **Retained earnings and profit for the period** | **Minority interest** | **Total** |
| **Opening balance as at 31.12.2006** | **729 603** | **1 857 147** | **508 548** | **864 703** | **116 741** | **4 076 742** |
| Change in available for sale investments - increase | - | - | 15 864 | - | 165 | 16 029 |
| Change in available for sale investments - decrease | - | - | (193 445) | - | - | (193 445) |
| Share scheme charge | - | 10 474 | - | - | - | 10 474 |
| Net (gains)/losses recognised in income statement | - | - | 31 996 | - | - | 31 996 |
| Net profit | - | - | - | 954 695 | 155 982 | 1 110 677 |
| **Total recognised increase in equity in 2007** | **-** | **10 474** | **(145 585)** | **954 695** | **156 147** | **975 731** |
| Dividend relating to 2006 | - | - | - | (437 762) | (37 723) | (475 485) |
| Transfer to other reserve capitals | - | 193 908 | - | (193 908) | - | - |
| Other | - | 49 | - | (345) | 9 | (287) |
| **As at 31.12.2007** | **729 603** | **2 061 578** | **362 963** | **1 187 383** | **235 174** | **4 576 701** |

As at the end of the period revaluation reserve in the amount of PLN 362 963 k comprises of debt securities and equity shares classified as available for sale of PLN (83 848) k and PLN 446 811 k respectively.

In thousands of PLN

| MOVEMENTS ON CONSOLIDATED EQUITY | Equity: Share capital | Other reserve funds | Revaluation reserve | Retained earnings and profit for the period | Minority interest | Total |
|---|---|---|---|---|---|---|
| **Opening balance at 31.12.2006** | **729 603** | **1 857 147** | **508 548** | **864 703** | **116 741** | **4 076 742** |
| Change in available for sale investments - increase | - | - | 15 665 | - | 372 | 16 037 |
| Change in available for sale investments - decrease | - | - | (108 456) | - | - | (108 456) |
| Share scheme charge | - | 3 508 | - | - | - | 3 508 |
| Net gains recognised in income statement | - | - | 5 018 | - | - | 5 018 |
| Net profit | - | - | - | 558 596 | 72 927 | 631 523 |
| **Total recognised increase in equity in 1H 2007** | **-** | **3 508** | **(87 773)** | **558 596** | **73 299** | **547 630** |
| Dividend relating to 2006 | - | - | - | (437 762) | (37 723) | (475 485) |
| Transfer to other reserve capitals | - | 193 908 | - | (193 908) | - | - |
| Other | - | 49 | - | (344) | 9 | (286) |
| **As at 30.06.2007** | **729 603** | **2 054 612** | **420 775** | **791 285** | **152 326** | **4 148 601** |

As at the end of the period revaluation reserve in the amount of PLN 420 775 k comprises of debt securities and equity shares classified as available for sale of PLN (28 084) k and PLN 448 859 k respectively.

In thousands of PLN

## 4. Consolidated cash flow statement

| | 01.01.2008 - 30.06.2008 | 01.01.2007 - 30.06.2007 |
|---|---|---|
| **Profit (loss) before tax** | **788 005** | **778 744** |
| **Total adjustments:** | **237 878** | **(329 238)** |
| Share in net profits (losses) of entities accounted for by the equity method | 44 | (36) |
| Depreciation | 50 558 | 68 098 |
| Impairment losses | 125 | - |
| Gains (losses) on exchange differences | (2 420) | (129) |
| Interests and similar charges | 87 267 | 519 |
| Dividend income | (69 634) | (64 446) |
| (Profit) loss from investing activities | (15 445) | (4 125) |
| Change in provisions | (57 235) | 7 596 |
| Change in trading portfolio financial instruments | 30 933 | 714 468 |
| Change in loans and advances to banks | (191 258) | 436 597 |
| Change in loans and advances to customers | (4 320 936) | (3 027 951) |
| Change in deposits from banks | 427 043 | 517 567 |
| Change in deposits from customers | 3 957 959 | 1 023 219 |
| Change in liabilities arising from debt securities in issue | (67 524) | (93) |
| Change in assets and liabilities arising from deferred taxation | (283) | 859 |
| Change in other assets and liabilities | 596 491 | 104 647 |
| Paid income tax | (188 708) | (106 556) |
| Other adjustments | 901 | 528 |
| **Net cash flow from operating activities - indirect method** | **1 025 883** | **449 506** |
| **Inflows** | **1 748 051** | **1 724 387** |
| Sale of shares or interests in subsidiaries and associates | 2 525 | - |
| Sale of investment securities | 1 668 591 | 1 658 146 |
| Sale of intangible and tangible fixed assets | 7 297 | 1 792 |
| Dividends received | 69 634 | 64 446 |
| Proceeds from other investments | 4 | 3 |
| **Outflows** | **(2 680 244)** | **(2 768 766)** |
| Purchase of subsidiaries and associates | (33 531) | - |
| Purchase of investment securities | (2 574 285) | (2 741 219) |
| Purchase of intangible and tangible fixed assets | (72 371) | (26 372) |
| Other investments | (57) | (1 175) |
| **Net cash flow from investing activities** | **(932 193)** | **(1 044 379)** |
| **Inflows** | **873 538** | **811 346** |
| Drawing of long-term loans | 873 538 | 768 837 |
| Issue of debt securities | - | 42 509 |
| **Outflows** | **(711 655)** | **(969 104)** |
| Repayment of long-term loans | (345 644) | (368 855) |
| Debt securities buy out | (3 069) | (99 083) |
| Dividends and other payments to shareholders | (309 036) | (475 485) |
| Other financing outflows | (53 906) | (25 681) |
| **Net cash flow from financing activities** | **161 883** | **(157 758)** |
| **Total net cash flow** | **255 573** | **(752 631)** |
| **Cash at the beginning of the accounting period** | **2 238 539** | **1 547 604** |
| **Cash at the end of the accounting period** | **2 494 112** | **794 973** |

In thousands of PLN

## Additional notes to consolidated financial statements

### 5. 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. Consolidated financial statements of Bank Zachodni WBK S.A. includes bank's stand alone financial information as well as information from its subsidiaries (all together called Group), share of net assets of associated entities and joint ventures. The bank's ultimate parent company is Allied Irish Bank plc.

Group of Bank Zachodni WBK consists of the following entities:

Subsidiaries:

| | Subsidiaries | Registered office | % of votes on AGM 30.06.2008 | % of votes on AGM 31.12.2007 | % of votes on AGM 30.06.2007 |
|---|---|---|---|---|---|
| 1. | BZ WBK Faktor Sp. z o.o. | Warszawa | 100,00 | 100,00 | 100,00 |
| 2. | BZ WBK Inwestycje Sp. z o.o. | Poznań | 100,00 | 100,00 | 100,00 |
| 3. | Dom Maklerski BZ WBK S.A. | Poznań | 99,99 | 99,99 | 99,99 |
| 4. | BZ WBK Finanse & Leasing S.A. | Poznań | 99,99 | 99,99 | 99,99 |
| 5. | BZ WBK Leasing S.A. | Poznań | 99,99 | 99,99 | 99,99 |
| 6. | BZ WBK Nieruchomości S.A. | Poznań | 99,99 | 99,99 | 99,99 |
| 7. | Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp. z o.o. | Poznań | - | 60,00 | 60,00 |
| 8. | BZ WBK AIB Asset Management S.A.** | Poznań | 50,00 | 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. | 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.

In thousands of PLN

Associates:

| | Associates | Registered office | % of votes on AGM 30.06.2008 | % of votes on AGM 31.12.2007 | % of votes on AGM 30.06.2007 |
|---|---|---|---|---|---|
| 1. | POLFUND - Fundusz Poręczeń Kredytowych S.A. | Szczecin | 50,00 | 50,00 | 50,00 |
| 2. | NFI Magna Polonia S.A. | Warszawa | - | 27,53 | 28,77 |

Joint ventures:

| | Joint venture | Registered office | % of votes on AGM 30.06.2008 | % of votes on AGM 31.12.2007 | % of votes on AGM 30.06.2007 |
|---|---|---|---|---|---|
| 1. | BZ WBK - CU Towarzystwo Ubezpieczeń Ogólnych S.A. | Poznań | 50,00 | - | - |
| 2. | BZ WBK - CU Towarzystwo Ubezpieczeń na Życie S.A. | Poznań | 50,00 | - | - |

Bank Zachodni WBK S.A. made a transaction of partial disposal of NFI Magna Polonia shares. Shares representing 19.97% of votes at the AGM of NFI Magna Polonia were sold, while the remaining portion (7.56%) is recognized as investment securities.

On 12.06.2008, an agreement was made between Bank Zachodni WBK S.A. and Commercial Union Polska sp. z o.o. with its registered seat in Warsaw regarding the sale of shareholding in Brytyjsko-Polskie Towarzystwo Finansowe WBK CU sp. z o.o. seated in Poznań. Under the agreement, Bank Zachodni WBK SA sold all its 420 shares of Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp. z o.o. of total nominal value at PLN 210 000, which represented 60% of the share capital.

In 1H 2008 BZWBK S.A. in cooperation with Aviva International Insurance Ltd formed two jointly controlled entities: BZ WBK - CU Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK - CU 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. On the 6th of June 2008, both of them received a permission from Financial Supervisory Commission to start statutory actions.

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

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

In thousands of PLN

| | FINANCIAL HIGHLIGHTS | PLN | | EUR | |
|---|---|---|---|---|---|
| | for the period: | 01.01.2008 - 30.06.2008 | 01.01.2007 - 30.06.2007 | 01.01.2008 - 30.06.2008 | 01.01.2007 - 30.06.2007 |
| | Consolidated financial statements | | | | |
| I | Interest and similar income | 1 458 180 | 944 665 | 419 306 | 245 457 |
| II | Fee and commission income | 831 760 | 868 907 | 239 176 | 225 772 |
| III | Operating profit | 788 049 | 778 708 | 226 607 | 202 335 |
| IV | Gross profit | 788 005 | 778 744 | 226 594 | 202 345 |
| V | Net profit attributable to the Company's equity holders | 567 538 | 558 596 | 163 198 | 145 143 |
| VI | Total net cash flow | 255 573 | (752 631) | 73 491 | (195 560) |
| VII | Total assets | 47 062 938 | 35 227 004 | 14 031 047 | 9 354 454 |
| VIII | Deposits from banks | 5 438 463 | 3 555 187 | 1 621 389 | 944 072 |
| IX | Deposits from customers | 33 723 646 | 25 218 039 | 10 054 155 | 6 696 595 |
| X | Total liabilities | 42 270 979 | 31 078 403 | 12 602 403 | 8 252 802 |
| XI | Total equity | 4 791 959 | 4 148 601 | 1 428 644 | 1 101 652 |
| XII | Minority interest | 203 294 | 152 326 | 60 609 | 40 450 |
| XIII | Net profit attributable to the Minority | 60 334 | 72 927 | 17 349 | 18 949 |
| XIV | Number of shares | 72 960 284 | 72 960 284 | | |
| XV | Net book value per share in PLN/EUR | 65,68 | 56,86 | 19,58 | 15,10 |
| XVI | Solvency ratio | 10,99% | 13,34% | | |
| XVII | Profit (loss) per share in PLN/ EUR | 7,78 | 7,66 | 2,24 | 1,99 |
| XVIII | Diluted earnings (loss) per share in PLN/EUR | 7,77 | 7,65 | 2,23 | 1,99 |
| XIX | Declared or paid dividend per share in PLN/EUR | 3,00 | 6,00 | 0,89 | 1,59 |

| | Stand alone financial statements | | | | |
|---|---|---|---|---|---|
| I | Interest and similar income | 1 360 549 | 882 318 | 391 232 | 229 257 |
| II | Fee and commission income | 531 615 | 484 988 | 152 868 | 126 017 |
| III | Operating profit | 722 714 | 629 934 | 207 820 | 163 679 |
| IV | Gross profit | 722 714 | 629 934 | 207 820 | 163 679 |
| V | Net profit | 606 590 | 537 480 | 174 428 | 139 656 |
| VI | Total net cash flow | 264 289 | (753 747) | 75 998 | (195 850) |
| VII | Total assets | 44 468 983 | 33 086 456 | 13 257 702 | 8 786 036 |
| VIII | Deposits from banks | 3 605 694 | 2 495 924 | 1 074 979 | 662 787 |
| IX | Deposits from customers | 34 248 702 | 25 551 023 | 10 210 692 | 6 785 019 |
| X | Total liabilities | 40 329 402 | 29 460 380 | 12 023 553 | 7 823 140 |
| XI | Equity attributable to the Company's equity holders | 4 139 581 | 3 626 076 | 1 234 149 | 962 897 |
| XII | Number of shares | 72 960 284 | 72 960 284 | | |
| XIII | Net book value per share in PLN/EUR | 56,74 | 49,70 | 16,92 | 13,20 |
| XIV | Solvency ratio | 10,07% | 11,85% | | |
| XV | Profit (loss) per share in PLN/ EUR | 8,31 | 7,37 | 2,39 | 1,91 |
| XVI | Diluted earnings (loss) per share in PLN/EUR | 8,30 | 7,36 | 2,39 | 1,91 |
| XVII | Declared or paid dividend per share in PLN/EUR | 3,00 | 6,00 | 0,89 | 1,59 |

The following principles were applied in order to convert financial figures into EUR:

- for balance sheet items – 3,3542 PLN rate to EUR as at 30.06.2008 stated by National Bank of Poland (NBP), 3,7658 PLN rate to EUR as at 30.06.2007.
- For profit and loss items - as at 30.06.2008 – 3,4776 (an average PLN rate to EUR in NBP on the last day of each month in 2008), as at 30.06.2007 – 3,8486 (an average PLN rate to EUR in NBP on the last day of each month in 2007)

## 6. Significant accounting policies

### Statement of compliance

Condensed interim consolidated financial statements of Bank Zachodni WBK S.A. for the period from 1 January 2008 to 30 June 2008 were prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union and other applicable regulations.

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

| Standard or interpretation | Character of changes | Effective from | Impact on the Group |
|---|---|---|---|
| Amendments to IFRS 2 *Share based payments* | The amendments introduce guidance on accounting for non-vesting conditions. | 1 January 2009 | The Group has not yet completed its analysis of the impact of the amendments. |
| IFRS 3 (Revised) *Business Combinations* | The scope of the revised standard has been broadened (some business combinations excluded from the previous version of the standard have not been excluded from the scope of the revised IFRS 3). A definition of a business has been altered in order to be more precise. The definition of contingent liabilities capable of being recognised in the business combination has been narrowed. Transaction costs are no longer included in the cost of the combination. Rules of recognition of contingent consideration have been modified (to fair value measurement). Non-controlling (minority) interest may be measured at fair value. | 1 July 2009 | The Group has not yet completed its analysis of the impact of the amendments. |

| | | | |
|---|---|---|---|
| IFRS 8 *Operating Segments* | The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. | 1 January 2009 | The Group has not yet completed its analysis of the impact of the amendments. |
| Revised IAS 1 Presentation of Financial Statements | The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). | 1 January 2009 | The Group has not yet completed its analysis of the impact of the amendments. |
| Revised IAS 23 *Borrowing Costs* | The revised Standard will require the capitalization of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. | 1 January 2009 | The Group has not yet completed its analysis of the impact of the amendments. |
| Amendments to IAS 27 *Consolidated and Separate Financial Statements* | In relation with the revised IFRS 3 (above), the changes introduced to IAS 27 include the following:<br>• changed definition of non-controlling (minority) interest;<br>• regulation of recognition and measurement of transactions with non-controlling interest while retaining control;<br>• changed recognition and measurement of loss of control;<br>• new disclosure requirements. | 1 July 2009 | The Group has not yet completed its analysis of the impact of the amendments. |

| | | | |
|---|---|---|---|
| Amendments to IAS 32: *Financial Instruments - Presentation* and IAS 1: *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation | The amendments provide an exemption to the principle otherwise applied in IAS 32 for the classification of some puttable financial instruments as equity. The amendments require certain financial instruments that represent a residual interest in the net assets of an entity, which would otherwise be classified as financial liabilities, to be classified as equity, if both the financial instrument and the capital structure of the issuing entity meet certain conditions. | 1 January 2009 | The Group has not yet completed its analysis of the impact of the amendments. |
| IFRIC 13 *Customer Loyalty Programmes* | The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations. | 1 July 2008 | Implementation of this IFRIC will not have a material impact on the Group. |

**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 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 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.
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.

## 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, 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 not control, over the financial and operating policies.

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 the income statement except for differences arising on retranslation of available for sale equity instruments.

**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;
- 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 it 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.

***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.

***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***

Other 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 repo transactions and debt securities in issue.

**Recognition**

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

A regular way purchase or sale of a financial asset classified at fair value through profit or loss and available for sale are recognised using settlement date accounting. The method is applied consistently for all purchases and sales of financial assets.

Loans are recognised when cash is advanced to the borrowers.

**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.

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

**Repo and Reverse Repo**

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 same price plus initially agreed interest.

Securities sold subject to repurchase agreements ("repos") are not derecognised at the balance sheet date. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements.

Securities purchased subject to resale agreements ("reverse repos") are not recognised at the balance sheet date. The difference between purchase and resale price is treated as interest and accrued over the life of the agreements.

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

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

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

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

**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 equity, until the financial asset is derecognised, at which time the cumulative gain or loss 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 tested for impairment.

**Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet 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.

**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 going 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 or 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 equity 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 & loss statement as net interest income.

**Impairment of financial assets**

***Assets carried at amortised cost***

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is 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;

(a) 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 rating classifications),
- with reference to the portfolio of credit exposures which individually are not significant.

With regard to impairment, the review of individual loan exposures is carried out once a quarter or more often, if needed. Impairment for the portfolio, which is assessed jointly, is verified monthly.

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 (Bank) carries out the impairment analysis based on the concept of losses already incurred but not yet reported and connected with loan impairment (IBNR), 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 corrections, 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, a time will come when 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 beyond the prospect of recovery is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

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

For financial assets classified as available-for-sale for which there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss. The amount of the cumulative loss that is removed from equity 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 in profit or loss, 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.

***Off balance sheet liabilities***

The Group creates provisions towards 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.

**Finance lease receivables**

Leases where the Group transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as finance leases. A receivable at an amount equal to the net investment in the lease is recognised.
The recognition of finance lease income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.
Finance lease receivables are included in loans and advances to customers.

## Property, plant and equipment

### *Owned assets*

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

### *Leased assets*

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The 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 an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

### *Depreciation*

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

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

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

### *Fixed assets held for sale*

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

Any initial or subsequent write-down of the asset 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. Useful life of computer software is defined and it range from 3 to 5 years.

### *Other intangible assets*

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation and impairment losses. Useful life of other intangible assets is defined and it range from 3 to 5 years.

### *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

#### *Other trade and other receivables*

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

#### *Borrowings*

Borrowings are recognised initially at fair value, being the issue proceeds (fair value of consideration received) net of transaction costs occurred. Borrowings are subsequently stated at amortised cost.

#### *Liabilities*

Liabilities, other than financial liabilities held for trading, are stated at cost.

## Impairment of assets other than financial assets

The carrying amounts of the Group's assets, other than financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### *Calculation of recoverable amount*

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

On the day of 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.

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 particular year, which have been declared but not paid at the balance sheet date are recognised as dividend liabilities in "other liabilities" item.

### Employee benefits

***Short-term service benefits***

The Group's short-term employment benefits 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 benefit that employees have earned in return for their service in the current and prior periods. The accrual for retirement bonus granted under the provisions of the Collective Labour Agreement and terms of individual employee contracts as well as the accrual for disability pension bonus were estimated on the basis of an actuarial valuation. The actuarial valuation of those accruals is updated at least once a year.
The identifiable actuarial gains and losses include: retrospective adjustments to the actuarial assumptions being the difference between the previous actuarial assumptions and the actual occurrences and the effects of changes in the actuarial assumptions.

***Profit Sharing Scheme***

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

### *Share based payments*

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

**Provisions**

A provision is recognised in the balance sheet when the 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 off balance sheet items such as guarantees, letters of credit, and unutilised irrevocable credit facilities are recognised in accordance with this policy.

### Net interest income

Interest income and expenses for all financial instruments is recognised in the income statement at amortised cost using the effective interest rate method.
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees (e.g. arrangement, drawdown, renewal, restructure fees and fees for annexes which modify payments) and points paid or received

between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.
In case 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 includes also foreign currency exchange profits/losses.

**Net trading income and revaluation**

Net trading income and revaluation includes all profits and losses resulting from changes in fair value of financial assets and liabilities classified as held for trading that are measured at fair value through profit and loss. Interest costs and incomes related to the above mentioned 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 set as a difference between the net asset value and their sale price.
Profit on the sale of interests in associates is set as a difference between the carrying amount and their sale price.

**Other operating income and costs**

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

### Operating lease payments

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

### Finance lease payments

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

### Corporate income tax

Corporate income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.
Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.
Deferred income tax is provided, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the balance sheet date 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.

## 7. Segmental reporting

BZ WBK Group’s operating activities have been divided into four business segments: Branch and Corporate operations, Treasury operations, Investment Banking and Leasing operations.

- Activity of the Branch and Corporate operations Segment comprises branch network operations, Corporate Banking and the related internet distribution of services and products.
- Activity of the Treasury 0perations Segment comprises foreign exchange and interbank transactions as well as transactions in derivative instruments and debt securities.
- Activity of the Investment Banking Segment includes capital market investments of Bank Zachodni WBK S.A., asset management and brokerage operations.
- Leasing Operations Segment centralises the Group’s leasing activity.

Income and costs of the individual segment mean income and costs earned/incurred on sales to external clients or on transactions with other segments of the Group. They are disclosed in the P&L account and can be allocated to a particular business segment on a rational basis.

The segment’s assets and liabilities are operational assets and liabilities used by that segment in its operating activities. They can be, based on rational premises, allocated to a particular business segment.

Allocations of internal income and expenses were taken into account in determining the profitability of individual segments. Sale prices between the segments are close to market prices. Operating costs and income are appropriately allocated to a relevant segment. Costs and income, which cannot be rationally assigned, are stated in “unallocated costs” and “unallocated income”.

BZ WBK Group operates exclusively in the territory of Poland and no significant differences in risk were identified as regards the geographical location of its outlets. Therefore, the issuer did not present financial statements with a breakdown into geographical segments.

In thousands of PLN

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

| 30.06.2008 | Branch and Corporate operations | Treasury operations | Investment banking | Leasing operations | Eliminations | Total |
|---|---|---|---|---|---|---|
| **1. Total segments income** | **2 130 758** | **399 902** | **406 261** | **115 733** | **(668 964)** | **2 383 690** |
| Segments income (external) | 1 759 149 | 145 174 | 364 861 | 114 506 | - | **2 383 690** |
| Segments income (internal) | 371 609 | 254 728 | 41 400 | 1 227 | (668 964) | **-** |
| **2. Total segments costs** | **(1 628 001)** | **(317 329)** | **(211 488)** | **(91 338)** | **668 964** | **(1 579 192)** |
| Segments costs (external) | (1 331 782) | (22 105) | (151 711) | (73 594) | - | **(1 579 192)** |
| Segments costs (internal) | (296 219) | (295 224) | (59 777) | (17 744) | 668 964 | **-** |
| **3. Dividend income** | | | **69 634** | | | **69 634** |
| **4. Movements in provisions** | **(16 447)** | **-** | **-** | **(3 390)** | **-** | **(19 837)** |
| Write off | (260 252) | - | - | (29 116) | - | **(289 368)** |
| Write back | 243 805 | - | - | 25 726 | - | **269 531** |
| **5. Segments income on investment in associates and joint ventures** | **-** | **-** | **(44)** | **-** | **-** | **(44)** |
| **6. Segments gross profit** | **486 310** | **82 573** | **264 363** | **21 005** | **-** | **854 251** |
| 7. Unallocated income | | | | | | - |
| 8. Unallocated costs | | | | | | (66 246) |
| **9. EBT** | | | | | | **788 005** |
| 10. Income tax | | | | | | (160 133) |
| 11. Minority interest | | | | | | (60 334) |
| **12. Profit for the period** | | | | | | **567 538** |

In thousands of PLN

**Additional information**

| 30.06.2008 | Branch and Corporate operations | Treasury operations | Investment banking | Leasing operations | Total |
|---|---|---|---|---|---|
| **1. Segments assets** | 23 973 297 | 16 019 531 | 1 121 259 | 2 756 824 | **43 870 911** |
| **2. Segments investments in associates and joint ventures** | - | - | 43 353 | - | **43 353** |
| **3. Unallocated assets** | - | - | - | - | **3 148 674** |
| **Total assets** | 23 973 297 | 16 019 531 | 1 164 612 | 2 756 824 | **47 062 938** |
| **1. Segments liabilities** | 32 904 930 | 4 807 654 | 1 368 698 | 2 114 593 | **41 195 875** |
| **2. Unallocated liabilities** | | | | | **1 075 104** |
| **3. Equity** | | | | | **4 791 959** |
| **Total liabilities** | 32 904 930 | 4 807 654 | 1 368 698 | 2 114 593 | **47 062 938** |
| **1. Amortisation** | 34 132 | 9 777 | 3 079 | 1 328 | **48 316** |
| **2. Capital expenditures** | 62 888 | 1 446 | 6 616 | 1 129 | **72 079** |

In thousands of PLN

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

| 30.06.2007 | Branch and Corporate operations | Treasury operations | Investment banking | Leasing operations | Eliminations | Total |
|---|---|---|---|---|---|---|
| **1. Total segments income** | **1 524 750** | **325 826** | **512 133** | **78 611** | **(570 340)** | **1 870 980** |
| Segments income (external) | 1 189 224 | 123 349 | 480 551 | 77 856 | - | **1 870 980** |
| Segments income (internal) | 335 526 | 202 477 | 31 582 | 755 | (570 340) | **-** |
| **2. Total segments costs** | **(1 127 035)** | **(260 642)** | **(252 272)** | **(58 205)** | **570 340** | **(1 127 814)** |
| Segments costs (external) | (893 458) | (21 332) | (162 818) | (50 206) | - | **(1 127 814)** |
| Segments costs (internal) | (233 577) | (239 310) | (89 454) | (7 999) | 570 340 | **-** |
| **3. Dividend income** | **-** | **-** | **64 446** | **-** | **-** | **64 446** |
| **4. Movements in provisions** | **27 630** | **-** | **-** | **(3 271)** | **-** | **24 359** |
| Write off | (126 500) | - | - | (9 339) | - | **(135 839)** |
| Write back | 154 130 | - | - | 6 068 | - | **160 198** |
| **5. Segments income on investment in associates** | **-** | **-** | **36** | **-** | **-** | **36** |
| **6. Segments gross profit** | **425 345** | **65 184** | **324 343** | **17 135** | **-** | **832 007** |
| 7. Unallocated income | | | | | | - |
| 8. Unallocated costs | | | | | | (53 263) |
| **9. EBT** | | | | | | **778 744** |
| 10. Income tax | | | | | | (147 221) |
| 11. Minority interest | | | | | | (72 927) |
| **12. Profit for the period** | | | | | | **558 596** |

In thousands of PLN

**Additional information**

| 30.06.2007 | Branch and Corporate operations | Treasury operations | Investment banking | Leasing operations | Total |
|---|---|---|---|---|---|
| **1. Segments assets** | 18 386 367 | 12 199 299 | 1 096 439 | 2 112 962 | **33 795 067** |
| **2. Segments investments in associates** | | | 35 936 | | **35 936** |
| **3. Unallocated assets** | | | | | **1 396 001** |
| **Total assets** | 18 386 367 | 12 199 299 | 1 132 375 | 2 112 962 | **35 227 004** |
| **1. Segments liabilities** | 23 724 823 | 3 214 252 | 1 393 020 | 1 731 921 | **30 064 016** |
| **2. Unallocated liabilities** | | | | | **1 014 387** |
| **3. Equity** | | | | | **4 148 601** |
| **Total liabilities** | 23 724 823 | 3 214 252 | 1 393 020 | 1 731 921 | **35 227 004** |
| **1. Amortisation** | 59 542 | 791 | 2 143 | 1 105 | **63 581** |
| **2. Capital expenditures** | 20 231 | 104 | 4 304 | 3 051 | **27 690** |

## 8. Risk management

BZWBK Group assumes a variety of risks in its ordinary business activities. These includes credit risk, market risk, liquidity risk and operational risk. The role of risk management is to ensure that BZWBK continues to take risk in controlled way in order to enhance shareholders 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: Asset and Liabilities Committee (ALCo), Operational Risk Management Committee (ORMCo) and Credit Committees.

ALCO is chaired by MB President and is responsible for capital, funding, liquidity, market risk and structural balance sheet activities. Upon the recommendation from the ALCo the MB approves the Strategies and Policies for liquidity, market and structural balance sheet risk management along with the limits that define the maximum acceptable exposure to individual risk types.

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

### Operating risk

BZWBK 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 S.A. operates the 'Operational Risk Management Policy' and the 'Rules of Operational Risk Management'. In addition, detailed procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated.

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

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

- Identification and estimation of operational risk

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

- Reporting on operational incidents and lessons learned

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

- Analysis of risk indicators

  Risk indicators are financial and operational indicators which depict the risk level present in Bank Zachodni WBK 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 the 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 Management Board and Supervisory Board

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

- Insurance

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

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

**Credit risk**

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

Credit risk arises mainly from lending activities on the retail, corporate and inter-bank markets. This risk is managed as part of the policy approved by the Management Board on the basis of the adopted credit delivery procedures as well as on the basis of discretionary limits 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.

***Credit Policy Forum***

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

***Credit Policies***

Credit policies contain guidelines for the identification and assessment of areas where specific types of risks manifest themselves and also provide the methods of limiting those risks to a level acceptable to the bank (e.g. FX risk in the case of foreign currency loans). Credit policies comply with the AIB Group standards and are adapted to the local credit market conditions where Group of Bank Zachodni WBK operates.

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.

The Bank carries out monitoring of credit grading periodically according to the rules described in Credit Manuals. Additionally, for selected models automated process of credit grade verification is carried out based on the number of due days or behavioural features analysis of clients. Change of credit grade may result from the subsequent credit approval decisions or in case of arising new circumstances that are basis for reclassification.

***Provisioning***

In Bank Zachodni WBK S.A. and its subsidiaries provisions are raised in accordance with the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS). The provisions reflect credit impairment which is recognised if the Group presents an objective evidence that such amounts cannot be recovered in line with the signed loan agreement. The impairment is calculated on the basis of the estimated recoverable amount. Impairments are analysed using both the individual and collective approach.

Ensuring adequate level of provisions is the responsibility of the Provisions Committee.

### *Credit risk stress testing*

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

### *Return on Risk*

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

### *Credit Decision Making Process*

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

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

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

### *Credit Reviews*

The 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 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 30.06.2008, pursuant to art. 71 of the Banking Law Act, the maximum limits for the bank totalled:

- PLN 830 519 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 1 038 149 k (25% of Group's own funds) in other cases.

In thousands of PLN

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 June 2008, proved that the Group does not have any exposures in excess of the limits imposed by the regulator.

As at 30 June 2008, the Group had credit exposures (balance sheet and off-balance sheet) exceeding 10% of its own funds attributable to 3 entities which accounted for 41,5% of own funds (against the permissible norm of 800%).

A list of the 20 largest borrowers of Bank Zachodni WBK SA (performing loans) as at 30.06.2008 (excluding subsidiaries).

| No. | Industry code (PKD) | Total credit exposure | Balance sheet exposure | Committed credit lines and guarantees |
|---|---|---|---|---|
| 1 | 68.10 | 587 316 | 462 985 | 124 331 |
| 2 | 41.10 | 585 466 | 507 436 | 78 030 |
| 3 | 68.20 | 549 275 | 545 075 | 4 200 |
| 4 | 41.10 | 346 233 | 87 867 | 258 365 |
| 5 | none | 310 055 | - | 310 055 |
| 6 | 11.05 | 310 000 | - | 310 000 |
| 7 | 16.21 | 281 050 | - | 281 050 |
| 8 | 68.20 | 278 247 | 90 301 | 187 945 |
| 9 | 41.10 | 255 422 | 91 146 | 164 277 |
| 10 | 41.10 | 243 570 | 210 372 | 33 198 |
| 11 | 99.99 | 229 279 | 133 641 | 95 639 |
| 12 | 41.10 | 218 023 | 218 023 | - |
| 13 | 68.10 | 214 390 | 199 389 | 15 000 |
| 14 | 68.20 | 201 923 | 201 923 | - |
| 15 | 64.19 | 200 000 | - | 200 000 |
| 16 | 68.31 | 199 746 | 66 216 | 133 530 |
| 17 | 41.10 | 195 569 | - | 195 569 |
| 18 | 52.00 | 193 962 | - | 193 962 |
| 19 | 41.10 | 190 648 | 190 648 | - |
| 20 | 19.20 | 180 858 | 148 358 | 32 500 |
| | | **5 771 032** | **3 153 380** | **2 617 652** |

## Credit risk management

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

The tables below present Group exposure to credit risk.

## Credit Exposures by classes

The table below presents breakdown of loans to customers into classes which correspond to different levels of impairment. There are separate percentage levels for unimapaired 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 | |
|---|---|---|---|---|---|---|---|---|---|
| | | 30.06.2008 | 30.06.2007 | 30.06.2008 | 30.06.2007 | 30.06.2008 | 30.06.2007 | 30.06.2008 | 30.06.2007 |
| **Individually impaired** | | | | | | | | | |
| *class 5* | *up to 50 %* | 121 587 | 211 289 | | | | | | |
| *class 6* | *50% - 70%* | 18 127 | 36 662 | | | | | | |
| *class 7* | *70% - 85%* | 12 044 | 54 867 | | | | | | |
| *class 8* | *over 85 %* | 162 265 | 178 386 | 5 969 | 5 969 | | | | |
| **Gross amount** | | **314 023** | **481 204** | **5 969** | **5 969** | **-** | **-** | **-** | **-** |
| Allowance for impairment | | (198 885) | (256 137) | (5 969) | (5 969) | | | | |
| **Net amount** | | **115 138** | **225 067** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Collectively impaired** | | | | | | | | | |
| *class 5* | *up to 50 %* | 123 319 | 88 068 | | | | | | |
| *class 6* | *50% - 70%* | 74 099 | 53 180 | | | | | | |
| *class 7* | *70% - 85%* | 55 563 | 121 675 | | | | | | |
| *class 8* | *over 85 %* | 123 892 | 90 911 | | | | | | |
| **Gross amount** | | **376 873** | **353 834** | **-** | **-** | **-** | **-** | **-** | **-** |
| Allowance for impairment | | (244 544) | (250 772) | | | | | | |
| **Net amount** | | **132 329** | **103 062** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Not impaired portfolio (past-due and non-past due)** | | | | | | | | | |
| *class 1* | *up to 0,10 %* | 14 271 103 | 3 345 604 | 2 760 567 | 2 736 901 | 10 448 974 | 8 996 182 | 1 514 527 | 423 353 |
| *class 2* | *0,10% - 0,30%* | 8 955 731 | 4 795 177 | | | | | | |
| *class 3* | *0,30% - 0,65%* | 3 502 433 | 3 954 963 | | | | | | |
| *class 4* | *over 0,65 %* | 1 359 554 | 8 291 063 | | | | | | |
| **Gross amount** | | **28 088 821** | **20 386 807** | **2 760 567** | **2 736 901** | **10 448 974** | **8 996 182** | **1 514 527** | **423 353** |
| Allowance for impairment | | (134 207) | (118 869) | | | | | | |
| **Net amount** | | **27 954 614** | **20 267 938** | **2 760 567** | **2 736 901** | **10 448 974** | **8 996 182** | **1 514 527** | **423 353** |
| **Other receivables** | | **70 989** | **54 115** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Off- balance sheet exposures** | | | | | | | | | |
| Financing granted | | 9 654 170 | 6 433 239 | | | | | | |
| Guarantees | | 876 936 | 681 302 | | | | | | |
| Nominal value of derivatives -sold | | 140 944 416 | 84 186 929 | | | | | | |
| **Off- balance sheet exposure- total** | | **151 475 522** | **91 301 470** | | | | | **-** | **-** |

In thousands of PLN

Change in risk profile of IBNR portfolio resulted from implementation of the new rating system for investment property loans. This change introduced new (lower) probability of default ratios, that resulted in reclassification of significant part of that portfolio into classes with lower provision cover (PC).

## IBNR portfolio

| | Loans and advances to customers | |
|---|---|---|
| | 30.06.2008 | 30.06.2007 |
| **Not impaired portfolio** | | |
| **Non-past due** | **27 093 992** | **19 557 447** |
| **Past-due** | **994 829** | **829 360** |
| *0-30 days* | 838 526 | 735 500 |
| *30-60 days* | 117 953 | 72 261 |
| *60-90 days* | 38 350 | 21 599 |
| **Gross amount** | **28 088 821** | **20 386 807** |

Portfolio of loans with incurred but not reported losses (IBNR) includes loans that in the past had renegotiated terms of agreements and would have otherwise been impaired. For the current reporting period and comparable period it was PLN 37,660 k and PLN 26,200 k respectively.

## Allowances for impairment by classes

| | Loans and advances to customers | | Loans and advances to banks | |
|---|---|---|---|---|
| | 30.06.2008 | 30.06.2007 | 30.06.2008 | 30.06.2007 |
| **Individual allowances for impairment** | | | | |
| *class 5* | (16 517) | (26 179) | | |
| *class 6* | (12 115) | (23 487) | | |
| *class 7* | (10 000) | (41 036) | | |
| *class 8* | (160 253) | (165 435) | (5 969) | (5 969) |
| **Total individual allowances for impairment** | **(198 885)** | **(256 137)** | **(5 969)** | **(5 969)** |
| **Collective allowances for impairment** | | | | |
| *class 5* | (34 042) | (34 731) | - | - |
| *class 6* | (46 418) | (32 460) | - | - |
| *class 7* | (42 915) | (95 200) | - | - |
| *class 8* | (121 169) | (88 381) | - | - |
| **Total collective allowances for impairment** | **(244 544)** | **(250 772)** | **-** | **-** |
| **IBNR** | | | | |
| *class 1* | (9 861) | (2 514) | - | - |
| *class 2* | (21 075) | (9 092) | - | - |
| *class 3* | (19 740) | (18 515) | - | - |
| *class 4* | (83 531) | (88 748) | - | - |
| **Total IBNR** | **(134 207)** | **(118 869)** | **-** | **-** |
| **Total allowances for impairment** | **(577 636)** | **(625 778)** | **(5 969)** | **(5 969)** |

In thousands of PLN

### Risk weighted off-balance sheet liabilities

| Off- balance sheet liabilities | 30.06.2008 carrying amount | 30.06.2008 RWA | 30.06.2007 carrying amount | 30.06.2007 RWA |
|---|---|---|---|---|
| **Sanctioned** | | | | |
| *Financing granted* | 9 654 170 | 3 764 934 | 6 433 239 | 2 791 294 |
| *Guarantees* | 876 936 | 429 552 | 681 302 | 379 473 |
| **Total** | **10 531 106** | **4 194 486** | **7 114 541** | **3 170 767** |

## Collateral

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

### Individual customers

| Type of loan | Type of collateral |
|---|---|
| Cash loan | bills, guarantees, credit insurance |
| Credit on liquid assets | guaranty deposit, amounts frozen on account, investment funds |
| Student loan | sureties |
| Housing loan | mortgage, credit insurance, transfer of claim |

### Business customers

| Type of loan | Type of collateral |
|---|---|
| Commercial credit | guaranty deposit, registered pledge, bills |
| Revolving credit | assignment of credit, bills, guarantees, registered pledge |
| Building credit | mortgage |
| Investment credit | mortgage, sureties, warranty |
| Granted and with supplements | guarantees, warranty |

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 Bank aims at voluntary proceedings in the course of collateral execution. When there is no evidence of cooperation with a collateral provider, the Bank's rights are fulfilled in compliance with the law and internal regulations in the bancrupcy 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 bank provides funding to sectors and groups or capital units representing a variety of industries. As at 30 June 2008, the highest concentration level was recorded in the "property service" (17% of the BZ WBK Group exposure). Such a concentration level is compliant with the bank's lending policies and the related risk is fully acceptable.

In thousands of PLN

Groups of PKD by industries:

| | Industry | Exposure | |
|---|---|---|---|
| | | 30.06.2008 | 30.06.2007 |
| | Property service | 4 848 286 | 4 679 641 |
| | Production | 4 603 263 | 3 909 598 |
| | Construction* | 3 957 394 | 994 545 |
| | Distribution | 3 391 611 | 2 812 853 |
| | Agriculture | 881 593 | 757 474 |
| | Transportation | 881 509 | 777 015 |
| | Financial sector | 833 287 | 398 195 |
| | Energy | 330 525 | 543 187 |
| | Other industries | 1 694 446 | 1 330 169 |
| **A** | **Total Business Loans** | **21 421 914** | **16 202 677** |
| **B** | **Personal (including mortgage loans)** | **7 311 710** | **4 961 127** |
| **A+B** | **BZWBK Group portfolio** | **28 733 624** | **21 163 804** |
| **C** | **Other receivables (commercial bonds, reverse repo)** | **34 640** | **23 741** |
| **A+B+C** | **Total BZ WBK Group** | **28 768 264** | **21 187 545** |

Nominal value of portfolio adjusted for unamortised commissions
*Increase of credits in Construction industry results form a significant increase of income producing property lendings and from the change in their PKD classification made in Apil 2008 (from Property Service to Construction industry).

## Geographical concentration

BZ WBK Group is concentrated on running credit activities in the territory of the Republic of Poland – exposure towards non-residents represents a marginal part of the bank's portfolio. In Poland, the credit activities are nationwide with a focus on the marketplace of large cities (Warszawa, Poznań, Wrocław, Gdańsk, Kraków, Łódź), which stems from the location of the bank's business units – branches and Corporate Business Centres.
The bank's operational structure is based on three macroregions: Poznań (provinces: Wielkopolskie, Zachodniopomorskie, Kujawsko-Pomorskie and Lubuskie), Warsaw (provinces: Mazowieckie, Warmińsko-Mazurskie, Podlaskie, Lubelskie, Pomorskie and Łódzkie) and Wrocław (provinces: Dolnośląskie, Śląskie, Opolskie, Świętokrzyskie, Małopolskie and Podkarpackie). Concentration in macroregion Warsaw accounts for 40% of the bank's total exposure, in macroregion Poznań 31% and Wrocław 28%. The macroregions are divided into regions.

In thousands of PLN

| | 30.06.2008 | 30.06.2007 |
|---|---|---|
| **BZ WBK Group*** | **28 867 991** | **21 277 370** |
| **Macroregion Poznań** | **9 296 094** | **7 403 655** |
| Region Poznań | 3 227 065 | 2 390 440 |
| Region Wielkopolska Północ | 1 159 290 | 845 374 |
| Region Wielkopolska Południe | 1 920 626 | 1 675 166 |
| Region Kujawsko-Pomorski | 856 363 | 685 794 |
| Region Lubuski | 1 108 388 | 907 128 |
| Region Zachodniopomorski | 1 024 362 | 899 753 |
| **Macroregion Warszawa** | **11 245 774** | **7 579 686** |
| Region Warszawa | 8 873 135 | 5 783 748 |
| Region Łódzki | 791 730 | 487 387 |
| Region Pomorsko-Mazurski | 1 580 909 | 1 308 551 |
| **Macroregion Wrocław** | **7 939 785** | **6 071 129** |
| Region Wrocław | 2 271 833 | 1 617 600 |
| Region Śląski | 1 063 036 | 876 180 |
| Region Dolnośląsko-Opolski | 1 667 216 | 1 369 363 |
| Region Dolnośląski Zachód | 1 671 245 | 1 287 001 |
| Region Małopolsko-Podkarpacki | 1 266 455 | 920 985 |
| **Credit cards**** | **386 338** | **222 900** |

* Nominal value of credit portfolio
** Not allocated to macroregions

## 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 Management Board for approval. BZWBK's market risk policies set 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 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.

**Measurement methods**

BZWBK uses several risk measures to asses 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. This is captured using statistical analysis of market rate movements (volatility) which assumes a normal distribution and is calculated to a 99% confidence level. Volatility is measured for different holding periods : 1 day, 10 days and 1 month depending on risk. VaR is calculated separately for interest rate, FX and equity risk.

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. Decision can be taken to close out positions when the level of sensitivity combined with the likelihood of a rate or price change exposes BZWBK to too high a potential loss in value. VaR and sensitivities measures provide estimates of probable maximum loss in normal market conditions. Stress tests are used to supplement these measures by estimating possible losses that may occur under extreme market conditions.

***Interest rate risk***

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

In thousands of PLN

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 sensitivitie report 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 the first half of 2008 and 2007 (both measures assume 1 month holding time horizon):

| **Interest Rate Risk (PLN k)** | ***Value at Risk*** | | ***Stress Scenario*** | |
|---|---|---|---|---|
| 1 month holding period | *H1 2008* | *H1 2007* | *H1 2008* | *H1 2007* |
| *Average* | 21 981 | 17 497 | 148 961 | 82 015 |
| *High* | 28 596 | 21 573 | 177 608 | 131 032 |
| *Low* | 12 698 | 8 944 | 125 820 | 38 148 |
| *30th June* | 20 574 | 18 854 | 134 386 | 88 982 |

The Treasury Division operates within an operational VaR risk limit, which amounted to PLN 50 313 k (EUR 15 000 k) at the end of June 2008. The limit was increased (from EUR 10 000k) in 2008 due to dynamic changes in Bank's balance sheet profile.

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 branch banking loans and deposits, Treasury investment portfolio and derivatives dedicated for hedge accounting purposes.

In thousands of PLN

The tables below present the sensitivity of trading and banking portfolios at the end of June 2008 and comparable period:

| Interest Rate Risk (PLN m) | *Sensitivity 30-06-2008* | | |
|---|---|---|---|
| parallel increase of yield curves by 1 bp | Trading book | Banking book | Total |
| *0-3m* | (2) | (60) | (62) |
| *3m-1Y* | 16 | (52) | (36) |
| *1Y-5Y* | 25 | (340) | (315) |
| *over 5Y* | 4 | (1) | 3 |
| **Total** | 43 | (453) | (410) |

| Interest Rate Risk (PLN m) | *Sensitivity 30-06-2007* | | |
|---|---|---|---|
| parallel increase of yield curves by 1 bp | Trading book | Banking book | Total |
| *0-3m* | (51) | (25) | (75) |
| *3m-1Y* | 143 | (51) | 91 |
| *1Y-5Y* | (59) | (269) | (328) |
| *over 5Y* | (8) | (32) | (40) |
| **Total** | 25 | (377) | (352) |

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

The supervision role over that risk is also in ALCO responsibilities. The level of such risk is closely monitored and actively managed thorough 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 played by ALCO. Treasury is executing such decisions.

The following tables present interest rate sensitivities of each NIRIL portfolios at the end of June 2008 and June 2007:

| Interest Rate Risk (PLN k) | *Sensitivity 30-06-2008* | | |
|---|---|---|---|
| parallel increase of yield curves by 1 bp | Capital portfolio | Business portfolio | Total |
| *0-3m* | - | (2) | (2) |
| *3m-1Y* | (28) | (59) | (87) |
| *1Y-5Y* | (576) | (1 070) | (1 646) |
| *over 5Y* | (509) | - | (509) |
| **Total** | (1 113) | (1 131) | (2 244) |

In thousands of PLN

| Interest Rate Risk (PLN k) | Sensitivity 30-06-2007 | | |
|---|---|---|---|
| parallel increase of yield curves by 1 bp | Capital portfolio | Business portfolio | Total |
| *0-3m* | - | (1) | (1) |
| *3m-1Y* | (33) | (55) | (88) |
| *1Y-5Y* | (430) | (803) | (1 233) |
| *over 5Y* | (510) | (324) | (834) |
| **Total** | (973) | (1 183) | (2 156) |

***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 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.

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

The table below presents risk levels in the first half of 2008 and 2007 (data for both measures are scaled to 1 month holding period to make it comparable to other risks):

| FX Risk (PLN m) | Value at Risk | | Stress Scenario | |
|---|---|---|---|---|
| 1 month holding period: | *H1 2008* | *H1 2007* | *H1 2008* | *H1 2007* |
| *Average* | 1 049 | 761 | 4 395 | 3 149 |
| *High* | 3 240 | 2 235 | 9 411 | 7 172 |
| *Low* | 216 | 44 | 1 326 | 303 |
| *30th June* | 1 203 | 943 | 5 734 | 2 556 |

The Treasury Division operates within an operational VaR risk limit, which amounted to PLN 2 372 k (EUR 702 k). An excess within the limit has 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.

***Equity risk***

The entity responsible for equity 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).

In thousands of PLN

This risk is measured based on industry standard Value at Risk, which is determined as a difference between the market value of BH open positions and worst-case prices that are based on volatility of equity instruments prices at a 99% confidence level for a three-year price history. Volatility is based on a one-month position maintenance period. PML measures also correlation between portfolio instrument's prices and hedging impact of Future contracts. Stress tests are used to supplement above measure by estimating possible losses that may occur under extreme market conditions.

The table below presents risk levels in 2008 and comparable period:

| **Equity Risk (PLN m)** | ***Value at Risk*** | | ***Stress Scenario*** | |
|---|---|---|---|---|
| 1 month holding period: | *H1 2008* | *H1 2007* | *H1 2008* | *H1 2007* |
| *Average* | 801 | 469 | 1 934 | 1 573 |
| *High* | 2 398 | 1 150 | 8 613 | 5 245 |
| *Low* | 58 | 38 | 76 | 39 |
| *30th June* | 157 | 73 | 372 | 156 |

BH operates within operational limit that amounted to PLN 1 200 k. Any excess within the limits have been rectified and reported to relevant Bank's Units.

**Liquidity risk**

The ALCO has overall responsibility for the supervision of liquidity risk and advises the Management Board on appropriate strategies and policies for strategic liquidity management and funding. In 2008 based on ALCO recommendation the Management Board approved the new Liquidity Policy (incorporating regulatory requirements of KNB resolution no. 9/2007) amd Longterm Assets Funding Strategy.

The Group's policy in case of shortterm liquidity sets a limit on outflow of funds to a level where the outflow is covered by expected inflows and/or liquid assets (mainly securities), which can be sold or pledged in repo transactions or through a Lombard loan with the Central Bank.

The bank is obliged to maintain necessary funds to allow for anticipated withdrawals of term deposits, demand deposits, loan payments, guarantee payments and settlements.

The liquidity is assessed using modified gap report, which is constructed separately for PLN and for other currencies. In line with the Liquidity Policy, the reported contract positions are subject to a number of modifications based on: statistical data on the behaviour of the deposit and credit base, estimated capacity to liquidate State Treasury securities by selling or pledging them in repo transactions or in lombard loan with NBP estimated roll-over of transactions in the interbank market. Thus determined liquidity gap is used to establish liquidity ratios, that is projected consolidated outflows to the projected consolidated inflows in a time period. The liquidity policy specifies the minimum ratios for time periods up to one week, up to one month and over one month. The ratios are set for PLN and other currencies. If a "shortage" of PLN or other currencies occurs, a surplus of foreign currency / PLN can be used to cover the shortage of PLN / foreign currency, however the value of such a conversion is limited depending on assessment of the possibilities of the conversion in the wholesale market.

In thousands of PLN

The Liquidity Policy adopted by the Management Board obliges the bank to maintain funds to cover 100% of the expected outflows in the one-month time horizon. At the end of June 2008, the Bank was compliant with the above requirements. Also, for the limits indicated above there is a number of observation ratios set daily, which support the liquidity management process (e.g. loans to deposits ratio, ratio of dependence on wholesale market financing).
In case of longterm liquidity the Bank implemented limit coherent with regulatory one, requiring capital and stable funding source to cover loans portfolio and non-liquid assets ( e.g. fixed assets).
Since the beginning of current year the Bank is obliged to calculate regulatory liquidity measures and was complained with requirements.

The liquidity profile of Bank based on the Treasury management report at the end of June 2008 and June 2007:

| Liquidity Risk (PLN k) | **<1W** | **<1M** | **>1M** |
|---|---|---|---|
| ***30-06-2008*** | | | |
| Qualifying Liquid Assets | 9 654 636 | - | 298 754 |
| *Treasury inflows* | 4 032 395 | 4 452 834 | 11 980 823 |
| *Other inflows* | 758 250 | 191 977 | 29 659 059 |
| *Treasury outflows* | (4 903 884) | (4 195 800) | (12 000 204) |
| *Other outflows* | (5 423 005) | (352 435) | (34 153 399) |
| ***GAP*** | **4 118 392** | **96 575** | **(4 214 967)** |
| ***Cumulative Gap*** | **4 118 392** | **4 214 967** | **-** |

| Liquidity Risk (PLN k) | **<1W** | **<1M** | **>1M** |
|---|---|---|---|
| ***30-06-2007*** | | | |
| Qualifying Liquid Assets | 5 925 784 | 638 735 | 2 680 |
| *Treasury inflows* | 2 278 071 | 3 034 088 | 8 792 368 |
| *Other inflows* | 1 160 757 | 117 410 | 22 188 690 |
| *Treasury outflows* | (2 134 891) | (2 791 671) | (8 755 300) |
| *Other outflows* | (6 133 114) | (816 662) | (23 506 945) |
| ***GAP*** | **1 096 607** | **181 900** | **(1 278 507)** |
| ***Cumulative Gap*** | **1 096 607** | **1 278 507** | **-** |

The tables below show the gap arising from contractual maturity terms as of 30 June 2008 and in the comparable period. During the year there was an increase in customer deposits, which are characterised by a shorter maturity term. However, the previous behaviour of the deposit base indicates that a significant part of these funds will remain with the Group. Due to deposits roll-over these liabilities provides a stable source of funding and in the modified gap report (presented below) is reflected in longest maturity time buckets. At the same time the Group maintains a significant value of securities used to hedge the liquidity position (sale, deposit under repo transactions or Lombard loan).

In thousands of PLN

| 30.06.2008 | 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 |
|---|---|---|---|---|---|---|---|---|
| Loans and advances to bank | 2 196 716 | 411 630 | 146 195 | - | 6 026 | - | - | 2 760 567 |
| Financial assets held for trading | 162 527 | 375 152 | 526 480 | 235 318 | 125 563 | 84 107 | 5 381 | 1 514 528 |
| Loans and advances to customers | 781 761 | 1 860 348 | 7 029 842 | 8 113 457 | 3 503 673 | 6 983 989 | - | 28 273 070 |
| Investment securities | 10 522 | 52 028 | 1 197 944 | 3 052 283 | 3 728 501 | 1 732 522 | 675 173 | 10 448 973 |
| Other assets | | | | | | | | 4 065 800 |
| **Long position** | **3 151 526** | **2 699 158** | **8 900 461** | **11 401 058** | **7 363 763** | **8 800 618** | **680 554** | **47 062 938** |
| Deposits from banks | 3 160 280 | 443 650 | 296 856 | 1 113 907 | 413 786 | 9 984 | - | 5 438 463 |
| Financial liabilities held for trading | 347 425 | 347 683 | 424 736 | 85 562 | 35 794 | 52 934 | - | 1 294 134 |
| Deposits from customers | 29 414 320 | 1 954 510 | 2 104 206 | 163 782 | 86 828 | - | - | 33 723 646 |
| Debt securities in issue | - | - | 209 104 | 75 948 | - | - | (2 684) | 282 368 |
| Other liabilities | | | | | | | | 6 324 327 |
| **Short position** | **32 922 025** | **2 745 843** | **3 034 902** | **1 439 199** | **536 408** | **62 918** | **(2 684)** | **47 062 938** |
| **Gap-balance sheet** | **(29 770 499)** | **(46 685)** | **5 865 559** | **9 961 859** | **6 827 355** | **8 737 700** | **683 238** | |
| **Off balance sheet liabilities- sanctioned** | | | | | | | | |
| Financing related | 765 814 | 559 370 | 2 878 272 | 3 383 538 | 732 305 | 1 334 871 | - | **9 654 170** |
| Guarantees | 51 967 | 103 804 | 314 458 | 263 506 | 132 392 | 10 809 | - | **876 936** |
| **Derivatives settled in gross terms** | | | | | | | | |
| Inflows | 6 299 219 | 3 654 938 | 5 612 681 | 2 068 605 | 25 997 | 280 628 | - | **17 942 068** |
| Outflows | 6 388 094 | 3 581 632 | 5 479 736 | 1 972 920 | 26 159 | 280 609 | - | **17 729 150** |
| **Gap – off-balance sheet** | **(906 656)** | **(589 868)** | **(3 059 785)** | **(3 551 359)** | **(864 859)** | **(1 345 661)** | **-** | |

In thousands of PLN

| 30.06.2007 | 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 |
|---|---|---|---|---|---|---|---|---|
| Loans and advances to bank | 2 115 870 | 407 658 | 200 000 | 17 667 | 1 168 | | (5 462) | 2 736 901 |
| Financial assets held for trading | 67 089 | 53 378 | 132 863 | 73 045 | 67 364 | 23 848 | 5 766 | 423 353 |
| Loans and advances to customers | 1 249 856 | 1 330 455 | 4 855 627 | 5 455 836 | 2 503 635 | 5 880 550 | (625 778) | 20 650 181 |
| Investment securities | 17 001 | 54 804 | 967 756 | 2 361 071 | 3 212 430 | 1 717 509 | 665 611 | 8 996 182 |
| Other assets | | | | | | | | 2 420 387 |
| **Long position** | **3 449 816** | **1 846 295** | **6 156 246** | **7 907 619** | **5 784 597** | **7 621 907** | **40 137** | **35 227 004** |
| Deposits from banks | 2 208 485 | 111 758 | 464 994 | 685 309 | 84 641 | - | - | 3 555 187 |
| Financial liabilities held for trading | 39 192 | 55 696 | 122 752 | 16 618 | 23 282 | 22 127 | - | 279 667 |
| Deposits from customers | 20 765 946 | 2 100 715 | 2 096 396 | 156 620 | 98 362 | - | - | 25 218 039 |
| Debt securities in issue | 49 827 | 140 050 | 122 519 | 241 761 | - | - | 35 518 | 589 675 |
| Other liabilities | | | | | | | | 5 584 436 |
| **Short position** | **23 063 450** | **2 408 219** | **2 806 661** | **1 100 308** | **206 285** | **22 127** | **35 518** | **35 227 004** |
| **Gap-balance sheet** | **(19 613 634)** | **(561 924)** | **3 349 585** | **6 807 311** | **5 578 312** | **7 599 780** | **4 619** | |
| **Off balance sheet liabilities- sanctioned** | | | | | | | | |
| Financing related | 763 177 | 515 627 | 2 180 294 | 1 541 197 | 539 327 | 893 617 | | **6 433 239** |
| Guarantees | 26 986 | 80 645 | 240 457 | 184 525 | 67 829 | 80 860 | | **681 302** |
| **Derivatives settled in gross terms** | | | | | | | | |
| Inflows | 2 767 029 | 1 837 570 | 5 647 509 | 1 161 895 | - | 295 943 | - | **11 709 946** |
| Outflows | 2 731 802 | 1 838 098 | 5 641 368 | 1 124 340 | - | 295 943 | - | **11 631 551** |
| **Gap – off-balance sheet** | **(754 936)** | **(596 800)** | **(2 414 610)** | **(1 688 167)** | **(607 156)** | **(974 477)** | **-** | |

The Bank's liquidity risk management is centralised in the Treasury Division while control and measurement functions for liquidity risk are performed independent of the source of the liquidity risk.

Each subsidiary is responsible for its own liquidity. However for short and medium term liquidity management purposes all subsidiaries typically use current account with credit limit and term deposits - if required - with the parent company. This results that all cash flows of subsidiaries are centralized in the parent bank. Medium and long term funding – in particular leasing companies – closely supervised by the parent company. BZWBK provides support to subsidiaries when they enter into longer term funding transactions.

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

## 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 bare 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***

FX forwards are agreements to buy or sell one currency for another at a specified price for delivery at a future date.
For such a pair of currencies, the making of a current buy/sell transaction and a forward repurchase/resell transaction represents a swap deal.

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

FX options are agreements to sell or buy a right to convert currencies in the future at a predetermined rate and settlement date. There are call and put options. A call option gives the holder the right to purchase a certain amount of a currency for a certain amount of another currency, while a put option gives the holder the right to sell a certain amount of a currency for a certain amount of another currency. It should be noted that the buyer of the option has the right but not obligation to enter into the transaction, while the writer of the option is obliged to enter into the transaction if the buyer chooses to exercise his right.

Acquisition of the buy/sell rights entails a premium to be paid to the writer of the option.

The bank concludes 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.

***Interest rate 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 are transactions where one stream of future interest payments is exchanged for another based on a previously specified principal (most often fixed interest rate payments are exchanged for interest payments based money market reference rates, e.g. WIBOR). These transactions are concluded in the interbank market and with bank customers. They are used to hedge/cancel open interest rate positions, but are also used for trading purposes.

CIRSs involve an exchange of interest rate payments in two different currencies. These transactions may also result in the exchange of principal amounts. The bank uses these instruments primarily for liquidity management – they ensure medium-term funding for the bank's FX assets.

FRAs are agreements for a pre-determined interest rate applicable for a fixed term and settled in a future period (usually within 1 month) and accrued on a principal amount specified in the agreement. The settled amount is determined based on the principal amount and the difference between the interest rate current on the settlement date (e.g. WIBOR) and the contract rate. The buyer of an FRA protects itself against a future increase in interest rates, while the seller of an FRA wants to protect itself against a future decline in interest rates. This instrument is also used for speculative reasons in anticipation of interest rate changes.
The bank primarily uses this instrument in its trading portfolio.

A CAP entitles its holder make a profit when a specified interest rate is above a base rate determined in the option agreement (the difference is referred to the notional principal amount specified in the agreement). The bank concludes 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.

## ***Equity instruments***

The Group enters into the following equity transactions:

- Index options
- Futures

An index option entitles its holder make a profit from the difference between the value of the stock exchange index and the underlying value determined in the option agreement (the difference is also referred to the notional principal amount specified in the agreement). In the bank such options (also FX) are embedded in deposit products which in addition to guaranteed interest allow their holders to earn from favourable changes in stock exchange indices. In this product area, the bank sold call options to customers. Also, the bank closed its exposure to risk by purchasing options in the interbank market, so its open option positions are not exposed to market risk.

Futures contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Futures are standardised exchange-traded contracts.

## Capital Management

### Introduction

According to the Polish Banking Law, banks are required to maintain equity at a level appropriate to the risk they are exposed to.

The capital adequacy is measured using the solvency ratio, which shows the relation between capital requirements for particular risks to the bank's total capital recognised in keeping with the requirements of the Banking Supervisory Commission, after mandatory deductions.

On 1 April 2007, the Banking Supervisory Commission implemented resolutions transposing the New Capital Accord of the Basel Committee (termed Basel II) into Polish law. The New Capital Accord is based on three pillars:

Pillar 1: Minimum capital requirements – sets the minimum required equity for credit risk, market risk and operational risk;

Pillar 2: Supervisory review – deals with the bank's internal capital adequacy assessment process ("ICAAP"), taking into account all the risk types, not only those covered by Pillar 1;

Pillar 3: Market discipline – increases the disclosures that the bank must make to the market.

Compared with the Basel I methodology, Basel II introduces new approaches to measurement of the minimum capital requirement (regulatory capital) and internal capital by:

- adding the capital requirement for operational risk to the calculation of the minimum capital needs under Pillar 1;
- changing the parameters used in the standardised approach to the calculation of capital requirements;
- introducing the possibility to use, subject to regulatory approval, more advanced models for capital adequacy calculation and risk management.

Until the end of 2007, the bank was temporarily permitted to use Basel I rules with regard to calculation of the risk-weighted assets and the solvency ratio. Effective from 1 January 2008, the bank has been subject to the requirements laid down in Capital Adequacy Resolution no. 1/2007 of the Banking Supervisory Commission.

The risks under Pillar 1 and the minimum capital required for such risks are assessed in a quantitative method. The bank uses its own regulatory compliant and regulatory approaches to the measurement of these risks, applying precisely defined rules and parameters to ensure proper calculation of the capital required to cover such risks. With regard to:

In thousands of PLN

a) Credit risk – in 2008, the bank uses the standardised approach for all portfolios

b) Operational risk – the bank uses the standardised approach;

c) Market risk – the bank uses basic measurement methods.

The capital requirement for individual risks is aggregated directly to determine the overall regulatory capital requirement (Pillar 1). The total capital requirement is the basis for estimation of the internal capital, a process which also takes into account the additional capital needs (Pillar 2) and the rules of their aggregation.

## Capital Policy

The solvency ratio is the basic measure 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 and maintenance of the Fitch rating at above "A-". The Management Board delegated on-going capital management to ALCO/ICAAP Forum. This body is responsible for tracking the actual and required capital levels and initiates transactions affecting these levels (e.g. by recommending the value of the dividends to be paid). 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.

Decisions regarding the value of the equity capital of the subsidiaries are co-ordinated by ALCO/ICAAP Forum.

## Solvency Ratio

The table below presents capital adequacy of BZWBK Group.

| | PLN k | | | 30.06.2008 | 30.06.2007 |
|---|---|---|---|---|---|
| I | Total Capital requirement (Ia+Ib+Ic+Id)<br>Incl.: | | | **3 022 085** | **2 026 951** |
| Ia | | - | due to credit risk | 2 609 727 | 1 977 740 |
| Ib | | - | due to market risk | 16 276 | 39 697 |
| Ic | | - | due to settlement / counterparty risk | 55 206 | 9 514 |
| Id | | - | due to operational risk | 340 876 | |
| II | Total own funds | | | 4 673 863 | 4 025 694 |
| III | Reductions: | | | 521 265 | 645 846 |
| IIIa | | - | Intangible assets | 126 524 | 111 515 |
| IIIb | | - | Capital investments | 266 166 | 258 749 |
| IIIc | | - | Planned dividend | 128 575 | 275 582 |
| **IV** | Own funds after reductions (**(II+III)** | | | **4 152 598** | **3 379 848** |
| **V** | **CAD (IV/(I*12.5)** | | | **10,99%** | **13,34%** |

Since 1 January 2008, the bank has been required to observe the rules laid down in the Capital Adequacy Resolution no. 1/2007 of the Banking Supervisory Commission and in its calculation of solvency ratio follows the Basel II principles, both with regard to capital levels and capital requirements for different risk types. Until the end of 2007, the bank was in the transition period.

Total impact of the Basel II principles on the solvency ratio is estimated at 1.83 p.p. including 1.40 p.p. attributable to the additional capital requirement for operational risk.

### Internal Capital

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

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.

Estimation of the total internal capital requirement looks at different risks, their interdependencies, correlations and concentration to ensure reliability of the process.

The bank's solutions in this regard assume that initially the correlation and concentration of risks will be measured in a simplified method, with the correlation set at nil where no clear tendencies and links between risks can be demonstrated. For this reason, 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. Currently it is assumed that no clear correlations exist. This is a very conservative approach as it leads to a higher capital being maintained than if the correlation was factored in.

The ICAAP process is an integral part of the bank management process.

In thousands of PLN

## 9. Net interest income

| Interest and similar income | 01.01-30.06.2008 | 01.01-30.06.2007 |
|---|---|---|
| Loans and advances to enterprises | 615 193 | 368 753 |
| Loans and advances to individuals of which: | 321 359 | 193 153 |
| *Mortgage loans* | *134 671* | *76 708* |
| Debt securities incl.: | 274 331 | 207 129 |
| *Trading portfolio* | *5 056* | *5 879* |
| *Investment portfolio* | *269 275* | *201 250* |
| Leasing agreements | 106 595 | 66 644 |
| Loans and advances to banks | 99 645 | 94 400 |
| Reverse repo transactions | 21 648 | 3 176 |
| Other from public sector | 17 342 | 14 156 |
| Interest recorded on hedging IRS | 2 067 | (2 746) |
| **Total** | **1 458 180** | **944 665** |

Loans and advances to banks exclude income on repo transactions.

| Interest expense and similar charges | 01.01-30.06.2008 | 01.01-30.06.2007 |
|---|---|---|
| Deposits from individuals | (328 370) | (121 883) |
| Deposits from enterprises | (174 221) | (113 584) |
| Deposits from banks | (79 083) | (33 585) |
| Repo transactions | (48 001) | (34 742) |
| Public sector | (42 863) | (28 518) |
| Debt securities in issue | (8 512) | (18 277) |
| **Total** | **(681 050)** | **(350 589)** |
| **Net interest income** | **777 130** | **594 076** |

As at 30 June 2008 net interest income includes interest accrued on impaired loans of PLN 25 997 k (as at 30.06.2007 - PLN 23 126 k).

## 10. Net fee and commission income

| Fee and commission income | 01.01-30.06.2008 | 01.01-30.06.2007 |
|---|---|---|
| Asset management fees | 261 540 | 317 055 |
| eBusiness & payments | 145 333 | 113 788 |
| Current accounts and money transfer | 113 467 | 109 468 |
| Foreign exchange commissions | 112 485 | 102 482 |
| Brokerage commissions | 65 564 | 99 218 |
| Credit commissions (including factoring) | 36 725 | 26 252 |
| Insurance commissions | 35 365 | 21 740 |
| Credit cards | 25 700 | 16 908 |
| Other distribution-related fee | 10 433 | - |
| Distribution fees due to asset management | 10 372 | 47 600 |
| Issue arrangement | 7 284 | 7 544 |
| Off-balance sheet guarantee commissions | 6 149 | 5 638 |
| Finance lease commissions | 397 | 438 |
| Other commissions | 946 | 776 |
| **Total** | **831 760** | **868 907** |

| Fee and commission expense | 01.01-30.06.2008 | 01.01-30.06.2007 |
|---|---|---|
| eBusiness & payments | (33 044) | (23 369) |
| Distribution fees | (32 270) | (37 162) |
| Asset management fees and other costs | (15 655) | (20 211) |
| Credit intermediation costs | (12 533) | (3 488) |
| Brokerage commissions | (10 395) | (15 931) |
| Credit cards | (3 403) | (2 212) |
| Finance lease commissions | (3 124) | (2 271) |
| Insurance commissions | (2 621) | (2 929) |
| Other | (6 097) | (5 660) |
| **Total** | **(119 142)** | **(113 233)** |
| **Net commission income** | **712 618** | **755 674** |

Included above is fee and commission income of PLN 68 971 k (30.06.2007: PLN 49 236 k) and fee and commission expenses of PLN (19 060) k (30.06.2007: PLN (7 971) k) other than fees included in determining the effective interest rate), relating to financial assets and liabilities not carried at fair value through profit or loss.

In thousands of PLN

## 11. Dividend income

| Dividend income | 01.01-30.06.2008 | 01.01-30.06.2007 |
|---|---|---|
| Dividends from investment portfolio entities | 68 227 | 63 503 |
| Dividends from entities measured at fair value through profit and loss | 1 407 | 943 |
| **Total** | **69 634** | **64 446** |

## 12. Net trading income and revaluation

| Net trading income and revaluation | 01.01-30.06.2008 | 01.01-30.06.2007 |
|---|---|---|
| Profit/(loss) on derivative instruments | 48 561 | 16 629 |
| Profit on interbank FX transactions | 16 262 | 5 184 |
| Profit/(loss) on debt instruments | (1 748) | 1 053 |
| Profit/ (loss) on equity instruments | (20 849) | 7 744 |
| Other F/X related income | 5 646 | 2 081 |
| **Total** | **47 872** | **32 691** |

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

| Gains (losses) from other financial securities | 01.01-30.06.2008 | 01.01-30.06.2007 |
|---|---|---|
| Profit on sale of available-for-sale equity shares | 23 473 | 3 324 |
| Profit/loss on sale of available-for-sale debt securities | (10 575) | 356 |
| Reversal (charge) due to impairment losses | (110) | - |
| ***Total profit (losses) on available-for-sale financial instruments*** | **12 788** | **3 680** |
| Change in fair value of hedging instruments | 7 448 | 7 336 |
| Change in fair value of underlying hedged positions | (7 403) | (7 546) |
| ***Total profit (losses) on hedging and hedged instruments*** | **45** | **(210)** |
| **Total** | **12 833** | **3 470** |

## 14. Gains on sale of subsidiaries and associates

| Gains less losses on sale of subsidiaries and associates | 01.01-30.06.2008 | 01.01-30.06.2007 |
|---|---|---|
| Sale of subsidiaries | 520 | - |
| Sale of associates | (716) | - |
| **Total** | **(196)** | **-** |

Additional information about acquisitions and disposals of investments is available in note 51.

## 15. Other operating income

| Other operating income | 01.01-30.06.2008 | 01.01-30.06.2007 |
|---|---|---|
| Sundry income | 16 434 | 5 949 |
| Release of provision for legal cases and other assets | 4 510 | 4 995 |
| Sales or liquidation of fixed assets, intangible assets and assets for disposal | 2 746 | 897 |
| Reimbursements of BFG charges | 1 624 | 1 269 |
| Recovery of other receivables | 814 | 833 |
| Received compensations, penalties and fines | 517 | 429 |
| Costs of bailiff reimbursement | 460 | 532 |
| Financing Premium from EBRD | 205 | 960 |
| Other | 5 970 | 5 385 |
| **Total** | **33 280** | **21 249** |

In thousands of PLN

## 16. Impairment losses on loans and advances

| Impairment losses on loans and advances | 01.01-30.06.2008 | 01.01-30.06.2007 |
|---|---|---|
| Impairment charge | (25 321) | 17 985 |
| Incurred but not reported losses charge | 6 563 | (12 915) |
| Recoveries of loans previously written off | 5 001 | 18 106 |
| Off balance sheet credit related items | (6 080) | 1 183 |
| **Total** | **(19 837)** | **24 359** |

## 17. Employee costs

| Employee costs | 01.01-30.06.2008 | 01.01-30.06.2007 |
|---|---|---|
| Salaries and bonuses | (382 173) | (318 795) |
| Salary related costs | (60 837) | (54 537) |
| Professional trainings | (14 343) | (8 124) |
| Staff benefits costs | (10 284) | (7 180) |
| Retirement fund and holiday provisions | (2 803) | (5 722) |
| **Total** | **(470 440)** | **(394 358)** |

## 18. General and administrative expenses

| General and administrative expenses | 01.01-30.06.2008 | 01.01-30.06.2007 |
|---|---|---|
| Maintenance and rentals of premises | (73 964) | (57 804) |
| Marketing and public relations | (59 456) | (33 018) |
| IT systems costs | (42 558) | (32 818) |
| Postal and telecommunication costs | (26 407) | (23 677) |
| Consulting fees | (18 985) | (15 315) |
| Car, transport expenses, carriage of cash | (14 232) | (10 493) |
| External services | (13 764) | (9 605) |
| Stationery, printing of cheque books, plastic cards | (9 507) | (8 265) |
| Sundry taxes | (9 123) | (7 870) |
| Data transmission | (8 189) | (7 215) |
| Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities | (7 991) | (2 938) |
| Costs of repairs | (7 894) | (3 921) |
| Security costs | (6 008) | (4 516) |
| KIR, SWIFT etc. Settlements | (5 417) | (5 147) |
| Other | (10 213) | (10 689) |
| **Total** | **(313 708)** | **(233 291)** |

## 19. Other operating expenses

| Other operating costs | 01.01-30.06.2008 | 01.01-30.06.2007 |
|---|---|---|
| Charge of provisions for legal cases and other assets | (2 992) | (10 090) |
| Debt recovery costs | (694) | (1 030) |
| Losses from past-due receivables | (452) | (322) |
| Paid compensations, penalties and fines | (321) | (1 552) |
| Donations paid | (57) | (1 176) |
| Other | (6 063) | (7 340) |
| **Total** | **(10 579)** | **(21 510)** |

In thousands of PLN

## 20. Corporate income tax

| Income tax charge | 01.01-30.06.2008 | 01.01-30.06.2007 |
|---|---|---|
| Current tax charge | 114 639 | 158 018 |
| Deferred tax charge | 45 494 | (10 797) |
| **Total** | **160 133** | **147 221** |

| Corporate total tax charge information | 01.01-30.06.2008 | 01.01-30.06.2007 |
|---|---|---|
| Profit before tax | 788 005 | 778 744 |
| Tax rate | 19% | 19% |
| Tax calculated at the tax rate | 149 721 | 147 961 |
| Non tax-deductible expenses | 4 795 | 6 162 |
| Non taxable income | (152) | (9 332) |
| Other: | | |
| - write-offs | 181 | 1 823 |
| - other non tax-deductible costs | 4 856 | 467 |
| - other charges | 732 | 140 |
| **Total income tax expense** | **160 133** | **147 221** |

**Deferred tax recognised directly in equity**

As at 30 June the amount of deferred tax recognised directly in equity totaled:

| | | |
|---|---|---|
| Relating to equity securities available-for-sale | 104 849 | 105 375 |
| Relating to debt securities available-for-sale | (45 666) | (6 587) |
| Relating to cash flow hedging activity | 377 | - |
| | **59 560** | **98 788** |

## 21. Earnings per share

| Earning per share | 01.01-30.06.2008 | 01.01-30.06.2007 |
|---|---|---|
| Profit attributable to ordinary shares | 567 538 | 558 596 |
| Weighted average number of ordinary shares | 72 960 284 | 72 960 284 |
| **Basic earnings per share (PLN)** | **7,78** | **7,66** |
| Profit attributable to ordinary shares | 567 538 | 558 596 |
| Weighted average number of ordinary shares | 72 960 284 | 72 960 284 |
| Weighted average number of potential ordinary shares | 92 340 | 64 880 |
| **Diluted earnings per share (PLN)** | **7,77** | **7,65** |

## 22. Cash and balances with central bank

| Cash and balances with central bank | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|
| Cash | 640 272 | 840 924 | 490 655 |
| Current account in central bank | 1 829 044 | 1 365 131 | 272 031 |
| The equivalents of cash | 91 | 210 | 211 |
| **Total** | **2 469 407** | **2 206 265** | **762 897** |

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

In thousands of PLN

## 23. Loans and advances to banks

| Loans and advances to banks | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|
| Loans and advances | 1 605 474 | 1 787 616 | 2 710 271 |
| Current accounts | 237 843 | 26 572 | 32 599 |
| Reverse-repo transactions | 923 219 | 768 659 | - |
| **Gross receivables** | **2 766 536** | **2 582 847** | **2 742 870** |
| Impairment write down | (5 969) | (5 969) | (5 969) |
| **Total** | **2 760 567** | **2 576 878** | **2 736 901** |

Fair value of "loans and advances to banks" is disclosed in note 43.

| Movements in impairment losses on receivables from banks | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|
| Balance at 1 January | (5 969) | (6 284) | (6 284) |
| Write off | - | 315 | 315 |
| **Balance at the end of the period** | **(5 969)** | **(5 969)** | **(5 969)** |

In presented reporting periods 1D deposits have been reclassified from current accounts to loans and advances

## 24. 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.

| Trading derivatives | 30.06.2008 | | 31.12.2007 | | 30.06.2007 | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| **Interest rate transactions** | **435 247** | **479 918** | **180 703** | **302 499** | **116 346** | **108 881** |
| Options | - | - | 22 | 22 | 21 | 21 |
| IRS | 343 317 | 388 342 | 151 109 | 276 970 | 101 796 | 93 989 |
| FRA | 91 930 | 91 576 | 29 572 | 25 507 | 14 123 | 14 871 |
| Forward | - | - | - | - | 406 | - |
| **Equity derivatives** | **-** | **-** | **33** | **-** | **669** | **-** |
| Options | - | - | 33 | - | 669 | - |
| **Currency derivatives** | **924 119** | **705 273** | **784 830** | **687 775** | **248 789** | **170 786** |
| CIRS | 254 969 | 39 343 | 159 701 | 29 003 | 86 610 | 16 768 |
| Forward | 71 811 | 94 136 | 45 146 | 91 469 | 14 608 | 22 149 |
| FX Swap | 536 808 | 511 553 | 550 176 | 537 708 | 131 951 | 116 330 |
| Spot | 1 933 | 1 643 | 1 103 | 891 | 655 | 574 |
| Options | 58 598 | 58 598 | 28 704 | 28 704 | 14 965 | 14 965 |
| **Total trading derivatives** | **1 359 366** | **1 185 191** | **965 566** | **990 274** | **365 804** | **279 667** |

In thousands of PLN

| Debt and equity securities | 30.06.2008 | | 31.12.2007 | | 30.06.2007 | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| Debt securities | 149 782 | - | 171 157 | - | 51 651 | - |
| Government securities: | 149 759 | - | 171 135 | - | 51 629 | - |
| - bills | 3 874 | - | 60 202 | - | 6 322 | - |
| - bonds | 145 885 | - | 110 933 | - | 45 307 | - |
| Other securities: | 23 | - | 22 | - | 22 | - |
| - bonds | 23 | - | 22 | - | 22 | - |
| Equity securities: | 5 379 | - | 114 930 | - | 5 898 | - |
| - listed | 5 079 | - | 114 930 | - | 5 898 | - |
| - unlisted | 300 | - | - | - | - | - |
| **Total** | **155 161** | **-** | **286 087** | **-** | **57 549** | **-** |

| Reverse Repo/Short sale transactions | 30.06.2008 | | 31.12.2007 | | 30.06.2007 | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| **Total** | **-** | **108 944** | **-** | **-** | | |

| Total financial assets/liabilities | | | | | | |
|---|---|---|---|---|---|---|
| | 1 514 527 | 1 294 135 | 1 251 653 | 990 274 | 423 353 | 279 667 |

Interest income from debt instruments and other fixed rate instruments is disclosed under "interest income". Profit and loss from fair value changes of instruments measured at fair value through profit and loss are disclosed in gains (losses) from financial instruments measured at fair value through profit and loss .
All financial assets measured at fair value through profit and loss are assigned to this category due to trading character of transactions. At initial recognition there was no cases of designation to the category at 30 June 2008 and in comparable periods.

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

| Derivatives' nominal values | | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|---|
| **1.** | **Derivatives (hedging)** | **3 086 250** | **1 990 754** | **1 995 410** |
| a) | Single-currency interest rate swaps – purchased amounts | 1 393 125 | 995 377 | 997 705 |
| b) | Single-currency interest rate swaps – sold amounts | 1 393 125 | 995 377 | 997 705 |
| c) | Macro cash flow hedge - purchased amounts | 150 000 | - | - |
| d) | Macro cash flow hedge - sold amounts | 150 000 | - | - |
| **2.** | **Term derivatives (trading)** | **271 307 187** | **225 301 299** | **166 429 390** |
| a) | Interest rate operations | 233 346 132 | 184 923 594 | 140 165 330 |
| - | Single-currency interest rate swaps – purchased amounts | 66 036 126 | 63 161 797 | 48 432 665 |
| - | Single-currency interest rate swaps – sold amounts | 66 036 126 | 63 161 797 | 48 432 665 |
| - | FRA-purchased amounts | 52 161 940 | 29 800 000 | 20 850 000 |
| - | FRA-sold amounts | 49 111 940 | 28 800 000 | 22 450 000 |
| b) | FX operations | 37 961 055 | 40 377 705 | 26 264 060 |
| - | FX swap – purchased amounts | 13 574 331 | 15 734 024 | 9 507 714 |
| - | FX swap – sold amounts | 13 543 400 | 15 716 085 | 9 486 231 |
| - | Forward- purchased amounts | 2 871 998 | 2 505 026 | 2 140 240 |
| - | Forward- sold amounts | 2 899 836 | 2 556 651 | 2 151 753 |
| - | Double-currency interest rate swaps – purchased amounts | 2 640 705 | 1 996 794 | 1 524 006 |
| - | Double-currency interest rate swaps – sold amounts | 2 430 785 | 1 869 125 | 1 454 116 |
| **3.** | **Currency transactions- spot** | **1 497 070** | **532 872** | **898 028** |
| - | spot-purchased | 748 680 | 266 543 | 449 054 |
| - | spot-sold | 748 390 | 266 329 | 448 974 |
| **4.** | **Derivatives – OTC options** | **5 821 272** | **3 064 616** | **2 364 368** |
| - | Options purchased | 2 910 636 | 1 532 308 | 1 182 184 |
| - | Options sold | 2 910 636 | 1 532 308 | 1 182 184 |
| **5.** | **Euroindex options** | **-** | **8 733** | **99 962** |
| - | Options purchased | - | 8 733 | 99 962 |
| **Total** | | **281 711 779** | **230 898 274** | **171 787 158** |

In thousands of PLN

## 25. Hedging derivatives

| Hedging derivatives | 30.06.2008 | | 31.12.2007 | | 30.06.2007 | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| IRS hedging fair value | 43 034 | 1 196 | 35 851 | 2 054 | 30 662 | 5 588 |
| IRS hedging cash flow | 2 013 | - | - | - | - | - |
| **Total hedging derivatives** | **45 047** | **1 196** | **35 851** | **2 054** | **30 662** | **5 588** |

## 26. Loans and advances to customers

| Loans and advances to customers | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|
| Loans and advances to enterprises | 18 726 448 | 15 945 318 | 14 085 534 |
| Loans and advances to individuals, of which: | 7 371 441 | 6 109 738 | 5 010 826 |
| *Real estate financing* | *4 260 685* | *3 644 937* | *2 982 581* |
| Finance lease receivables | 2 581 583 | 2 313 783 | 1 978 867 |
| Loans and advances to public sector | 139 922 | 159 341 | 187 107 |
| Reverse-repo transactions | 13 812 | 29 | 127 |
| Other | 17 500 | 6 473 | 13 498 |
| **Gross receivables** | **28 850 706** | **24 534 682** | **21 275 959** |
| Impairment losses in loans and advances to customers | (577 636) | (584 968) | (625 778) |
| **Total** | **28 273 070** | **23 949 714** | **20 650 181** |

As at 30.06.2008 fair value adjustment due to hedged risk on corporate loans totalled PLN (2 044) k (as at 31.12.2007 - PLN (105) k, as at 30.06.2007 - PLN 2 011 k).
Finance lease receivables are presented in additional note 47.

| Movements on impairment recognised on loans and advances to customers | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|
| **Individual and collective impairment** | | | |
| As at the beginning of the period | (439 545) | (539 022) | (539 022) |
| Charge of current period | (105 736) | (115 036) | (57 797) |
| Write back of current period | 80 415 | 122 262 | 75 782 |
| Write downs and write off's | 19 993 | 91 381 | 14 522 |
| Transfer | 481 | - | - |
| Impact of exchange rate | 959 | 870 | 225 |
| **Balance at the end of the period** | **(443 433)** | **(439 545)** | **(506 290)** |
| **IBNR** | | | |
| As at the beginning of the period | (145 423) | (107 276) | (107 276) |
| Charge of current period | (176 176) | (175 632) | (77 343) |
| Write back of current period | 182 739 | 135 075 | 64 426 |
| Transfer | 3 723 | - | - |
| Impact of exchange rate | 934 | 2 410 | 705 |
| **Balance at the end of the period** | **(134 203)** | **(145 423)** | **(119 488)** |
| **Total** | **(577 636)** | **(584 968)** | **(625 778)** |

In thousands of PLN

## 27. Investment securities

| Investment securities | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|
| Available for sale investments - measured at fair value | 10 448 974 | 9 763 669 | 8 996 182 |
| Debt securities: | 9 773 801 | 9 052 095 | 8 330 571 |
| Government securities: | 8 952 878 | 8 207 781 | 7 399 191 |
| - bills | 89 710 | 263 047 | 68 444 |
| - bonds | 8 863 168 | 7 944 734 | 7 330 747 |
| Central Bank securities: | 580 441 | 591 379 | 579 006 |
| - bonds | 580 441 | 591 379 | 579 006 |
| Commercial securities: | 240 482 | 252 935 | 352 374 |
| - bonds | 240 482 | 252 935 | 352 374 |
| Equity securities - measured at fair value: | 635 020 | 629 309 | 637 014 |
| - listed | 28 661 | 26 138 | 33 839 |
| - unlisted | 606 359 | 603 171 | 603 175 |
| Investment certificates | 40 153 | 82 265 | 28 597 |
| **Total** | **10 448 974** | **9 763 669** | **8 996 182** |

As at 30.06.2008 fixed interest rate debt securities measured at fair value amount to PLN 8 115 830 k, variable interest rate securities amount to PLN 1 657 971k.

As at 31.12.2007 fixed interest rate debt securities measured at fair value amount to PLN 7 648 962 k, variable interest rate securities amount to PLN 1 403 133 k.

As at 30.06.2007 fixed interest rate debt securities measured at fair value amount to PLN 7 375 565 k, variable interest rate securities amount to PLN 955 006 k.

As at 30.06.2008 fair value adjustments resulting from fair value hedge on available for sale debt securities totalled PLN (18 101) k (as at 31.12.2007 - PLN (12 100) k, 30.06.2007 - PLN (8 026) k).

| Movements on investment securities | Debt securities | Equity securities | Total |
|---|---|---|---|
| **As at 1 January 2008** | **9 052 095** | **711 574** | **9 763 669** |
| Additions | 2 577 975 | 3 338 | 2 581 313 |
| Transfers | - | 975 | 975 |
| Disposals (sale and redemption) | (1 615 663) | (63 204) | (1 678 867) |
| Fair value adjustment (AFS) | (142 984) | 24 590 | (118 394) |
| Movements on interest accrued | (32 753) | - | (32 753) |
| Provision for impairment | - | (125) | (125) |
| F/X differences | (64 869) | (1 975) | (66 844) |
| **As at 30 June 2008** | **9 773 801** | **675 173** | **10 448 974** |

| Movements on investment securities | Debt securities | Equity securities | Total |
|---|---|---|---|
| **As at 1 January 2007** | **7 395 066** | **626 223** | **8 021 289** |
| Additions | 4 718 568 | 71 300 | 4 789 868 |
| Disposals (sale and redemption) | (2 876 411) | (3 225) | (2 879 636) |
| Fair value adjustment (AFS) | (206 596) | 20 679 | (185 917) |
| Movements on interest accrued | 100 466 | - | 100 466 |
| Provision for impairment | - | 350 | 350 |
| F/X differences | (78 998) | (3 753) | (82 751) |
| **As at 31 December 2007** | **9 052 095** | **711 574** | **9 763 669** |

| Movements on investment securities | Debt securities | Equity securities | Total |
|---|---|---|---|
| **As at 1 January 2007** | **7 395 066** | **626 223** | **8 021 289** |
| Additions | 2 718 636 | 22 580 | 2 741 216 |
| Disposals (sale and redemption) | (1 651 589) | (2 875) | (1 654 464) |
| Fair value adjustment (AFS) | (133 926) | 19 683 | (114 243) |
| Movements on interest accrued | 26 335 | - | 26 335 |
| F/X differences | (23 951) | - | (23 951) |
| **As at 30 June 2007** | **8 330 571** | **665 611** | **8 996 182** |

In thousands of PLN

## 28. Investments in associates and joint ventures

| Investments in associates and joint ventures | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|
| **As at 1 January** | **13 378** | **36 201** | **36 201** |
| Share of profits (losses) | (44) | 194 | (265) |
| Dividend received | - | (7 267) | - |
| Sale/acquisition | 30 019 | (15 750) | - |
| **As at the end of the period** | **43 353** | **13 378** | **35 936** |

Investments in associates and joint ventures as at 30.06.2008

| Name of entity (and its legal status) | POLFUND - Fundusz Poręczeń Kredytowych S.A.* | BZ WBK CU Towarzystwo Ubezpieczeń na Życie S.A. | BZ WBK CU Towarzystwo Ubezpieczeń Ogólnych S.A. |
|---|---|---|---|
| **registered office** | Szczecin | Poznań | Poznań |
| **business** | providing lending guarantees, investing and managing funds invested in companies, management | life insurance | property and personal insurance |
| **type of entity** | associate | joint venture | joint venture |
| **balance sheet value** | 10 280 | 14 799 | 18 274 |
| **total assets** | 71 249 | 29 598 | 36 547 |
| **own funds of entity, of which:** | 20 561 | 29 598 | 36 547 |
| share capital | 16 000 | 30 014 | 37 018 |
| other own funds, of which: | 4 561 | (416) | (471) |
| from previous years | 2 752 | - | - |
| net profit (loss) | 1 448 | (416) | (471) |
| minority interest | - | - | - |
| **liabilities of entity, of which:** | 47 583 | - | - |
| short-term | 83 | - | - |
| long-term | 47 500 | - | - |
| **revenues** | 2 602 | - | - |
| **% of holding**** | 50,00 | 50,00 | 50,00 |

* financial highlights as at end of May 2008
** states percentage share of associate or joint venture profits

Investments in associates as at 31.12.2007

| Name of entity (and its legal status) | POLFUND - Fundusz Poręczeń Kredytowych S.A.* | NFI Magna Polonia S.A. Group** | Total |
|---|---|---|---|
| **registered office** | Szczecin | Warszawa | |
| **balance sheet value** | 9 867 | 3 511 | **13 378** |
| **total assets** | 68 272 | 122 301 | **190 573** |
| **own funds of entity, of which:** | 19 734 | 12 758 | **32 492** |
| share capital | 16 000 | 1 518 | 17 518 |
| other own funds, of which: | 3 734 | 11 240 | 14 974 |
| from previous years | 1 325 | (16 234) | (14 909) |
| net profit (loss) | 2 049 | (1 192) | 857 |
| minority interest | - | 1 494 | 1 494 |
| **liabilities of entity, of which:** | 46 232 | 29 635 | **75 867** |
| short-term | 94 | 29 635 | 29 729 |
| long-term | 46 138 | - | 46 138 |
| **revenues** | 1 333 | 7 708 | **9 041** |
| **% of holding***** | 50,00 | 27,53 | |

* financial highlights as at end of November 2007
**Own funds of NFI Magna Polonia of PLN 91 172 k (as published in the company's report for 3Q 2007) have been decreased by the declared dividend of PLN 25 260 k and the value of equity in the amount of PLN 53 154 k purchased for redemption.
*** states percentage share of associates profits

In thousands of PLN

Investments in associates as at 30.06.2007

| Name of entity (and its legal status) | POLFUND - Fundusz Poręczeń Kredytowych S.A.* | NFI Magna Polonia S.A. Group ** | Total |
|---|---|---|---|
| **registered office** | Szczecin | Warszawa | |
| **balance sheet value** | 9 236 | 26 700 | **35 936** |
| **total assets** | 66 465 | 185 570 | **252 035** |
| **own funds of entity, of which:** | 18 479 | 92 804 | **111 283** |
| share capital | 16 000 | 1 518 | 17 518 |
| other own funds, of which: | 2 479 | 91 286 | 93 765 |
| from previous years | 632 | (15 425) | (14 793) |
| net profit (loss) | 1 547 | (363) | 1 184 |
| minority interest | - | 26 492 | **26 492** |
| **liabilities of entity, of which:** | 46 185 | 66 274 | **112 459** |
| short-term | 47 | 19 797 | 19 844 |
| long-term | 46 138 | 46 477 | 92 615 |
| **revenues** | 1 480 | 572 | **2 052** |
| **% of holding*** ** | 50,00 | 28,77 | |

* financial highlights as at end of May 2007
**financial highlights as at end of March 2007
*** states percentage share of associates profits

In thousands of PLN

## 29. Intangible assets

| Intangible assets | Licences, patents etc. | Other | Capital expenditures | Total |
|---|---|---|---|---|
| **As at 01.01.2008** | | | | |
| **Gross value at the beginning of the period** | **508 575** | **8 030** | **56 399** | **573 004** |
| **Additions from:** | | | | |
| - purchases | - | - | 23 377 | **23 377** |
| - intangible assets taken for use | 18 080 | 1 | - | **18 081** |
| - transfers | (2) | - | - | **(2)** |
| **Disposals from:** | | | | |
| - liquidation | (4 347) | - | - | **(4 347)** |
| - intangible assets taken for use | - | - | (18 081) | **(18 081)** |
| - transfers | - | - | (4) | **(4)** |
| **Gross value at the end of the period** | **522 306** | **8 031** | **61 691** | **592 028** |
| **Accumulated depreciation at the beginning of the period** | **(450 003)** | **(7 721)** | **-** | **(457 724)** |
| **Depreciation:** | | | | |
| - current year | (10 362) | (66) | - | **(10 428)** |
| - liquidation | 4 347 | - | - | **4 347** |
| - transfers | 1 | - | - | **1** |
| Write down/Reversal of impairment write down | - | - | (1 700) | **(1 700)** |
| **Accumulated depreciation at the end of the period** | **(456 017)** | **(7 787)** | **(1 700)** | **(465 504)** |
| **Book Value** | | | | |
| Purchase value | 522 306 | 8 031 | 61 691 | **592 028** |
| Accumulated depreciation | (456 017) | (7 787) | (1 700) | **(465 504)** |
| **As at 30 June 2008** | **66 289** | **244** | **59 991** | **126 524** |

In thousands of PLN

| Intangible assets | Licences, patents etc. | Other | Capital expenditures | Total |
|---|---|---|---|---|
| **As at 01.01.2007** | | | | |
| **Gross value at the beginning of the period** | **501 629** | **8 029** | **40 430** | **550 088** |
| **Additions from:** | | | | |
| - purchases | - | - | 48 522 | **48 522** |
| - intangible assets taken for use | 30 801 | 1 | - | **30 802** |
| **Disposals from:** | | | | |
| - liquidation | (23 855) | - | - | **(23 855)** |
| - intangible assets taken for use | - | - | (30 802) | **(30 802)** |
| - transfers | - | - | (1 751) | **(1 751)** |
| **Gross value at the end of the period** | **508 575** | **8 030** | **56 399** | **573 004** |
| **Accumulated depreciation at the beginning of the period** | **(407 465)** | **(7 591)** | **-** | **(415 056)** |
| **Depreciation:** | | | | |
| - current year | (68 139) | (130) | - | **(68 269)** |
| - liquidation | 23 855 | - | - | **23 855** |
| Write down/Reversal of impairment write down | 1 746 | - | - | **1 746** |
| **Accumulated depreciation at the end of the period** | **(450 003)** | **(7 721)** | **-** | **(457 724)** |
| **Book Value** | | | | |
| Purchase value | 508 575 | 8 030 | 56 399 | **573 004** |
| Accumulated depreciation | (450 003) | (7 721) | - | **(457 724)** |
| **As at 31 December 2007** | **58 572** | **309** | **56 399** | **115 280** |

In thousands of PLN

| Intangible assets | Licences, patents etc. | Other | Capital expenditures | Total |
|---|---|---|---|---|
| **As at 01.01.2007** | | | | |
| **Gross value at the beginning of the period** | **501 629** | **8 029** | **40 430** | **550 088** |
| **Additions from:** | | | | |
| - purchases | - | - | 13 540 | **13 540** |
| - intangible assets taken for use | 14 755 | - | - | **14 755** |
| - transfers | - | 1 | - | **1** |
| **Disposals from:** | | | | |
| - liquidation | (922) | - | - | **(922)** |
| - intangible assets taken for use | - | - | (14 755) | **(14 755)** |
| - transfers | (1) | - | (421) | **(422)** |
| **Gross value at the end of the period** | **515 461** | **8 030** | **38 794** | **562 285** |
| **Accumulated depreciation at the beginning of the period** | **(407 465)** | **(7 591)** | **-** | **(415 056)** |
| **Depreciation:** | | | | |
| - current year | (36 577) | (65) | - | **(36 642)** |
| - liquidation | 922 | - | - | **922** |
| - transfers | - | - | - | **-** |
| Write down/Reversal of impairment write down | 6 | - | - | **6** |
| **Accumulated depreciation at the end of the period** | **(443 114)** | **(7 656)** | **-** | **(450 770)** |
| **Book Value** | | | | |
| Purchase value | 515 461 | 8 030 | 38 794 | **562 285** |
| Accumulated depreciation | (443 114) | (7 656) | - | **(450 770)** |
| **As at 30 June 2007** | **72 347** | **374** | **38 794** | **111 515** |

In thousands of PLN

## 30. Property plant and equipment

| Property, plant & equipment | Land and Buildings | Equipment | Transportation means | Other fixed assets | Capital expenditures | Total |
|---|---|---|---|---|---|---|
| **As at 01.01.2008** | | | | | | |
| **Gross value at the beginning of the period** | **572 424** | **291 697** | **37 337** | **254 089** | **55 556** | **1 211 103** |
| **Additions from:** | | | | | | |
| - purchases | - | - | - | - | 48 994 | **48 994** |
| - leasing | - | - | 12 746 | | | **12 746** |
| - fixeded assets taken for use | 25 977 | 32 651 | 215 | 22 683 | | **81 526** |
| - transfers | - | 10 | - | 25 | 10 | **45** |
| **Disposals from:** | | | | | | |
| - sale, liquidation and donation | (6 417) | (6 952) | (5 637) | (3 252) | | **(22 258)** |
| - fixeded assets taken for use | - | - | - | - | (81 526) | **(81 526)** |
| - transfers | (46) | 3 | (70) | (90) | | **(203)** |
| **Gross value at the end of the period** | **591 938** | **317 409** | **44 591** | **273 455** | **23 034** | **1 250 427** |
| **Accumulated depreciation at the beginning of the period** | **(225 716)** | **(250 493)** | **(17 194)** | **(174 474)** | **-** | **(667 877)** |
| **Depreciation:** | | | | | | |
| - current year | (11 644) | (11 794) | (4 686) | (12 006) | - | **(40 130)** |
| - sale, liquidation and donation | 2 292 | 6 890 | 5 415 | 3 107 | - | **17 704** |
| - transfers | 3 | (4) | (672) | 158 | - | **(515)** |
| Reversal of impairment write down | - | - | - | 271 | - | **271** |
| **Accumulated depreciation at the end of the period** | **(235 065)** | **(255 401)** | **(17 137)** | **(182 944)** | **-** | **(690 547)** |
| **Book Value** | | | | | | |
| Purchase value | 591 938 | 317 409 | 44 591 | 273 455 | 23 034 | 1 250 427 |
| Accumulated depreciation | (235 065) | (255 401) | (17 137) | (182 944) | - | (690 547) |
| **As at 30 June 2008** | **356 873** | **62 008** | **27 454** | **90 511** | **23 034** | **559 880** |

In thousands of PLN

| Property, plant & equipment | Land and Buildings | Equipment | Transportation means | Other fixed assets | Capital expenditures | Total |
|---|---|---|---|---|---|---|
| **As at 01.01.2007** | | | | | | |
| **Gross value at the beginning of the period** | **547 981** | **356 214** | **30 215** | **247 451** | **26 796** | **1 208 657** |
| **Additions from:** | | | | | | |
| - purchases | - | - | - | - | 95 040 | **95 040** |
| - leasing | - | - | 12 430 | 31 | - | **12 461** |
| - donation | - | 48 | - | - | - | **48** |
| - fixeded assets taken for use | 16 462 | 30 424 | 316 | 20 568 | - | **67 770** |
| - transfers | 20 106 | 8 | 268 | 3 634 | 1 510 | **25 526** |
| **Disposals from:** | | | | | | |
| - sale, liquidation and donation | (12 125) | (94 971) | (5 892) | (17 539) | - | **(130 527)** |
| - fixed assets taken for use | - | - | - | | (67 770) | **(67 770)** |
| - transfers | - | (26) | - | (56) | (20) | **(102)** |
| **Gross value at the end of the period** | **572 424** | **291 697** | **37 337** | **254 089** | **55 556** | **1 211 103** |
| **Accumulated depreciation at the beginning of the period** | **(201 923)** | **(331 332)** | **(14 694)** | **(167 051)** | **-** | **(715 000)** |
| **Depreciation:** | | | | | | |
| - current year | (22 871) | (14 104) | (7 065) | (22 293) | - | **(66 333)** |
| - sale, liquidation and donation | 7 221 | 94 948 | 5 685 | 17 077 | - | **124 931** |
| - transfers | (8 143) | (5) | (1 120) | (1 918) | - | **(11 186)** |
| Reversal of impairment write down | - | - | - | (289) | - | **(289)** |
| **Accumulated depreciation at the end of the period** | **(225 716)** | **(250 493)** | **(17 194)** | **(174 474)** | **-** | **(667 877)** |
| **Book Value** | | | | | | |
| Purchase value | 572 424 | 291 697 | 37 337 | 254 089 | 55 556 | 1 211 103 |
| Accumulated depreciation | (225 716) | (250 493) | (17 194) | (174 474) | - | (667 877) |
| **As at 31 December 2007** | **346 708** | **41 204** | **20 143** | **79 615** | **55 556** | **543 226** |

In thousands of PLN

| Property, plant & equipment | Land and Buildings | Equipment | Transportation means | Other fixed assets | Capital expenditures | Total |
|---|---|---|---|---|---|---|
| **As at 01.01.2007** | | | | | | |
| **Gross value at the beginning of the period** | **547 981** | **356 214** | **30 215** | **247 451** | **26 796** | **1 208 657** |
| **Additions from:** | | | | | | |
| - purchases | - | - | - | - | 12 893 | **12 893** |
| - leasing | - | - | 5 189 | - | - | **5 189** |
| - donation | - | 23 | - | - | - | **23** |
| - fixed assets taken for use | 3 633 | 19 511 | 217 | 7 710 | - | **31 071** |
| - transfers | - | 15 | 267 | - | 379 | **661** |
| **Disposals from:** | | | | | | |
| - sale, liquidation and donation | (1 525) | (3 426) | (1 861) | (1 229) | - | **(8 041)** |
| - fixed assets taken for use | - | - | - | - | (31 071) | **(31 071)** |
| - transfers | - | (31) | - | (56) | (20) | **(107)** |
| **Gross value at the end of the period** | **550 089** | **372 306** | **34 027** | **253 876** | **8 977** | **1 219 275** |
| **Accumulated depreciation at the beginning of the period** | **(201 923)** | **(331 332)** | **(14 694)** | **(167 051)** | **-** | **(715 000)** |
| **Depreciation:** | | | | | | |
| - current year | (10 694) | (6 746) | (3 294) | (10 722) | - | **(31 456)** |
| - sale, liquidation and donation | 418 | 3 416 | 1 717 | 1 144 | - | **6 695** |
| - transfers | - | 23 | (394) | 46 | - | **(325)** |
| Reversal of impairment write down | - | - | - | - | - | **-** |
| **Accumulated depreciation at the end of the period** | **(212 199)** | **(334 639)** | **(16 665)** | **(176 583)** | **-** | **(740 086)** |
| **Book Value** | | | | | | |
| Purchase value | 550 089 | 372 306 | 34 027 | 253 876 | 8 977 | **1 219 275** |
| Accumulated depreciation | (212 199) | (334 639) | (16 665) | (176 583) | - | **(740 086)** |
| **As at 30 June 2007** | **337 890** | **37 667** | **17 362** | **77 293** | **8 977** | **479 189** |

In thousands of PLN

## 31. Deferred tax asset

| Deferred tax asset | 31.12.2007 | Increase | Decrease | 30.06.2008 |
|---|---|---|---|---|
| Unrealized deposit interest | 13 670 | - | (245) | 13 425 |
| Unrealized securities interest | 22 480 | - | (18 376) | 4 104 |
| Unrealized liabilities due to derivatives | 71 460 | 39 375 | - | 110 835 |
| Provisions for loans | 102 138 | - | (2 672) | 99 466 |
| Other provisions which are not yet taxable costs | 75 946 | 1 276 | (16 512) | 60 710 |
| Difference between balance sheet and taxable value of leasing portfolio | 32 876 | 7 024 | - | 39 900 |
| Additional deferred tax assets resulting from art. 38 a of Corporate Tax Act | 11 358 | - | (444) | 10 914 |
| Tax loss | 792 | - | (792) | - |
| Deferred income | 31 166 | 6 726 | - | 37 892 |
| Other | 6 563 | 2 256 | (345) | 8 474 |
| **Total** | **368 449** | **56 657** | **(39 386)** | **385 720** |

As at 30 June 2008 calculation of deferred tax asset did not taken into account bought receivables of PLN 21 231 k and loans that will not be realised of PLN 43 602 k

| Deferred tax asset | 31.12.2006 | Increase | Decrease | 31.12.2007 |
|---|---|---|---|---|
| Unrealized deposit interest | 11 271 | 2 399 | - | 13 670 |
| Unrealized securities interest | 19 228 | 3 252 | - | 22 480 |
| Unrealized liabilities due to derivatives | 119 265 | - | (47 805) | 71 460 |
| Provisions for loans | 104 509 | - | (2 371) | 102 138 |
| Other provisions which are not yet taxable costs | 61 196 | 19 290 | (4 540) | 75 946 |
| Difference between balance sheet and taxable value of leasing portfolio | 28 171 | 4 705 | - | 32 876 |
| Additional deferred tax assets resulting from art. 38 a of Corporate Tax Act | 14 195 | - | (2 837) | 11 358 |
| Tax Loss | - | 792 | - | 792 |
| Deferred income | 26 448 | 4 718 | - | 31 166 |
| Other | 8 184 | 2 945 | (4 566) | 6 563 |
| **Total** | **392 467** | **38 101** | **(62 119)** | **368 449** |

As at 31 December 2007 calculation of deferred tax asset did not taken into account bought receivables of PLN 21 498 k and loans that will not be realised of PLN 18 046 k.

| Deferred tax asset | 31.12.2006 | Increase | Decrease | 30.06.2007 |
|---|---|---|---|---|
| Unrealized deposit interest | 11 271 | 848 | - | 12 119 |
| Unrealized securities interest | 19 228 | - | (2 549) | 16 679 |
| Unrealized liabilities due to derivatives | 119 265 | 61 733 | - | 180 998 |
| Provisions for loans | 104 509 | 1 760 | - | 106 269 |
| Other provisions which are not yet taxable costs | 61 196 | 1 360 | (2 132) | 60 424 |
| Difference between balance sheet and taxable value of leasing portfolio | 28 171 | 8 050 | - | 36 221 |
| Additional deferred tax assets resulting from art. 38 a of Corporate Tax Act | 14 195 | 272 | - | 14 467 |
| Deferred income | 26 448 | 2 960 | - | 29 408 |
| Other | 8 184 | 798 | (809) | 8 173 |
| **Total** | **392 467** | **77 781** | **(5 490)** | **464 758** |

As at 30 June 2007 calculation of deferred tax asset did not taken into account bought receivables of PLN 21 486 k and loans that will not be realised of PLN 35 543 k.

In thousands of PLN

## 32. Other assets

| Other assets | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|
| Sundry debtors | 289 905 | 244 709 | 195 615 |
| Settlements of stock exchange transactions | 93 702 | 135 397 | 267 665 |
| Interbank and interbranch settlements | 10 887 | 75 805 | 28 294 |
| Prepayments | 37 100 | 36 429 | 27 050 |
| Assets held for sale | 2 998 | 2 502 | 16 231 |
| Other | 1 277 | 715 | 575 |
| **Total** | **435 869** | **495 557** | **535 430** |

**Assets held for sale - BZ WBK Group**

| 30 June 2008 | Gross value | Impairment loss | Carrying value |
|---|---|---|---|
| Land and buildings | 4 224 | (1 815) | 2 409 |
| Equipment | 3 589 | (3 000) | 589 |
| **Total** | **7 813** | **(4 815)** | **2 998** |

| 31 December 2007 | Gross value | Impairment loss | Carrying value |
|---|---|---|---|
| Land and buildings | 4 224 | (1 815) | 2 409 |
| Equipment | 436 | (343) | 93 |
| **Total** | **4 660** | **(2 158)** | **2 502** |

| 30 June 2007 | Gross value | Impairment loss | Carrying value |
|---|---|---|---|
| Land and buildings | 19 852 | (5 478) | 14 374 |
| Equipment | 1 884 | (27) | 1 857 |
| **Total** | **21 736** | **(5 505)** | **16 231** |

## 33. Deposits from banks

| Deposits from banks | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|
| Current accounts | 148 081 | 39 205 | 190 479 |
| Deposits | 1 598 515 | 1 350 278 | 1 020 308 |
| Loans from other banks | 1 822 619 | 1 337 922 | 968 263 |
| Repo transactions | 1 869 248 | 1 756 121 | 1 376 137 |
| **Total** | **5 438 463** | **4 483 526** | **3 555 187** |

As at 30.06.2008 fair value adjustment for hedged deposit totaled PLN 0 k (as at 31.12.2007 - PLN 48 k, as at 30.06.2007 - PLN (287) k).
Fair value of deposits from banks is presented in additional note 43.

In presented reporting periods 1D deposits have been reclassified from current accounts to deposits.

In thousands of PLN

## 34. Deposits from customers

| Deposits from customers | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|
| Deposits from individuals | 20 105 873 | 15 142 934 | 13 096 558 |
| -current accounts | 14 903 590 | 8 935 062 | 5 420 192 |
| -term deposits | 5 150 811 | 6 151 805 | 7 613 321 |
| - other | 51 472 | 56 067 | 63 045 |
| | | | |
| Deposits from enterprises | 11 229 188 | 12 211 484 | 10 106 884 |
| - current accounts | 3 916 393 | 4 679 548 | 3 519 772 |
| - term deposits | 6 895 733 | 7 154 283 | 6 118 017 |
| - credits | 51 096 | 76 348 | 93 000 |
| - repo transactions | 3 863 | 5 269 | 2 601 |
| - other | 362 103 | 296 036 | 373 494 |
| | | | |
| Deposits from public sector | 2 388 585 | 2 411 269 | 2 014 597 |
| - current accounts | 1 168 204 | 1 438 879 | 824 693 |
| - term deposits | 1 220 097 | 971 803 | 1 189 583 |
| - oher | 284 | 587 | 321 |
| | | | |
| **Total** | **33 723 646** | **29 765 687** | **25 218 039** |

As at 30.06.2008 deposits held as collateral totalled PLN 205 832 k. (as at 31.12.2007 - PLN 190 306 k; as at 30.06.2007 - PLN 184 994 k).
Fair value of deposits from customers is presented in additional note 43.
In presented reporting periods 1D deposits have been reclassified from current accounts to term deposits.

## 35. Debt securities in issue

| Debt securities in issue | Average coupon | | | Nominal value | | |
|---|---|---|---|---|---|---|
| | 30.06.2008 | 31.12.2007 | 30.06.2007 | 30.06.2008 | 31.12.2007 | 30.06.2007 |
| Bond 3 Y-3SO807 | - | - | fixed: 7,3% | - | - | 49 984 |
| Bond 3 Y-3SO907 | - | - | fixed: 7,3% | - | - | 49 923 |
| Bond 3 Y-3S0707 | - | - | fixed: 7% | - | - | 49 827 |
| Bond 3 Y-3S1007 | - | - | fixed: 7,25% | - | - | 10 226 |
| Bond 3 Y-3S1107 | - | - | fixed: 7% | - | - | 29 967 |
| Bond 3 Y-3S11A07 | - | - | fixed: 7% | - | - | 10 000 |
| Bond 3 Y-3ZO807 | - | - | WIBOR 6M + 0,20% | - | - | 40 143 |
| Bond 3 Y-3S0308 | - | fixed; 5,55% | fixed; 5,55% | - | 14 985 | 14 985 |
| Bond 3 Y-3S0508 | - | fixed; 5,25% | fixed; 5,25% | - | 22 031 | 22 031 |
| Bond 3 Y-3S0608 | - | fixed; 5,15% | fixed; 5,15% | - | 7 283 | 7 283 |
| Bond 3 Y-3SO608 | - | fixed; 4,4% | fixed; 4,4% | - | 3 049 | 3 054 |
| Bond 3 Y-3S0108 | - | fixed; 6,25% | fixed; 6,25% | - | 24 943 | 24 973 |
| Bond 5-Y 5S1108 | fixed; 5,75% | fixed; 5,75% | fixed; 5,75% | 9 953 | 9 953 | 9 953 |
| Bond 5-Y 5S1208 | fixed; 6,0% | fixed; 6,0% | fixed; 6,0% | 61 874 | 61 874 | 61 874 |
| Bond 5-Y 5S1008 | fixed; 5,25% | fixed; 5,25% | fixed; 5,25% | 7 092 | 7 092 | 7 092 |
| Bond 3 Y-3S1008 | fixed; 4,2% | fixed; 4,2% | fixed; 4,2% | 12 765 | 12 765 | 12 767 |
| Bond 3 Y-3S1108 | fixed; 4,6% | fixed; 4,6% | fixed; 4,6% | 14 288 | 14 288 | 14 292 |
| Bond 3 Y-3Z0209 | WIBOR 1M + 0,44% | WIBOR 1M + 0,44% | WIBOR 1M + 0,44% | 35 000 | 35 000 | 35 000 |
| Bond 3 Y-3S0809 | fixed; 4,9% | fixed; 4,9% | fixed; 4,9% | 58 272 | 58 276 | 58 284 |
| Bond 2-Y-2S0209 | fixed; 5,0% | fixed; 5,0% | fixed; 5,0% | 32 305 | 32 310 | 32 311 |
| Bond 2-Y-2S0409 | fixed; 5,0% | fixed; 5,0% | fixed; 5,0% | 10 174 | 10 188 | 10 188 |
| Bond 2-Y-2Z0809 | WIBOR 6M | WIBOR 6M | - | 14 315 | 14 315 | - |
| **Total nominal value** | | | | **256 038** | **328 352** | **554 157** |
| **Total carrying value** | | | | **282 368** | **352 961** | **589 675** |

In thousands of PLN

As at 30.06.2008 the nominal value was increased by interest of PLN 29 015 k, bond valuation of PLN (2 685) k related to hedging activities.
As at 31.12.2007 the nominal value was increased by interest of PLN 27 907 k, bond valuation of PLN (3 298) k related to hedging activities.
As at 30.06.2007 the nominal value was increased by interest of PLN 36 770 k, bond valuation of PLN ( 1 252)k related to hedging activities.

## 36. Deferred tax liabilities

| Deferred tax liability | 31.12.2007 | Increase | Decrease | 30.06.2008 |
|---|---|---|---|---|
| Unrealised interests from securities and interbank deposits | 34 952 | 48 | (4 446) | 30 554 |
| Unrealised loans interests | 15 640 | 9 580 | - | 25 220 |
| Unrealised receivables on derivatives | 49 236 | 56 122 | - | 105 358 |
| Provision due to application of investment relief | 3 258 | - | (161) | 3 097 |
| Revaluation of financial instruments - equity | 85 189 | - | (25 629) | 59 560 |
| Other | 14 502 | 1 880 | (532) | 15 850 |
| **Total** | **202 777** | **67 630** | **(30 768)** | **239 639** |

| Deferred tax liability | 31.12.2006 | Increase | Decrease | 31.12.2007 |
|---|---|---|---|---|
| Unrealised interests from securities and interbank deposits | 18 164 | 17 102 | (314) | 34 952 |
| Unrealised loans interests | 10 567 | 5 073 | - | 15 640 |
| Unrealised receivables on derivatives | 123 513 | - | (74 277) | 49 236 |
| Provision due to application of investment relief | 2 883 | 375 | - | 3 258 |
| Revaluation of financial instruments - equity | 119 290 | 1 024 | (35 125) | 85 189 |
| Other | 19 112 | 5 395 | (10 005) | 14 502 |
| **Total** | **293 529** | **28 969** | **(119 721)** | **202 777** |

| Deferred tax liability | 31.12.2006 | Increase | Decrease | 30.06.2007 |
|---|---|---|---|---|
| Unrealised interests from securities and interbank deposits | 18 164 | 8 422 | (345) | 26 241 |
| Unrealised loans interests | 10 567 | 2 747 | - | 13 314 |
| Unrealised receivables on derivatives | 123 513 | 56 427 | - | 179 940 |
| Provision due to application of investment relief | 2 883 | - | (164) | 2 719 |
| Revaluation of financial instruments - equity | 119 290 | 1 112 | (21 614) | 98 788 |
| Other | 19 112 | 383 | (5 820) | 13 675 |
| **Total** | **293 529** | **69 091** | **(27 943)** | **334 677** |

## 37. Other liabilities

| Other liabilities | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|
| Interbank and interbranch settlements | 452 795 | 203 000 | 357 958 |
| Sundry creditors | 460 080 | 210 678 | 133 281 |
| Settlements of stock exchange transactions | 51 311 | 73 560 | 204 762 |
| Provisions: | 188 932 | 246 167 | 181 841 |
| *Employee provisions* | *145 188* | *215 849* | *146 569* |
| *Provisions for legal claims* | *32 369* | *29 202* | 33 249 |
| *Provisions for off balance sheet credit facilities* | *11 375* | *1 116* | *2 023* |
| Financial lease related settlements | 11 275 | 17 303 | 35 041 |
| Accrued liabilities | 68 712 | 99 779 | 69 450 |
| Other deferred and suspended income | 43 467 | 45 108 | 51 507 |
| Other liabilities | 1 987 | 1 230 | 1 674 |
| **Total** | **1 278 559** | **896 825** | **1 035 514** |

In thousands of PLN

| Movements on provisions | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|
| **As at the beginning of the period** | **246 167** | **174 245** | **174 245** |
| Provisions for off balance sheet credit facilities | 1 116 | 3 238 | 3 238 |
| Employee provisions and accruals | 215 849 | 142 335 | 142 335 |
| Provisions for legal claims | 29 202 | 28 672 | 28 672 |
| **Provision charge** | **111 272** | **211 641** | **103 470** |
| Provisions for off balance sheet credit facilities | 12 457 | 1 477 | 702 |
| Employee provisions and accruals | 95 265 | 201 917 | 94 804 |
| Provisions for legal claims | 3 550 | 8 247 | 7 964 |
| **Utilisation** | **(164 320)** | **(129 087)** | **(90 706)** |
| Provisions for off balance sheet credit facilities | (24) | (78) | (32) |
| Employee provisions and accruals | (164 118) | (125 142) | (89 744) |
| Provisions for legal claims | (178) | (3 867) | (930) |
| **Write back** | **(8 391)** | **(10 632)** | **(5 168)** |
| Provisions for off balance sheet credit facilities | (6 378) | (3 521) | (1 885) |
| Employee provisions and accruals | (1 808) | (3 261) | (826) |
| Provisions for legal claims | (205) | (3 850) | (2 457) |
| **Transfer** | **4 204** | **-** | **-** |
| Provisions for off balance sheet credit facilities | 4 204 | - | - |
| Employee provisions and accruals | - | - | - |
| Provisions for legal claims | - | - | - |
| **As at the end of the period** | **188 932** | **246 167** | **181 841** |
| **Provisions for off balance sheet credit facilities** | **11 375** | **1 116** | **2 023** |
| **Employee provisions and accruals** | **145 188** | **215 849** | **146 569** |
| **Provisions for legal claims** | **32 369** | **29 202** | **33 249** |

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 54.

## 38. Share capital

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

Nominal value of one share is 10 PLN. All shares in issue are fully paid. There was no movements on share capital during the reporting period.

According to the information available to the Bank's Management Board, as at 30.06.2008 the only shareholder who had at least 5% votes at the General Meeting of BZ WBK Shareholders was AIB European Investments Ltd seated in Dublin

In thousands of PLN

## 39. Other reserve funds

| Other reserve funds | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|
| General banking risk fund | 529 810 | 529 810 | 529 810 |
| Share premium | 261 699 | 261 699 | 261 699 |
| Other reserve capitals | 1 929 585 | 1 270 069 | 1 263 103 |
| **Total** | **2 721 094** | **2 061 578** | **2 054 612** |

**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.

Other reserve capitals consist of reserve capital in the amount of PLN 1 729 487 k and and supplementary capital PLN 200 098 k (in comparable periods: Dec 2007: PLN 1 096 952 k and PLN 173 117 k, June 2007: PLN 1 089 985 k and PLN 173 118 k).

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.

## 40. Revaluation reserve

| Revaluation reserve | 30.06.2008 |
|---|---|
| As at 31 December 2007 | 362 963 |
| Net change in available for sale investments, of which: | (126 108) |
| - related to debt investments purchased before current reporting period | (83 039) |
| - related to equity investments purchased before current reporting period | 3 836 |
| - related to debt investments purchased/assigned in the period | (70 459) |
| - related to equity investments purchased in the period | 21 185 |
| -transferred from associates | 384 |
| -net valuation related to cash flow hedge | 1 985 |
| Net change in available for sale investments matured in the period | (55) |
| Decrease in revaluation reserve related to sale of investments | (13 070) |
| Decrease in revaluation reserve related to hedge accounting | 6 001 |
| Deferred tax adjustment | 25 622 |
| **As at 30.06.2008** | **255 353** |

| Revaluation reserve | 31.12.2007 |
|---|---|
| As at 31 December 2006 | 508 548 |
| Net change in available for sale investments, of which: | (187 446) |
| - related to debt investments purchased before current reporting period | (128 930) |
| - related to equity investments purchased before current reporting period | (1 100) |
| - related to debt investments purchased/assigned in the period | (75 280) |
| - related to equity investments purchased/assigned in the period | 17 864 |
| Net change in available for sale investments matured in the period | (31 741) |
| Decrease in revaluation reserve related to sale of investments | 26 096 |
| Decrease in revaluation reserve related to hedge accounting | 13 405 |
| Deferred tax adjustment | 34 101 |
| **As at 31.12.2007** | **362 963** |

As at 31 December 2007 BZWBK did not identified any material changes in fair value of its investments in Polish entities of the Commercial Union Group classified as available for sale.

In thousands of PLN

| Revaluation reserve | 30.06.2007 |
|---|---|
| As at 31 December 2006 | 508 548 |
| Net change in available for sale investments, of which: | (110 552) |
| - related to debt investments purchased before current reporting period | (83 428) |
| - related to equity investments purchased before current reporting period | 18 198 |
| - related to debt investments purchased/assigned in the period | (45 211) |
| - related to equity investments purchased in the period | (111) |
| -net valuation related to cash flow hedge | - |
| Net change in available for sale investments matured in the period | (5 148) |
| Decrease in revaluation reserve related to sale of investments | (2 608) |
| Decrease in revaluation reserve related to hedge accounting | 9 331 |
| Deferred tax adjustment | 21 204 |
| **As at 30.06.2007** | **420 775** |

**Revaluation reserve** comprises equity from the valuation of financial assets available for sale. Revaluation reserve is not distributable. On the day of derecognising of all or part of financial assets available for sale the total effects of periodical change in the fair value reflected in the revaluation reserve are reversed. Total or part of the previous revaluation charge increases or decreases the value of the given financial asset available for sale.

## 41. Hedge accounting

The Group applies hedge accounting in line with the risk management assumptions described in note 8 of annual consolidated financial statements.

### Fair value hedge

Hedging transactions are constructed using interest rate swaps. Their purpose is to mitigate 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 relation to the following classes of financial instruments:

- Own fixed-rate bonds denominated in PLN, which form a group of financial liabilities. Each element in this group carries a risk of changes in the interbank interest rates,
- A fixed rate loan denominated in PLN recognised as a financial asset. Each element in this group carries a risk of changes in the interbank interest rates,
- Fixed rate loans denominated in foreign currency recognised as a financial asset,
- Fixed rate debt securities, 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.

In thousands of PLN

The tables below contain details about individual groups of hedge transactions for 1H 2008 and 1H 2007:

| 30.06.2008 | IRS hedging own bonds | IRS hedging corporate loans | IRS hedging Treasury and NBP bonds |
|---|---|---|---|
| Nominal value of hedged position | PLN 78 918 k | PLN 274 125 k | PLN 1 040 000 k |
| Fair value adjustment of hedging instrument asset/(liability) | PLN (436) k | PLN 2 053 k | PLN 17 902 k |
| Fair value adjustment of hedged instrument due to hedged risk asset/(liability) | PLN 437 k | PLN (2 044) k | PLN (18 101) 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 | 2008 | 2008-2011 | 2008-2017 |

| 30.06.2007 | IRS hedging own bonds | IRS hedging corporate loans | IRS hegding deposits | IRS hedging Treasury and NBP bonds |
|---|---|---|---|---|
| Nominal value of hedged position | PLN 78 918 k | PLN 285 771 k | PLN 167 934 k | PLN 465 000 k |
| Fair value adjustment of hedging instrument asset/(liability) | PLN 234 k | PLN (2 094) k | PLN 286 k | PLN 7 676 k |
| Fair value adjustment of hedged instrument due to hedged risk asset/(liability) | PLN (217) k | PLN 2 011 k | PLN (285) k | PLN (8 026) 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 | 2007-2008 | 2007-2011 | 2007-2008 | 2007-2017 |

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

| 30.06.2008 | BZ WBK Leasing S.A. | BZ WBK Finanse&Leasing S.A |
|---|---|---|
| Nominal value of the hedged position | PLN 73 536 k | PLN 68 762 K |
| Fair value adjustment of hedged instrument due to hedged risk asset/(liability) | PLN 1 056 k | PLN 838 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 | 2008-2009 | 2008-2009 |

| 30.06.2007 | BZ WBK Leasing S.A. | BZ WBK Finanse&Leasing S.A |
|---|---|---|
| Nominal value of the hedged position | PLN 367 470 k | PLN 166 127 K |
| Fair value adjustment of hedged instrument due to hedged risk asset/(liability) | PLN 265 k | PLN 316 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 | 2007-2009 | 2007-2009 |

**Cash flow hedging**

In 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.

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 30 June 2008 nominal value of hedging and hedged instruments totalled PLN 150 000 k. Fair value adjustment of hedging instrument amounts to PLN 1 985 k. The same amount , net of tax, is reflected in consolidated revaluation reserve. Hedging items will have influence on the bank's profit and loss account till 2015.

## 42. Sell-buy-back transactions

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. As at 30 June 2008, the consolidated balance sheet contains treasury bills and bonds traded under sell-buy-back transactions in the amount of PLN 1 872 077 k (PLN 1 757 802 k as at 31.12.2007, PLN 1 377 665 k as at 30.06.2007).
At the same time, on the liabilities side, in the item representing obligations in respect repo transactions there were deposits recognised, corresponding to the securities traded in the amount of PLN 1 873 111 k (PLN 1 761 390 k as at 31.12.2007, PLN 1 378 738 k as at 30.06.2007).
As regards sale-by-back transactions, all risks and rewards related to holding of underlying debt securities remains, as well as power to dispose them.
Financial instruments received as collateral for (reverse) repurchase agreements can be sold or repledged under standard agreements, but have to be returned at the end of the transaction. As at 30.06.2008 financial instruments with nominal value of PLN 32 000 k (31.12.2007 - PLN 5 000 k) accepted as collateral have been repledged under subsequent repurchase transactions, which will conclude before the maturity of the original transactions.

## 43. Fair value

### *Fair value of financial assets and liabilities*

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 a forced sale or liquidation and is best reflected by a quoted market price, if available.
The following is a summary of the carrying amounts and fair values of each class of assets and liabilities that are not presented on the Group's balance sheet at their fair value. For financial assets and liabilities, it is assumed that their carrying amount is approximately equal to their fair value.

In thousands of PLN

| k PLN | 30.06.2008 Carrying amount | 30.06.2008 Fair value | 31.12.2007 Carrying amount | 31.12.2007 Fair value | 30.06.2007 Carrying amount | 30.06.2007 Fair value |
|---|---|---|---|---|---|---|
| ***Assets*** | | | | | | |
| Loans and advances to banks | 2 760 567 | 2 760 076 | 2 576 878 | 2 577 034 | 2 736 901 | 2 736 735 |
| Loans and advances to customers | 28 273 070 | 28 293 762 | 23 949 714 | 23 968 795 | 20 650 181 | 20 672 147 |
| Investments in associate undertakings | 43 353 | 43 353 | 13 378 | 13 378 | 35 936 | 35 936 |
| ***Liabilities*** | | | | | | |
| Deposits from banks | 5 438 463 | 5 441 438 | 4 483 526 | 4 484 173 | 3 555 187 | 3 555 605 |
| Deposits from customers | 33 723 646 | 33 722 641 | 29 765 687 | 29 765 499 | 25 218 039 | 25 214 250 |

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

*Loans and advances to banks:* The fair value of floating rate placements and overnight deposits is their carrying amount. Fixed interest-bearing deposits fair value is estimated based on discounted cash flows using current money market interest rates for debts with similar credit risk and remaining maturity.

*Loans and advances to customers:* These are net of any impairment . Fair value is calculated based on the discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles if there was no significant change in the credit risk of the borrower. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

*Available-for-sale investments:* The fair value of financial assets available for sale is based on quoted market prices. For certain equity instruments without quoted prices it was impossible to reliably estimate a fair value with alternative methods. For balance sheet valuation purposes instruments are recognised at purchase value adjusted for impairment write downs.

*Investments in associates entities and joint ventures:* Financial assets representing interests in associated entities were accounted for using the equity method. In the opinion of the Management Board of the parent company, this is the best estimate of the fair value of these instruments.

*Bank and customer deposits:* For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the balance sheet date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. For deposits maturing within 6 months it's assumed that their fair value is not significantly different from carrying value. The value of long-term relationships with depositors is not taken into account in estimating fair values.

## 44. Contingent liabilities

### Significant court proceedings

As at 30 June 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 litigations totals PLN 269 569 k, which is ca 5.63% of Group's equity. This amount includes PLN 54 822 k claimed by the Bank, PLN 44 895 k in claims against the Bank and PLN 169 852 k are Bank's receivables due to bankruptcy or arrangement cases.

As at 31 December 2007 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 litigations totals PLN 282 843 k, which is ca. 6.51% of Group's equity. This amount includes PLN 56 665 k claimed by the Bank, PLN 64 309 k in claims against the Bank and PLN 161 869 k are Bank's receivables due to bankruptcy or arrangement cases.

As at 30 June 2007 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 litigations totals PLN 288 876 k, which is ca. 6.96% of Group's equity. This amount includes PLN 73 611 k claimed by the Bank, PLN 49 824 k in claims against the Bank and PLN 165 441 k are Bank's receivables due to bankruptcy or arrangement cases.

### Off balance sheet liabilities

The Group has commitments to deliver loans. These commitments include loans sanctioned, credit card limits and overdrafts. The Group issue guarantees and letters of credit which collateralise customers' liabilities to third parties.
The break-down of contingent liabilities and off-balance transactions into categories are presented below. The values of guarantees and letters of credit as set out in the table below represent the maximum possible loss that would be disclosed as at the balance sheet day if the customers did not meet any of their obligations.

In thousands of PLN

| Contingent liabilities, sanctioned and received | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|
| **Liabilities sanctioned** | **10 531 105** | **8 512 897** | **7 114 542** |
| **- financial** | **9 654 169** | **7 832 652** | **6 433 240** |
| - including: import letters of credit | 76 304 | 61 209 | 104 673 |
| - including: credit lines | 8 323 856 | 6 572 568 | 5 802 615 |
| - including: credit cards debits | 786 455 | 651 041 | 509 304 |
| - including: term deposits with future commencement term | 467 554 | 547 834 | 16 648 |
| **- guarantees** | **876 936** | **680 245** | **681 302** |
| including: confirmed export letters of credit | 503 | 814 | 3 604 |
| **Received liabilities** | **2 497 441** | **2 549 435** | **1 953 023** |
| **Total** | **13 028 546** | **11 062 332** | **9 067 565** |

As at 30.06.2008 the Bank received/sanctioned guarantees of PLN 215 026 k ( as at 31.12.2007- PLN 229 621 k, as at 30.06.2007- PLN 248 772 k) to following subsidiary undertakings: BZ WBK Finanse & Leasing S.A., BZ WBK Leasing SA, Dom Maklerski BZWBK SA, BZWBK TFI S.A. and BZWBK Nieruchomości S.A. They were eliminated as intragroup transactions.

The most common forms of guarantee are: payment guarantee, performance bond, bid bond, advance payment guarantee, loan repayment guarantee, customs guarantee. In accordance with the "Non-consumer lending regulations", the bank issues civil law guarantees (mainly: loan or advance repayment guarantee, service or goods repayment guarantee, advance payment guarantee, performance bond, bid bonds and other) and B/E guarantees (mainly: loan or advance repayment guarantee, service or goods repayment guarantee and other).

Guarantees and civil law guarantees are issued on the basis of the same information and in accordance with the same procedure as it is in the case of loans. Applicable regulations are set out in lending manuals.

These contingent liabilities carry an off-balance sheet credit risk as only the funding arrangement fees and loan loss provisions are disclosed in the balance sheet until repayment or expiry of the obligation. Many of the existing contingent liabilities will expire before any payment is made. For this reason, their values do not reflect the expected future cash flows.

## 45. Assets pledged as collateral

Bank is obliged to set up a guaranteed protection fund.

For the purpose as at 30 June 2008 Bank Zachodni WBK S.A. pledged as collateral PLN 89 710 k of debt securities (PLN 68 444 k as at 30.06.2007).

These transactions are conducted under terms that are usual and customary to this type of agreement.

In 2007 a deposit for PLN 12 322 k was placed with another Polish bank as a collateral for the day-to-day Treasury business.

Other assets pledge as collateral are presented in note 42.

In thousands of PLN

## 46. Trust activities

BZ WBK Group provided custodian services in accordance with Stock Exchange Commission license of 9 August 1999. The Bank's custodian services were addressed to residents - private individuals and legal enterprises (incl. investment funds) - and to foreign institutional investors present on the Polish capital market. They involved, inter alia, maintaining securities accounts, settling transactions, handling dividend and interest payments and representing clients at the General Annual Meetings of public companies. Group also acted as a depository for investment funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.
As at the end of June 2007 assets held by clients at the Group securities accounts totalled PLN 9 278 863 k.
Year 2007 was the last year of trust activity. Since 01.01.2008 the process of Custodian Services Unit liquidation has begun and the assets at the securities accounts were transferred to other Depositories.

## 47. Financial and operating leases

### Financial leases

#### Lease agreements where the Group acts as the 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 items „receivables from customers" contains the following amounts relating to the finance lease obligations:

| Finance leases gross receivables maturity | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|
| less then 1 year | 1 070 331 | 956 350 | 788 306 |
| between 1 and 5 years | 1 914 290 | 1 688 281 | 1 485 274 |
| over 5 years | 90 247 | 54 788 | 14 070 |
| **Total** | **3 074 868** | **2 699 419** | **2 287 650** |

| Present value of minimum lease payments maturity | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|
| less then 1 year | 995 175 | 728 346 | 651 966 |
| between 1 and 5 years | 1 538 337 | 1 530 820 | 1 311 473 |
| over 5 years | 48 071 | 54 617 | 15 428 |
| **Total** | **2 581 583** | **2 313 783** | **1 978 867** |

| Reconciliation between the gross investment and the present value of minimum lease payments | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|
| Finance leases gross receivables | 3 074 868 | 2 699 419 | 2 287 650 |
| Unearned finance income | (493 284) | (385 636) | (308 783) |
| Bad debts provisions | (30 583) | (28 214) | (29 310) |
| **Net present value of minimum lease payments** | **2 551 001** | **2 285 569** | **1 949 557** |

The present value of the minimum lease payments includes effects of EIR adjustments.

In thousands of PLN

**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 balance sheet and profit and loss account.

### Operating leases

The BZWBK Group leases offices in compliance with operational leasing agreements. Most significant agreements relate to the buildings in Poznań and Warsaw. As a standard, agreements are concluded for 5-10 years. A small part of the offices is subleased outside the Bank. In 1H 2008 and 1H 2007 rentals related to mentioned real estates totalled PLN 7 372 k and PLN 8 793 k. These payments are presented in the profit and loss account under "administrative costs".

Total payments due to non cancellable operating leases (including land perpetual usufruct) are as below:

| Payments (maturity) | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|
| Less than 1 year | 11 626 | 16 624 | 18 739 |
| 1-5 years | 15 806 | 30 828 | 43 952 |
| over 5 years | 59 292 | 60 683 | 58 462 |
| **Total** | **86 724** | **108 135** | **121 153** |

## 48. Consolidated cash flow statement – additional information

Table below specifies components of cash balances of BZ WBK Group.

| Cash components | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|
| Cash on hand | 640 271 | 840 924 | 490 655 |
| Current account in a central bank | 1 829 045 | 1 365 131 | 272 031 |
| Other cash equivalents | 91 | 210 | 211 |
| Current accounts other banks | 24 705 | 32 274 | 32 076 |
| **Total** | **2 494 112** | **2 238 539** | **794 973** |

## 49. Related party disclosures

The Bank enters into intercompany transactions related parties. Most of the transactions are banking transactions made as part of ordinary business activities and mainly include loans, deposits and guarantees. Intragroup transactions have been eliminated from consolidated financial statements.

The table below contains information about transactions effected by the bank and its subsidiaries with related entities at the end of the reporting period, along with revenues and expenses for the current period:

In thousands of PLN

## Receivables and liabilities relating to transactions with connected entities

### 30.06.2008

| Receivables | of which from subsidiaries | of which from associates | of which from the parent company (AIB Group) | Total |
|---|---|---|---|---|
| Loans and advances to banks | 1 542 258 | - | 273 042 | 1 815 300 |
| Financial assets held for trading | 22 380 | - | 97 250 | 119 630 |
| Hedging derivatives | 2 175 | - | 2 001 | 4 176 |
| Loans and advances to customers | 688 698 | - | - | 688 698 |
| Investment securities | - | - | 187 974 | 187 974 |
| Other assets | 62 767 | - | - | 62 767 |
| **Total** | **2 318 278** | **-** | **560 267** | **2 878 545** |

| Liabilities | of which from subsidiaries | of which from associates | of which from the parent company (AIB Group) | Total |
|---|---|---|---|---|
| Deposits from banks | 683 524 | - | 1 739 973 | 2 423 497 |
| Hedging derivatives | 22 111 | - | - | 22 111 |
| Financial liabilities held for trading | 2 259 | - | 61 398 | 63 657 |
| Deposits from clients | 1 520 293 | 55 531 | - | 1 575 824 |
| Debt securities in issue | 185 | - | - | 185 |
| Other liabilities | 89 906 | - | 19 581 | 109 487 |
| **Total** | **2 318 278** | **55 531** | **1 820 952** | **4 194 761** |

### 31.12.2007

| Receivables | of which from subsidiaries | of which from associates | of which from the parent company (AIB Group) | Total |
|---|---|---|---|---|
| Loans and advances to banks | 1 555 104 | - | 174 250 | 1 729 354 |
| Financial assets held for trading | 5 648 | - | 40 771 | 46 419 |
| Hedging derivatives | 95 636 | - | 1 380 | 97 016 |
| Loans and advances to customers | 804 004 | - | - | 804 004 |
| Investment securities | 102 | - | 208 575 | 208 677 |
| Other assets | 18 728 | - | - | 18 728 |
| **Total** | **2 479 222** | **-** | **424 976** | **2 904 198** |

| Liabilities | of which from subsidiaries | of which from associates | of which from the parent company (AIB Group) | Total |
|---|---|---|---|---|
| Deposits from banks | 801 155 | - | 1 130 077 | 1 931 232 |
| Hedging derivatives | 97 079 | - | - | 97 079 |
| Financial liabilities held for trading | 3 914 | - | 55 044 | 58 958 |
| Deposits from clients | 1 537 448 | 58 568 | - | 1 596 016 |
| Debt securities in issue | 290 | - | - | 290 |
| Other liabilities | 39 234 | - | 14 788 | 54 022 |
| **Total** | **2 479 120** | **58 568** | **1 199 909** | **3 737 597** |

The difference on transaction with subsidiaries in the amount of PLN 102 k results from prepaid expenses which are recognized in profit and loss account.

In thousands of PLN

**30.06.2007**

| Receivables | of which from subsidiaries | of which from associates | of which from the parent company (AIB Group) | Total |
|---|---|---|---|---|
| Loans and advances to banks | 1 492 387 | - | 391 124 | 1 883 511 |
| Financial assets held for trading | 592 | - | 61 028 | 61 620 |
| Hedging derivatives | 16 306 | - | 2 209 | 18 515 |
| Loans and advances to customers | 340 756 | - | - | 340 756 |
| Investment securities | - | - | 285 147 | 285 147 |
| Other assets | 33 990 | - | - | 33 990 |
| **Total** | **1 884 031** | **-** | **739 508** | **2 623 539** |

| Liabilities | of which from subsidiaries | of which from associates | of which from the parent company (AIB Group) | Total |
|---|---|---|---|---|
| Deposits from banks | 338 060 | - | 641 207 | 979 267 |
| Hedging derivatives | 109 | - | - | 109 |
| Financial liabilities held for trading | 16 414 | - | 31 836 | 48 250 |
| Deposits from clients | 1 477 835 | 110 857 | - | 1 588 692 |
| Debt securities in issue | 375 | - | - | 375 |
| Other liabilities | 51 238 | - | 21 006 | 72 244 |
| **Total** | **1 884 031** | **110 857** | **694 049** | **2 688 937** |

## Revenues and expenses relating to transactions with connected entities

**01.01.2008 – 30.06.2008**

| Income | of which from subsidiaries | of which from associates | of which from the parent company (AIB Group) | Total |
|---|---|---|---|---|
| Interest and similar income | 63 679 | - | 10 054 | 73 733 |
| Fee and commission income | 84 818 | - | - | 84 818 |
| Other operating income | 3 357 | - | 171 | 3 528 |
| Net trading income and revaluation | 3 006 | - | 60 911 | 63 917 |
| **Total** | **154 860** | **-** | **71 136** | **225 996** |

| Expenses | of which from subsidiaries | of which from associates | of which from the parent company (AIB Group) | Total |
|---|---|---|---|---|
| Interest expense and similar charges | 65 498 | 1 535 | 27 946 | 94 979 |
| Fee and commission expense | 84 686 | - | 94 | 84 780 |
| Gains (losses) from other financial securities | 102 | - | - | 102 |
| Other operating expenses incl.: | 4 676 | - | 17 133 | 21 809 |
| Bank's operating expenses and management costs | 4 646 | - | 17 133 | 21 779 |
| other | 30 | - | - | 30 |
| **Total** | **154 962** | **1 535** | **45 173** | **201 670** |

The difference on transaction with subsidiaries in the amount of PLN 102 k results from prepaid expenses.

In thousands of PLN

**01.01.2007 - 30.06.2007**

| Income | of which from subsidiaries | of which from associates | of which from the parent company (AIB Group) | Total |
|---|---|---|---|---|
| Interest and similar income | 37 318 | - | 12 755 | 50 073 |
| Fee and commission income | 127 893 | 2 | - | 127 895 |
| Other operating income | 2 238 | - | - | 2 238 |
| Net trading income and revaluation | (4 179) | - | 27 908 | 23 729 |
| **Total** | **163 270** | **2** | **40 663** | **203 935** |

| Expenses | of which from subsidiaries | of which from associates | of which from the parent company (AIB Group) | Total |
|---|---|---|---|---|
| Interest expense and similar charges | 32 577 | 1 618 | (7 763) | 26 432 |
| Fee and commission expense | 127 783 | - | - | 127 783 |
| Other operating expenses incl.: | 2 910 | - | 21 952 | 24 862 |
| Bank's operating expenses and management costs | 2 875 | - | 21 952 | 24 827 |
| other | 35 | - | - | 35 |
| **Total** | **163 270** | **1 618** | **14 189** | **179 077** |

## Off balance sheet positions relating to transactions with connected entities

**30.06.2008**

| Intragroup transactions - off-balance sheet liabilities | of which from subsidiaries |
|---|---|
| **1. Sanctioned contingent liabilities** | **942 291** |
| - financing-related | 834 778 |
| - guarantees | 107 513 |
| **2. Received contingent liabilities** | **942 291** |
| - financing-related | 834 778 |
| - guarantees | 107 513 |
| **Total** | **1 884 582** |

| Intragroup transactions- derivatives' nominal values | of which from subsidiaries |
|---|---|
| **3. Derivatives' nominal values, including:** | **1 671 227** |
| -FX forward- purchased | - |
| -FX forward- sold | - |
| -FX swap | 1 270 865 |
| -Financial instruments operations-single-currency interest rate hedging swaps | 200 181 |
| -Financial instruments operations-single-currency interest rate swaps | 200 181 |

**31.12.2007**

| Intragroup transactions - off-balance sheet liabilities | of which from subsidiaries |
|---|---|
| **1. Sanctioned contingent liabilities** | **832 210** |
| - financing-related | 717 400 |
| - guarantees | 114 810 |
| **2. Received contingent liabilities** | **832 210** |
| - financing-related | 717 400 |
| - guarantees | 114 810 |
| **Total** | **1 664 420** |

In thousands of PLN

| Intragroup transactions- derivatives' nominal values | of which from subsidiaries |
|---|---|
| **3. Derivatives' nominal values, including:** | **1 339 423** |
| -FX forward- purchased | 6 415 |
| -FX forward- sold | 6 428 |
| -FX swap | 726 050 |
| -Financial instruments operations-single-currency interest rate hedging swaps | 300 265 |
| -Financial instruments operations-single-currency interest rate swaps | 300 265 |

**30.06.2007**

| Intragroup transactions - off-balance sheet liabilities | of which from subsidiaries |
|---|---|
| **1. Sanctioned contingent liabilities** | **1 301 624** |
| - financing-related | 1 177 238 |
| - guarantees | 124 386 |
| **2. Received contingent liabilities** | **1 301 624** |
| - financing-related | 1 177 238 |
| - guarantees | 124 386 |
| **Total** | **2 603 248** |

| Intragroup transactions- derivatives' nominal values | of which from subsidiaries |
|---|---|
| **3. Derivatives' nominal values, including:** | **1 082 124** |
| -FX forward- purchased | 1 536 |
| -FX forward- sold | 1 532 |
| -FX swap | 1 106 |
| -Financial instruments operations-single-currency interest rate hedging swaps | 538 975 |
| -Financial instruments operations-single-currency interest rate swaps | 538 975 |

## TRANSACTIONS WITH EXECUTIVES

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

In 1H 2008 the amount of remuneration (i.e. salary, awards and benefits received in cash, in kind or any other form, including benefits resulting from motivation programs or capital incentive schemes, including schemes based on bonds with priority rights, convertible bonds and subscription warrants) paid to the Management Board Members of Bank Zachodni WBK S.A. totalled PLN 12 345 k (in 1H 2007 – PLN 12 815 k)

In 1H 2008 the amount of remuneration ( defined as above) paid to the Supervisory Board Members of Bank Zachodni WBK S.A. totalled PLN 475 k (in 1H 2007 – PLN 367 k)

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.

In 2006 selected subsidiaries of BZWBK Group introduced a motivation scheme for their key management in a form of a long term profit sharing scheme classified as other long-term benefits in accordance with IAS 19. The formal framework of the scheme is based on an issue of shares that are purchased by entitled individuals. Considering underlying characteristics of the scheme it has been classified as a long term profit sharing scheme and recognized as a liability in the consolidated financial statements.
Shares issued under the scheme are deprived of voting rights, have significant limitations on disposal and are subject to conditional obligation to dispose shares at a price different from the fair value of shares.
Considering the above BZWBK Group has estimated a present value of the future obligations to pay-outs resulting from rights granted under the scheme respectively to the service period of the entitled individuals participating in the scheme.
The value of the liability resulting from the scheme as at 30 June 2008 amounted to PLN 12 114 k and the amount recognized as the scheme related expense in the profit and loss account for the period was 9 519 k.
The value of the liability resulting from the scheme as at 30 June 2007 amounted to PLN 9 248 k and the amount recognized as the scheme related expense in the profit and loss account for the period was 9 874 k.

**TRANSACTIONS WITH EXECUTIVES**

### 30 June 2008

As of 30.06.2008, the total of loans, advances and guarantees provided to members of the Management Board of BZ WBK S.A. by the subsidiaries and associates amounted to PLN 40 k.
Social Fund loans and advances provided to Board Members totalled nil.
Loans and advances made by the Bank to the executives of BZ WBK S.A. totalled PLN 6 981.
These facilities have been sanctioned on regular terms and conditions.

### 30 June 2007

As of 30.06.2007, the total of loans, advances and guarantees provided to members of the Management Board of BZ WBK S.A. by the subsidiaries and associates amounted to PLN 49 k.
Social Fund loans and advances provided to Board Members totalled nil.
Loans and advances made by the Bank to the executives of BZ WBK S.A. totalled PLN 3 084 k.
These facilities have been sanctioned on regular terms and conditions.

**TRANSACTIONS WITH EMPLOYEES**

### 30 June 2008

As of 30.06.2008, the total of loans and advances drawn by BZWBK S.A. employees was PLN 394 464 k (including the debt of PLN 28 655 k shown in joint accounts) and PLN 35 106 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 14 770 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 199 254 k, (of which joined current accounts - PLN 49 282 k). Amount relating to employees of subsidiaries and associates totalled PLN 30 207 k.

**30 June 2007**

As of 30.06.2007, the total of loans and advances drawn by BZWBK S.A. employees was PLN 242 457 k (including the debt of PLN 24 994 k shown in joint accounts) and PLN 18 825 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 15 636 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 109 785 k, (of which joined current accounts - PLN 27 658 k). Amount relating to employees of subsidiaries and associates totalled PLN 12 395 k.

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

In 1H 2008 Bank issued 6 688 banking writs of execution with total amount of PLN 48 721 k, of which:

- cash loans and overdrafts – 4424 cases of PLN 26 275 k,
- credit cards – 2 136 cases of PLN 5 487 k
- mortgage loans - 23 cases of PLN 2 537 k
- corporate loans - 105 cases of PLN 14 421 k

In 1H 2007 Bank issued 2 075 banking writs of execution with total amount of PLN 22 521 k, of which:

- cash loans and overdrafts – 1 482 cases of PLN 6 855 k,
- credit cards – 571 cases of PLN 1 708 k
- mortgage loans - 3 cases of PLN 430 k
- corporate loans - 19 cases of PLN 13 528 k

In thousands of PLN

## 51. Acquisitions and disposals of investments

| Disposals/ Liquidation in 1H 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) |
| **Total** | **3 217** | **3 021** | **(196)** |

| Disposals/ Liquidation in 1H 2007 | Net assets | Revenue | Gains/loss on sale |
|---|---|---|---|
| BZWBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa | 27 073 | 27 073 | - |
| **Total** | **27 073** | **27 073** | **-** |

Under the agreement, which was made on 12.06.2008 between Bank Zachodni WBK S.A. and Commercial Union Polska sp. z o.o., BZ WBK SA sold all its 420 shares of Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp. z o.o. of total nominal value at PLN 210 000, which represented 60% of the share capital.

Bank Zachodni WBK S.A. made a transaction of partial disposal of NFI Magna Polonia shares. Shares representing 19.97% of votes at the AGM of NFI Magna Polonia were sold, whereas the rest (7.56%), isrecognized as investment securities.

BZWBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa was dissolved on 27th of February 2007.

## 52. Investments in joint ventures

In 1H 2008 BZWBK S.A. in cooperaton with Aviva International Insurance Ltd formed two jointly controlled entities: BZ WBK - CU Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK - CU Towarzystwo Ubezpieczeń na Życie S.A. Detailed information about investemtents in joint ventures is disclosed in note 28.

## 53. Events which occurred after the balance sheet date

### Change Fitch Rating

On 17 of July 2008 Fitch Ratings has changed Bank Zachodni WBK's outlook to Negative from Stable. Its ratings are affirmed at Long-term Issuer Default (IDR) 'A+', Short-term IDR 'F1', Individual 'C' and Support '1'. The rating action reflects the change of the outlook to Negative from Stable for BZ WBK's controlling shareholder, Allied Irish Banks (AIB, rated 'AA-' (AA minus)/Negative Outlook).

**Appointment of the new Management Board Member**

On 22.07.2008 the Supervisory Board appointed Mr. Mirosław Skiba to the position of Bank Zachodni WBK S.A. Management Board Member.

**The third edition of Incentive Scheme**

On 22.07.2008 the Supervisory Board approved the list of participants of Incentive Scheme III which was launched pursuant to the resolution of the Annual General Meeting of Shareholders of 18.04.2008.

### Authorization for issue of financial statements

The interim financial statements were authorised for issue on 24th of July 2008 by the Management Board of Bank Zachodni WBK S.A.

### 54. 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 and for redundancies. These liabilities are stated at the amounts of expected payment without discounting.

In thousands of PLN

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

| Provisions | 30-06-2008 | 31-12-2007 | 30-06-2007 |
|---|---|---|---|
| Provisions for accrued holiday leaves | 18 308 | 18 652 | 18 396 |
| Provisions for employee bonuses | 92 373 | 163 863 | 96 471 |
| Provisions for retirement allowances | 31 722 | 29 076 | 27 721 |
| Other staff-related provisions | 2 785 | 4 258 | 3 981 |
| **Total** | **145 188** | **215 849** | **146 569** |

Detailed information about movements on staff-relating provisions is available in additional note 37 .

## 55. Share based payments

In 2006 the Bank (BZWBK 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, 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.

Share will vest on a linear pattern between 25% and 100% remuneration contingent on EPS growth adjusted by Consumer Price Index (CPI). The lower level of the scale requires EPS per annum growth adjusted for CPI respectively in 2006 and 2007: 5% and 8%. The upper level 12% and 16% accordingly.
During 2006 and 2007 conditional awards of shares were granted to no more then 100 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:

| | In 2007 | In 2006 |
|---|---|---|
| Number of share based payments | 78 341 | 132 476 |
| Exercise price | 10 PLN | 10 PLN |
| Vesting period | 3 years | 3 years |
| Expected Volatility | 40,69 % | 37,48 % |
| Award life | 3 years | 3 years |
| Risk free rate | 4,90 % | 4,60 % |
| Fair value per award | 267,53 PLN | 150,60 PLN |

The following table summarizes the share based payments activity:

In thousands of PLN

| | 6 months of 2008<br><br>Number of share based payments | 6 months of 2007<br><br>Number of share based payments |
|---|---|---|
| Outstanding at 1 January | 200 722,0 | 128 223,0 |
| Granted | - | 78 341,0 |
| Exercised | - | - |
| Forfeited | (8 742,0) | (2 503,0) |
| Expired | - | - |
| Outstanding at 30 June | 191 980,0 | 204 061,0 |
| **Exercisable at 30 June** | **-** | **-** |

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

For the share based payments outstanding as at 30 June 2008 and as at 30 June 2007 the average remaining contractual life is approximately 1,1 years and 2,1 years respectively.

The total expense recognized with corresponding increase in equity (other reserve capital) for 6 months of 2008 and 2007 amounts to PLN 6 141 k and PLN 3 506 k respectively.
As at 30.06.2008 cumulated value of the Scheme recognized in equity amounts to PLN 20 289 k (as at 31.12.2007- PLN 14 148 k, as at 30.06.2007- PLN 7 182 k).

## 56. Dividend per share

The Management Board allocated to dividends 27.04% of BZWBK net profit of 2007(i.e. 22.93% of consolidated net profit attributable to the Company's equity holders) of PLN 218 880 852 i.e. PLN 3.00 per one share (PLN 6.00 in 2006). Outstanding profit of PLN 590 593 185.45 was allocated to other reserve capital. Number of shares totalled 72 960 284.

## 57. Accounting estimates and judgements

### 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. For example, should the expectation of loss within a portfolio increase, then this may result in an increase to the required incurred but not reported ("IBNR") loan loss provision level. 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 principal and interest 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 provisions are also maintained to cover loans, which are impaired at balance sheet date and, while not seperately identified, are known from experience to be present in any portfolio of loans. IBNR provisions are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements, historic loan loss rates, changes in credit management, procedures, processes and policies, economic climates, portfolio sector profiles/industry conditions and current estimates of loss in the portfolio. Estimates of loss are driven by the following key factors;

- Probability of default i.e. the likelihood of a customer defaulting on its obligations over the next 12 months,
- Loss given default i.e. the fraction of the exposure amount that will be lost in the event of default, and
- Exposure at default i.e. exposure is calculated by adding the expected drawn balance plus a percentage of the unused limits.

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

Balance sheet values assets other than deferred tax assets are reviewed as at a balance sheet day to specify whether there are reasons for write-down due to impairment. If there are such reasons, recoverable value of assets should be determined.

In case intangible assets not yet available for use, recoverable value is determined as at every balance sheet day.

Write-down due to 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 impairment amount has been recognised considering the expected recoverable amounts, and for long term other receivables discounting has been applied.

Asset held for sale at the lower of its 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, 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. However, where no observable price is available the instrument fair value will include a provision for the uncertainty in the market parameter based on sale price or subsequent traded levels. The calculation of fair value for any financial instrument may require adjustment of quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used), hedging costs not captured in pricing models and adjustments to reflect the cost of exiting illiquid or other significant positions. This may also include an estimation of the likely occurrence of future events which could affect the cashflows of the financial instrument. The valuation model used for a particular instrument, the quality and liquidity of market data used for pricing, other fair value adjustments not specifically captured by the model and market data are all subject to internal review and approval procedures and consistent application between accounting periods.

**Other accounting estimates and judgements**

Provisions for employee benefits arising from the Group Collective Labour Agreement and terms of individual employee contracts were estimated on the basis of an actuarial valuation. The actuarial valuation of those accruals is updated on an annual basis.

Provisions for legal claims have been estimated considering the expected probably amount to settle a case, and where applicable, including the time value of money.

In thousands of PLN

| SIGNATURES | | | |
|---|---|---|---|
| **Signatures of Members of the Management board** | | | |
| **Date** | **Name** | **Function** | **Signature** |
| 24-07-2008 | Mateusz Morawiecki | President | |
| 24-07-2008 | Andrzej Burliga | Member | |
| 24-07-2008 | Declan Flynn | Member | |
| 24-07-2008 | Justyn Konieczny | Member | |
| 24-07-2008 | Janusz Krawczyk | Member | |
| 24-07-2008 | Jacek Marcinowski | Member | |
| 24-07-2008 | James Murphy | Member | |
| 24-07-2008 | Marcin Prell | Member | |
| 24-07-2008 | Mirosław Skiba | Member | |
| 24-07-2008 | Feliks Szyszkowiak | Member | |

| Signature of a person who is responsible for maintaining the book of account | | | |
|---|---|---|---|
| **Date** | **Name** | **Function** | **Signature** |
| 24-07-2008 | Wanda Rogowska | Financial Accounting Area Director | |

2008

# Report of the Management Board on Bank Zachodni WBK Group Performance in the First Half of 2008

Bank Zachodni WBK S.A.

# Contents

# I. General Review

***In the first half of 2008, the Bank Zachodni WBK Group achieved profit-before-tax of PLN 788 m, reflecting dynamic development of core business lines and continuing investment into the future***

## Financial Performance in Brief

- **Key financial figures and year-on-year movements:**

  - Profit-before-tax was PLN 788 m, up 1.2% y-o-y;
  - Profit-after-tax was PLN 567.5 m, up 1.6% y-o-y;
  - High Return on Equity (23.96% versus 25.97% at the end of June 2007);
  - Increase in total income by 12.3% y-o-y, including a rise in net interest income by 30.8% y-o-y;
  - Total costs higher by 17.8% y-o-y due to dynamic development of distribution channels;
  - Cost to income ratio (C/I) for the first half of 2008 amounted to 51.1% compared with 48.7% for the first half of 2007;
  - Further reduction of the NPLs ratio (from 3.9% at 30 June 2007 to 2.4% 12 months later);
  - Loan impairment charge was at PLN 19.8 m versus the positive balance of PLN 24.4 m in the corresponding period of the previous year.

## Key Factors Affecting the Group's Profit and Activity

- **Changing external environment,** including:

  - Slight slowdown of economic growth;
  - Stock market volatility and its impact on mutual funds;
  - Changed savings and investment preferences of customers (stronger interest in safe banking products);
  - High demand of enterprises and households for loans;
  - Improved labour market and higher salary levels;
  - Sharp increase in interest rates;
  - Inflation growth resulting from fast increase in prices of commodities and food;
  - Significant zloty appreciation against main currencies.

- **Diversified business growth:**

  - Rapid growth of credit volumes: cash loans (+71% y-o-y), mortgage loans (+44% y-o-y), business loans (+33% y-o-y), lease receivables (+31% y-o-y);
  - Significant growth in deposits (+34% y-o-y), particularly in savings account balances (by PLN 9.9 bn y-o-y);
  - Introduction of new investment products, including closed-end funds and structured solutions;
  - Fast development of promising business lines, e.g. bancassurance, services for financial institutions;
  - Expansion of the debit and credit cards base (+23% y-o-y and +39% y-o-y, respectively) thanks to the broad offer and linked services;
  - Growing activity in the area of advisory and securities services.

- **Effective risk and cost management:**

  - Continued enablement of credit processes with due regard to the prudential requirements;
  - Managed cost expansion amid growing business of the Bank Zachodni WBK Group and consistent delivery of the development programmes.

- **Dynamic development of distribution channels:**

  - Execution of the organic growth strategy (expanding branch, Minibank, Mobile Sales networks and specialised service centres);
  - High diversification and growing effectiveness of the delivery channels;
  - Development of electronic and direct banking functionality.

## Other Key Developments

- Establishment of two new insurance companies in co-operation with Aviva International Insurance Ltd.

- Launch of the third edition of the incentive scheme for the key staff of the bank and subsidiaries.

- Implementation of the Sales Activation Programme in the bank's distribution network.

- Launch of Strategic Portfolio Management Process to create optimal conditions for the delivery of strategic undertakings.

- Receipt of ISO 20000 certification of the IT Services Management System.

- Implementation of the employee and manager self-service modules in the e-HR portal facilitating HR management.

# II. Macroeconomic environment in H1 2008

## Economic Growth

Economic growth in Poland has been slowing down recently, although so far it has been a gradual and moderate process. GDP growth in Q1 2008 was 6.1% against 6.4% in Q4 2007. It was fuelled mainly by rapidly growing domestic demand (6.3% y-o-y). Private consumption growth accelerated to 5.6% y-o-y, after a temporary slowdown at the end of last year. Fixed investment was also faster, increasing by 15.7% y-o-y. Negative contribution of foreign trade to GDP growth was slightly higher at -0.4 pp. Taking into account available monthly data about production and sales, GDP growth seemed to have decelerated further in the second quarter of 2008 to remain slightly above 5.5%.

## Labour Market

Continued and relatively fast economic growth resulted in a further rise in tensions on the labour market in the first half of the year. Registered unemployment rate fell in May to 10% and, according to forecasts, in June it reached a single digit level for the first time since 1998. Even though employment growth was slowly losing pace in the first months of the year, it was still strong enough (5.5% y-o-y on average in the enterprise sector in the first half-year) to trigger strong acceleration in wage growth, amid limited supply of labour force in some industries. In the enterprise sector, average pay growth reached 12% y-o-y. In effect, growth in unit labour costs significantly accelerated (to ca. 8.5% y-o-y in Q1), creating a risk of stronger inflationary pressure.

## Inflation

Inflation rate increased significantly at the start of the year, largely due to record-high prices of crude oil and food on international markets, and also as a result of sharp increases in regulated prices in Poland. On the other hand, growth in local services prices also accelerated. In June, CPI inflation rate reached 4.6% and was the highest since the price hike triggered by the EU accession in 2004. Core inflation, excluding prices of food, oil and energy, was much lower, however its annual growth accelerated, from 1.3% y-o-y in December 2007 to over 2% y-o-y in May 2008.

## Interest Rates

Taking into account inflation growth well above the official target and increasing risk of so-called second round effects, i.e. transmission of "external" price shocks onto prices of other goods and services and also to higher wage demands, the Monetary Policy Council continued to tighten monetary policy in the first part of the year. There were three interest rate increases in Q1, each by 25 bp, and the fourth one in June, so the main reference rate increased by 100 bp in total, to 6.0% at the end of H1 2008.

## Loans and Deposits

Despite significant increase of domestic interest rates, the growth of households' loans in H1 slowed down only moderately (from 38% y-o-y in December 2007 to 34% y-o-y in June 2008) while the growth in business loans stabilised at a high level (24-25% y-o-y). At the same time, the continued downturn on the stock market resulted in substantial withdrawals of households' savings from investment in mutual funds and stocks, and significant increase in deposit growth.

## FX Market

The first half of the year was a period of very high uncertainty and risk aversion in global financial markets, which was a result of crisis on mortgage and credit markets in the US. Nevertheless, zloty exchange rate proved to be immune to volatility of international markets and strengthened versus main currencies, among others due to the growing disparity between interest rates in Poland and the euro zone. At the end of June, the EUR/PLN rate reached ca. 3.35, which was more than 6% down from the end-2007 level, while USD/PLN rate fell to 2.12, 13% down from end-December 2007. There was a significant rise in yields on the bond market due to strong inflation growth, interest rates hikes and the expected further tightening of the monetary policy.

# III. Basic Information

## 1. History and Profile of Bank Zachodni WBK

### Background

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

Both predecessors of Bank Zachodni WBK were spun off the National Bank of Poland in 1989. Subsequently, they were privatised and became members of the AIB Group under control of the same investor, i.e. AIB European Investments Ltd. from Dublin, which is a subsidiary of the Allied Irish Banks, p.l.c. (AIB). After the merger, the AIB Group became owner of a 70.5% stake in Bank Zachodni WBK and has maintained such shareholding since that date.

### Scope of Activities

**Universal Bank**

Bank Zachodni WBK is a universal bank which provides a full range of services for personal customers, SMEs and large companies. The bank's offering is modern, comprehensive and satisfies diverse customer needs with regard to current/personal accounts, credit, savings, investment, settlement, insurance and card products. The bank aligns its product structure with the requirements of individual customer segments and combines its products into packages around current/personal accounts (Konto<30 Package, Konto24 Prestiz Package, Konto24 VIP Package, FX Konto24, Moneyback Account, Business Package, Agro Package, Package for Freelancers) to provide their users with a precisely defined, tailored and comprehensive service. The financial services of Bank Zachodni WBK also include trade finance and transactions in the capital, FX and money markets as well as in derivatives. The bank's own product range is complemented by specialist products offered by its subsidiaries, including: Dom Maklerski BZ WBK S.A., BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., BZ WBK AIB Asset Management S.A., BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A., BZ WBK Faktor Sp. z o.o. Also, the products of newly-founded joint venture companies, i.e. BZ WBK - CU Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK - CU Towarzystwo Ubezpieczeń na Życie S.A. will soon become available. In co-operation with all these companies, the bank offers its customers access to brokerage services, mutual funds, insurance, leasing and factoring products.

**Key Features of the Offering**

The rich offering of the bank allows customers to diversify their savings portfolios and carry out investments that match their individual preferences and investment objectives. The available savings/investment instruments include current and term deposits, savings accounts, index tracker deposits, mutual funds and structured products.

The customers' demand for credit can be satisfied through a variety of loans. The list of credit facilities for business customers includes overdrafts, working capital, revolving, payment, investment, development, property and preferential loans, leasing and the multi-purpose Business Express facility. The bank also provides funding as part of the EU programmes, maintaining its strong position in the EU funds market.

The credit proposition addressed to personal customers is likewise comprehensive, its core feature being attractively structured home and cash loans. In addition to providing standard home finance, the bank offers a home refinancing loan, investor loan and mortgage borrowing.

The bank issues payment cards of the two main card organisations: Visa Int. and MasterCard Int. The choice of credit, debit and pre-paid cards can satisfy even the most demanding customers thanks to their variety and alignment with the requirements and potential of individual market segments. Recently, the bank has also started to offer contactless card with modern PayPass technology whereby payments can be made by waving the card before the PayPass reader. All the bank's credit and debit cards are equipped with chip technology to ensure the highest security of card transactions.

**Distribution Channels**

As at 30 June 2008, Bank Zachodni WBK operated through 451 outlets (376 at the end of June 2007). The bank's network covers the whole of Poland, with the highest concentration in Wielkopolska, the Lower Silesia and major cities of Poland, including Warsaw, Kraków, Łódź, Tri-city, Szczecin. The branches are supported by the Mobile Sales structures which are composed of self-employed financial advisors selling credit cards and cash loans Poland-wide, with a particular focus on the locations not covered by the bank's branch network.

The bank gives great weight to diversification and specialisation of distribution channels. Accordingly, corporate customers are serviced through the six Corporate Business Centres, located in Warsaw, Poznań, Wrocław, Kraków, Gdańsk and Łódź, who maintain close operating relationship with the bank's branches. For the mid-business segment, dedicated Business Banking Centres have been established. Two such centres were set up in Warsaw and Gdańsk and subsequent ones are under preparation. Customers with a large volume of liquid assets may use the tailor-made investment and credit service from the Private Banking offices in Warsaw and Poznań.

For customers with basic banking needs, Bank Zachodni WBK has established a network of 51 agency outlets under the brand of Minibank which are mainly located in residential districts and offer payment services and key banking products.

Through its modern Direct Banking Centre equipped with specialist infrastructure, the bank provides customers with information on its products and services, offers over-the-phone access to transactions and standard products (personal accounts, insurance, credit cards, cash loans, overdrafts) and renders after-sales service.

Bank Zachodni WBK also has a wide-ranging network of 835 ATMs (628 at the end of June 2007) in convenient and most frequented locations.

**Electronic Banking Services**

Bank Zachodni WBK offers a modern package of electronic banking services called BZWBK24 which gives retail and business customers a convenient and safe access to their accounts via phone, mobile or the Internet, thus facilitating financial management. Business customers can choose between the standard BZWBK24 package and the "Moja firma Plus" package which comes with a number of additional functionalities and a high transaction limit. The bank ensures the highest security of electronic services by having transactions authorized through the text message (smsKod) or token while access to BZWBK24 Internet is safeguarded by a masked password. Besides, customers can monitor the IP addresses that are used for logging onto BZWBK24, as well as authorize their Internet-based transactions using the 3D Secure technology.

In addition to the BZWBK24 solution, corporate customers can avail of Minibank24, a PC-banking system whose functionality covers a broad range of safe banking transactions.

**Customer Relationship Management (CRM)**

The service quality standards of Bank Zachodni WBK provide for two models of interaction with customers, depending on their product and service requirements.

The customers who use sophisticated products and expect customised advice are approached proactively by the bank in order to better understand their needs and strengthen the business co-operation with them. The customer's direct contact with the dedicated advisor allows for providing a tailored service, satisfying diverse needs and establishing strong ties.

Customers who require the basic products and services are serviced through electronic channels or the branch network in accordance with the highest quality standards. They are proactively contacted mainly as part of sales campaigns.

The bank increases the loyalty of customers by providing them with incentives to use existing and to purchase new products and services. In parallel, steps are taken to reduce the customer attrition rate. Proactive contacts and sales campaigns are supported by the IT infrastructure which is gradually aligned with the information requirements of the adopted segmentation and CRM model.

## 2. Share Capital, Ownership Structure and Share Price

### Share Capital & Ownership Structure

As at 30 June 2008, the share capital of Bank Zachodni WBK amounted to PLN 729,602,840 and was divided into 72,960,284 bearer shares with a nominal value of PLN 10 each.

According to the information held by the bank's Management Board, as at 24 July 2008 the shareholder having a minimum 5% of the total number of votes at the Bank Zachodni WBK Annual General Meeting of Shareholders was Dublin-based AIB European Investments Ltd., full 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 is 70.5%. The remaining shares are in free float.

| Shareholder | Number of shares held | Share in the share capital | Number of votes at AGM | Voting power at AGM |
|---|---|---|---|---|
| AIB European Investments Ltd. | 51,413,790 | 70.5% | 51,413,790 | 70.5% |
| Others | 21,546,494 | 29.5% | 21,546,494 | 29.5% |
| **Total** | **72,960,284** | **100%** | **72,960,284** | **100%** |

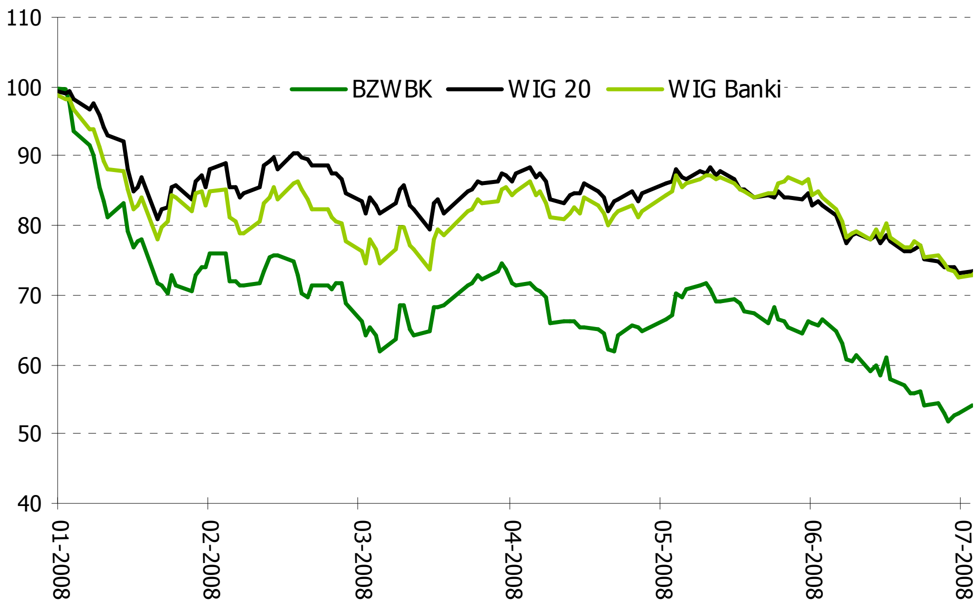
As at the reporting date, the Management Board of Bank Zachodni WBK was not aware of any agreements that in the future might lead to changes in the current ownership structure.

### Share Price

The situation on the Warsaw Stock Exchange in the first half of 2008 was a reflection of the sentiment prevailing in the world's equity markets in the wake of the sub-prime crisis in the USA, slowdown of the American economy and a stronger inflationary pressure. Even though the Polish institutions are not directly exposed to the financial and economic risks faced by the American market (mortgage losses and looming recession), the Warsaw Stock Exchange saw a prolonged downward trend in share prices.

In such circumstances, during the 6 months ending 30 June 2008 the share price of Bank Zachodni WBK fell by 45.4% (from PLN 249.80 on 2 January 2008 to PLN 136.40 on 30 June 2008) compared with a 23.1% decline in the industry index WIG Banks and a 24.3% decline in WIG 20.

**BZWBK Share Quotations and Indices**
**(as at 02-01-2008=100)**




## 3. Bank Zachodni WBK Rating

Bank Zachodni WBK has a credit rating agreement with Fitch Ratings Ltd. In the announcement of 17 July 2008 the agency affirmed the ratings granted to the bank (effective from 17 August 2006) except for the outlook that was changed from "stable" to "negative". This adjustment reflects the outlook change to "negative" from "stable" for Bank Zachodni WBK's controlling shareholder, Allied Irish Banks (AIB, rated "AA-"/Negative Outlook).

Consequently, effective from 17 July 2008 the ratings for Bank Zachodni WBK are as follows:

- long-term Issuer Default Rating: A+
- short-term rating: F1
- long-term rating outlook: negative
- individual rating: C
- support rating: 1

The IDR, short-term and support ratings reflect the potential support available from the majority shareholder. The bank's rating is presently higher than Poland's rating (which is "A-" after the increase in January 2007).

## 4. Companies Connected with Bank Zachodni WBK

### Composition of the Bank Zachodni WBK Group

Bank Zachodni WBK forms a Group with the following eight subsidiaries consolidated on a line-by-line basis. These are:

1) BZ WBK AIB Asset Management S.A.
2) BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. – subsidiary of BZ WBK Asset Management S.A.
3) BZ WBK Inwestycje Sp. z o.o.
4) BZ WBK Faktor sp. z o.o.

5) BZ WBK Finanse & Leasing S.A.
6) BZ WBK Leasing S.A.
7) BZ WBK Nieruchomości S.A.
8) Dom Maklerski BZ WBK S.A.

The entities connected with the bank are chiefly financial institutions which conduct specialised activities in securities trading, leasing, asset/fund management, factoring and trading in equity securities. The composition of the Group, the multi-dimensional relationships between its companies and the good coordination of their actions ensure substantial enterprise-wide synergies which improve effectiveness of individual units. In addition to multiple forms of co-operation, the bank gives the subsidiaries access to its extensive distribution network, which substantially increases their sales potential. On the other hand, the products and services of subsidiaries supplement the bank's offer and improve its competitive edge in the financial services market. Some of their products, namely investment funds, leasing and factoring, have been incorporated in the bank's corporate strategy executed in close liaison with respective subsidiaries.

Compared with the end of June 2007, the composition of the Group does not include Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp. z o.o. as on 12 June 2008 the bank sold all its shareholdings in the company to Commercial Union Polska Sp. z o.o. (for more details, see Chapter V, section "Investment Banking Products").

## Joint Ventures and Associates

In the consolidated report of Bank Zachodni WBK for the first half of 2008, the following companies are accounted for using the equity method:

**Joint ventures:**

1) BZ WBK - CU Towarzystwo Ubezpieczeń Ogólnych S.A.
2) BZ WBK - CU Towarzystwo Ubezpieczeń na Życie S.A.

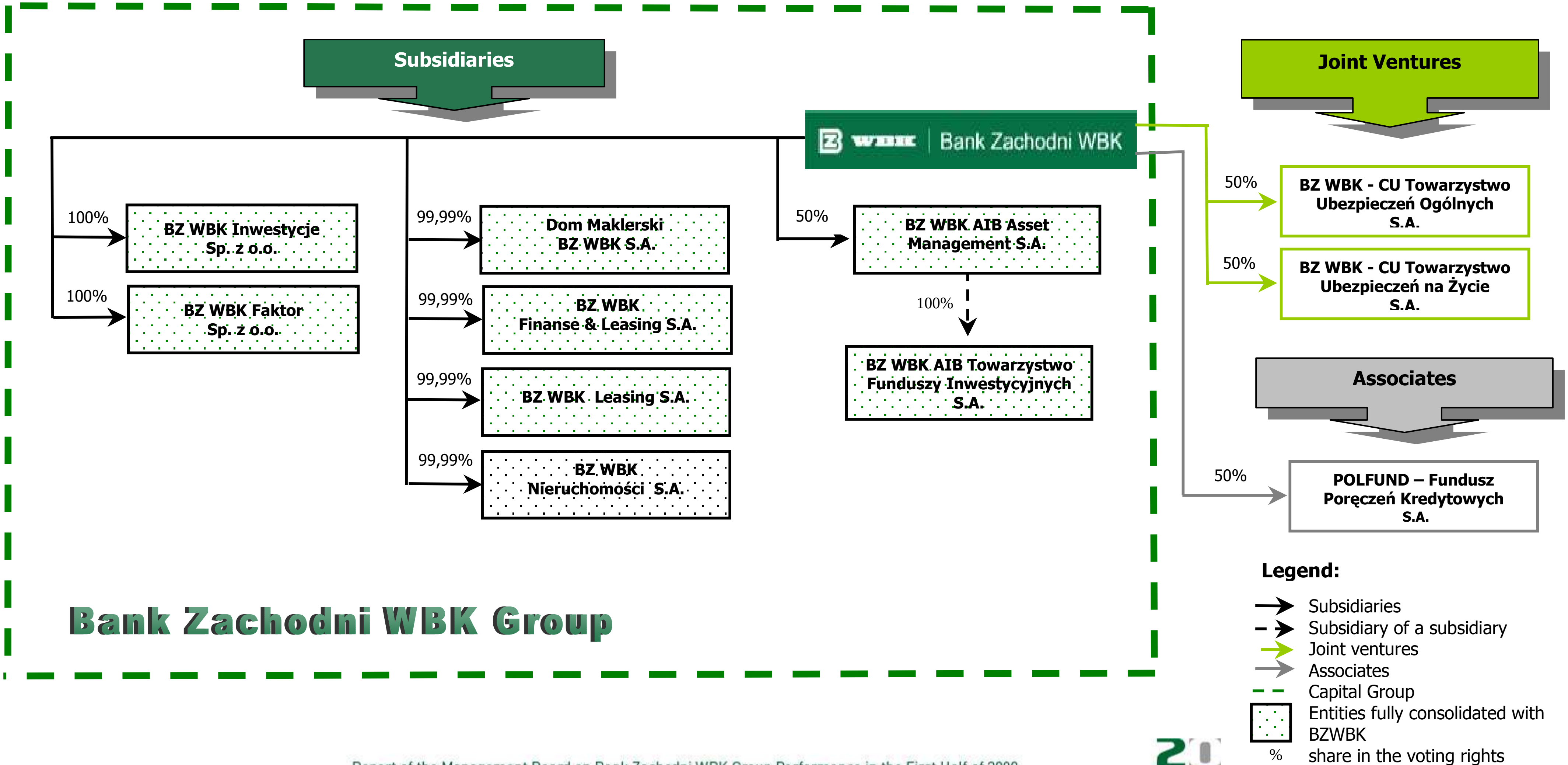
**Associates:**

1) POLFUND - Fundusz Poręczeń Kredytowych S.A.

The first two entities were established by the bank in co-operation with Aviva International Insurance Ltd., London in 2008. Both founders have acquired 50% stake in each undertaking and now exercise joint control over them. The core business of the new joint ventures is providing insurance services to the bank's customers. They operate under the license obtained from the Polish Financial Supervision Authority of 6 June 2008.

Out of the two associated companies recognised in the consolidated financial statements as at the end of June 2007, there remains POLFUND - Fundusz Poręczeń Kredytowych S.A. The other one, i.e. NFI Magna Polonia S.A. has changed its status in the bank's investment portfolio to a minority undertaking. Bank Zachodni WBK transferred the title of shares representing 13.38% of the share capital and 19.97% of the voting rights in the company to BBI Capital NFI S.A. under the agreement of March 2008 (for details, see Chapter V, section "Investment Banking Products").

# Entities connected with Bank Zachodni WBK S.A.



# IV. Financial Performance in H1 2008

## 1. Profit and Loss Account

The table below presents major developments in key categories of the consolidated profit and loss account during the first half of 2008 compared with the corresponding period of 2007.

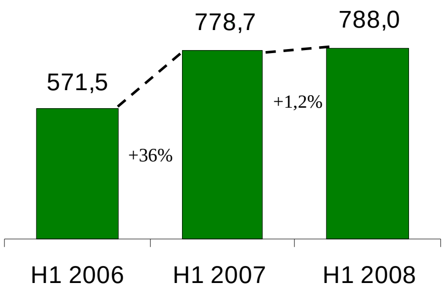
PLN m

| Profit and Loss Account | H1 2008 | H1 2007 | Change |
|---|---|---|---|
| Total income | 1,653.2 | 1,471.6 | +12.3% |
| Total costs | (845.3) | (717.3) | +17.8% |
| Impairment losses on loans and advances | (19.8) | 24.4 | - |
| **Profit-before-tax** | **788.0** | **778.7** | **+1.2%** |
| **Profit-after-tax attributable to BZWBK shareholders** | **567.5** | **558.6** | **+1.6%** |
| Profit-after-tax attributable to minority interests | 60.3 | 72.9 | -17.3% |

In the first half of 2008, the Bank Zachodni WBK Group generated a profit-before-tax of PLN 788 m, i.e. PLN 9.3 m more than in the same period last year. The profit-after-tax attributable to the shareholders of Bank Zachodni WBK was PLN 567.5 m and higher y-o-y by PLN 8.9 m.

The net profit shown in the profit and loss account for the first half of 2008 is an effect of diversification of the Group's business and the dynamic development of many business lines. The higher revenues generated in the growth areas offset the impact of lower returns in the capital markets as the downward trend continued and higher costs incurred in connection with the Group's organic development and intensive marketing campaigns dictated by the requirements of the competitive market.

**BZWBK Group Profit-Before-Tax for the First Half-Year in the Years 2006-2008 (PLN m)**



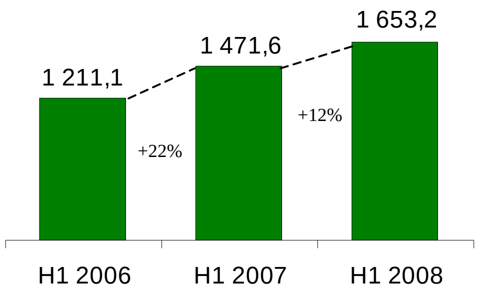

## Income

In the first half of 2008, the Bank Zachodni WBK Group reported a total income of PLN 1,653.2 m, an increase of 12.3% on the same period last year. This growth was mainly driven by the rising core-business volumes, particularly in the area of loans, deposits and connected products.

PLN m

| Total Income | H1 2008 | H1 2007 | Change |
|---|---|---|---|
| Net interest income | 777.1 | 594.1 | +30.8% |
| Net commission income | 712.6 | 755.7 | -5.7% |
| Dividend income | 69.6 | 64.4 | +8.1% |
| Net trading income and revaluation | 47.9 | 32.7 | +46.5% |
| Other income | 46.0 | 24.7 | +86.2% |
| **Total** | **1,653.2** | **1,471.6** | **+12.3%** |

**Total Income for the First Half-Year in the Years 2006-2008 (PLN m)**




### Net Interest Income

Net interest income amounted to PLN 777.1 m compared with PLN 594.1 m posted in the first half of 2007. Taking into account other interest-related income from FX Swaps and Basis Swaps (PLN 30.1 m in the first half of 2008 and PLN 7 m in the first half of 2007) recognised in "Net trading income and revaluation", the underlying net interest income increased by 34.3% y-o-y. This change was favourably affected by the strong growth in loan volumes, including business loans, cash loans and home mortgages.

### Net Commission Income

PLN m

| Net Commission Income | H1 2008 | H1 2007 | Change |
|---|---|---|---|
| Mutual fund distribution and asset management services | 224.0 | 307.3 | -27.1% |
| Account maintenance and cash transactions | 113.5 | 109.5 | +3.7% |
| FX fees | 112.5 | 102.5 | +9.8% |
| E-business and payments | 112.3 | 90.4 | +24.2% |
| Brokerage fees | 55.2 | 83.3 | -33.7% |
| Credit-related fees* | 49.9 | 41.3 | +20.8% |
| Insurance fees | 32.7 | 18.8 | +73.9% |
| Other (incl. other distribution fees) | 12.5 | 2.6 | +380.8% |
| **Total** | **712.6** | **755.7** | **-5.7%** |

* *includes fees relating to credits, leasing, factoring, credit intermediation, banking and civil law guarantees that are not treated as interest income*

Net commission income amounted to PLN 712.6 m and decreased by 5.7% y-o-y due to the downturn in the Polish stock market, which resulted in the lower level of fees for distribution of mutual funds, asset management and brokerage services. The other business lines reported a growth, particularly bancassurance, e-buisness & payments, and FX fees. Details of the key changes are presented below:

- The Group's net income from fund distribution and asset management was PLN 224 m and 27.1% lower y-o-y due to the prolonged downturn in the stock market, which prompted some investors to exit the mutual funds market and made the others more averse to risk-bearing instruments such as equity-linked or mixed funds.

- Net brokerage commission income decreased by 33.7% y-o-y to PLN 55.2 m due to the deceleration of the Warsaw Stock Exchange market, which negatively affected the equity turnover levels of the BZWBK Brokerage House.

- The bancassurance line generated an income of PLN 32.7 m, exceeding the comparable period by 73.9% on the back of the growing sale of credit insurance.

- The fees on customer FX transactions increased by 9.8% to PLN 112.5 m, reflecting the improved margins and stronger customer trading.

- The net commission income from e-buisness & payments increased by 24.2% to PLN 112.3 m. Two product lines from this area grew particularly strongly: "services to third-party financial institutions" and "debit cards" reporting an increase in the fee income by 38% and 29%, respectively. This progress results from the bank’s entering into co-operation with new financial institutions and the increase in the number of cards processed and ATMs managed on their behalf. It is also driven by the banks’ growing base of debit card holders (+297 k cards y-o-y) and the higher number and value of card-related non-cash transactions.

**Dividend Income**

Dividend income of PLN 69.6 m increased by 8.1% mainly as a result of a higher dividend paid out by Commercial Union Powszechne Towarzystwo Emerytalne BPH CU WBK S.A. included in the bank' s equity investment portfolio. In 2008, the bank received PLN 20.7 m in dividend from this source compared with PLN 16.7 m posted last year.

**Net Trading Income and Revaluation**

Net trading income and revaluation increased by 46.5% to PLN 47.9 m due to the higher income earned by the bank from the wholesale FX Swaps and derivatives business transacted both by the bank and the Brokerage House, the latter using such instruments as part of its market-making activity.

**Other Income**

Other income of the Bank Zachodni WBK Group increased by 86.2% to PLN 46 m. This figure includes a profit of PLN 22.4 m from the sale of MasterCard Int. shares from the bank's investment portfolio and a profit of PLN 0.5 m from the sale of the subsidiary company Brytyjsko-Polskie Towarzystwo Finansowe WBK CU Sp. z o.o.

## Loan Impairment Charge

The loan impairment charge to the profit and loss account was PLN 19.8 m while in the corresponding period last year the balance of loan impairment was positive and amounted to PLN 24.4 m. The bank successfully continues the restructure and collection of debts, but the process has been gradually decelerating as a substantial portion of the historical cases have been closed and the new lendings are of high quality. With the substantial y-o-y growth in lending volumes (+36.9%), the net impairment figure confirms the soundness of the Group's credit risk management framework and its sharp focus on ensuring high quality of the portfolio.

## Costs

Total operating costs of Bank Zachodni WBK Group amounted to PLN 845.3 m and were higher by 17.8% y-o-y. Their main components were as follows.

PLN m

| Total Costs | H1 2008 | H1 2007 | Zmiana |
|---|---|---|---|
| Staff and other administrative expenses, including: | (784.1) | (627.7) | +24.9% |
| *- Staff expenses* | *(470.4)* | *(394.4)* | *+19.3%* |
| *- Other administrative expenses* | *(313.7)* | *(233.3)* | *+34.5%* |
| Depreciation/Amortisation | (50.6) | (68.1) | -25.7% |
| Other operating costs | (10.6) | (21.5) | -50.7% |
| **Total** | **(845.3)** | **(717.3)** | **+17.8%** |

### Staff and Other Administrative Expenses

The staff and other administrative expenses of the Group amounted to PLN 784.1 m and were 24.9% up y-o-y, driven by dynamic business development and delivery of the strategic programmes.

- Staff costs increased by 19.3% y-o-y to PLN 470.4 m as a result of the higher employment driven by developing business and the growing distribution network (1,457 new FTEs over 12 months), pay increases linked to the annual performance review (April 2008), growing competition for banking experts in the labour market, bigger performance-related bonuses and the higher cost of training (growing business demands and higher number of trainees).

- With the strong growth of business and the distribution infrastructure, the Group's other administrative expenses increased by 34.5% y-o-y to PLN 313.7 m. This movement results from the Group's intensive promotional activity designed to support the sales of its strategic products, e.g. the Moneyback accounts, cash loans, savings accounts, investment-linked policy, Account<30 and FX accounts. The principal contributory factor was the growing cost of lease and maintenance of premises as a result of the bank's expanding distribution channels, including the Branch Network, specialist business centres (Business Banking Centres and Private Banking Offices) and their supporting functions in the Business Support Centre. As a consequence of the development and modernisation initiatives, there was also a significant growth in the cost of premises renovation and equipment supply for branches. Consultancy costs increased as well, due to the larger number of ongoing projects requiring unique skills. The Group's savings initiatives coupled with rigorous planning and control of operating cost budget, continued to keep administrative expenses at a lower level.

### Depreciation/Amortisation

Depreciation/amortisation totalled PLN 50.6 m and decreased by 25.7% y-o-y due to the full amortisation of ICBS, the branch banking system.

## 2. Balance Sheet Items

The table below presents major developments in key categories of the balance sheet of the Bank Zachodni WBK Group at the end of June 2008 versus the end of June 2007.

PLN m

| Balance-Sheet Items | 30-06-2008 | Balance Sheet Structure 30-06-2008 | 30-06-2007 | Balance Sheet Structure 30-06-2007 | Change |
|---|---|---|---|---|---|
| Balance sheet total | 47,062.9 | *100.0%* | 35,227.0 | *100.0%* | +33.6% |
| **Assets** | | | | | |
| Loans and advances to customers* | 28,273.1 | *60.1%* | 20,650.2 | *58.6%* | +36.9% |
| Investment securities | 10,449.0 | *22.2%* | 8,996.2 | *25.5%* | +16.1% |
| Loans and advances to banks | 2,760.6 | *5.9%* | 2,736.9 | *7.8%* | +0.9% |
| Cash and operations with Central Bank | 2,469.4 | *5.2%* | 762.9 | *2.2%* | +223.7% |
| Financial assets held for trading | 1,514.5 | *3.2%* | 423.4 | *1.2%* | +257.7% |
| Other assets | 1,596.3 | *3.4%* | 1,657.4 | *4.7%* | -3.7% |
| **Liabilities** | | | | | |
| Deposits from customers | 33,723.6 | *71.7%* | 25,218.0 | *71.6%* | +33.7% |
| Deposits from banks | 5,438.5 | *11.6%* | 3,555.2 | *10.1%* | +53.0% |
| Financial liabilities held for trading | 1,294.1 | *2.7%* | 279.7 | *0.8%* | +362.7% |
| Debt securities in issue | 282.4 | *0.6%* | 589.7 | *1.7%* | -52.1% |
| Other liabilities | 1,532.3 | *3.2%* | 1,435.8 | *4.1%* | +6.7% |
| Parent company equity | 4,588.7 | *9.8%* | 3,996.3 | *11.3%* | +14.8% |
| Minority interest | 203.3 | *0.4%* | 152.3 | *0.4%* | +33.5% |

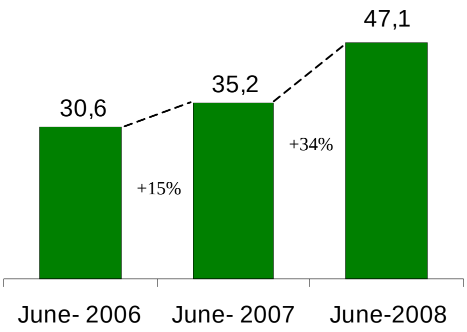
** less loan impairment charge*

As at 30 June 2008, total assets of the Bank Zachodni WBK Group amounted to PLN 47,062.9 m and were 33.6% up y-o-y. The value and structure of the Group's balance sheet is determined by the bank's balance sheet which accounts for 94.5% of the consolidated total assets.

The main asset growth driver during the past 12 months was loans and advances to customers (+36.9% y-o-y) which increased as a result of the strong credit delivery. A substantial increase was also noted in cash and operations with Central Bank (+223.7% y-o-y) as part of the Group's on-going liquidity management process. A similar growth rate was achieved under financial assets held for trading (+257.7% y-o-y), reflecting the higher business transacted in the derivative market. Financial assets continued to grow (+16.1% y-o-y) based on the decisions made as part of the Group's structural balance sheet risk management. Loans and advances to banks remained at the level similar to the corresponding period last year.

On the liabilities side, the Group posted a substantial increase in deposits from customers (+33.7% y-o-y) and deposits from banks (+53% y-o-y), the latter on account of the higher repo business. A strong growth was also observed in the financial liabilities held for trading (+362.7% y-o-y) driven by derivatives. At the same time, the debt securities in issue line decreased (-52.1% y-o-y) due to the redemption of the matured bonds issued by the Bank Zachodni WBK leasing subsidiaries in the amount of PLN 312.4 m during 12 months ended on 30 June 2008.

**Total Assets as at 30 June in the Years 2006-2008 (PLN bn)**




## Credit Portfolio

PLN m

| Gross Loans and Advances to Customers | 30-06-2008 | 30-06-2007 | Change |
|---|---|---|---|
| Loans and advances to business customers | 18,726.4 | 14,085.5 | +32.9% |
| Loans and advances to personal customers | 7,371.4 | 5,010.8 | +47.1% |
| Finance lease receivables | 2,581.6 | 1,978.9 | +30.5% |
| Loans and advances to public sector and other | 171.3 | 200.8 | -14.7% |
| **Total** | **28,850.7** | **21,276.0** | **+35.6%** |

At the end of June 2008, net loans and advances to customers were PLN 28,273.1 m and 36.9% up y-o-y due to increasing volumes of the Group's key portfolios: business loans, retail loans and lease rentals. Gross loans and advances to customers amounted to PLN 28,850.7 m versus PLN 21,276 m at the end of June 2007.

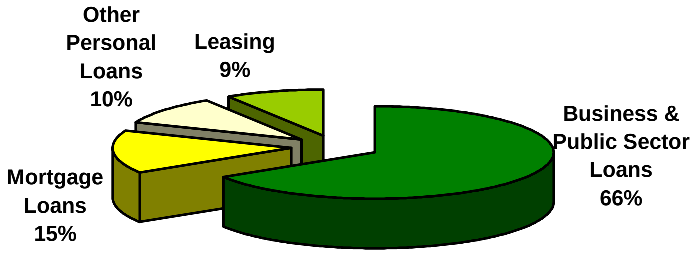
Loans and advances to businesses amounted to PLN 18,726.4 m and were 32.9% higher y-o-y. This growth reflects the higher demand for loans to finance investments, inventory and working capital amid the continued economic growth. The credit delivery accelerated, driven by long-term corporate lending, particularly in property finance. The portfolio of loans for income producing real estates grew 62.1% y-o-y to PLN 8,434.3 m at the end of June 2008.

The value of retail loans increased by 47.1% y-o-y to PLN 7,371.4 m due to the strong growth in cash and mortgage loans. Cash loans increased by 71.4% to PLN 2,108.4 m driven by the bank's attractive offer and the effectiveness of its pro-active promotion and sales methods. Mortgages went up by 43.9% y-o-y to PLN 4,384.6 m in the rising interest rates environment due to the very good features of the bank's offering and improved financial standing of retail customers.

The leasing portfolio increased by 30.5% y-o-y to 2,581.6 m owing to stronger performance of the Group's leasing companies (BZ WBK Leasing S.A. and BZ WBK Finanse & Leasing S.A.) in the two key assets categories: machinery & equipment and vehicles.

The quality of the Group's loan-book continued to improve, which is reflected in the declining NPL ratio. At the end of June 2008, the impaired loans accounted for 2.4% of the gross portfolio versus 3.9% recorded 12 months before. The provision cover for the impaired loans was 64.2% compared with 61.2% as at 30 June 2007.

**Exposure structure of the Bank Zachodni WBK Group as at 30-06-2008**



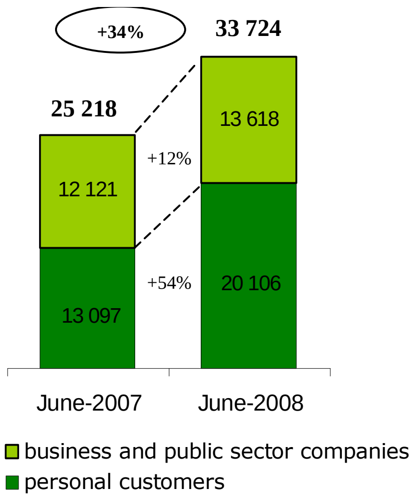

The Bank Zachodni WBK Group complies with the Banking Law requirements with regard to the limits of exposures to a single entity or to a group of connected entities. The Group also maintains an adequate diversification of the credit portfolio in accordance with its policy of exposure to industries and financial groups. As at the end of June 2008, the highest concentration level of 17% was recorded in the property sector services (as classified by PKD - Polish Classification of Activities).

## Deposit Base

PLN m

| Deposits from Customers | 30-06-2008 | 30-06-2007 | Change |
|---|---|---|---|
| Deposits from retail customers | 20,105.9 | 13,096.6 | +53.5% |
| Deposits from business customers | 11,229.2 | 10,106.9 | +11.1% |
| Deposits from public sector customers | 2,388.5 | 2,014.5 | +18.6% |
| **Total** | **33,723.6** | **25,218.0** | **+33.7%** |

**Amounts Due to Customers (PLN m) as at End-June in 2007-2008**




Deposits from customers, which represent 71.7% of the Group's balance sheet total, are the primary source of funding of the Group's lending business. At the end of June 2008, customer deposits totalled PLN 33,723.6 m and were higher by 33.7% y-o-y. This value is comprised of the funds deposited in current accounts of PLN 19,988.2 m (including PLN 10,468.6 m as balances in the savings accounts), term deposits totalling PLN 13,266.6 m and other liabilities. In the first half of the year, particularly fast growth was noted in current account balances which exceeded the last year's figure by 104.7%. This growth is attributable to the bank's attractive savings account offering and the successful promotional campaign. Another contributing factor was the continued improvement of the financial standing of households and the customers' reluctance to invest in risk-bearing financial instruments as a follow up of the strong downturn in the stock market.

## 3. Basic Financial Ratios

| Key Financial Ratios | H1 2008 | H1 2007 |
|---|---|---|
| Total costs /Total income | 51.1% | 48.7% |
| Net interest income / Total income | 47.0% | 40.4% |
| Net commission income / Total income | 43.1% | 51.4% |
| Customer deposits / Balance sheet total | 71.7% | 71.6% |
| Customer loans / Balance sheet total | 60.1% | 58.6% |
| Customer loans / Customer deposits | 83.8% | 81.9% |
| NPLs ratio | 2.4% | 3.9% |
| NPL coverage ratio | 64.2% | 61.2% |
| ROE* | 23.96% | 25.97% |
| ROA** | 2.3% | 2.7% |
| Solvency ratio | 10.99% | 13.34% |
| Earnings per share (PLN) | 7.78 | 7.66 |

*The following were used in computations:*

* *profit-after-tax attributable to BZWBK shareholders for the 12-month period commencing on 1 July 2007 and equity as at the end of the reporting period, net of current year's profit and minority interests;*

** *profit-after-tax attributable to BZWBK shareholders for the 12-month period commencing on 1 July 2007 and average assets derived from the two comparative periods.*

## 4. Interest Rates on Loans and Deposits

Bank Zachodni WBK offers its customers interest rates on products tied to the market rates and the base rates of the National Bank of Poland.

Generally, the interest rates on business loans are based on the price of money in the wholesale interbank market (WIBOR, LIBOR), increased by a margin which primarily reflects the credit risk attaching to the transaction/customer. The value of margin is determined in the credit assessment process.

As a rule, the interest rates on retail loan facilities are standardised. The standard interest rates on retail products are set by the Assets & Liabilities Management Committee.

For significant retail transactions, tailored, often negotiable, pricing applies. Also, in response to market requirements and customer expectations, the bank implemented appropriate credit risk measurement tools and started risk-based pricing for selected retail products.

In the first half of 2008, the bank maintained its very attractive interest rates for savings accounts (offer introduced in the fourth quarter of 2007). The bank also continued its strategy of stimulating the sale of strategic products through promotional campaigns, e.g. for cash loans.

# V. Business Development in H1 2008

## 1. Review of Key Business Developments

One of the key ambitions of Bank Zachodni WBK Group in the first half of 2008 was to achieve competitive advantage that would be meaningful for customers and would facilitate the process of their retention and acquisition, thus contributing to the increase in the Group's market share.

The most important areas of the Group's activity in the first half of 2008 are summarized below:

- Introduction of new product and service packages and upgrading the existing packages with new attractive features:
  - "Płacisz & Zarabiasz" (Moneyback) account linked with a debit card;
  - package for start-ups;
  - Visa Platinum credit card and free withdrawals from third party ATMs for the holders of Konto24 VIP account;
  - Visa Business Electron card with an optional insurance package and a company logo on the card.

- Reinforcement of the bank's position in the market of services for Polish immigrant workers:
  - separate process of mortgage sales for the Polish community abroad;
  - savings account denominated in GBP and EUR available via the Internet;
  - easier cash transfers from the UK (cheap and fast lodgements to the accounts with Bank Zachodni WBK).

- Continued diversification of the savings and investment products offer:
  - sale of new structured product (certificates of BZ WBK Nowa Era);
  - distribution/subscription of new mutual funds (Arka BZ WBK Energy FIO, Arka BZ WBK CEE FIZ, Arka BZ WBK Property Market Fund 2 FIZ).

- Implementation of innovative solutions to increase functionality and attractiveness of the bank's products and services:
  - new contactless credit card MasterCard PayPass;
  - widespread use of 3D Secure technology;
  - bonus for the holders of the Moneyback Account (part of each non-cash payment made with a card refunded to the customer).

- Further development of credit services and their availability:
  - modification of the mortgage loan offering;
  - FrontScore for mortgage loans, i.e. preliminary credit decision within 15 minutes;
  - improvement of the credit process for the Mid-Business sector through dedicated units (Business Banking Centres);
  - procedural changes in the processing of loans from PLN 1 m to PLN 3 m, with speedier credit decisions;
  - further centralisation of credit processes;
  - easy access to the bank through diversification and increased functionality of distribution channels.

- Growing presence in the markets with strong business potential:
    - property market (financing residential and income-producing real estates);
    - bancassurance market (alliance with the insurance company);
    - capital market (arrangement of bond issue, management of shares issues in the primary and secondary market, comprehensive consultancy);
    - services for external financial institutions (issuing cards and managing ATMs).

- Use of diversified promotional and sales tools to encourage customers to avail of the BZWBK products and services:
    - advertising campaigns (cash loan, savings account, Moneyback Account, Arka BZ WBK mutual funds);
    - pricing incentives and sales campaigns (e.g. offering credit cards to customers with no such instruments).

- Increasing operational efficiency of the bank under the Sales Activation Programme:
    - uniform methodology for sales targets planning;
    - monitoring of individual and team performance;
    - new incentive system.

- Further progress of the distribution network development process:
    - opening of 45 new branches;
    - launch of 25 new Minibank agencies;
    - expansion of the Mobile Sales network;
    - modification of the branch model.

- Improving the service level by implementation of new business models:
    - opening of another Business Banking Centre in Gdańsk (next 7 centres to be opened at the beginning of the second half-year);
    - establishment of the Private Banking Office for high-net-worth customers;
    - opening of two mortgage houses in Szczecin and Łódź.

- Continuous improvement of service quality.

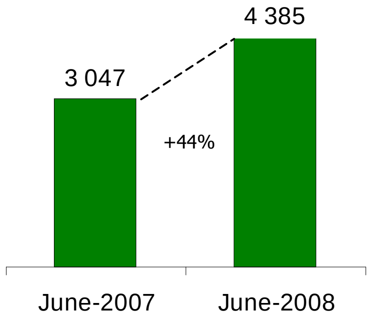
## 2. Development of Products and Services

### Retail Loans

#### Mortgage Loans

To improve clarity and attractiveness of the mortgage loans proposition, Bank Zachodni WBK implemented a number of new solutions effective from 10 March 2008. As part of the modification of the pricing policy, the base rate was changed from 6M to 3M one for each of the available currencies and a new margin grid was developed (fixed margins for individual categories of facilities in PLN and foreign currency). The key innovations in the products area include: increasing the maximum amount of the equity release, offering equity release in foreign currency and expansion of the investor loan offer to include refinancing of residential loans from other banks.

**Gross Mortgage Loans (in PLN m)**



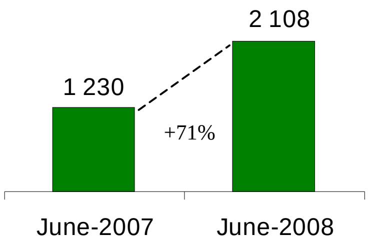

In March 2008, the process of credit approvals based on the Front Score tool was rolled out across the Branch Network. The tool automatically processes applications, determining the applicant's financial potential, and allows a decision to be communicated to the customer within 15 minutes of inputting the data in the system. This is a record-breaking time in the market for providing a preliminary result of the customer's repayment capacity assessment. The bank's competitive advantage gained in this area was accentuated by the mortgage loans campaign conducted from April to June 2008 under the tagline "15 minutes to know you get the loan".

The Direct Banking Area launched a dedicated distribution channel for the Polish people who live and work abroad whereby - after a phone contact and analysis of e-mailed documentation - they can obtain a loan promise. The first stage of the relationship is designed in such a way as to speed up the required procedures in the branch when the borrower visits Poland.

#### Cash Loans

The demand for the BZWBK cash loans has continued its upward trend owing to the combination of the features that make the bank's offer distinctive, including: attractive pricing (from 7.99% for the customers with the best score); time-to-yes (5 minutes from submission of a complete application); service adjusted to customer's needs (diversified distribution channels and application methods); possibility to choose lending period and take out insurance.

**Gross Cash Loans (PLN m)**



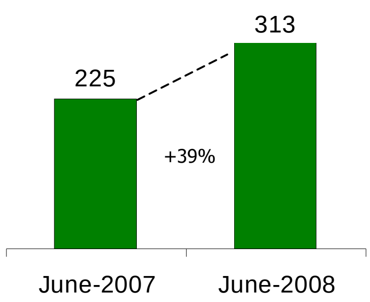

The fast growth of the cash loans of Bank Zachodni WBK is also attributable to the branch network development and increased efficiency of the bank's distribution channels. The sales were further enhanced by the advertising campaign with the slogan "Jak wszyscy, to wszyscy" ("If everybody, why not me") – continuation of the 2007 campaign ("Everybody takes - new cheap loan from BZWBK") – supported by the image of Mr. John Cleese, icon of British humour.

In accordance with the new co-operation agreement between Bank Zachodni WBK and BZWBK Brokerage House of 12 May 2008, customers interested in a cash loan for the purchase of securities in the primary market (e.g. in an IPO) or in the organised secondary market have easier access to funding as they can apply outside of the branch network, i.e. through the Customer Service Points of the BZWBK Brokerage House or on-line via the "Investor On-Line" portal.

### Credit Cards

At the end of last year, Bank Zachodni WBK – as the first bank in the Central and Eastern Europe – enabled its customers to make contactless payments (by placing the card near the appropriate reader) with the pre-paid Maestro PayPass card. The next step was to issue MasterCard PayPass contactless credit card in March 2008. This is a multi-purpose card equipped both with a special chip and a magnetic stripe. It can be used to make payments in POSs (including contactless and PIN transactions), withdraw cash from ATMs world-wide, make on-line and MOTO (Mail Order & Telephone Order) transactions.

**Credit Cards (in thousand of items)**




In May, Visa Platinum card was implemented to complement the bank's offering for the VIP segment. By reducing the income level for VIP customers and simplifying the credit process, the bank is able to target a wider group of customers interested in such a card and expecting tailored service.

To stimulate demand for its credit cards and encourage their more frequent use, Bank Zachodni WBK has undertaken a number of promotional and sales initiatives, including the competition "Traf na UEFA EURO 2008" ("Go for UEFA EURO 2008"), individual credit card offers for customers with no such instruments and a cross-selling campaign for the customers of BZ WBK Arka mutual funds.

## Personal Accounts

### Development of Offering for the Holders of PLN Accounts

In the first half of 2008, Bank Zachodni WBK completed a number of initiatives designed to enhance its product packages built around personal accounts and to increase their sales. In March 2008, the holders of Visa Electron Prestiż cards linked to the Konto24 Prestiż account were offered free-of-charge withdrawals from all ATMs across Poland. In May, a new personal account was put on offer: Moneyback Account with a dedicated debit card offering a unique mechanism whereby 1% of the value of the transaction made with the card is refunded to the customer (for details see section "Debit Cards" below). The launch of this account was supported by a Poland-wide advertising campaign featuring Leo Beenhaker under the slogan "Pierwsze Konto Wydajesz & Zarabiasz - Zarabiaj zawsze, kiedy płacisz kartą" ("First moneyback account. Earn each time you pay by card"). The purpose of the campaign was to attract new customers, especially from those regions of Poland where the bank's brand awareness is not strong.

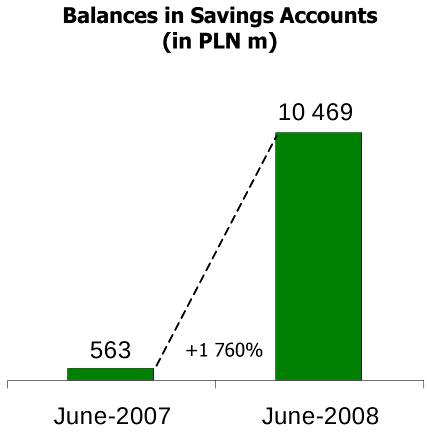
### Development of Offering for the Holders of FX Accounts

In the first half-year, work was continued to improve the offering for the Poles staying abroad. The focus was placed on the requirements of the Polish working community in the UK, Ireland and Germany, such as improvement of the distribution channels from the perspective of cross-border users. The bank's offering (with free on-line FX account in GBP, EUR and USD, FX MasterCard denominated in the account currency, free withdrawals from the AIB ATMs in Ireland and low fees for other ATMs world-wide) was expanded to include the mortgage loan promise (for the purchase of property in Poland), remote opening of a GBP and EUR savings account, cheap lodgements from the UK and an on-line portal for emigrants (www.zagranica.bzwbk.pl).

## Deposit and Investment Products

### Deposit Products

As the downward trend prevailed on the stock markets, the features of the savings account, such as high interest rate (comparable to term deposits) and liquidity (funds can be drawn at any time and in any amount without losing interest) made it the most attractive product of the savings and investment offering for retail customers in the first half of 2008. To make this product available to people working abroad, the bank introduced savings accounts denominated in GBP and EUR.



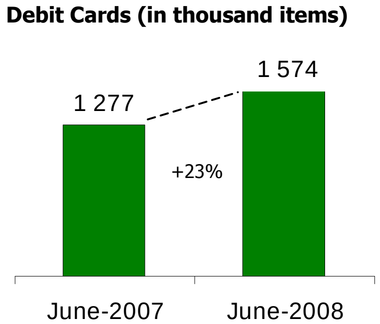

In the first half of 2008, the bank completed two issues of BZ WBK Nowa Era certificates, a joint proposal of Bank Zachodni WBK and Commercial Union Polska Towarzystwo Ubezpieczeń na Życie S.A. The new structured product combines the benefits of an investment based on the BZ WBK Nowa Era ER index, protection of 100% of the invested capital, exemption from the capital gains tax and a group insurance cover. The BZ WBK Nowa Era ER index comprises a broad range of financial instruments, i.e. world property, commodity, equity and currency indices, ensuring high diversity and an investment strategy whereby returns can be made regardless of the stock exchange trends.

The bank continued distribution of the open-ended mutual funds Arka BZ WBK (managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.), including the funds specialising in specific geographic markets and industries, such as Arka BZ WBK Akcji Środkowej i Wschodniej Europy FIO (Arka CCE Equity Fund) and Arka BZ WBK Rozwoju Nowej Europy FIO (Arka New Europe Development Fund). Also, the bank commenced the sale of Arka BZ WBK Energii FIO (Arka Energy Fund investing in the companies from the power sector) and participated in the public subscription of the retail tranche of certificates of the closed-end fund Arka BZ WBK Fundusz Rynku Nieruchomości 2 FIZ (Arka Property Fund), whose investment strategy is to buy and sell properties, generate income on their lease and fund property developments.

## Debit Cards

### New Items in Debit Cards Proposition

In May 2008, the bank expanded its debit cards range with Visa Wydajesz & Zarabiasz (Moneyback) with a bonus programme that is unique across Poland. The programme assumes that for each completed and settled transaction, the customer will receive a 1% refund of the transaction value to his or her account. The new card also offers free access to several ATM networks.




The bank upgraded its Visa Electron VIP and Visa Business Electron cards with attractive pricing and functional features. The holders of Visa Electron VIP can now make free cash withdrawals from ATMs across Poland, while Visa Business Electron has been equipped with financial insurance and a company logo on the face of the card.

**New Functionalities**

The Verified by Visa (VbV) service based on 3D-Secure technology (new security standard for on-line transactions with embossed and printed cards) was highly appreciated by customers. In the first half of the year, the VbV service was activated by a big number of users of the BZWBK Visa cards (50% increase vs. the second half-year of 2007) who were consequently more inclined to buy on-line. For its attention to the security of on-line transactions the bank received the prestigious award Alicja 2007. In the second half of the year, the 3D-Secure technology will also be available for cards of Maestro/MasterCard system as part of the MasterCard SecureCode services. In effect, customers will be able to make on-line payments with all the BZWBK cards with a minimum risk of unauthorised use.

## Insurance Products

The bank's bankassurance business is growing strongly, gaining importance as an additional source of fee income.

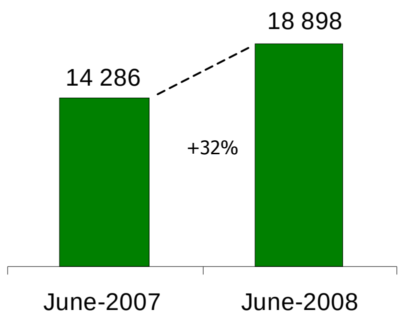
The bank provides insurance products in conjunction with the leading insurers on the Polish market, such as: Commercial Union, AIG and TU Europa. Together with Aviva International Insurance Ltd. from London, the bank established two new joint venture companies: BZ WBK - CU Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK - CU Towarzystwo Ubezpieczeń Ogólnych S.A., which will provide insurance service to the bank's customers.

In March 2008, the scope of the insurance products distributed by the bank was expanded to include the motor insurance offered in co-operation with Commercial Union Towarzystwo Ubezpieczeń Ogólnych S.A. The insurance is available through direct sales, i.e. via phone or the Internet.

In the first half of 2008, the bank completed two subscriptions of BZWBK Nowa Era certificates, a joint proposal of Bank Zachodni WBK and Commercial Union Polska Towarzystwo Ubezpieczeń na Życie S.A. (for details, see section "Deposit and Investment Products").

## Proposition for Corporate Customers

**Gross Receivables from Business and Public Sector Customers * (PLN m)**




** excluding leasing portfolio*

The Bank Zachodni WBK Corporate Banking business is based on a Relationship Management model, whereby a corporate customer's designated relationship manager not only controls the credit process, but is responsible for co-ordinating the service to the customer across the bank.

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

Bank Zachodni WBK continues to strengthen its presence on the corporate banking market which is well reflected in the high growth both in the credit and deposit portfolios witnessed in the first half of

2008 as compared to the same period last year. The credit delivery was mainly driven by structured finance and loans for income-producing real estate.

The bank's Corporate Lending Policy is to strongly support business development of the existing customers and to establish relationship with new customers where a strong management team and sound business strategy exist. The quality of the corporate credit portfolio is very high and shows significant improvement as compared to the past years.

## Proposition for Small and Medium-Sized Companies (SME)

### Services for SMEs

In March 2008, in an effort to better satisfy customers' requirements, Bank Zachodni WBK expanded its SME offer with a package of products and services addressed to start-ups. The proposition includes free account maintenance for the first 12 months and the possibility to use a credit limit up to PLN 50 k for 5 years or to purchase a new car through leasing. There are a number of additional services available that the bank provides in co-operation with external partners, including on-line accounting, legal advice and a package of web services (web hosting, development of web portals, etc.). As the additional services offered by the bank attract significant interest, they have also been made available to other customers to strengthen their ties with the bank.

The bank maintained its SME risk assessment approach characterised by limited documentary requirements (especially in relation to small firms) and unsecured lending up to a certain limit. In addition, procedural changes were implemented in the lending process for loans from PLN 1 m to PLN 3 m, to ensure that the credit decision is communicated to the borrower faster.

In the first half of the year, intensive efforts were made to encourage SMEs to expand their relationship with the bank. As part of a sales campaign, selected customers were presented with a dedicated funding offer, namely an overdraft or the Biznes Ekspres loan. The initiative was well-received by customers and proved an effective relationship building tool. Moreover, the customers who decided to take out a loan with Bank Zachodni WBK could appreciate the smooth credit process and the minimum documentary requirements. The bank's sales were positively affected by the high skills that the SME Advisors developed through a cycle of trainings (Effective SME Advisor).

### Medium Business Service

As part of its mid-business development strategy, Bank Zachodni WBK transformed its model of service for the top SME segment bringing it closer to customer expectations, with a special focus on requirements related to relationship quality and access to decision makers. Under the new model, the bank plans to develop dedicated regional structures (Business Banking Centres) and assign staff with adequate credit discretions to service the mid-business companies. These units are designed to supplement the existing distribution infrastructure composed of the branch network and the Corporate Business Centres. In 2007, the new service model was piloted in the Warsaw Region and its successful completion paved the way for the roll-out.

### Financing Projects with the Use of EU Funds

The bank's offer of financing undertakings subsidised by the EU comprises loans and leasing, with finance available both for the subsidised part of the investment and the remaining outlays. The bank's flagship product is Biznes Ekspres Unijny that is based on the structure of the Biznes Ekspres loan and likewise can be used for any business purpose, requires a minimum number of formalities and ensures a lending decision within 24h from submission of a complete credit application. The bank's important advantage on the EU funds market is its extensive network of EU advisors (ca. 200) supporting customers with their specialised knowledge of EU programmes and requirements to be met by entities seeking investment-related subsidies.

The bank intends to maintain its established position on the EU funds market and has commenced activities under the EU budget for 2007-2013. The strategy "Together in the EU" for 2007-2013 assumes the bank's active participation in the process of acquiring the EU funding, with a particular focus on SME support. The bank also provides service to the customers seeking EU funding as part of the Rural Development Programme 2007-2013. A comprehensive offering in this area has been developed jointly with the BZWBK leasing companies.

## International Settlements

**Cash Lodgements to the Accounts in Bank Zachodni WBK**

The bank uses all the available settlement channels to process international payments, so the customers can use the most favourable options.

For example, the bank uses a network of foreign agents (in the UK, Ireland and Holland) to accept and send cash transfers to PLN accounts in Poland. In the first half of 2008, Bank Zachodni WBK entered into a co-operation agreement with a British Bank to offer the Bank Giro Credit facility. The product allows Poles in the UK to make cheap and fast cash and cheque lodgements to BZWBK accounts.

**International Payments**

The payment messages generated by the bank have been for many years characterised by high quality, which facilitates the clearing process and reduces the related costs. In 2008, the bank was awarded by its two main correspondents (Bank of New York and Deutsche Bank) for the high quality of formatting SWIFT messages. The efficient organisation of the payment handling process and the high quality of customer service is best proven by the bank being placed among the institutions that comply with the ISO 9001:2000 standard for international payment orders.

In the first half of 2008, a 13% increase y-o-y was observed in incoming payments.

**Western Union Money Transfers**

Bank Zachodni WBK acts as an intermediary for international and local Western Union money transfers. The network of outlets processing Western Union transfers includes 645 outlets, including the bank's branches, Minibank units and the agents who operate under a contract with the bank and use its clearing service. The transfers are processed in a simplified manner, i.e. without any forms, which reduces the customer's visit in the branch to the minimum. Owing to the differentiation of its product distribution channels and their continued development, the bank reaches an increasingly higher number of customers. The high quality of the service is proven by the ISO 9001:2000 certificate for processing the Western Union transfers.

In addition to the traditional cash transfers between individuals, the bank has also launched the Quick Pay service for transferring funds from companies to private individuals.

The bank's actions contributed to the higher number of outgoing Western Union money transfers (+30% y-o-y).

**Trade Finance**

The bank's offer includes a full range of international trade finance products. Continuously expanding network of cooperating banks ensures high efficiency of service processes and competitive transaction execution costs. With the bank's flexible approach to trade finance transactions, customers can enjoy a personalised service. The high quality of the services is confirmed by the ISO 9001:2000 certificate for documentary transactions and cheques processing.

## Provision of e-Services to Financial Institutions

Bank Zachodni WBK is one of the leading providers of payment orders processing, card issuance/handling and ATM management services for other institutions. Using its own experience, the bank enhances its products and functionalities to suit the requirements of its customers. The bank proposes and implements innovative solutions, including the technologies that meet the requirements of EMV and SEPA standards. The bank's partners are offered a modern IT infrastructure and a real-time access to transaction data. The high quality and security of the personalisation service for both magnetic striped and chip cards was confirmed by the certification audit conducted by the two payment organisations co-operating with the bank, i.e. Visa Int. and MasterCard Int.

Thanks to successful acquisition of new customers, the bank's business in these areas is growing steadily. At the end of June 2008, the bank co-operated with 20 banks operating locally and internationally, handled 2.7 m third party cards and managed a network of 1,200 ATMs under contracts with its partners.

In view of the strong growth of the third party business, a dedicated unit was established in the Direct Banking Area with a responsibility for organising and managing the sale of services for banks and financial institutions and maintaining business relations with them.

## Investment Banking

**Arrangement of Debt Securities Issues**

In the first half of 2008, Bank Zachodni WBK arranged the issue of bonds for 13 entities with a total value of PLN 167 m. These issues were allocated to the entities indicated by the issuers. At the request of a corporate client, PLN 7 m worth of bonds were issued as part of the issue programme arranged by the bank with a maximum value of PLN 15 m. Also, the bank arranged and completed a mandated purchase of shares of a public company for PLN 13.1 m. The bank also participated in an MBO transaction.

**Advisory Services**

Bank Zachodni WBK acted as an advisor in 20 public and private share offerings. The following advisory projects were completed in liaison with the BZWBK Brokerage House:

- secondary public offering of series K shares of Hydrobudowa Polska S.A. with a value of PLN 308 m through an increase of share capital;
- initial public offering of the shares of Zakłady Azotowe Tarnów S.A. with a value of PLN 295 m through an increase of share capital;
- private offering of the shares of R&C Union S.A. with a value of PLN 8 m through an increase of share capital (the first company introduced by the bank to the alternative stock exchange market New Connect).

**Equity Portfolio Management**

In the first half of 2008, the following changes took place in the equity portfolio of Bank Zachodni WBK:

- Bank Zachodni WBK acquired 800 of the newly issued shares of CU Polska - Towarzystwo Ubezpieczeń Ogólnych S.A. with a nominal value of PLN 2 k per share. Due to the pro-rata allocation of the new issue among the existing shareholders, the bank's stake in the share capital and the voting power of the company remains unchanged at 10%.

- In March 2008, founding acts and articles of association were signed for the new insurance companies established by Bank Zachodni WBK in co-operation with Aviva International Insurance Limited: BZ WBK - CU Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK - CU Towarzystwo Ubezpieczeń na Życie S.A. Both shareholders (holding 50% stake in each undertaking) paid up the share capital of each company. Bank Zachodni WBK contributed PLN 16.5 m and PLN 13 m to respective entities.

- In March 2008, Bank Zachodni WBK signed a preliminary agreement with BBI Capital NFI to sell 1,718,105 shares of NFI Magna Polonia S.A. The parties agreed that the title to the shares will be transferred to BBI Capital NFI outside of the regulated market in two stages: 1) transfer of title to 1,250,000 shares representing 9.73% of the share capital and 14.53% of the voting rights not later than 14 May 2008; 2) transfer of title to 468,105 shares representing 3.65% of the share capital and 5.44% of the voting rights not later than 14 July 2008. The first and the second stage of the transaction were completed at the contractual dates. Consequently, as at 24 July 2008 the bank held 650 k shares of NFI Magna Polonia, giving it 5.06% stake in the share capital and 7.56% in the voting rights.

- Under the agreement with Commercial Union Polska Sp. z o.o. from Warsaw, Bank Zachodni WBK sold 420 shares of Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp. z o.o., Poznań with a total nominal value of PLN 210 k, which represented 60% stake in the share capital and carried 420 votes. The shares were sold for PLN 1.2 m. As a result of the transaction, Bank Zachodni WBK disposed of all its shares in the company.

- In June, the bank sold a portion of its shareholding in MasterCard, achieving a net gain of USD 10.4 m, i.e. PLN 22.4 m.

As at 30 June 2008, the equity investment portfolio of Bank Zachodni WBK was composed of subsidiaries and associates (see the chart on page 13) and minority interests in 26 companies, including: Krajowa Izba Rozliczeniowa S A (11.48%). Commercial Union Powszechne Towarzystwo Emerytalne BPH CU WBK S.A (11.1%), Commercial Union Polska Towarzystwo Ubezpieczeń na Życie S.A. (10%), Commercial Union Polska Towarzystwo Ubezpieczeń Ogólnych S.A. (10%), AWSA Holland II BV (5.44%), Biuro Informacji Kredytowej S.A. (5.14%) and Arka BZ WBK Fundusz Rynku Nieruchomości Specjalistyczny Fundusz Inwestycyjny Zamknięty (4.42%).

## Treasury

During the first half of 2008 there was very good growth in Treasury activity, in both Wholesale and Corporate markets.

Treasury Services operations have continued to develop and service centres in Gdańsk, Kraków, Poznań, Warsaw and Wrocław all experienced a strong growth. There was substantial growth in volumes of derivative related transactions and the product range is continually expanding to meet customer demands.

In the first half of 2008, wholesale activity reported strong gains, with strategic interest rate positions benefiting from a positive yield curve and growing balance sheet. With the recent increases in rates and expectations of some further monetary tightening by MPC a conservative approach to risk taking has been maintained, consistent with previous years.

Treasury has responsibility for the day to day funding and liquidity management of the Group Balance Sheet. The bank is still a net provider of funds to the Polish Interbank market and is not reliant on the markets, either Polish or International, as a net source of funding. The Bank's lending activitves are funded by a stable deposit base (BZWBK Group loan/deposit ratio was 84% at the end of June 2008), and the overall liquidity position remains comfortable.

# 3. Development of Distribution Channels

## Traditional Distribution Channels

### Branch Network

At the end of June 2008, the bank's branch network consisted of 451 outlets and was divided into 14 regions supervised by three Macroregions in Poznań, Warsaw and Wrocław. The regional and macroregional offices provide direct business and operational support to the local branches.

In the first half of 2008, intensive efforts were continued under the "Branch Network Development Strategy until 2011". By the end of June, 45 new branches were opened (75 since the end of June 2007), mainly in the Tri-City, in the Warsaw and Łódź conurbation, in the Upper Silesia and the Małopolsko-Podkarpacki region.

Since 17 March 2008, the BZWBK branches have been operating under a revised model designed to improve work organisation and increase the performance of the branch banking business. Primarily, a clear division of roles was introduced between staff responsible for customer and back-office functions. With new job role descriptions, core competencies for all branch positions were specified and clear career paths defined.

### Corporate Business Centres

At the end of June 2008, Bank Zachodni WBK had six Corporate Business Centres (CBC) in Warsaw, Wrocław, Poznań, Kraków, Gdańsk and Łódź. The corporate offices set up last year in Szczecin and Katowice, reporting to the CBCs in Poznań and Kraków, respectively, also became fully operational. The CBCs are primarily responsible for providing service to corporate customers, with operating support received from the branch network and the Securities Centre (preparation and perfection of collateral).

### Business Banking Centres

After the successful pilot launch of the first Business Banking Centre in Warsaw in 2007, in the first half of 2008 another centre was opened in Gdańsk to provide comprehensive service to the upper SME segment. The new unit will be additionally supported by advisors operating from different locations in the Pomorsko-Mazurski region. The next seven centres are planned to be opened in the biggest Polish cities at the beginning of the second half-year. Ultimately, such specialised units will be established in all the regions where sufficient market exists.

### Private Banking

In the first half of 2008, the Private Banking channel was launched, focusing on the customers holding liquid assets of at least PLN 1 m. This unit specialises in offering savings and investment products, but also provides advice, customised investment and funding solutions and mobile service (in locations convenient to the customer). The Private Banking customers have access to a dedicated IT platform with standing access to their investment portfolio.

The first Private Banking offices were opened in Warsaw and Poznań and now provide active service to their customers.

### Mortgage Houses

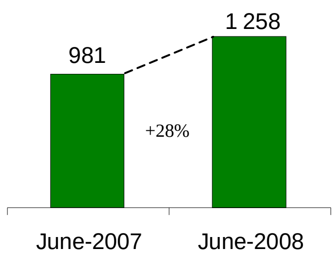
Bank Zachodni WBK started a new distribution channel – Mortgage Houses, which are currently at a pilot phase. Mortgage houses are outlets specialised in providing mortgage loans. They are centres of excellence for the property market and relating funding methods. These units will also give customers a choice of developers' and real estate agencies' offers, thus allowing them to save time looking for properties or doing market research. The first mortgage houses were opened in Szczecin and Łódź.

## Electronic Distribution Channels

### BZWBK24

In the first half of 2008, the functionality of the BZWBK24 electronic banking tool was further enhanced. New solutions were implemented which expanded the scope of remote transactions and facilitated communication with customers. The system now actively supports debit cards and offers access to additional information on the cards used. Also, on-line opening of EUR and GBP savings accounts was enabled. Communication was improved by the on-line messages used for presentation of the current products and special offers. The users of cash loans and credit cards can check their credit balances on line. The new communication tool was used in numerous campaigns encouraging customers to buy products and services, including the savings account, deposits, Arka funds, credit cards, cash loans, Alerts 24. The bank was also developing another communication and sales channel called Microsites or websites dedicated to a particular service or process. As at 30 June 2008, the bank had 10 such sites with product, sales and service details as well as decision-support tools (e.g. loan instalments calculator).

**BZWBK24 Customers (in thousand)**




### ATMs

As at 30 June 2008, the ATM network of Bank Zachodni WBK comprised 835 machines, i.e. 207 more than 12 months before and 161 more than 6 months before. The fast growth in the number of installations is an effect of the ATM network development programme, which will be continued in the next half of the year. Concurrently with the ATM network development, the bank has been upgrading its existing machines. These efforts have increased the availability of the BZWBK ATMs, the number of ATM transactions and network functionality – 100% of the machines comply with the chip (EMV) standard of Europay, Mastercard and Visa. The ATM network management is compliant with ISO 9001:2000 standard which is confirmed by the relevant certificate.

## External Distribution Channels

### Mobile Sales

At the end of June 2008, the BZWBK Mobile Sales comprised 50 Mobiles Sales Teams with 400 self-employed Financial Advisors and 20 local offices in 10 regions covering the whole Poland. During the first half of 2008, they continued to acquire new business through the sale of credit cards and cash loans. The bank intends to expand its Mobile Sales offering and has prepared pilots for subsequent products (including SME products) to be launched in the second half of the year.

### Minibank Agency Outlets Network

Bank Zachodni WBK continued to develop its Minibank agency outlets network providing quick, simple and inexpensive access to standard financial services (including bill payments, account with a card, Western Union transfers). This solution is targeted at retail customers who are interested in a limited number of banking services or have not yet availed of the banking service. Due to the implementation of simplified processes on a dedicated IT platform, the units provide fast service at competitive prices. They also act as intermediaries selling credit cards and home mortgages.

In the first half of 2008, 25 Minibank outlets were launched, which increased the network to 51 units.

# 4. Development of Key Subsidiaries

## BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.

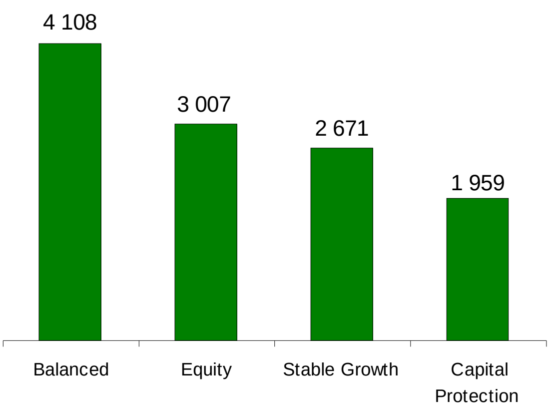
Since the beginning of the year the situation in the mutual funds market was volatile, mainly due to the slowdown in the domestic and international stock markets. The prices of mutual fund units and certificates were on the wane and redemptions exceeded new sales. In effect, the market value of assets under management declined by 30% y-o-y.

The sales of the mutual funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. reflected the market situation. The accumulated assets decreased by 33% y-o-y to PLN 14,981.5 m at the end of June 2008. Such a performance secured the company the second position in Poland in the mutual funds market with a 15.4% share.

Due to the continually depressed stock market, in the first half of 2008 customers were primarily interested in the safe funds, i.e. Arka BZ WBK Obligacji FIO (Bonds Fund) (+64% y-o-y) and Arka BZ WBK Ochrona Kapitału FIO (Capital Protection Fund) (+31% y-o-y).

During the first half of the year, the company expanded its offer with new funds, thus acquiring new assets under management. On 25 February 2008, a broad distribution of Arka BZ WBK Energii FIO (Energy Fund) commenced. This fund's investment strategy is focused on the shares of domestic and foreign companies operating in the energy sector. In addition to the branch network of Bank Zachodni WBK and the BZWBK Brokerage House, the fund units are sold via Dom Inwestycyjny (Investment House) and the branch network of BRE Bank and Bank Millenium S.A. Prestige. The period from 31 March to 25 April 2008 saw commencement of the public subscription of the certificates of Arka BZ WBK Akcji Środkowej i Wschodniej Europy FIZ (CEE Equity Fund) organised in co-operation with the BZWBK Brokerage House. With its closed-end formula and the adopted investment strategy, the new fund resembles the Individual Fundamental Share Portfolios offered by BZ WBK AIB Asset Management S.A. and likewise is addressed to high-net-worth investors. The subscription was successful – certificates were sold for a total amount of PLN 169.5 m. The investment certificates of the Arka CCE Equity Fund were admitted to the public trading on the Warsaw Stock Exchange (first quoted on 27 June). Equally successful was the public subscription of the certificates of closed-end Arka BZ WBK Fundusz Rynku Nieruchomości 2 FIZ (Property Fund 2) held from 5 to 29 May 2008 in co-operation with the BZWBK Brokerage House. Buyers of the retail, institutional and special tranches jointly took up certificates worth PLN 209.8 m. Arka BZ WBK Fundusz Rynku Nieruchomości 2 FIZ derives from the experience of another Arka fund investing in the property market.

**Biggest Arka Funds as at 30-06-2008 (PLN m)**




As planned, Arka GLOBAL Indeks 2007 FIZ fund was liquidated through BZ WBK Inwestycje Sp. z o.o. and the fund's assets were paid to investors on 5 March 2008.

The funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. have for years been in the lead in terms of their investment performance. This is confirmed by numerous awards and high positions in prestigious rankings (for details, see chapter IX "Awards and Recognitions").

## BZ WBK AIB Asset Management S.A.

The depressed stock market also affected the sale of private asset portfolios by BZ WBK AIB Asset Management S.A., which fell by 32% y-o-y to PLN 2,459.3 m. Despite the customer's lower propensity to engage in risky investment strategies, the asset structure was still dominated by equity-linked and balanced portfolios (44% and 29%, respectively). In the first half of 2008, specialist funds enjoyed the greatest interest, growing by 51% y-o-y.

At the end of June 2008, the value of assets managed by BZ WBK AIB Asset Management S.A., including investment funds of BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., amounted to PLN 17,440.8 m.

## Dom Maklerski BZ WBK S.A. (BZWBK Brokerage House)

The first half of 2008 saw continuation of the downward trend in share prices commenced in the second half of the previous year.

Due to the unfavourable stock exchange climate, the BZWBK Brokerage House noted a 30% year-on-year decrease in equity trading. This is in line with a total market and calculated with the base representing the highest half-yearly trading volumes in the company's history. With the trading volume of PLN 19,172.3 m, the company retained its market share of 11.3% recorded in the first half of 2007, taking the third position in Poland.

In the futures market, which is the second most important stock exchange market in Poland, the BZWBK Brokerage House acted as an agent for concluding 1,313 k transactions, which is 57% higher y-o-y, still yielding a market share decline from 11.1% to 10.8% (third position).

In the first half of 2008, the BZWBK Brokerage House organised further share sale transactions in the primary market. Shares of the following companies were issued: Hydrobudowa Polska, Azoty Tarnów, R&C Union. The value of all offers totalled PLN 0.6 bn.

The BZWBK Brokerage House also participated in the sale of the certificates of Arka BZ WBK Akcji Środkowej i Wschodniej Europy FIZ (CEE Equity Fund) and Arka BZ WBK Fundusz Rynku Nieruchomości FIZ 2 (Property Fund 2). In addition, along with Bank Zachodni WBK, it conducted sales of a new structured product, i.e. BZ WBK Nowa Era certificates.

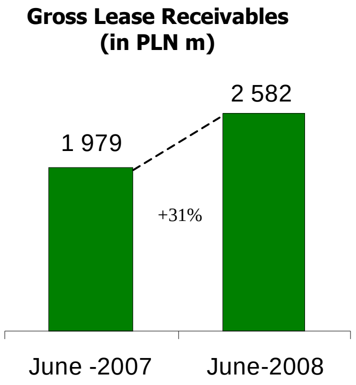
The company is among the leaders in the stockbroking market in terms of the number of its Internet system (Inwestor on-line) users. Their number increased by 25% y-o-y to 54 k at the end of June 2008.

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

The leasing companies of Bank Zachodni WBK, namely BZ WBK Finanse & Leasing S.A. and BZ WBK Leasing S.A., offer products which finance a wide range of fixed assets. Due to the capital support from the bank, the companies can also successfully provide project finance.

The two leasing companies specialise in financing different asset categories. BZ WBK Finanse & Leasing S.A. focuses on the lease of machinery & equipment, properties, computers and office equipment for businesses. It also has a customised offer for selected customer groups. BZ WBK Leasing S.A. specialises in financing vehicles for business and personal customers.

To improve their customer proposition, in the first half of 2008, the companies simplified their lending procedures: short and simple rules were implemented for car finance (up to PLN 1 m of the total exposure) and machinery & equipment (up to PLN 800 k of the total exposure). The companies started to offer finance in CHF and expanded the scope of machinery & equipment leased under simplified procedures. To complement the bank's proposition for start-up businesses, a car finance offer was implemented covering vehicles up to PLN 80 k (exposure to the customer) in a simplified lease procedure. The companies also modified their offer in the context of the requirements of the EU aid programmes for 2007-2013. Consequently, the customers can seek EU funding while financing their investments with leasing or a loan.




The leasing companies continued development of their sales network, placing particular emphasis on external sales, i.e. the network of leasing advisors responsible for co-operation with fixed asset suppliers.

In the first half of 2008, the two companies leased net assets totalling PLN 931.2 m, i.e. 15% more than last year. Sales were mainly driven by the lease of machinery & equipment (+26%), and were strongly correlated with the economic growth in Poland and the quality of service offered by BZ WBK Finanse & Leasing S.A. Car leasing also grew at a satisfactory rate (+7%).

## BZ WBK Faktor sp. z o.o.

BZ WBK Faktor Sp. z o.o. provides recourse and non-recourse factoring, export factoring and reverse factoring in domestic and international trade. In the first half of 2008, the company developed its co-operation with the BZWBK branch network, continued a training programme for the branch advisors and conducted sales campaigns in liaison with the bank.

In this period, the company posted a turnover of PLN 809.3 m, which represents a growth of 70% y-o-y. This achievement was attributable to acquisition of new customers and a stronger activity of the existing ones. Exposure in respect of finance provided was PLN 309 m, an increase of 131% y-o-y.

## BZ WBK Inwestycje Sp. z o.o.

In the first half of the year, BZ WBK Inwestycje Sp. z o.o. continued its business, which is management of the equity investments portfolio. The bank contributed PLN 4.6 m to the company to increase its capital and enable further development of its core operations.

At the end of 2007, BZ WBK Inwestycje bought back 264,013 certificates of Arka Global Index Fund from BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych for PLN 40.8 m. As the fund was liquidated on 5 March 2008, the company received the sum of PLN 41.8 m.

# VI. Further Growth Prospects

## 1. Strategy for 2008-2010

### Key Strategic Assumptions

The 2008–2010 BZWBK strategy is the continuation of the "Po Pierwsze Klient" ("Customer First") Strategy developed by the bank in 2001 and modified over the subsequent years to reflect the changing operating environment. The key message of the updated strategy is expressed by the bank's mission statement:

**"To be regarded by our customers, wherever we operate, as outstanding for our customer proposition, and to turn this into superior profit growth."**

The main strategic assumptions remain unchanged, including the premise that in order to achieve superior profit growth the bank needs to have a distinctive proposition in the following areas:

- customer relationship;
- product offering;
- service quality;
- process enablement.

Development of these areas should give the bank a solid position in the Polish banking market with an aspiration to achieve 10% share. With the bank's constant focus on ever more efficient risk management, the distinctive customer proposition should also bring added shareholder value.

Continued enhancement of the offering will be paralleled by the efforts to foster high management quality and corporate culture in keeping with the highest ethical standards and the expectations of the customers, shareholders and regulators.

### Customer Relationship

Bank Zachodni WBK intends to reinforce its image of a universal bank which offers a full array of financial services for personal and business customers. The rich product offering will provide foundation for building lasting relationships with customers with a strong support from the solutions consistently applied under Segmentation and CRM Programme.

Plans for the future envisage expanded functionality of the IT tools used by the bank in the relationship management process. The knowledge gathered in the systems will facilitate customer advisors in anticipating customer needs, establishing and maintaining relations and simplifying service processes. In order to improve relationship management and internal decision-making processes, special tools will be implemented for profitability measurement, statistical analysis and forecasting. The efforts taken will increase the bank's capability of offering customers the right products at the right time through the most appropriate distribution channel. Such efficiency will enable delivery of the bank's key strategic objective, which is to attract specific customer groups, retain the existing customers and continue profitability growth.

### Offering of Products & Services and their Distribution

**Developments for Retail Customers**

The bank's strategy indicates two key sources of acquiring retail business, i.e. the "start-up" and the "mass affluent" customer segment. The strategy also encompasses initiatives which seek to increase the attractiveness of retail products and services that are characterised by strong growth potential, high profitability or positive effect on the customer's relationship with the bank.

- **Savings and Investment Products**

The bank will be focused on ensuring a balanced growth of the savings and investment products portfolio across the Bank Zachodni WBK Group. To this end, the bank will keep on following the same development directions as before. It will provide its customers with a full range of services (including those offered by the subsidiaries) for portfolio diversification, improve effectiveness and quality of sales and promotional activities and ensure the required training for employees. Also, in co-operation with BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., a new investment offer based on closed-end funds will be developed for high net worth individuals. Personal customers will have easy access to attractive markets and industries through a rich choice of open-ended ARKA mutual funds. The array of savings and investment products will be complemented with the structured products, including the investment-linked policies.

- **Retail Loans**

With regard to mortgages, the bank intends to reduce the cost and time of decision-making, increase the quality of advice, expand the specialised distribution network and broaden co-operation with the key housing market players (developers, agents, brokers). To improve its position in the domestic credit cards market, the bank will increase availability of cards for non-customers, improve effectiveness of sales through internal and external delivery channels and intensify its promotional activity. Through various incentives for customers, the bank will strive to encourage more frequent use of cards for daily transactions. In the cash loans area, emphasis will be placed on increasing sales through individual distribution channels and delivery of targeted sales campaigns.

- **Bancassurance**

As part of the bancassurance line, the bank's ambition is to set out new standards in the loan insurance market by structuring the best-in-class offering and maximisation of income. The huge potential of the bank's own customer base and implementation of appropriate CRM solutions will also enable the development of insurance offered via phone and the Internet.

**Developments for Business Customers**

The bank plans to continue robust lending to business customers while maintaining a high quality of the portfolio. The years 2008-2010 expect to see an increase in exposure to business customers to the level observed in the most developed EU countries. The credit activity will be supported by numerous initiatives, such as development of the property funding offer, investment finance with EU support, development of lending to the agricultural sector and consistent skill advancing of the SME advisors. Moreover, business customers will have an easy access to a broad range of leasing and factoring products.

The agents' network and the Internet will be added to the channels used for distribution of current accounts.

**Developments for Distribution Channels**

The strategy envisages an organic growth of the bank based on integrated development of all distribution channels, with the focus on the branch network, specialised business centres and agency outlets. In the next years the bank's branch network will be intensively developed, mainly in the locations with significant business potential, where so far the bank has not established its presence. In parallel to the geographical expansion, the bank will be improving its new service model implemented in the branch network. Retail customers with the most sophisticated needs will be offered service from new specialised units providing appropriate products and services (Private Banking), including a wide range of investment and funding solutions. To meet the requirements of customers who mostly use traditional products and services, the bank will extend the network of Minibank outlets offering simple financial operations such as bill payments, personal account transactions or cash loans. The bank will also increase the number of Corporate Business Centres and Business Banking Centres to give its customers a more convenient access to the advisors with appropriate decision-making powers.

The functionality of the Direct Banking will be expanded, with particular focus on the solutions facilitating product acquisition. The phone and Internet banking will be more closely integrated with the branch network on the CRM platform to deliver a harmonised relationship management system.

### Service Quality

The Bank Zachodni WBK overarching strategic objective is to build strong and profitable relations with the existing and potential customer by offering them high quality products and services along with seamless workflow solutions. To this end, the bank continues to enhance its product range, service model and staff skills, implements new technologies and customer-friendly procedures, and increases its flexibility in responding to customer needs. In all these areas, simplification, enablement and improvement of internal processes are of utmost importance.

Customer service quality will be regularly reviewed and enhanced through service quality metrics, customer satisfaction/expectation surveys, service improvement programmes and the activities of the Customer Care Officer. The bank will continue the programme of certification of its key business processes based on the ISO 9001 standard, which is an essential building block of process management in the organisation. Sharp focus will also be placed on process measurement and streamlining. Selected processes will be upgraded using the Kaizen and Lean Six Sigma approach, which should contribute to the further improvement of the bank's service.

### Process Enablement

The bank plans to continue centralisation of its IT platforms to mitigate the key risks, reduce costs and improve the speed of IT services delivery. To keep operating costs down, competency centres will be established to provide comprehensive service to the bank, its subsidiaries and the AIB Group. The Business Intelligence systems will be expanded to derive greater profitability from the existing and new customer relationships.

The bank plans to centralise its credit delivery and improve its operational processes connected with the central sale of products via external distribution channels (Internet, phone, intermediaries, agents). Further processes will be optimised and centralised to increase their efficiency and to reduce risk.

Consistent cost management efforts will be continued across the Group through the planning and control of the operating cost budget, implementation of cost containment initiatives and improvement of purchasing processes.

## 2. Delivery of the Strategy

In January 2008, the bank introduced a new Strategic Portfolio Management Process. The Strategic Portfolio encompasses all the programmes which directly contribute to the execution of the bank's strategy. The classification of programmes into the Strategic Portfolio is made through a detailed analysis of each programme (in terms of strategic objectives, key products, etc.) and based on clear criteria. Strategic Programmes are delivered using a new approach involving staff assignment, creation of extra, dedicated test environments and regular progress monitoring. By virtue of the decision of the bank's Management Board, the Strategic Portfolio includes 14 programmes which directly or indirectly support the branch network, enrich the bank's product offering or streamline and reshape processes.

## 3. Key Objectives for H2 2008

The projects to be delivered in 2008 aim to increase the bank's geographical presence, foster sales, improve service procedures for selected market segments and consolidate the bank's position as a reputable player in the banking sector. The bank will focus its efforts on the following initiatives:

- Further improvement of the bank's distribution power:
  - development of the branch, agents' and ATM network;
  - opening of subsequent specialist units as part of the existing business models: mortgage houses (selling mortgage loans), Business Banking Centres (services provided to the biggest firms from the SME sector), Private Banking Offices (service provided to the individuals with a high and stable financial potential);
  - starting co-operation with new partners to issue co-branded cards, sell cash loans, debit cards and provide electronic banking services.
- Introduction of independent sales processes in the Direct Banking channels (independent from the branch network), distribution of products to SMEs via the phone and the Internet and launch of a new website for the corporate customers.
- Entering the bancassurance market through the two newly established joint-ventures of Bank Zachodni WBK and Aviva International Ltd. (BZWBK-CU Towarzystwo Ubezpieczeń Ogólnych S.A., BZWBK-CU Towarzystwo Ubezpieczeń na Życie S.A.).
- Implementation of new insurance products with some available on-line.
- Further improvement of procedures and service quality, including:
  - implementation of service standards in the Minibank outlets and the BZWBK Brokerage House;
  - optimisation of customer service processes in BZ WBK AIB Asset Management S.A. and BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.;
  - implementation of a system for data gathering and workflow management in the branch-based SME lending process.
- Harmonisation of the CRM model across the distribution channels, including selected subsidiaries.
- Reinforcement of the bank's positive image and reputation through an optimised alignment of processes and procedures to the customer, regulatory and shareholder requirements.

## 4. Macroeconomic Outlook for 2008-2009

### Global Economic Scenario for Poland

Developments in the world economy show increasing risk of stagflation scenario in the US and euro zone, i.e. significant economic slowdown coupled with persistently high inflation. The continued downturn abroad will have negative impact on the Polish economy, although the scale of the slowdown should be much less severe in Poland than in many well-developed economies.

### Economic Scenario for Poland

**Economic Growth**

GDP growth in Poland will most likely decelerate below 5% in the second half of 2008 and will probably remain at this level for several quarters. Factors limiting economic activity will include, apart from the slowdown abroad, a very rapid zloty appreciation, and monetary policy tightening resulting from the growing inflation. Nevertheless, economic growth in Poland is not likely to slump but will remain at a moderate level (ca. 4.5% y-o-y). Its main driving force will be still strong domestic demand, including private consumption and a fast rise in wages paralleled with tax reduction in 2009, boosting households' disposable income. Gross fixed investments will grow due to large EU co-financed infrastructure projects and still significant inflow of foreign direct investments (although the latter may be limited to some extent by the worldwide downturn).

**Export**

Export growth will most likely slow down in the second half of 2008 and in 2009 in reaction to weakening external demand and zloty appreciation. Nevertheless, in the subsequent years it should resume expansion as a result of large inflow of foreign direct investments received in the recent years (new plants of multinational companies). Amid strong import growth driven by strong domestic demand, this could imply an increase in current account deficit to over 5% of GDP in 2008 and above 6% in the next year.

**Inflation**

Inflation rate, after peaking at above 5% in August 2008, will start decreasing slightly in the following months, however it is likely to remain high in the next couple of quarters, clearly above the inflation target. It will be caused by a mixture of external factors, including slower yet still high growth in prices of food, crude oil and energy on world markets, and also by continued tensions on local labour market.

**Interest Rates**

In order to limit the risk of second round effects and curb inflationary expectations, MPC will probably decide to increase interest rates once or twice during the second half of 2008 (in September and/or October) so that the main reference rate will reach 6.25%-6.50%. The reaction will depend largely on the economic situation in Poland and abroad and on the inflation outlook. After monetary tightening comes to an end, main interest rates may remain high for some time due to inflation returning slowly to the target.

**FX Market**

The zloty will probably continue to appreciate versus the euro in the medium and long term due to real economic convergence, inflow of direct investments, proceeds from privatisation and in expectation of Poland's joining ERM II (which is more likely to happen in 2010 than in 2009).

# VII. Risk Management

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

The bank's Management Board, which is responsible for risk management, delegated its powers in this regard to the following Committees: Asset and Liabilities Management Committee (ALCO/ICAAP Forum), Credit Committee, Credit Policy Forum, Provisions Committee and Operational Risk Management Committee (ORMCo). These Committees are responsible for managing individual risk areas, ongoing monitoring of the bank's general risk and for shaping the current policy within the framework set by the Management Board.

The risk management framework rests on the risk profile accepted by the bank's Management Board, reflecting the overall risk appetite of the bank.

## 1. Financial Risk Management

### Lending Policy

The bank's lending policy consists of a number of rules and guidelines in the form of lending procedures and policies introduced by resolutions and ordinances issued by the Management Board, Management Board Members and Chairman of the Credit Policy Forum.

Credit manuals of Bank Zachodni WBK govern processes related to personal, commercial and corporate lending as well as securities. The individual credit policies provide a direction for lending activity and conditions on which the bank is willing to lend to specific client categories. These include FX Lending and Guarantees Policy, sector policies, policies addressing lending to individual client segments (corporate, SMEs, local authorities) and Credit Scoring Policy. Individual credit products are regulated in detail in their respective procedures.

The credit discretions system is governed by "BZWBK Discretionary Limits Guidelines". It defines credit discretions for particular organisational units engaged in the credit delivery process. Discretions of individual employees vary depending on lending skills, experience and position in the organisational structure of the bank.

The bank's lending procedures and policies are subject to approval by the Credit Policy Forum which is chaired by the Chief Credit Officer (or a person designated by them) and consists of representatives of the Credit Division, Risk Management Division, Customer Relationship & Sales Division, Finance Division, Legal and Compliance Division, and Corporate Banking Area.

The bank's subsidiaries which specialise in leasing and factoring are governed by their internal credit risk regulations. These are compliant with the standards and policies of Bank Zachodni WBK.

### Credit Risk Management

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

Credit risk arises mainly from lending activities on the retail, corporate and inter-bank markets. This risk is managed as part of the policy approved by the Management Board on the basis of the adopted credit delivery procedures as well as on the basis of discretionary limits 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.

**Credit Policy Forum**

To manage the credit risk effectively, Bank Zachodni WBK established the Credit Policy Forum whose key role is to ensure sustainable growth of the credit portfolio by developing and approving best industry practices, industrial analyses, credit policies and risk grading systems for the branch network and the Business Support Centre units that are 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). Credit policies comply with the AIB Group standards and are adapted to the local credit market conditions where Bank Zachodni WBK operates.

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 recommendations and International Accounting Standards/International Financial Reporting Standards.

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, property loans, cash loans, credit cards and personal overdrafts.

The bank regularly monitors its credit grading using the rules specified in the BZWBK Lending Manuals. Additionally, selected models are subject to an automatic risk verification process based on the days in arrears or analysis of the customer's behavioural data. Credit grade may also be changed when new credit decisions are taken or in response to any developments identified through the current monitoring.

**Provisioning**

In Bank Zachodni WBK and its subsidiaries provisions are raised in accordance with the International Accounting Standards/International Financial Reporting Standards. The provisions reflect credit impairment which is recognised if the Group has objective evidence that such amounts cannot be recovered in line with the signed loan agreement. Objective indications of impairment were defined in accordance with the Basel Committee recommendations and the International Accounting Standards (IAS 39).

The impairment is measured based on the estimated recoverable amount and analysed using both the individual and collective approach.

Ensuring adequate level of provisions is the responsibility of the Provisions Committee.

**Stress Testing for Credit Risk**

Stress testing is one of the components of the credit risk management process aimed at assessing how the bank might be affected by specific changes in its environment, changes in financial and macroeconomic indicators or in the risk profile. The analysis also looks at the potential credit quality changes in the wake of adverse developments. The process also provides management information on the adequacy of the existing limits and internal capital allocations.

**Return on Risk**

Bank Zachodni WBK 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 Lending 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 of Bank Zachodni WBK.

Bank Zachodni WBK 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 basically 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 his 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 upgraded which has improved the quality of risk management and accelerated the decision-making process.

**Credit Reviews**

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

## Market Risk and Liquidity Risk Management

The Bank Zachodni WBK ALCO/ICAAP Forum is responsible for strategic balance sheet management in keeping with the individual risk management policies approved by the Management Board. The focus of ALCO's attention is the management of capital, sources of funding and liquidity as well as identification and management of market risk. ALCO consists of representatives of the bank's senior management. Market risk and liquidity are managed within the framework developed by the AIB Group and approved by the Bank Zachodni WBK Management Board. The ALCO's policy defines the underlying principles of management of liquidity, interest rate and FX risks arising from the bank's and the Group's balance sheet structure.

**Market Risk Management**

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

The bank's practice in market risk management complies with the following rules:

- Upon the recommendation from ALCO, the Management Board approves the Strategies and Policies for market risk management along with the limits that define the maximum acceptable exposure to individual risk types.

- Market risk is managed by qualified personnel using the appropriate systems and controls. Management of interest rate, FX and liquidity risks is centralised in the Bank Zachodni WBK Treasury Division.

- Market risk is measured and its compliance with the stated risk limits is monitored by qualified personnel independent of the unit which manages and generates the risk. Exposure to market risk is regularly reviewed by ALCO.

- Risk limits are periodically reviewed to align them with the bank's strategy and the current objectives of the bank.

- A special portfolio of highly rated debt securities generates a stable income flow, mitigating the structural balance-sheet risk connected with liabilities that are not sensitive to interest rate changes. According to the Policy approved by the Management Board, any decisions relating to the value or structure of this portfolio are taken by ALCO.

Assets & Liabilities Management Department identifies, on an on-going basis, the market risk connected with retail and commercial activities and transfers it to the Treasury Division. Treasury Division then executes relevant transactions (e.g. in the inter-bank market, in securities, derivatives, etc.) in order to maintain the risk at an acceptable level.

Interest rate and FX risks are monitored using the Value at Risk (VaR) methodology which is a standard industry tool for the measurement of interest rate and FX risk. VaR methodology uses a statistical process to determine the Probable Maximum Loss (PML) in economic value of a transaction or a portfolio of transactions as a result of an adverse change in market parameters. The bank applies the VaR methodology both to the trading and banking portfolio. According to the bank's policy, the interest rate risk measured as PML may not exceed 8.25% of the bank's own funds, while PML connected with FX risk may not exceed 0.5% of own funds.

**Liquidity Risk Management**

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

The liquidity policy pursued by Bank Zachodni WBK is to counter-balance the expected outflows with expected inflows and/or realisation of liquid assets (mainly debt securities) to resist any extraordinary or crisis situations triggered both by internal factors (e.g. sudden increase in the value of facilities drawn under the sanctioned credit lines) or external ones (e.g. material drop in liquidity on the interbank market). The policy covers all assets and liabilities as well as off-balance sheet items impacting the liquidity level and uses statistical data relating to the deposit base and the credit portfolio. Liquidity risk is measured daily using a modified liquidity gap report.

The bank is obliged to maintain necessary funds to allow for all withdrawals of term deposits, demand deposits, loan drawdowns, guarantee payments and settlements. The bank does not maintain those funds in full amount because as experience and analyses show, a certain percentage of funds with short-term maturity will be reinvested. The bank's policy states that the bank should maintain funds to cover 100% of the payments expected to be made within 1 month horizon. Long-term liquidity position is also monitored.

At the same time, the bank implemented the requirements stemming from Resolution no. 9/2007 of the Banking Supervisory Commission, which also involved re-working of the liquidity monitoring, measurement and reporting process. Since the effective date of the Resolution (1 January 2008), the bank has complied with the quantitative regulatory requirements in this regard.

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

## 2. Operational Risk Management

The Bank Zachodni WBK Group adopted the operational risk management definition as agreed by the Basel Committee whereby operational risk management is understood as exposure to losses arising from inadequacy or failure of internal processes, human resources, systems or external factors.

Operational risk is inherent in all the Group's 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 and / or reduce the impact of unexpected adverse events.

Bank Zachodni WBK 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 sets the strategic direction for operational risk activities, among others 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 impact, 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 with progress against them reviewed quarterly by ORMCo.

- Reporting on operational incidents and lessons-learned

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

- Analysis of risk indicators

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

- Business continuity management (BCM)

Each organizational unit is required to develop and update their business continuity management plans to ensure that critical business processes remain uninterrupted following an unplanned disruption. The plans provide also for absence of the 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 Management Board and Supervisory Board

  Operational risk issues are reported to the Management 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 Professional Indemnity.

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

## 3. Capital Management

The New Capital Accord of the Basel Committee (Basel II), which became effective in Poland on 1 April 2007 by virtue of the Resolution of the Banking Supervisory Commission, was implemented by Bank Zachodni WBK at the beginning of January 2008. Until the end of 2007, the bank was temporarily permitted to use Basel I rules with regard to calculation of the risk-weighted assets and the solvency ratio. The current measurement of capital adequacy, which is the basis for capital management in the bank, is based on the Basel II rules.

The New Capital Accord introduced new or modified methods of measurement and estimation of the minimum requirements. For example, it added operational risk to calculation of the minimum regulatory capital requirements and changed the parameters used in the standard approach to capital requirements estimation. The bank uses standard approaches to the measurement of credit, operational and market risk. However, work is under way to implement the Foundation Internal Rating Based Approach, in the scope covered by the regulatory permissions, for measurement of credit risk.

The capital requirement for individual risks is aggregated directly to determine the overall regulatory capital requirement (Pillar 1) and calculate the solvency ratio. In accordance with the Banking Law, both Bank Zachodni WBK and the Bank Zachodni WBK Group are required to maintain solvency ratio at minimum 8%.

The table below show historical values of the Bank Zachodni WBK Group's solvency ratio:

PLN m

| | 30-06-2008 | 30-06-2007 |
|---|---|---|
| Total capital requirement | 3,022.1 | 2,027.0 |
| Own funds | 4,152.6 | 3,379.8 |
| Solvency ratio | 10.99% | 13.34% |

The total regulatory capital requirement (Pillar 1) is the basis for estimation of internal capital. Also – as part of Pillar 2 – an internal assessment and quantification is performed to estimate capital requirement for the other risks associated with the bank's business. The bank adopted the rule that in the aggregation process the internal capital is quantified, which in the bank's assessment sets the minimum level of own funds to be maintained.

The policy of Bank Zachodni WBK is to maintain a capital base above the minimum level required for the different types of risk related to the activities conducted and to use the capital base effectively in order to add value for shareholders. For this reason, the bank's capital management policy envisages the threshold solvency ratio at 10% both for the bank and the Group and maintenance of the Fitch rating at above "A-".

The bank's Management Board delegated the day-to-day capital management to the Assets & Liabilities Management Committee (ALCO/ICAAP Forum). The Committee monitors the capital level on an on-going basis and recommends to the Management Board and the Supervisory Board any transactions which affect the capital level. The ALCO/ICAAP Forum also co-ordinates the decisions on the value of equity of subsidiaries.

# VIII. Human Resources and Corporate Values

## 1. Human Resources Management

### Human Resources

As at 30 June 2008, the number of FTEs in the Bank Zachodni WBK Group was 9,717 and was higher by 1,457 y-o-y. The increase in the Group's employment was due to the expanding range of the bank's operations (branch network development) and implementation of new service models for particular market segments (launch of the Business Banking Centres and Private Banking Offices). To cater for the rapid growth of the manpower numbers, which is expected to continue over the next years, Bank Zachodni WBK has a comprehensive induction programme in place, which facilitates smooth transition of new employees into the organisation and makes them fully productive in their roles in a shorter time. In addition to external recruitment, filling vacancies in the new units of the bank entails assigning experienced staff members with new roles or moving them to other locations, which often involves promotion. The promotion opportunities and a clear development path are also offered under the new branch model with its precisely defined skill requirements for individual job positions.

### HR Initiatives

The bank continues the Performance Management Process, which involves individual objectives planning, monitoring and assessment of progress. Based on the applicable procedures, employees are aware of their role in delivery of the bank's strategy and obtain the necessary feedback about their performance. As the Performance Management Process is key to the bank's strategy and professional development of the bank's employees, the bank is working on improvement of this process through consultations with staff.

At the beginning of 2008, the Sales Activation Programme was implemented in the BZWBK Branch Network. The Programme introduces a uniform methodology for sales targets planning, more effective control of performance of individual staff members and a new incentive system. The new bonus system rewards individual branch staff for their monthly achievement of sales targets, thus improving the bank's overall efficiency. Team bonuses are an additional incentive as they motivate people to perform better through a joint effort.

In February 2008, Bank Zachodni WBK implemented the policy called "BZWBK Policy for Expectant and New Mothers", which envisages a number of solutions supporting expectant and nursing mothers. The scope of the support exceeds the existing legal requirements and includes such benefits as extension of the maternity leave and flexible worktime management.

The first half of 2008 saw implementation of the new IT platform (SAP) facilitating HR management. The e-HR portal is currently available to all bank employees providing them with interactive on-line access to their personal, payroll and training details.

### Training

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

In the first half of 2008, most of the training projects were addressed to the branch banking staff with frequent use of e-learning. Training for branches covered the following areas (among others): strategic products, sales techniques supporting the Sales Activation Programme, SME lending, operational security. Under the leadership development strategy, programmes addressed to individual management levels were continued, including: BZWBK Leader Programme (individual development plans for members of senior management), Directors' Development Programme; Managers' Development Programme; Programme for Newly Appointed Managers; ABC of Management, Leaders of the Future (5th edition).

In the first half of 2008, the total number of trainees and participants of the development programmes in Bank Zachodni WBK reached 48.2k.

### Performance Share Programme

Each year since 2006, Bank Zachodni WBK has been launching 3-year incentive schemes for the key employees of the Bank Zachodni WBK Group, allowing them to purchase the bank's shares on preferential terms, subject to achievement of certain performance targets in the years covered by the scheme.

The first two editions of the Performance Share Programme entitled its participants to buy bonds with pre-emptive rights and in the next stage to take up – at nominal prices – the bank's shares issued as part of the conditional increase of the share capital. At the end of June 2008, the number of pre-emptive bonds issued was 191 980.

In 2008, pursuant to the resolution of the Annual General Meeting of Shareholders of 18 April, Incentive Scheme III was launched. It is addressed to the management of Bank Zachodni WBK S.A and its subsidiaries (not more than 600 persons). The rights will be allocated upon the Management Board recommendation. The candidate must also be accepted by the Supervisory Board and must sign the "Participation Agreement" defining the number of shares and the conditions for their acquisition at the nominal price (PLN 10). The shares will vest subject to achievement of a minimum accumulated consolidated earnings per share (EPS) over the 3 years of the scheme's duration (2008-2010).

The list of participants proposed by the Management Board has been approved by the Supervisory Board on 22 July 2008.

The incentive schemes are aimed to motivate the key employees of the bank and its subsidiaries to continue their efforts, create strong dedication to attainment of the organisation's strategic objectives and, in effect, to ensure high competitiveness and financial effectiveness of the BZWBK Group in the long-term perspective, thus contributing to the growth in the bank's value and bringing rewards to the shareholders.

## 2. Corporate Values

### Code of Business Ethics

In 2004, Bank Zachodni WBK adopted the Code of Business Ethics in the version that applies across the AIB Group. The Code sets out the general standards of behaviour which underpin the Group's corporate culture.

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

The Code of Business Ethics is supported by detailed policies and procedures which are regularly reviewed and updated.

The bank has provided its staff with dedicated communication channels to consult on ethical matters and report any issues.

## Compliance Culture

The bank attaches a great importance to compliance with law, internal regulations and best practice in all aspects of its activities. The bank's Compliance Area is responsible for implementation and monitoring of controls against the risk of non-compliance of the bank's internal regulations with the applicable laws and the standards imposed by the Financial Regulator. The Compliance Area develops and promotes the culture of strict adherence to law, best practice and ethical standards. However, its key focus is on promoting the awareness among employees that their individual actions can have a bearing on the bank's reputation.

A well-developed compliance culture improves the bank's image among regulators, shareholders, investors and customers.

## Corporate Culture

The bank has undertaken a number of actions to enhance professional, legal and ethical employee behaviour. A training in business ethics is an integral element of the induction programme for newly recruited staff. Moreover, all employees of the Bank Zachodni WBK Group must complete a series of e-learning training on compliance and business ethics as part of the COMeT programme launched in 2007. Under the programme all staff participated in the mandatory e-learning training consisting of six courses designed to increase people's awareness and shape appropriate behaviours when faced with a conflict of interest or other ethically dubious situations or potentially unlawful activities.

## 3. Social Responsibility

According to the declaration in the Code of Business Ethics, the bank is actively involved in local community matters, supporting different charities and sponsoring initiatives.

The bank's corporate giving is carried out under the BZWBK Programme "The Bank of Children Smiles" and focuses on children from unemployment and poverty stricken families. The programme is delivered both through the bank's own initiatives, financial support and partnership programmes.

Among the bank's own initiatives, noteworthy are "Academy of the Bank of Children Smiles", a programme of funding English lessons for children from poor families or creative workshops "My World on Both Sides of the Camera from BZWBK" for children of the disadvantaged communities. Also, through the Foundation of Bank Zachodni WBK S.A. a wide-ranging financial support is provided to local communities, with a clear focus on aiding poor families. Financial and non-financial assistance is extended to daycare and sociotherapy centres, childcare facilities, Society of the Friends of Children, schools, associations and other organisations whose role is to support children from poor communities. Some corporate community investments are embarked on by the bank's employees as their own voluntary projects which last year included renovation of daycare centres or organisation of an internet auction of artistic works for the benefit of selected child support institutions.

Bank Zachodni WBK is a partner of the Responsible Business Forum and co-operates with other companies to promote corporate social responsibility, which increases competitiveness among enterprises, develops social satisfaction and encourages environmentally friendly behaviours.

# IX. Corporate Governance

## 1. Compliance with Best Practice

In the first half of 2008, Bank Zachodni WBK complied with all the corporate governance rules contained in the document "Best Practice in Public Companies in 2008", which was implemented by the Warsaw Stock Exchange Board on 4 July 2007 (Resolution no. 12/1170/2007) and became effective from 1 January 2008.

The new corporate governance rules extend the frequency of auditor change to the minimum of 7 years (section IV point 8), which is two years longer than permitted by the previous rules. This modification aligns the existing best practice with the EU regulations. Bank Zachodni WBK remains compliant with the modified rules. The previous requirement (auditor change every 5 years) could not be followed due to the AIB policy which envisages one auditing firm for the whole group. The breach of the rule and the reasons for it were communicated to the shareholders in the current report no. 34/2007. and a separate report for 2007 in accordance with the recommendations of the Stock Exchange Board of 23 October 2007.

The bank reflected the "Best Practice in Public Companies in 2008" in its corporate documents, including the Statutes, General Meeting Regulations and the terms of reference of the Management Board and the Supervisory Board. The changes were also approved by the General Meeting of Shareholders on 18 April 2008. Compliance with best practice is supported by the bank's internal procedures which specify the roles of individual units in this regard. All interested readers may easily access information on Bank Zachodni WBK via the bank's website in the Investor Relations section, where all current and periodic reports, corporate documents and other material details (in Polish and English) are published.

## 2. Governing Bodies

### Annual General Meeting of Shareholders

The Annual General Meeting of BZWBK Shareholders (AGM), which was convened on 18 April 2008, approved the 2007 financial statements submitted by the Management Board and the Supervisory Board, resolved on distribution of the net profit and dividend payment and granted discharge to the Management and Supervisory Board members for performance of their duties in the previous year. The AGM elected BZWBK Supervisory Board Members and the Chairman for a new term of office and set their remuneration. The bank's Management Board was authorised to enter into agreement(s) with the National Depositary of Securities in Warsaw relating to registration of ordinary bonds with a nominal value of maximum PLN 1.5 billion to be issued in 2008 in one or several series as a public offer. The AGM also implemented the third edition of the three-year Incentive Scheme for key employees of the bank and its subsidiaries who significantly contribute to the growing value of Bank Zachodni WBK (for details, see Chapter VIII Section 1 "Performance Share Scheme"). At the meeting, changes to the bank's Statutes and the consolidated version of the Statutes were approved. The changes stemmed from the need to reflect in the document the updated Banking Law, business requirements and the "Best Practice in Public Companies" (Appendix to the Stock Exchange Board Resolution no. 12/1170/2007 of 4 July 2007). Also, the General Meeting Regulations were amended to reflect the recommendations contained in the "Best Practice in Public Companies".

## Supervisory Board

As at 30 June 2008, the composition of the Bank Zachodni WBK Supervisory Board was as follows:

| Role | | Composition as at 30-06-2008 |
|---|---|---|
| Chairman of the Supervisory Board: | 1. | Aleksander Szwarc |
| Members of the Supervisory Board: | 2. | Gerry Byrne |
| | 3. | Waldemar Frąckowiak |
| | 4. | Aleksander Galos |
| | 5. | Maeliosa OhOgartaigh |
| | 6. | James O'Leary |
| | 7. | John Power |
| | 8. | Jacek Ślotała |

The persons listed above were appointed by the AGM of 18 April 2008 for a new 3-year term of office. Compared with the end of June 2007, the composition of the Board did not change.

As at 30 June 2008, the following members of the Supervisory Board held an independent status: Mr Waldemar Frąckowiak, Mr Aleksander Galos, Mr John Power, Mr Aleksander Szwarc and Mr Jacek Ślotała. In addition to the Supervisory Board meetings, the Board members worked in internal committees, i.e. Nominations and Remuneration Committee, Audit Committee and Social Responsibility Committee. The Audit Committee was composed mostly of independent Supervisory Board members. The Report on Activities of the Supervisory Board and its Committees in 2007 as well as the Supervisory Board's report on Examination of the Bank's and the Group's Annual Report along with the assessment of their operations in 2007 were published in the current report no. 22/2008 which conveyed the resolutions passed by the AGM on 18 April 2008.

## Management Board

As at 30 June 2008, the composition of the Bank Zachodni WBK Management Board was as follows:

| Role | | Composition as at 30-06-2008 |
|---|---|---|
| President of the Board: | 1. | Mateusz Morawiecki |
| Members of the Board: | 2. | Andrzej Burliga |
| | 3. | Declan Flynn |
| | 4. | Justyn Konieczny |
| | 5. | Janusz Krawczyk |
| | 6. | Jacek Marcinowski |
| | 7. | James Murphy |
| | 8. | Marcin Prell |
| | 9. | Feliks Szyszkowiak |

Changes to the composition of the bank's Management Board over the past 12 months:

- On 24 July 2007, by virtue of the Bank Zachodni WBK Supervisory Board's decision – Mr. Andrzej Burliga was nominated to the Management Board.
- On 30 April 2008, Mr. Michał Gajewski resigned from the function of Bank Zachodni WBK Management Board Member with immediate effect. Mr. Mirosław Skiba, Warsaw Macroregion Director, replaced him as the temporary head of the Customer and Relationship Sales Division.

On 12 June 2008, Mr. James Murphy, Management Board member in charge of the Finance Division advised the Supervisory Board of his intention to step down from his office effective from the end of September 2008. On the same day, the Supervisory Board passed a resolution appointing Mr. Paul Barry as Management Board member in charge of the Finance Division effective from 1 October 2008.

On 22 July 2008 the Bank Zachodni WBK Supervisory Board appointed Mr. Mirosław Skiba Board Member in charge of the Customer and Relationship Sales Division.

## Appointment and Removal of Executives

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

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

## Powers of Executives

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

The Management Board takes decisions to raise obligations or transfer assets whose total value for one entity exceeds 5% of the bank's own funds. The Management Board can also, by way of resolution, delegate its powers to take such decisions to other committees or persons in the bank. The Management Board members run the bank's affairs jointly, and in particular: define the bank's mission, set long-term action plans and strategic objectives, prepare assumptions for the bank's business and financial plans, approve the plans and monitor their performance, regularly report to the Supervisory Board on the bank's position in the scope and at the dates agreed with the Supervisory Board, appoint permanent and ad hoc committees and designate individuals responsible for managing the work of such committees. The committees are composed of both Management Board members and persons from outside the Management Board. Permanent committees operative in the bank include: ALCO, Credit Committee, Provisions Committee, Credit Policy Forum, Operational Risk Management Committee, Capital Expenditure Committee, Committee for the Strategy of Savings and Investments Products.

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

## Other Executive Information

**Remuneration of the Supervisory and Management Board Members**

Information on the remuneration of the BZWBK Supervisory and Management Board members for the first half of 2008 and the comparable period are presented in Note 49 to the Interim Consolidated Financial Statements of the Bank Zachodni WBK Group for the 6-Month Period Ended 30 June 2008.

**Agreements between Bank Zachodni WBK and its Executive Directors**

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

**Shares in Possession of the Supervisory and Management Board Members**

As at 24 July 2008, Mr Waldemar Frąckowiak, member of the BZWBK Supervisory Board, held 278 shares of the bank with a nominal value of PLN 2,780. The other members of the Management Board or Supervisory Board did not hold any shares of Bank Zachodni WBK.

## 3. Selection of Auditor

In accordance with §32 point 10 of the Statutes of Bank Zachodni WBK and the industry practice, on 10 June 2008 the bank’s Supervisory Board passed a resolution appointing KPMG Audyt Sp. z o.o. as an auditor of the stand-alone and consolidated financial statements of the bank for the year 2008. KPMG Audyt Sp. z o.o. audited the bank's financial statements for the prior years and through other KPMG companies provided consulting services permitted by law and the bank's internal regulations, whereby adequate impartiality and independence of the auditor was ensured.

# X. Awards and Recognitions

In the first half of 2008, Bank Zachodni WBK and its subsidiaries received a number of awards. The key ones are presented below.

## Awards for Bank Zachodni WBK

**Bank Zachodni WBK** received the following awards:

- Alicja 2007 award from the "Twój Styl" magazine for promotion of the 3D-Secure system which allows customers to make secure card payments on the web with additional authorisation (14 February 2008);

- prestigious CEE Real Estate Quality Award for the best financial institution active in the real estate sector; the bank was awarded for its Corporate Banking offering in the area of property finance (27 February 2008); the competition is held to recognise projects, companies and people involved in the real estate sector in 10 countries of the Central and Eastern Europe;

- European Medal for the "process of direct sale of banking products" in the 16th edition of the competition (8 April 2008); the award recognises the BZWBK electronic banking services by the Office of the Committee for European Integration, Business Centre Club and the European Economic and Social Committee;

- 3rd position in the Newsweek ranking "100 Most Valuable Companies in Poland in 2007" (21 April 2008) organised in co-operation with A.T. Kearney consultants based on company valuations;

- award in the 12th National Advertising Competition for the campaign "Mega-Earning Savings Account" prepared by "Men at work" advertising agency (11 April 2008); the evaluation panel consisted of representatives of the advertising community from professional press, international advertising and media organisations;

- 2nd place (for the second time) in the general classification of the 5th edition of the Ranking of Bank Supporting Residential Developments, organised by the Polish Association of Developers (23 May 2008), assessing the quality of relationship between developers and banks with regard to funding and management of residential projects;

- amber statuette for application of modern HR management tools in the 9th edition of the competition organised by the Labour and Social Affairs Institute entitled "the HR Management Leader" (9 June 2008); Bank Zachodni WBK was awarded in this competition second time in a row;

- new awards from correspondent banks for correct formatting of SWIFT messages: "2007 EUR STP Excellence Award" from Deutsche Bank for the high quality of the messages in 2007 and an award from the Bank of New York (18 June 2008) for the high level of correctly formatted SWIFT MT 103 messages (97%);

- accolade of "Client-Friendly Firm" (29 June 2008) - an award for the highest customer service granted following a three-stage certification procedure, including quality management policy, knowledge of the quality procedures among the front-line staff and customer satisfaction.

## Awards for Subsidiaries

**BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych:**

- achieved top position in international rankings of the funds investing in the Central and Eastern Europe, prepared by Lipper agency from the Reuters Group (21 January 2008): Arka BZ WBK Obligacji FIO (Bonds Fund) ranked first among bond funds and Arka BZ WBK Akcji FIO (Equity Fund) ranked second in its category in terms of the rate of return over a 5-year horizon (from December 2002 to December 2007);

- for the third time in a raw was awarded the "Bull and Bear" statuette by the stock exchange newspaper "Parkiet" (5 February 2008) for the best investment fund association in 2007, based on the analysis of the investment results of the Arka funds;

- received the highest rating (five stars) from the US agency Morningstar (7 March 2008) for 3 and 5-year performance of the Arka BZ WBK Akcji FIO (Equity Fund) and Arka BZ WBK Obligacji FIO (Bonds Fund); Arka BZ WBK Akcji FIO was assessed in the category of equity funds investing in the Central and Eastern Europe except Russia while Arka BZ WBK Obligacji FIO was assessed in the category of bond funds investing in the Central and Eastern Europe; assessment criteria included the rates of return in the analysed period and the risk appetite of the asset manager;

- for the second time was awarded the Eagle statuette by the Rzeczpospolita daily (28 April 2008) for the best and most effective financial institution based on such criteria as ROE, ROA, net profitability and income growth;

- received the accolade of Premium Brand 2008 in the category "Finance" (23 June 2008) after a survey into the reputation of Polish brands conducted by TNS OBOP;

- achieved second position in the ranking of mutual funds organised by the Rzeczpospolita daily (23 June 2008) which looks at the growth rate (BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych topped the ranking for the past 4 years);

- came first in the ranking of domestic mutual funds (Forbes Investor–SEENDICATE rating) organised by the "Forbes Investor" magazine in co-operation with the Syndicate of Economic Experts SEENDICATE; the ranking covered the funds operating in the market for more than 3 years and looked at the two factors of equal weight: profitability and risk level over 3, 5 and 8 calendar years.

**Dom Maklerski BZ WBK:**

- received diplomas from the Warsaw Stock Exchange for its achievements in 2007:
  - for the highest share in derivatives trading, excluding market-making activity;
  - for the highest share in the New Connect market trading, excluding market-making activity;
  - for the aggregate equity trading in all the markets organised by the Warsaw Stock Exchange;

- was recognised as the "Best brokerage house in the opinion of issuers" by Forbes Executive Forum (February 2008);

- was awarded by MTS-CeTO S.A. for:
  - first position in the competition for "The best arranger of the CeTO securities market" in 2007";
  - second position in the category "The highest volume of trading in the CeTO securities market in 2007";
  - third position in the category "The biggest number of market transactions".

# XI. Other Events and Information

## 1. Changes to the Management Organisation

The BZWBK Business Support Centre, the bank's operating units and subsidiaries undergo organisational changes to follow the dynamic market environment. Their banking processes are being improved in a continued effort for more efficient operations. These changes are outlined in the chapter V relating to the operations of the bank and its subsidiaries in the first half of 2008.

## 2. Capital Expenditure

In the first half of 2008, the capital spend of the Bank Zachodni WBK Group was PLN 72.4 m, which is 174% higher than in the same period last year. Out of this figure, PLN 26.3 m was spent on IT projects.

In the first half of the year preparations were completed for a roll-out of the Digital Merchandising Technology across the branch network. As part of this project, digital displays will be installed in branches to transmit information for customers on the current special offers, interest rates, FX rates, etc. In addition, a system solution was implemented to improve fraud detection in the credit assessment process. Programming work was also continued to enhance processes and standardise branch operations with a view to improving customer service.

The remaining capital expenditures were connected with development and diversification of the bank's distribution channels. The first Private Banking offices were launched and the programme of opening several hundred new branches by the end of 2011 was continued.

## 3. ISO 20000 Certification

In January 2008, Bank Zachodni WBK became the first bank in Poland and the second Polish (150th international) organisation to receive ISO 20000 accreditation for the IT Service Management System. Award of the certificate confirms that the bank's ICT infrastructure management and provision of IT service to internal and external customers based on best practice – IT Infrastructure Library (ITIL) – is kept under effective control and is constantly improved. With the certification in place, IT service users have comfort that the bank will ensure high availability, continuity and security of its IT systems, will provide effective support for the implemented changes, will proactively prevent problems and respond to any potential emergencies.

## 4. Internal Control Compliant with the Sarbanes-Oxley Act

Bank Zachodni WBK is a subsidiary of the AIB Group and therefore must fulfil the requirements arising from the Sarbanes-Oxley (SOX) Act insofar as it relates to the Group. This regulation introduces very strict rules with respect to exercising internal control over the company’s financial reporting. As part of the AIB Group certification process (in 2006 and 2007), the bank’s management confirmed that relevant processes operated properly across the Bank Zachodni WBK Group and that the Group's internal control system was robust.

# XII. Representations of the Management Board

## True and Fair Presentation of the Financial Statements

According to the Management Board's best knowledge and belief, the financial figures and the comparable data presented in the Interim Consolidated Financial Statements of Bank Zachodni WBK Group for the 6-Month Period Ended 30 June 2008 and Condensed Interim Unconsolidated Financial Statements of Bank Zachodni WBK S.A. for the 6-Month Period Ended 30 June 2008 were prepared in keeping with the applicable accounting policies and give a true and fair view of the assets and profit of Bank Zachodni WBK Group. The Management Board's Report contained in this document shows a true picture of the Group's development, achievements and position (including the underlying risks) in the first half of 2008.

## Selection of Auditor

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

| Date | Name | Position | Signature |
|---|---|---|---|
| 24-07-2008 | Mateusz Morawiecki | President of the Board | |
| 24-07-2008 | Andrzej Burliga | Member of the Board | |
| 24-07-2008 | Declan Flynn | Member of the Board | |
| 24-07-2008 | Justyn Konieczny | Member of the Board | |
| 24-07-2008 | Janusz Krawczyk | Member of the Board | |
| 24-07-2008 | Jacek Marcinowski | Member of the Board | |
| 24-07-2008 | James Murphy | Member of the Board | |
| 24-07-2008 | Marcin Prell | Member of the Board | |
| 24-07-2008 | Mirosław Skiba | Member of the Board | |
| 24-07-2008 | Feliks Szyszkowiak | Member of the Board | |

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Poland

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Internet www.kpmg.pl

# INDEPENDENT AUDITORS' REVIEW REPORT ON THE INTERIM CONSOLIDATED FINANCIAL STATEMENTS OF BANK ZACHODNI WBK S.A. CAPITAL GROUP FOR THE PERIOD FROM 1 JANUARY 2008 TO 30 JUNE 2008

To the Shareholders of Bank Zachodni WBK S.A

*Introduction*

We have reviewed the accompanying interim consolidated financial statements of Bank Zachodni WBK S.A. Group, with its registered office in Wrocław, Rynek 9/11, 50-950 Wrocław that consist of the consolidated balance sheet as at 30 June 2008, with total assets and total liabilities and equity of PLN 47,062,938 thousand, the consolidated profit and loss account for the period from 1 January 2008 to 30 June 2008 with a net profit of PLN 627,872 thousand (including net profit attributable to ordinary shareholders of PLN 567,538 thousand), the consolidated statement of changes in equity for the period from 1 January 2008 to 30 June 2008 with an increase in equity of PLN 215,258 thousand, the consolidated cash flow statement for the period from 1 January 2008 to 30 June 2008 with an increase in cash amounting to PLN 255,573 thousand, and explanatory notes.

Management of the Parent entity is responsible for the preparation and fair presentation of these interim consolidated financial statements in accordance with the International Accounting Standard 34 *"Interim Financial Reporting"* as adopted by the European Union and other applicable regulations. Our responsibility is to express a conclusion on these interim consolidated financial statements, based on our review.

*Scope of review*

We conducted our review in accordance with Standard No. 4 of the professional standards *General principles for the review of financial statements*, issued by the National Council of Certified Auditors and with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity.* A review consists of making inquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial statements do not present fairly in all material respects, the financial position of Bank Zachodni WBK S.A. Group as at 30 June 2008, and its financial performance and its cash flows for the period from 1 January 2008 to 30 June 2008 in accordance with the International Accounting Standard 34 *"Interim Financial Reporting"* as adopted by the European Union.

*signed on the Polish original*

....................................................

Certified Auditor No. 9941/7390,
Bożena Graczyk

*signed on the Polish original*

....................................................

On behalf of KPMG Audyt Sp. z o.o.
ul. Chłodna 51, 00-867 Warsaw
Certified Auditor No. 9941/7390,
Bożena Graczyk
Member of the Management Board

*signed on the Polish original*

....................................................

On behalf of KPMG Audyt Sp. z o.o.
ul. Chłodna 51, 00-867 Warsaw
Richard Cysarz
Member of the Management Board

Warsaw, 24 July 2008

2008

# Condensed Interim Unconsolidated Financial Statements of Bank Zachodni WBK S.A. for the 6-month Period Ended 30 June 2008

Bank Zachodni WBK S.A.

**Condensed interim unconsolidated financial statements of Bank Zachodni WBK SA for the 6-month period ended 30 June 2008**

In thousands of PLN

## 1. Income statement of Bank Zachodni WBK S.A.

| for the reporting periods: | 01-01-2008 -30-06-2008 | 01-01-2007 -30-06-2007 |
|---|---|---|
| Interest and similar income | 1 360 549 | 882 318 |
| Interest expense and similar charges | (652 969) | (333 270) |
| **Net interest income** | **707 580** | **549 048** |
| Fee and commission income | 531 615 | 484 988 |
| Fee and commission expense | (53 671) | (33 729) |
| **Net fee and commission income** | **477 944** | **451 259** |
| Dividend income | 218 309 | 170 681 |
| Net trading income and revaluation | 46 263 | 21 288 |
| Gains (losses) from other financial securities | 12 041 | 3 301 |
| Gains (losses) from investment in subsidiaries and associates | 226 | 13 423 |
| Other operating income | 24 728 | 14 510 |
| Impairment losses on loans and advances | (15 965) | 27 560 |
| Operating expenses incl.: | (748 412) | (621 136) |
| *Bank's staff, operating expenses and management costs* | *(696 725)* | *(541 930)* |
| *Depreciation/amortisation* | *(45 853)* | *(64 586)* |
| *Other operating expenses* | *(5 834)* | *(14 620)* |
| **Operating profit** | **722 714** | **629 934** |
| **Profit before tax** | **722 714** | **629 934** |
| Corporate income tax | (116 124) | (92 454) |
| **Profit for the period** | **606 590** | **537 480** |
| Basic earnings per share (PLN) | 8,31 | 7,37 |
| Diluted earnings per share (PLN) | 8,30 | 7,36 |

In thousands of PLN

## 2. Balance sheet of Bank Zachodni WBK S.A.

| | 30-06-2008 | 31-12-2007 | 30-06-2007 |
|---|---|---|---|
| **ASSETS** | | | |
| Cash and balances with central bank | 2 469 396 | 2 206 259 | 762 884 |
| Loans and advances to banks | 2 538 361 | 2 563 755 | 2 730 097 |
| Financial assets held for trading | 1 531 319 | 1 142 060 | 417 651 |
| Hedging derivatives | 45 047 | 35 850 | 30 662 |
| Loans and advances to customers | 26 012 079 | 22 150 633 | 18 848 623 |
| Investment securities | 10 429 406 | 9 698 307 | 8 974 851 |
| Investments in associates and joint ventures | 190 442 | 155 967 | 173 621 |
| Intangible assets | 112 953 | 102 906 | 102 021 |
| Property, plant & equipment | 542 373 | 528 027 | 468 270 |
| Current income tax due | - | 37 950 | - |
| Deferred tax assets | 327 228 | 312 700 | 410 238 |
| Other assets | 270 379 | 248 674 | 167 538 |
| Total assets | 44 468 983 | 39 183 088 | 33 086 456 |
| **LIABILITIES** | | | |
| Deposits from banks | 3 605 694 | 3 145 395 | 2 495 924 |
| Hedging derivatives | 1 196 | 2 054 | 5 588 |
| Financial liabilities held for trading | 1 296 394 | 994 187 | 296 081 |
| Deposits from customers | 34 248 702 | 30 264 734 | 25 551 023 |
| Debt securities in issue | 102 312 | 99 348 | 97 376 |
| Current income tax liabilities | 380 | - | 9 252 |
| Deferred tax liabilities | 225 078 | 188 620 | 323 292 |
| Other liabilities | 849 646 | 637 981 | 681 844 |
| Total liabilities | 40 329 402 | 35 332 319 | 29 460 380 |
| **Equity** | | | |
| Share capital | 729 603 | 729 603 | 729 603 |
| Other reserve funds | 2 547 985 | 1 951 251 | 1 944 285 |
| Revaluation reserve | 255 403 | 360 441 | 414 708 |
| Profit of the current period | 606 590 | 809 474 | 537 480 |
| Total equity | 4 139 581 | 3 850 769 | 3 626 076 |
| Total equity and liabilities | 44 468 983 | 39 183 088 | 33 086 456 |

In thousands of PLN

## 3. Movements on equity of Bank Zachodni WBK S.A.

| | Equity | | | | |
|---|---|---|---|---|---|
| MOVEMENTS ON EQUITY | Share capital | Other reserve funds | Revaluation reserve | Retained earnings | Total |
| **Balance as at 31.12.2007** | **729 603** | **1 951 251** | **360 441** | **809 474** | **3 850 769** |
| Change in available for sale investments- increase | - | - | 22 486 | - | 22 486 |
| Change in available for sale investments- decrease | - | - | (124 367) | - | (124 367) |
| Cash flow hedge activities | - | - | 1 608 | - | 1 608 |
| Share scheme charge | - | 6 141 | - | - | 6 141 |
| Net (gains)/losses recognised in income statement | - | - | (4 765) | - | (4 765) |
| Net profit | - | - | - | 606 590 | 606 590 |
| **Total recognised increase in equity in 1H 2008** | - | **6 141** | **(105 038)** | **606 590** | **507 693** |
| Dividend relating to 2007 | - | - | - | (218 881) | **(218 881)** |
| Transfer to other reserve capitals | - | 590 593 | - | (590 593) | - |
| **As at 30.06.2008** | **729 603** | **2 547 985** | **255 403** | **606 590** | **4 139 581** |

As at the end of the period revaluation reserve in the amount of PLN 255 403 k comprises of debt securities and equity shares classified as available for sale of PLN (194 742) k and PLN 448 537 k respectively and additionally cash flow hedge activities PLN 1 608 k.

| | Equity | | | | |
|---|---|---|---|---|---|
| MOVEMENTS ON EQUITY | Share capital | Other reserve funds | Revaluation reserve | Retained earnings | Total |
| **Balance at 31.12.2006** | **729 603** | **1 785 744** | **505 102** | **592 795** | **3 613 244** |
| Change in available for sale investments- increase | - | - | 14 470 | - | 14 470 |
| Change in available for sale investments- decrease | - | - | (193 379) | - | (193 379) |
| Share scheme charge | - | 10 474 | - | - | 10 474 |
| Net (gains)/losses recognised in income statement | - | - | 34 248 | - | 34 248 |
| Net profit | - | - | - | 809 474 | 809 474 |
| **Total recognised increase in equity in 2007** | - | **10 474** | **(144 661)** | **809 474** | **675 287** |
| Dividend relating to 2006 | - | - | - | (437 762) | (437 762) |
| Transfer to other reserve capitals | - | 155 033 | - | (155 033) | - |
| **As at 31.12.2007** | **729 603** | **1 951 251** | **360 441** | **809 474** | **3 850 769** |

As at the end of the period revaluation reserve in the amount of PLN 360 441 k comprises of debt securities and equity shares classified as available for sale of PLN (83 803) k and PLN 444 244 k respectively.

In thousands of PLN

| MOVEMENTS ON EQUITY | Equity<br>Share capital | Other reserve funds | Revaluation reserve | Retained earnings | Total |
|---|---|---|---|---|---|
| **Balance at 31.12.2006** | **729 603** | **1 785 744** | **505 102** | **592 795** | **3 613 244** |
| Change in available for sale investments- increase | - | - | 10 797 | - | 10 797 |
| Change in available for sale investments- decrease | - | - | (108 461) | - | (108 461) |
| Share scheme charge | - | 3 508 | - | - | 3 508 |
| Net (gains)/losses recognised in income statement | - | - | 7 270 | - | 7 270 |
| Net profit | - | - | - | 537 480 | 537 480 |
| **Total recognised increase in equity in 1H 2007** | - | **3 508** | **(90 394)** | **537 480** | **450 594** |
| Dividend relating to 2006 | - | - | - | (437 762) | (437 762) |
| Transfer to other reserve capitals | - | 155 033 | - | (155 033) | - |
| **As at 30.06.2007** | **729 603** | **1 944 285** | **414 708** | **537 480** | **3 626 076** |

As at the end of the period revaluation reserve in the amount of PLN 414 708 k comprises of debt securities and equity shares classified as available for sale of PLN (28 090) k and PLN 442 798 k respectively.

In thousands of PLN

## 4. Cash flow statement of Bank Zachodni WBK S.A.

| for the period: | 01-01-2008 - 30-06-2008 | 01-01-2007 - 30-06-2007 |
|---|---|---|
| **Profit (loss) before tax** | **722 714** | **629 934** |
| **Total adjustments:** | **588 825** | **(4 322)** |
| Depreciation | 45 854 | 64 586 |
| Impairment losses | 11 | (703) |
| Interests and similar charges | 40 256 | (22 963) |
| Dividend income | (218 309) | (170 681) |
| (Profit) loss from investing activities | (14 677) | (16 435) |
| Change in provisions | (14 319) | 6 557 |
| Change in trading portfolio financial instruments | (97 107) | 661 532 |
| Change in loans and advances to banks | 26 546 | 437 009 |
| Change in loans and advances to customers | (3 861 446) | (2 676 269) |
| Change in deposits from banks | 460 299 | 535 780 |
| Change in deposits from customers | 3 983 968 | 1 088 188 |
| Change in liabilities arising from debt securities in issue | 2 964 | 1 479 |
| Change in other assets and liabilities | 303 062 | 171 704 |
| Paid income tax | (69 177) | (84 632) |
| Other adjustments | 900 | 526 |
| **Net cash flow from operating activities - indirect method** | **1 311 539** | **625 612** |
| **Inflows** | **1 855 304** | **1 843 658** |
| Sale of shares or interests in subsidiaries and associates | 2 525 | 29 665 |
| Sale of investment securities | 1 627 488 | 1 641 649 |
| Sale of intangible and tangible fixed assets | 6 978 | 1 660 |
| Dividends received | 218 309 | 170 681 |
| Proceeds from other investments | 4 | 3 |
| **Outflows** | **(2 676 762)** | **(2 763 867)** |
| Purchase of subsidiaries and associates | (38 131) | - |
| Purchase of investment securities | (2 574 270) | (2 741 187) |
| Purchase of intangible and tangible fixed assets | (64 320) | (21 537) |
| Other investments | (41) | (1 143) |
| **Net cash flow from investing activities** | **(821 458)** | **(920 209)** |
| **Inflows** | **-** | **-** |
| **Outflows** | **(225 792)** | **(459 150)** |
| Repayment of long-term loans | - | (19 156) |
| Dividends and other payments to shareholders | (218 881) | (437 762) |
| Other financing outflows | (6 911) | (2 232) |
| **Net cash flow from financing activities** | **(225 792)** | **(459 150)** |
| **Total net cash flow** | **264 289** | **(753 747)** |
| **Cash at the beginning of the accounting period** | **2 225 474** | **1 542 716** |
| **Cash at the end of the accounting period** | **2 489 763** | **788 969** |

## 5. Significant accounting principles

### Statement of compliance

Condensed interim unconsolidated financial statements of Bank Zachodni WBK S.A. for the period from 1 January 2008 to 30 June 2008 were prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union and other applicable regulations.

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

| Standard or interpretation | Character of changes | Effective from | Impact on the BZWBK |
|---|---|---|---|
| Amendments to IFRS 2 *Share based payments* | The amendments introduce guidance on accounting for non-vesting conditions. | 1 January 2009 | The Bank has not yet completed its analysis of the impact of the amendments. |
| IFRS 3 (Revised) *Business Combinations* | The scope of the revised standard has been broadened (some business combinations excluded from the previous version of the standard have not been excluded from the scope of the revised IFRS 3). A definition of a business has been altered in order to be more precise. The definition of contingent liabilities capable of being recognised in the business combination has been narrowed. Transaction costs are no longer included in the cost of the combination. Rules of recognition of contingent consideration have been modified (to fair value measurement). Non-controlling (minority) interest may be measured at fair value. | 1 July 2009 | The Bank has not yet completed its analysis of the impact of the amendments. |

| | | | |
|---|---|---|---|
| IFRS 8 *Operating Segments* | The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. | 1 January 2009 | The Bank has not yet completed its analysis of the impact of the amendments. |
| Revised IAS 1 Presentation of Financial Statements | The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income). | 1 January 2009 | The Bank has not yet completed its analysis of the impact of the amendments. |
| Revised IAS 23 *Borrowing Costs* | The revised Standard will require the capitalization of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale. | 1 January 2009 | The Bank has not yet completed its analysis of the impact of the amendments. |
| Amendments to IAS 27 *Consolidated and Separate Financial Statements* | In relation with the revised IFRS 3 (above), the changes introduced to IAS 27 include the following:<br>• changed definition of non-controlling (minority) interest;<br>• regulation of recognition and measurement of transactions with non-controlling interest while retaining control;<br>• changed recognition and measurement of loss of control;<br>• new disclosure requirements. | 1 July 2009 | The Bank has not yet completed its analysis of the impact of the amendments. |

| | | | |
|---|---|---|---|
| Amendments to IAS 32: *Financial Instruments - Presentation* and IAS 1: *Presentation of Financial Statements* – Puttable Financial Instruments and Obligations Arising on Liquidation | The amendments provide an exemption to the principle otherwise applied in IAS 32 for the classification of some puttable financial instruments as equity. The amendments require certain financial instruments that represent a residual interest in the net assets of an entity, which would otherwise be classified as financial liabilities, to be classified as equity, if both the financial instrument and the capital structure of the issuing entity meet certain conditions. | 1 January 2009 | The Bank has not yet completed its analysis of the impact of the amendments. |
| IFRIC 13 *Customer Loyalty Programmes* | The Interpretation explains how entities that grant loyalty award credits to customers who buy other goods or services should account for their obligations to provide free or discounted goods or services ('awards') to customers who redeem those award credits. Such entities are required to allocate some of the proceeds of the initial sale to the award credits and recognise these proceeds as revenue only when they have fulfilled their obligations. | 1 July 2008 | Implementation of this IFRIC will not have a material impact on the Bank. |

**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 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 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.
The accounting policies set out below have been applied consistently to all periods presented in these unconsolidated 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 the income statement except for differences arising on retranslation of available for sale equity instruments.

**Financial assets and financial liabilities**

***Classification***

The Bank classifies its financial instruments into the following categories:

- financial assets or financial liabilities at fair value through profit or loss
- 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 it in the near term;

(ii) it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking;

(iii) derivatives are held for trading unless the derivative is a designated and effective hedging instrument.

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

***Loans and receivables***

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

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

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

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

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

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

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

(a) loans and receivables

(b) held-to-maturity investments

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

***Other financial liabilities***

Other 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 repo transactions and debt securities in issue.

**Recognition**

The Bank recognises a financial asset or a financial liability on its balance sheet when, and only when, the entity becomes a party to the contractual provisions of the instrument.

A regular way purchase or sale of a financial asset classified at fair value through profit or loss and available for sale are recognised using settlement date accounting. The method is applied consistently for all purchases and sales of financial assets.

Loans are recognised when cash is advanced to the borrowers.

**Derecognition**

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

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

**Repo and Reverse Repo**

The Bank also generates/invests funds by selling/purchasing financial instruments under repurchase/reverse repurchase agreements whereby the instruments must be repurchased/resold at the same price plus initially agreed interest.
Securities sold subject to repurchase agreements ("repos") are not derecognised at the balance sheet date. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements.

Securities purchased subject to resale agreements ("reverse repos") are not recognised at the balance sheet date. The difference between purchase and resale price is treated as interest and accrued over the life of the agreements.

**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 at fair value through profit or loss) transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification) or based on a valuation technique whose variables include only data from observable markets.
After initial recognition, the Bank measures financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for:

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

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

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

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

**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 equity, until the financial asset is derecognised, at which time the cumulative gain or loss 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 Bank establishes fair value by using valuation techniques which include recent arms length market transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.
Where a fair value cannot be reliably estimated, unquoted instruments that do not have a quoted market price in an active market are measured at cost and periodically tested for impairment.

**Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet 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.

**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 Bank's risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged. The Bank also documents, at inception and on going basis, an assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value.
The Bank uses derivative financial instruments among others to hedge its exposure to interest rate risks arising from operational, financing and investment activities.
The Bank discontinues hedge accounting when:

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

***Fair value hedge***

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

**Impairment of financial assets**

***Assets carried at amortised cost***

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

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

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

(c) the Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Bank would not otherwise consider;

(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:

(i) adverse changes in the payment status of borrowers in the Bank,

(ii) national or local economic conditions that correlate with defaults on the assets in the Bank.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated

future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). If a loan or receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The carrying amount of the asset shall be reduced through identification of a provision. The amount of the loss shall be recognised in profit or loss.
The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

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

With regard to impairment, the review of individual loan exposures is carried out once a quarter or more often, if needed. Impairment for the portfolio, which is assessed jointly, is verified monthly.
If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised by the Bank are not included in a collective assessment of impairment.

For the purpose of the collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of the Bank’s credit risk evaluation or the Bank’s grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.
Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Bank. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.
Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the Bank and their magnitude). The Bank reviews regularly the methodology and assumptions used for estimating future cash flows in order to reduce any differences between loss estimates and actual loss experience.
In the case of credit exposures for which no indications of impairment were identified, the Bank carries out the impairment analysis based on the concept of losses already incurred but not yet reported and connected with loan impairment (IBNR), 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 corrections, 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, a time will come when 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 beyond the prospect of recovery is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

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

For financial assets classified as available-for-sale for which there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss. The amount of the cumulative loss that is removed from equity 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 in profit or loss, 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.

***Off balance sheet liabilities***

The Bank creates provisions towards 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***

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

***Leased assets***

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

***Subsequent expenditure***

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

***Depreciation***

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

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

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

***Fixed assets held for sale***

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

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

**Intangible assets**

***Computer software***

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.
Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Useful life of computer software is defined and it range from 3 to 5 years.

***Other intangible assets***

Other intangible assets that are acquired by the Bank are stated at cost less accumulated amortisation and impairment losses. Useful life of other intangible assets is defined and it range from 3 to 5 years.

***Subsequent expenditure***

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

***Amortisation***

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful lives are as follows:

- software development costs — 3 – 5 years
- computer software — 3 – 5 years

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

**Other items**

***Other trade and other receivables***

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

***Borrowings***

Borrowings are recognised initially at fair value, being the issue proceeds (fair value of consideration received) net of transaction costs occurred. Borrowings are subsequently stated at amortised cost.

***Liabilities***

Liabilities, other than financial liabilities held for trading, are stated at cost.

**Impairment of assets other than financial assets**

The carrying amounts of the Bank's assets, other than financial assets are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.
An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

***Calculation of recoverable amount***

The recoverable amount of other assets is the greater of their net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

**Equity**

Equity comprises capital and funds created in accordance with applicable law, acts and the Statutes. Equity also includes retained earnings and prior year losses carried forward.
Share capital is stated at its nominal value in accordance with the Statutes and the entry in the court register.
Supplementary capital is created from profit allocations and share issue premiums.
Reserve capital is created from profit allocations and is earmarked for covering balance sheet losses.
The result of valuation of profit sharing scheme is included in reserve capital.
Revaluation reserve is comprised of adjustments relating to the valuation of available-for-sale financial assets and adjustments relating to the valuation of effective cash flow hedges taking into account deferred tax. The revaluation reserve is not distributable.

On the day of 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.
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 particular year, which have been declared but not paid at the balance sheet date are recognised as dividend liabilities in "other liabilities" item.

**Employee benefits**

***Short-term service benefits***

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

***Long-term service benefits***

The Bank's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The accrual for retirement bonus granted under the provisions of the Collective Labour Agreement and terms of individual employee contracts as well as the accrual for disability pension bonus were estimated on the basis of an actuarial valuation. The actuarial valuation of those accruals is updated at least once a year.
The identifiable actuarial gains and losses include: retrospective adjustments to the actuarial assumptions being the difference between the previous actuarial assumptions and the actual occurrences and the effects of changes in the actuarial assumptions.

***Share based payments***

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

**Provisions**

A provision is recognised in the balance sheet when the Bank has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.
Provisions for off balance sheet items such as guarantees, letters of credit, and unutilised irrevocable credit facilities are recognised in accordance with this policy.

**Net interest income**

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

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

**Net trading income and revaluation**

Net trading income and revaluation include all profits and losses resulting from changes in fair value of financial assets and liabilities classified as held for trading that are measured at fair value through profit and loss. Interest costs and incomes related to the above mentioned 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 set as a difference between the net asset value and their sale price.
Profit on the sale of interests in associates is set as a difference between the carrying amount and their sale price.

**Other operating income and costs**

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

**Operating lease payments**

Operating lease payments are 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 the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.
Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.
Deferred income tax is provided, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the balance sheet date 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.

## 6. Comments concerning the seasonal or cyclical character of the annual activities

The business activity of Bank Zachodni WBK S.A. has no seasonal character.

## 7. Character and amounts of items which are extraordinary due to their nature, volume or occurrence and have influence on the assets, liabilities, equity, financial performance or cash flows

No extraordinary events influencing the balance sheet structure and financial performance occurred in Bank Zachodni WBK S.A.

## 8. Accounting estimates and judgments

### 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 is exposed and other external factors such as legal and regulatory requirements. For example, should the expectation of loss within a portfolio increase, then this may result in an increase to the required incurred but not reported ("IBNR") loan loss provision level. A specific 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 principal and interest outstanding on the obligor's loan or overdraft account. The amount of the specific provision made in BZWBK 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 bank wide 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; it triggers the process which results in the creation of a specific provision on individual loans where there is doubt on recoverability. IBNR provisions are also maintained to cover loans, which are impaired at balance sheet date and, while not seperately 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 expected loss in the portfolio. Estimates of expected loss are driven by the following key factors;

- Probability of default i.e. the likelihood of a customer defaulting on its obligations over the next 12 months,
- Loss given default i.e. the fraction of the exposure amount that will be lost in the event of default, and
- Exposure at default i.e. exposure is calculated by adding the expected drawn balance plus a percentage of the unused limits.

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

Balance sheet values of assets other than deferred tax assets are reviewed as at a balance sheet day to specify whether there are reasons for write-down due to impairment. If there are such reasons, recoverable value of assets should be determined.

In case intangible assets not yet available for use, recoverable value is determined as at every balance sheet day.

Write-down due to 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 impairment amount has been recognised considering the expected recoverable amounts, and for long term other receivables discounting has been applied.
Asset held for sale at the lower of its carrying amount and estimated fair value less estimated costs to sell.

**Fair value of financial instruments**

Some of the Bank's financial instruments are carried at fair value, including all derivatives, 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. However, where no observable price is available the instrument fair value will include a provision for the uncertainty in the market parameter based on sale price or subsequent traded levels. The calculation of fair value for any financial instrument may require adjustment of quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used), hedging costs not captured in pricing models and adjustments to reflect the cost of exiting illiquid or other significant positions. This may also include an estimation of the likely occurrence of future events which could affect the cashflows of the financial instrument. The valuation model used for a particular instrument, the quality and liquidity of market data used for pricing, other fair value adjustments not specifically captured by the model and market data are all subject to internal review and approval procedures and consistent application between accounting periods.

**Other accounting estimates and judgements**

Provisions for employee benefits arising from the Collective Labour Agreement and terms of individual employee contracts were estimated on the basis of an actuarial valuation. The actuarial valuation of those accruals is updated on an annual basis.
Provisions for legal claims have been estimated considering the expected probably amount to settle a case.

## 9. Issues, redemption or repayment of debt or equity instruments

In 1H 2008, Bank Zachodni WBK S.A. did not issue bonds or other own debt securities.

As at the end of 1H 2008, the total value of obligations with respect to the issue of own bonds amounted to PLN 78 919 k (nominal value), as at the end of 1H 2007 – PLN 78 919 k and as at 31.12.2007 – PLN 78 919 k.

## 10. Dividend information

Bank Zachodni WBK allocated to dividends 27.04% of BZWBK net profit of 2007 of PLN 218 880 852 i.e. PLN 3.00 per one share (PLN 6.00 in 2006). Outstanding profit of PLN 590 593 185.45 was allocated to other reserve capital. Number of shares totalled 72 960 284.

In thousands of PLN

## 11. Acquisitions and disposals of investments in 1H 2008

Bank Zachodni WBK S.A. made a transaction of partial disposal of NFI Magna Polonia shares. Shares representing 19.97% of votes at the AGM of NFI Magna Polonia were sold, whereas the remaining portion (7.56%), is recognized as investment securities.

On 12.06.2008, an agreement was made between Bank Zachodni WBK S.A. and Commercial Union Polska sp. z o.o. with its registered seat in Warsaw regarding the sale of shareholding in Brytyjsko-Polskie Towarzystwo Finansowe WBK CU sp. z o.o. seated in Poznań. Under the agreement, Bank Zachodni WBK SA sold all its 420 shares of Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp. z o.o. of total nominal value at PLN 210 000, which represented 60% of the share capital.

In 1H 2008 BZWBK S.A. in cooperation with Aviva International Insurance Ltd formed two jointly controlled entities: BZ WBK - CU Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK - CU Towarzystwo Ubezpieczeń na Życie S.A. The parent companies have 50% share in both joint ventures' share capital and agreed to share the controll. The main business of the new entities is providing insurance services for the clients of the Bank. On the 6th of June 2008, both of them got a permission from Financial Supervisory Commission to start particular actions.

## 12. Changes to the contingent liabilities or assets

### Off balance sheet liabilities

The Bank Zachodni WBK S.A. has commitments to deliver loans. These commitments include loans sanctioned, credit card limits and overdrafts. The Bank issue guarantees and letters of credit which collateralise customers' liabilities to third parties.

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

| Contingent liabilities, sanctioned and received | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|
| **Liabilities sanctioned** | **11 163 742** | **8 978 520** | **8 156 322** |
| **- financial** | **10 179 293** | **8 183 465** | **7 350 634** |
| - including: import letters of credit | 76 305 | 61 209 | 104 673 |
| - including: credit lines | 8 848 978 | 6 923 381 | 6 720 009 |
| - including: credit cards debits | 786 455 | 651 041 | 509 304 |
| - including: term deposits with future commencement term | 467 555 | 547 834 | 16 648 |
| **- guarantees** | **984 449** | **795 055** | **805 688** |
| -including: confirmed export letters of credit | 503 | 814 | 3 604 |
| **Received liabilities** | **2 250 906** | **1 979 265** | **1 932 309** |
| **Total** | **13 414 648** | **10 957 785** | **10 088 631** |

As at 30.06.2008, the Bank's sanctioned and received guarantees to subsidiary undertakings amount to PLN 215 026 k .

The most common forms of guarantee are: payment guarantee, performance bond, bid bond, advance payment guarantee, loan repayment guarantee, customs guarantee. In accordance with the "Non-consumer lending regulations", the bank issues civil law guarantees (mainly: loan or advance repayment guarantee, service or

In thousands of PLN

goods repayment guarantee, advance payment guarantee, performance bond, bid bonds and other) and B/E guarantees (mainly: loan or advance repayment guarantee, service or goods repayment guarantee and other).
Guarantees and civil law guarantees are issued on the basis of the same information and in accordance with the same procedure as it is in the case of loans. Applicable regulations are set out in the lending manuals.

These contingent liabilities carry an off-balance sheet credit risk as only the funding arrangement fees and loan loss provisions are disclosed in the balance sheet until repayment or expiry of the obligation. Many of the existing contingent liabilities will expire before any payment is made. For this reason, their values do not reflect the expected future cash flows.

The table presents the derivatives' nominal values.

| | Derivatives' nominal values | 30.06.2008 | 31.12.2007 | 30.06.2007 |
|---|---|---|---|---|
| **1.** | **Derivatives (hedging)** | **2 786 250** | **1 990 754** | **1 995 410** |
| a) | Single-currency interest rate swaps – purchased amounts | 1 393 125 | 995 377 | 997 705 |
| b) | Single-currency interest rate swaps – sold amounts | 1 393 125 | 995 377 | 997 705 |
| c) | Macro cash flow hedge - purchased amounts | 150 000 | - | - |
| d) | Macro cash flow hedge - sold amounts | 150 000 | - | - |
| **2.** | **Term derivatives (trading)** | **272 342 981** | **226 271 268** | **167 509 430** |
| a) | Interest rate operations | 233 746 494 | 185 524 124 | 141 243 282 |
| - | Single-currency interest rate swaps – purchased amounts | 66 236 307 | 63 462 062 | 48 971 641 |
| - | Single-currency interest rate swaps – sold amounts | 66 236 307 | 63 462 062 | 48 971 641 |
| - | FRA-purchased amounts | 52 161 940 | 29 800 000 | 20 850 000 |
| - | FRA-sold amounts | 49 111 940 | 28 800 000 | 22 450 000 |
| b) | FX operations | 38 596 487 | 40 747 144 | 26 266 148 |
| - | FX swap – purchased amounts | 13 574 331 | 15 734 024 | 9 507 990 |
| - | FX swap – sold amounts | 13 543 400 | 15 716 085 | 9 486 509 |
| - | forward - purchased | 2 871 998 | 2 508 227 | 2 141 008 |
| - | forward - sold | 2 899 836 | 2 559 864 | 2 152 519 |
| - | Cross-currency interest rate swaps – purchased amounts | 2 969 228 | 2 180 719 | 1 524 006 |
| - | Cross-currency interest rate swaps – sold amounts | 2 737 694 | 2 048 225 | 1 454 116 |
| **3.** | **Currency transactions- spot** | **1 497 070** | **532 873** | **898 027** |
| | spot-purchased | 748 680 | 266 544 | 449 054 |
| | spot-sold | 748 390 | 266 329 | 448 973 |
| **4** | **Derivatives – OTC options** | **5 821 272** | **3 064 616** | **2 364 368** |
| - | Options purchased | 2 910 636 | 1 532 308 | 1 182 184 |
| - | Options sold | 2 910 636 | 1 532 308 | 1 182 184 |
| **5.** | **Euroindex Options** | **-** | **8 733** | **99 962** |
| | Options purchased | - | 8 733 | 99 962 |
| **Total** | | **282 447 573** | **231 868 244** | **172 867 197** |

In thousands of PLN

## 13. Related party disclosures

The table below contains information about transactions effected by the bank and its subsidiaries with related entities at the end of the reporting period.

Most of the transactions are banking transactions made as part of ordinary business activities and mainly include loans, deposits and guarantees.

### Receivables and liabilities relating to transactions with connected entities

**30.06.2008**

| Receivables | of which from subsidiaries | of which from associates | of which from the parent company (AIB Group) | Total |
|---|---|---|---|---|
| Loans and advances to banks | - | - | 273 042 | 273 042 |
| Financial assets held for trading | 22 194 | - | 97 250 | 119 444 |
| Hedging derivatives | - | - | 2 001 | 2 001 |
| Loans and advances to customers | 684 867 | - | - | 684 867 |
| Investment securities | - | - | 187 974 | 187 974 |
| Other assets | 37 442 | - | - | 37 442 |
| **Total** | **744 503** | **-** | **560 267** | **1 304 770** |

| Liabilities | of which from subsidiaries | of which from associates | of which from the parent company (AIB Group) | Total |
|---|---|---|---|---|
| Deposits from banks | - | - | 1 303 995 | 1 303 995 |
| Financial liabilities held for trading | 2 258 | - | 61 398 | 63 656 |
| Deposits from clients | 1 518 952 | 55 531 | - | 1 574 483 |
| Other liabilities | 23 306 | - | 19 581 | 42 887 |
| **Total** | **1 544 516** | **55 531** | **1 384 974** | **2 985 021** |

31.12.2007

| Receivables | of which from subsidiaries | of which from associates | of which from the parent company (AIB Group) | Total |
|---|---|---|---|---|
| Loans and advances to banks | - | - | 174 250 | 174 250 |
| Financial assets held for trading | 5 357 | - | 40 771 | 46 128 |
| Hedging derivatives | - | - | 1 380 | 1 380 |
| Loans and advances to customers | 801 155 | - | - | 801 155 |
| Investment securities | - | - | 208 575 | 208 575 |
| Other assets | 11 879 | - | - | 11 879 |
| **Total** | **818 391** | **-** | **424 976** | **1 243 367** |

| Liabilities | of which from subsidiaries | of which from associates | of which from the parent company (AIB Group) | Total |
|---|---|---|---|---|
| Deposits from banks | - | - | 950 869 | 950 869 |
| Financial liabilities held for trading | 3 914 | - | 55 044 | 58 958 |
| Deposits from clients | 1 537 430 | 58 568 | - | 1 595 998 |
| Other liabilities | 17 675 | - | 14 788 | 32 463 |
| **Total** | **1 559 019** | **58 568** | **1 020 701** | **2 638 288** |

In thousands of PLN

**30.06.2007**

| Receivables | of which from subsidiaries | of which from associates | of which from the parent company (AIB Group) | Total |
|---|---|---|---|---|
| Loans and advances to banks | 506 | - | 391 124 | 391 630 |
| Financial assets held for trading | 217 | - | 61 028 | 61 245 |
| Hedging derivatives | - | - | 2 209 | 2 209 |
| Loans and advances to customers | 337 554 | - | - | 337 554 |
| Investment securities | - | - | 285 147 | 285 147 |
| Other assets | 15 555 | - | - | 15 555 |
| **Total** | **353 832** | **-** | **739 508** | **1 093 340** |

| Liabilities | of which from subsidiaries | of which from associates | of which from the parent company (AIB Group) | Total |
|---|---|---|---|---|
| Deposits from banks | - | - | 641 207 | 641 207 |
| Financial liabilities held for trading | 16 414 | - | 31 836 | 48 250 |
| Deposits from clients | 1 477 463 | 110 857 | - | 1 588 320 |
| Other liabilities | 15 001 | - | 20 847 | 35 848 |
| **Total** | **1 508 878** | **110 857** | **693 890** | **2 313 625** |

**Revenues and expenses relating to transactions with connected entities**

**01.01.2008 - 30.06.2008**

| Income | of which from subsidiaries | of which from associates | of which from the parent company (AIB Group) | Total |
|---|---|---|---|---|
| Interest and similar income | 21 258 | - | 10 054 | 31 312 |
| Fee and commission income | 56 865 | - | | 56 865 |
| Other operating income | 3 306 | | 171 | 3 477 |
| Net trading and revaluation income | 3 006 | - | 60 911 | 63 917 |
| **Total** | **84 435** | **-** | **71 136** | **155 571** |

| Expenses | of which from subsidiaries | of which from associates | of which from the parent company (AIB Group) | Total |
|---|---|---|---|---|
| Interest expense and similar charges | 41 228 | 1 535 | 18 416 | 61 179 |
| Fee and commission expense | 6 | - | - | 6 |
| Other operating expenses incl.: | 11 | | 17 019 | 17 030 |
| Bank's operating expenses and management costs | 11 | | 17 019 | 17 030 |
| **Total** | **41 245** | **1 535** | **35 435** | **78 215** |

**01.01.2007- 30.06.2007**

| Income | of which from subsidiaries | of which from associates | of which from the parent company (AIB Group) | Total |
|---|---|---|---|---|
| Interest and similar income | 9 989 | - | 12 755 | 22 744 |
| Fee and commission income | 87 547 | 2 | - | 87 549 |
| Other operating income | 2 167 | - | - | 2 167 |
| Net trading and revaluation income | - | - | 27 908 | 27 908 |
| **Total** | **99 703** | **2** | **40 663** | **140 368** |

In thousands of PLN

| Expenses | of which from subsidiaries | of which from associates | of which from the parent company (AIB Group) | Total |
|---|---|---|---|---|
| Interest expense and similar charges | 26 739 | 1 618 | (7 763) | 20 594 |
| Fee and commission expense | 13 | - | - | 13 |
| Other operating expenses incl.: | 459 | - | 21 873 | 22 332 |
| Bank's operating expenses and management costs | 454 | - | 21 873 | 22 327 |
| Other | 5 | - | - | 5 |
| **Total** | **27 211** | **1 618** | **14 110** | **42 939** |

**Off balance sheet positions relating to transactions with connected entities**

**30.06.2008**

| Intragroup transactions - off-balance sheet liabilities | of which from subsidiaries |
|---|---|
| **1. Sanctioned contingent liabilities** | **942 291** |
| - financing-related | 834 778 |
| - guarantees | 107 513 |
| **2. Received contingent liabilities** | **942 291** |
| - financing-related | 834 778 |
| - guarantees | 107 513 |
| **Total** | **1 884 582** |

| Intragroup transactions- derivatives' nominal values | of which from subsidiaries |
|---|---|
| **3. Derivatives' nominal values, including:** | **835 613** |
| -FX swap | 635 432 |
| -Financial instruments operations-single-currency interest rate hedging swaps | 200 181 |

**31.12.2007**

| Intragroup transactions - off-balance sheet liabilities | of which from subsidiaries |
|---|---|
| **1. Sanctioned contingent liabilities** | **832 210** |
| - financing-related | 717 400 |
| - guarantees | 114 810 |
| **2. Recieved contingent liabilities** | **832 210** |
| - financing-related | 717 400 |
| - guarantees | 114 810 |
| **Total** | **1 664 420** |

| Intragroup transactions- derivatives' nominal values | of which from subsidiaries |
|---|---|
| **3. Derivatives' nominal values, including:** | **669 705** |
| -FX forward- purchased | 3 201 |
| -FX forward- sold | 3 214 |
| -FX swap | 363 025 |
| - Financial instruments operations- single-currency interest rate swap | 300 265 |

In thousands of PLN

**30.06.2007**

| Intragroup transactions - off-balance sheet liabilities | of which from subsidiaries |
|---|---|
| **1. Sanctioned contingent liabilities** | **1 301 624** |
| - financing-related | 1 177 238 |
| - guarantees | 124 386 |
| **2. Recieved contingent liabilities** | **1 301 624** |
| - financing-related | 1 177 238 |
| - guarantees | 124 386 |
| **Total** | **2 603 248** |

| Intragroup transactions- derivatives' nominal values | of which from subsidiaries |
|---|---|
| **3. Derivatives' nominal values, including:** | **541 063** |
| -FX forward- purchased | 768 |
| -FX forward- sold | 766 |
| -FX swap | 554 |
| - Financial instruments operations- single-currency interest rate swap | 538 975 |

## 14. Principles of PLN conversion into EUR

Selected financial figures for 1H 2008 and 1H 2007 were converted according to the following principles:

### *for 1H 2008:*

Selected balance sheet data and book value per share - according to the average EUR/PLN rate current at the balance sheet date and announced by the National Bank of Poland – 3,3542.

Selected items of profit and loss account and cash flow for 1H 2008 – according to the exchange rate calculated as an arithmetic mean on the last day of each month – 3,4776 (Jan – 3,6260, Feb – 3,5204, Mar – 3,5258, Apr – 3,4604, May – 3,3788, June – 3,3542).

### *for 1H 2007:*

Selected balance sheet data and book value per share according to the average EUR/PLN rate current at the balance sheet date and announced by the National Bank of Poland –3,7658.

Selected items of profit and loss account and cash flow for 1H 2007 according to the exchange rate calculated as an arithmetic mean on the last day of each month - 3,8486 (Jan - 3,9320, Feb - 3,9175, March - 3,8695, Apr - 3,7879, May - 3,8190, June – 3,7658).

## 15. Shareholders with min. voting power of 5%

According to the information held by the Bank's Management Board, the shareholder with a min. 5% of the total number of votes at the BZWBK Annual General Meeting as at the publication date of the quarterly consolidated report for 1H 2008 /30.07.2008/ is AIB European Investments Ltd. based in Dublin.

In thousands of PLN

| Shareholder | No. of shares held | % shareholding | No. of votes at AGM | % share in total number of votes at AGM |
|---|---|---|---|---|
| As at 30.07.2008 | | | | |
| AIB European Investments Limited | 51 413 790 | 70,5 % | 51 413 790 | 70,5 % |
| As at 08.05.2008 | | | | |
| AIB European Investments Limited | 51 413 790 | 70,5 % | 51 413 790 | 70,5 % |

## 16. Changes in shareholding of members of the Management and Supervisory Board of Bank Zachodni WBK S.A.

| | No. of Bank Zachodni WBK shares held | | |
|---|---|---|---|
| | As at 30.07.2008 | As at 08.05.2008 | Change |
| Members of the Supervisory Board | 278 | 278 | - |

Table below presents personal shareholding of Supervisory and Management Board Members as at 30th July 2008:

| Owner | No. of shares |
|---|---|
| **Supervisory Board** | |
| Waldemar Frąckowiak | 278 |

No other Supervisory or Management Board Member is in possession of BZWBK shares.

## 17. Information about the commenced court proceedings

As at 30 June 2008 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the bank amounting to a minimum of 10% of the Bank's equity.
The value of all litigations totals PLN 269 569 k, which is ca. 6,51% of Bank's equity. This amount includes PLN 54 822 k claimed by the Bank, PLN 44 895 k in claims against the Bank and PLN 169 852 k are Bank's receivables due to bankruptcy or arrangement cases.

As at 30 June 2007 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the bank amounting to a minimum of 10% of the Bank's equity.
The value of all litigations totals PLN 288 876 k, which is ca. 8.00% of Bank's equity. This amount includes PLN 73 611 k claimed by the Bank, PLN 49 824 k in claims against the Bank and PLN 165 441 k are Bank's receivables due to bankruptcy or arrangement cases.

## 18. Information concerning issuing loan guarantees by an issuer or its subsidiary

As at 30 June 2008 Bank Zachodni WBK S.A. had not issued any guarantees to one business unit or a subsidiary totalling a minimum of 10% of issuer's equity.

## 19. Events which occurred after the balance sheet date

### Change Fitch Rating

On 17 of July 2008 Fitch Ratings has changed Bank Zachodni WBK's outlook to Negative from Stable. Its ratings are affirmed at Long-term Issuer Default (IDR) 'A+', Short-term IDR 'F1', Individual 'C' and Support '1'. The rating action reflects the change of the outlook to Negative from Stable for BZ WBK's controlling shareholder, Allied Irish Banks (AIB, rated 'AA-' (AA minus)/Negative Outlook).

### Appointment of the new Management Board Member

On 22.07.2008 the Supervisory Board appointed Mr. Mirosław Skiba to the position of Bank Zachodni WBK S.A. Management Board Member.

### The third edition of Incentive Scheme

On 22.07.2008 the Supervisory Board approved the list of participants of Incentive Scheme III which was launched pursuant to the resolution of the Annual General Meetin of Shareholders of 18.04.2008.

### Authorization for issue of financial statements

The interim financial statements were authorised for issue on 24th of July 2008 by the Management Board of Bank Zachodni WBK S.A.

In thousands of PLN

| SIGNATURES | | | |
|---|---|---|---|
| **Signatures of Members of the Management Board** | | | |
| **Date** | **Name** | **Function** | **Signature** |
| 24-07-2008 | Mateusz Morawiecki | President | |
| 24-07-2008 | Andrzej Burliga | Member | |
| 24-07-2008 | Declan Flynn | Member | |
| 24-07-2008 | Justyn Konieczny | Member | |
| 24-07-2008 | Janusz Krawczyk | Member | |
| 24-07-2008 | Jacek Marcinowski | Member | |
| 24-07-2008 | James Murphy | Member | |
| 24-07-2008 | Marcin Prell | Member | |
| 24-07-2008 | Mirosław Skiba | Member | |
| 24-07-2008 | Feliks Szyszkowiak | Member | |

| Signature of a person who is in charge of keeping the accounts | | | |
|---|---|---|---|
| **Date** | **name** | **Function** | **Signature** |
| 24-07-2008 | Wanda Rogowska | Financial Accounting Area Director | |

KPMG Audyt Sp. z o.o.
ul. Chłodna 51
00-867 Warszawa
Poland

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Fax +48 22 528 10 09
E-mail kpmg@kpmg.pl
Internet www.kpmg.pl

# INDEPENDENT AUDITORS' REVIEW REPORT ON THE CONDENSED INTERIM UNCONSOLIDATED FINANCIAL STATEMENTS OF BANK ZACHODNI WBK S.A. FOR THE PERIOD FROM 1 JANUARY 2008 TO 30 JUNE 2008

To the Shareholders of Bank Zachodni WBK S.A.

*Introduction*

We have reviewed the accompanying condensed interim unconsolidated financial statements of Bank Zachodni WBK S.A., with its registered office in Wrocław, Rynek 9/11, 50-950 Wrocław that consist of the condensed unconsolidated balance sheet as at 30 June 2008, with total assets and total liabilities and equity of PLN 44,468,983 thousand, the condensed unconsolidated profit and loss account for the period from 1 January 2008 to 30 June 2008 with a net profit of PLN 606.590 thousand, the condensed unconsolidated statement of changes in equity for the period from 1 January 2008 to 30 June 2008 with an increase in equity of PLN 288,812 thousand, the condensed unconsolidated cash flow statement for the period from 1 January 2008 to 30 June 2008 with an increase in cash amounting to PLN 264,289 thousand, and explanatory notes.

Management of the Bank is responsible for the preparation and presentation of these condensed interim unconsolidated financial statements in accordance with the International Accounting Standard 34 *"Interim Financial Reporting"* as adopted by the European Union and other applicable regulations. Our responsibility is to express a conclusion on these condensed interim financial statements, based on our review.

*Scope of review*

We conducted our review in accordance with Standard No. 4 of the professional standards *General principles for the review of financial statements* issued by the Polish National Council of Certified Auditors and with the International Standard on Review Engagements 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures. A review is substantially less in scope than an audit and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim unconsolidated financial statements of Bank Zachodni WBK S.A. are not prepared, in all material respects, in accordance with the International Accounting Standard 34 *"Interim Financial Reporting"* as adopted by the European Union.

*signed on the Polish original*

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Certified Auditor No. 9941/7390
Bożena Graczyk

*signed on the Polish original*

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On behalf of KPMG Audyt Sp. z o.o.
ul. Chłodna 51, 00-867 Warsaw
Certified Auditor No. 9941/7390
Bożena Graczyk
Member of the Management Board

*signed on the Polish original*

.........................................................

On behalf of KPMG Audyt Sp. z o.o.
ul. Chłodna 51, 00-867 Warsaw
Richard Cysarz
Member of the Management Board

Warsaw, 24 July 2008