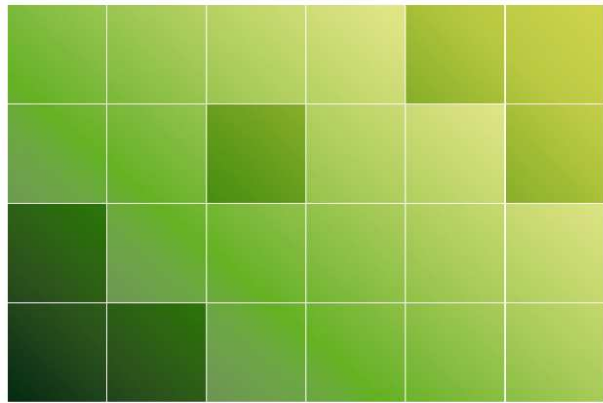


Consolidated semi-annual financial statements 2006



FINANCIAL HIGHLIGHTS		PLN '000		EUR '000	
		01.01.2006 - 30.06.2006	01.01.2005 - 30.06.2005	01.01.2006 - 30.06.2006	01.01.2005 - 30.06.2005
I.	Interest and similar income	803 659	841 419	206 056	206 205
II	Fee and commission income	569 834	398 468	146 104	97 652
III	Operating profit	570 717	352 482	146 330	86 382
IV	Gross profit	571 460	351 308	146 521	86 094
V	Net profit	423 904	281 202	108 688	68 914
VI	Total net cash flow	406 614	(170 367)	104 255	(41 752)
VII	Total assets	31 001 032	29 306 609	7 667 070	7 253 932
VIII	Deposits from banks	1 815 758	1 726 929	449 067	427 447
IX	Deposits from customers	21 513 382	20 058 578	5 320 617	4 964 872
X	Total liabilities	27 653 057	26 068 750	6 839 060	6 452 501
XI	Total equity	3 347 975	3 237 859	828 010	801 430
XII	Minority interest	68 899	36 018	17 040	8 915
XIII	Net profit attributable to the Minority	39 669	10 667	10 171	2 614
XIV	Number of shares	72 960 284	72 960 284		
XV	Net book value per share in PLN/EURO	45,89	44,38	11,35	10,98
XVI	Solvency ratio	15,53%	17,01%		
XVII	Profit (loss) per share in PLN/ EURO	5,81	3,85	1,49	0,94
XVIII	Declared or paid dividend per share in PLN/EURO	6,00	2,43	1,48	0,60

Stand alone financial statements					
I	Interest and similar income	743 617	777 109	190 661	190 445
II	Fee and commission income	342 577	313 226	87 836	76 762
III	Operating profit	430 182	311 548	110 297	76 350
IV	Gross profit	430 182	311 548	110 297	76 350
V	Net profit	357 147	264 216	91 571	64 751
VI	Total net cash flow	404 768	(169 568)	103 781	(41 556)
VII	Total assets	29 502 826	28 057 640	7 296 539	6 944 788
VIII	Deposits from banks	1 343 947	1 426 279	332 380	353 031
IX	Deposits from customers	21 726 692	20 137 100	5 373 372	4 984 307
X	Total liabilities	26 471 708	24 991 576	6 546 893	6 185 881
XI	Equity attributable to the Company's equity holders	3 031 118	3 066 064	749 646	758 908
XII	Number of shares	72 960 284	72 960 284		
XIII	Net book value per share in PLN/EURO	41,54	42,02	10,27	10,40
XIV	Solvency ratio	14,14%	16,56%		
XV	Profit (loss) per share in PLN/ EURO	4,90	3,62	1,26	0,89
XVI	Declared or paid dividend per share in PLN/EURO	6,00	2,43	1,48	0,60

**Consolidated semi-annual
financial statements
2006 of BZWBK Group**

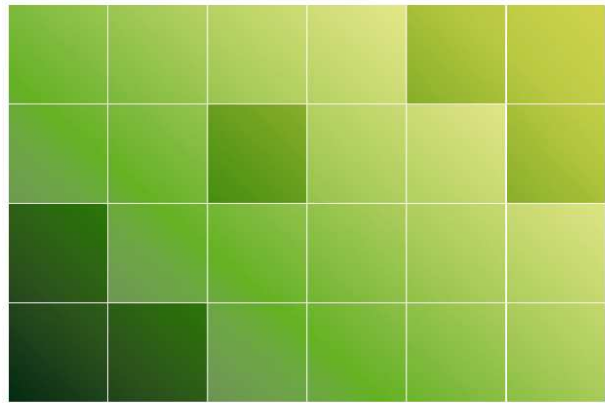


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1. Consolidated income statement

		01.01.2006	01.01.2005
	For reporting periods ending on:	-30.06.2006	-30.06.2005
Interest and similar income		803 659	841 419
Interest expense and similar charges		(310 688)	(407 752)
Net interest income	Note 8	492 971	433 667
Fee and commission income		569 834	398 468
Fee and commission expense		(80 563)	(81 867)
Net fee and commission income	Note 9	489 271	316 601
Dividend income	Note 10	57 130	47 397
Foreign exchange profit	Note 11	104 949	117 591
Gains (losses) on hedge accounting activities	Note 12	2 628	(964)
Gains (losses) from financial instruments measured at fair value through profit and loss	Note 13	16 615	7 282
Gains (losses) from investment in securities	Note 14	23 070	3 863
Gains (losses) on sale of subsidiaries and associates	Note 15	6 243	-
Other operating income	Note 16	18 180	23 576
Impairment losses on loans and advances	Note 17	(16 347)	(16 742)
Operating expenses		(623 993)	(579 789)
Bank's staff, operating expenses and management costs	Note 18,19	(521 093)	(472 535)
Depreciation/amortisation		(86 424)	(94 316)
Other operating expenses	Note 20	(16 476)	(12 938)
Operating profit		570 717	352 482
Share in net profits (losses) of associates accounted for by the equity method		743	(1 174)
Gross profit		571 460	351 308
Corporate income tax	Note 21	(107 887)	(59 439)
Net profit		463 573	291 869
of which:			
attributable to the Company's equity holders		423 904	281 202
attributable to the Minority equity holders		39 669	10 667
Net earnings share	Note 22		
Basic earnings per share		5,81	3,85
Diluted earnings per share		5,80	3,85



2. Consolidated balance sheet

		30.06.2006	31.12.2005	30.06.2005
ASSETS				
Cash and balances with central bank	Note 23	984 152	572 342	1 031 427
Loans and advances to banks	Note 24	3 499 072	3 608 333	2 041 131
Financial instruments at fair value through profit or loss	Note 25	1 828 786	1 925 909	2 882 443
Derivative financial instruments	Note 26	702 156	735 214	751 992
Loans and advances to customers	Note 27	15 475 766	14 196 899	13 783 212
Reverse repo transactions	Note 28	107 517	15 199	26 102
Investment securities	Note 29	6 868 982	6 990 336	7 199 099
Investments in associates	Note 30	68 858	73 237	73 789
Intangible assets	Note 31	139 495	174 194	203 096
Property, plant & equipment	Note 32	486 419	518 643	533 049
Deferred tax assets	Note 33	451 398	435 232	510 478
Other assets incl.:	Note 34	388 431	358 547	270 791
- assets held for sale		17 420	17 420	18 485
Total assets		31 001 032	29 604 085	29 306 609
LIABILITIES				
Deposits from banks	Note 35	1 815 758	1 692 595	1 726 929
Derivative financial instruments	Note 26	629 844	577 086	823 170
Deposits from customers	Note 36	21 513 382	20 838 980	20 058 578
Repo transactions	Note 37	1 661 617	999 541	1 027 278
Debt securities in issue	Note 38	795 252	840 383	1 307 583
Deferred tax liabilities	Note 39	254 785	315 232	323 162
Other liabilities	Note 40	982 419	903 807	802 050
Total liabilities		27 653 057	26 167 624	26 068 750
Equity				
Capital and reserves attributable to the Company's equity holders		3 279 076	3 381 518	3 201 841
Share capital	Note 41	729 603	729 603	729 603
Other reserve funds	Note 42	1 853 650	2 028 706	2 007 314
Revaluation reserve	Note 43	163 978	250 088	306 646
Retained earnings		107 941	(143 194)	(122 924)
Profit of the current period		423 904	516 315	281 202
Minority interest		68 899	54 943	36 018
Total equity		3 347 975	3 436 461	3 237 859
Total equity and liabilities		31 001 032	29 604 085	29 306 609



3. Movements on consolidated equity

MOVEMENTS ON CONSOLIDATED EQUITY	Equity					Total
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	Minority interest	
Opening balance at 31.12.2005	729 603	2 028 706	250 088	373 121	54 943	3 436 461
Net change in available for sale investments	-	-	(85 876)	-	-	(85 876)
Share scheme charge	-	176	-	-	-	176
Net gains not recognised in income statement	-	-	(85 876)	-	-	(85 876)
Net profit	-	-	-	423 904	39 669	463 573
Total recognised increase in equity in 1H 2006	-	176	(85 876)	423 904	39 669	377 873
Dividend relating to 2005	-	-	-	(437 762)	(27 044)	(464 806)
Write off to other reserve capitals	-	6 589	-	(6 589)	-	-
Transfer from other reserve capitals	-	(168 326)	-	168 326	-	-
Other	-	(13 495)	(234)	10 845	1 331	(1 553)
As at 30.06.2006	729 603	1 853 650	163 978	531 845	68 899	3 347 975

MOVEMENTS ON CONSOLIDATED EQUITY	Equity					Total
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	Minority interest	
Opening balance at 31.12.2004	729 603	1 701 632	156 012	432 153	30 807	3 050 207
changes in accounting principles resulting from adoption of IFRS	-	-	29 197	(72 102)	-	(42 905)
Adjusted balance at 1.01.2005	729 603	1 701 632	185 209	360 051	30 807	3 007 302
Net change in available for sale investments	-	-	66 001	-	-	66 001
Net gains not recognised in income statement	-	-	66 001	-	-	66 001
Net profit	-	-	-	516 315	29 592	545 907
Total recognised increase in equity in 2005	-	-	66 001	516 315	29 592	611 908
Dividend relating to 2004	-	-	-	(177 293)	(5 459)	(182 752)
Transfer to general banking risk fund	-	30 000	-	(30 000)	-	-
Transfer to supplementary capital	-	275 682	-	(275 682)	-	-
Other	-	21 392	(1 122)	(20 270)	3	3
As at 31.12.2005	729 603	2 028 706	250 088	373 121	54 943	3 436 461



MOVEMENTS ON CONSOLIDATED EQUITY	Equity					Total
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	Minority interest	
Opening balance at 31.12.2004	729 603	1 701 632	156 012	432 153	30 807	3 050 207
changes in accounting principles resulting from adoption of IFRS	-	-	29 197	(72 102)	-	(42 905)
Adjusted balance at 1.01.2005	729 603	1 701 632	185 209	360 051	30 807	3 007 302
Net change in available for sale investments	-	-	121 437	-	-	121 437
Net gains not recognised in income statement	-	-	121 437	-	-	121 437
Net profit	-	-	-	281 202	10 667	291 869
Total recognised increase in equity in 1H 2005	-	-	121 437	281 202	10 667	413 306
Dividend relating to 2004	-	-	-	(177 293)	(5 459)	(182 752)
Transfer to general banking risk fund	-	30 000	-	(30 000)	-	-
Transfer to supplementary capital	-	275 682	-	(275 682)	-	-
Other	-	-	-	-	3	3
As at 30.06.2005	729 603	2 007 314	306 646	158 278	36 018	3 237 859



4. Consolidated cash flow statement

	01.01.2006 30.06.2006	01.01.2005 30.06.2005
Net profit (loss)	423 904	281 202
Total adjustments:	456 292	1 214 257
Profits (losses) of minorities	39 669	10 667
Share in net profits (losses) of associates accounted for by the equity method	(743)	1 174
Amortization	86 424	94 316
Impairment losses	(1 808)	346
Gains (losses) on exchange differences	(13 466)	2 078
Interests and similar charges	154 992	66 828
Dividend income	(57 130)	(47 263)
(Profit) loss from investing activities	(28 497)	(1 590)
Change in provisions	1 316	(14 576)
Change in financial instruments at fair value through profit and loss	187 864	(1 390 782)
Change in loans and advances from banks	(133 872)	741 352
Change in loans and advances from customers	(1 311 191)	(135 582)
Change in receivables arising from securities purchased under reverse repo agreements	(92 317)	(405)
Change in deposits from banks	2 338	531 013
Change in deposits from customers	1 000 796	1 083 026
Change in liabilities arising from securities sold under repurchase agreements	662 076	294 506
Change in liabilities arising from debt securities in issue	(2 687)	37 428
Change in assets and liabilities arising from deferred taxation	(71 543)	(36 776)
Change in other assets and liabilities	33 660	(21 224)
Other adjustments	411	(279)
Net cash flow from operating activities - indirect method	880 196	1 495 459
Inflows	1 011 882	446 721
Sale of shares or interests in subsidiaries and associates	13 537	-
Sale of investment securities	939 880	393 086
Sale of intangible and tangible fixed assets	1 014	5 346
Dividends received	57 130	47 263
Proceeds from other investments	321	1 026
Outflows	(1 007 908)	(1 852 646)
Purchase of investment securities	(988 655)	(1 824 848)
Purchase of intangible and tangible fixed assets	(18 347)	(27 092)
Other investments	(906)	(706)
Net cash flow from investing activities	3 974	(1 405 925)
Inflows	191 819	68 952
Drawing of long-term loans	156 819	-
Issue of debt securities	35 000	68 952
Outflows	(669 375)	(328 853)
Repayment of long-term loans	(85 201)	(124 937)
Debt securities buy out	(88 000)	-
Dividends and other payments to shareholders	(464 806)	(182 752)
Other financing outflows	(31 368)	(21 164)
Net cash flow from financing activities	(477 556)	(259 901)
Total net cash flow	406 614	(170 367)
Cash at the beginning of the accounting period	593 673	1 232 742
Cash at the end of the accounting period	1 000 287	1 062 375



Additional notes to consolidated financial statements

5. General information about the issuer

Bank Zachodni WBK S.A. is a bank seated in Poland, registered in the District Court for Wrocław-Fabryczna, VI Economic Unit of the National Court Registry. The bank's parent company is Allied Irish Bank plc.

Group of Bank Zachodni WBK consists of the following subsidiaries and associates entities:

	Subsidiaries	Registered office	% of votes on AGM 30.06.2006	% of votes on AGM 31.12.2005	% of votes on AGM 30.06.2005
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. i Wspólnicy Spółka Komandytowa	Poznań	99,99	99,99	99,99
7.	BZ WBK Nieruchomości S.A.	Poznań	99,96	99,96	99,96
8.	Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp. z o.o.	Poznań	60,00	60,00	60,00
9.	AIB WBK Fund Managment S.A.*	Warszawa		54,00	54,00
10.	BZ WBK AIB Asset Management S.A.**	Poznań	50,00	50,00	50,00
11.	BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.	Poznań	100% of votes is held by BZ WBK and AIB Asset Management S.A.	100% of votes is held by BZ WBK and AIB Asset Management S.A.	100% of votes is held by BZ WBK and AIB Asset Management S.A.

* The Company AIB WBK Fund Managment S.A was sold on 10 May 2006.

**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, in line with the accounting act, the company is treated as a subsidiary undertaking.

	Associates	Registered office	% of votes on AGM 30.06.2006	% of votes on AGM 31.12.2005	% of votes on AGM 30.06.2005
1.	POLFUND - Fundusz Poręczeń Kredytowych S.A.	Szczecin	50,00	50,00	50,00
2.	Lubelskie Zakłady Przemysłu Skózanego Protektor S.A.**	Lublin		36,07	36,07
3.	NFI Magna Polonia S.A.	Warszawa	29,67	29,67	21,57*

* Direct holding of Bank Zachodni WBK S.A. Total shareholding BZWBK Group is 30,09%.

** The company Lubelskie Zakłady Przemysłu Skózanego Protektor S.A. was sold on 27 January 2006.



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 foreign markets. Additionally, through its subsidiaries, BZ WBK Group offers the following services:

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

6. Significant accounting policies

Statement of compliance

The interim consolidated financial statements of the Group has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with respect to matters not regulated by the above standards, in accordance with the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and the respective laws and in accordance with the Decree of the Ministry of Finance dated 19 October 2005 on current and periodical information provided by issuers of securities (Official Journal from 2005, No. 209, item 1744).

Standards that are issued and not yet effective.

IFRS 7 *Financial Instruments: Disclosures* is not effective until 1 January 2007 and was recently endorsement by the European Union. The Bank (BZWBK Group) has not early adopted since management believe that the disclosures under IFRS 7 would not be very different to the requirements of IAS 32 and IAS 30. Other standards, amendments to the standards and IFRIC interpretations recently endorsed or awaiting endorsement are either not relevant to the Bank (BZWBK Group) or would not have a material impact on the current financial statements.

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.

Comparability with results of previous periods

To ensure comparability, the following changes were made to the presentation of financial data compared with the 1H of 2005:

a) in the consolidated income statement:

- change in recognition of brokerage fees of PLN 4 331 k under item "Fee and commission income", which were previously presented under item "Other operating income",
- change of presentation of accrued interest of IRS of PLN 1 139 k now recognised as an element "Gains (losses) from financial instruments measured at fair value through profit and loss" while previously presented as "Gains (losses) on hedge accounting activities".

b) in the consolidated balance sheet:

- change of presentation of settlements relating to the purchase of options of PLN 11 626 k currently presented as "Derivative financial instruments" (both on the assets and liabilities side),
- netting of the Social Fund balances of PLN 16 721 k presented in the comparable period both on the assets and liabilities side.
- change of presentation of the historical capital arising from revaluation of fixed assets in the amount of PLN 59 210 k currently presented as "Other reserve funds", while previously recognised under "Revaluation reserve",
- change of presentation of Social Savings Associations in the amount of PLN 12 443 currently presented as „Deposits from customers" while previously recognised under „Deposits from banks".

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 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. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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 preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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, which are stated at historical cost, are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. 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.



Hedge accounting and derivative financial instruments

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

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

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

Hedge accounting 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.

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. Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an available-for-sale financial asset.

Financial assets and financial liabilities

Classification

The Group classifies its financial instruments into the following categories: financial assets or financial liabilities at fair value through profit or loss; held-to-maturity investments; loans and receivables and available-for-sale financial assets.

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.

- (1) Classified as held for trading. A financial asset or financial liability is classified as held for trading if:
 - a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;



- b) 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;
- c) derivatives are held for trading unless the derivative is a designated and effective hedging instrument.

(2) Upon initial recognition it is designated by the Group as at fair value through profit or loss.

Held-to-maturity investments

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

Loans and receivables

Loans and receivables arise when the Group provides money to a debtor for a purpose other than short-term profit taking. 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.

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.

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost using EIR method include deposits from banks, deposits from customers, repo transactions and debt securities in issue which are not subject to hedge accounting.

Recognition

A regular way purchase or sale of a financial asset classified at fair value through profit or loss, held to maturity 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.

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.

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.



After initial recognition, the Group measure financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for (a) loans and receivables which shall be measured at amortised cost using the effective interest method; (b) held-to-maturity investments which shall be measured at amortised cost using the effective interest method; and (c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost.

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 as 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 and foreign exchange gains and losses, is recognised directly in equity, through the statement of changes 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 investments 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 legally enforceable right to set off the recognised amounts and when there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Sale and repurchase agreements

The Group also generates funds by selling financial instruments under repurchase agreements whereby the instruments must be repurchased at the same price plus initially agreed interest.



Securities sold subject to repurchase agreements ("repos") are not derecognised at the balance sheet date. Where the transferee has the right by contract or custom to sell or repledge the collateral, the liability is disclosed as a liability arising from repo transactions. Securities purchased under agreements to resell ("reverse repos") are recorded as receivables arising from reverse repo transactions. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

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

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost 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, receivable or held-to-maturity investment 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.

As a practical expedient, the Group may measure impairment of a financial asset carried at amortised cost on the basis of an instrument's fair value using an observable market price. 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 (in excess of PLN 2 m),
- with reference to the portfolio of credit exposures which individually are not significant.

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 a 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 impairment analysis is carried out 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.

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 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.

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, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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. Such impairment losses are not reversed.

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 even though the financial asset has not been derecognised. 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.

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.

Off balance sheet liabilities

For off-balance sheet liabilities, provisions for impairment is measured using the existing credit limit and the recoverable amount defined as the present value of the estimated future cash flows discounted by the effective interest rate. For off-balance sheet liabilities the cash flows are calculated with reference to the existing credit limit at the date corresponding to the maturity of the obligation and depend on the probability of outflow of the funds from the Bank.

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 costs

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

Fixed assets held for sale

Directly before initial classification of an asset (or a group of assets for sale) as an asset for sale, the Group establishes the carrying amount of the assets (or all assets and liabilities included in the group) in line with the applicable IFRS. Then the unit recognises the asset (or a group of assets) classified as asset for sale at the lower of its carrying amount and fair value less costs of disposal.

Impairment of assets initially classified as available for sale is presented in the profit and loss account. The same applies to the revaluation-related future profits and losses.

Intangible assets***Goodwill***

Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. In respect of business acquisitions that have occurred since 1 January 2003, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is no longer amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

Computer software

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



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

Other intangible assets

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

Subsequent expenditure

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

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- software development costs 3 – 5 years
- computer software 3 – 5 years

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.

Impairment of assets other than financial assets.

The carrying amounts of the Group's assets, other than deferred tax 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.

For goodwill, intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

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



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.

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

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.

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.

Revaluation reserve comprises:

- differences from the valuation of financial assets available for sale taking into account the deferred income 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.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Dividends

Dividends on redeemable preference shares are recognised as a liability and expressed on an accrual basis. Other dividends are recognised as a liability in the period in which they are declared.



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 on an annual basis.

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

BZWBK Group operates a share based compensation plan. For grants of share based payments after 7 November 2002, 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.

Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

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.

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 on an on-going basis.

Dividend income

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

FX profit

Result on SPOT transactions taken to the FX profit is calculated by way of comparing the transaction exchange rate with the average NBP rate as at the balance sheet date.

Result on and valuation of FX Swap and FX Forward transactions is disclosed in "FX gains/losses".

The effects of valuation of the FX off balance sheet items (FX swaps, forwards and spot contracts) are recognized in the balance sheet and the profit and loss account at the transaction date.



Profit on disposal of subsidiaries and associates

Profit on the sale of interests in subsidiaries and associates is set as a difference between the net asset value and their sale price. It is disclosed as profit on disposal of subordinated entities and undertakings.

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 to be allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Corporate income tax

Corporate income tax consists of current and deferred tax.

Current tax is calculated based on the gross accounting income/loss adjusted by revenues which in line with tax regulations are not taken to taxable income and by costs which tax regulations do not recognize as tax deductible costs. Moreover, for tax purposes, the gross accounting income/loss is adjusted for income and costs from previous years realized for tax purposes in a given accounting period, and for deductions from income, e.g. donations.

The Group creates a provision for deferred tax in respect of all taxable temporary differences and deferred tax assets with regard to all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax assets and liabilities should be measured as the multiple of a temporary difference and the tax rates that are expected to apply to the period when the asset is realised or the liability is settled (liability method), based on tax rates/laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are not discounted.

Pursuant to the decision of 19 December 2003, based on art. 1a of the Corporate Income Tax Act, Stare Miasto Tax Office in Wrocław registered an Agreement establishing a tax group between Bank Zachodni WBK S.A. and its subsidiary – BZ WBK Inwestycje Sp. z o.o. The agreement was concluded for 3 tax years, i.e. from 1 January 2004 to 31 December 2006.



7. Segmental reporting

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

- Activity of the Treasury Operations Segment comprises foreign exchange and interbank transactions as well as transaction in derivative instruments and debt securities
- Activity of the Investment Banking Segment includes investment activities of Bank Zachodni WBK S.A., asset management and brokerage operations
- Activity of the Branch Operations Segment comprises branch network operations, Corporate Banking and the related internet distribution of services and products.
- 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 bases.

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.



Consolidated income statement

30.06.2006	Branch operations	Treasury operations	Investment banking	Leasing operations	Eliminations	Total
1. Total segments income	1 347 841	317 932	344 753	73 901	(546 546)	1 537 881
Segments income (external)	1 034 498	105 000	325 207	73 176		1 537 881
Segments income (internal)	313 343	212 932	19 546	725	(546 546)	
2. Total segments costs	(1 028 032)	(266 824)	(162 792)	(54 759)	546 546	(965 861)
Segments costs (external)	(796 629)	(19 556)	(101 111)	(48 565)		(965 861)
Segments costs (internal)	(231 403)	(247 268)	(61 681)	(6 194)	546 546	-
3. Dividend income			57 130			57 130
4. Movements in provisions	(14 578)	-	-	(1 769)	-	(16 347)
Write off	(167 293)			(9 322)		(176 615)
Write back	152 715			7 553		160 268
5. Segments income on investment in associates	-	-	743	-	-	743
6. Segments gross profit	305 231	51 108	239 834	17 373	-	613 546
7. Unallocated income						
8. Unallocated costs						(42 086)
9. EBT						571 460
10. Income tax						(107 887)
11. Minority interest						(39 669)
12. Net profit						423 904



Additional information

30.06.2006	Branch operations	Treasury operations	Investment banking	Leasing operations	Total
1. Segments assets	12 947 458	13 999 029	525 544	1 807 326	29 279 357
2. Segments investments in associates			68 858		68 858
3. Unallocated assets					1 652 817
Total assets	12 947 458	13 999 029	594 402	1 807 326	31 001 032
1. Segments liabilities	20 368 737	4 329 296	675 233	1 294 178	26 667 444
2. Unallocated liabilities					985 793
3. Equity					3 347 795
Total liabilities	20 368 737	4 329 296	675 233	1 294 178	31 001 032
1. Amortisation	76 684	745	1 720	856	80 005
2. Capital expenditures	13 679	1 221	1 426	1 367	17 693



Consolidated income statement

30.06.2005	Branch operations	Treasury operations	Investment banking	Leasing operations	Eliminations	Total
1. Total segments income	1 432 275	328 489	119 968	73 256	(560 286)	1 393 702
Segments income (external)*	1 142 559	78 244	100 942	71 957		1 393 702
Segments income (internal)	289 716	250 245	19 026	1 299	(560 286)	
2. Total segments costs	(1 180 760)	(298 661)	(62 636)	(53 440)	560 286	(1 035 211)
Segments costs (external)	(913 060)	(19 977)	(53 419)	(48 755)		(1 035 211)
Segments costs (internal)	(267 700)	(278 684)	(9 217)	(4 685)	560 286	-
3. Dividend income			47 397			47 397
4. Movements in provisions	(17 359)	-	-	617	-	(16 742)
Write off	(73 458)	-	-	(7 293)		(80 751)
Write back	56 099	-	-	7 910		64 009
5. Segments income on investment in associates	-	-	(1 174)			(1 174)
6. Segments gross profit	234 156	29 828	103 555	20 433	-	387 972
7. Unallocated income						
8. Unallocated costs						(36 664)
9. EBT						351 308
10. Income tax						(59 439)
11. Minority interest						(10 667)
12. Net profit						281 202



Additional information

30.06.2005	Branch operations	Treasury operations	Investment banking	Leasing operations	Total
1. Segments assets	12 610 548	12 906 530	453 608	1 527 958	27 498 644
2. Segments investments in associates			73 789		73 789
3. Unallocated assets					1 734 176
Total assets	12 610 548	12 906 530	527 397	1 527 958	29 306 609
1. Segments liabilities	19 374 271	4 164 252	421 715	1 125 659	25 085 897
2. Unallocated liabilities					982 853
3. Equity					3 237 859
Total liabilities	19 374 271	4 164 252	421 715	1 125 659	29 306 609
1. Amortization	84 830	796	1 866	778	88 270
2. Capital expenditure	16 766	375	614	842	18 597



8. Net interest income

Interest and similar income	01.01-30.06.2006	01.01-30.06.2005
Loans and advances to enterprises	277 978	300 908
Debt securities	209 483	247 136
Loans and advances to individuals of which:	155 181	139 908
<i>Mortgage loans</i>	61 245	64 599
Loans and advances to banks	81 167	57 370
Leasing agreements	62 367	64 919
Reverse repo transactions	2 305	1 042
Other (incl. public sector)	15 178	30 136
Total	803 659	841 419

Loans and advances to banks exclude income on repo transactions.

Interest expense and similar charges	01.01-30.06.2006	01.01-30.06.2005
Deposits from individuals	(117 242)	(187 032)
Deposits from enterprises	(88 348)	(97 840)
Deposits from banks	(30 419)	(49 747)
Debt securities in issue	(23 125)	(35 519)
Repo transactions	(31 430)	(13 804)
Other (incl. public sector)	(20 124)	(23 810)
Total	(310 688)	(407 752)

Net interest income	492 971	433 667
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As at 30 June 2006 net interest income includes interest accrued on impaired loans of PLN 15 879 k.

As at 30 June 2005 net interest income includes interest accrued on impaired loans of PLN 15 989 k.

9. Net fee and commission income

Fee and commission income	01.01-30.06.2006	01.01-30.06.2005
Asset management fees	159 879	44 629
Current accounts and payments	113 162	116 661
eBiznes & payments	112 809	135 968
Brokerage commissions	70 163	35 578
Distribution fees	50 419	7 885
Credit commissions (including factoring)	24 053	26 212
Credit cards	15 879	15 334
Insurance commissions	12 326	5 341
Off-balance sheet guarantee commissions	7 024	7 122
Issue arrangement	3 268	3 299
Finance lease commissions	296	90
Other commissions	556	349
Total	569 834	398 468

Fee and commission expense	01.01-30.06.2006	01.01-30.06.2005
eBiznes & payments	(19 245)	(52 864)
Distribution fees	(17 693)	(2 867)
Brokerage commissions	(16 642)	(8 899)
Asset management fees and other costs	(12 218)	(6 232)
Finance lease commissions	(2 971)	(2 802)
Insurance commissions	(2 741)	(2 294)
Credit cards	(1 106)	(1 105)
Commissions paid to credit agents	(871)	(473)
Other	(7 076)	(4 331)
Total	(80 563)	(81 867)

Net commission income	489 271	316 601
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10. Dividend income

Dividend income	01.01-30.06.2006	01.01-30.06.2005
Dividends from investment portfolio entities	56 651	47 325
Dividends from entities measured at fair value through profit and loss	479	72
Total	57 130	47 397

11. Foreign exchange profit

F/X income	01.01-30.06.2006	01.01-30.06.2005
Corporate negotiated transactions	54 342	46 872
Branch operations	28 681	22 619
Not-negotiated transactions	10 091	8 401
Trading activities	4 375	5 832
Other	7 460	33 867
Total	104 949	117 591

Foreign exchange income includes gains and losses from spot contracts, fx derivatives and translated foreign currency assets and liabilities.

12. Gains (losses) on hedge accounting activities

Gains less losses on hedge accounting activities	01.01-30.06.2006	01.01-30.06.2005
Change in fair value of hedging instruments	11 807	(8 462)
Change in fair value of underlying hedged positions	(9 179)	7 498
Total	2 628	(964)

13. Gains (losses) from financial instruments measured at fair value through profit and loss

Gains less losses from financial instruments measured at fair value through profit and loss	01.01-30.06.2006	01.01-30.06.2005
Profit/(loss) on derivative instruments	18 579	(3 967)
Profit/(loss) on debt instruments	970	11 624
Profit/(loss) on equity instruments	(2 934)	(375)
Total	16 615	7 282

14. Gains (losses) from investment in securities

Gains less losses from investment in securities	01.01-30.06.2006	01.01-30.06.2005
Sales of available-for-sale financial instruments	22 770	4 475
Costs of sales of available-for-sale financial instruments	(1 411)	(723)
Impairment losses or reversal of impairment losses on investment securities	1 711	111
Total	23 070	3 863

15. Gains (losses) on sale of subsidiaries and associates

Gains less losses on sale of subsidiaries and associates	01.01-30.06.2006	01.01-30.06.2005
Sale of subsidiaries	(1 568)	-
Sale of associates	7 811	-
Total	6 243	-



16. Other operating income

Other operating income	01.01-30.06.2006	01.01-30.06.2005
Sundry income	5 009	3 460
Release of provision (for liabilities relating to past commitments and other assets)	3 581	5 912
Received compensations, penalties and fines	1 152	469
Sales or liquidation of fixed assets, intangible assets and assets for disposal	663	1 666
Donations received	106	904
Other	7 669	11 165
Total	18 180	23 576

17. Impairment losses on loans and advances

Impairment losses on loans and advances	01.01-30.06.2006	01.01-30.06.2005
Impairment charge	(15 039)	(15 565)
Incurred but not reported losses charge	(8 684)	(3 066)
Off balance sheet credit related items	7 376	1 889
Total	(16 347)	(16 742)

As at 30.06.2006 amount PLN "impairment charge" includes recoveries from previously written off receivables of PLN 8 666 k.

18. Employee costs

Employee costs	01.01-30.06.2006	01.01-30.06.2005
Salaries	(256 671)	(224 993)
Salary related costs	(45 982)	(41 836)
Social benefits costs	(6 215)	(4 638)
Professional trainings	(6 989)	(5 933)
Retirement fund provision	(879)	(671)
Total	(316 736)	(278 071)

19. General and administrative expenses

General and administrative expenses	01.01-30.06.2006	01.01-30.06.2005
Maintenance and rentals of premises	(53 082)	(51 032)
IT systems costs	(26 979)	(27 017)
Postal and telecommunication costs	(22 470)	(21 795)
Marketing and representation	(23 549)	(17 259)
Consulting fees	(13 724)	(14 204)
Cars and transportation costs	(9 900)	(8 875)
Data transmission	(9 631)	(8 544)
External services	(8 371)	(10 015)
Taxes	(7 511)	(8 155)
Security costs	(5 089)	(5 430)
BFG costs	(2 339)	(2 481)
Costs of repairs	(2 798)	(2 078)
Other	(18 914)	(17 579)
Total	(204 357)	(194 464)



20. Other operating expenses

Other operating costs	01.01-30.06.2006	01.01-30.06.2005
Write-off to provisions (for liabilities relating to past commitments and other assets)	(10 138)	(5 515)
Debt recovery costs	(1 585)	(1 669)
Donations paid	(926)	(717)
Paid compensations, penalties and fines	(348)	(292)
Other	(3 479)	(4 745)
Total	(16 476)	(12 938)

21. Income tax charge

Income tax charge	01.01-30.06.2006	01.01-30.06.2005
Current tax charge	156 954	93 205
Deferred tax charge	(49 067)	(33 766)
Total	107 887	59 439

Corporate total tax charge information	01.01-30.06.2006	01.01-30.06.2005
Profit/loss before tax	571 460	351 308
Tax rate	19%	19%
Tax calculated at the tax rate	108 577	66 749
Non taxable expenses	13 197	2 782
Non taxable incomes	(18 783)	(9 291)
Other:		
- tax loss	-	66
- amount relating to article 38a Income tax Act	259	(686)
- valuation of assets	3 406	
- other	1 231	(181)
Total income tax expense	107 887	59 439

Deferred tax recognised directly in equity

As at 30 June 2006 the amount of deferred tax recognised directly in equity totalled:

Relating to equity securities available-for-sale	31 999	30 999
Relating to debt securities available-for-sale	6 485	38 458
Total	38 484	69 457

22. Earning per share

Earning per share	01.01-30.06.2006	01.01-30.06.2005
Profit attributable to ordinary shares	423 904	281 202
Weighted average number of ordinary shares	72 960 284	72 960 284
Basic earnings per share	5,81	3,85
Profit attributable to ordinary shares	423 904	281 202
Weighted average number of ordinary shares	72 960 284	72 960 284
Weighted average number of potential ordinary shares	124 473	-
Diluted earnings per share	5,80	3,85



23. Cash and balances with central bank

Cash and balances with central bank	30.06.2006	31.12.2005	30.06.2005
Cash	466 393	503 352	375 730
Current account in central bank	516 572	67 783	654 430
Other cash equivalents	1 187	1 207	1 267
Total	984 152	572 342	1 031 427

The amount of current account in central bank refers to monies held as the obligatory reserve.

24. Loans and advances to banks

Loans and advances to banks	30.06.2006	31.12.2005	30.06.2005
Loans and advances	2 181 346	3 333 383	1 707 775
Current accounts	1 325 292	282 507	340 922
Other	-	9	-
Gross receivables	3 506 638	3 615 899	2 048 697
Impairment write down	(7 566)	(7 566)	(7 566)
Total	3 499 072	3 608 333	2 041 131

Movements on impairment losses on receivables from banks	30.06.2006	31.12.2005	30.06.2005
Balance at 1 January	(7 566)	(7 566)	(7 566)
Recoveries	-	-	-
Balance at the end of the period	(7 566)	(7 566)	(7 566)

25. Financial instruments at fair value through profit & loss account

Financial instruments at fair value through profit & loss account	30.06.2006	31.12.2005	30.06.2005
Debt securities	1 822 067	1 925 406	2 881 091
Government securities:	1 822 045	1 925 330	2 881 015
- bills	1 617 160	1 792 789	2 583 180
- bonds	204 885	132 541	297 835
Other securities:	22	76	76
- bonds	22	76	76
Equity securities:	6 719	503	1 352
- listed	6 705	503	1 352
- unlisted	14	-	-
Total	1 828 786	1 925 909	2 882 443

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. Financial assets were not designated to this category at 30 June 2006 and in comparable periods.



26. Derivative financial instruments

Derivative financial instruments

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

FX transactions (FX SWAP, FX Forward, CIRS, Spot)

FX transactions are measured on the basis of discounting future cash flows with a market rate, the sites of Reuters and the fixing site of NBP are the source of rates.

Interest rate contracts

Interest rate contracts include SWAP transactions (hereinafter referred to as IRS) and FRAs. IRSs and FRAs are marked to market based on future discounted cash flows (NPV). The rates applied to generate the zero-coupon yield curve are taken from Reuters' web site.

Options

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

Trading derivatives	30.06.2006		31.12.2005		30.06.2005	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate transactions	211 338	128 669	166 371	107 485	368 425	303 699
IRS	198 135	109 066	153 640	94 849	329 172	256 988
FRA	13 203	19 603	12 731	12 636	39 253	46 711
Equity derivatives	18 492	15 023	22 589	14 972	22 589	11 626
Options long	18 492	15 023	22 589	14 972	22 589	11 626
Currency derivatives	467 781	472 100	543 768	430 967	354 005	473 171
FX Swap	66 206	89 029	137 155	70 965	329 411	436 866
CIRS	337 948	342 753	370 224	329 821	5 862	3 180
Forward	33 312	21 572	23 589	15 929	6 716	21 267
Spot	16 165	5 886	580	2 031	1 667	2 649
Options	14 150	12 860	12 220	12 221	10 349	9 209
Total trading derivatives	697 611	615 792	732 728	553 424	745 019	788 496
Hedging derivatives	30.06.2006		31.12.2005		30.06.2005	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Fair value hedge	4 545	14 052	2 486	23 662	6 973	34 674
IRS	3 678	14 052	2 486	23 662	6 973	34 674
FRA	867					
Total hedging derivatives	4 545	14 052	2 486	23 662	6 973	34 674
Total derivatives	702 156	629 844	735 214	577 086	751 992	823 170



27. Loans and advances to customers

Loans and advances to customers	30.06.2006	31.12.2005	30.06.2005
Loans and advances to enterprises	10 405 306	9 622 419	9 595 588
Loans and advances to individuals, of which:	3 677 473	3 315 120	2 982 146
<i>Real estate financing</i>	2 226 078	2 028 770	1 907 756
Finance lease receivables	1 743 103	1 609 751	1 499 013
Loans and advances to public sector	337 954	342 450	403 138
Other	43 851	34 008	45 646
Gross receivables	16 207 687	14 923 748	14 525 531
Impairment losses in loans and advances to customers	(731 921)	(726 849)	(742 319)
Total	15 475 766	14 196 899	13 783 212

As at 30.06.2006 fair value adjustment due to hedged risk on corporate loans totalled PLN 10 554 k (as at 31.12.2005 - PLN 18 283 k; as at 30.06.2005 - PLN 25 066 k).

Movements on impairment recognised on loans and advances to customers	30.06.2006	31.12.2005	30.06.2005
Balance at 31st December	(726 849)	(627 329)	(627 329)
IFRS impact	-	(101 075)	(101 075)
Balance at 1st January	(726 849)	(728 404)	(728 404)
Charge of current period	(175 134)	(166 973)	(80 452)
Write back of current period	151 411	109 360	61 821
Write downs and write off's	20 393	57 198	4 121
Currency movements	(1 742)	1 970	595
Balance at each balance sheet date	(731 921)	(726 849)	(742 319)

As at the end of the periods closing balance of impairment recognised on loans and advances to clients consisted of:

Provision for incurred but not reported losses	95 395	86 001	86 573
Impairment charge	636 526	640 848	655 746
Total	731 921	726 849	742 319

28. Reverse repo transactions

Reverse repo transactions	30.06.2006	31.12.2005	30.06.2005
Transactions related to debt securities	87 833	-	-
Transactions related to equity securities	19 684	15 199	26 102
Total	107 517	15 199	26 102



29. Investment securities

Investment securities	30.06.2006	31.12.2005	30.06.2005
Available for sale investments - measured at fair value	6 868 982	6 990 336	7 199 099
Debt securities:	6 619 153	6 726 890	6 921 751
Government securities:	5 834 216	6 023 557	6 204 662
- bills	289 930	531 230	1 299 886
- bonds	5 544 286	5 492 327	4 904 776
Central Bank securities:	580 804	604 113	590 416
- bonds	580 804	604 113	590 416
Other securities:	204 133	99 220	126 673
- bonds	169 618	68 049	95 764
- other	34 515	31 171	30 909
Equity securities - measured at fair value:	230 039	247 581	261 759
- listed	3 629	21 180	20 878
- unlisted	226 410	226 401	240 881
Other	19 790	15 865	15 589
Total	6 868 982	6 990 336	7 199 099

As at 30.06.2006 fixed interest rate debt securities measured at fair value amount to PLN 5 621 294 k, variable interest rate securities amount to PLN 997 859 k.

As at 31.12.2005 fixed interest rate debt securities measured at fair value amount to PLN 5 812 978 k, variable interest rate securities amount to PLN 913 912 k.

As at 30.06.2005 fixed interest rate debt securities measured at fair value amount to PLN 5 935 458 k, variable interest rate securities amount to PLN 986 293 k.

As at 30.06.2006 fair value adjustments resulting from fair value hedge on available for sale debt securities totalled PLN 615 k (31.12.2005 - PLN 3 665 k, 30.06.2005 - PLN (1 074) k)

Bank Zachodni WBK S.A. Group reclassified no financial assets measured using the amortized cost method to another portfolio in 2005 and 2006.

When fair value cannot be reliably determined, Bank Zachodni WBK S.A. carries certain debt instruments at amortised cost and capital instruments at cost, periodically testing for impairment. As at 30.06.2006 group of debt securities amount to PLN 34 515 k (end-December 2005 - PLN 31 171 k; end-June 2005 - PLN 30 909 k) and capital instruments amount to PLN 26 359 k (end-December 2005 - PLN 26 352 k; end-June 2005 - PLN 26 359 k).



Movement on investment securities	Available for sale	Total
As at 31 December 2005	6 726 890	6 726 890
Additions	988 860	988 860
Disposals (sale and redemption)	(908 547)	(908 547)
Fair value adjustment (AFS)	(199 660)	(199 660)
F/X differences	11 610	11 610
As at 30 June 2006	6 619 153	6 619 153

Movement on investment securities	Available for sale	Held to maturity	Total
As at 31 December 2004	2 656 622	2 684 848	5 341 470
IFRS impact	2 684 848	(2 684 848)	-
Fair value adjustment (AFS)	20 621	-	20 621
As at 1 January 2005	5 362 091	-	5 362 091
Additions	2 769 328	-	2 769 328
Disposals (sale and redemption)	(1 568 420)	-	(1 568 420)
Fair value adjustment (AFS)	163 780	-	163 780
Provision for impairment	111	-	111
As at 31 December 2005	6 726 890	-	6 726 890

Movement on investment securities	Available for sale	Held to maturity	Total
As at 31 December 2004	2 656 622	2 684 848	5 341 470
IFRS impact	2 684 848	(2 684 848)	-
Fair value adjustment (AFS)	20 621	-	20 621
As at 1 January 2005	5 362 091	-	5 362 091
Additions	1 846 943	-	1 846 943
Disposals (sale and redemption)	(637 001)	-	(637 001)
Fair value adjustment (AFS)	349 607	-	349 607
Provision for impairment	111	-	111
As at 30 June 2005	6 921 751	-	6 921 751

30. Investments in associates

Investments in associates	30.06.2006	31.12.2005	30.06.2005
As at 1 January	73 237	76 943	76 943
Share of profits	743	470	(1 172)
Dividend received	-	(1 982)	(1 982)
Sale/acquisition	(5 122)	(2 194)	-
As at the end of the period	68 858	73 237	73 789



Investments in associates as at 30.06.2006

No.	a name of entity (and its legal status)	b business	c registered office	d Balance sheet value	e total assets	f own funds of entity, of which:					g liabilities of entity, of which:			h Revenues	i % of holding *	
						share capital	due contributions to share capital (negative value)	other own funds, of which:		short-term	long-term					
								from previous years	net profit (loss)							
1	POLFUND - Fundusz Poręczeń Kredytowych S.A. As at 31.05.2006	providing lending guarantees, investing and managing funds invested in companies, management	Szczecin	8 704	28 560	17 408	16 000	-	1 408	687	476	10 041	41	10 000	457	50,00
2	NFI Magna Polonia S.A. As at 31.03.2006	buying securities issued by State Treasury, buying or taking up interests or shares in entities registered and operating in Poland, buying other securities issued by these entities	Warszawa	60 154	201 546	201 223	3 006	-	198 217	2 870	(53)	323	323	-	1 222	29,67
	Total			68 858	230 106	218 631	19 006	-	199 625	3 557	423	10 364	364	10 000	1 679	

* states percentage share of associates profits



Investments in associates as at 31.12.2005

No.	a name of entity (and its legal status)	b business	c registered office	d Balance sheet value	e total assets	f own funds of entity, of which:					g liabilities of entity, of which:			h Revenues	i % of holding **	
						share capital	due contributions to share capital (negative value)	other own funds, of which:		short-term	long-term					
								from previous years	net profit (loss)							
1	POLFUND - Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management	Szczecin	8 596	67 991	17 192	16 000	-	1 192	-	761	43	43	-	626	50,00
2	LZPS PROTEKTOR S.A.*	production of protective, military and ordinary footwear	Lublin	5 142	27 614	14 253	4 744	-	9 509	-	(1 153)	11 619	11 619	-	14 693	36,07
3	NFI Magna Polonia S.A.*	buying securities issued by State Treasury, buying or taking up interests or shares in entities registered and operating in Poland, buying other securities issued by these entities	Warszawa	59 499	202 317	200 510	3 006	-	197 504	9 669	1 561	1 343	1 343	-	6 215	29,67
	Total			73 237	297 922	231 955	23 750	-	208 205	9 669	1 169	13 005	13 005	-	21 534	

* financial highlights as at September 2005.

** states percentage share of associates profits



Investments in associates as at 30.06.2005

No.	a name of entity (and its legal status)	b business	c registered office	d Balance sheet value	e total assets	f own funds of entity of which:						g liabilities of entity, of which:			h Revenues	i % of holding **	
						share capital	reserve capital	due contributions to share capital (negative value)	other own funds, of which:		short-term	long-term					
									from previous years	net profit (loss)							
1	POLFUND - Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management	Szczecin	8 245	17 792	16 489	16 000	245	-	244	-	149	320	320	-	267	50,00
2	LZPS PROTEKTOR S.A.*	production of protective, military and ordinary footwear	Lublin	5 518	26 977	19 976	4 744	6 354	-	8 878	5 731	(328)	5 315	5 315	-	5 082	36,07
3	NFI Magna Polonia S.A.*	buying securities issued by State Treasury, buying or taking up interests or shares in entities registered and operating in Poland, buying other securities issued by these entities	Warszawa	60 026	200 116	199 458	3 006	194 359	-	2 093	9 067	1 111	188	188	-	2 699	30,09
	Total			73 789	244 885	235 923	23 750	200 958	-	11 215	14 798	932	5 823	5 823	-	8 048	

* financial highlights as at end of March 2005

** states percentage share of associates profits



31. Intangible assets

Intangible assets	Computer software, brand names and copy rights	Other intangible assets (know-how)	Capital expenditures	Total
Gross value at the beginning of the period	481 160	8 233	22 411	511 804
Additions (from purchase)	411	-	6 129	6 540
Disposals (from liquidation)	(948)	-	-	(948)
Intangible assets taken for use	11 648	44	(11 692)	-
Reclassifications	-	-	(80)	(80)
Gross value at the end of the period	492 271	8 277	16 768	517 316
Accumulated depreciation at the beginning of the period	(329 900)	(7 709)	-	(337 609)
Current year depreciation	(41 094)	(66)	-	(41 160)
Liquidation	868	-	-	868
Reclassifications	80	-	-	80
Accumulated depreciation at the end of the period	(370 046)	(7 775)	-	(377 821)
Book Value				
Purchase value	492 271	8 277	16 768	517 316
Accumulated depreciation	(370 046)	(7 775)	-	(377 821)
As at 30 June 2006	122 225	502	16 768	139 495

The value of intangible assets is mostly related to Integrated Centralised Banking System presented. It is a core system for BZWBK branches since 2002 (its value according to purchase price amounted to PLN 261 920 k). Its book value as at 30-06-2006 amounted to PLN 83 290 k (including modifications).

Intangible assets	Computer software	Other intangible assets (brand names and copy rights)	Capital expenditures	Total
Gross value at the beginning of the period	467 951	7 629	22 727	498 307
Additions (from purchase and donation)	2 124	-	23 828	25 952
Disposals (from liquidation)	(12 901)	-	(230)	(13 131)
Intangible assets taken for use	23 986	604	(24 590)	-
Reclassifications	-	-	676	676
Gross value at the end of the period	481 160	8 233	22 411	511 804
Accumulated depreciation at the beginning of the period	(253 929)	(7 372)	-	(261 301)
Current year depreciation	(85 410)	(340)	-	(85 750)
Liquidation	11 260	-	-	11 260
Reclassifications	(1 822)	3	-	(1 819)
Accumulated depreciation at the end of the period	(329 901)	(7 709)	-	(337 610)
Book Value				
Purchase value	481 160	8 233	22 411	511 804
Accumulated depreciation	(329 901)	(7 709)	-	(337 610)
As at 31 December 2005	151 259	524	22 411	174 194



Intangible assets	Computer software	Other intangible assets (brand names and copy rights)	Capital expenditures	Total
Gross value at the beginning of the period	468 105	7 629	22 573	498 307
Additions (from purchase and donation)	621	-	8 169	8 790
Disposals (from liquidation)	(136)	-	(20)	(156)
Intangible assets taken for use	18 609	604	(19 213)	-
Reclassifications	127	-	496	623
Gross value at the end of the period	487 326	8 233	12 005	507 564
Accumulated depreciation at the beginning of the period	(253 929)	(7 372)	-	(261 301)
Current year depreciation	(43 009)	(274)	-	(43 283)
Liquidation	60	-	-	60
Reclassifications	56	-	-	56
Accumulated depreciation at the end of the period	(296 822)	(7 646)	-	(304 468)
Book Value				
Purchase value	487 326	8 233	12 005	507 564
Accumulated depreciation	(296 822)	(7 646)	-	(304 468)
As at 30 June 2005	190 504	587	12 005	203 096

32. Property, plant & equipment

Property, plant & equipment	Land and Buildings	Transportation means	Equipment	Other fixed assets	Capital expenditures	Total
Gross value at the beginning of the period	549 579	29 048	573 150	13 116	8 173	1 173 066
Additions (from purchase and lease)	38	3 440	691	139	9 879	14 187
Disposals (from sale, liquidation and donation)	(3 626)	(1 450)	(1 612)	(299)	(731)	(7 718)
Fixed assets taken for use	2 165	-	13 288	142	(14 864)	731
Reclassifications	-	(71)	30	10	75	44
Gross value at the end of the period	548 156	30 967	585 547	13 108	2 532	1 180 310
Accumulated depreciation at the beginning of the period	(184 174)	(13 069)	(448 008)	(9 172)	-	(654 423)
Current year depreciation	(10 788)	(3 172)	(30 641)	(663)	-	(45 264)
Sale, liquidation or donation of assets	826	1 060	1 430	177	-	3 493
Fixed assets taken for use	-	-	-	-	-	-
Reclassifications	2 235	31	24	13	-	2 303
Accumulated depreciation at the end of the period	(191 901)	(15 150)	(477 195)	(9 645)	-	(693 891)



Book Value

Purchase value	548 156	30 967	585 547	13 108	2 532	1 180 310
Depreciation	(191 901)	(15 150)	(477 195)	(9 645)	-	(693 891)
As at 30 June 2006	356 255	15 817	108 352	3 463	2 532	486 419

Reclassifications of value "Accumulated depreciation" concerns reclassification release of provision and the decrease of impairment losses due to sale or liquidation of fixed assets.

Property, plant & equipment	Land and Buildings	Transportation means	Equipment	Other fixed assets	Capital expenditures	Total
Adjusted gross value at the beginning of the period	547 182	30 161	564 956	12 529	15 699	1 170 527
Additions (from purchase, lease and donation)	385	5 868	1 114	973	43 320	51 660
Disposals (from sale, liquidation and donation)	(4 134)	(7 054)	(40 902)	(393)	(207)	(52 690)
Fixed assets taken for use	1 738	-	47 688	74	(49 500)	-
Reclassifications	4 408	73	294	(67)	(1 139)	3 569
Gross value at the end of the period	549 579	29 048	573 150	13 116	8 173	1 173 066
Adjusted accumulated depreciation at the beginning of the period	(162 055)	(13 521)	(416 799)	(7 967)	-	(600 342)
Current year depreciation	(21 965)	(5 470)	(71 665)	(1 631)	-	(100 731)
Sale, liquidation or donation of assets	1 202	5 968	34 704	323	-	42 197
Fixed assets taken for use	-	-	-	(25)	-	(25)
Reclassifications	(1 355)	(47)	5 217	126	-	3 941
Impairment write down	-	-	(951)	-	-	(951)
Reversal of impairment write down	-	-	1 488	-	-	1 488
Accumulated depreciation at the end of the period	(184 173)	(13 070)	(448 006)	(9 174)	-	(654 423)
Book value						
Purchase value	549 579	29 048	573 150	13 116	8 173	1 173 066
Depreciation and impairment losses	(184 173)	(13 070)	(448 006)	(9 174)	-	(654 423)
As at 31 December 2005	365 406	15 978	125 144	3 942	8 173	518 643

The opening balance was adjusted by perpetual usufruct value, which has been qualified to operating lease and assets held for sale. Reclassifications of value concerns: 1/ reclassification one of properties from assets held for sale to fixed assets (transfer of gross value and impairment losses), 2/ separating capital expenditures connected with tangible and intangible assets (transfer of gross value) 3/ reclassification one of properties to assets held for sale (transfer of gross value) 4/ separating impairment losses connected with tangible and intangible assets, release of provision (transfer of impairment losses).



Property, plant & equipment	Land and Buildings	Transportation means	Equipment	Other fixed assets	Capital expenditures	Total
Adjusted gross value at the beginning of the period	548 237	30 388	566 345	11 067	15 699	1 171 736
Additions (from purchase, lease and donation)	95	2 988	585	138	12 511	16 317
Disposals (from sale, liquidation and donation)	(3 177)	(4 532)	(22 477)	(2)	(2)	(30 190)
Fixed assets taken for use	1 009	-	22 889	74	(23 972)	-
Reclassifications	4 408	80	485	188	(825)	4 336
Gross value at the end of the period	550 572	28 924	567 827	11 465	3 411	1 162 199
Adjusted accumulated depreciation at the beginning of the period	(150 689)	(13 581)	(404 784)	(7 111)	-	(576 165)
Current year depreciation	(11 093)	(2 725)	(36 583)	(621)	-	(51 022)
Sale, liquidation or donation of assets	823	3 536	19 617	2	-	23 978
Reclassifications	(624)	65	(214)	(39)	-	(812)
Impairment write down	(12 724)	-	(12 317)	(88)	-	(25 129)
Reversal of impairment write down	-	-	-	-	-	-
Accumulated depreciation at the end of the period	(174 307)	(12 705)	(434 281)	(7 857)	-	(629 150)
Book value						
Purchase value	550 572	28 924	567 827	11 465	3 411	1 162 199
Depreciation and impairment losses	(174 307)	(12 705)	(434 281)	(7 857)	-	(629 150)
As at 30 June 2005	376 265	16 219	133 546	3 608	3 411	533 049

Reclassifications mostly concern movements between fixed and intangible asset.



33. Deferred tax asset

Deferred tax asset	31.12.2005	Increase	Decrease	30.06.2006
Unrealized securities interest	18 115	354	-	18 469
Unrealized deposit interest	26 964	13 486	-	40 450
Unrealized liabilities due to derivatives	138 208	775	-	138 983
Specific provisions which are not yet taxable costs	134 608	-	(12 080)	122 528
Other provisions which are not yet taxable costs	50 394	1 553	(745)	51 202
Difference between balance sheet and taxable value of leasing portfolio	17 831	5 975	(161)	23 645
Additional deferred tax assets resulting from art. 38 a of Corporate Tax Act	15 293	-	(480)	14 813
Tax Loss	330	-	(330)	-
Other	33 489	7 855	(36)	41 308
Total	435 232	29 998	(13 832)	451 398

As at 30 June 2006 calculation of deferred tax asset did not taken into account bought receivables of PLN 21 223 k and loans that will never be realised of PLN 17 584k.

Deferred tax asset	31.12.2004	Increase	Decrease	31.12.2005
Unrealized securities interest	26 664	-	(8 549)	18 115
Unrealized deposit interest	13 188	13 776	-	26 964
Unrealized liabilities due to derivatives	163 168	-	(24 960)	138 208
Specific provisions which are not yet taxable costs	165 656	-	(31 048)	134 608
Other provisions which are not yet taxable costs	55 338	2 927	(7 871)	50 394
Difference between balance sheet and taxable value of leasing portfolio	15 807	2 865	(841)	17 831
Additional deferred tax assets resulting from art. 38 a of Corporate Tax Act	14 808	485	-	15 293
Tax Loss	658	-	(328)	330
Other	17 616	16 734	(861)	33 489
Total	472 903	36 787	(74 458)	435 232

As at 31 December 2005 calculation of deferred tax asset did not taken into account bought receivables of PLN 21 949 k and loans that will never be realised of PLN 3 060k.

Deferred tax asset	31.12.2004	Increase	Decrease	30.06.2005
Unrealized securities interest	26 664	7 080	(1 091)	32 653
Unrealized deposit interest	13 188	5 441	-	18 629
Unrealized liabilities due to derivatives	163 168	10 294	-	173 462
Specific provisions which are not yet taxable costs	165 656	3 101	-	168 757
Other provisions which are not yet taxable costs	55 338	5 537	(7 849)	53 026
Difference between balance sheet and taxable value of leasing portfolio	15 807	3 500	(697)	18 610
Additional deferred tax assets resulting from art. 38 a of Corporate Tax Act	14 808	686	-	15 494
Tax Loss	658	-	(97)	561
Other	17 616	13 087	(1 417)	29 286
Total	472 903	48 726	(11 151)	510 478

As at 30 June 2005 calculation of deferred tax asset did not taken into account bought receivables of PLN 22 983 k

34. Other assets

Other assets	30.06.2006	31.12.2005	30.06.2005
Sundry debtors	267 395	254 014	189 828
Interbank and interbranch settlements	76 541	61 779	36 592
Prepayments	26 535	24 768	25 382
Assets held for sale	17 420	17 420	18 485
Other	540	566	504
Total	388 431	358 547	270 791



Assets held for sale - BZ WBK Group

30 June 2006	Gross value	Impairment	
		loss	Carrying value
Land and buildings	22 376	(7 078)	15 298
Equipment	2 149	(27)	2 122
Total	24 525	(7 105)	17 420

31 December 2005	Gross value	Impairment	
		loss	Carrying value
Land and buildings	22 376	(7 078)	15 298
Equipment	2 149	(27)	2 122
Total	24 525	(7 105)	17 420

30 June 2005	Gross value	Impairment	
		loss	Carrying value
Land and buildings	23 083	(6 751)	16 332
Equipment	2 180	(27)	2 153
Total	25 263	(6 778)	18 485

35. Deposits from banks

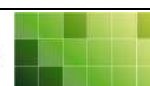
Deposits from banks	30.06.2006	31.12.2005	30.06.2005
Current accounts	412 268	683 013	355 619
Deposits	1 016 707	651 602	1 120 736
Credits	386 519	357 722	250 244
Other	264	258	330
Total	1 815 758	1 692 595	1 726 929

As at 30.06.2006 fair value adjustment due to hedged risk on deposit totalled PLN 82 k (as at 31.12.2005 - PLN 85 k; as at 30.06.2005 - fair value adjustment due to hedged risk on deposit wasn't applied)

36. Deposits from customers

Deposits from customers	30.06.2006	31.12.2005	30.06.2005
Deposits from individuals	11 756 794	11 277 972	11 750 236
- term deposits	7 982 399	8 130 803	8 945 805
- current accounts	3 729 348	3 112 285	2 764 277
- other	45 047	34 884	40 154
Deposits from enterprises	8 173 789	8 096 595	6 990 239
- current accounts	4 468 474	5 142 465	3 562 440
- term deposits	3 266 309	2 555 233	2 951 982
- credits	43 494	69 235	153 549
- other	395 512	329 662	322 268
Deposits from public sector	1 582 799	1 464 413	1 318 103
- current accounts	998 787	1 172 527	837 196
- term deposits	583 480	291 244	480 598
- other	532	642	309
Total	21 513 382	20 838 980	20 058 578

As at 30.06.2006 deposits held as collateral totalled PLN 166 671 k.
As at 31.12.2005 deposits held as collateral totalled PLN 167 869 k.
As at 30.06.2005 deposits held as collateral totalled PLN 171 954 k.



37. Repo transactions

Repo transactions	30.06.2006	31.12.2005	30.06.2005
Banks	1 653 893	978 673	826 756
Other entities	7 724	20 868	200 522
Total	1 661 617	999 541	1 027 278

The transaction relates to State Treasury securities (bonds and bills).

38. Debt security in issue

Debt security in issue	Average coupon			Nominal value		
	30.06.2006	31.12.2005	30.06.2005	30.06.2006	31.12.2005	30.06.2005
Bond 2-Y 2S1005	-	-	fixed;4,75%	-	-	36 627
Bond 2-Y 2S1105	-	-	fixed;5,25%	-	-	298 569
Bond 2-Y 2S1205	-	-	fixed; 5,25%	-	-	112 850
Bond 5-Y 5S1008	fixed; 5,25%	fixed; 5,25%	fixed; 5,25%	7 091	7 091	7 091
Bond 5-Y 5S1108	fixed; 5,75%	fixed; 5,75%	fixed; 5,75%	9 953	9 953	9 953
Bond 5-Y 5S1208	fixed; 6,00%	fixed; 6,00%	fixed; 6,00%	61 875	61 875	61 875
Bond 3 Y A1	W3M + 1%	W3M + 1%	W3M + 1%	-	83 002	83 002
Bond 3 Y-3S0707	fixed; 7%	fixed; 7%	fixed; 7%	49 832	49 832	49 840
Bond 3 Y-3S1007	fixed; 7,25%	fixed; 7,25%	fixed; 7,25%	10 235	10 235	10 235
Bond 3 Y-3S1107	fixed; 7%	fixed; 7%	fixed; 7%	29 975	29 978	29 990
Bond 3 Y-3S11A07	fixed; 7%	fixed; 7%	fixed; 7%	10 000	10 000	10 000
Bond 3 Y-3S0806	fixed; 4,4%	fixed; 4,4%	fixed; 4,4%	3 059	3 059	-
Bond 3 Y-3S0806	fixed; 5,25%	fixed; 5,25%	fixed; 5,25%	149 526	149 525	149 527
Bond 3 Y-3Z0806	WIBOR 6M + 0,25%	WIBOR 6M + 0,25%	WIBOR 6M + 0,25%	48 736	48 736	48 737
Bond 3 Y-3S0207	fixed; 6,5%	fixed; 6,5%	fixed; 6,5%	45 189	45 187	45 189
Bond 3 Y-3S0307	fixed; 6,5%	fixed; 6,5%	fixed; 6,5%	18 592	18 591	18 590
Bond 3 Y-3S0407	fixed; 6,5%	fixed; 6,5%	fixed; 6,5%	9 423	9 422	9 422
Bond 3 Y-3S0507	fixed; 6,75%	fixed; 6,75%	fixed; 6,75%	19 368	19 368	19 368
Bond 3 Y-3Z0507	WIBOR 6M + 0,10%	WIBOR 6M + 0,10%	WIBOR 6M + 0,10%	6 406	6 415	6 420
Bond 3 Y-3S0807	fixed; 7,3%	fixed; 7,3%	fixed; 7,3%	49 989	49 989	49 990
Bond 3 Y-3S0907	fixed; 7,3%	fixed; 7,3%	fixed; 7,3%	49 925	49 925	49 925
Bond 3 Y-3Z0807	WIBOR 6M + 0,20%	WIBOR 6M + 0,20%	WIBOR 6M + 0,20%	40 143	40 152	40 154
Bond 3 Y-3S0108	fixed; 6,25%	fixed; 6,25%	fixed; 6,25%	24 978	24 976	24 998
Bond 3 Y-3S0308	fixed; 5,55%	fixed; 5,55%	fixed; 5,55%	14 985	14 995	15 000
Bond 3 Y-3S 508	fixed; 5,25%	fixed; 5,25%	fixed; 5,25%	22 030	22 045	22 055
Bond 3 Y-3S0608	fixed; 5,15%	fixed; 5,15%	fixed; 5,15%	7 283	7 295	6 779
Bond 3 Y-3S1008	fixed; 4,2%	fixed; 4,2%	-	12 787	12 791	-
Bond 3 Y-3S1108	fixed; 4,6%	fixed; 4,6%	-	14 296	14 305	-
Bond 3 Y-3Z0209X	WIBOR 1M + 0,44%	-	-	35 000	-	-
Total nominal value				750 676	798 742	1 216 186
Total carrying value				795 252	840 383	1 307 583

As at 30.06.2006 the nominal value was increased by interest of PLN 37 815 k, bond valuation of PLN 6 761 k related to hedging activities.

As at 31.12.2005 the nominal value was increased by interest of PLN 26 796 k, bond valuation of PLN 14 845 k related to hedging activities.

As at 30.06.2005 the nominal value was increased by interest of PLN 69 348 k, bond valuation of PLN 22 049 k related to hedging activities.



39. Deferred tax liabilities

Deferred tax liability	31.12.2005	Increase	Decrease	30.06.2006
Unrealised interests from securities and interbank deposits	47 201	69	(16 747)	30 523
Unrealised loans interests	12 920	-	(5 437)	7 483
Unrealised receivables on derivatives	140 871	-	(5 212)	135 659
Provision due to application of investment relief	5 023	-	(1 811)	3 212
Valuation of assets available for sale	58 619	-	(20 135)	38 484
Other	50 598	1 809	(12 983)	39 424
Total	315 232	1 878	(62 325)	254 785

Deferred tax liability	31.12.2004	Increase	Decrease	31.12.2005
Unrealised interests from securities and interbank deposits	59 777	129	(12 705)	47 201
Unrealised loans interests	8 952	4 541	(573)	12 920
Unrealised receivables on derivatives	149 700	-	(8 829)	140 871
Provision due to application of investment relief	6 467	-	(1 444)	5 023
Deferred tax liability due to f/x differences	3 200	-	(3 200)	-
Valuation of assets available for sale	38 755	20 787	(923)	58 619
Other	37 043	15 822	(2 267)	50 598
Total	303 894	41 279	(29 941)	315 232

Deferred tax liability	31.12.2004	Increase	Decrease	30.06.2005
Unrealised interests from securities and interbank deposits	59 777	197	(13 775)	46 199
Unrealised loans interests	8 952	2 369	(573)	10 748
Unrealised receivables on derivatives	149 700	-	(10 413)	139 287
Provision due to application of investment relief	6 467	-	(814)	5 653
Deferred tax liability due to f/x differences	3 200	-	(1 612)	1 588
Valuation of assets available for sale	38 755	34 046	(3 344)	69 457
Other	37 043	13 187	-	50 230
Total	303 894	49 799	(30 531)	323 162

40. Other liabilities

Other liabilities	30.06.2006	31.12.2005	30.06.2005
Interbank and interbranch settlements	395 477	408 439	371 028
Sundry creditors	250 006	200 629	154 697
Provisions:	117 694	116 970	76 986
Employee provisions and accruals	94 146	95 101	64 232
Provisions for legal claims	18 987	10 051	6 710
Provisions for off balance sheet credit facilities	4 561	11 818	6 044
Other deferred and suspended income	60 730	69 714	76 026
Prepayments	75 361	68 880	80 537
Finance lease liabilities	82 857	38 897	36 996
Dividend liabilities	-	-	5 432
Other	294	278	348
Total	982 419	903 807	802 050



Movements on provisions	30.06.2006	31.12.2005	30.06.2005
As at 31 December	116 970	164 035	164 035
Provisions for off balance sheet credit facilities	11 818	7 539	7 539
General risk provision	-	73 279	73 279
Employee provisions and accruals	95 101	75 507	75 507
Provisions for legal claims	10 051	7 710	7 710
IFRS impact	-	(72 989)	(72 989)
Provisions for off balance sheet credit facilities	-	290	290
General risk provision	-	(73 279)	(73 279)
Employee provisions and accruals	-	-	-
Provisions for legal claims	-	-	-
As at 1 January	116 970	91 046	91 046
Provisions for off balance sheet credit facilities	11 818	7 829	7 829
Employee provisions and accruals	95 101	75 507	75 507
Provisions for legal claims	10 051	7 710	7 710
Provision charge	64 200	120 767	39 434
Provisions for off balance sheet credit facilities	1 481	14 551	297
Employee provisions and accruals	53 428	97 212	34 794
Provisions for legal claims	9 291	9 004	4 343
Utilisation	(50 128)	(77 315)	(45 346)
Provisions for off balance sheet credit facilities	119	7	105
Employee provisions and accruals	(50 247)	(77 179)	(45 427)
Provisions for legal claims	-	(143)	(24)
Write back	(13 348)	(17 528)	(8 148)
Provisions for off balance sheet credit facilities	(8 857)	(10 569)	(2 187)
Employee provisions and accruals	(4 136)	(439)	(642)
Provisions for legal claims	(355)	(6 520)	(5 319)
As at the end of the period	117 694	116 970	76 986
Provisions for off balance sheet credit facilities	4 561	11 818	6 044
Employee provisions and accruals	94 146	95 101	64 232
Provisions for legal claims	18 987	10 051	6 710

Employee related provisions and accruals consists of:
- provisions due to employment termination payments
- PFRON provision
- staff bonus provisions



41. 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 reported periods.

According to the information available to the Bank's Management Board, as at 30.06.2006 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

From the date of registration of issued capital in 1991 to December 1996 the Bank operated in an economy of hyperinflation. IAS 29 (Financial Reporting in Hyperinflationary Economies) requires the restatement of each component of shareholder's equity (except retained earnings and any revaluations surplus) by the general price index for the period of hyperinflation. This retrospective application would have resulted in an increase in share capital PLN 336 091 k and Other reserve funds by PLN 380 983 k and a reduction in retained earning over that period of equivalent amounts.

42. Other reserve funds

Other reserve funds	30.06.2006	31.12.2005	30.06.2005
General banking risk fund	529 810	529 810	529 810
Share premium	261 699	261 699	261 699
Other reserve capitals	1 062 141	1 237 197	1 215 805
Total	1 853 650	2 028 706	2 007 314

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 (supplementary) 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.



43. Revaluation reserve

Revaluation reserve	30.06.2006
As at 31 December 2005	250 088
Net change in available for sale investments, of which:	(126 546)
- related to investments purchased before current reporting period	(115 739)
- related to investments purchased during the period	(10 807)
Net change in available for sale investments matured during the period	(2 982)
Decrease in revaluation reserve related to sale/maturity of investments	21 359
Decrease in revaluation reserve related to hedge accounting	1 924
Deferred tax adjustment	20 135
As at 30.06.2006	163 978

Revaluation reserve	31.12.2005
As at 31 December 2004	156 012
Impact of IFRS	29 197
As at 1 January 2005	185 209
Net change in available for sale investments, of which:	88 993
- related to investments purchased before current reporting period	40 778
- related to investments purchased during the period	48 215
Net change in available for sale investments matured during the period	(8 179)
Decrease in revaluation reserve related to sale/maturity of investments	1 338
Change in revaluation reserve related to hedge accounting	2 591
Deferred tax adjustment	(19 864)
As at 31.12.2005	250 088

Revaluation reserve	30.06.2005
As at 31 December 2004	156 012
Impact of IFRS	29 197
As at 1 January 2005	185 209
Net change in available for sale investments, of which:	141 654
- related to investments purchased before current reporting period	93 125
- related to investments purchased during the period	48 529
Net change in available for sale investments matured during the period	(948)
Decrease in revaluation reserve related to sale/maturity of investments	3 752
Decrease in revaluation reserve related to hedge accounting	7 681
Deferred tax adjustment	(30 702)
As at 30.06.2005	306 646

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.



44. Hedge accounting

Bank Zachodni WBK applies hedge accounting in line with the risk management assumptions described note 59 semi-annual consolidated financial statements. Hedging transactions are constructed using interest rate swaps. These are instruments whose fair value can be reliably determined and which do not act as options issued by the bank. Their purpose is to eliminate 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. Bank Zachodni WBK 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,
- Deposit,
- Fixed rate debt securities, forming a group of assets covered with an interest rate hedge.

The hedged and hedging items are measured at fair value using the discounted future cash flows method or measured at amortised cost including fair value adjustment.

The table below contains details about individual groups of hedge transactions:

	IRS hedging own bonds	IRS hedging corporate loans	IRS hedging deposits	IRS hedging Treasury bonds
Nominal value of hedged position	PLN 78 918 k	PLN 295 413 k	PLN 50 000 k	PLN 800 000 k
Fair value adjustment difference of hedging instrument (asset)/liability	PLN 801 k	PLN (10 562) k	PLN 58 k	PLN 196 k
Period over which the instruments have an impact on the bank's results	2005 – 2008	2005 – 2011	2005 - 2006	2005 – 2010

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 and lease contracts. Details about these transactions are presented in the table below:

	BZ WBK Leasing S.A.	BZ WBK Finanse & Leasing S.A.
Nominal value of the hedged position	PLN 601 363 k	PLN 103 172 k
Fair value adjustment related to hedging activities	PLN 2 707 k	PLN 1 976 k
Hedged risk	Movements in the fair value of the bond issue arising from changes in market interest rates	Movements in the fair value of the bond issue arising from changes in market interest rates
Period over which the instruments have an impact on the companies' results	2006-2008	2006-2008



45. 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 2006, the consolidated balance sheet contains treasury bills and bonds traded under sell-buy-back transactions in the amount of PLN 1 636 881 k (PLN 964 730k as at 31 December 2005; PLN 1 029 585 k as at 30 June 2005). 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 1 661 617 k (PLN – 999 541 k as at 31 December 2005; 1 027 278 k as at 30 June 2005).

46. Fair Value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction other than 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	30.06.2006		31.12.2005		30.06.2005	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
<i>Assets</i>						
Loans and advances to banks	3 499 072	3 501 321	3 608 333	3 613 191	2 041 131	2 051 245
Loans and advances to customers	15 475 766	15 525 267	14 196 899	14 243 322	13 783 212	13 831 203
Investments in associate undertakings	68 858	68 858	73 237	73 237	73 789	73 789
<i>Liabilities</i>						
Deposits from banks	1 815 758	1 816 191	1 692 595	1 693 467	1 726 929	1 725 703
Deposits from customers	21 513 382	21 489 909	20 838 980	20 809 922	20 058 578	20 026 704

Estimation of fair values

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 provisions. 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, such as residential mortgage loans, are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. 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 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 amortised cost (debt instruments) or at purchase value (equity instruments) adjusted for impairment write downs.

Investments in associates entities: 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 one year 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.

47. Contingent liabilities

Significant court proceedings conducted by Bank Zachodni WBK S.A.

As at 30 June 2006, no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigations totals PLN 289 135 k, which is ca. 8.64% of Group's equity. This amount includes PLN 74 341 k claimed by the Bank, PLN 46 052 k in claims against the Bank and PLN 168 742 k are Bank's receivables due to bankruptcy or arrangement cases.

As at 31 December 2005, no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigations totals PLN 290 300 k, which is ca. 8.58% of Group's equity. This amount includes PLN 70 148 k claimed by the Bank, PLN 46 243 k in claims against the Bank and PLN 173 909 k are Bank's receivables due to bankruptcy or arrangement cases.

As at 30 June 2005, no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.



The value of all litigations totals PLN 303 731 k, which is ca. 9.48% of Group's equity. This amount includes PLN 69 584 k claimed by the Bank, PLN 30 310 k in claims against the Bank and PLN 203 837 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.

Contingent liabilities, sanctioned and received	30.06.2006	31.12.2005	30.06.2005
Liabilities sanctioned	6 053 955	4 926 883	4 303 384
- financing-related	5 318 707	4 173 175	3 578 859
including: import letters of credit	96 510	54 032	54 472
including: credit lines	4 206 396	3 665 826	3 172 282
including: credit cards debits	402 630	358 406	352 192
- guarantees	735 248	753 708	724 525
including: confirmed export letters of credit	314	2 630	343
Received liabilities	2 971 528	2 130 958	727 571
Total	9 025 483	7 057 841	5 030 955

As at 30.06.2006, the Bank issued guarantees of PLN 64 211 k (as at 31.12.2005 – PLN 59 838 k) to following subsidiary undertakings: BZ WBK S.A. Finance & Leasing, BZ WBK Leasing, BZWBK Dom Maklerski SA, BZWBK TFI and Nieruchomości SA. The guaranties were excluded 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 the Commercial Lending Manual and the Lending Manual of the Corporate Banking Centre.

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.



Derivatives' nominal values		30.06.2006	31.12.2005	30.06.2005
1.	Derivatives (hedging)	1 878 826	1 144 942	2 706 792
a)	Single-currency interest rate swaps – purchased amounts	654 413	572 471	1 353 396
b)	Single-currency interest rate swaps – sold amounts	654 413	572 471	1 353 396
c)	FRA	570 000		
2.	Term derivatives (trading)	137 223 170	96 513 128	89 664 841
a)	Interest rate operations	116 548 132	77 522 418	64 034 211
-	Single-currency interest rate swaps – purchased amounts	35 564 066	16 211 209	14 591 474
-	Single-currency interest rate swaps – sold amounts	35 564 066	16 211 209	14 591 910
-	FRA-purchased amounts	22 550 000	24 600 000	19 150 827
-	FRA-sold amounts	22 870 000	20 500 000	15 700 000
b)	FX operations	20 675 038	18 990 710	25 630 630
-	FX swap – purchased amounts	9 145 291	8 478 482	11 995 948
-	FX swap – sold amounts	9 152 961	8 404 563	12 115 409
-	Double-currency interest rate swaps – purchased amounts	1 186 617	1 072 912	760 514
-	Double-currency interest rate swaps – sold amounts	1 190 169	1 034 753	758 759
3.	Derivatives – non-stock market options	1 283 695	939 250	311 598
-	Options purchased	761 147	616 502	302 676
-	Options sold	522 548	322 748	8 922
Total		140 385 691	98 597 320	92 683 231

48. Assets pledged as collateral

Bank is obliged to set up a guaranteed funds protection fund. For the purpose as at 30 June 2006 Bank Zachodni WBK S.A. pledged as collateral PLN 41 137 k of debt securities (PLN 30 297 k in 1H 2005).

49. Trust activities

Custodian services

BZ WBK Group provides custodian services in accordance with Stock Exchange Commission license of 09 August 1999. The Bank's custodian services are addressed to residents - private individuals and legal enterprises (incl. investment funds) - and to foreign institutional investors present on the Polish capital market. They involve, 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 acts as a depository for investment funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.

As at the end of 1H 2006 assets held by clients at the Bank Zachodni WBK S.A. securities accounts totalled PLN 6 091 653 k.

As at the end of 2005 assets held by clients at the Bank Zachodni WBK S.A. securities accounts totalled PLN 5 420 114 k.

As at the end of 1H 2005 assets held by clients at the Bank Zachodni WBK S.A. securities accounts totalled PLN 3 205 459 k.



50. Financial and operating 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 the lease of two product groups: 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 activities of BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa is to manage the lease of vehicles provided to customers under ten-year lease contracts. The items „receivables from customers” contains the following amounts relating to the finance lease obligations:

Finance leases gross receivables maturity	30.06.2006	31.12.2005	30.06.2005
less than 1 year	743 647	682 211	624 316
between 1 and 5 years	1 158 261	1 091 389	960 421
over 5 years	116 536	106 236	119 042
Total	2 018 444	1 879 836	1 703 779

Present value of minimum lease payments maturity	30.06.2006	31.12.2005	30.06.2005
less than 1 year	645 360	564 041	518 579
between 1 and 5 years	1 017 509	945 229	865 577
over 5 years	107 596	103 966	118 696
Total	1 170 465	1 613 236	1 502 582

Reconciliation between the gross investment and the present value of minimum lease payments	30.06.2006	31.12.2005	30.06.2005
Finance leases gross receivables	2 018 444	1 879 836	1 703 779
Unearned finance income	(247 979)	(266 600)	(200 927)
Present value of minimum lease payments	1 770 465	1 613 236	1 502 582

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

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 Warszawa. As a standard, agreements are concluded for 5-10 years. Leasing payments are indexed on an annual basis so that the price reflects market values. A small part of the offices is subleased outside the Bank. In 1H 2006 and 2005 rentals related to mentioned real estates totalled PLN 8 253 k and PLN 7 743 k respectively. These payments are presented in the profit and loss account under “administrative costs”.



Total payments due to non cancelable operating leases (including land perpetual usufruct)

Payments (maturity)	30.06.2006	31.12.2005	30.06.2005
over 1 year	22 270	21 985	21 725
1-5 years	88 237	77 903	67 968
over 5 years	75 250	72 121	69 074
Total	185 757	172 009	158 767

51. Consolidated Cash Flow Statement – additional information

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

Cash components	30.06.2006	30.06.2005
Cash on hand	466 387	375 730
Current account in a central bank	516 572	654 430
Other cash equivalents	1 187	1 267
Current accounts in other banks	16 141	30 948
Total	1 000 287	1 062 375

52. 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:

Receivables and liabilities relating to transactions with connected entities

30.06.2006

Receivables	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Loans and advances to banks	759 288	-	820 829	1 580 117
Securities at fair value through profit or loss	445	-	-	445
Derivative financial instruments	29 984	-	237 503	267 487
Loans and advances to customers	424 936	-	-	424 936
Other assets	11 688	-	-	11 688
Total	1 226 341	-	1 058 332	2 284 673

Liabilities	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Deposits from banks	422 597	-	491	423 088
Derivative financial instruments	29 984	-	237 407	267 391
Deposits from clients	746 010	178 251	-	924 261
Debt securities in issue	445	-	-	445
Other liabilities	27 533	-	25 942	53 475
Total	1 226 569	178 251	263 840	1 668 660



31.12.2005

	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Receivables				
Loans and advances to banks	594 045	-	408 889	1 002 934
Securities at fair value through profit or loss	5 373	-	-	5 373
Derivative financial instruments	27 825	-	202 627	230 452
Loans and advances to customers	362 001	-	-	362 001
Other assets	8 258	-	728	8 986
Total	997 502	-	612 244	1 609 746

	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Liabilities				
Deposits from banks	359 876	-	2 732	362 608
Derivative financial instruments	27 825	-	187 213	215 038
Deposits from clients	581 126	118 132	-	699 258
Debt securities in issue	5 373	-	-	5 373
Other liabilities	25 556	6	14 799	40 361
Total	999 756	118 138	204 744	1 322 638

30.06.2005

	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Receivables				
Loans and advances to banks	436 775	-	275 980	712 755
Securities at fair value through profit or loss	5 346	-	-	5 346
Derivative financial instruments	37 583	-	30 659	68 242
Loans and advances to customers	332 322	-	-	332 322
Other assets	9 692	-	887	10 579
Total	821 718	-	307 526	1 129 244

	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Liabilities				
Deposits from banks	330 700	-	138	330 838
Derivative financial instruments	37 583	-	18 561	56 144
Deposits from clients	423 619	63 853	-	487 472
Debt securities in issue	6 233	-	-	6 233
Other liabilities	24 936	-	9 822	34 758
Total	823 071	63 853	28 521	915 445



Revenues and expenses relating to transactions with connected entities

1.01.2006 - 30.06.2006

	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Income				
Interest and similar income	21 870	-	13 044	34 914
Fee and commission income	87 305	-	-	87 305
Other operating income	2 378	-	897	3 275
Gains less losses from investment in securities	-	-	7 022	7 022
Total	111 553	-	20 963	132 516

	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Expenses				
Interest expense and similar charges	21 709	2 492	74	24 275
Fee and commission expense	87 113	-	-	87 113
Gains less losses from investment in securities	-	-	-	-
Other operating expenses	2 959	-	17 753	20 712
Bank's operating expenses and management costs	2 959	-	17 753	20 712
Total	111 781	2 492	17 827	132 100

1.01.2005 - 30.06.2005

	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Income				
Interest and similar income	18 707	-	10 692	29 399
Fee and commission income	16 460	35	2 099	18 594
Other operating income	2 779	-	-	2 779
Gains less losses from investment in securities	-	-	13 150	13 150
Total	37 946	35	25 941	63 922

	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Expenses				
Interest expense and similar charges	20 060	797	1 509	22 366
Fee and commission expense	16 423	-	-	16 423
Other operating expenses:	2 816	-	18 099	20 915
Bank's operating expenses and management costs	2 783	-	18 099	20 882
Other expenses	33	-	-	33
Total	39 299	797	19 608	59 704

Off balance sheet positions relating to transactions with connected entities 30.06.2006

	of which from subsidiaries	of which from associates	Total
1. Received/Sanctioned contingent liabilities	1 742 876	-	1 742 876
- financing-related	1 614 454	-	1 614 454
- guarantees	128 422	-	128 422
Intragroup transactions - off-balance sheet liabilities	of which from subsidiaries	of which from associates	Total
2. Derivatives' nominal values, including:	1 411 608	-	1 411 608
-Financial instruments operations-single-currency interest rate hedging swaps	1 411 608	-	1 411 608



31.12.2005

	of which from subsidiaries	of which from associates	Total
1. Received/Sanctioned contingent liabilities	1 837 841	6 000	1 843 841
- financing-related	1 718 164	-	1 718 164
- guarantees	119 677	6 000	125 677

Intragroup transactions - off-balance sheet liabilities	of which from subsidiaries	of which from associates	Total
2. Derivatives' nominal values, including:	1 439 542	-	1 439 542
-Financial instruments operations-double-currency interest rate swaps	30 192	-	30 192
-Financial instruments operations-single-currency interest rate hedging swaps	1 409 350	-	1 409 350

30.06.2005

	of which from subsidiaries	of which from associates	Total
1. Received/Sanctioned contingent liabilities	2 453 876	6 000	2 459 876
- financing-related	2 319 798	-	2 319 798
- guarantees	134 078	6 000	140 078

Intragroup transactions - off-balance sheet liabilities	of which from subsidiaries	of which from associates	Total
2. Derivatives' nominal values, including:	1 486 917	-	1 486 917
-Financial instruments operations-double-currency interest rate swaps	68 557	-	68 557
-Financial instruments operations-single-currency interest rate hedging swaps	1 418 360	-	1 418 360

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

In 1H 2006 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 8 493 k (in 1H 2005 – PLN 10 541 k.)

In 1H 2006 and 1H 2005, none of the Members of the Management Board or the Supervisory Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities.

In 1H 2006 the amount of remuneration paid to the Supervisory Board Members of Bank Zachodni WBK S.A. totalled PLN 313 k (in 1H 2005 – PLN 328 k.)

In 1H 2006, none of the Members of the Management Board or the Supervisory Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities.

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



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

TRANSACTIONS WITH THE EXECUTIVES

30 June 2006

As of 30.06.2006, 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 5 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 2 829 k and CHF 23 k.

These facilities have been sanctioned on regular terms and conditions.

30 June 2005

As of 30.06.2005, 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 12 k.

Loans and advances made by the Bank to the executives of BZ WBK S.A. totalled PLN 3 442 k and CHF 115 k. These facilities have been sanctioned on regular terms and conditions.

The Incentive Scheme

During 2006 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 and will be realised by distribution of shares only.

25% of shares will vest if compounded EPS performance over the three year period exceeds the growth in Consumer Price Index (CPI) plus 5% per annum with up to 100% vesting on a straight-line scale if compounded EPS performance over the three year period exceeds CPI plus 12% p.a..

During 2006 conditional awards of 132 476 shares were granted to no more the 100 individuals and were outstanding at the end of the period.

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.

Number of share based payments	132 476
Exercise price	10 PLN
Vesting period	3 years
Expected volatility	37,38 %
Award life	3 years
Risk free rate	4,60 %
Fair value per award	150.60 PLN



The following table summarizes the share based payments activity over the year 2006

	Number of share based payments	2006 Weighted average exercise price PLN
Outstanding at 1 January	-	-
Granted	132 476	10
Exercised	-	-
Forfeited	-	-
Expired	-	-
Outstanding at 30 June	132 476	10
Exercisable at 30 June 2006	-	-

For the share based payments outstanding as at 30 June 2006 the exercise price equal 10 PLN and remaining contractual life is approximately 2.75 years.

The total expense recognized for 6 months of 2006 with corresponding increase in equity (other reserve capitals) amounts to 177 078.87 PLN.

TRANSACTIONS WITH EMPLOYEES

30 June 2006

As of 30.06.2006, the total of loans and advances drawn by BZWBK S.A. employees was PLN 160 800 k (including the debt of PLN 19 862 k shown in joint accounts) and PLN 41 555 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 18 508 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 72 717 k, (of which joined current accounts - PLN 26 367 k). Amount relating to employees of subsidiaries and associates totalled PLN 7 169 k.

30 June 2005

As of 30.06.2005, the total of loans and advances drawn by BZWBK S.A. employees was PLN 109 622 k. (including the debt of PLN 14 397 k shown in joint accounts and PLN 6 248 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 19 264 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 42 992 k, (of which joined current accounts - PLN 13 099 k). Amount relating to employees of subsidiaries and associates totalled PLN 4 395 k.



53. Information of number and value of banking writs of execution

In 1H 2006 Bank issued 1 563 banking writs of execution with total amount of PLN 70 002 k, of which:

- corporate loans – 18 cases of PLN 59 580 k,
- mortgage loans - 12 cases of PLN 1 672 k
- cash loans and overdrafts - 584 cases of PLN 5 596 k
- credit cards - 949 cases of PLN 3 154 k.

In 1H 2005 Bank issued 675 banking writs of execution with total amount of PLN 52 789 k, of which:

- retail loans - 565 cases of PLN 7 668 k
- mortgage loans - 25 cases of PLN 2 724 k
- corporate loans - 85 cases of PLN 42 397 k.

54. Acquisitions and disposals of investments

Sale of AIB WBK Fund Management Sp. z o.o

On 10 May 2006 Bank Zachodni WBK S.A. sold 13 331 shares of AIB WBK Fund Management Sp. z o.o., with the total nominal value of PLN 1 333 100.00 representing 54% of the share capital and 54% of votes at the AGM of AIB WBK Fund Management Sp. z o.o.

The shares sale price was set at PLN 270 000 PLN. The first price installment of PLN 135 000 was paid on the day of signing an agreement on transferring ownership of the said shares, the second installment of PLN 135 000 will be paid not later than on 20 December 2006. Total amount of loss on sale was PLN 1 568k.

Sale of shares of associate company LZPS PROTEKTOR S.A.

On 27 January 2006 BZ WBK S.A. sold, in package transactions on the Warsaw Stock Exchange, 586 416 shares of the Company with the nominal value of PLN 3 each which represent 36.07% of the Company's share capital and the total number of votes at the AGM. Total amount of the transaction was PLN 13 267 k and total amount of profit was PLN 7 811k. Currently BZWBK Group doesn't have any shares of company LZPS PROTEKTOR S.A.

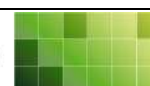
55. Investments in joint ventures

As at 30 June 2006 the companies from the BZ WBK Group were not involved in any joint-venture activities.

56. Events after the balance sheet date

Transfer of ownership right outside the regulated market from BZWBK S.A. securities account to NFI Magna Polonia S.A. securities account

Pursuant to section 69 of the Act on the public offer and the conditions for entering financial instruments into organized trading system and public companies of 29 July 2005, Bank Zachodni WBK S.A. informs that on 5 July 2006, ownership right was transferred outside the regulated market with regard to 5 570 261 NFI Magna Polonia S.A. shares from BZ WBK S.A. securities account to NFI Magna Polonia S.A. securities account.



The shares were purchased by NFI for redemption to deliver the Act 8/2006 of NFI Magna Polonia S.A. Extraordinary General Meeting of Shareholders of 13 April 2006 in which the Management Board was authorized to purchase NFI Magna Polonia S.A. shares for redemption.

Authorisation for issue of financial statements

The semi-annual unconsolidated financial statements were authorised for issue on 26th of July 2006 by Management Board of Bank Zachodni WBK S.A..

57. 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),
- Other long-term employee benefits (jubilee bonuses, disability pensions, training or scholarship leaves – if these are paid leaves longer than 12 months from the balance sheet date).

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.

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

Provisions	30.06.2006	31.12.2005	30.06.2005
Provisions for accrued holiday leaves	14 438	14 577	12 605
Provisions for employee bonuses	58 139	60 171	32 220
Provisions for retirement allowances	19 975	18 969	17 524
Other staff-related provisions	1 594	1 384	1 883
Total	94 146	95 101	64 232



58. Dividend per share

At 11 May 2006 Bank Zachodni WBK S.A. paid out to shareholders dividend of PLN 6.00 of its 2005 profits per one share (in 2004 – PLN 2.43 per one share).

Bank Zachodni WBK allocated to dividends 98.1% of net profit of PLN 437 762.

59. Risk Management

Credit risk and market risk are inherent in the banking and financial business. Below is an outline of the market risk, its management, measurement and reporting mechanisms and a description of financial instruments which generate or mitigate risk.

Market Risk

Market risk management focuses on liquidity and price risk.

Liquidity risk is the risk that the Bank will not be able to meet its contractual or contingent obligations when due.

Price risk is defined as an adverse earnings impact of changes in interest rates, FX rates, share quotations, stock exchange indices, etc.

General principles of market risk management

The key objective of the market risk policy operated 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 while ensuring the bank's liquidity.

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

Upon the recommendation from the Assets and Liabilities Management Committee (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 BZ WBK Treasury Division, while the market risk generated by equity instruments (shares, stock exchange indices) is managed by the BZ WBK Brokerage House.

Market risk is measured and its compliance with the stated risk limits is monitored by qualified personnel segregated from 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. In order to reduce the structural balance sheet risk and ensure a stable income stream for the bank a special portfolio was established with debt securities funded by net liabilities that are not sensitive to interest rate fluctuations.



According to the Policy approved by the Management Board, any decisions relating to the value or structure of this portfolio are taken by ALCO.

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 bear 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 bank 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 bank enters into the following interest rate transactions:

Interest Rate Swaps – IRS;

Cross-currency Interest Rate Swaps – CIRSS;

Forward Rate Agreements – FRAs.

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.

Index options

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.

Interest rate risk

Exposure to interest rate risk appears as result of gaps in the schedule of revaluation of assets, liabilities and their derivative instruments. Interest rate movements observed on the market where the bank holds open exposures liable to such movements contributes both to the risk of incurring losses and the possibility of earning substantial profits. Open interest rate positions which are sensitive to interest rate changes are created because it is extremely difficult to match the assets generating interest income with the liabilities generating interest expenses, both in terms of amounts and revaluation/maturity dates. Besides, there exists a base risk arising out of differences in the nature of revaluation applied to different types of variable interest rates, e.g. an instrument bearing variable interest on three-month cycles based on 3M WIBOR as of revaluation date and an instrument whose interest is based on an arithmetical average of 5 quotations on the inter-bank market preceding the revaluation date.

The main source of revaluation risk are transactions entered in the bank's 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 (e.g. loans from EBRD or from the Banking Guarantee Fund). However all positions which generate a revaluation risk are transferred from a system of internal contracts centralised in 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.



The bank perceives margins as the main source of revenues, hence limits for the open interest rate positions and stop-loss limits for trading positions can be viewed as prudent.

The bank's subsidiaries also try to mitigate their interest rate risk – if there is a mismatch between the revalued assets and liabilities the companies enter into 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 measured as Probable Maximum Loss (PML), a method based on an industry standard value at risk. PML 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 variability of interest rates at a 99% confidence interval for a three-year interest rate history. Variability is based on a one-month position maintenance period. PML 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.

The table below shows the average PML values in the first half of 2006 and on 30 June 2006:

PLN m	30-06-06	Average in H12006
PML	17.2	11.8

The Treasury Division operates within an operational risk limit, which amounted to PLN 40.4 m at the end of June 2006.

There are also additional reports prepared to support the risk management process. Daily reports include:

- Stress-test reports, showing changes in the market value of portfolios in the event of substantial changes in interest rates;
- PV01 reports – illustrating changes in the value of portfolios where the profitability curve is moved by 1 base point.

In order to curtail losses on the trading portfolio, a stop-loss limit has been established, which allows trading positions to be closed in the event of losses exceeding the stated limit.

The risk profile can also be represented as a gap arising on repricing terms of assets and liabilities, as shown in the table below (data for the Group as at 30 June 2006 and in comparable periods).



30.06.2006	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years	rate insensitive	Total
Loans and receivables to banks	2 144 465	506 256	790 448	-	-	-	57 903	3 499 072
Financial instruments at fair value through profit or loss	1 529 545	139	87 460	-	204 292	-	7 350	1 828 786
Loans and receivables to customers	11 702 007	2 053 763	1 341 837	519 553	515 433	37 931	(694 758)	15 475 766
Investment securities	175 264	158 267	2 112 550	936 299	2 392 126	711 734	382 742	6 868 982
Other assets								3 328 426
	15 551 281	2 718 425	4 332 295	1 455 852	3 111 851	749 665	(246 763)	31 001 032
Deposits from banks	1 361 090	181 953	267 561	-	-	-	5 154	1 815 758
Deposits from customers	16 034 408	2 421 011	2 348 926	205 328	106 720	-	396 989	21 513 382
Repo transactions	1 657 453	-	3 387	-	-	-	777	1 661 617
Debt securities in issue	35 000	238 103	99 083	272 455	106 035	-	44 576	795 252
Other liabilities								5 215 023
	19 087 951	2 841 067	2 718 957	477 783	212 755	-	447 496	31 001 032
	(3 536 670)	(122 642)	1 613 338	978 069	2 899 096	749 665	(694 259)	



31.12.2005	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years	rate insensitive	Total
Loans and receivables to banks	1 986 636	277 211	1 267 922	36 413	-	-	40 151	3 608 333
Financial instruments at fair value through profit or loss	1 675 154	9 153	108 989	62 517	67 150	-	2 946	1 925 909
Loans and receivables to customers	11 089 347	1 593 136	1 147 166	564 594	452 733	40 482	(690 559)	14 196 899
Investment securities	19 098	300 456	1 210 817	1 097 978	2 807 669	1 099 775	454 543	6 990 336
Other assets								2 882 608
	14 770 235	2 179 956	3 734 894	1 761 502	3 327 552	1 140 257	(192 919)	29 604 085
Deposits from banks	1 100 669	-	559 764	-	-	-	32 162	1 692 595
Deposits from customers	14 982 234	2 947 483	2 232 528	277 197	34 765	296	364 477	20 838 980
Repo transactions	997 592	1 503	-	-	-	-	446	999 541
Debt securities in issue	-	88 000	244 960	-	477 902	-	29 521	840 383
Other liabilities								5 232 586
	17 080 495	3 036 986	3 037 252	277 197	512 667	296	426 606	29 604 085
	(2 310 260)	(857 030)	697 642	1 484 305	2 814 885	1 139 961	(619 525)	



30.06.2005	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years	rate insensitive	Total
Loans and receivables to banks	1 412 792	244 036	357 841	-	-	-	26 462	2 041 131
Financial instruments at fair value through profit or loss	2 458 294	47 815	77 072	126 346	170 592	-	2 324	2 882 443
Loans and receivables to customers	11 445 787	1 247 956	1 029 570	288 189	401 301	44 280	(673 871)	13 783 212
Investment securities	178 262	122 063	2 350 693	1 170 402	2 253 753	709 285	414 641	7 199 099
Other assets								3 400 724
	15 495 135	1 661 870	3 815 176	1 584 937	2 825 646	753 565	(230 444)	29 306 609
Deposits from banks	807 757	383 617	522 063	-	-	-	13 492	1 726 929
Deposits from customers	13 523 579	2 940 873	2 963 573	276 901	144 177	-	209 475	20 058 578
Repo transactions	1 025 518	-	-	-	-	-	1 760	1 027 278
Debt securities in issue	-	-	692 884	175 571	347 731	-	91 397	1 307 583
Other liabilities								5 186 241
	15 356 854	3 324 490	4 178 520	452 472	491 908	-	316 124	29 306 609
	138 281	(1 662 620)	(363 344)	1 132 465	2 333 738	753 565	(546 568)	



Group's sensitivity relates to the liabilities for which the interest rate change period is shorter than for assets. During the year the structure of liabilities changed as a result of an increase in customer deposits (current accounts and short-term deposits). This widened the interest rate gap for terms up to 3 months. The gap was partly covered by an increase in loans and advances to customers, where interest rates are based on money market rates (WIBOR/LIBOR). Also, the Group is an active player in the derivatives market. Interest rate risk is actively managed using interest rate SWAPs and FRAs, thus forming the repricing profile corresponding to the expected movements in interest rates.

Table below presents estimated effective interest rate for selected balance sheet items of Bank Zachodni WBK S.A. as at 30.06.2006:

%	PLN	EUR	USD	GBP	JPY	CHF
Loans and receivables to banks	4,7800%	2,8600%	5,0680%	4,7000%	-	-
Financial instruments at fair value						
through profit or loss (debt instruments)	4,0800%	-	-	-	-	-
Loans and receivables to customers	7,7900%	4,6900%	7,1900%	7,3400%	-	4,0600%
Investment securities (debt instruments)	5,8570%	2,9910%	3,8050%	-	-	-
Deposits from banks	4,1800%	2,8900%	5,3160%	4,6300%	-	1,4500%
Deposits from customers	2,2100%	1,2100%	1,5600%	1,8600%	-	0,5100%
Debt securities in issue	5,8700%	-	-	-	-	-
Reverse repo	4,0750%	-	-	-	-	-
Repo	3,7260%	-	-	-	-	-

FX risk

The key role of inter-bank trading is to maintain a presence which allows the bank to offer competitive pricing conditions for client transactions effected through the branch banking network and the Treasury Services Department. A secondary role is to generate additional profits on trading positions, which are subject to conservative and prudential limits.

FX risk is measured as Probable Maximum Loss (PML) against the total open FX position of the bank. Open positions of subsidiaries are negligible and are not included in the daily risk assessment.

PML is determined by means of a statistical modelling process (industry standard value at risk). PML is the potential loss on open FX positions at a 99% confidence interval where open positions are maintained for 10 business days. Statistical parameters are set on the basis of a 3-year history of interest rates.

The table below shows the average PML values in the first half of 2006 and on 30 June 2006:

PLN '000	30-06-06	Average in H1 2006
PML	370	276

The Treasury Division operates within an operational risk limit, which amounted to PLN 2.0 m at the end of June 2006.

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



Comparison of the FX balance sheets (see the tables below) for presented reporting periods shows that the overall structure of the FX position did not change. The PLN balance sheet generates a short position deepened during the year through an increase in deposits from customers. The Group's policy envisages limited sanction of long-term home mortgages denominated in foreign currencies, especially in CHF as the FX risk borne by the customer might lead to an increase in the bank's credit risk. For this reason, FX loans and advances are mainly funded by deposits from customers and open long FX positions arise from short-term investments in the interbank market.

At the reporting date and in the comparable periods, the bank's balance sheet by currencies was as follows:



30.06.2006	EUR	USD	CHF	GBP	other	PLN	Total
Cash and balances with central bank	71 219	25 031	2 320	12 092	7 406	866 084	984 152
Loans and receivables to banks	159 228	2 104 229	234	48 929	4 697	1 181 755	3 499 072
Financial instruments at fair value through profit or loss	-	-	-	-	-	1 828 786	1 828 786
Derivative instruments	180 259	164 308	4 008			353 581	702 156
Loans and receivables to customers	3 064 820	643 491	608 247	6 149	80 814	11 072 245	15 475 766
Investment securities	507 577	111 789				6 249 616	6 868 982
Other assets	59 390	9 476	3 117	5 708	4 619	1 559 808	1 642 118
	4 042 493	3 058 324	617 926	72 878	97 536	23 111 875	31 001 032
Deposits from banks	635 019	492 697	109 033	5 883	5 762	567 364	1 815 758
Derivative instruments	177 854	161 279	4 413	-	-	286 298	629 844
Repo transactions	-	-	-	-	-	1 661 617	1 661 617
Deposits from customers	2 298 306	1 151 179	24 935	160 283	16 392	17 862 287	21 513 382
Debt securities in issue	-	-	-	-	-	795 252	795 252
Other liabilities	5 792	301	14	20	6	4 579 046	4 585 179
	3 116 971	1 805 456	138 395	166 186	22 160	25 751 864	31 001 032
	925 522	1 252 868	479 531	(93 308)	75 376	(2 639 989)	



31.12.2005	EUR	USD	CHF	GBP	other	PLN	Total
Cash and balances with central bank	69 654	33 691	2 458	16 300	5 607	444 632	572 342
Loans and receivables to banks	134 187	2 534 423	2	136 380	7 121	796 220	3 608 333
Financial instruments at fair value through profit or loss	-	-	-	-	-	1 925 909	1 925 909
Derivative instruments	182 876	164 128	3 317	-	-	384 893	735 214
Loans and receivables to customers	2 438 417	816 086	600 996	4 025	95 208	10 242 167	14 196 899
Investment securities	324 874	95 915	-	-	-	6 569 547	6 990 336
Other assets	57 300	4 314	-	8 279	2 400	1 502 759	1 575 052
	3 207 308	3 648 557	606 773	164 984	110 336	21 866 127	29 604 085
Deposits from banks	322 188	279 695	30 692	-	-	1 060 020	1 692 595
Derivative instruments	183 970	164 081	3 859	-	-	225 176	577 086
Repo transactions	-	-	-	-	-	999 541	999 541
Deposits from customers	2 135 807	1 177 686	32 055	153 666	8 864	17 330 902	20 838 980
Debt securities in issue	-	-	-	-	-	840 383	840 383
Other liabilities	15 020	660	37	27	7	4 639 749	4 655 500
	2 656 985	1 622 122	66 643	153 693	8 871	25 095 771	29 604 085
	550 323	2 026 435	540 130	11 291	101 465	(3 229 644)	



30.06.2005	EUR	USD	CHF	GBP	other	PLN	Total
Cash and balances with central bank	55 132	25 187	1 671	7 660	4 483	937 294	1 031 427
Loans and receivables to banks	6 085	1 476 511	-	4 597	4 410	549 528	2 041 131
Financial instruments at fair value through profit or loss	-	-	-	-	-	2 882 443	2 882 443
Derivative instruments	843	20	-	-	-	751 129	751 992
Loans and receivables to customers	2 292 979	780 844	625 142	3 466	117 163	9 963 618	13 783 212
Investment securities	351 187	99 627	-	-	-	6 748 285	7 199 099
Other assets	35 769	865	-	2 795	3 368	1 574 508	1 617 305
	2 741 995	2 383 054	626 813	18 518	129 424	23 406 805	29 306 609
Deposits from banks	310 133	265 869	4 777	-	768	1 145 382	1 726 929
Derivative instruments	5 133	16	-	-	-	818 021	823 170
Repo transactions	-	-	-	-	-	1 027 278	1 027 278
Deposits from customers	1 951 801	1 182 393	29 333	137 085	13 937	16 744 029	20 058 578
Debt securities in issue	-	-	-	-	-	1 307 583	1 307 583
Other liabilities	6 761	126	43	41	-	4 356 100	4 363 071
	2 273 828	1 448 404	34 153	137 126	14 705	25 398 393	29 306 609
	468 167	934 650	592 660	(118 608)	114 719	(1 991 588)	



Liquidity risk

The Group's policy 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 all withdrawals of term deposits, demand deposits, loan payments, guarantee payments and settlements.

The Group's liquidity is assessed separately using liquidity gap reports. The reports contain all flows from on balance sheet and off balance sheet transactions. Liquidity gap based on contractual maturity periods is dealt with in the first place.

The tables below show the gap arising from contractual maturity terms as at 30 June 2006 and in the comparable periods. During the year there was an increase in customer deposits, which are characterised by a shorter maturity term. However the behaviour of the deposit base indicates that a significant part of these funds will remain with the Group. 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).



30.06.2006	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 2 to 5 years	over 5 years	rate insensitive	Total
Loans and receivables to banks	2 106 917	523 161	846 606	29 954	-	-	(7 566)	3 499 072
Financial instruments at fair value through profit or loss	1 529 545	129	87 486	174 180	30 727	-	6 719	1 828 786
Loans and receivables to customers	1 133 423	1 076 231	3 876 736	4 090 322	2 063 438	3 967 537	(731 921)	15 475 766
Investment securities	140 241	158 418	1 258 795	2 137 639	1 571 101	1 352 959	249 829	6 868 982
Other assets								3 328 426
	4 910 126	1 757 939	6 069 623	6 432 095	3 665 266	5 320 496	(482 939)	31 001 032
Deposits from banks	960 564	206 206	293 333	199 746	155 909	-	-	1 815 758
Deposits from customers	16 220 183	2 389 064	2 569 581	230 397	-	104 157	-	21 513 382
Repo transactions	1 658 230	-	3 387	-	-	-	-	1 661 617
Debt securities in issue	-	198 262	148 810	403 604	-	-	44 576	795 252
Other liabilities								5 215 023
	18 838 977	2 793 532	3 015 111	833 747	155 909	104 157	44 576	31 001 032
	(13 928 851)	(1 035 593)	3 054 512	5 598 348	3 509 357	5 216 339	(527 515)	

31.12.2005	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 2 to 5 years	over 5 years	rate insensitive	Total
Loans and receivables to banks	2 034 332	277 231	1 267 922	-	36 414	-	(7 566)	3 608 333
Financial instruments at fair value through profit or loss	1 675 154	9 153	109 016	67 783	64 224	-	579	1 925 909
Loans and receivables to customers	1 189 747	976 148	3 769 640	3 758 058	1 836 238	3 393 916	(726 848)	14 196 899
Investment securities	-	321 682	1 100 561	2 211 283	1 954 659	1 138 704	263 447	6 990 336
Other assets								2 882 608
	4 899 233	1 584 214	6 247 139	6 037 124	3 891 535	4 532 620	(470 388)	29 604 085
Deposits from banks	765 659	15 103	610 634	146 567	75 847	78 785	-	1 692 595
Deposits from customers	15 535 796	2 420 589	2 449 697	319 841	36	113 021	-	20 838 980
Repo transactions	998 592	503	-	-	-	-	446	999 541
Debt securities in issue	83 002		198 261	517 479	-	-	41 641	840 383
Other liabilities								5 232 586
	17 383 049	2 436 195	3 258 592	983 887	75 883	191 806	42 087	29 604 085
	(12 483 816)	(851 981)	2 988 547	5 053 237	3 815 652	4 340 814	(512 475)	



30.06.2005	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 2 to 5 years	over 5 years	rate insensitive	Total
Loans and receivables to banks	1 346 283	244 036	357 865	57 371	43 142	-	(7 566)	2 041 131
Financial instruments at fair value through profit or loss	2 458 313	47 815	77 072	266 180	31 712	-	1 351	2 882 443
Loans and receivables to customers	1 472 937	1 117 857	3 567 851	3 738 256	1 706 335	2 922 295	(742 319)	13 783 212
Investment securities	3 034	99 676	1 731 361	2 351 224	1 381 502	1 354 954	277 348	7 199 099
Other assets								3 400 724
	5 280 567	1 509 384	5 734 149	6 413 031	3 162 691	4 277 249	(471 186)	29 306 609
Deposits from banks	638 806	233 012	606 498	127 749	37 123	83 741	-	1 726 929
Deposits from customers	13 632 292	2 791 812	2 867 755	645 090	85	121 544	-	20 058 578
Repo transactions	1 027 278	-	-	-	-	-	-	1 027 278
Debt securities in issue	-	-	646 310	490 957	78 919	-	91 397	1 307 583
Other liabilities								5 186 241
	15 298 376	3 024 824	4 120 563	1 263 796	116 127	205 285	91 397	29 306 609
	(10 017 809)	(1 515 440)	1 613 586	5 149 235	3 046 564	4 071 964	(562 583)	



In the daily gap report for the Group, cash flows are shown 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.

The Liquidity Policy adopted by the Management Board obliges the bank to maintain funds to cover 100% of the outflows expected to be received in the one-month time horizon and not less than 10% in a period longer than a month. At the end of June 2006, the Bank complied with the foregoing requirements. The policy is designed to ensure a cover for short and medium term liabilities. However liquidity position in a longer time horizon is also monitored.

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).

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.

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.

Credit risk

Bank Zachodni WBK fully 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 30.06.2006, pursuant to art. 71 of the Banking Law Act, the maximum limits for the bank totalled:

- PLN 504 063 thousand (20% of bank's own funds pursuant to the Banking Law art. 127 and Banking Supervisory Resolution no. 5 & 6) in the case of exposures to subsidiary or dominant entities or to subsidiary entities of the entity dominant for the bank,
- PLN 630 079 thousand (25% of bank's own funds pursuant to the Banking Law art. 127 and Banking Supervisory Resolution no. 5 & 6) in other cases.

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

The analysis of the bank's exposures in terms of sectoral concentrations, carried out at the end of 1H 2006, proved that the bank does not have any exposures in excess of the limits imposed by the regulator.

At the end of June 2006, the bank had exposures exceeding 10% of its own funds attributable to 6 entities (three of which were members of the BZWBK Group) and which accounted for 83,1% of own funds (vis-à-vis the permissible norm of 800%).



A list of the 20 largest borrowers of Bank Zachodni WBK SA (performing loans) as of 30 June 2006.

No.	Industry code (PKD)	Total exposure	Balance	Committed credit line	Guarantees
1	15	360 059	210 000	150 000	59
2	74	276 982	263 169	13 812	-
3	70	259 738	232 288	26 950	500
4	40,45	206 016	249	205 751	16
5	40	194 710	194 010	700	-
6	70	181 896	164 948	14 947	2 000
7	45,92	178 244	117 157	61 088	-
8	65	155 000	140 022	14 978	-
9	28	153 962	144 011	9 951	-
10	20	152 579	36 157	72 543	43 879
11	75	150 300	43 529	106 554	216
12	70	144 839	119 840	24 999	-
13	40	141 323	12 027	129 273	23
14	15	139 477	-	40 000	99 477
15	70	127 866	127 866	-	-
16	45	125 764	17 006	14 616	94 142
17	65	125 125	46 114	78 886	125
18	20	124 964	120 630	4 334	-
19	65	120 000	41 839	75 307	2 854
20	45	111 377	33 032	31 483	46 863
		3 430 221	2 063 894	1 076 172	290 154

Industry concentration

The credit policy of Bank Zachodni WBK S.A. envisages lending to low risk industries and reduction of exposures to medium and high risk industries. In order to ensure adequate portfolio diversification and eliminate 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 the end of June 2006, the highest concentration level was recorded in the "real estate services" (18,6%). Such a concentration level is compliant with the bank's lending policies and the related risk is fully acceptable.

Groups of PKD by industries as at 30.06.2006

	Industry	Exposure PLN m
	Agricultural sector	586
	Energy sector	574
	Manufacturing	2 672
	Construction	430
	Distribution	1 840
	Transport	259
	Financial sector	751
	Property service	2 737
	Other services	1 198
A.	Business	11 047
B.	Personal (incl. mortgage)	3 647
A+B	BZWBK PORTFOLIO I *	14 694
C.	Subsidiaries	1 852
A+B+C	TOTAL PORTFOLIO *	16 546

*Nominal value of credit portfolio. Total portfolio contains intercompany balances.
Portfolio includes IAS adjustments.



Geographical concentration

Bank Zachodni WBK S.A is concentrated on running credit activities in the territory of the Republic of Poland – exposure toward non-residents represents a marginal part of the bank's portfolio. In Poland, the credit activities focus on the marketplace of western provinces and large cities (Warszawa, Gdańsk, Kraków, Łódź, Poznań, Wrocław), 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). Macroregion Poznań shows the biggest credit exposure accounts for 37% of the bank's total exposure. The macroregions are divided into regions. Warsaw Region shows the biggest credit exposure which accounts for 25% of the bank's total exposure.

	Personal (excl. mortgage loans)*	Mortgage loans*	Business loans*
BZ WBK	1 378 191	2 283 464	11 090 231
Poznań Macroregion	516 263	787 843	4 099 579
Region Poznań	112 095	245 914	1 399 408
Region Wielkopolska Północ	83 942	105 254	391 486
Region Wielkopolska Południe	133 901	141 988	1 036 212
Region Kujawsko-Pomorski	67 006	110 297	343 752
Region Lubuski	89 596	103 559	454 239
Region Zachodniopomorski	29 723	80 831	474 482
Warsaw Macroregion	167 540	726 845	3 975 073
Region Warsaw	82 025	509 123	3 030 491
Region Łódzki	31 504	61 458	264 410
Region Pomorsko-Mazurski	54 011	156 264	680 172
Wrocław Macroregion	487 522	768 778	3 015 577
Region Wrocław	96 661	208 899	821 820
Region Śląski	53 575	128 761	339 187
Region Dolnośląsko-Opolski	152 727	163 595	664 184
Region Dolnośląski Zachód	162 446	169 948	637 278
Region Małopolsko-Podkarpacki	22 113	97 575	553 108
Credit cards**	206 865		

* Nominal value of credit portfolio

** Unallocated to macroregions

60. Accounting estimates and judgements

Impairment of financial assets

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. It is not necessary to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. The Bank makes judgements whether there is indications of objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset.



If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost 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). The calculation of the present value of the estimated future cash flows requires judgement by management. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly and updated where appropriate. In addition back testing is performed to compare actual and estimates of loan losses.

Where there is any objective evidence that available-for-sale investments may be impaired, the Bank creates appropriate impairment charges – this applies to three bank companies.

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 even though the financial asset has not been derecognised. 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 repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss. 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.

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 of goodwill and 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 derivatives

The fair value of derivatives not quoted on active markets is determined using valuation techniques. If valuation techniques are used to determine the fair values, these methods are periodically assessed and verified. All the models are approved before application. As far as possible, only observable data are used in the models, although in some areas, the entity's management must use estimates. Changes in the assumptions relating to the estimated factors may affect the fair values of derivatives disclosed.



Other accounting estimates and judgements

Provisions for employee benefits arising from the Bank's 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.

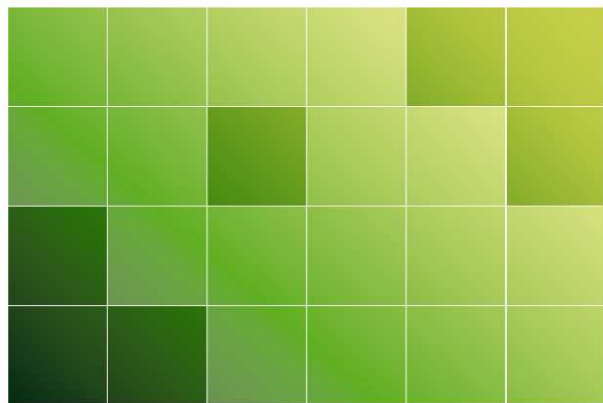
Provisions for legal claims have been estimated considering the expected probably amount to settle a case, and where applicable, including the time value of money.



SIGNATURES			
Signatures of Members of the Management board			
Date	Name	Function	Signature
26-07-2006	Jacek Kseń	President	
26-07-2006	Declan Flynn	Member	
26-07-2006	Michał Gajewski	Member	
26-07-2006	Justyn Konieczny	Member	
26-07-2006	Janusz Krawczyk	Member	
26-07-2006	Jacek Marcinowski	Member	
26-07-2006	Mateusz Morawiecki	Member	
26-07-2006	James Murphy	Member	
26-07-2006	Marcin Prell	Member	
26-07-2006	Feliks Szyszkowiak	Member	
Date	Name	Function	Signature
26-07-2006	Wanda Rogowska	Financial Accounting Area Director	



**Report of the Management Board
on the BZWBK Group Performance
in H1 2006**



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I. Introduction

In the first half of 2006, Bank Zachodni WBK Group reported a record-high Profit-After-Tax of PLN 423.9m, which reflects:

- *continued development of the Group's key business areas*
- *steady increase in income from the core banking activities*
- *excellent business and financial performance of mutual funds*

1. Financial Performance in Brief

● **In the first half of 2006, the Bank Zachodni WBK Group achieved record-breaking financial performance and growth rate y-o-y:**

- profit-before-tax was PLN 571.5m, an increase of 62.7% y-o-y;
- profit-after-tax was PLN 423.9m, an increase of 50.7% y-o-y.

● **With regard to financial performance, the most spectacular progress against the first half of 2005, was achieved in the following areas:**

- increase in total income by 27.6%, of which net commission income went up by 54.5%;
- reduction of the cost-to-income ratio from 61.1% to 51.5%;
- reduction of the NPL ratio from 7.8% to 6.3%.

2. Key Factors Affecting the Group's Profit and Activities

● **External environment, including:**

- economic growth and investment climate in Poland;
- labour market and salary levels;
- official interest rates levels;
- changes in the structure of household savings;
- trends in the credit market.

● **Steady business development:**

- growth of deposit base;
- rapid sales of BZ WBK Arka mutual funds (the funds' assets increased more than three-fold y-o-y);
- growth of strategic loan portfolios: cash and mortgage loans, leasing, business loans;
- continuous improvement of loan book quality;
- functional, procedural and pricing improvements in products and services;
- expansion of co-operation with external partners with regard to card service and distribution of selected bank products.



● **Effective cost management:**

- cost discipline maintained while business of the bank and subsidiaries quickly expanding.

● **Strong focus on service quality:**

- development of CRM technology, processes and competence of staff members;
- implementation of the "2006+ Standards" across the branch network;
- continued improvement and simplification of processes and procedures.

● **Development of alternative distribution channels:**

- increase in the sale of retail products through Direct Banking;
- expansion of functionality of the BZWBK24 and Minibank24 electronic banking solutions;
- establishment of a mobile sales network and launch of distribution through the sales network of an external partner.



II. Macroeconomic Situation

1. Macroeconomic Environment in H1 2006

Economic Growth

According to data from the Central Statistical Office, GDP growth in the first quarter of 2006 reached 5.2%, which was the best result since Poland's accession to the EU. A large role was played by domestic demand, which grew by 4.5%, while net export added 0.7 p.p. to the overall GDP growth. The breakdown of domestic demand was slightly different than expected due to slower investment increase (7.4% y-o-y after 10.1% y-o-y rise in the fourth quarter of 2005) and negative contribution of change in inventories. On the other hand, private consumption growth reached as much as 5.1% y-o-y (against 2.8% y-o-y in the fourth quarter of 2005 and 2.0% y-o-y on average in 2005). All in all, the data showed that Poland's economic situation was very good at the beginning of 2006.

Monthly data for the April-June period shows that fast economic expansion was continued in the second quarter of 2006. Growth rates of industrial output and retail sales reached the highest level since pre-accession boom in the first half of 2004. There were also positive tendencies in foreign trade maintained, i.e. rapid exports increase and only slightly lower rise in imports. On that basis, one may estimate that GDP growth pace in the second quarter of 2006 was again close to 5%.

Predictions for the remainder of 2006 are also optimistic. The economic growth should be mainly driven by domestic demand. Stabilisation of interest rates at record low level will be conducive to that. Consumption demand should receive significant support from the continued improvement of the labour market conditions.

Labour Market Conditions

Improvement on the labour market, observed for a few previous quarters, has become even stronger recently – employment increase in the enterprise sector accelerated to 3% in the second quarter of 2006, reaching the record high level of 3.1% y-o-y in June. The registered unemployment rate fell to 16% at the end of June, which means the fastest pace of unemployment reduction since mid-1998. Rapid increase in labour demand, stimulated by high economic activity, translates positively into wage growth. In the second quarter of 2006, average wage grew 4.6% y-o-y, the same as in the first three months of the year. Given moderate wage growth, strong employment increase and low inflation, the first half of 2006 saw the strongest growth in wage bill in the enterprise sector for many years. Positive tendencies in the labour market seem sustainable. This supports the expectation that private consumption growth will remain high in the coming quarters, but at the same it increases the Central Bank's caution as regards possible threat of excessive wage pressure in the economy.

Economic Expansion in Monetary Statistics

Along with acceleration in economic growth, the first half of 2006 brought further improvement in monetary statistics. Money supply grew 11.8% y-o-y in June 2006 against 10.4% y-o-y rise at the end of 2005. At the same time total deposits growth accelerated to 11.4% y-o-y from 9.4% y-o-y and like in the previous year this was mainly a consequence of an increase in corporate deposits (21.7% y-o-y growth in June 2006 versus 16.8% y-o-y rise in December 2005), although there was also some improvement in households' deposits, which increased by 5.6% y-o-y in June 2006 against a 3.6% y-o-y rise in December 2005.

As regards counterparts of money supply, a fast expansion of loans for households was continued. It increased by as much as 28.8% y-o-y in June 2006, which was related mainly to a rapid increase in mortgages. There was also continuation of gradual revival in corporate borrowing. In June 2006, it grew by 5.1% y-o-y against a mere 2.8% y-o-y rise in December 2005. As a result, total loans grew by 16% y-o-y in June 2006, which is the strongest growth since early 2001. One may expect that the remainder of 2006 will bring further recovery on the loans market.



Inflation

A few quarters of fast economic growth did not bring signs of rising underlying inflation pressure. After CPI inflation fell to 0.7% y-o-y at the end of 2005 and to 0.4% y-o-y in March 2006, it increased only moderately to 0.8% y-o-y in June, but it was affected mostly by external factors such as higher food and fuel prices. The behaviour of other prices, which reflects fundamental inflation pressure in the economy and may be influenced by the monetary policy, was still very favourable. The so-called net inflation (CPI excluding food and fuel prices) remained below 1% y-o-y and should not exceed this level until year-end. Consequently, as for now there are no significant threats from the Central Bank's perspective.

Interest Rates

Unexpectedly low inflation at the beginning of 2006 led the Monetary Policy Council to cut official interest rates again. As a result the reference rate fell to 4.0% from 4.5% in the first quarter of the year. In the following months, faster than predicted economic growth was the main factor being responsible for keeping rates on hold. Majority of members of the MPC expressed their opinion that existing interest rate level is appropriate given current and expected economic situation in Poland, and thus rates should be stable for some time. Taking into account quite favourable medium-term inflation prospects, one can expect that NBP rates will be unchanged at least until the end of 2006.

Fiscal Reforms Still to Come

After the coalition government was formed, political situation in Poland has stabilised. Nevertheless, there are still many question marks as regards the shape of fiscal policy in the following years. Declarations of the government's officials to date have suggested that it will not be possible to meet Maastricht fiscal criteria (budget deficit below 3% of GDP) before 2009. The lack of credible programme of deficit reduction may increase volatility on financial markets and – to some degree – obstruct the functioning of enterprises. As for now, financial markets' participants gave a vote of confidence in the new cabinet, especially as macroeconomic situation is the best since many years. That is why, recent changes on the posts of Finance Minister and Prime Minister did not cause turmoil on the markets.

Polish currency as well as bonds and equities remained under influence of the situation on global financial markets, which was driven by higher risk aversion amid uncertainty connected with the monetary policy prospects in the U.S. Outflow from risky assets globally caused emerging markets sell-off, which was additionally boosted by macroeconomic instability in some countries in the region (Turkey, Hungary). As a result, the zloty exchange rate depreciated to above 4.0 against the Euro, although it was affected less than other currencies in the region thanks to strong economic fundamentals.



2. Main Macroeconomic Indicators

Main macroeconomic indicators		2003	2004	2005	2006F
GDP	% y-o-y	3.8	5.3	3.4	5.1
GDP	PLN bn	842.1	923.2	980.9	1 037.2
Total consumption	% y-o-y	2.5	3.9	2.6	4.2
Private consumption	% y-o-y	1.9	4.0	2.0	4.6
Fixed investment	% y-o-y	-0.1	6.3	6.6	9.4
Industrial production	% y-o-y	8.4	12.3	4.0	10.6
Retail sales (real terms)	% y-o-y	3.6	7.1	1.5	11.1
Unemployment rate *	%	20.0	19.1	17.6	15.9
Gross wages in enterprise sector (real terms)	% y-o-y	2.8	4.1	3.2	5.1
Budget deficit *	PLN bn	-37.0	-415	-28.6	-30.5
Budget deficit *	% of GDP	-4.4	-4.5	-2.9	-2.9
CPI	% y-o-y	0.8	3.5	2.1	0.8
CPI *	% y-o-y	1.7	4.4	0.7	1.5
PPI	% y-o-y	2.6	7.0	0.7	2.3
Broad money (M3)*	% y-o-y	5.6	8.7	10.4	11.2
Deposits *	% y-o-y	3.7	8.1	9.4	9.5
Loans *	% y-o-y	8.1	2.9	11.8	15.0
USD/PLN	PLN	3.89	3.65	3.23	3.12
EUR/PLN	PLN	4.40	4.53	4.02	3.94
PLN reference rate *	%	5.25	6.50	4.50	4.00
WIBOR 3M	%	5.69	6.21	5.29	4.21

Source: CSO, NBP, own estimates and forecasts

* - end of period

F - forecast as at 18.07.2006



III. Financial Performance

1. Profit and Loss Account

The table below presents major developments in key categories of the profit and loss account of Bank Zachodni WBK Group in the first half of 2006 compared with the corresponding period last year.

PLN m

Key Profit & Loss Items	1H 2006	1H 2005	Change
Total income	1 211.0*	949.1	+27.6%
Total costs	(624.0)	(579.8)	+7.6%
Profit-before-tax	571.5*	351.3	+62.7%
Income tax	(107.9)	(59.4)	+81.6%
Profit-after-tax	423.9*	281.2	+50.7%

* including equity disposals

In the first half of 2006, the Bank Zachodni WBK Group posted profit-before-tax of PLN 571.5m which exceeds the figure recorded in the corresponding period of 2005 by 62.7%. Excluding the one-off gains earned this year on equity disposals (PLN 30.5m), the underlying profit-before-tax increased by 54% y-o-y. This record half-yearly performance of the Group is attributable to the outstanding business results of the bank and subsidiaries, in particular: BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., BZ WBK AIB Asset Management S.A. and BZ WBK Dom Maklerski S.A. The key factors driving the Group's financial profit were:

- steady development of key business volumes, including: investment fund assets (+230.2%), retail lending (+23.3%), lease rentals (+16.3%), business loans (+8.4%), deposits (+7.3%);
- robust growth of net fee and commission income (+54.5%), especially with regard to management and distribution of mutual funds, brokerage fees, insurance products, debit cards and payments;
- higher net interest income in the low interest rate environment;
- one-off gains earned in the equity market on the disposal of LZPS Protektor S.A. (PLN 7.8m) and TIM S.A. (PLN 22.6m) and 20.5% higher dividend income.

Income

In the first half of 2006, the BZ WBK Group posted a total income of PLN 1,211m, an increase of 27.6% on the corresponding period of the previous year. The main components of total income were as follows:

- **Net interest income**

Net interest income amounted to PLN 493m. Taking into account interest-related income from FX Swap and FX Basis Swap transactions (recognised in FX profit and gains from assets measured at fair value through profit and loss, respectively), which declined y-o-y from PLN 50.8m to PLN 14.3m, the underlying net interest income increased by 4.7%. This growth was achieved thanks to the improved business mix generating relatively stable credit margins and good Treasury performance in liquidity management. Interest margins, especially on customer deposits, were tighter due to increased competition and significantly lower interest rates.



- **Net commission income**

Net commission income amounted to PLN 489.3m and increased y-o-y by 54.5% driven by further expansion of the bank's and subsidiaries' business. Due to the fast flow of assets to the investment funds and private portfolios, the highest increase in net commission income was recorded in distribution fees charged to customers purchasing mutual fund units (+554%) and also in asset management fees (+284.6%) collected by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. and BZ WBK AIB Asset Management S.A. for investment services. The net brokerage fees of BZ WBK Dom Maklerski S.A. (Brokerage House) showed a strong growth as well (+100.7%) and this was in line with the rising business volumes amidst increasingly higher trading at the Warsaw Stock Exchange. There was also a noteworthy increase in net commission income generated by insurance products (+220%) and e-Business and Payments area (+12.6%), in particular debit cards, Western Union money transfers and third party card services.

- **Dividend income**

Dividend income of PLN 57.1m increased by 20.5% as a result of a higher dividend paid out by the Commercial Union Group members included in the bank's equity investment portfolio. In the first half of 2006, these entities disbursed PLN 53m as compared to PLN 44.1m in the same period last year.

- **FX profit**

FX profit was PLN 104.9m and 10.8% down y-o-y as a result of decline in FX SWAP income driven by the shrinking gap between the PLN and FX interest rates. Excluding FX SWAP impact, the line shows an increase of 14.5%, which reflects higher income from increased customer FX business.

- **Gains on assets measured at fair value through profit and loss**

Gains on financial transactions measured at fair value through profit and loss increased by 127.4% to 16.6m thanks to higher income on derivative transactions, including IRS and FRA transactions.

- **Gains on assets from the investment portfolio and disposal of subsidiaries and associates**

This increased due to the one-off gains in the equity market, i.e. profit earned on the sale of subsidiaries and associates (PLN 6.2m) and profit on disposal of TIM S.A. from the investment portfolio of Inwestycje Sp. z o.o. (PLN 22.6m).

Loan Impairment Charge

In the first half of 2006, the impairment charge to the profit and loss account amounted to PLN 16.3m, which is by PLN 0.4m less than in the corresponding period of 2005. With the growing volume of the loan-book, the Group retained the impairment charge level y-o-y, thus confirming the steady improvement of its credit portfolio quality. At the end of June 2006, the impaired receivables accounted for 6.3% of the gross customer portfolio with a provision cover of 63.1%. A year before, the respective ratios were at 7.8% and 59.4%. This decline in the NPL ratio is a result of the consistent operation of the Group's credit risk management policy and a sharp focus on ensuring portfolio quality.

Costs

The performance of Bank Zachodni WBK Group in the first half of 2006 caused reduction of its cost-to-income ratio to 51.5%. from the level of 61.1% recorded in the corresponding period of the previous year.



Total operating costs of the Bank Zachodni WBK Group amounted to PLN 624m and were higher by 7.6% y-o-y. Their main components were as follows:

- **Staff and other administrative expenses**

The costs included under this heading increased by 10.3% y-o-y to PLN 521.1 m and were driven by dynamic business development of the bank and its subsidiaries. The biggest element of this figure, i.e. the Group's staff expenses, amounted to PLN 316.7 m and increased by 13.9% compared to the corresponding period of 2005 due to higher employment, growing competition among banks for highly skilled banking experts and performance-related bonuses. With a strong business growth, the Group's other administrative expenses increased merely by 5.1% y-o-y to PLN 204.4m. This movement results, among other things, from the Group's promotional activities in the area of investment funds. However, a number of other components of this cost heading remained flat or were even lower compared to the same period last year.

- **Depreciation**

Depreciation totalled PLN 86.4m and decreased by 8.4% compared to the first half of 2005 due to continued process of fixed assets optimisation.

- **Other operating costs**

Other operating costs of PLN 16.5m increased by 27.9% due to higher level of provisions.

2. Balance-Sheet Items

The table below presents major developments in key categories of the balance sheet of Bank Zachodni WBK Group as at the end of June 2006 versus the corresponding period of 2005.

PLNm

Key balance-sheet items	30-06-2006	30-06-2005	Change
Balance sheet total	31,001.0	29,306.6	+5.8%
Key assets			
Loans and advances to customers	15,475.8	13,783.2	+12.3%
Investment securities	6,869.0	7,199.1	-4.6%
Loans and advances to banks	3,499.1	2,041.1	+71.4%
Securities at fair value through profit & loss	1,828.8	2,882.4	-36.6%
Key liabilities			
Deposits from customers	21,513.4	20,058.6	+7.3%
Deposits from banks	1,815.8	1,726.9	+5.1%
Repo transactions	1,661.6	1,027.3	+61.7%
Debt securities in issue	795.3	1,307.6	-39.2%

As at 30 June 2006, total assets of the Bank Zachodni WBK Group amounted to PLN 31 001m and were 5.8% up on the end of June 2005. The value and structure of the Group's balance sheet is determined by the bank's balance sheet which accounts for 95.2% of the consolidated total assets. Compared to 30 June 2005, the Group recorded a substantial increase in deposits from customers and also liabilities from repo transactions which resulted in higher bank-to-bank placements being recognised on the assets side. The growth of assets was mainly driven by loans and advances to



customers and banks, the latter reflecting stronger activity of the Group in the money and repo market.

Deposit Base

Deposits from customers, which represent 69.4% of the Group's liabilities, are the main driver of the balance sheet growth and the primary source of funding its lending business. At the end of June 2006, customer deposits totalled PLN 21,513.4m and were higher by 7.3% y-o-y driven by balances in current and deposit business accounts (+19%). Excluding one-day deposits, total funds held in current customer accounts totalled PLN 7,159.4m and exceeded the figure as at 30 June 2005 by 24.7%. This growth is attributable to low interest rates which made customers more inclined to keep their financial resources in current accounts. Total term-deposit base (including one-day deposits) remained on the comparable level y-o-y (+0.5%) and amounted to PLN 13,869.4m. Deposits maintained by the Group were still dominated by amounts due to individuals (54.6%), though their share in the total customer deposit base decreased by 4 p.p. y-o-y as a result of the growing volumes of deposits from business and public sector customers.

As at the end of June 2006, the Group's liability arising from debt securities in issue totalled PLN 795.3m, a decrease of 39.2% y-o-y. The reduction of own bonds portfolio results from the redemption of PLN 448m worth of Bank Zachodni WBK bonds which were issued in 2003 under II Investment Bonds Issue Programme (PEOL). In the first half of 2006, there was one issue of own bonds and that was carried out by BZ WBK Finanse & Leasing S.A. under the public issue programme.

As at the end of June 2006, the Group's total savings and deposit base, including customer deposits and bonds in issue, amounted to PLN 22,308.7m.

Credit Portfolio

At the end of June 2006, gross loans and advances to customers were PLN 16,207.7m and 11.6% up y-o-y due to increasing volumes of the Group's key loan-books: personal loans, business loans and lease rentals offered by the bank's subsidiaries, i.e. BZ WBK Finanse & Leasing S.A. and BZ WBK Leasing S.A. Retail portfolio increased over 12 months by 23.3% to PLN 3,677.5m, the main growth drivers being cash loans (+85.3%) and mortgages (+16.7%). As compared to the end of June 2005, the business credit portfolio grew by 8.4% to PLN 10,405.3m, reflecting the increased demand for business funding amidst economic expansion and better alignment of the Group's lending offer and service with the customers needs. The leasing portfolio increased by 16.3% on end-June 2005 and totalled PLN 1,743.1m.

The biggest item in the lending structure of the Bank Zachodni WBK Group were loans to business and public sector customers, accounting for 66% of the gross portfolio. Retail loans represented 23% of the overall portfolio, while leasing and other receivables made up 11%.

The Bank Zachodni WBK Group 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 2006, the highest concentration level of 16.5% was recorded in the property sector services (property sector as a percentage of total portfolio before intercompany).

The quality of the Group's loan-book continued to improve during the year, which is reflected in the declining NPL ratio.

Interest Rates on Loans and Deposits

In the first half of 2006, like in the previous periods, the interest rates offered to customers were tied to the rates shaped by the interbank market and the Monetary Policy Council (MPC).

The interest rates on business loans are, for most facilities, directly linked to the market interest rates (WIBOR, LIBOR), and the bank's margin mainly depends on the credit risk attaching to individual transactions.

Interest rates on savings accounts, term deposits, credit cards and retail loans are set by Bank Zachodni WBK Assets and Liabilities Management Committee (ALCO). In the first half of 2006, interest rates were changed in response to the following factors: interest rates in the interbank market, need to retain competitiveness of the offered products and changes in law which became effective from



February 2006 and set a cap on the amount of interest charged on a loan. The maximum interest rate was set as four times the Lombard rate (5.50% since 1 March 2006).

In accordance with its strategy, the bank offers promotional rates of interest on PLN home mortgages, cash loans and credit cards.

3. Bank Zachodni WBK Rating

In the first half of 2006, the ratings assigned to Bank Zachodni WBK by Fitch Ratings Ltd. remained unchanged and were as follows:

- individual rating: C
- long-term: A
- short-term: F1
- support: 1
- long-term rating outlook: positive

The last change of the Bank Zachodni WBK rating by Fitch Ratings Ltd was announced on 23 November 2005 when the bank's individual rating was increased to C from C/D. This reflects improved profitability of Bank Zachodni WBK following the successful completion of the restructuring programme, better asset quality and further enhancement of the bank's equity. The long-term, short-term and support ratings were confirmed based on potential support available from the majority shareholder Allied Irish Banks plc. The long-term rating is capped by Poland's long-term country ceiling which is "A".

4. Performance of Bank Zachodni WBK Shares

In the first half of 2006, the shares of Bank Zachodni WBK S.A. increased by 26.5% against 16.8% increase in the sectoral WIG Banks index and 8.8% increase in the WIG 20 index.

In the reporting period, Bank Zachodni WBK shares made the best banking investment among the quoted banks in Central and Eastern Europe in terms of total rate of return (including dividend). Among the companies from the WIG 20 index, Bank Zachodni WBK S.A. is ranked fifth in terms of total return on investment and first among banks.



IV. Business Development

Bank Zachodni WBK S.A.

1. Bank Zachodni WBK Brand Strategy

In 2006, Bank Zachodni WBK S.A. continued implementation of the "Po pierwsze klient" strategy, which is defined by the following mission statement:

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

According to this statement, the bank's major objective is to be distinctive on the financial services market, to enhance its relations with customers and to proactively respond to their needs. In order to make this perception of the bank well-established in customer minds, the bank focuses on the brand quality, particularly on the following three brand values: Dependable, Engaging, Pioneering.

Implementing these values in its day-to-day activity and building its reputation on these foundations, Bank Zachodni WBK strives to be one of the top banking brands in Poland. The bank moves towards this objective by being distinctive as an "engaging bank". The idea of partnership is strongly promoted to ensure the bank is regarded as a customer-friendly institution which acts quickly, offers professional and attentive service and provides tailored solutions to meet the needs of different customer groups. This approach implies ongoing changes to internal processes and service standards to make them more customer-friendly. The results are already reflected in customer satisfaction surveys evidencing continuously growing satisfaction with the bank's commitment to the quality of customers' service.

In order to earn the reputation of being dependable, Bank Zachodni WBK S.A. strives to provide its customers with the service that meets top standards in security, reliability, availability, price transparency and clear and fair communication.

As a "pioneering bank", Bank Zachodni WBK S.A. constantly improves its product range and uses state-of-the-art bank technology in order to satisfy customers' requirements to the fullest possible extent.

2. Key Business Developments in 2006

The actions undertaken by Bank Zachodni WBK S.A. in 2006 are a continuation and natural consequence of the development directions set out in the "Po pierwsze klient" strategy and pursued in prior periods.

Striving to build a sustainable competitive advantage and achieve a long-term profit growth, the bank develops its relations with customers in compliance with the concept of an "engaging bank". To this end, it maintains and improves the segmentation programme which allows to assign personal and business customers to individual advisors and undertakes effective CRM activities which, among others, involve encouraging customers to avail of new banking products.

The most important business areas of the bank's activity in the first half of 2006 included:

- simplification of credit products offering and reduction of the number of separate procedures and processes to achieve a uniform and shorter credit delivery process (these changes enabled, among others, the expansion of the credit offer with a universal product called Biznes Ekspres which is a "business cash loan");
- integrated approach to customers in the area of retail lending, which was reflected in the promotion of "credit of 15 salaries" (the customer is allowed to use a cash loan, overdraft limit and a credit card in a total amount of 15 times the customer's monthly income);
- dynamic growth of the savings base of the Bank Zachodni BZWBK Group due to active distribution of investment products of the bank's subsidiaries (mainly BZWBK Arka mutual funds) supported by promotional activities;



- pro-active acquisition activities targeting customers below 30 years of age carried out by means of promotional campaigns of personal account Konto<30;
- continued development of co-operation with external partners with regard to production and sale of co-branded debit and credit cards (e.g. the AlleKarta VISA card to the Konto24.pl account in liaison with Allegro.pl and a new co-branded credit card with the Money.pl web portal);
- the launch of a mobile sales network and distribution of the selected products through an independent financial intermediary.

During the last half-year, as part of a project to implement the quality management methodology, there were comprehensive reviews undertaken covering selected processes in the bank, including: mortgage lending, SME lending, credit card issuing, personal overdraft renewals and opening of personal accounts. Recommendations formulated on the basis of these reviews will allow certain processes to be modified to make them even more customer-friendly and effective for the organisation.

The second half-year will see delivery of further important initiatives, including implementation of a personal savings account, commencement of co-operation with new partners for the Konto24.pl account, significant improvement of the bank's foreign payments offering, preparation of a package for individuals travelling abroad, launch of pre-sanctioning for business customers, implementation of property leasing and export factoring.

3. Lending Policy

The bank pursues a policy oriented towards maintaining high quality of the loan portfolio by applying and monitoring policies that mitigate the credit risk.

The bank's lending policy consists of a number of rules and guidelines in the form of lending procedures and policies introduced by resolutions issued by the Management Board, Management Board Members and Chairman of the Credit Forum. They govern, among others, processes related to personal, commercial and corporate lending as well as securities.

Bank Zachodni WBK S.A. also operates a number of credit policies that address key lending issues and areas, including Credit Discretions Guidelines, FX Lending and Guarantees Policy, sector policies, policies addressing lending to individual client categories (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 relevant guidelines. Credit discretions are defined for specific positions in the Individual Discretionary Limits document. They vary depending on lending skills of the individuals engaged in the credit delivery process. Also, there are different discretionary limits for secured and unsecured exposures.

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 Deputy Chief Credit Officer, and consists of representatives of the Credit Division, Risk Management Division, Strategic Development Division, Customer Relationship & Sales Division and Finance Division.

The bank's subsidiaries which specialise in leasing and factoring are governed by their internal credit risk regulations.

4. Development of Customer Service

CRM

In accordance with the "engaging bank" idea, Bank Zachodni WBK S.A. undertakes a number of actions designed to build long-standing and stronger ties with its customer base. Proactive contacts with customers are regularly planned and strictly monitored for better efficiency. As part of the proactive contacts, the cross-selling potential is developed and better penetration of the customer base is ensured.

The bank develops specialist IT infrastructure to enhance proactive contacts, long-term relations with customers and to support delivery of sales campaigns. Processes are initiated to retain customers



and encourage loyalty by motivating them to keep their relationship with the bank and to avail of its products and services.

Service Quality Management

In the first half of 2006, the bank service quality improvement efforts focused on reinforcing quality standards based on internal and external customer satisfaction surveys carried out in the fourth quarter of 2005. Priority was given to implementation of active service and sales standards known as "2006+ Standards" across the branch network.

- **2006+ Standards**

Following the annual external customer satisfaction survey, customer needs and expectations were defined along with those aspects of customer service which had to be enhanced enterprise-wide. This information was used to formulate "2006+ Standards" which were implemented in all branches in the first half of 2006. The new service standards are not meant to replace the existing ones but to enhance them and to structure the service process.

- **Branch service improvement programmes**

Results of the external customer satisfaction survey, carried out in the last quarter of 2005, confirm a steady growth of customer satisfaction. Following the analysis of the results, a number of actions were taken in the first half of 2006 with a view to enhancing customer service. Based on dedicated reports, each branch implemented individual service quality improvement programmes. As in the previous years, Service Quality Managers regularly visited the bank's branches to provide specialist support and staff training.

- **Customer Care Officer and complaints handling**

Bank Zachodni WBK S.A. is distinctive in the market in that it has a Customer Care Officer. Apart from being the contact person for customers, they are also involved in development of customer service standards through: developing complaints handling standards, supporting the bank's staff in handling the most difficult complaints, regular updates for the Management Board on the outcome of complaint analyses, initiatives aimed to eliminate sources of customer dissatisfaction and liaising with the Ombudsman at the Polish Banks Association.

- **Enhancement of internal customer service**

The drive to optimise relations between individual units within the bank results from the belief that high quality interactions in the organisation translate to better service for external customers. The measures taken in the first half of 2006 are based on the outcome of the internal customer satisfaction survey and are a part of the so-called Relationship Enhancement Programme.

5. Development of Products and Services (by Key Product Lines)

Retail Loans

Bank Zachodni WBK S.A. builds its competitive advantage in the retail loans market through high quality products, advanced technology and service processes, diversified distribution channels, effective promotions and highly competent staff. Activities undertaken in these areas during the first half of 2006 increased attractiveness of the bank's services and accelerated retail lending.

At the beginning of 2006, the bank continued to pursue its mortgage loans strategy whose objective is to develop the best PLN mortgage offer in the market, create multi-channel distribution system and achieve the highest level of customer service.

In the first half of 2006, the bank's mortgage lending offer underwent modifications which reduced the cost of credit for customers and made the bank's mortgage loans distinctive in the market. As part of a price promotion, from February 2006 customers seeking a housing loan in PLN



were offered new rates of interest, which were the lowest in the market. According to the new terms, promotional interest rate during the first two years of the credit life amounts to 6M WIBOR+0.5 p.p. and 6M WIBOR+1 p.p. in subsequent years.

In the area of cash loans the bank conducted intensive promotional actions, focussing on two key advantages of its offering, namely very quick turnaround time and a possibility to obtain the highest loan available in the market (15 times monthly income). In the first half of 2006, the bank also started the sale of cash loans in the new distribution channels, e.g. via the QS Financial House outlets and through mobile sales.

Bank Zachodni WBK S.A. offers a wide range of credit cards in Visa and MasterCard payment systems with options tailored to the needs and potential of particular market segments. Further development of this business is facilitated by acquiring new external partners for the issue of co-branded cards. Since the end of April 2006, the bank has been selling a new co-branded card issued in co-operation with the Money.pl web portal. In the Expander ranking of May 8, 2006, the card was assessed as the best product of the kind in the market and its popularity among customers keeps growing. In June 2006, a new co-branded card was launched in cooperation with a Multikino multiplex cinema network and this will be actively sold in the second half-year. As part of the ongoing upgrading of the credit card service, in the first half of 2006 the bank gave its customers an option to select the frequency of charging the credit card fees (annually or monthly) and modified the process of filing credit card applications and signing credit card agreements. Also, discounts were offered to the frequent users of credit cards.

SME Lending

The business offer of Bank Zachodni WBK S.A. distinguishes itself by a wide range of credit facilities that meet varying financial requirements of the SME sector. In the first half of 2006, the bank introduced a new competitive product called Biznes Ekspres loan. This facility caters both for working capital and investment requirements of companies. Its main advantages are minimum documentary requirements, no obligation to document the purpose of the loan and fast decision-making process. Bank Zachodni WBK S.A. was one of the first banks to introduce such a product in the market, responding to the demands of customers.

Bank Zachodni WBK S.A. is also among the top banks operating in the EU funds market and continues to strengthen its position in this area as envisaged by the strategy "Together in the EU". This is confirmed, among others, by the bank's first position in the ranking of banks (published by the Polish Agency for Entrepreneurship Development) which fund projects qualified for delivery under the fourth run of the "Growth in Business Competitiveness, Action 2.3". During the last half-year the bank's offer with regard to funding projects covered by EU programmes was expanded to include a new proposal for institutional clients as part of another programme of support from the funds of EFTA countries (EEA Financial Mechanism and the Norwegian Financial Mechanism).

To respond to the needs of farmers, an AGRO Package was developed, with comprehensive solutions for: account maintenance, working capital and investment funding, deposits, electronic banking and payment instruments. As part of the AGRO Package, farmers can avail of a wide range of credit facilities, including - in addition to standard loans - preferential loans, loans refinanced from the EU funds and lease of machinery, equipment and vehicles. With such a proposition, the bank can satisfy diverse requirements of the target market segment. At its web site (www.bzwbk.pl) the bank launched a new information service called AGRO BIZNES which presents the full range of products available to farmers.

Personal Accounts and Business Accounts

In order to simplify and increase transparency of the personal account offer, in January 2006 the bank removed the Konto24 Plus package from its product range and initiated a campaign to support migration of the Konto24 Prestiz account to its subscription-based version (with fixed monthly fee covering account maintenance, basic banking operations and issue/use of the Visa Electron Prestiz card). In the first half of 2006, sales campaigns focused on Konto<30 which is recognised as the leading one on the bank's offer on account of the prospective business from the segment of customers below 30 years of age. Under the most recent summer promotional campaign for Konto<30, launched in May 2006, no fees are charged for withdrawing cash from ATMs abroad using Visa Electron<30 card.



In 2005, the bank started to provide comprehensive services for SMEs as part of the BIZNES Package, while in the last half-year an AGRO Package was developed and implemented for individual farmers. The package is built around the current account with special pricing conditions ("Schedule of fees and charges for Agrobiznes").

Deposit and Investment Products

Bank Zachodni WBK S.A. provides its customers with a comprehensive offer of savings and investment products, giving them an option to diversify their portfolios according to their individual preferences and investment objectives.

In the first half of 2006, retail customers most frequently used short-term deposits of 7 and 14 days and the 1-month Lokata24 deposit. There was also a good demand for IMPET deposits with very attractive interest rates. Business customers usually preferred short periods for their placements, with terms and conditions negotiated individually.

In addition to the wide range of term deposits, the bank's branch network distributes investment products of the bank's subsidiaries, mainly the BZWBK Arka mutual funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. In the first half of 2006, the bank offered the five main categories of Arka funds: balanced fund, stable growth fund, equity fund, money market fund and bonds fund. These products achieved a remarkable success thanks to the favourable stock market, excellent investment results and intensive marketing campaigns. In June the bank began to sell a new fund, Arka BZ WBK Foreign Shares Fund FIO, which invests at least a half of its assets in foreign shares funds. This product gives customers access to the global shares markets and allows them to diversify risk geographically.

Insurance Products

In accordance with the bank's strategy, bancassurance services are becoming an increasingly important element of the bank's business. In the first half of 2006, Bank Zachodni WBK S.A. supplemented its offering with a cash loan insurance package designed to protect borrowers against consequences of unemployment, temporary or permanent inability to work or death. Also, an insurance option targeted at mortgage borrowers is being developed (life assurance, home insurance) along with debit and credit card insurance propositions. The bank offers its insurance products in liaison with three insurance groups: AIG, Commercial Union and TU Europa.

FX Transactions

The bank offers a full range of foreign trade finance and international settlement services. In the first half of 2006, a noticeable year-on-year growth was observed in this area of banking, especially in import documentary business (the number and value of import letters of credit and collections increased by 21% and 45%, respectively). Export finance instruments, i.e. forfeiting, discount of export receivables and pre-financing of exports proved to have considerable business potential as well.

Cross-border payments are an increasing source of banking fees. The number of direct payments processed by the bank (without intermediary of a third bank) in the first half of 2006 went up by 22% on the corresponding period of 2005. Payment order messages generated by the bank have been for many years characterised by high quality which brings measurable benefits to customers, i.e. low costs and short processing time. Bank Zachodni WBK S.A. is frequently awarded by its foreign counterparties in recognition of the error-free message formatting. In the first half of 2006, the bank was awarded by: Bank of New York – for customer payments and JP Morgan Chase Bank – for interbank payments. 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 cross-border payment orders. The relevant certificate will be officially granted at the beginning of August. The bank's payment processing services will be even more competitive as a result of downward revision of the pricing offer for cross-border payment orders to be launched at the beginning of the second half of 2006.



Bank Zachodni WBK S.A. also acts as an intermediary for the growing number of Western Union money transfers (+30% y-o-y). The bank continues to expand the network of agents processing Western Union transfers through its intermediary.

The first half of 2006 witnessed a considerable growth in the number of cheque processing (+13% y-o-y), driven mainly by cheques cleared with recourse which is a service available in Poland exclusively from Bank Zachodni WBK S.A.

Debit Cards

- **BZWBK Debit Cards**

Bank Zachodni WBK S.A. offers a wide range of debit cards which address the needs of all the customer segments and are available in two main payment systems: VISA and MasterCard. Similarly to credit cards, all the newly issued debit cards are equipped with a chip to ensure top security of card transactions. As many as 70% of all the valid debit cards have been migrated to the chip technology and the migration process is well on schedule.

Equipped with the comprehensive and innovative debit card offering, in the first half of 2006 the bank introduced only a few changes to improve product functionality and complement the offer. Two new types of re-loadable pre-paid cards were added: allowance card facilitating payments for people who receive financial assistance from social service agencies and "Pajacyk" affinity card issued in liaison with Polska Akcja Humanitarna (Polish Humanitarian Organization). The Pajacyk card offers standard payment functionality for card holders while contributing part of proceeds to the charitable undertakings of PAH. All holders of re-loadable cards have been offered a new service, i.e. using SMS for checking card balance and history of the most recent transactions.

The bank launches communication actions as well as promotional campaigns which contribute to the higher volume of non-cash transactions and ATM withdrawals. The number of active debit cards is growing (+11% y-o-y) which is attributable mainly to two attractive package propositions: Allekarta and Visa Electron<30.

In the first half of 2006, Bank Zachodni WBK S.A. was the first bank in Poland to issue V Pay card as part of a pilot programme and the first bank in the world to test such cards with non-standard account number length and thus verify the flexibility of the supporting platform. The tested card is a new European product of Visa International. It is based on the microchip EVM (Europay, Visa, MasterCard) standard where each transaction has to be confirmed with a PIN. The pilot was successful and is expected to pave the way to a wider use of V Pay cards in Poland and in Europe.

Processing of Other Banks' Cards

Bank Zachodni WBK S.A. issues and processes payment cards for other institutions, being a leading provider of such services in the market. The offer includes chip cards and the latest product – bar-code cards. The bank offers its customers a modern IT infrastructure and a real-time access to transaction data. In the first half of 2006, three other banks decided to use the bank's services. One of them was offered access to Bank Zachodni WBK ATM network and the other two avail of the full scope of our services (card issuance and processing). As at the end of June 2006, the bank processed more than 1m cards for other institutions.

Investment Banking

In the first half of 2006, Bank Zachodni WBK S.A. participated in delivery of the public offer of bonds of BZ WBK Finance & Leasing S.A. as a continuation of issue programme for a total of up to PLN 2bn. The nominal value of the bonds placed amounted to PLN 35m. The bank also arranged bond issues for two external clients, totalling PLN 21.6m. These issues were allocated to the entities indicated by the issuers.

In the first half of 2006, Bank Zachodni WBK S.A. acted as an advisor in the sales of PBG S.A. shares (public offer and sale on the secondary market) as well as in the public sale of two series of Hydrobudowa S.A. shares. The bank provided also advisory services to EMAX S.A. and their majority shareholder during consultations on the agreement providing for the planned merger with Computerland S.A.



During the first months of 2006, Bank Zachodni WBK S.A. disposed of 586,416 shares of LZPS Protektor S.A. at the Warsaw Stock Exchange, representing 37.56% of the company's share capital and voting power at AGM, for PLN 13.2m. The bank also sold 3,422,405 shares of Stalexport S.A. on the OTC market, which brought revenues of PLN 5.9m. In May 2006, the bank's entire stake (13,331 interests) in AIB WBK Fund Management Sp. z o.o., representing 54% of the company's capital, was sold under MBO transaction for PLN 270k.

Treasury Services

During the first half of 2006, Treasury Services operations have continued to develop in close cooperation with Corporate and Commercial Banking activities, while maintaining focus on the retail branch client network.

In the first half of the year, wholesale activity reported strong gains, primarily through strategic interest rate positions taken in expectation of declining PLN interest rates. These gains have been realized within the framework of a conservative appetite to risk taking, consistent with previous years.

The transfer of the wholesale operations from Poznań to Warsaw was successfully completed in January 2006.

6. Distribution Channels

Branch Network

At the end of June 2006, Bank Zachodni WBK S.A. operated through 384 branches. During the first half of the year the bank was making preparations to launch a number of new branches in attractive locations.

The bank's branch network covers all provinces country-wide with the biggest concentration in the south-west of Poland. The bank's retail network is also present in other major economic and administration centres of Poland such as: Warsaw, Kraków, Łódź, Trójmiasto (Tri-city), and Szczecin.

The bank's branch network is divided in fourteen 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. Branches receive support from the owners of business lines who ensure best management within individual strategic products. The biggest cities also have auxiliary structures whose objective is to develop business in branches, including Mobile Sales Teams, Housing Market Specialists and Investment & Savings Products Managers.

Corporate Business Centres

Bank Zachodni WBK S.A. provides services to corporate customers through five Corporate Business Centres based in Warsaw, Wrocław, Poznań, Kraków and Gdańsk. The operational model adopted by the Centres is based on the CRM principles and assigns the key role in the customer relationship management to Relationship Managers within the Corporate Business Centres. It also requires a close co-operation with the bank's branches which provide corporate customers with operational services.

The Corporate Business Centres strategy is to optimise the income potential from corporate customers by satisfying their needs in a comprehensive manner and based on the specific knowledge of the local market. This means that customers seeking facilities receive full and individually tailored offer after a thorough review of their requirements. Apart from the lending proposals, it also covers Treasury products, foreign trade finance, investment banking services, etc.

Cash Management Unit

At the beginning of 2006, the Cash Management Unit was created which operates from Poznań, Wrocław and Warsaw. Cash Management Unit is responsible for the sales of comprehensive products and services for financial institutions, corporate clients and intermediaries with regard to liquidity management, mass payments, all types of domestic and international payments, card transactions, etc. The unit provides top quality standard and tailored products and services.



Electronic Distribution Channels

- **BZWBK24**

BZWBK24 is a modern package of banking services, designed to provide retail and business customers with a convenient and secure access to their accounts via phone, mobile or the Internet, with a wide range of finance management options. As part of the BZWBK24 electronic business service, business customers may choose a standard package or "Moja Firma Plus" which offers extra opportunities, such as: ongoing multi-user access to business accounts, possibility to make transfers which require signatures of two persons, higher daily limit for transactions and convenient and effective finance management. The bank ensures the highest security level for electronic services thanks to its transaction authorization method via smsKod and alternative logging into BZWBK24 Internet via smsKod or token authorization.

In the first half of 2006, Bank Zachodni WBK S.A. continued to expand functionality and improve safety of its electronic banking service for business and retail customers. Users of "Moja Firma Plus" package have been offered order batching and new transaction management options while retail users of BZWBK Internet have been given the possibility to use eWyciąg (an electronic equivalent of a paper account statement) and make transfers from credit card account.

Compared with the corresponding period last year, the base of BZWBK24 users increased by 165,3k to 787.5k at the end of June 2006.

- **Minibank24**

Electronic banking for corporate customers - available within the MiniBank24 system addressed to corporate customers – is a simple and safe way to handle a wide range of banking transactions. In the half-year ending 30 June 2006, the application was upgraded to include additional functionalities. Also, new transaction authorization cards were introduced to ensure the highest security level. At the end of June 2006, 4.4k Minibank24 installations were operative.

- **ATMs**

At the end of June 2006, the ATM network of Bank Zachodni WBK S.A. was composed of 595 machines. To enhance effectiveness of ATMs, the network location optimization process was continued, driven by customer needs and business potential of the locality. Also, seasonal installations were put in place with application of mobile solutions in many prime tourist locations. In order to provide customers with top class technical infrastructure, the bank continued to upgrade its ATM network and replaced older ATMs with the latest generation machines. The functionality of BZWBK ATMs is very extensive and constantly developed. Most machines meet the requirements of EVM chip card standards.

Direct Banking

Direct Banking in Bank Zachodni WBK S.A. operates on the basis of the restructured multi-channel Communication Centre in Środa Wielkopolska. Direct Banking enjoys specialist and continuously improving telecom and IT infrastructure to facilitate efficient customer service and relationship management ("contact center").

In the first half of 2006, the bank continued development of Direct Banking by delivering projects aimed to enhance and intensify phone and Internet-based sales. In both channels a new and customer-friendly credit card sales model was introduced, which makes it possible to make a credit decision within 24 hours from filing the application. As part of the projects aimed to promote Internet-based sales, relations with external financial portals were continued (Money.pl, Bankier.pl, Onet.pl, Interia.pl, Wp.pl).

The actions taken in the first half-year helped the bank to generate considerable sales growth via phone and the Internet. Compared with the corresponding period of 2005, the sale of credit cards increased by 90% y-o-y (in terms of number) and of unsecured cash loans by 88% (in terms of value).



External Distribution Channels

In the first half of 2006, two new distribution channels were launched, i.e. mobile sales network and a financial intermediaries network.

In the first half of 2006, the building of mobile sales network based on self-employed Financial Advisors and Team Co-ordinators was continued. The advisors operate in 6 regions covering the area of northern, central and south-western Poland.

In 2005, the bank commenced works necessary to liaise with external partners. A separate sales process was developed for credit facilities, based on an automated decision-making system. Also, a technology base and IT platform were put in place. In the first half of the year, following the test of the IT solutions, an agency agreement was signed with QS Financial House and the sales of cash loans via QS offices was launched.



Subsidiaries Consolidated with Bank Zachodni WBK S.A.

1. Composition of Bank Zachodni WBK Group and the Scope of its Activity

Bank Zachodni WBK S.A. forms a group with the following ten subsidiaries consolidated on a line-by-line basis. These are:

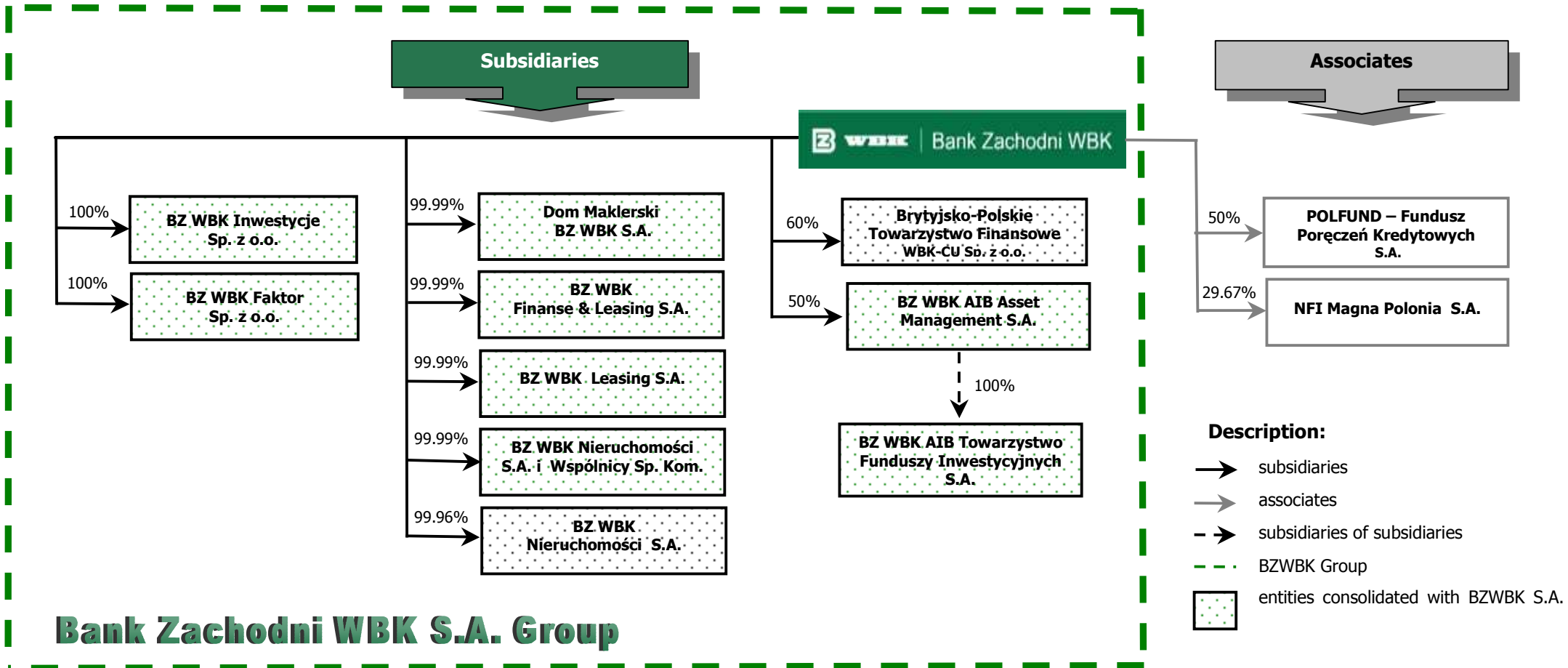
- 1) Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp. z o.o.
- 2) BZ WBK AIB Asset Management S.A.
- 3) BZ WBK Inwestycje Sp. z o.o.
- 4) BZ WBK Faktor Sp. z o.o.
- 5) BZ WBK Finanse & Leasing S.A.
- 6) BZ WBK Leasing S.A.
- 7) Dom Maklerski BZ WBK S.A.
- 8) BZ WBK Nieruchomości S.A.
- 9) BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa
- 10) BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. - subsidiary of BZ WBK AIB Asset Management S.A.

The entities connected with the bank are chiefly financial institutions which conduct specialised activities in securities trading, leasing, asset/fund management, factoring, distribution of insurance/banking products 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 branch network, which substantially increases their selling 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, factoring and lease rentals have been incorporated in the bank's corporate strategy executed in close liaison with respective subsidiaries.

As compared with the end of June 2005, the composition of the Group has changed as the bank disposed of its entire shareholding in AIB WBK Fund Management Sp. z o.o.



Entities connected with Bank Zachodni WBK S.A.



2. Business Development of Major Subsidiaries

Dom Maklerski BZ WBK S.A.

In the first half of 2006, the dynamic market continued at the Warsaw Stock Exchange with a record-high volume of stock trading quoted in the equity market. In this environment, Dom Maklerski BZ WBK S.A. broke another record in its stock trading. During the last six months the trading volume was PLN 18.4bn, which is 109% higher than in 2005, despite lower activity of foreign corporate investors. This performance gave the company a market share of 11.4%, which is similar to the last year's figure (11.9%).

In the futures market, which is the second most important WSE market, the brokerage house acted as an agent for concluding 828.6k transactions, which is 43% higher y-o-y and accounts for a market share of 12.1% (vs. 13.1% in the first half of 2005).

The first half of 2006 also saw a noteworthy increase in the company's share in the options market from 5.6% in the first half of 2005 to 12.3% in the last six months as a result of outperforming competitors with the turnover growth rate.

With this performance, Dom Maklerski BZ WBK S.A. was ranked third in Poland in each of the above-mentioned markets (i.e. the equity market, futures market and options market) and generated record-high financial profits.

In the first half of 2006, the brokerage house sold the shares of PBG S.A. in the secondary market and acted as an agent for another issue of PBG S.A. shares in the primary market.

Dom Maklerski BZ WBK S.A. maintained its leading position among brokerage companies in Poland in terms of Internet accounts it operates. The number increased by 38% y-o-y to 26.2k at the end of June 2006. The company also improved its rate of migration of retail transactions to the remote distribution channels.

BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.

During most of the first half-year, customer savings would flow rapidly to mutual funds in expectation of above-average returns due to the favourable stock exchange climate. However, the sale of participation units decelerated in May following a decline in stock prices, which impeded the previously rapid growth of mutual funds assets and inclined customers to invest in bonds funds.

Following the market scenario, the first quarter of 2006 saw a dynamic development of the mutual funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. This trend was additionally driven by the effective promotional campaign emphasising the excellent performance of BZWBK Arka funds ("Arka has earned you more. For years"). Despite the slower growth rate in the second quarter, the company was very distinctive in the market by increasing the value of its assets by 230% y-o-y to PLN 12,664.8m (while the market grew by 71% y-o-y). The highest increase – in percentage terms and by value – was recorded by Arka BZ WBK Akcji FIO, Arka BZ WBK Zrównoważony FIO and Arka BZ WBK Stabilnego Wzrostu FIO. At the end of June 2006, Arka BZ WBK Zrównoważony FIO accumulated assets of PLN 3,546.1m, which made it the biggest fund managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. As a result of the significant business growth, the company's share in the mutual funds market increased from 8.5% to 16.4% y-o-y, moving it from the third to the second position in Poland.

In May 2006, another mutual fund was established: Arka BZ WBK Funduszy Akcji Zagranicznych FIO. The fund invests in selected mutual funds operating in the world's equity markets, which ensures potential significant returns, and due to the geographical and sectoral diversification of investments, mitigates the risk of dependence on the ups and downs of a single market. The fund's units were first quoted on 30 May 2006.

In the first half of 2006, the sales network of Arka mutual funds has been expanded to include outlets of two other distributors: BRE BANK S.A. Private Banking and Bankowy Dom Maklerski PKO BP S.A.

In the annual ranking published by "Rzeczpospolita" BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. for the third consecutive year was ranked best financial institution in the category of mutual funds ("*BZWBK AIB: on top for the third time running*" of 14.06.2006). The assessment panel members, who are financial and capital market practitioners and theoreticians, thoroughly



screened the mutual funds operating in Poland, looking at such aspects as: asset growth, financial position, investment results as well as quality and distinctiveness of the offer.

BZ WBK AIB Asset Management S.A.

The strong interest in stock investments had a positive impact on the sale of individual portfolios of BZ WBK AIB Asset Management S.A., leading to their increase by 143% in terms of number and 242% in terms of asset value y-o-y. The most rapid growth was recorded in the balanced portfolios (+380%) and the shares portfolios (+350%).

At the end of June 2006, 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., increased by 231% y-o-y to PLN 14,085.3m.

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

Bank Zachodni WBK Group operates on the leasing market through two leasing companies which specialize in funding two different asset categories. BZ WBK Finanse & Leasing S.A. focuses on the lease of machines and equipment as well as computers and office equipment for businesses. There is also a customised offer for selected customer groups. BZ WBK Leasing S.A. specialises in financing vehicles for businesses and personal customers.

Both companies strive to gain competitive edge through enhancements and modifications of their product range, optimisation of sales processes and development of delivery channels.

In the first half of 2006, BZ WBK Leasing S.A. ran a pilot of a new product - car loan for retail customers, and then implemented it in the branch network of Bank Zachodni WBK S.A. country-wide. The new product is a competitive alternative for car loans offered by banks. BZ WBK Finanse i Leasing S.A. implemented - in co-operation with suppliers - an attractive offer of financing selected machines. According to the strategic priorities for 2006, both companies reduced the credit decision turnaround time by 50% and implemented a rating of SME customers based on scoring methods.

In the first half of 2006, the two companies leased net assets totalling PLN 541.6m, i.e. 27% up y-o-y. The share of machines and equipment in the total sales continued to grow, which is partly attributable to the attractive leasing offers for investors who avail of structural subsidies from EU.

In the last half-year, BZ WBK Finanse & Leasing S.A. marketed bonds with a nominal value of PLN 35m as a continuation of public issuance programme of up to PLN 2bn worth of bonds. The last issue included bearer coupon bonds of PLN 100 each, with a maturity of 3 years. In February 2006, the Bank Zachodni WBK Group was awarded by the President of the Board of MTS-CeTO "for being the most innovative in the CeTO market in 2005" in recognition, among other things, of the issue of bonds of the Group's leasing subsidiaries.

Priorities of the leasing companies for the second half of 2006 include initiatives designed to introduce new products, such as property leasing and supplementary products, and to increase efficiency of leasing distribution channels.

BZ WBK Faktor Sp. z o.o.

BZ WBK Faktor Sp. z o.o. provides recourse and non-recourse factoring services, including: purchase of trade receivables from customers, debtors management, working capital funding, monitoring of repayments and debt collection, takeover of debtors' insolvency/default risk. In the first half of 2006, work was undertaken to expand the company's product range with international factoring.

In the first half of 2006, the value of receivables purchased was PLN 346.6m and was 29% higher than in the corresponding period of the previous year. In terms of factoring turnover, the company was ranked sixth in Poland, with a market share of 4.7%. The increase in turnover and exposure was achieved thanks to the acquisition of new customers and a stronger activity of the existing ones.



BZ WBK Inwestycje Sp. z o.o.

In the first half of 2006, BZ WBK Inwestycje Sp. z o.o. continued its search for investors with a view to selling its shareholdings. In April 2006, the company disposed of the hold TIM S.A. shares through the Warsaw Stock Exchange. The transaction, which involved the sale of 2m of shares for PLN 12.3 each, yielded the income of PLN 24.6m.



V. Risk Management

1. Capital Management

The policy of Bank Zachodni WBK S.A. is to maintain a strong capital base and to use it effectively in order to add value for shareholders.

At the end of June 2006, the bank's capital resources amounted to PLN 3,031.1m (BZWBK Group – PLN 3,348m), with the solvency ratio of 14.14% (BZWBK Group – 15.53%).

2. Financial Risk Management

The main objective of financial risk management is to ensure effective operations to support development within the approved risk limits. Risk management practice in the bank is in keeping with the AIB Group policy and covers 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), Credit Committee, Credit Forum and Provisions Committee. These Committees are responsible for managing individual risk areas, monitoring the bank's general risk on a on-going basis and for shaping the current policy within the framework set by the Management Board.

Credit Risk Management

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 Forum**

To manage the credit risk effectively, Bank Zachodni WBK S.A. established the Credit Forum whose key role is to develop and approve credit and sectoral policies, industrial analyses, credit grading systems and credit risk assessment addressed for the branch network and Business Support Centre units directly responsible for business growth and support. The Credit Forum is composed of senior representatives of individual Bank Zachodni WBK divisions.

- **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 S.A. 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 which conform to the Basel requirements and IAS. These efforts are accomplished based on AIB Group expertise and best practices, as well as in close liaison with external, internationally recognized advisors.



Currently the bank uses new credit risk grading models for its key credit portfolios, including corporate customers, SMEs and housing loans. Work is under way to develop tools compliant with Basel requirements for other portfolios, i.e. cash loans, credit cards, retail overdrafts and real estate loans.

- **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 bank 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.

- **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 discretionary limits 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 15m 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. The responsibility for credit decisions and loan portfolio quality assurance lies with the Chief Credit Officer and managers reporting to him.

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, accelerated the decision-making process and ensured compliance with the Basel Committee requirements and International Accounting Standards.

- **Credit reviews**

Demonstrating the utmost care about the loan-book quality, Bank Zachodni WBK S.A. performs regular reviews to ensure conformity with the best credit practices, 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 Quality Assurance Department which are a function independent of risk-taking units.

Market Risk and Liquidity Risk Management

The Bank Zachodni WBK ALCO 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 operated 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 types of this risk.
- 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 segregated from 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.

ALCO identifies, on an on-going basis, the market risk connected with retail and commercial activities and transfers the risk 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 measurement of interest rate and FX risk. VaR methodology uses a statistical process to determine the Probable Maximum Loss (PML) in economic value as a result of an adverse change in market parameters with a specified probability level. 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**

Bank Zachodni WBK S.A. manages liquidity risk in accordance with its liquidity policy.

The policy is to counter-balance the contracted or contingent outflows with expected/contracted inflows 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 FX swaps market). The policy covers all assets and liabilities as well as off-balance sheet items impacting the liquidity level. Contractual and behavioural maturity is also taken into account, based on the statistical analysis of stability of the deposit base and the credit portfolio. Liquidity risk is measured daily using a liquidity gap report.

The bank is obliged to maintain necessary funds to allow for all withdrawals of term deposits, demand deposits, loan payments, 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 and not less than 10% in a period longer than a month. Long-term liquidity position is also monitored.



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.

Operational Risk Management

Operational risk is exposure to losses related to the failure of internal processes, human and system errors and external factors. Bank Zachodni WBK S.A. has been working on full implementation of operational risk management standards which conform with the Basel Committee requirements, across the Group.

Operational risk management in the Bank Zachodni WBK Group is operated at the following three levels of responsibility:

- Organizational units responsible for management of the operational risk that may manifest itself in the area of their operations (identification, assessment and monitoring of the risk based on the self-assessment methodology, implementation and monitoring of risk controls, learning lessons from financial and non-financial operational losses).
- The Operational Risk Management Department is responsible for coordination of the whole process (implementation of an effective risk management structure, development of methodology, providing support to other units, maintenance and analysis of a database with information on financial and non-financial losses, reporting, management of financial lines insurance).
- The Internal Audit function is responsible for overseeing and assessing the quality of operational risk management.
- All operational risk management processes are monitored by the dedicated Operational Risk Management Committee (ORMCO).

Bank Zachodni WBK S.A. has developed and implemented operational risk management policies, standards and procedures, concerning in particular the risk management structure and model, fraud prevention, information security, reporting, learning lessons from operational losses, personal data protection, money laundering and approval of products and projects.

Furthermore, Bank Zachodni WBK S.A. monitors the ongoing implementation of a business continuity management policy (across the Group), analyses the needs and develops and tests disaster recovery plans on a regular basis.

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



VI. Human Resources and Corporate Values

1. Human Resources

As at 30 June 2006, the number of FTEs in Bank Zachodni WBK Group was 7,798, which was higher by 277 than twelve months earlier. The increase in the bank's headcount (by 224 FTEs) is due to the organisational development of the Business Support Centre in the area of banking products as well as changes in the branch network. The employment in the consolidated subsidiaries went up (by 53 FTEs) with dynamic business growth and consequent increase in workload.

The bank continues the Performance Management process which adds value to the corporate culture, is positively viewed by employees and brings expected results. Through the individual objectives planning process, monitoring and assessment of progress, the bank's employees gain knowledge about their role in delivery of the "Po pierwsze Klient" strategy and obtain the necessary support and feedback about their performance.

The bank pays a lot of attention to 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 operational and strategic requirements of the organisation is ensured through the training planning and co-ordination process applicable bank-wide, with support from representatives of key business areas and branch banking. The integrated training plan facilitates the logistics and monitoring of training quality and costs. In the first half of 2006, the majority of training projects were addressed to the branch banking staff of whom 74% were trained through e-learning. Training for branches covered mainly the following areas: strategic products, sales techniques facilitating team work and customer service quality, SME lending and security of banking operations. In response to the feedback from the last staff attitude survey, 2006 saw continuation of initiatives addressed to different employee groups, including Leaders of the Future, Directors' Programme, a programme for new managers and an induction programme. In the first half of 2006, the total number of trainees and participants of the development programmes in Bank Zachodni WBK S.A. reached 27.7k.

2. Corporate Values

Code of Business Ethics

The bank implemented the Code of Business Ethics which 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 the aspects of its activities the bank complies with the business ethics requirements, conforms with the law and acts 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 opinion of being a dependable organisation is perceived 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 socially responsible organisation, the bank supports corporate-giving and sponsorship programmes.

Following implementation of the Code of Business Ethics, the bank launched special communication channels for staff to consult on ethical matters and report any issues.

Corporate Culture

• Corporate behaviours

The key element of the Bank Zachodni WBK brand strategy is a constant reinforcement of the desired corporate behaviours in the organisation. There are various initiatives undertaken to support development of the bank's internal culture in line with its key values: Dependable, Engaging, Pioneering. In the first half of 2006, all the bank employees were briefed on the assumptions of the "Po pierwsze Klient" corporate strategy for 2006, with cascading communication on the bank's goals and challenges directed to individual teams and staff. The first half of the year also saw completion of the first programme for teams of the Bank Zachodni WBK Group called "Warto być razem". The



purpose of the programme was to recognise the teams for their outstanding achievements in delivery of the "Po pierwsze klient" strategy and to promote desired values and behaviours.

- **Compliance culture**

The bank attaches a great importance to compliance with legal and regulatory requirements in all aspects of its activities. Creation of a business culture of strict adherence to law and best practices and promotion of such an approach is one of the key objectives of the bank's Compliance Area. The activities undertaken by this function are meant to raise 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 Governance

Bank Zachodni WBK S.A. complies with all the corporate governance rules contained in the document "Best Practice in Public Companies in 2005", introduced by Resolution no. 44/1062/2004 of the Warsaw Stock Exchange Board. Compliance with good practices is also supported by the bank's internal procedures, including provisions of the Statutes, Supervisory and Management Board regulations. To facilitate access to information about Bank Zachodni WBK S.A., the bank's web site has a special section for investors with all current and periodic reports, corporate documents and other material information.

3. Bank in the Society

Corporate Citizenship

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

The bank's corporate giving is carried out under "The Bank of Children Smiles" Programme and focuses on children from poverty stricken families. The programme is delivered both through the bank's own initiatives and through provision of financial support to the organisations which help children.

Among the bank's own initiatives, noteworthy are creative workshops "My World on Both Sides of the Camera from BZ WBK" for children of the so-called difficult background and "Academy of the Bank of Children Smiles", a programme of funding English lessons for children from poor families. From January to April the bank ran a campaign called "Smile for 1%" designed to raise funds as part of personal income tax settlements and spend them on organisation of summer holidays for poor children and other charitable purposes. In the first half of 2006, the bank launched the second edition of the Scholarship Programme of "the Bank of Children Smiles" which supports development of children gifted in science, sports, music and arts.



VII. Major Internal Developments and Events

1. Ownership Structure of Bank Zachodni WBK S.A.

According to the information held by the bank's Management Board, as at 30 June 2006 the shareholder having a minimum 5% of the total number of votes at the Bank Zachodni WBK Annual General Meeting of Shareholders was AIB European Investments Ltd. based in Dublin.

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	70.50%	51,413,790	70.50%

2. Governing Bodies

Annual General Meeting of Shareholders

The General Annual Meeting of Bank Zachodni WBK Shareholders (AGM), which was convened on 4 April 2006, approved the Bank's and the Group's Financial Statements and the Management Board Report on the Bank's and the Group's Performance in 2005. The AGM approved the Report on Activities of the Supervisory Board and its Committees as well as the Supervisory Board's Report on Examination of the Bank's and the Group's Annual Report along with its assessment of both subjects' operations in 2005. Also, the profit distribution and dividend pay-outs were approved and the Management and Supervisory Board Members were given a word of approval for performance of their duties in 2005. The AGM implemented a three-year Incentive Scheme for senior management members of the bank and its subsidiaries who significantly contribute to the growing value of Bank Zachodni WBK S.A. The Incentive Scheme entitles its participants to acquire bonds with a pre-emptive right and to acquire, at a preference rate, shares issued by the bank as part of conditional increase of share capital. In order to enable delivery of the Incentive Scheme, the AGM passed a resolution to issue bonds with pre-emptive rights and to conditionally increase the share capital by a maximum amount of PLN 2m by issuing new ordinary bearer shares. The AGM approved changes to the bank's Statutes and adopted its consolidated version. The introduced changes resulted, inter alia, from the need to comply with new banking law provisions and were related to the bank's internal control system and division of discretions among the Management Board Members.

Supervisory Board

As at 30 June 2006, the composition of the Bank Zachodni WBK Supervisory Board was as follows.

Function	Name
Chairman of the Supervisory Board	Aleksander Szwarc
Deputy Chairman of the Supervisory Board	Gerry Byrne
Members of the Supervisory Board:	Kieran Crowley
	Waldemar Frąckowiak
	Aleksander Galos
	Declan Mc Sweeney
	John Power
	Jacek Ślotąła

The persons listed above were appointed by the AGM of 14 April 2005 for a new 3-year term of office. Throughout the first half of 2006, there were no membership changes in the Supervisory Board.

As at 30 June 2006, the following members of the Supervisory Board held an independent status: Mr Aleksander Szwarc, Mr Waldemar Frąckowiak, Mr Aleksander Galos, Mr John Power and Mr Jacek Ślotała. In addition to the Supervisory Board meetings, its members worked in internal committees, i.e. Nominations and Remuneration Committee, Audit Committee and Social Responsibility Committee. The Audit Committee was composed exclusively of independent members of the Supervisory Board. The Report on Activities of the Supervisory Board and its Committees as well as the Supervisory Board's report on Examination of the Bank's and the Group's Annual Report along with its assessment of both subjects' operations in 2005 were published in the current report no. 27/2006 which conveyed the resolutions passed by the AGM on 4 April 2006.

Management Board

As at 30 June 2006, the composition of the Bank Zachodni WBK Management Board was as follows.

Function	Name
President of the Management Board:	Jacek Kseń
Members of the Management Board:	Declan Flynn
	Michał Gajewski
	Justyn Konieczny
	Janusz Krawczyk
	Jacek Marcinowski
	Mateusz Morawiecki
	James Murphy
	Marcin Prell
	Feliks Szyszkowski

The Management Board members listed above were appointed by the Supervisory Board to a new three-year term of office on 4 April 2006. Compared to 30 June 2005, the composition of the Management Board changed as follows: Mr Aleksander Kompf stepped down from his role on the Management Board after expiry of his term of office. Mr Marcin Prell was appointed Management Board Member responsible for the Legal and Compliance Division.

In the current report no. 9/2006 dated 25 January 2006, Bank Zachodni WBK S.A. announced the decision of Mr Jacek Kseń to hold his position as President of the Management Board till the end of April 2007. That decision had been approved by the bank's Supervisory Board.

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 Banking Supervisory Commission. 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 incur 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 Forum, Operational Risk Management Committee, Capital Expenditure Committee, Strategy Committee for Savings and Investment Products.

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

Shares in Possession of the Supervisory and Management Board

The tables below provide information on the number and nominal value of Bank Zachodni WBK shares in possession of the Supervisory and Management Board Members as at 30 June 2006:

Shareholder	Number of shares	Nominal value of shares in PLN
Supervisory Board		
Waldemar Frąckowiak	278	2780
Management Board		
Jacek Kseń	500	5000
Marcin Prell	1	10

Incentive Scheme

Pursuant to the resolution of the Annual General Meeting of Shareholders of 4 April 2006, Bank Zachodni WBK S.A. introduced a three year Incentive Scheme for the years 2006-2009. The Scheme is addressed to the Management Board members and senior management of Bank Zachodni WBK S.A and its subsidiaries recommended by the Management Board and approved by the Supervisory Board with the maximum number of 100 participants in the programme.

The Incentive Scheme entitles the participants to buy bonds with pre-emptive rights and in the next stage to take up – at a preferential price – the bank's shares issued as part of the conditional increase of the share capital. The right of participants will be exercised contingent upon the growth in consolidated earnings per share (EPS) within 3 years of the Incentive Scheme's duration. It is the Supervisory Board that will decide about the satisfaction of the defined criteria based on the financial performance of the Group as approved by the Annual General Meeting of Shareholders. The respective resolution will be adopted by 30 August 2009.

The adopted Incentive Scheme is to reinforce the bond between the bank and its senior management as well as to ensure the long-term competitiveness and effectiveness of the Bank Zachodni WBK Group, which will contribute to the growth in the bank's value and bring sustainable returns to shareholders.

3. Changes to the Management Organisation

The organisation of the Business Support Centre in Bank Zachodni WBK S.A. is modified to follow dynamic market environment, modification of banking processes and continued efforts for more efficient operations.

In April 2006, two previously independent functions of the Business Support Centre - Legal Area and Compliance Area – were merged into one Legal and Compliance Division. The change contributed to a more effective use of skills and resources to ensure full compliance of the Bank Zachodni WBK Group with the legal and regulatory requirements.



4. Capital Expenditure

The capital expenditure incurred by Bank Zachodni WBK S.A. in the first half of 2006 amounted to PLN 15.2m. From the total expenditure, an amount of PLN 12.2m was spent on IT projects while the remainder was connected with properties and other fixed assets.

IT initiatives included work on preparation of the banks systems to support external distribution channels, i.e. mobile sales network and agencies of a financial intermediary. Another noteworthy accomplishment was the completion of rollout of the system for measuring profitability of products. In order to ensure the best level of card services, the bank purchased a modern production line for personalisation and distribution of cards. The high quality of the bank's card personalisation services was confirmed by the recommendation of the bank's auditor for award of the ISO 9001:2000 certificate. The certificate will be officially granted at the beginning of August. In addition to the described initiatives, the bank also continued the decongestion process, extension and upgrade of the ATM network and completed subsequent stages of implementation of the new IT platform for managing HR processes.

Outlays on properties and fixed assets were earmarked mainly for the two projects, i.e. further upgrade of technical security measures and launch of a new branch.

5. The Auditor of Financial Statements of Bank Zachodni WBK S.A.

In accordance with § 32 point 10 of the Statutes of Bank Zachodni WBK S.A., on 21 June 2006 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 2006. KPMG Audyt Sp. z o.o. audited the bank's stand-alone and consolidated financial statements for the prior four financial years and provided consulting services permitted by law and the bank's internal regulations, which ensured adequate impartiality and independence of an auditor.

Auditor is selected by the Supervisory Board in accordance with the Bank Zachodni WBK Group policy which stipulates that all Group companies use the services of the same auditing firm.



VIII. Representations of the Management Board

Corporate Governance

According to its statement issued in the current report no. 54/2006 of 28 June 2006, Bank Zachodni WBK S.A. complies with all the corporate governance principles defined in Best Practices in Public Companies in 2005 and introduced by Resolution No. 44/1062/2004 of the Warsaw Stock Exchange Board.

True and Fair Presentation of the Financial Statements

According to the Management Board's best knowledge and belief, the financial figures and the comparable data presented in the Consolidated Financial Statements of Bank Zachodni WBK Group for the First Half of 2006 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 2006.

Selection of Auditor

The auditing firm responsible for reviewing the consolidated financial statements of the Bank Zachodni WBK Group for the first half of 2006 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
26-07-2006	Jacek Kseń	President	
26-07-2006	Declan Flynn	Member of the Board	
26-07-2006	Michał Gajewski	Member of the Board	
26-07-2006	Justyn Konieczny	Member of the Board	
26-07-2006	Janusz Krawczyk	Member of the Board	
26-07-2006	Jacek Marcinowski	Member of the Board	
26-07-2006	Mateusz Morawiecki	Member of the Board	
26-07-2006	James Murphy	Member of the Board	
26-07-2006	Marcin Prell	Member of the Board	
26-07-2006	Feliks Szyszkowiak	Member of the Board	



**INDEPENDENT AUDITORS' REVIEW REPORT
ON THE INTERIM CONSOLIDATED
FINANCIAL STATEMENTS OF
BANK ZACHODNI WBK S.A. GROUP
FOR THE PERIOD
FROM 1 JANUARY 2006 TO 30 JUNE 2006**

To the Shareholders of Bank Zachodni WBK S.A.

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 2006, with total assets and total liabilities and equity of PLN 31,001,032 thousand, the consolidated profit and loss account for the period from 1 January 2006 to 30 June 2006 with a net profit of PLN 463,573 thousand (including net profit attributable to ordinary shareholders of PLN 423,904 thousand), the statement of changes in consolidated equity for the period from 1 January 2006 to 30 June 2006 with a decrease in equity of PLN 88,486 thousand, the consolidated cash flow statement for the period from 1 January 2006 to 30 June 2006 with an increase in cash amounting to PLN 406,614 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 Financial Reporting Standard for interim financial reporting as adopted by the European Union and with respect to matters not regulated by the above Standard, in accordance with the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and the respective bylaws and in accordance with the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market. Our responsibility is to issue a report on these interim consolidated financial statements, based on our 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.

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 2006, and its financial performance and its cash flows for the period from 1 January 2006 to 30 June 2006 in accordance with the International Financial Reporting Standard for interim financial reporting as adopted by the European Union.

signed on the Polish original

.....
Certified Auditor No. No. 9941/7390
Bożena Graczyk

signed on the Polish original

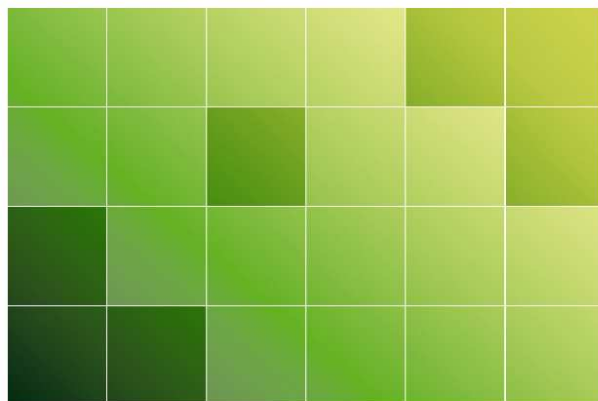
.....
For KPMG Audyt Sp. z o.o.
ul. Chłodna 51; 00-867 Warsaw
Certified Auditor No. 9941/7390
Bożena Graczyk
Member of the Management Board

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, 26 July 2006

**Abbreviated
financial statements of BZWBK S.A.
in H1 2006**



Abbreviated financial statement of Bank Zachodni WBK SA

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1. Income statement of Bank Zachodni WBK S.A.

	01-01-2006	01-01-2005
	For reporting periods ending on: 30-06-2006 30-06-2005	
Interest and similar income	743 617	777 109
Interest expense and similar charges	(285 708)	(383 919)
Net interest income	457 909	393 190
Fee and commission income	342 577	313 226
Fee and commission expense	(27 886)	(59 008)
Net fee and commission income	314 691	254 218
Dividend income	98 367	73 658
Foreign exchange profit	103 953	115 489
Gains (losses) on hedge accounting activities	2 565	(309)
Gains (losses) from financial instruments measured at fair value through profit and loss	9 356	6 206
Gains (losses) from investment in securities	1 032	3 922
Gains (losses) on sale of subsidiaries and associates	7 295	-
Other operating income	10 548	17 294
Impairment losses on loans and advances	(14 469)	(17 218)
Operating expenses	(561 065)	(534 902)
Bank's staff, operating expenses and management costs	(463 356)	(433 168)
Depreciation/amortisation	(83 546)	(91 429)
Other operating expenses	(14 163)	(10 305)
 Operating profit	 430 182	 311 548
 Gross profit	 430 182	 311 548
 Corporate income tax	 (73 035)	 (47 332)
 Net profit	 357 147	 264 216



2. Balance sheet of Bank Zachodni WBK S.A.

	30-06-2006	31-12-2005	30-06-2005
ASSETS			
Cash and balances with central bank	984 143	572 329	1 031 412
Loans and advances to banks	3 494 991	3 606 067	2 040 132
Financial instruments at fair value through profit or loss	1 822 045	1 925 612	2 881 318
Derivative financial instruments	702 720	735 214	749 200
Loans and advances to customers	14 088 958	12 897 389	12 593 981
Reverse repo transactions	107 516	15 199	26 102
Investment securities	6 832 263	6 917 015	7 139 888
Investments in associates	235 005	240 069	222 657
Intangible assets	132 721	166 728	197 263
Property, plant & equipment	477 892	510 976	526 089
Deferred tax assets	408 176	402 407	474 815
Other assets incl.:	216 396	193 942	174 783
- assets held for sale	17 420	17 420	18 485
Total assets	29 502 826	28 182 947	28 057 640
LIABILITIES			
Deposits from banks	1 343 947	1 319 491	1 426 279
Derivative financial instruments	659 746	604 755	860 753
Deposits from customers	21 726 692	20 969 867	20 137 100
Repo transactions	1 661 617	999 541	1 027 278
Debt securities in issue	93 913	93 035	580 617
Deferred tax liabilities	243 388	303 428	310 030
Other liabilities	742 405	703 900	649 519
Total liabilities	26 471 708	24 994 017	24 991 576
Equity			
Capital and reserves attributable to the Company's equity holders	3 031 118	3 188 930	3 066 064
Share capital	729 603	729 603	729 603
Other reserve funds	1 782 246	1 950 396	1 950 396
Revaluation reserve	162 122	239 495	298 636
Retained earnings	-	(176 787)	(176 787)
Profit of the current period	357 147	446 223	264 216
Total equity	3 031 118	3 188 930	3 066 064
Total equity and liabilities	29 502 826	28 182 947	28 057 640



3. Movements on equity of Bank Zachodni WBK S.A.

MOVEMENTS ON EQUITY	Equity				
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	Total
Balance at 31.12.2005	729 603	1 950 396	239 495	269 436	3 188 930
Net change in available for sale investments	-	-	(77 373)	-	(77 373)
Net gains not recognised in income statement	-	-	(77 373)	-	(77 373)
Share scheme charge	-	176	-	-	176
Net profit	-	-	-	357 147	357 147
Total recognised increase in equity in 1H 2006	-	176	(77 373)	357 147	279 950
Dividend relating to 2005	-	-	-	(437 762)	(437 762)
Transfer from supplementary capital	-	(168 326)	-	168 326	-
As at 30.06.2006	729 603	1 782 246	162 122	357 147	3 031 118

MOVEMENTS ON EQUITY	Equity				
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	Total
Opening balance at 31.12.2004	729 603	1 684 362	154 534	326 227	2 894 726
changes in accounting principles resulting from adoption of IFRS	-	-	20 621	(59 687)	(39 066)
Adjusted balance at 1.01.2005	729 603	1 684 362	175 155	266 540	2 855 660
Net change in available for sale investments	-	-	64 340	-	64 340
Net gains not recognised in income statement	-	-	64 340	-	64 340
Net profit	-	-	-	446 223	446 223
Total recognised increase in equity in 2005	-	-	64 340	446 223	510 563
Dividend relating to 2004	-	-	-	(177 293)	(177 293)
Transfer to general banking risk fund	-	30 000	-	(30 000)	-
Transfer to supplementary capital	-	236 034	-	(236 034)	-
As at 31.12.2005	729 603	1 950 396	239 495	269 436	3 188 930



Equity						
MOVEMENTS ON EQUITY	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	Total	
Opening balance at 31.12.2004	729 603	1 684 362	154 534	326 227	2 894 726	
changes in accounting principles resulting from adoption of IFRS	-	-	20 621	(59 687)	(39 066)	
Adjusted balance at 1.01.2005	729 603	1 684 362	175 155	266 540	2 855 660	
Net change in available for sale investments	-	-	123 481	-	123 481	
Net gains not recognised in income statement	-	-	123 481	-	123 481	
Net profit	-	-	-	264 216	264 216	
Total recognised increase in equity in 1H 2005	-	-	123 481	264 216	387 697	
Dividend relating to 2004				(177 293)	(177 293)	
Transfer to general banking risk fund		30 000		(30 000)	-	
odpis na pozostałe kapitały		236 033		(236 033)	-	
As at 30.06.2005	729 603	1 950 395	298 636	87 430	3 066 064	



4. Cash flow statement of Bank Zachodni WBK S.A.

	01-01-2006 30-06-2006	01-01-2005 30-06-2005
Net profit (loss)	357 147	264 216
Total adjustments:	516 619	1 133 038
Amortization	83 546	91 429
Impairment losses	(2 401)	346
Gains (losses) on exchange differences	(11 611)	-
Interests and similar charges	120 970	32 358
Dividend income	(98 367)	(73 658)
(Profit) loss from investing activities	(6 585)	(1 268)
Change in provisions	1 156	(14 963)
Change in financial instruments at fair value through profit and loss	191 052	(1 366 779)
Change in loans and advances from banks	104 030	744 132
Change in loans and advances from customers	(1 191 569)	217 907
Change in receivables arising from securities purchased under reverse repo agreements	(92 317)	(405)
Change in deposits from banks	24 432	531 013
Change in deposits from customers	784 466	734 224
Change in liabilities arising from securities sold under repurchase agreements	662 076	294 588
Change in liabilities arising from debt securities in issue	878	23 048
Change in assets and liabilities arising from deferred taxation	(65 809)	(32 949)
Change in other assets and liabilities	12 268	(46 006)
Other adjustments	404	21
Net cash flow from operating activities - indirect method	873 766	1 397 254
Inflows	998 944	462 206
Sale of shares or interests in subsidiaries and associates	13 537	6 837
Sale of investment securities	886 004	375 554
Sale of intangible and tangible fixed assets	930	5 253
Dividends received	98 367	73 658
Proceeds from other investments	106	904
Outflows	(1 000 797)	(1 824 021)
Purchase of investment securities	(984 651)	(1 800 364)
Purchase of intangible and tangible fixed assets	(15 240)	(22 957)
Other investments	(906)	(700)
Net cash flow from investing activities	(1 853)	(1 361 815)
Inflows	-	-
Outflows	(467 145)	(205 007)
Repayment of long-term loans	(27 617)	(26 039)
Dividends paid	(437 762)	(177 263)
Other financing outflows	(1 766)	(1 705)
Net cash flow from financing activities	(467 145)	(205 007)
Total net cash flow	404 768	(169 568)
Cash at the beginning of the accounting period	591 384	1 219 266
Cash at the end of the accounting period	996 152	1 049 698



5. Significant accounting policies

Statement of compliance

The interim unconsolidated financial statements of the Bank has been prepared in accordance with International Financial Reporting Standards for the interim financial statements as adopted by the European Union and with respect to matters not regulated by the above standards, in accordance with the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and the respective laws and in accordance with the Decree of the Ministry of Finance dated 19 October 2005 on current and periodical information provided by issuers of securities (Official Journal from 2005, No. 209, item 1744).

Standards that are issued and not yet effective

IFRS 7 *Financial Instruments: Disclosures* is not effective until 1 January 2007 and was recently endorsement by the European Union. The Bank has not early adopted since management believe that the disclosures under IFRS 7 would not be very different to the requirements of IAS 32 and IAS 30. Other standards, amendments to the standards and IFRIC interpretations recently endorsed or awaiting endorsement are either not relevant to the BZWBK S.A. or would not have a material impact on the current financial statements.

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.



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 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.

Associates

Associates are those entities on which Bank Zachodni WBK S.A. has significant influence, but not control, over the financial and operating policies.

Interests in subsidiaries and associates are carried at cost. The carrying amount of the investment is annually tested for impairment as per IAS 36. Impairment is recognised in the profit and loss account under "Impairment charges". Dividend payment is not reflected in the carrying amount of the shares – it is only taken to profit and loss and is included under "Dividend income".

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, which are stated at historical cost, are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. 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.

Hedge accounting and derivative financial instruments

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

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

Bank Zachodni WBK S.A. uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational, financing and investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments and recognised at fair value.

Hedge accounting 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.

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. Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an available-for-sale financial asset.

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; held-to-maturity investments; loans and receivables and available-for-sale financial assets.

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.

- (1) Classified as held for trading. A financial asset or financial liability is classified as held for trading if:
 - a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
 - b) 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.
 - c) derivatives are held for trading unless the derivative is a designated and effective hedging instrument.
- (2) Upon initial recognition it is designated by the Bank as at fair value through profit or loss.



Held-to-maturity investments

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

Loans and receivables

Loans and receivables arise when the Bank provides money to a debtor for a purpose other than short-term profit taking. 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.

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.

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost using EIR method include deposits from banks, deposits from customers, repo transactions and debt securities in issue which are not subject to hedge accounting.

Recognition

A regular way purchase or sale of a financial asset classified at fair value through profit or loss, held to maturity 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.

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.

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.

After initial recognition, the Bank measure financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for (a) loans and receivables which shall be measured at amortised cost using the effective interest method (b) held-to-



maturity investments which shall be measured at amortised cost using the effective interest method; and (c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost.

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 as 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 and foreign exchange gains and losses, is recognised directly in equity, through the statement of changes 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 investments 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 legally enforceable right to set off the recognised amounts and when there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Sale and repurchase agreements

The Bank Zachodni WBK S.A. also generates funds by selling financial instruments under repurchase agreements whereby the instruments must be repurchased at the same price plus initially agreed interest.

Securities sold subject to repurchase agreements ("repos") are not derecognised at the balance sheet date. Where the transferee has the right by contract or custom to sell or repledge the collateral, the liability is disclosed as a liability arising from repo transactions. Securities purchased under agreements to resell ("reverse repos")



are recorded as receivables arising from reverse repo transactions. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

Impairment of financial assets

Assets carried at amortised cost

The Bank Zachodni WBK S.A. 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 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 or held-to-maturity investments carried at amortised cost 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, receivable or held-to-maturity investment 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.

As a practical expedient, the Bank may measure impairment of a financial asset carried at amortised cost on the basis of an instrument's fair value using an observable market price. 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 (in excess of PLN 2 m),
- with reference to the portfolio of credit exposures which individually are not significant.

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 a 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 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 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 impairment analysis is carried out 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.

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 amount of the reversal is recognised in profit or loss. Recoveries related to previously recognised write offs are recognised in profit and loss account in "Impairment losses on loans and advances".

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, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, 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. Such impairment losses are not reversed.

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 even though the financial asset has not been derecognised. 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.

Off balance sheet liabilities

For off-balance sheet liabilities, provisions for impairment is measured using the existing credit limit and the recoverable amount defined as the present value of the estimated future cash flows discounted by the effective interest rate. For off-balance sheet liabilities the cash flows are calculated with reference to the existing credit limit at the date corresponding to the maturity of the obligation and depend on the probability of outflow of the funds from the Bank.

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 costs

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

Fixed assets held for sale

Directly before initial classification of an asset (or a group of assets for sale) as an asset for sale, the Bank establishes the carrying amount of the assets (or all assets and liabilities included in the group) in line with the applicable IFRS. Then the unit recognises the asset (or a group of assets) classified as asset for sale at the lower of its carrying amount and fair value less costs of disposal.

Impairment of assets initially classified as available for sale is presented in the profit and loss account. The same applies to the revaluation-related future profits and losses.

Intangible assets**Goodwill**

Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. In respect of business acquisitions that have occurred since 1 January 2003, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is no longer amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

Computer software

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

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

Other intangible assets

Other intangible assets that are acquired by the Bank Zachodni WBK S.A. are stated at cost less accumulated amortisation and impairment losses.

Subsequent expenditure

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



Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. Other intangible assets are amortised from the date they are available for use. The estimated useful lives are as follows:

- software development costs 3 – 5 years
- computer software 3 – 5 years

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 trading are stated at due amount.

Impairment of assets other than financial assets.

The carrying amounts of the Bank's assets, other than deferred tax 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.

For goodwill, intangible assets that are not yet available for use, the recoverable amount is estimated at each balance sheet date.

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

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.

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.



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.

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.

Revaluation reserve comprises:

- differences from the valuation of financial assets available for sale taking into account the deferred income 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.

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Dividends

Dividends on redeemable preference shares are recognised as a liability and expressed on an accrual basis. Other dividends are recognised as a liability in the period in which they are declared.

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 on an annual basis.

Share based payments

The Bank operates a share based compensation plan. For grants of share based payments after 7 November 2002, 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.

Restructuring

A provision for restructuring is recognised when the Bank has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

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.

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 on an on-going basis.

Dividend income

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

FX profit

Result on SPOT transactions taken to the FX profit is calculated by way of comparing the transaction exchange rate with the average NBP rate as at the balance sheet date.

Result on and valuation of FX Swap and FX Forward transactions is disclosed in "FX gains/losses".

The effects of valuation of the FX off balance sheet items (FX swaps, forwards and spot contracts) are recognized in the balance sheet and the profit and loss account at the transaction date.

Profit on disposal of subsidiaries and associates

Profit on the sale of interests in subsidiaries and associates is set as a difference between the book value of the securities and their sale price. It is disclosed as profit on disposal of subordinated entities and undertakings.

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 to be allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Corporate income tax

Corporate income tax consists of current and deferred tax.

Current tax is calculated based on the gross accounting income/loss adjusted by revenues which in line with tax regulations are not taken to taxable income and by costs which tax regulations do not recognize as tax deductible costs. Moreover, for tax purposes, the gross accounting income/loss is adjusted for income and costs from previous years realized for tax purposes in a given accounting period, and for deductions from income, e.g. donations.

The Bank Zachodni WBK S.A. creates a provision for deferred tax in respect of all taxable temporary differences and deferred tax assets with regard to all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised.

Deferred tax assets and liabilities should be measured as the multiple of a temporary difference and the tax rates that are expected to apply to the period when the asset is realised or the liability is settled (liability method), based on tax rates/laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are not discounted.

Pursuant to the decision of 19 December 2003, based on art. 1a of the Corporate Income Tax Act, Stare Miasto Tax Office in Wrocław registered an Agreement establishing a tax group between Bank Zachodni WBK S.A. and its subsidiary – BZ WBK Inwestycje Sp. z o.o. The agreement was concluded for 3 tax years, i.e. from 1 January 2004 to 31 December 2006.

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

Impairment of financial assets

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. It is not necessary to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. The Bank makes judgements whether there is indications of objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost 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). The calculation of the present value of the estimated future cash flows requires judgement by management. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly and updated where appropriate. In addition back testing is performed to compare actual and estimates of loan losses.

Where there is any objective evidence that available-for-sale investments may be impaired, the Bank creates appropriate impairment charges – this applies to three bank companies.

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 even though the financial asset has not been derecognised. 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 repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss. 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.

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 of goodwill and 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 derivatives

The fair value of derivatives not quoted on active markets is determined using valuation techniques. If valuation techniques are used to determine the fair values, these methods are periodically assessed and verified. All the



models are approved before application. As far as possible, only observable data are used in the models, although in some areas, the entity's management must use estimates. Changes in the assumptions relating to the estimated factors may affect the fair values of derivatives disclosed.

Other accounting estimates and judgements

Provisions for employee benefits arising from the Bank's 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.

9. Issues, redemption or repayment of debt or equity instruments

In 1H 2006, Bank Zachodni WBK S.A. did not issue bonds or other own debt securities.

As at the end of 1H 2006, the total value of obligations with respect to the issue of own bonds amounted to PLN 78 918 k (nominal value), as at the end of 1H 2005 – PLN 526 964 k.

10. Dividend per share

At 11 May 2005 Bank Zachodni WBK S.A. paid out to shareholders dividend of PLN 6,00 of its 2005 profits per one share (in 2004 – PLN 2,43 per one share).

Bank Zachodni WBK allocated to dividends 98,1% of net profit of PLN 437 762.

11. Acquisitions and disposals of investments.

Sale of AIB WBK Fund Management Sp. z o.o.

On 10 May 2006 Bank Zachodni WBK S.A. sold 13 331 shares of AIB WBK Fund Management Sp. z o.o., with the total nominal value of PLN 1 333 k representing 54% of the share capital and 54% of votes at the AGM of AIB WBK Fund Management Sp. z o.o.

The shares sale price was set at PLN 270 k. The first price installment of PLN 135 k was paid on the day of signing an agreement on transferring ownership of the said shares, the second installment of PLN 135 k will be paid not later than on 20 December 2006. The bank realize loss on transaction of PLN 2 719 k.

Sale of LZPS PROTEKTOR S.A.

In 1H 2006 BZ WBK S.A. sold, in package transactions on the Warsaw Stock Exchange, 586 416 shares of the Company with the nominal value of PLN 3 each which represent 36,07% of the Company's share capital and the total number of votes at the AGM. Total amount of the transaction was PLN 13 267 k and total amount of earnings was PLN 10 036 k. Currently Bank Zachodni WBK S.A. doesn't have any shares of company LZPS PROTEKTOR S.A.



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			
	30.06.2006	31.12.2005	Change
Liabilities sanctioned:	6 821 222	4 926 883	1 894 339
financing-related	6 021 763	4 173 175	1 848 588
including: import letters of credit	96 510	54 032	42 478
including: credit lines	5 013 623	3 665 826	1 347 797
including: credit cards debits	402 630	358 406	44 224
guarantees	799 459	753 708	45 751
including: confirmed export letters of credit	314	2 630	(2 316)
Received liabilities	2 950 901	2 130 958	819 943
Total	9 772 123	7 057 841	2 714 282

As at 30.06.2006, the Bank issued guarantees of PLN 64 211 k to following subsidiary undertakings: BZ WBK S.A. Finance & Leasing, BZ WBK Leasing, BZWBK Dom Maklerski S.A., BZWBK TFI and Nieruchomości S.A. The guaranties were excluded 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 the Commercial Lending Manual and the Lending Manual of the Corporate Banking Centre.

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.



Derivatives' nominal values			
	30.06.2006	31.12.2005	Change
1. Derivatives (hedging)	1 878 826	1 144 942	733 884
a) Single-currency interest rate swaps – purchased amounts	654 413	572 471	81 942
b) Single-currency interest rate swaps – sold amounts	654 413	572 471	81 942
c) FRA	570 000	-	570 000
2. Term derivatives (trading)	138 634 778	96 513 128	42 121 650
a) Interest rate operations	117 959 740	77 522 418	40 437 322
- Single-currency interest rate swaps – purchased amounts	36 269 870	16 211 209	20 058 661
- Single-currency interest rate swaps – sold amounts	36 269 870	16 211 209	20 058 661
- FRA-purchased amounts	22 550 000	24 600 000	(2 050 000)
- FRA-sold amounts	22 870 000	20 500 000	2 370 000
b) FX operations	20 675 038	18 990 710	1 684 328
- FX swap – purchased amounts	9 145 291	8 478 482	666 809
- FX swap – sold amounts	9 152 961	8 404 563	748 398
- Double-currency interest rate swaps – purchased amounts	1 186 617	1 072 912	113 705
- Double-currency interest rate swaps – sold amounts	1 190 169	1 034 753	155 416
3. Derivatives – non-stock market options	1 283 715	939 250	344 465
- Options purchased	761 167	616 502	144 665
- Options sold	522 548	322 748	199 800
Total	141 797 319	98 597 320	43 199 999

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.

Intercompany transactions effected by the bank and its subsidiaries have been eliminated during consolidation process.

Receivables and Liabilities

30.06.2006

			of which from the parent company (AIB Group)	
Receivables	of which from subsidiaries	of which from associates		Total
Loans and advances to banks	-	-	820 829	820 829
Derivative financial instruments	567	-	237 503	238 070
Loans and advances to customers	422 597	-	-	422 597
Other assets	7 050	-	-	7 050
Total	430 214	-	1 058 332	1 488 546

			of which from the parent company (AIB Group)	
Liabilities	of which from subsidiaries	of which from associates		Total
Deposits from banks	-	-	491	491
Derivative financial instruments	29 903	-	237 407	267 310
Deposits from clients	745 458	178 251	-	923 709
Other liabilities	13 850	-	25 917	39 767
Total	789 211	178 251	263 815	1 231 277



31.12.2005

			of which from the parent company (AIB Group)	Total
Receivables	of which from subsidiaries	of which from associates		
Loans and advances to banks	-	-	408 889	408 889
Derivative financial instruments	-	-	202 627	202 627
Loans and advances to customers	359 876	-	-	359 876
Other assets	6 067	-	-	6 067
Total	365 943	-	611 516	977 459

			of which from the parent company (AIB Group)	Total
Liabilities	of which from subsidiaries	of which from associates		
Deposits from banks	-	-	2 732	2 732
Derivative financial instruments	27 669	-	187 213	214 882
Deposits from clients	580 583	118 132	-	698 715
Other liabilities	14 147	-	14 415	28 562
Total	622 399	118 132	204 360	944 891

30.06.2005

			of which from the parent company (AIB Group)	Total
Receivables	of which from subsidiaries	of which from associates		
Loans and advances to banks	-	-	275 980	275 980
Derivative financial instruments	(2 521)	-	-	(2 521)
Loans and advances to customers	330 700	-	-	330 700
Other assets	7 313	-	-	7 313
Total	335 492	-	275 980	611 472

			of which from the parent company (AIB Group)	Total
Liabilities	of which from subsidiaries	of which from associates		
Deposits from banks	-	-	138	138
Derivative financial instruments	37 583	-	-	37 583
Deposits from clients	419 168	63 853	-	483 021
Debt securities in issue	-	-	-	-
Other liabilities	14 051	-	9 040	23 091
Razem	470 802	63 853	9 178	543 833

Profits and cost**01.01.2006 – 30.06.2006**

			of which from the parent company (AIB Group)	Total
Income	of which from subsidiaries	of which from associates		
Interest and similar income	7 016	-	13 044	20 060
Fee and commission income	59 460	-	-	59 460
Other operating income	2 356	-	-	2 356
Gains less losses from investment in securities	-	-	7 022	7 022
Total	68 832	-	20 066	88 898



Expenses	of which from			Total
	subsidiaries	associates	the parent company (AIB Group)	
Interest expense and similar charges	14 245	2 492	74	16 811
Fee and commission expense	57	-	-	57
Other operating expenses:	502	-	17 324	17 826
Bank's operating expenses and management costs	502	-	17 324	17 826
	-	-	-	-
Total	14 804	2 492	17 398	34 694

01.01.2005 – 30.06.2005

Income	of which from			Total
	subsidiaries	associates	the parent company (AIB Group)	
Interest and similar income	4 435	-	10 692	15 127
Fee and commission income	7 311	-	-	7 311
Other operating income	2 644	-	-	2 644
Gains less losses from investment in securities	-	-	13 150	13 150
Total	14 390	-	23 842	38 232

Expenses	of which from			Total
	subsidiaries	associates	the parent company (AIB Group)	
Interest expense and similar charges	14 406	797	4	15 207
Fee and commission expense	12	-	-	12
Other operating expenses:	119	-	17 335	17 454
Bank's operating expenses and management costs	86	-	17 335	17 421
Other expenses	33	-	-	33
Total	14 537	797	17 339	32 673

Contingent liabilities**30.06.2006**

Intragroup transactions - contingent liabilities	of which from subsidiaries	of which from associates	Total
1. Received/Sanctioned contingent liabilities	871 438	-	871 438
financing-related	807 227	-	807 227
guarantees	64 211	-	64 211

Intragroup transactions - Derivatives' nominal values	of which from subsidiaries	of which from associates	Total
2. Nominały instrumentów pochodnych, w tym:	705 804	-	705 804
Financial instruments operations-single-currency interest rate hedging swaps	705 804	-	705 804



31.12.2005

Intragroup transactions - contingent liabilities	of which from subsidiaries	of which from associates	Total
1. Received/Sanctioned contingent liabilities	918 921	3 000	921 921
financing-related	859 082	-	859 082
guarantees	59 839	3 000	62 839

Intragroup transactions - Derivatives' nominal values	of which from subsidiaries	of which from associates	Total
2. Derivatives' nominal values, including:	734 867	-	734 867
-Financial instruments operations-double-currency interest rate swaps	30 192	-	30 192
-Financial instruments operations-single-currency interest rate hedging swaps	704 675	-	704 675

14. Principles of PLN conversion into EURO

Selected financial figures for 1H 2006 were converted according to the following principles:

for 1H 2006:

Selected balance sheet data and book value per share - according to the average EURO/PLN rate current at the balance sheet date and announced by the National Bank of Poland – 4,0434.

Selected items of profit and loss account and cash flow for 1H 2006 – according to the exchange rate calculated as an arithmetic mean on the last day of each month in a quarter – 3,9002 (Jan – 3,8285, Feb – 3,7726, Mar – 3,9357, Apr – 3,8740, May – 3,9472, June – 4,0434).

for 1H 2005:

Selected balance sheet data and book value per share - according to the average EURO/PLN rate current at the balance sheet date and announced by the National Bank of Poland – 4,0401.

Selected items of profit and loss account and cash flow for 1H 2005 - according to the exchange rate calculated as an arithmetic mean on the last day of each month in a quarter – 4,0805 (Jan – 4,0503, Feb – 3,9119, Mar – 4,0837, Apr – 4,2756, May – 4,1212, June – 4,0401).

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 2006 /01.08.2006/ is AIB European Investments Ltd. based in Dublin.



Shareholder	No. of shares held	% shareholding	No. of votes at AGM	% share in total number of votes at AGM
As at 01.08.2006				
AIB European Investments Limited	51 413 790	70,5 %	51 413 790	70,5 %
As at 24.04.2006				
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 Boards WBK S.A.

	No. of Bank Zachodni WBK shares held		
	24.04.2006	01.08.2006	Change
Members of the Management Board	476	501	25
Members of the Supervisory Board	278	278	-

Table below presents personal shareholding of Supervisory and Management Board Members as at 01 August 2006:

Owner	No. of shares
Supervisory Board	
Waldemar Frąckowiak	278
Management Board	
Jacek Kseń	500
Marcin Prell	1

No other Supervisory or Management Board Member is in possession of BZWBK shares.

17. Information about the commenced court proceedings

As at 30 June 2006, 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 289 135 k, which is ca. 9,54% of Bank's equity. This amount includes PLN 74 341 k claimed by the Bank, PLN 46 052 k in claims against the Bank and PLN 168 742 k are Bank's receivables due to bankruptcy or arrangement cases.

As at 30 June 2005, 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 303 731 k, which is ca. 9.91% of Bank's equity. This amount includes PLN 69 584 k claimed by the Bank, PLN 30 310 k in claims against the Bank and PLN 203 837 k are Bank's receivables due to bankruptcy or arrangement cases.

18. Information concerning issuing loan guarantees by an issuer or its subsidiary – to one business unit or its subsidiary, if the total of guarantees issued amounts to at least 10% of issuer's equity

As at 30 June 2006 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 after the balance sheet date

Transfer of ownership right outside the regulated market from BZWBK S.A. securities account to NFI Magna Polonia S.A. securities account

Pursuant to section 69 of the Act on the public offer and the conditions for entering financial instruments into organized trading system and public companies of 29 July 2005, Bank Zachodni WBK S.A. informs that on 5 July 2006, ownership right was transferred outside the regulated market with regard to 5 570 261 NFI Magna Polonia S.A. shares from BZ WBK S.A. securities account to NFI Magna Polonia S.A. securities account.

The shares were purchased by NFI for redemption to deliver the Act 8/2006 of NFI Magna Polonia S.A. Extraordinary General Meeting of Shareholders of 13 April 2006 in which the Management Board was authorized to purchase NFI Magna Polonia S.A. shares for redemption.

Authorisation for issue of financial statements

The semi-annual consolidated financial statements were authorised for issue on 26th of July 2006 by Management Board of Bank Zachodni WBK S.A..



SIGNATURES			
Signatures of Members of the Management board			
Date	Name	Function	Signature
26-07-2006	Jacek Kseń	President	
26-07-2006	Declan Flynn	Member	
26-07-2006	Michał Gajewski	Member	
26-07-2006	Justyn Konieczny	Member	
26-07-2006	Janusz Krawczyk	Member	
26-07-2006	Jacek Marcinowski	Member	
26-07-2006	Mateusz Morawiecki	Member	
26-07-2006	James Murphy	Member	
26-07-2006	Marcin Prell	Member	
26-07-2006	Feliks Szyszkowiak	Member	
Date	Name	Function	Signature
26-07-2006	Wanda Rogowska	Financial Accounting Area Director	



**INDEPENDENT AUDITORS' REVIEW REPORT
ON THE CONDENSED INTERIM
UNCONSOLIDATED
FINANCIAL STATEMENTS OF
BANK ZACHODNI WBK S.A.
FOR THE PERIOD
FROM 1 JANUARY 2006 TO 30 JANUARY 2006**

To the Shareholders of Bank Zachodni WBK S.A.

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 2006, with total assets and total liabilities and equity of PLN 29,502,826 thousand, the condensed unconsolidated profit and loss account for the period from 1 January 2006 to 30 June 2006 with a net profit of PLN 357,147 thousand, the condensed unconsolidated statement of changes in equity for the period from 1 January 2006 to 30 June 2006 with a decrease in equity of PLN 157,812 thousand, the condensed unconsolidated cash flow statement for the period from 1 January 2006 to 30 June 2006 with an increase in cash amounting to PLN 404,768 thousand and selected 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 Financial Reporting Standard for interim financial reporting as adopted by the European Union and with respect to matters not regulated by the above Standard, in accordance with the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and the respective bylaws and in accordance with the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market. Our responsibility is to issue a report on these condensed interim unconsolidated financial statements, based on our 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.

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 Financial Reporting Standard for interim financial reporting as adopted by the European Union.

signed on the Polish original

.....
Certified Auditor No. No. 9941/7390
Bożena Graczyk

signed on the Polish original

.....
For 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, 26 July 2006