

**Consolidated financial  
statements of  
Bank Zachodni WBK S.A. Group  
for 2Q 2007**

FINANCIAL HIGHLIGHTS		PLN '000		EUR '000	
		for the period:		01.01.2007 - 30.06.2007	01.01.2006 - 30.06.2006
Consolidated financial statements					
I	Interest and similar income	944 665	799 408	245 457	204 966
II	Fee and commission income	868 907	662 948	225 772	169 978
III	Operating profit	778 708	570 717	202 335	146 330
IV	Gross profit	778 744	571 460	202 345	146 521
V	Net profit attributable to the Company's equity holders	558 596	423 904	145 143	108 688
VI	Total net cash flow	(752 631)	406 601	(195 560)	104 251
VII	Total assets	35 229 276	30 619 043	9 355 058	7 572 598
VIII	Deposits from banks	3 555 187	3 375 774	944 072	834 885
IX	Deposits from customers	25 218 044	21 558 833	6 696 597	5 331 858
X	Total liabilities	31 080 675	27 271 068	8 253 406	6 744 588
XI	Total equity	4 148 601	3 347 975	1 101 652	828 010
XII	Minority interest	152 326	68 899	40 450	17 040
XIII	Net profit attributable to the Minority	72 927	39 669	18 949	10 171
XIV	Number of shares	72 960 284	72 960 284		
XV	Net book value per share in PLN/EUR	56,86	45,89	15,10	11,35
XVI	Solvency ratio	13,34%	15,53%		
XVII	Profit (loss) per share in PLN/ EUR	7,66	5,81	1,99	1,49
XVIII	Diluted earnings (loss) per share in PLN/EUR	7,65	5,81	1,99	1,49
XIX	Declared or paid dividend per share in PLN/EUR	6,00	6,00	1,59	1,48

Stand alone financial statements					
XX	Interest and similar income	882 318	739 366	229 257	189 571
XXI	Fee and commission income	484 988	435 691	126 017	111 710
XXII	Gross profit	629 934	430 182	163 679	110 297
XXIII	Net profit	537 480	357 147	139 656	91 571
XXIV	Total net cash flow	(753 747)	404 768	(195 850)	103 781
XXV	Total assets	33 088 728	29 120 837	8 786 640	7 202 067
XXVI	Deposits from banks	2 495 924	2 971 323	662 787	734 858
XXVII	Deposits from customers	25 551 028	21 704 784	6 785 020	5 367 954
XXVIII	Total liabilities	29 462 652	26 089 719	7 823 743	6 452 421
XXIX	Equity attributable to the Company's equity holders	3 626 076	3 031 118	962 897	749 646
XXX	Number of shares	72 960 284	72 960 284		
XXXI	Net book value per share in PLN/EUR	49,70	41,54	13,20	10,27
XXXII	Solvency ratio	11,85%	14,14%		
XXXIII	Profit (loss) per share in PLN/ EUR	7,37	4,90	1,91	1,26
XXXIV	Diluted earnings (loss) per share in PLN/EUR	7,36	4,90	1,91	1,26

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## 1. Consolidated income statement

for the reporting periods ending on:	01.04.2007	01.01.2007	01.04.2006	01.01.2006
	- 30.06.2007	- 30.06.2007	- 30.06.2006	- 30.06.2006
Interest and similar income	489 207	944 665	406 106	799 408
Interest expense and similar charges	(185 193)	(350 589)	(153 203)	(306 991)
<b>Net interest income</b>	<b>304 014</b>	<b>594 076</b>	<b>252 903</b>	<b>492 417</b>
Fee and commission income	462 838	868 907	361 231	662 948
Fee and commission expense	(58 519)	(113 233)	(45 036)	(80 563)
<b>Net fee and commission income</b>	<b>404 319</b>	<b>755 674</b>	<b>316 195</b>	<b>582 385</b>
Dividend income	64 436	64 446	57 130	57 130
Net trading and revaluation income	366	32 691	226	29 004
Gains (losses) from other financial securities	(1 222)	3 470	22 678	25 698
Gains (losses) from investment in subsidiaries and associates	-	-	(1 569)	6 243
Other operating income	11 043	21 249	8 545	18 180
Impairment losses on loans and advances	3 714	24 359	(4 216)	(16 347)
Operating expenses incl.:	(374 452)	(717 257)	(319 381)	(623 993)
Bank's staff, operating expenses and management costs	(332 226)	(627 649)	(266 710)	(521 093)
Depreciation/amortisation	(34 488)	(68 098)	(40 570)	(86 424)
Other operating expenses	(7 738)	(21 510)	(12 101)	(16 476)
<b>Operating profit</b>	<b>412 218</b>	<b>778 708</b>	<b>332 511</b>	<b>570 717</b>
Share in net profit (losses) of associates accounted for by the equity method	113	36	(150)	743
<b>Profit before tax</b>	<b>412 331</b>	<b>778 744</b>	<b>332 361</b>	<b>571 460</b>
Corporate income tax	(74 042)	(147 221)	(60 210)	(107 887)
<b>Profit for the period</b>	<b>338 289</b>	<b>631 523</b>	<b>272 151</b>	<b>463 573</b>
of which:	-	-	-	-
attributable to the Company's equity holders	297 984	558 596	248 515	423 904
attributable to the Minority equity holders	40 305	72 927	23 636	39 669
Net earnings per share				
Basic earnings per share (PLN)		7,66		5,81
Diluted earnings per share (PLN)		7,65		5,81

## 2. Consolidated balance sheet

	30.06.2007	31.03.2007	31.12.2006	30.06.2006
<b>ASSETS</b>				
Cash and balances with central bank	762 897	1 092 607	1 534 480	984 152
Loans and advances to banks	2 736 901	4 424 736	3 154 546	3 584 742
Financial assets held for trading	424 102	733 442	1 104 604	2 161 140
Hedging derivatives	32 185	21 947	19 956	20 005
Loans and advances to customers	20 650 181	18 722 961	17 620 066	15 498 630
Investment securities	8 996 182	8 569 739	8 021 289	6 834 466
Investments in associates	35 936	35 824	36 201	68 858
Intangible assets	111 515	123 560	135 032	139 495
Property, plant & equipment	479 189	484 781	493 657	486 419
Deferred tax assets	464 758	444 631	392 467	451 398
Other assets	535 430	614 219	479 885	389 738
<b>Total assets</b>	<b>35 229 276</b>	<b>35 268 447</b>	<b>32 992 183</b>	<b>30 619 043</b>
<b>LIABILITIES</b>				
Deposits from banks	3 555 187	3 703 476	2 608 377	3 375 774
Hedging derivatives	7 111	11 783	12 912	15 753
Financial liabilities held for trading	280 411	267 173	228 415	288 252
Deposits from customers	25 218 044	24 777 960	24 222 051	21 558 833
Debt securities in issue	589 675	613 795	646 342	795 252
Current income tax liabilities	60 056	32 672	7 643	57 120
Deferred tax liabilities	334 677	348 287	293 529	254 785
Other liabilities	1 035 514	1 186 332	896 172	925 299
<b>Total liabilities</b>	<b>31 080 675</b>	<b>30 941 478</b>	<b>28 915 441</b>	<b>27 271 068</b>
<b>Equity</b>				
Capital and reserves attributable to the Company's equity holders	3 996 275	4 214 920	3 960 001	3 279 076
Share capital	729 603	729 603	729 603	729 603
Other reserve funds	2 054 612	1 884 076	1 857 147	1 853 650
Revaluation reserve	420 775	501 437	508 548	163 978
Retained earnings	232 689	839 192	106 481	107 941
Profit of the current period	558 596	260 612	758 222	423 904
Minority interest	152 326	112 049	116 741	68 899
<b>Total equity</b>	<b>4 148 601</b>	<b>4 326 969</b>	<b>4 076 742</b>	<b>3 347 975</b>
<b>Total equity and liabilities</b>	<b>35 229 276</b>	<b>35 268 447</b>	<b>32 992 183</b>	<b>30 619 043</b>

## 3. Movement on consolidated equity

MOVEMENTS ON CONSOLIDATED EQUITY	Equity					Total
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	Minority interest	
<b>Opening balance as at 31.12.2006</b>	<b>729 603</b>	<b>1 857 147</b>	<b>508 548</b>	<b>864 703</b>	<b>116 741</b>	<b>4 076 742</b>
Net change in available for sale investments	-	-	(87 773)	-	372	(87 401)
Share scheme charge	-	3 508	-	-	-	3 508
Net gains not recognised in income statement	-	3 508	(87 773)	-	372	(83 893)
Net profit	-	-	-	558 596	72 927	631 523
<b>Total recognised increase in equity in 1H 2007</b>	<b>-</b>	<b>3 508</b>	<b>(87 773)</b>	<b>558 596</b>	<b>73 299</b>	<b>547 630</b>
Dividend relating to 2006	-	-	-	(437 762)	(37 723)	(475 485)
Transfer to other reserve capitals	-	193 908	-	(193 908)	-	-
Transfer from other reserve funds	-	-	-	-	-	-
Other	-	49	-	(344)	9	(286)
<b>As at 30.06.2007</b>	<b>729 603</b>	<b>2 054 612</b>	<b>420 775</b>	<b>791 285</b>	<b>152 326</b>	<b>4 148 601</b>

MOVEMENTS ON CONSOLIDATED EQUITY	Equity					Total
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	Minority interest	
<b>Opening balance at 31.12.2005</b>	<b>729 603</b>	<b>2 028 706</b>	<b>250 088</b>	<b>373 121</b>	<b>54 943</b>	<b>3 436 461</b>
Net change in available for sale investments	-	-	258 695	-	25	258 720
Share scheme charge	-	3 674	-	-	-	3 674
Net gains not recognised in income statement	-	3 674	258 695	-	25	262 394
Net profit	-	-	-	758 222	86 024	844 246
<b>Total recognised increase in equity in 2006</b>	<b>-</b>	<b>3 674</b>	<b>258 695</b>	<b>758 222</b>	<b>86 049</b>	<b>1 106 640</b>
Dividend relating to 2005	-	-	-	(437 762)	(27 044)	(464 806)
Transfer to other reserve capitals	-	6 589	-	(6 589)	-	-
Transfer from other reserve funds	-	(168 326)	-	168 326	-	-
Other	-	(13 496)	(235)	9 385	2 793	(1 553)
<b>As at 31.12.2006</b>	<b>729 603</b>	<b>1 857 147</b>	<b>508 548</b>	<b>864 703</b>	<b>116 741</b>	<b>4 076 742</b>

MOVEMENTS ON CONSOLIDATED EQUITY	Equity					Total
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	Minority interest	
<b>Opening balance at 31.12.2005</b>	<b>729 603</b>	<b>2 028 706</b>	<b>250 088</b>	<b>373 121</b>	<b>54 943</b>	<b>3 436 461</b>
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
<b>Total recognised increase in equity in 1H 2006</b>	<b>-</b>	<b>176</b>	<b>(85 876)</b>	<b>423 904</b>	<b>39 669</b>	<b>377 873</b>
Dividend relating to 2005	-	-	-	(437 762)	(27 044)	(464 806)
Transfer to other reserve capitals	-	6 589	-	(6 589)	-	-
Transfer from other reserve funds	-	(168 326)	-	168 326	-	-
Other	-	(13 495)	(234)	10 845	1 331	(1 553)
<b>As at 30.06.2006</b>	<b>729 603</b>	<b>1 853 650</b>	<b>163 978</b>	<b>531 845</b>	<b>68 899</b>	<b>3 347 975</b>

## 4. Consolidated cash flow statement

	01.04.2007 - 30.06.2007	01.01.2007 - 30.06.2007	01.04.2006 - 30.06.2006	01.01.2006 - 30.06.2006
<b>Profit (loss) before tax</b>	<b>412 331</b>	<b>778 744</b>	<b>332 361</b>	<b>571 460</b>
<b>Total adjustments:</b>	<b>28 500</b>	<b>(329 238)</b>	<b>132 370</b>	<b>309 295</b>
Share in net profits (losses) of associates accounted for by the equity method	(113)	(36)	150	(743)
Depreciation	34 488	68 098	40 570	86 424
Impairment losses	-	-	(1 808)	(1 808)
Gains (losses) on exchange differences	(884)	(129)	(4 405)	(1 855)
Interests and similar charges	36 754	519	113 870	129 135
Dividend income	(64 436)	(64 446)	(57 130)	(57 130)
(Profit) loss from investing activities	(632)	(4 125)	(19 286)	(28 497)
Change in provisions	10 286	7 596	2 392	1 478
Change in trading portfolio financial instruments	307 668	714 468	(625 946)	211 823
Change in loans and advances to banks	1 695 540	436 597	274 581	(219 542)
Change in loans and advances to customers	(1 923 009)	(3 027 951)	(974 424)	(1 321 182)
Change in deposits from banks	(412 878)	517 567	217 602	653 239
Change in deposits from customers	459 042	1 023 219	1 211 396	988 012
Change in liabilities arising from debt securities in issue	940	(93)	(5 225)	(2 687)
Change in assets and liabilities arising from deferred taxation	(812)	859	(3 744)	(4 314)
Change in other assets and liabilities	(51 238)	104 647	15 312	(23 975)
Paid income tax	(62 624)	(106 556)	(51 753)	(99 494)
Other adjustments	408	528	218	411
<b>Net cash flow from operating activities - indirect method</b>	<b>440 831</b>	<b>449 506</b>	<b>464 731</b>	<b>880 755</b>
<b>Inflows</b>	<b>1 182 390</b>	<b>1 724 387</b>	<b>693 256</b>	<b>1 011 882</b>
Sale of shares or interests in subsidiaries and associates	-	-	292	13 537
Sale of investment securities	1 116 560	1 658 146	635 571	939 880
Sale of intangible and tangible fixed assets	1 394	1 792	114	1 014
Dividends received	64 436	64 446	57 130	57 130
Proceeds from other investments	-	3	149	321
<b>Outflows</b>	<b>(1 706 993)</b>	<b>(2 768 766)</b>	<b>(733 833)</b>	<b>(1 007 908)</b>
Purchase of investment securities	(1 690 907)	(2 741 219)	(725 160)	(988 655)
Purchase of intangible and tangible fixed assets	(15 382)	(26 372)	(8 202)	(18 347)
Other investments	(704)	(1 175)	(471)	(906)
<b>Net cash flow from investing activities</b>	<b>(524 603)</b>	<b>(1 044 379)</b>	<b>(40 577)</b>	<b>3 974</b>
<b>Inflows</b>	<b>567 881</b>	<b>811 346</b>	<b>78 096</b>	<b>191 819</b>
Drawing of long-term loans	557 692	768 837	78 096	156 819
Issue of debt securities	10 189	42 509	-	35 000
<b>Outflows</b>	<b>(806 114)</b>	<b>(969 104)</b>	<b>(492 016)</b>	<b>(669 947)</b>
Repayment of long-term loans	(315 350)	(368 855)	(23 866)	(85 201)
Debt securities buy out	(35 249)	(99 083)	-	(88 000)
Dividends and other payments to shareholders	(438 022)	(475 485)	(455 909)	(464 806)
Other financing outflows	(17 493)	(25 681)	(12 241)	(31 940)
<b>Net cash flow from financing activities</b>	<b>(238 233)</b>	<b>(157 758)</b>	<b>(413 920)</b>	<b>(478 128)</b>
<b>Total net cash flow</b>	<b>(322 005)</b>	<b>(752 631)</b>	<b>10 234</b>	<b>406 601</b>
<b>Cash at the beginning of the accounting period</b>	<b>1 116 978</b>	<b>1 547 604</b>	<b>990 053</b>	<b>593 686</b>
<b>Cash at the end of the accounting period</b>	<b>794 973</b>	<b>794 973</b>	<b>1 000 287</b>	<b>1 000 287</b>

**5. Income statement of Bank Zachodni WBK S.A.**

	<b>01.04.2007</b>	<b>01.01.2007</b>	<b>01.04.2006</b>	<b>01.01.2006</b>
<b>for the reporting periods ending on:</b>	<b>- 30.06.2007</b>	<b>-30.06.2007</b>	<b>- 30.06.2006</b>	<b>-30.06.2006</b>
Interest and similar income	456 710	882 318	376 641	739 366
Interest expense and similar charges	(176 610)	(333 270)	(140 727)	(282 011)
<b>Net interest income</b>	<b>280 100</b>	<b>549 048</b>	<b>235 914</b>	<b>457 355</b>
Fee and commission income	264 324	484 988	238 109	435 691
Fee and commission expense	(17 667)	(33 729)	(15 244)	(27 886)
<b>Net fee and commission income</b>	<b>246 657</b>	<b>451 259</b>	<b>222 865</b>	<b>407 805</b>
Dividend income	84 125	170 681	56 707	98 367
Net trading and revaluation income	(4 170)	21 288	(4 234)	20 749
Gains (losses) from other financial securities	2 284	3 301	134	3 597
Gains (losses) from investment in subsidiaries and associates	-	13 423	(2 720)	7 295
Other operating income	7 169	14 510	4 806	10 548
Impairment losses on loans and advances	5 619	27 560	(3 612)	(14 469)
Operating expenses incl.:	(325 492)	(621 136)	(289 630)	(561 065)
Bank's staff, operating expenses and management costs	(288 452)	(541 930)	(239 533)	(463 356)
Depreciation/amortisation	(32 668)	(64 586)	(39 165)	(83 546)
Other operating expenses	(4 372)	(14 620)	(10 932)	(14 163)
	-	-	-	-
<b>Operating profit</b>	<b>296 292</b>	<b>629 934</b>	<b>220 230</b>	<b>430 182</b>
	-	-	-	-
<b>Profit before tax</b>	<b>296 292</b>	<b>629 934</b>	<b>220 230</b>	<b>430 182</b>
Corporate income tax	(45 792)	(92 454)	(39 036)	(73 035)
	-	-	-	-
<b>Profit for the period</b>	<b>250 500</b>	<b>537 480</b>	<b>181 194</b>	<b>357 147</b>
	-	-	-	-
Net earnings per share	-	-	-	-
Basic earnings per share (PLN)	-	7,37	-	4,90
Diluted earnings per share (PLN)	-	7,36	-	4,90



**6. Balance sheet of Bank Zachodni WBK S.A.**

	30.06.2007	31.03.2007	31.12.2006	30.06.2006
<b>ASSETS</b>				
Cash and balances with central bank	762 884	1 092 588	1 534 469	984 143
Loans and advances to banks	2 730 097	4 419 689	3 149 267	3 580 661
Financial assets held for trading	418 400	649 100	1 048 010	2 154 962
Hedging derivatives	32 184	21 947	19 956	20 005
Loans and advances to customers	18 848 623	17 128 762	16 172 354	14 111 823
Investment securities	8 974 851	8 551 881	7 993 770	6 797 747
Investments in associates	173 621	172 635	186 318	235 005
Intangible assets	102 021	115 103	127 101	132 721
Property, plant & equipment	468 270	474 500	483 594	477 892
Current income tax due	-	-	947	-
Deferred tax assets	410 238	395 699	346 508	408 176
Other assets	167 539	227 201	270 724	217 702
<b>Total assets</b>	<b>33 088 728</b>	<b>33 249 105</b>	<b>31 333 018</b>	<b>29 120 837</b>
<b>LIABILITIES</b>				
Deposits from banks	2 495 924	2 893 422	1 960 144	2 971 323
Hedging derivatives	7 112	11 783	12 912	15 753
Financial liabilities held for trading	296 825	284 306	246 875	318 154
Deposits from customers	25 551 028	25 084 723	24 481 996	21 704 784
Debt securities in issue	97 376	96 896	95 897	93 913
Current income tax liabilities	9 252	917	-	48 331
Deferred tax liabilities	323 292	336 191	282 196	243 388
Other liabilities	681 843	646 118	639 754	694 073
<b>Total liabilities</b>	<b>29 462 652</b>	<b>29 354 356</b>	<b>27 719 774</b>	<b>26 089 719</b>
<b>Equity</b>				
Share capital	729 603	729 603	729 603	729 603
Other reserve funds	1 944 285	1 787 458	1 785 744	1 782 246
Revaluation reserve	414 708	497 913	505 102	162 122
Retained earnings	-	592 795	-	-
Profit of the current period	537 480	286 980	592 795	357 147
<b>Total equity</b>	<b>3 626 076</b>	<b>3 894 749</b>	<b>3 613 244</b>	<b>3 031 118</b>
<b>Total equity and liabilities</b>	<b>33 088 728</b>	<b>33 249 105</b>	<b>31 333 018</b>	<b>29 120 837</b>

**7. Movements on equity of Bank Zachodni WBK S.A.**

MOVEMENTS ON EQUITY	Equity				Total
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	
<b>Balance as at 31.12.2006</b>	<b>729 603</b>	<b>1 785 744</b>	<b>505 102</b>	<b>592 795</b>	<b>3 613 244</b>
Net change in available for sale investments	-	-	(90 394)	-	(90 394)
Share scheme charge	-	3 508	-	-	3 508
Net gains not recognised in income statement	-	3 508	(90 394)	-	(86 886)
Net profit	-	-	-	537 480	537 480
<b>Total recognised increase in equity in 1H 2007</b>	<b>-</b>	<b>3 508</b>	<b>(90 394)</b>	<b>537 480</b>	<b>450 594</b>
Dividend relating to 2006	-	-	-	(437 762)	(437 762)
Transfer from supplementary capital	-	155 033	-	(155 033)	-
<b>As at 30.06.2007</b>	<b>729 603</b>	<b>1 944 285</b>	<b>414 708</b>	<b>537 480</b>	<b>3 626 076</b>

MOVEMENTS ON EQUITY	Equity				Total
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	
<b>Balance at 31.12.2005</b>	<b>729 603</b>	<b>1 950 396</b>	<b>239 495</b>	<b>269 436</b>	<b>3 188 930</b>
Net change in available for sale investments	-	-	265 607	-	265 607
Share scheme charge	-	3 674	-	-	3 674
Net gains not recognised in income statement	-	3 674	265 607	-	269 281
Net profit	-	-	-	592 795	592 795
<b>Total recognised increase in equity in 2006</b>	<b>-</b>	<b>3 674</b>	<b>265 607</b>	<b>592 795</b>	<b>862 076</b>
Dividend relating to 2005	-	-	-	(437 762)	(437 762)
Transfer from supplementary capital	-	(168 326)	-	168 326	-
<b>As at 31.12.2006</b>	<b>729 603</b>	<b>1 785 744</b>	<b>505 102</b>	<b>592 795</b>	<b>3 613 244</b>

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

## 8. Cash flow statement of Bank Zachodni WBK S.A.

	01.04.2007 - 30.06.2007	01.01.2007 - 30.06.2007	01.04.2006 - 30.06.2006	01.01.2006 - 30.06.2006
<b>Profit (loss) before tax</b>	<b>296 292</b>	<b>629 934</b>	<b>220 229</b>	<b>430 182</b>
<b>Total adjustments:</b>	<b>323 216</b>	<b>(4 322)</b>	<b>285 247</b>	<b>443 584</b>
Depreciation	32 668	64 586	39 165	83 546
Impairment losses	(736)	(703)	(1 976)	(2 401)
Interests and similar charges	20 350	(22 963)	94 838	94 541
Dividend income	(84 125)	(170 681)	(84 924)	(98 367)
(Profit) loss from investing activities	(2 778)	(16 435)	4 829	(6 585)
Change in provisions	1 140	6 557	4 295	1 760
Change in trading portfolio financial instruments	228 310	661 532	(632 094)	215 011
Change in loans and advances to banks	1 697 216	437 009	427 720	18 360
Change in loans and advances to customers	(1 719 861)	(2 676 269)	(856 828)	(1 201 560)
Change in deposits from banks	(397 497)	535 780	213 166	675 333
Change in deposits from customers	466 305	1 088 188	1 096 322	771 682
Change in liabilities arising from debt securities in issue	480	1 479	(767)	878
Change in assets and liabilities arising from deferred taxation	-	-	-	(1)
Change in other assets and liabilities	127 665	171 704	39 646	(36 667)
Paid income tax	(46 328)	(84 632)	(58 383)	(72 350)
Other adjustments	407	526	238	404
<b>Net cash flow from operating activities - indirect method</b>	<b>619 508</b>	<b>625 612</b>	<b>505 476</b>	<b>873 766</b>
<b>Inflows</b>	<b>1 201 295</b>	<b>1 843 658</b>	<b>669 925</b>	<b>998 944</b>
Sale of shares or interests in subsidiaries and associates	2 591	29 665	292	13 537
Sale of investment securities	1 113 312	1 641 649	584 595	886 004
Sale of intangible and tangible fixed assets	1 267	1 660	68	930
Dividends received	84 125	170 681	84 924	98 367
Proceeds from other investments	-	3	46	106
<b>Outflows</b>	<b>(1 704 006)</b>	<b>(2 763 867)</b>	<b>(727 358)</b>	<b>(1 000 797)</b>
Purchase of investment securities	(1 690 875)	(2 741 187)	(721 156)	(984 651)
Purchase of intangible and tangible fixed assets	(12 441)	(21 537)	(5 731)	(15 240)
Other investments	(690)	(1 143)	(471)	(906)
<b>Net cash flow from investing activities</b>	<b>(502 711)</b>	<b>(920 209)</b>	<b>(57 433)</b>	<b>(1 853)</b>
<b>Inflows</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Outflows</b>	<b>(438 878)</b>	<b>(459 150)</b>	<b>(439 506)</b>	<b>(467 145)</b>
Repayment of long-term loans	-	(19 156)	(861)	(27 617)
Dividends and other payments to shareholders	(437 762)	(437 762)	(437 762)	(437 762)
Other financing outflows	(1 116)	(2 232)	(883)	(1 766)
<b>Net cash flow from financing activities</b>	<b>(438 878)</b>	<b>(459 150)</b>	<b>(439 506)</b>	<b>(467 145)</b>
<b>Total net cash flow</b>	<b>(322 081)</b>	<b>(753 747)</b>	<b>8 537</b>	<b>404 768</b>
<b>Cash at the beginning of the accounting period</b>	<b>1 111 050</b>	<b>1 542 716</b>	<b>987 615</b>	<b>591 384</b>
<b>Cash at the end of the accounting period</b>	<b>788 969</b>	<b>788 969</b>	<b>996 152</b>	<b>996 152</b>

## ADDITIONAL INFORMATION TO CONSOLIDATED QUARTERLY REPORT OF BZ WBK GROUP FOR 2Q 2007

### 9. Bank Zachodni WBK S.A. performance

***Bank Zachodni WBK Group reported record half-year profit-before-tax of PLN 778.7 m, the main growth factors being:***

- strong momentum in credit delivery: cash loans (+51%), PLN mortgage loans (+46%), business loans (+35%);
- growth of deposit base (+17%);
- strong sales of mutual funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. and private portfolios (net assets higher by 77% and 157%, respectively);
- higher income from brokerage, advisory and issue arrangement (POs) services of Dom Maklerski BZ WBK S.A.;
- more intensive business activity in capital markets and bancassurance;
- managed costs expansion with the business of the bank and subsidiaries quickly expanding and new development-oriented projects being implemented.

***With regard to financial performance, the most spectacular progress against the first half of 2006 was in the following areas:***

- profit-before-tax was PLN 778.7 m, an increase of 36.3% y-o-y;
- profit-after-tax was PLN 558.6 m, an increase of 31.8% y-o-y;
- increase in total income by 21.5%, of which net commission income went up by 29,8%;
- cost-to-income ratio reduced from 51.5% to 48.7%;
- reduction of the impaired loan ratio from 6.2% to 3.9%.

#### Profit and Loss Account

The table below presents major developments in key categories of the consolidated profit and loss account of the Bank Zachodni WBK Group in the first half of 2007 as compared with the corresponding period of 2006.

PLN m

Key Profit & Loss Items	H1 2007	H1 2006	Change
Total income	1,471.6	1,211.1	+21.5%
Total costs	(717.3)	(624.0)	+15.0%
Profit-before-tax	778.7	571.5	+36.3%
Income tax	(147.2)	(107.9)	+36.4%
Profit-after-tax*	558.6	423.9	+31.8%

\* excluding profit attributable to minority shareholders (H1 2007 – PLN 72.9 m ; H1 2006 – PLN 39.7 m)

In the first half of 2007, profit-before-tax of Bank Zachodni WBK Group was PLN 778.7 m and was higher by 36.3% y-o-y. Profit-after-tax attributable to the BZWBK shareholders was PLN 558.6 m and 31.8% higher y-o-y. This increase was driven by very good results posted by the bank as well as excellent performance of subsidiaries, and in particular: BZ WBK AIB Asset Management S.A., BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., Dom Maklerski BZ WBK S.A.

## Income

In the first half of 2007, Bank Zachodni WBK Group produced total income of PLN 1,471.6 m, an increase of 21.5% on the corresponding period of 2006. The main components of the total income were as follows:

### Net Interest Income

Net interest income amounted to PLN 594.1 m compared with PLN 492,4 m posted a year before. Due to the changes in presentation, this line includes interest on hedging derivatives and profit realised on index options covering tracker bonds (total impact of PLN 11 m for H1 2007 as compared with PLN -0.6 m for H1 2006). Taking into account interest-related income from FX Swaps and Basis Swaps recognised in net trading income and revaluation (PLN 7 m in H1 2007 vs. PLN 14.3 m in H1 2006), the underlying net interest income increased by 18.6% y-o-y. This was achieved thanks to the growth of business and favourable changes in its structure, with the strongest driver being quick growth of the business loan-book.

### Net Commission Income

Net commission income amounted to PLN 755.7 m and increased by 29.8% y-o-y driven by sustained expansion of the bank's and subsidiaries' business.

Due to the steady flow of assets to the investment funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. and private portfolios of BZ WBK AIB Asset Management S.A. (growth in total net assets by PLN 11.9 bn y-o-y), a significant increase in net commission income was recorded in asset management fees (+101%). A parallel decrease in net distribution fees (-68%) is largely attributable to the high level of mutual fund balance sold via third parties (banks and brokerage houses), which requires ongoing distribution costs after sales.

A strong growth was also witnessed in net fees of Dom Maklerski BZ WBK S.A. (+56% y-o-y) driven by: growth of the company's stock exchange trading, sales of shares in the primary market and increased market-making activity. There was also a noteworthy increase in net commission income generated by advisory and issue arrangement services provided by the bank for customers involved in capital market projects (+131%) and a rising contribution of the expanding range of bancassurance products (+96%).

In compliance with the changed presentation of profit and loss items, net commission income now covers margins on FX customer transactions (PLN 102.5 m for H1 2007 and PLN 93.1 m for H1 2006), which were previously recognized in FX profit. The margin growth of 10.1% reflects increased customer activity on the branch level and higher Treasury-based corporate negotiated trading.

The decrease of 3.3% in fees and commissions for account maintenance and cash transactions resulted from higher level of negotiable schedule of current account-related fees offered to business customers, increased migration of customers to electronic channels and further reduction in certain personal account fees.



The e-Business and Payments Area reported a 3.4% decrease in net fees due to eroding income from international payments following a radical reduction of the fee schedule for international payment orders introduced in July 2006. Lower fees were almost offset by progress in other fields of this product line, including fees from debit cards (+22%), e-banking (+15.5%) and electronic services for other financial institutions (+14.7%).

### **Dividend Income**

Dividend income of PLN 64.4 m increased by 12.8% as a result of higher dividend paid out by the Commercial Union Group members included in the bank's equity investment portfolio. In the first half of 2007, these entities disbursed PLN 60.3 m in dividend to the bank as compared to PLN 53 m in the same period last year.

### **Net Trading Income and Revaluation**

Net trading income and revaluation increased by 12.7% up to PLN 32.7 m thanks to higher income on market-making activity of Dom Maklerski BZ WBK S.A. This line also includes income from FX bank-to-bank operations and other FX trading income (PLN 7.3 m for H1 2007 and PLN 11.8 m for H1 2006), previously disclosed in FX profit. This decline in FX income was strongly impacted by FX Swap transactions.

### **Gains on Other Financial Assets**

A decrease in gains on other financial assets from PLN 25.7 m to PLN 3.5 m reflects the difference in the profit earned in H1 2007 and H1 2006 on the disposal of TIM S.A. shares from the equity portfolio of the bank's subsidiary BZ WBK Inwestycje Sp. z o.o. In the first half of 2007, profit on the disposal of a block of TIM S.A. shares was PLN 3.3 m versus PLN 22.6 m last year. Gains on other financial assets also includes profit on hedged and hedging transactions with a negative variance of PLN 2.8 m y-o-y. Prior to the changes in presentation, this item was recognised in a separate profit and loss account line.

### **Gains on Disposal of Subsidiaries and Associates**

In the first half of 2007, no gains were recorded on the disposal of related entities. In the corresponding period of 2006, profit on the disposal of two companies (AIB WBK Fund Management Sp. z o.o. and LZPS Protektor S.A.) totalled PLN 6.2 m.

### **Loan Impairment Charge**

The balance of impairment provisions was positive and amounted to PLN 24.4 m compared to PLN 16.3 m charge posted a year before. This is the outcome of continued improvement of the loan portfolio and effective debt collection. With the growing volume of the loan-book, the impairment charge confirms a very good quality of the Group credit portfolio, robust credit risk management and a sharp focus on ensuring credit portfolio quality. The effectiveness of the credit risk management framework is also evidenced by further reduction of the NPL ratio. As at the end of June 2007, the "impaired loans" accounted for 3.9% of the gross portfolio with a provision cover at 61.2%. A year before, the corresponding ratios were 6.2% and 63.1%, respectively.



## Costs

The performance of the Bank Zachodni WBK Group during the first half of 2007 caused reduction of its cost-to-income ratio to 48.7% from the level of 51.5% recorded in the corresponding period last year. With a rapid business growth coupled with numerous development initiatives, this figure evidences cost efficiency of the enterprise.

Total operating costs of the Bank Zachodni WBK Group amounted to PLN 717.3 m and were higher by 15% on the corresponding period of 2006. Their main components were as follows:

### Staff and Other Administrative Expenses

The staff and other administrative expenses of the Group increased by 20.4% y-o-y to PLN 627.6 m and were driven by dynamic business development of the bank and its subsidiaries as well as successive delivery of the strategic programmes.

The biggest element of this figure, i.e. staff costs increased by 24.5% to PLN 394.3 m due to, among others, larger employment, pay increases linked to annual performance review, higher provision for pension schemes, performance-related bonuses and costs of development programmes for managerial staff of all levels.

With a strong business growth, the Group's other administrative expenses increased by 14.2% y-o-y to PLN 233.3 m. This movement results mainly from the Group's intensive promotional activity designed to support the sales of its strategic products, e.g. BZ WBK Arka mutual funds, cash loans, home mortgages, savings accounts and selected personal accounts. Higher contribution to costs was also recorded in IT usage and development driven by costs related to IT projects which are designed to provide the infrastructure to foster further business growth of the bank and subsidiaries, ensure adequate regulatory compliance and improve integration across the AIB Group. The cost of building maintenance increased in parallel to the expansion of delivery channels. The Group's savings initiatives curbed administrative expenses by restraining the growth of the business-driven cost items.

### Depreciation

Depreciation totalled PLN 68.1 m and decreased by 21.2% y-o-y due to the continued optimisation of the bank's asset base.

## Balance-Sheet Items

The table below presents major developments in key categories of the balance sheet of the Bank Zachodni WBK Group as at the end of June 2007 compared with the corresponding period of 2006.

PLN m

Key balance sheet items	30-06-2007	30-06-2006	Change
Total assets	35,229.3	30,619.0	+15.1%
<b>Key assets</b>			
Loans and advances to customers*	20,650.2	15,498.6	+33.2%
Investment securities	8,996.2	6,834.5	+31.6%
Loans and advances to banks	2,736.9	3,584.7	-23.7%
Financial assets held for trading	424.1	2,161.1	- 80.4%
<b>Key liabilities</b>			
Deposits from customers	25,218.0	21,558.8	+17.0%
Deposits from banks	3,555.2	3,375.8	+5.3%
Other liabilities	1,035.5	925.3	+11.9%
Debt securities in issue	589.7	795.3	-25.9%

\* net of impairment

As at 30 June 2007, total assets of the Bank Zachodni WBK Group amounted to PLN 35,229.3 m and were 15.1% up on last year. The value and structure of the Group's balance sheet was determined by the bank's balance sheet which accounted for 93.9% of the consolidated total assets.

In the first half of 2007, the main growth driver of the Group's total assets were loans and advances to customers which were on the rise along with fast-developing credit delivery. Investment securities were on an upward trend as part of the Group's management of the structural balance-sheet risk. The resultant increase in assets was partly offset by the decline in interbank placements and financial assets held for trading. The latter portfolio recorded a fall in NBP bills which are short-term securities and subject to fluctuations over time.

On the liabilities side, the Group posted a substantial increase in deposits from customers and banks and a parallel fall in liabilities from issue of securities.

## Credit Portfolio

At the end of June 2007, net loans and advances to customers were PLN 20,650.2 m and 33.2% up y-o-y due to increasing volumes of the key Group's loan books: business loans, retail loans and lease rentals. Gross loans and advances to customers amounted to PLN 21,276 m vs. PLN 16,230.6 m as of the end of June 2006.

As compared to the end of June 2006, the business loans increased by 34.9% to PLN 14,085.5 m, reflecting higher demand of business customers for funding towards investments, stock and working capital requirements amidst economic expansion. The credit delivery accelerated driven by long-term corporate lending, and in particular property finance. The portfolio of loans for income producing real estate was one of the most rapidly growing with a 83% increase y-o-y to PLN 5.2 bn.

The value of retail loans increased by 36.3% y-o-y to PLN 5,010.8 m, with strong growth in cash loans and mortgage loans. Cash loans increased by 51% to PLN 1.2 bn thanks to marketing campaigns built on active



promotion and sales methods. Home mortgages accelerated, in particular in the area of zloty-denominated lending (+46% y-o-y). Total mortgage portfolio went up by 33% y-o-y to PLN 3 bn thanks to very good parameters of the bank's offering, improved financial standing of retail customers and trends prevailing in the market.

Over the same period, the leasing portfolio increased to PLN 1,978.9 m. Excluding the impact of leases of BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa (PLN 141.1 m as at end-June 2006) finalised in 3Q 2006, the Group's leasing portfolio increased by 23.5% y-o-y owing to stronger sales of vehicles as well as plant and equipment by leasing subsidiaries, i.e. BZ WBK Leasing S.A. and BZ WBK Finanse & Leasing S.A.

The biggest item in the lending structure of the Bank Zachodni WBK Group were loans to business and public sector customers, accounting for 67% of the gross portfolio. Retail loans represented 24% of the total loan-book, while leasing and other receivables made up 9%

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 2007, the highest concentration level of 22% was recorded in the property services sector. The quality of the Group's loan-book continued to improve during the year, which is reflected in the declining NPL ratio, i.e. 3.9% as at the end of June 2007 versus 6.2% a year earlier.

### **Deposit Base**

Deposits from customers, which represent 71.6% of the Group's liabilities, are the primary source of funding its lending business. At the end of June 2007, customer deposits totalled PLN 25,218 m and were higher by 17% y-o-y.

The value of funds deposited in current accounts of personal, business and public sector customers (excluding one-day deposits) was PLN 8,583.9 m and 30.2% up on the end of June 2006. This growth is attributable to low interest rates which make retail customers more inclined to keep their financial resources in current and savings accounts which offer their holders more flexibility in managing their funds. High current account balances are also driven by a sustained improvement in the financial standing of households and their rising optimism about the prospects for the future.

Over the last 12 months, the term deposit base (including one-day deposits) increased by 11.5% to PLN 16,101.6 m, mainly due to the funds deposited by business customers who recorded an increased activity and good financial performance thanks to the favourable economic climate.

### **Debt Securities in Issue**

As at the end of June 2007, the Group's liability arising from debt securities in issue amounted to PLN 589.7 m, which represents a 25.9% decrease y-o-y. Reduction in the own bonds portfolio is an effect of redemption of PLN 297.2 m worth of bonds (in terms of nominal value) by leasing subsidiaries.

## Basic Financial Ratios

in PLN

Financial Ratio	H1 2007	H1 2006
Total costs /Total income	48.7%	51.5%
Interest income /Total income	40.4%	40.7%
Commission income /Total income	51.4%	48.1%
Customer deposits / Total assets	71.6%	70.4%
Customer loans / Total assets	58.6%	50.6%
Impaired loans ratio	3.9%	6.2%
Impaired loans coverage ratio	61.2%	63.1%
ROE *	26%	23.1%
ROA **	2.7%	2.2%
Solvency ratio	13.34%	15.53%
Diluted earnings per share	7.65	5.81
Book value per share ***	56.86	45.89

*The following were used in computations:*

\* *annualized profit-after-tax attributable to BZWBK shareholders and equity as at the end of June net of current profit and minority interest*

\*\* *annualized profit-after-tax attributable to BZWBK shareholders and average assets derived from balances as at the end of comparable periods*

\*\*\* *total equity per number of BZWBK shares*

## Achievements of the Bank Zachodni WBK Group in the second quarter of 2007

Detailed information on achievements of the Bank Zachodni WBK Group during the first two quarters of 2007 has been provided in the „Report of the Management Board on Bank Zachodni WBK Group Performance in the First Half of 2007“. The Management Board report is part of the Group’s interim report and is announced along with this document.

## 10. Significant accounting policies applied in BZ WBK Group

### Statement of compliance

The interim consolidated financial statements of the BZW BK Group for the 6 month period ended 30 June 2007 have been prepared 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.

### 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 and IFRS 7 implementation, the following substantial changes were made to the presentation of financial data compared to 2006:

- a) Consolidated income statement:

- Accrued interest on hedging IRS of PLN 4 251 k currently disclosed in net interest income, was previously classified as „Gains (losses) on financial instruments measured at fair value through profit and loss”,
- Presentation of realised f/x margins (previously “F/X profit”) of PLN 93 114 k currently classified as “Commission income”,
- Other trading f/x transactions of PLN 11 835 k previously disclosed as “F/X profit”, currently classified to „Net trading and revaluation income”,
- Change of presentation of “Gains and losses on hedging transactions” of PLN 2 628 k, currently in „Gains (losses) from other financial securities”,
- Change in classification of gains on execution of Euroindex options related to indexed customer deposits, currently being a part of „ Gains (losses) on financial instruments measured at fair value through profit and loss” while previously amount of PLN 3 697 k was classified as “Net trading and revaluation income”

b) Consolidated balance sheet:

- Change of presenting derivatives as at 30.06.2006 totaling PLN 349 798 k and as at 31.03.2007 PLN 12 432 k, presented now as net amounts under „Financial assets held for trading” and „Financial liabilities held for trading”,
- Reclassification of interest from IRS valuation to „Hedging derivatives” as at 30.06.2006 totaling PLN 15 460 k in assets and PLN 1 701 k in liabilities and as at Y/E 2006 totaling PLN 16 948 k and PLN 3 024 k respectively, as at 31.03.2007 – PLN 18 516 k and 3 496 k respectively,
- Change of presenting „Liabilities due to current income tax” as at H1 2006 totaling PLN 57 120 k presented previously under „Other liabilities”,
- Reclassification of bonds to „Receivables from customers” totaling PLN 34 516 k as at 30.06.2006 presented previously under „Investment securities”,
- Change of presenting incoming and outgoing SWIFT transactions as at 30.06.2006 that currently total PLN nil after netting,
- Change of presenting liabilities towards international financial organization by BZ WBK Leasing S.A. as at H1 2006 totaling PLN 67 360 k relating to „Deposit from customers” that were previously presented under „Deposits from banks”.

Also, the following IFRS 7 based changes were made in consolidated balance sheet as regards data presentation:

- Reclassification of trading derivatives to „Financial assets held for trading” totaling PLN 362 675 k as at Y/E 2006, PLN 332 353 k as at 30.06.2006 and as at 31.03.2007 PLN 303 452 k, that were previously presented under „Derivative financial instruments”,
- Reclassification of trading derivatives to „Financial liabilities held for trading” as at Y/E 2006 totaling PLN 223 409 k, PLN 264 293 k as at 30.06.2006 and PLN 206 569 k as at 31.03.2007, that were previously presented under „Derivative financial instruments”,
- Change of presenting „Reverse repo transactions” totaling PLN 107 516 k as at 30.06.2006 presented currently under „Loans and advances to banks” totaling PLN 85 670 k and „Loans and advances to customers” totaling PLN 21 846 k,



- Change of presenting „Repo transactions” totaling PLN 1 661 617k as at 30.06.2006, currently presented under „Deposits from banks”, „ Deposits from customers” and „Financial liabilities held for trading”.

## **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:

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

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

### ***Purchase method of accounting***

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

### ***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**

Derivative financial instruments are initially recognised at fair value. After their initial recognition, derivatives are 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;
- loans and receivables;
- available-for-sale financial assets
- and financial liabilities measured at amortised cost.

### **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. As at the balance sheet date the Group doesn't hold the category of financial instrument.

### ***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.



## Recognition

A regular way purchase or sale of a financial asset classified at fair value through profit or loss, held to maturity (at present, in our portfolio we haven't such assets) and available for sale are recognised using settlement date accounting. The method is applied consistently for all purchases and sales of financial assets. Loans are recognised when cash is advanced to the borrowers.

## Derecognition

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the Group transfers the contractual rights to receive the cash flows.

## 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.

There is no issue of the first day valuation within the Group due to the fact that transactions are concluded at fair value corresponding to market prices.

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

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method, except for: (a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value,

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

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

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

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

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

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.

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

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

For the purpose of 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 Group (Bank) carries out the impairment analysis based on the concept of losses already incurred but not yet reported and connected with loan impairment (IBNR), which is estimated on the basis of the historical loss experience for loans with a similar risk profile, on the basis of estimated period between the occurrence of impairment and the identification as well as evidencing loss, and on the basis of historical data corrections, as described above.

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

When a loan has been subject to a specific provision and the prospects of recovery do not improve, a time will come when it may be concluded that there is no real prospect of recovery. When this point is reached, the amount of the loan which is considered to be beyond the prospect of recovery is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

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. 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.

**Finance lease receivables**

Leases where the Group transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as finance leases. A receivable at an amount equal to the net investment in the lease is recognised.

The recognition of finance lease income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Finance lease receivables are included in loans and advances to customers.

**Property, plant and equipment*****Owned assets***

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

***Leased assets***

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

***Subsequent expenditure***

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

***Depreciation***

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



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

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

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

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

### **Intangible assets**

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

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

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

#### ***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.

### ***Liabilities***

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

## **Impairment of assets other than financial assets**

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

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

### ***Calculation of recoverable amount***

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

## **Equity**

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

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

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

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

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.

### ***Dividends***

Dividends on redeemable preference shares are recognised as a liability and expressed on an accrual basis. Dividends for particular year, which have been declared but not paid at the balance sheet date are recognised as dividend liabilities in "other liabilities" item.

### **Employee benefits**

#### ***Short-term service benefits***

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

#### ***Long-term service benefits***

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

#### ***Profit Sharing Scheme***

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



### ***Share based payments***

BZWBK Group operates a share based compensation plan. For grants of share based payments after 7 November 2002 (IFRS 2.53), the fair value of the employee services received is measured by reference to the fair value of awards granted on the day of the grant. The cost of the employee services received in exchange for awards granted is recognized in the income statement over the period during which the employees become unconditionally entitled to the share based payments, which is the vesting period. The amount expensed is determined by reference to the fair value of awards granted. The fair value of awards granted is determined using the share based payments pricing models, which take into account the exercise price of the award, the share price at date of grant, the risk free rate, the expected volatility of the share price over the life of the award and other relevant factors. Vesting conditions included in the terms of the grant are not taken into account in estimating fair value except where those terms relate to market conditions. Non-market vesting conditions are taken into account by adjusting the number of awards included in the measurement of the cost of employee services so that ultimately, the amount recognized in the income statement reflects the number of vested awards. The expense related to share based payments is credited to the shareholder's equity. Where the share based payment arrangements give rise to the issue of new shares, the proceeds of issue of the shares are credited to share capital (nominal amount) and share premium (if any) when awards are exercised.

### **Provisions**

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

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

### **Net interest income**

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

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





**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.

**Profit on disposal of subsidiaries and associates**

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

Profit on the sale of interests in associates is set as a difference between the carrying amount and their sale price.

**Other operating income and costs**

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

**Operating lease payments**

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

**Finance lease payments**

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge 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.

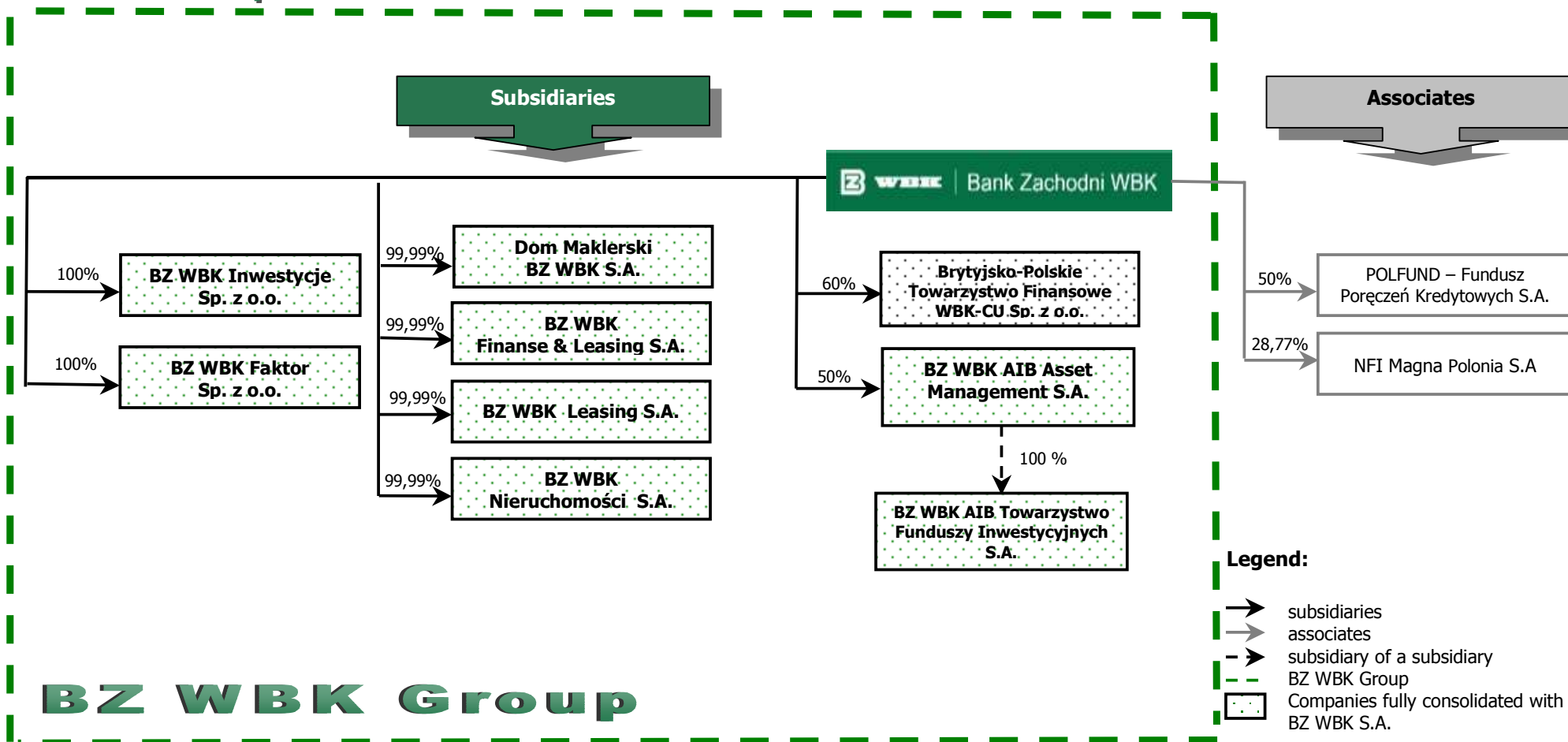
Deferred tax assets and liabilities should be measured as the multiple of a temporary difference and the tax rates that are expected to apply to the period when the asset is realised or the liability is settled (liability method), based on tax rates/laws that have been enacted or substantively enacted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

Deferred tax assets and liabilities are not discounted.

### 11. Description of organization of BZ WBK Group

Graphical representation of the Group's organization structure and information about types of connection within the Group.

## Companies connected with Bank Zachodni WBK S.A.



Pursuant to IAS 27, the following subsidiary undertakings were fully consolidated in the financial statements of Bank Zachodni WBK for 2Q 2007:

- 1) BZ WBK Inwestycje Sp. z o.o.
- 2) BZ WBK Faktor Sp. z o.o.
- 3) Dom Maklerski BZ WBK S.A.
- 4) BZ WBK Finanse & Leasing S.A.
- 5) BZ WBK Leasing S.A.
- 6) BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa (it was deleted from the company register on 27 February 2007)
- 7) BZ WBK AIB Asset Management S.A.
- 8) BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. – subsidiary of BZ WBK Asset Management S.A.
- 9) BZ WBK Nieruchomości S.A.
- 10) Brytyjsko-Polskie Towarzystwo Finansowe WBK – CU Sp. z o.o.

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.

Pursuant to IAS 28, as at 30 June 2007, associated undertakings were accounted for using the equity method. This applies to the following companies:

- 1) POLFUND – Fundusz Poręczeń Kredytowych S.A.
- 2) NFI Magna Polonia SA

## **12. Related party disclosures**

All relevant information is disclosed in interim consolidated financial statements of Bank Zachodni WBK S.A. Group for the 6 month period ended on 30 June 2007.

### **13. Comments concerning the seasonal or cyclical character of the annual activities**

The business activity of Bank Zachodni WBK S.A. and its subsidiary undertakings has no seasonal character.

### **14. 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 Group.

### **15. Accounting estimates and judgments**

#### **Loan impairment**

The estimation of potential loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, economic climates, conditions in various industries to which BZWBK Group is exposed and other external factors such as legal and regulatory requirements. For example, should the expectation of loss within a portfolio increase, then this may result in an increase to the required incurred but not reported ("IBNR") loan loss provision level. A specific provision is made against problem loans when, in the judgement of management, the estimated repayment realizable from the obligor, including the value of any security available, is likely to fall short of the amount of principal and interest outstanding on the obligor's loan or overdraft account. The amount of the specific provision made in BZWBK Group's consolidated financial statements is intended to cover the difference between the assets' carrying value and the present value of estimated future cash flows discounted at the assets' original effective interest rates.

The management process for the identification of loans requiring provision is underpinned by independent tiers of review. Credit quality and loan loss provisioning are independently monitored by head office personnel on a regular basis. A groupwide system for grading advances according to agreed credit criteria exists with an important objective being the timely identification of vulnerable loans so that remedial action can be taken at the earliest opportunity. Credit rating is fundamental to the determination of provisioning in BZWBK Group; it triggers the process which results in the creation of a specific provision on individual loans where there is doubt on recoverability. IBNR provisions are also maintained to cover loans, which are impaired at balance sheet date and, while not separately identified, are known from experience to be present in any portfolio of loans. IBNR provisions are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements, historic loan loss rates, changes in credit management, procedures, processes and policies, economic climates, portfolio sector profiles/industry conditions and current estimates of loss in the portfolio. Estimates of loss are driven by the following key factors;

- Probability of default i.e. the likelihood of a customer defaulting on its obligations over the next 12 months,
- Loss given default i.e. the fraction of the exposure amount that will be lost in the event of default, and



- Exposure at default i.e. exposure is calculated by adding the expected drawn balance plus a percentage of the unused limits.

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

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

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

In case intangible assets not yet available for use, recoverable value is determined as at every balance sheet day. Write-down due to impairment is recognized if book value of an asset exceeds its recoverable value and is presented in the profit and loss account.

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

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

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

Some of the Group's financial instruments are carried at fair value, including all derivatives, financial assets at fair value through profit or loss and financial investments available for sale. Financial instruments are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using financial-markets pricing models, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices. However, where no observable price is available the instrument fair value will include a provision for the uncertainty in the market parameter based on sale price or subsequent traded levels. The calculation of fair value for any financial instrument may require adjustment of quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used), hedging costs not captured in pricing models and adjustments to reflect the cost of exiting illiquid or other significant positions. This may also include an estimation of the likely occurrence of future events which could affect the cashflows of the financial instrument. The valuation model used for a particular instrument, the quality and liquidity of market data used for pricing, other fair value adjustments not specifically captured by the model and market data are all subject to internal review and approval procedures and consistent application between accounting periods.

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

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



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

## 16. Issue, redemption or repayment of debt or equity instruments

In 2Q 2007, Bank Zachodni did not issue bonds or other own debt securities, however bonds were issued in BZWBK Finance & Leasing S.A subsidiary undertaking - 2-year bonds - 2S0409 of PLN 10 188 k (nominal value) with the final redemption date of 05.04.2009.

BZWBK Leasing S.A. made a repayment of:

- a) 3-year bonds 3S0407 of PLN 9 433 k (nominal value), redemption date 05.04.2007
- b) 3-year bonds 3S0507 of PLN 19 378 k (nominal value), redemption date 10.05.2007
- c) 3-year bonds 3Z0507 of PLN 6 439 k (nominal value), redemption date 10.05.2007

At the end of 2Q 2007, the total value of obligations with respect to the issue of own bonds by Bank Zachodni WBK S.A., BZWBK Leasing S.A. and BZWBK Finance & Leasing S.A. amounted to PLN 554 157 k (nominal value).

In 2Q 2006, Bank Zachodni and its subsidiaries did not issue bonds or other own debt securities.

At the end of 2Q 2007, the total value of obligations with respect to the issue of own bonds by Bank Zachodni WBK S.A., BZWBK Leasing S.A. and BZWBK Finance & Leasing S.A. amounted to PLN 750 676 k (nominal value).

## 17. Dividend information

Bank Zachodni WBK allocated to dividends 73.9 % of net profit ( i.e. 57.7% of the Group's net profit) of PLN 437 761 704 i.e. PLN 6.00 per one share (PLN 6.00 in 2005). Number of shares totaled 72 960 284. Outstanding profit of PLN 155 033 626.93 will be allocated to other reserve capital.

## 18. Income and profits by business segments

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 the segment in its operating activity. 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 (by business segments)**

30.06.2007	Branch operations	Treasury operations	Investment banking	Leasing operations	Eliminations	Total
<b>1. Total segments income</b>	<b>1 524 750</b>	<b>325 826</b>	<b>512 133</b>	<b>78 611</b>	<b>(570 340)</b>	<b>1 870 980</b>
Segments income (external)	1 189 224	123 349	480 551	77 856		<b>1 870 980</b>
Segments income (internal)	335 526	202 477	31 582	755	(570 340)	-
<b>2. Total segments costs</b>	<b>(1 133 467)</b>	<b>(260 642)</b>	<b>(252 272)</b>	<b>(58 205)</b>	<b>570 340</b>	<b>(1 134 246)</b>
Segments costs (external)	(899 890)	(21 332)	(162 818)	(50 206)		<b>(1 134 246)</b>
Segments costs (internal)	(233 577)	(239 310)	(89 454)	(7 999)	570 340	-
<b>3. Dividend income</b>	-	-	<b>64 446</b>	-	-	<b>64 446</b>
<b>4. Movements in provisions</b>	<b>27 630</b>	-	-	<b>(3 271)</b>	-	<b>24 359</b>
Write off	(126 500)			(9 339)		<b>(135 839)</b>
Write back	154 130			6 068		<b>160 198</b>
<b>5. Segments income on investment in associates</b>	-	-	<b>36</b>	-	-	<b>36</b>
<b>6. Segments gross profit</b>	<b>418 913</b>	<b>65 184</b>	<b>324 343</b>	<b>17 135</b>	-	<b>825 575</b>
7. Unallocated income						-
8. Unallocated costs						(46 831)
<b>9. EBT</b>						<b>778 744</b>
10. Income tax						(147 221)
11. Minority interest						(72 927)
<b>12. Profit for the period</b>						<b>558 596</b>



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

30.06.2006	Branch operations	Treasury operations	Investment banking	Leasing operations	Eliminations	Total
<b>1. Total segments income</b>	<b>1 344 144</b>	<b>317 932</b>	<b>344 753</b>	<b>73 901</b>	<b>(546 546)</b>	<b>1 534 184</b>
Segments income (external)	1 030 801	105 000	325 207	73 176		<b>1 534 184</b>
Segments income (internal)	313 343	212 932	19 546	725	(546 546)	-
<b>2. Total segments costs</b>	<b>(1 024 335)</b>	<b>(266 824)</b>	<b>(162 792)</b>	<b>(54 759)</b>	<b>546 546</b>	<b>(962 164)</b>
Segments costs (external)	(792 932)	(19 556)	(101 111)	(48 565)		<b>(962 164)</b>
Segments costs (internal)	(231 403)	(247 268)	(61 681)	(6 194)	546 546	-
<b>3. Dividend income</b>			<b>57 130</b>			<b>57 130</b>
<b>4. Movements in provisions</b>	<b>(14 578)</b>	-	-	<b>(1 769)</b>	-	<b>(16 347)</b>
Write off	(167 293)			(9 322)		<b>(176 615)</b>
Write back	152 715			7 553		<b>160 268</b>
<b>5. Segments income on investment in associates</b>	-	-	<b>743</b>	-	-	<b>743</b>
<b>6. Segments gross profit</b>	<b>305 231</b>	<b>51 108</b>	<b>239 834</b>	<b>17 373</b>	-	<b>613 546</b>
7. Unallocated income						-
8. Unallocated costs						(42 086)
<b>9. EBT</b>						<b>571 460</b>
10. Income tax						(107 887)
11. Minority interest						(39 669)
<b>12. Profit for the period</b>						<b>423 904</b>



## 19. Acquisitions and disposals of investments in 2Q 2007

No significant changes in the group structure (mergers, acquisitions and disposals of investments) occurred in the BZ WBK Group during the 2Q 2007.

## 20. Changes to the contingent liabilities or assets

### 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	30.06.2007	31.03.2007	Movement
<b>Liabilities sanctioned</b>	<b>7 114 542</b>	<b>7 845 214</b>	<b>(730 672)</b>
<b>- financial</b>	<b>6 433 240</b>	<b>7 168 563</b>	<b>(735 323)</b>
- including: import letters of credit	104 673	80 376	24 297
- including: credit lines	5 802 615	5 664 333	138 282
- including: credit cards debits	509 304	474 204	35 100
- including: term deposits with future commencement term	16 648	949 650	(933 002)
<b>- guarantees</b>	<b>681 302</b>	<b>676 651</b>	<b>4 651</b>
- including: confirmed export letters of credit	3 604	1 534	2 070
<b>Received liabilities</b>	<b>1 953 023</b>	<b>1 958 344</b>	<b>(5 321)</b>
<b>Total</b>	<b>9 067 565</b>	<b>9 803 558</b>	<b>(735 993)</b>

As at 30.06 2007 the Bank received/sanctioned guarantees of PLN 248 772 k (as at 31.03.2007 – PLN 254 538 k) to following subsidiary undertakings: BZ WBK Finanse & Leasing S.A. , BZ WBK Leasing SA, Dom Maklerski BZWBK SA, BZWBK TFI S.A. and BZWBK Nieruchomości S.A. They were eliminated as intragroup transactions.

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

Guarantees and civil law guarantees are issued on the basis of the same information and in accordance with the same procedure as it is in the case of loans. Applicable regulations are set out in 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	30.06.2007	31.03.2007	Movement
<b>1. Derivatives (hedging)</b>	<b>1 995 410</b>	<b>2 114 352</b>	<b>(118 942)</b>
a) Single-currency interest rate swaps – purchased amounts	997 705	1 057 176	(59 471)
b) Single-currency interest rate swaps – sold amounts	997 705	1 057 176	(59 471)
<b>2. Term derivatives (trading)</b>	<b>163 506 827</b>	<b>140 925 312</b>	<b>22 581 515</b>
a) Interest rate operations	140 165 330	120 873 674	19 291 656
- Single-currency interest rate swaps – purchased amounts	48 432 665	39 586 837	8 845 828
- Single-currency interest rate swaps – sold amounts	48 432 665	39 586 837	8 845 828
- FRA-purchased amounts	20 850 000	20 850 000	-
- FRA-sold amounts	22 450 000	20 850 000	1 600 000
b) FX operations	23 341 497	20 051 638	3 289 859
- FX swap – purchased amounts	10 185 940	8 519 602	1 666 338
- FX swap – sold amounts	10 177 435	8 494 580	1 682 855
- Cross-currency interest rate swaps – purchased amounts	1 524 006	1 533 809	(9 803)
- Cross-currency interest rate swaps – sold amounts	1 454 116	1 503 647	(49 531)
<b>3. Currency transactions- spot</b>	<b>3 822 676</b>	<b>4 194 547</b>	<b>(371 871)</b>
spot-purchased	1 912 111	2 096 748	(184 637)
spot-sold	1 910 565	2 097 799	(187 234)
<b>4. Derivatives – OTC options</b>	<b>2 364 368</b>	<b>1 463 336</b>	<b>901 032</b>
- Options purchased	1 182 184	731 668	450 516
- Options sold	1 182 184	731 668	450 516
<b>5. Euroindex Options</b>	<b>99 962</b>	<b>147 534</b>	<b>(47 572)</b>
- Options purchased	99 962	147 534	(47 572)
<b>Total</b>	<b>171 789 243</b>	<b>148 845 081</b>	<b>22 944 162</b>

## 21. Principles of PLN conversion into EUR

Selected financial figures for 2Q 2007 and 2Q 2006 were converted according to the following principles:

- balance sheet data – 3.7658 as at 30.06.2007 and 4.0434 as at 30.06.2006; EUR/PLN rate current at the balance sheet date and announced by the National Bank of Poland
- items of profit and loss account - according to the exchange rate EUR/PLN announced by the National Bank of Poland and calculated as an arithmetic mean on the last day of each month in a quarter of particular year– as at 30.06.2007 – 3.8486, as at 30.06.2006 – 3.9002

## 22. 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 2007 /01.08.2007/ 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 25.04.2007				
AIB European Investments Limited	51 413 790	70,5 %	51 413 790	70,5 %
As at 01.08 .2007				
AIB European Investments Limited	51 413 790	70,5 %	51 413 790	70,5 %

## 23. Changes in shareholding of members of the Management and Supervisory Boards

	No. of Bank Zachodni WBK shares held		
	As at 25.04.2007	As at 01.08.2007	Change
Members of the Management Board	526	-	526*
Members of the Supervisory Board	278	278	-

\* The change results from the fact that 1 share was sold by Mr. Marcin Prell and also because Mr. Jacek Kseń, who held 525 shares, resigned from the position of President of the Management Board, effective on the 1st May 2007.

Table below presents personal shareholding of Supervisory and Management Board Members as at 1st August 2007:

Owner	No. of shares
<b>Supervisory Board</b>	
Waldemar Frąckowiak	278

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

## 24. Information about the commenced court proceedings

As at 30 June 2007 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

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

As at 31 December 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 301 287 k, which is ca. 7.61% of Group's equity. This amount includes PLN 62 888 k claimed by the Bank, PLN 38 283 k in claims against the Bank and PLN 200 116 k are Bank's receivables due to bankruptcy or arrangement cases.

## 25. Information concerning issuing loan and guarantees by an issuer or its subsidiary

As at 30 June 2007 Bank Zachodni WBK S.A. and its subsidiaries had not issued any guarantees to one business unit or a subsidiary totalling a minimum of 10% of issuer's equity.

## 26. Events which might affect financial performance over the next quarter

The most important factors, which may affect financial results of the Group in future are:

- continuation of high economic growth, based to a growing extent on domestic demand (both consumption and investment), which will be conducive to further solid rise in demand for loans; growing demand for loans is driven by clear improvement in households' financial stance and rising investment activity of enterprises,
- continuation of long-term tendency of zloty strengthening may translate with some lag into deterioration in the country's international competitiveness and negatively affect export sector (and/or negatively affect investment activity through lower profitability of export), but the negative influence of stronger zloty on international competitiveness of domestic firms may be offset by continuation of robust gains in labour productivity and enterprises restructuring,
- expected rise in NBP interest rates may somewhat constrain demand for loans, but given that domestic interest rates will remain relatively low, rising interest rates abroad, including the Switzerland, should stimulate demand for loans in the zloty; at the same time increase in domestic interest rates may increase willingness to hold deposits in the banking system at the expense of other financial instruments.

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

### ***Appointment of a new Member of Bank Zachodni WBK Management Board***

On 24 July 2007, the Bank's Supervisory Board appointed Mr. Andrzej Burliga Member of the Bank's Management Board.

SIGNATURES OF THE PERSONS REPRESENTING THE ENTITY			
Date	Name	Function	Signature
26-07-2007	James Murphy	member of the Management Board	
26-07-2007	Wanda Rogowska	Financial Accounting Area Director	