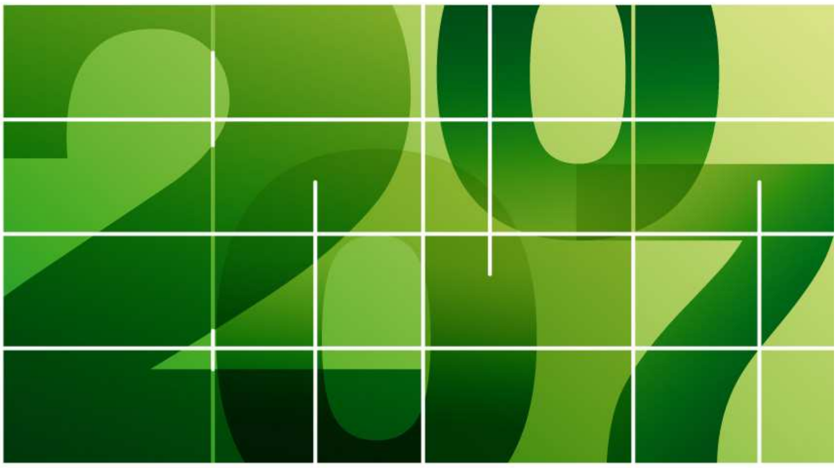

Consolidated financial statements of Bank Zachodni WBK S.A. Group for 1Q 2007

WBK | Bank Zachodni WBK

in thousands of PLN

	FINANCIAL HIGHLIGHTS	PLN '000		EUR '000	
		01-01-2007 - 31-03-2007	01-01-2006- 31-03-2006	01-01-2007- 31-03-2007	01-01-2006- 31-03-2006
	Consolidated financial statements				
I	Interest and similar income	456 862	395 890	116 955	102 946
II	Fee and commission income	374 503	272 844	95 872	70 950
III	Operating profit	366 490	238 206	93 820	61 942
IV	Profit before tax	366 413	239 099	93 801	62 175
V	Net profit attributable to the Company's equity holders	260 612	175 389	66 716	45 608
VI	Total net cash flow	(430 626)	396 367	(110 239)	103 070
VII	Total assets	35 280 879	29 551 161	9 117 684	7 508 489
VIII	Deposits from banks	3 703 476	3 084 584	957 094	783 745
IX	Deposits from customers	24 777 960	20 552 118	6 403 401	5 221 973
X	Total liabilities	30 953 910	25 936 403	7 999 460	6 590 036
XI	Total equity	4 326 969	3 614 758	1 118 224	918 454
XII	Minority interest	112 049	46 831	28 957	11 899
XIII	Net profit attributable to the Minority	32 622	16 033	8 431	4 169
XIV	Number of shares	72 960 284	72 960 284		
XV	Net book value per share in PLN/EUR	59,31	49,54	15,33	12,59
XVI	Solvency ratio	13,87%	15,71%		
XVII	Profit (loss) per share in PLN/ EUR	3,58	2,40	0,92	0,62
XVIII	Diluted earnings (loss) per share in PLN/EUR	3,57	2,40	0,91	0,62
XIX	Declared or paid dividend per share in PLN/EUR	6,00	6,00	1,55	1,52
	Stand alone financial statements				
XX	Interest and similar income	427 012	365 313	109 314	94 995
XXI	Fee and commission income	189 098	168 709	48 408	43 871
XXII	Profit before tax	333 642	209 953	85 411	54 596
XXIII	Net profit	286 980	175 954	73 466	45 755
XXIV	Total net cash flow	(431 666)	396 231	(110 505)	103 035
XXV	Total assets	33 261 537	28 078 515	8 595 823	7 134 313
XXVI	Deposits from banks	2 893 422	2 758 265	747 751	700 832
XXVII	Deposits from customers	25 084 723	20 610 900	6 482 678	5 236 908
XXVIII	Total liabilities	29 366 788	24 703 249	7 589 298	6 276 710
XXIX	Equity attributable to the Company's equity holders	3 894 749	3 375 266	1 006 525	857 602
XXX	Number of shares	72 960 284	72 960 284		
XXXI	Net book value per share in PLN/EUR	53,38	46,26	13,80	11,75
XXXII	Solvency ratio	12,24%	14,44%		
XXXIII	Profit (loss) per share in PLN/ EUR	3,94	2,41	1,01	0,63
XXXIV	Diluted earnings (loss) per share in PLN/EUR	3,93	2,41	1,01	0,63

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in thousands of PLN

1. Consolidated income statement

For reporting periods:	01-01-2007-31-03-2007	01-01-2006-31-03-2006
Interest and similar income	456 862	395 890
Interest expense and similar charges	(166 857)	(154 687)
Net interest income	**290 005**	**241 203**
Fee and commission income	374 503	272 844
Fee and commission expense	(54 714)	(35 527)
Net fee and commission income	**319 789**	**237 317**
Dividend income	10	-
Foreign exchange profit	49 986	49 931
Gains (losses) on hedge accounting activities	(6)	2 191
Gains (losses) from financial instruments measured at fair value through profit and loss	13 962	6 031
Gains (losses) from investment in securities	4 698	829
Gains (losses) on sale of subsidiaries and associates	-	7 812
Other operating income	10 206	9 635
Impairment losses on loans and advances	20 645	(12 131)
Operating expenses incl.:	(342 805)	(304 612)
Bank's staff, operating expenses and management costs	(295 423)	(254 383)
Depreciation/amortisation	(33 610)	(45 854)
Other operating expenses	(13 772)	(4 375)
Operating profit	**366 490**	**238 206**
Share in net profits (losses) of associates accounted for by the equity method	(77)	893
Profit before tax	**366 413**	**239 099**
Corporate income tax	(73 179)	(47 677)
Profit for the period	**293 234**	**191 422**
of which:		
attributable to the Company's equity holders	260 612	175 389
attributable to the Minority equity holders	32 622	16 033
Net earnings per share		
Basic earnings per share (PLN)	3,58	2,40
Diluted earnings per share (PLN)	3,57	2,40

in thousands of PLN

2. Consolidated balance sheet

	31-03-2007	31-12-2006	31-03-2006
ASSETS			
Cash and balances with central bank	1 092 607	1 534 480	980 540
Loans and advances to banks	4 424 736	3 154 546	4 005 893
Financial assets at fair value through profit or loss	429 990	741 929	1 143 741
Derivative financial instruments	337 831	395 650	380 238
Loans and advances to customers	18 722 961	17 620 066	14 548 522
Investment securities	8 569 739	8 021 289	6 938 448
Investments in associates	35 824	36 201	69 009
Intangible assets	123 560	135 032	156 291
Property, plant & equipment	484 781	493 657	500 093
Deferred income tax assets	444 631	392 467	444 466
Other assets	614 219	479 885	383 920
Total assets	35 280 879	33 005 202	29 551 161
LIABILITIES			
Deposits from banks	3 703 476	2 608 377	3 084 584
Derivative financial instruments	230 784	249 340	272 720
Financial liabilities at fair value through profit or loss	60 604	5 006	-
Deposits from customers	24 777 960	24 222 051	20 552 118
Debt securities in issue	613 795	646 342	794 742
Current income tax liabilities	32 672	7 643	15 747
Deferred income tax liabilities	348 287	293 529	311 552
Other liabilities	1 186 332	896 172	904 940
Total liabilities	30 953 910	28 928 460	25 936 403
Equity			
Capital and reserves attributable to the Company's equity holders	4 214 920	3 960 001	3 567 927
Share capital	729 603	729 603	729 603
Other reserve funds	1 884 076	1 857 147	2 033 920
Revaluation reserve	501 437	508 548	264 048
Retained earnings	839 192	106 481	364 967
Profit of the current period	260 612	758 222	175 389
Minority interest	112 049	116 741	46 831
Total equity	4 326 969	4 076 742	3 614 758
Total equity and liabilities	35 280 879	33 005 202	29 551 161

in thousands of PLN

3. Movements on consolidated equity

MOVEMENTS ON CONSOLIDATED EQUITY	Equity					
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	Minority interest	Total
Opening balance at 31.12.2006	**729 603**	**1 857 147**	**508 548**	**864 703**	**116 741**	**4 076 742**
Net change in available for sale investments	-	-	(7 111)	-	140	(6 971)
Share based payments	-	1 714	-	-		1 714
Net gains not recognised in income statement	-	1 714	(7 111)	-	140	(5 257)
Net profit	-	-	-	260 612	32 622	293 234
Total recognised increase in equity in 1Q 2007	**-**	**1 714**	**(7 111)**	**260 612**	**32 762**	**287 977**
Dividend relating to 2006	-	-	-		(37 463)	(37 463)
Transfer to other reserve capitals	-	25 166	-	(25 166)	-	-
Transfer from other reserve capitals	-				-	-
Other	-	49		(345)	9	(287)
As at 31.03.2007	**729 603**	**1 884 076**	**501 437**	**1 099 804**	**112 049**	**4 326 969**

MOVEMENTS ON CONSOLIDATED EQUITY	Equity					
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	Minority interest	Total
Opening balance at 31.12.2005	**729 603**	**2 028 706**	**250 088**	**373 121**	**54 943**	**3 436 461**
Net change in available for sale investments	-	-	258 695	-	25	258 720
Share based payments	-	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
Total recognised increase in equity in 2006	**-**	**3 674**	**258 695**	**758 222**	**86 049**	**1 106 640**
Dividend relating to 2005	-	-	-	(437 762)	(27 044)	(464 806)
Transfer to other reserve capitals	-	6 589	-	(6 589)	-	-
Transfer from other reserve capitals	-	(168 326)		168 326	-	-
Other	-	(13 496)	(235)	9 385	2 793	(1 553)
As at 31.12.2006	**729 603**	**1 857 147**	**508 548**	**864 703**	**116 741**	**4 076 742**

MOVEMENTS ON CONSOLIDATED EQUITY	Equity					
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	Minority interest	Total
Opening balance at 31.12.2005	**729 603**	**2 028 706**	**250 088**	**373 121**	**54 943**	**3 436 461**
Net change in available for sale investments	-	-	13 960	-	-	13 960
Net gains not recognised in income statement	-	-	13 960	-	-	13 960
Net profit	-	-	-	175 389	16 033	191 422
Total recognised increase in equity in 1Q 2006	**-**	**-**	**13 960**	**175 389**	**16 033**	**205 382**
Dividend relating to 2005	-	-	-		(27 044)	(27 044)
Transfer to other reserve capitals	-	5 214	-	(5 214)	-	-
Other	-	-	-	(2 940)	2 899	(41)
As at 31.03.2006	**729 603**	**2 033 920**	**264 048**	**540 356**	**46 831**	**3 614 758**

in thousands of PLN

4. Consolidated cash flow statement

For reporting periods:	01-01-2007- 31-03-2007	31-01-2006 - 31-03-2006
Profit (loss) before tax	**366 413**	**239 099**
Total adjustments:	**(357 760)**	**176 925**
Share in net profits (losses) of associates accounted for by the equity method	77	(893)
Amortization	33 610	45 854
Gains (losses) on exchange differences	755	2 550
Interests and similar charges	(36 257)	15 265
Dividend income	(10)	-
(Profit) loss from investing activities	(3 493)	(9 211)
Change in provisions	(2 690)	(914)
Change in financial instruments at fair value through profit and loss	406 800	837 769
Change in loans and advances to banks	(1 258 943)	(494 123)
Change in loans and advances to customers	(1 104 942)	(346 758)
Change in deposits from banks	930 445	435 637
Change in deposits from customers	564 177	(223 384)
Change in liabilities arising from debt securities in issue	(1 033)	2 538
Change in assets and liabilities arising from deferred taxation	1 671	(570)
Change in other assets and liabilities	155 885	(39 287)
Paid income tax	(43 932)	(47 741)
Other adjustments	120	193
Net cash flow from operating activities - indirect method	**8 653**	**416 024**
Inflows	**542 019**	**318 626**
Sale of shares or interests in subsidiaries and associates	-	13 245
Sale of investment securities	541 586	304 309
Sale of intangible and tangible fixed assets	398	900
Dividends received	10	-
Proceeds from other investments	25	172
Outflows	**(1 061 773)**	**(274 075)**
Purchase of investment securities	(1 050 312)	(263 495)
Purchase of intangible and tangible fixed assets	(10 990)	(10 145)
Other investments	(471)	(435)
Net cash flow from investing activities	**(519 754)**	**44 551**
Inflows	**243 465**	**113 723**
Drawing of long-term loans	211 145	78 723
Issue of debt securities	32 320	35 000
Outflows	**(162 990)**	**(177 931)**
Repayment of long-term loans	(53 505)	(61 335)
Debt securities buy out	(63 834)	(88 000)
Dividends and other payments to shareholders	(37 463)	(8 897)
Other financing outflows	(8 188)	(19 699)
Net cash flow from financing activities	**80 475**	**(64 208)**
Total net cash flow	**(430 626)**	**396 367**
Cash at the beginning of the accounting period	**1 547 604**	**593 686**
Cash at the end of the accounting period	**1 116 978**	**990 053**

in thousands of PLN

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

For reporting periods:	01-01-2007-31-03-2007	01-01-2006-31-03-2006
Interest and similar income	427 012	365 313
Interest expense and similar charges	(158 121)	(142 182)
Net interest income	**268 891**	**223 131**
Fee and commission income	189 098	168 709
Fee and commission expense	(16 062)	(12 642)
Net fee and commission income	**173 036**	**156 067**
Dividend income	86 556	41 660
Foreign exchange profit	49 414	49 476
Gains (losses) on hedge accounting activities	(73)	2 209
Gains (losses) from financial instruments measured at fair value through profit and loss	7 667	2 691
Gains (losses) from investment in securities	1 090	1 254
Gains (losses) on sale of subsidiaries and associates	13 423	10 015
Other operating income	7 341	5 742
Impairment losses on loans and advances	21 941	(10 857)
Operating expenses incl.:	(295 644)	(271 435)
Bank's staff, operating expenses and management costs	(253 478)	(223 823)
Depreciation/amortisation	(31 918)	(44 381)
Other operating expenses	(10 248)	(3 231)
Operating profit	**333 642**	**209 953**
Profit before tax	**333 642**	**209 953**
Corporate income tax	(46 662)	(33 999)
Profit for the period	**286 980**	**175 954**
Net earnings per share		
Basic earnings per share (PLN)	3,94	2,41
Diluted earnings per share (PLN)	3,93	2,41

in thousands of PLN

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

	31-03-2007	31-12-2006	31-03-2006
ASSETS			
Cash and balances with central bank	1 092 588	1 534 469	980 525
Loans and advances to banks	4 419 689	3 149 267	4 003 462
Financial assets at fair value through profit or loss	345 566	685 255	1 131 270
Derivative financial instruments	337 912	395 730	380 258
Loans and advances to customers	17 128 762	16 172 354	13 256 587
Investment securities	8 551 881	7 993 770	6 863 066
Investments in associates	172 635	186 318	237 824
Intangible assets	115 103	127 101	149 366
Property, plant & equipment	474 500	483 594	492 768
Current income tax due	-	947	-
Deferred income tax assets	395 699	346 508	409 516
Other assets	227 202	270 724	173 873
Total assets	33 261 537	31 346 037	28 078 515
LIABILITIES			
Deposits from banks	2 893 422	1 960 144	2 758 265
Derivative financial instruments	247 917	267 800	302 562
Deposits from customers	25 084 723	24 481 996	20 610 900
Financial liabilities at fair value through profit or loss	60 604	5 006	-
Debt securities in issue	96 896	95 897	94 680
Current income tax liabilities	917	-	11 356
Deferred income tax liabilities	336 191	282 196	297 943
Other liabilities	646 118	639 754	627 543
Total liabilities	29 366 788	27 732 793	24 703 249
Equity			
Capital and reserves attributable to the Company's equity holders	3 894 749	3 613 244	3 375 266
Share capital	729 603	729 603	729 603
Other reserve funds	1 787 458	1 785 744	1 950 396
Revaluation reserve	497 913	505 102	249 877
Retained earnings	592 795	-	269 436
Profit of the current period	286 980	592 795	175 954
Total equity	3 894 749	3 613 244	3 375 266
Total equity and liabilities	33 261 537	31 346 037	28 078 515

in thousands of PLN

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

	Equity				
MOVEMENTS ON EQUITY	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	Total
Balance as at 31.12.2006	**729 603**	**1 785 744**	**505 102**	**592 795**	**3 613 244**
Net change in available for sale investments	-	-	(7 189)	-	(7 189)
Share scheme charge	-	1 714	-	-	1 714
Net gains not recognised in income statement	-	1 714	(7 189)	-	(5 475)
Net profit	-	-	-	286 980	286 980
Total recognised increase in equity in 1Q 2007	**-**	**1 714**	**(7 189)**	**286 980**	**281 505**
As at 31.03.2007	**729 603**	**1 787 458**	**497 913**	**879 775**	**3 894 749**

	Equity				
MOVEMENTS ON EQUITY	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	Total
Balance at 31.12.2005	**729 603**	**1 950 396**	**239 495**	**269 436**	**3 188 930**
Net change in available for sale investments	-	-	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
Total recognised increase in equity in 2006	**-**	**3 674**	**265 607**	**592 795**	**862 076**
Dividend relating to 2005	-		-	(437 762)	(437 762)
Transfer from supplementary capital	-	(168 326)	-	168 326	-
As at 31.12.2006	**729 603**	**1 785 744**	**505 102**	**592 795**	**3 613 244**

	Equity				
MOVEMENTS ON EQUITY	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	Total
Balance at 31.12.2005	**729 603**	**1 950 396**	**239 495**	**269 436**	**3 188 930**
Net change in available for sale investments	-	-	10 382	-	10 382
Net gains not recognised in income statement	-	-	10 382	-	10 382
Net profit	-	-	-	175 954	175 954
Total recognised increase in equity in 1Q 2006	**-**	**-**	**10 382**	**175 954**	**186 336**
As at 31.03.2006	**729 603**	**1 950 396**	**249 877**	**445 390**	**3 375 266**

in thousands of PLN

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

For reporting periods:	01-01-2007 - 31-03-2007	01-01-2006 - 31-03-2006
Profit (loss) before tax	**333 642**	**209 953**
Total adjustments:	**(327 560)**	**158 587**
Amortization	31 918	44 381
Impairment losses	33	(425)
Interests and similar charges	(43 335)	(297)
Dividend income	(86 556)	(13 443)
(Profit) loss from investing activities	(13 657)	(11 414)
Change in provisions	5 417	(2 535)
Change in financial instruments at fair value through profit and loss	433 222	847 105
Change in loans and advances to banks	(1 260 207)	(409 360)
Change in loans and advances to customers	(956 408)	(344 732)
Change in deposits from banks	933 277	462 167
Change in deposits from customers	621 883	(324 640)
Change in liabilities arising from debt securities in issue	999	1 645
Change in assets and liabilities arising from deferred taxation	-	(1)
Change in other assets and liabilities	44 039	(76 063)
Tax paid	(38 304)	(13 967)
Other adjustments	119	166
Net cash flow from operating activities - indirect method	**6 082**	**368 540**
Inflows	**642 385**	**329 019**
Sale of shares or interests in subsidiaries and associates	27 074	13 245
Sale of investment securities	528 337	301 409
Sale of intangible and tangible fixed assets	393	862
Dividends received	86 556	13 443
Proceeds from other investments	25	60
Outflows	**(1 059 861)**	**(273 689)**
Purchase of shares or interests in subsidiaries and associates	-	(250)
Purchase of investment securities	(1 050 312)	(263 495)
Purchase of intangible and tangible fixed assets	(9 096)	(9 509)
Other investments	(453)	(435)
Net cash flow from investing activities	**(417 476)**	**55 330**
Inflows	**-**	**-**
Outflows	**(20 272)**	**(27 639)**
Repayment of long-term loans	(19 156)	(26 756)
Other financing outflows	(1 116)	(883)
Net cash flow from financing activities	**(20 272)**	**(27 639)**
Total net cash flow	**(431 666)**	**396 231**
Cash at the beginning of the accounting period	**1 542 716**	**591 384**
Cash at the end of the accounting period	**1 111 050**	**987 615**

9. Bank Zachodni WBK S.A. performance

Financial performance in the first quarter of 2007 - overview

Strong momentum of BZWBK Group quarterly profits:

- ***Profit-before-tax increased by 53.2% y-o-y to PLN 366.4m***
- ***Profit-after-tax increased by 48.6% y-o-y to PLN 260.6m***

Key growth factors against Q1 2006:

- ***High growth rate of core balance sheet volumes: loans and advances to customers (+28.7%) and customer deposits (+20.6%)***
- ***Fast-paced development of the subsidiaries' business continued, particularly mutual funds and brokerage services***
- ***Increase in total income by 24.1%, including a 34.8% growth of net commission income***
- ***Cost-to-income ratio falling below 50%***
- ***Sustained improvement of asset quality - reduction of NPL ratio from 6.2% to 4.1%***
- ***Effective debt collection reflected in positive net provisions in 1Q 2007***

Financial performance

PLN m

Key Profit & Loss Items	Q1 2007*	Q1 2006**	Change
Total income	688.7	554.9	+24.1%
Total costs	(342.8)	(304.6)	+12.5%
Profit-before-tax	366.4	239.1	+53.2%
Income tax	(73.2)	(47.7)	+53.5%
Profit-after-tax attributed to BZWBK shareholders ***	260.6	175.4	+48.6%

* *including once-off gain on the disposal of a number of TIM S.A. shares from the investment portfolio of BZ WBK Inwestycje Sp. z o.o., a subsidiary (PLN 3.3 m)*
** *including once-off gain on the disposal of LZPS Protektor S.A., an associated company (PLN 7.8 m)*
*** *excluding the profit attributable to minority shareholders (Q1 2007- PLN 32.6 m; Q1 2006 - PLN 16 m)*

- **Total income** of the Bank Zachodni WBK Group in the first quarter of 2007 amounted to PLN 688.7m and was higher by 24.1% y-o-y due to the substantial revenues generated by the bank and its subsidiaries in the ordinary course of business. The main components of the total income were as follows:

- **Net interest income** amounted to PLN 290m against PLN 241.2m posted for the first quarter of 2006. Taking into account interest-related income from FX Swap and Basis Swap transactions (recognised in "FX profit" and "Gains from assets measured at fair value through profit and loss", respectively), which declined y-o-y from PLN 9.4m to PLN 2.4m, the underlying net interest income increased by 16.7% y-o-y. This performance was achieved thanks to the solid growth of the Group's business and favourable changes in its structure, the strong momentum in business lending being the most important contributing factor.

- **Net commission income** amounted to PLN 319.8m and increased by 34.8% y-o-y driven by further expansion of the bank's and subsidiaries' business. Due to the substantial 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., a considerable increase in net income was recorded in fees from asset management and distribution of mutual fund units (+75% y-o-y). A strong growth was also witnessed in net fees of Dom Maklerski BZ WBK S.A. (BZWBK Brokerage House; +62% y-o-y) driven by the continued growth of the company's stock exchange trading, sales of shares in the primary market and increased market-making activity (see the Brokerage House section below for more details). There was also a noteworthy increase in net commission income generated by advisory and issuance services provided by the bank for customers involved in capital market projects (+134%) and a rising contribution from the sales of expanding range of bancassurance products (+46%).

- **FX profit** was PLN 50m and stable on a year-on-year basis. Excluding FX Swap impact, the line shows an increase of 12.7%, which reflects higher trading volumes in corporate negotiated and branch based FX activity.

- **Gains on financial transactions measured at fair value through profit and loss** increased by PLN 7.9m to PLN 14m thanks to higher income from derivative transactions carried out by the bank and more intensive involvement of the Brokerage House in market-making activity. Adjusting for interest-related income from Basis Swap transactions, the underlying growth under this line is PLN 9.3m.

- **Gains on assets from the investment portfolio** amounted to PLN 4.7m and increased by PLN 3.9m, mainly due to the disposal of TIM S.A. shares from the portfolio of BZ WBK Inwestycje Sp. z o.o., which brought a profit of PLN 3.3m.

❑ **The balance of impairment provisions** was positive and totalled PLN 20.6m while in the corresponding period last year an impairment charge of PLN 12.1m was posted to the consolidated profit & loss account. This results from the further improvement of the loan-book quality and the effective debt collection process. With fast growing lending volumes, the reported net loan impairment provisions confirm the soundness of the Group's credit risk management system and a sharp focus on ensuring high quality of the loan-book. The Group' s efficiency in the credit risk area is also affirmed by the falling NPL ratio. At the end of March 2007, the "impaired loans" accounted for 4.1% of the gross portfolio with a provision cover of 64.0%. A year ago, the corresponding ratios were at 6.2% and 67.4%, respectively.

- **Total operating costs** of the Bank Zachodni WBK Group amounted to PLN 342.8m and were 12.5 % higher y-o-y. Their main components were as follows:

  - The Group's **staff and administrative costs** increased by 16.1% y-o-y to PLN 295.4m driven by further dynamic business development of the bank and its subsidiaries. The biggest element of this figure, i.e. the **staff expenses**, amounted to PLN 181.3m and were 17.8% up on the first quarter last year. This growth was impacted by higher employment levels (by 337 FTEs), performance-related bonus accruals and the salary increases (from April 2006) arising from the annual staff evaluation as part of the performance management process. With a strong business growth, the **Group's administrative expenses** increased by 13.5% y-o-y to PLN 114.1m. This movement results, among other things, from the intensive promotional activities supporting the sale of strategic products (e.g. BZ WBK Arka funds) as well as higher maintenance costs of software, buildings and offices due to delivery of the Group's business goals.

  - **Depreciation** totalled PLN 33.6m and decreased by 26.8% y-o-y as a result of the continued process of optimisation of the bank's asset base.

  - **Other operating costs** increased by PLN 9.4m to PLN 13.8m, mainly due to legal risk provisions raised.

- The performance of the Bank Zachodni WBK Group in the first quarter of 2007 resulted in a reduction of a **cost-to-income ratio** to 49.8% from the level of 54.9% recorded for the same period last year.

Balance sheet items

PLN m

Key balance-sheet items	31-03-2007	31-03-2006	Change
Balance sheet total	35,280.9	29,551.2	+19.4%
Key assets			
Net loans and advances to customers*	18,723.0	14,548.5	+28.7%
Investment securities	8,569.7	6,938.4	+23.5%
Loans and advances to banks	4,424.7	4,005.9	+10.5%
Securities at fair value through profit & loss	430.0	1,143.7	-62.4%
Key liabilities			
Deposits from customers	24,778.0	20,552.1	+20.6%
Deposits from banks	3,703.5	3,084.6	+20.1%
Debt securities in issue	613.8	794.7	-22.8%

** after impairment*

- As at 31 March 2007, **total assets** of the Bank Zachodni WBK Group amounted to PLN 35,280.9m and were 19.4% up y-o-y. Their main growth driver were loans and advances to customers which soared along with dynamic credit delivery. Investment securities went up based on the decisions made as part of the Group's structural balance sheet risk management. At the same time, there was a marked decrease in the portfolio of securities measured at fair value through profit and loss, mainly on account of falling contribution of NBP bills which are short-term securities and subject to significant fluctuations over time. On the liabilities side, the Group posted a substantial increase in deposits from customers and banks and a decline in debt securities in issue.

- The value and structure of the Group’s balance sheet is determined by the bank's balance sheet which accounts for 94.3% of the consolidated total assets.

- The core balance sheet volumes were as follows:

  - At the end of March 2007, **net loans and advances to customers** were PLN 18,723.0 m and 28.7% up y-o-y due to rising volumes of the Group’s key loan-books: business loans and retail loans. Gross loans and advances to business customers increased by 30% y-o-y to PLN 12,831.3m as a result of stronger demand of corporate and SME customers for investment loans and working capital funding in the favourable economic climate. There was also a sustained demand for funding income-earning properties. The gross retail loan-book expanded by 32% to PLN 4,480.9m owing to the solid growth in cash loans (+49%) and improved development of mortgage lending (+31%).

  - **Deposits from customers,** which are the primary source of funding the Group’s lending business, amounted to PLN 24,778.0m at the end of March 2007, growing 20.6% y-o-y. The main factors contributing to this growth were the significantly higher balances in current and deposit accounts of business customers and the substantial increase in personal account balances. The value of funds deposited in current accounts of personal, business and public sector customers (excluding one-day deposits) was PLN 8,497.2 m and increased by 39% y-o-y while term deposits (including one–day deposits) went up by 13% to PLN 15,822.8m.

  - As at the end of March 2007, the Group’s **liability arising from debt securities in issue** amounted to PLN 613.8m, which represents a 22.8% decrease y-o-y. The change results from the redemption of certain series of bonds issued by the leasing companies (BZ WBK Finanse & Leasing S.A. and BZ WBK Leasing S.A.).

Basic Financial Ratios

Financial Ratio	Q1 2007	Q1 2006
Total costs /Total income	49.8%	54.9%
Interest income /Total income	42.1%	43.5%
Commission fee /Total income	46.4%	42.8%
Deposits / Total assets	70.2%	69.5%
Loans / Total assets	53.1%	49.2%
Impaired loans ratio	4.1%	6.2%
Impaired loan coverage ratio	64.0%	67.4%
ROE*	21.3%	16.9%
ROA**	2.6%	2.0%
Solvency ratio	13.87%	15.71%
Basic earnings per share in PLN	3.58	2.40
Book value per share in PLN	59.31	49.54

The following components were used in the computation of ROE and ROA:

* *annualized profit-after-tax attributable to BZWBK shareholders and equity as at the end of the quarter 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 the comparable quarters*

Achievements of the Bank Zachodni WBK Group in the first quarter of 2007

Bank Zachodni WBK S.A.

New products and services

- In March 2007, Bank Zachodni WBK S.A. launched Konto24 VIP account addressed to the Personal Banking clients. The account is bundled with Visa Electron VIP card, Teledysponent service, free-of-charge or cheaper services of the bank and its subsidiaries, and a dedicated VIP advisor service.

- To cater for the needs of customers employed abroad, the FX card offer was expanded to include MasterCard debit cards attached to the GBP and USD personal account. Also, the customers willing to open the Euro-denominated Konto24 account with the MasterCard debit card and BZWBK24 services have been given an option to apply over the Internet or the phone and sign the agreement through a courier. The proposition of Bank Zachodni WBK S.A. covering the free-of-charge personal accounts available in three foreign currencies along with debit cards (settled in the respective currency) puts the bank into the lead in the Polish market of FX debit card issuers.

- Since 26 March 2007, personal customers holding BZWBK debit cards (except VISA Classic cards) have been exempt from fees for cash withdrawals from AIB ATMs in Ireland (AIB, i.e. Allied Irish Banks, is a parent company of Bank Zachodni WBK S.A.).

Material loan agreement

- On 20 March 2007, Bank Zachodni WBK S.A. entered into a loan agreement with 11 borrowers from the one capital group. Under the agreement the bank will provide loans in tranches to fund property development and purchase projects up to a total amount of EUR 116.5m and PLN 97.1m repayable by 28 February 2018. The cost of funding is EURIBOR or WIBOR increased by the bank's margin.

Development of service quality

- The first quarter of 2007 saw implementation of the bank's new Wide Area Network (WAN). The network uses MPLS connections with the bandwidth four times larger than previously. At present, this is one of the biggest and most technologically advanced infrastructure in Poland, spanning all the BZWBK branches. As a result of this investment, the transaction processing times have been shortened and the work with central applications has been made more convenient. The high-capacity communication platform allows subsequent applications and products to be smoothly deployed as part of business projects.

- On 1 March 2007, SGS S.A. officially confirmed the compliance with ISO 9001:2000 for further processes of Bank Zachodni WBK S.A. The extended Quality Management System, which has been operative since 20 September 2006, presently includes the following processes:

    - handling of international payment orders;
    - personalisation of payment cards;
    - handling of domestic payment orders;
    - service of BZWBK24 electronic banking customers;
    - service of Minibank24 electronic banking customers;
    - settlement of card transactions;
    - software development and integration;
    - operational support for e-Wnioski, i.e. electronic applications for account opening over the Internet or the phone;
    - central management of the restricted documents database.

  ISO certification requires a strong focus on customer needs and satisfaction. Services must be constantly monitored and improved, thus ensuring the highest quality.

- The Bank Zachodni WBK Card Personalisation Centre obtained certification from Visa and MasterCard, the two payment organisations co-operating with the bank. They confirmed the bank's compliance with the applicable physical and logical security requirements. The certificates will allow Bank Zachodni WBK S.A. to provide personalisation services for magnetic stripe and chip cards to third party institutions and banks, positioning the bank among the elite group of European institutions authorised to conduct such business.

Main activities on the capital market

- The Capital Markets Department of Bank Zachodni WBK S.A. and Dom Maklerski BZ WBK S.A. acted as advisors in the following sales of shares:

    - public offering of PBG S.A. shares (series F) of PLN 350m, with subscription rights for the existing shareholders;
    - arrangement of the secondary market sale of PBG S.A. shares with a value of PLN 54m by one of the company's shareholders;

- public offering of Koelner S.A. shares (series D) of PLN 82.5m, without subscription rights for the existing shareholders;
- arrangement of the secondary market sale of Koelner S.A. shares with a value of PLN 33m by the company's main shareholders.

- The first quarter of 2007 saw completion of the wind-up process of BZ WBK Nieruchomości S.A. i Wspólnicy, a limited company in which Bank Zachodni WBK S.A. was a limited partner. The bank regained its entire capital contribution of PLN 27.1m, with PLN 13.4m being recognized as a gain on a stand-alone basis.

- On receipt of consent from the Polish Financial Supervision Commission, in March 2007 Bank Zachodni WBK S.A. acquired from BPH S.A. 152 shares of Commercial Union Powszechne Towarzystwo Emerytalne BPH CU WBK S.A. for PLN 23m, increasing its stake in the company to 11.2%.

Selected subsidiaries

BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.

- Amid the growing customer interest in investment products with above-average rate of return and the new edition of the promotional campaign for BZ WBK Arka funds, the net value of assets managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. at the end of March 2007 amounted to PLN 20,757.9m, which represents a growth of 81% y-o-y (21% q-o-q) and gives the company 17.7% share in the mutual funds market.

- BZ WBK Arka balanced fund remains the biggest of BZ WBK ARKA funds with assets of PLN 6,893.1m, followed by the equity fund with total assets of PLN 5,292.9m.

BZ WBK AIB Asset Management S.A.

- As at 31 March 2007, the value of assets managed by BZ WBK AIB Asset Management S.A., including investment funds of BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., increased by 89% y-o-y (22% q-o-q) to PLN 23,765.1m.

Dom Maklerski BZ WBK S.A.

- In the first quarter of 2007, the turnover of Dom Maklerski BZ WBK S.A. (Brokerage House) in the shares market reached a new historical high of PLN 13,293.3m. This is a growth of 58% against the corresponding period of 2006 and 21% against the previous quarter. The reported increase in turnover ensures the company top position in Poland with a market share of 11.2% (on a quarterly basis).

- From January to March 2007, the Brokerage House acted as an intermediary in concluding 441.1k futures contracts, which gives it a third position in Poland with a market share of 11.1% (on a quarterly basis). Compared to the first and the last quarter of 2006, the number of transactions increased by 10% and 39% respectively.

- During the first quarter of 2007, the Brokerage House organised the primary market sale of PBG S.A. and Koelner S.A. shares.

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

- The net assets leased during the first months of 2007 by the two leasing companies amounted to PLN 348.7 m, which is 62% more than in the corresponding period of 2006. Particularly rapid growth of sales was recorded in the vehicles leases (74% y-o-y).

- As part of the public bonds issue programme of PLN 2 billion, BZ WBK Finanse & Leasing S.A. issued unsecured coupon bearer bonds with a fixed rate of return and a nominal unit value of PLN 100, maturing in two years. By the end of March 2007, PLN 32m worth of bonds were sold.

- In the first quarter of 2007, BZ WBK Finanse & Leasing S.A. implemented a new product: property leasing. It is used for funding buildings with land as well as separate commercial units. The facility is addressed to the clients who need property funding in excess of PLN 1m. It is assumed that majority of transactions will be the lease of office premises, logistic centres, retail premises and production halls/warehouses.

BZ WBK Inwestycje Sp. z o.o.

- In the reporting period, BZ WBK Inwestycje Sp. z o.o. sold 115k of TIM S.A. shares, earning PLN 3.3m.

Awards and recognitions

- In the first quarter of 2007 companies of the Bank Zachodni WBK Group received a number of awards, specifically:

Bank Zachodni WBK S.A. was granted:

- "Alicja" award of the "Twój Styl" monthly, for banking innovations which positively affect household budgets. The bank was honoured for its free Konto<30 account package offered to people below 30 years of age;

- CoolBrand title in the first Polish edition of the CoolBrands initiative (organised in Poland by the New Communications agency). The project's aim is to recognise the most desired and trend-setting brands in the Polish market;

- The European Medal of the EU Integration Committee and the Business Centre Club for the electronic services package BZWBK24 Moja Firma Plus dedicated to small and medium-sized companies as a tool for payment handling and finance management;

- prestigious Rock Awards 2006 from the Polish agency of MasterCard Europe in the two of the six categories:

- "the most notable achievements in development of EMV microchip technology" – golden statuette for mass migration of the MasterCard debit and credit cards portfolio to the EMV standard"
- "the most notable achievements in development of new card products" – silver statuette "for the MasterCard debit card issued as part of the package of products and services offered to the Poles working abroad".

BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. received:

- the prestigious annual awards of the "Parkiet" stock-exchange newspaper conferred to the institutions and individuals that had a distinctive market presence in 2006:

  - for the second time the company received the "Bull & Bear" statuette for the best mutual fund;
  - two of the company's fund managers were awarded with "golden portfolios" for the highest rates of return achieved by the funds they managed.

Dom Maklerski BZ WBK S.A.

- was awarded by the Warsaw Stock Exchange for the highest share in the equity market in 2006 (excluding its market-making activity);

- came top in the ranking of the brokerage houses present at the Warsaw Stock Exchange; the ranking was organised by "Parkiet" based on the average ratings assigned by institutional and private investors; the assessment criteria included: trust, quality and speed of service, fees and charges, analyses and recommendations, offering.

- received diplomas from MTS-CeTO S.A. in the following categories: 1st place by the number of transactions in 2006; 1st place for being the best market-maker in 2006, 2nd place by the value of trading in 2006.

10. Significant accounting principles applied in BZ WBK Group

Statement of compliance

The interim consolidated financial statements of the BZWBK Group as at 31 March 2007 has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with respect to matters not regulated by the above standards, in accordance with the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and the respective laws and in accordance with the Decree of the Ministry of Finance dated 19 October 2005 on current and periodical information provided by issuers of securities (Official Journal from 2005, No. 209, item 1744).

Standards that are issued and not yet effective

New standards and IFRIC interpretations, as well as amendments to the standards and IFRIC interpretations recently endorsed or awaiting endorsement are either not relevant to the Bank (BZWBK Group) or would not have a material impact on the current financial statements**.**

Basis of preparation

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

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

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

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

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

The accounting policies have been applied consistently by Group entities.

Comparability with results of previous periods

To ensure comparability and IFRS 7 implementation, the following substantial changes were made to the presentation of financial data compared with 2006:

a) in the consolidated income statement:

- change in recognition of the fees arising from issue arrangement in the amount of PLN 3 086 k under item „Fee and commission income", which were presented in 1Q 2006 in „Other operating income"

b) in the consolidated balance sheet:

- change in presentation of derivative financial instruments as at 31.03.2006 in the amount of PLN 331 316 k, currently presented as net value of "derivative financial instruments" item.
- change in presentation of current income tax liabilities as at 31.03.2006 in the amount of PLN 15 747 k - previously presented in "other liabilities" item
- reclassification of bonds from non-financial entities from "investment securities" to "loans and advances to customers"- in the amount of PLN 33 599 k as at 31.03.2006 and PLN 34 622 k as at the end of 2006
- change in presentation of „Reverse repo transactions" in the amount of PLN 15 202 k as at 31.03.2006 and PLN 15 629 k as at the end of 2006, now presented in " loans and advances to customers"
- change in presentation of „repo transactions":
  - in the amount of PLN 1 662 015 k as at 31.03.2006, now presented in "deposits from banks" and "deposits from customers"
  - in the amount of PLN 1 230 682 k as at the end of 2006, now presented in "deposits from banks", "deposits from customers" and in "Financial liabilities at fair value through profit or loss"
- change in presentation of SWIFT transactions in the amount of PLN 28 482 k as at 31.03.2006, and PLN 31 390 k as at the end of 2006 – currently presented as net value
- reclassification by BZ WBK Leasing S.A. liabilities to international financial organizations in the amount of PLN 67 360 k as at 31.03.2006 and PLN 86 410 k as at the end of 2006, from „deposits from banks" to „deposits from customers".

Basis of consolidation

Subsidiaries

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

(a) power over more than half of the voting rights by virtue of an agreement with other investors;

(b) power to govern the financial and operating policies of the entity under a statute or an agreement;

(c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or

(d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

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

Purchase method of accounting

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. 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.
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.

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of the Group’s credit risk evaluation or the Group’s grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The Group reviews regularly the methodology and assumptions used for estimating future cash flows in order to reduce any differences between loss estimates and actual loss experience.
In the case of credit exposures for which no indications of impairment were identified, the impairment analysis is carried out based on the concept of losses already incurred but not yet reported and connected with loan impairment (IBNR), which is estimated on the basis of the historical loss experience for loans with a similar risk profile.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting the provision. The 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 costs

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

Depreciation

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

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

Fixed assets held for sale

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

Goodwill

Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. At present, goodwill doesn't exist in the consolidated balance sheet of BZWBK Group.

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 in respect of goodwill is not reversed.

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

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

BZWB K 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.

FX profit

Result on SPOT transactions taken to the FX profit is calculated by way of comparing the transaction exchange rate with the average NBP rate as at the balance sheet date.
Result on and valuation of FX Swap and FX Forward transactions is disclosed in "FX gains/losses”.
The effects of valuation of the FX off balance sheet items (FX swaps, forwards and spot contracts) are recognized in the balance sheet and the profit and loss account at the transaction date.

Profit on disposal of subsidiaries and associates

Profit on the sale of interests in subsidiaries 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.

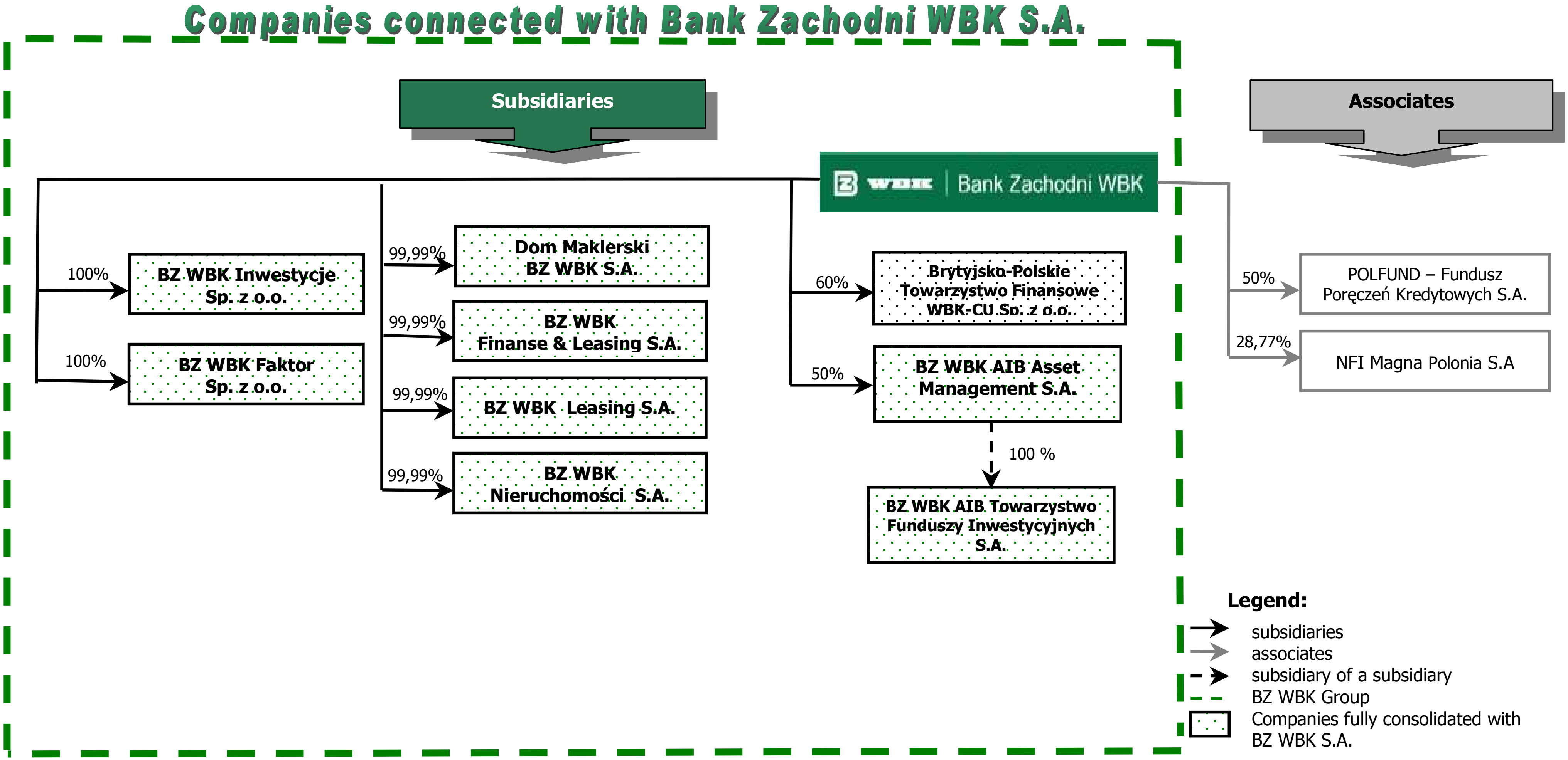
The Group creates a provision for deferred tax in respect of all taxable temporary differences and deferred tax assets with regard to all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be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

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



Pursuant to IAS 27, the following subsidiary undertakings were fully consolidated in the financial statements of Bank Zachodni WBK for 1Q 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 AIB 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 31 March 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 S.A.

12. Related party disclosures

The Group companies enter into intercompany transactions. The transactions are effected between subsidiaries, associates and parent entity. Most of the transactions are banking transactions made as part of ordinary business activities and mainly include loans, deposits and guarantees.
Intercompany transactions effected by the bank and its subsidiaries have been eliminated during the consolidation process.
The table below contains information about transactions effected by the bank and its subsidiaries with related entities at the end of the reporting period.

in thousands of PLN

Receivables and liabilities relating to transactions with connected entities

31.03.2007

Receivables	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Loans and advances to banks	1 503 444	-	606 213	2 109 657
Financial instruments at fair value through profit or loss	365	-	-	365
Derivative financial instruments	17 210	-	37 702	54 912
Loans and advances to customers	353 126	-	-	353 126
Investments securities	-	-	252 777	252 777
Other assets	30 196	-	-	30 196
Total	**1 904 341**	**-**	**896 692**	**2 801 033**

Liabilities	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Deposits from banks	350 259	-	272 041	622 300
Derivative financial instruments	17 210	-	36 141	53 351
Deposits from customers	1 489 815	77 260	-	1 567 075
Debt securities in issue	365	-	-	365
Other liabilities	46 692	-	18 611	65 303
Total	**1 904 341**	**77 260**	**326 793**	**2 308 394**

31.12.2006

Receivables	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Loans and advances to banks	1 197 229	-	284 272	1 481 501
Financial instruments at fair value through profit or loss	501	-	-	501
Derivative financial instruments	18 540	-	37 466	56 006
Loans and advances to customers	398 520	-	-	398 520
Investments securities	-	-	371 218	371 218
Other assets	26 066	-	-	26 066
Total	**1 640 856**	**-**	**692 956**	**2 333 812**

Liabilities	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Deposits from banks	395 466	-	5 155	400 621
Derivative financial instruments	18 540	-	33 020	51 560
Deposits from customers	1 185 335	88 061	-	1 273 396
Debt securities in issue	501	-	-	501
Other assets	41 242	-	19 619	60 861
Total	**1 641 084**	**88 061**	**57 794**	**1 786 939**

in thousands of PLN

31.03.2006

Receivables	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Loans and advances to banks	656 943	-	442 703	1 099 646
Financial instruments at fair value through profit or loss	384	-	-	384
Derivative financial instruments	29 892	-	52 765	82 657
Loans and advances to customers	396 848	-	-	396 848
Other assets	72 200	-	726	72 926
Total	**1 156 267**	**-**	**496 194**	**1 652 461**

Liabilities	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Deposits from banks	394 823	-	1 698	396 521
Derivative financial instruments	29 892	-	27 085	56 977
Deposits from customers	644 013	106 048	-	750 061
Debt securities in issue	493	-	-	493
Other liabilities	87 177	-	18 742	105 919
Total	**1 156 398**	**106 048**	**47 525**	**1 309 971**

Revenues and expenses relating to transactions with connected entities

01.01.2007 - 31.03.2007

Income	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Interest and similar income	17 003	-	7 795	24 798
Fee and commission income	66 999	1	-	67 000
Other operating income	1 066	-	-	1 066
Gains from financial assets measured at fair value through profit or loss	-	-	6 342	6 342
Gains on hedge accounitng activities	-		211	211
Total	**85 068**	**1**	**14 348**	**99 417**

Expenses	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Interest expenses and similar charges	16 740	803	963	18 506
Fee and commission expenses	66 939	-	-	66 939
Other operating expenses incl.:	1 389	-	7 759	9 148
Bank's operating expenses	1 383	-	7 759	9 142
Other	6	-	-	6
Total	**85 068**	**803**	**8 722**	**94 593**

in thousands of PLN

01.01.2006 - 31.03.2006

Income	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Interest and similar income	10 603	-	6 196	16 799
Fee and commission income	42 065	-	-	42 065
Other operating income	1 264	-	708	1 972
Gains from financial assets measured at fair value through profit or loss	-	-	3 503	3 503
Total	**53 932**	**-**	**10 407**	**64 339**

Expenses	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Interest expense and similar charges	10 562	1 075	-	11 637
Fee and commission expense	42 034	-	-	42 034
Other operating expenses incl.:	1 467	-	7 664	9 131
Bank's operating expenses	1 467	-	7 338	8 805
Other	-	-	326	326
Total	**54 063**	**1 075**	**7 664**	**62 802**

Off balance sheet positions relating to transactions with connected entities

31.03.2007

Intragroup transactions - off-balance sheet liabilities	of which from subsidiaries
1. Sanctioned contingent liabilities	**988 651**
-financing-related	861 382
-guarantees	127 269
2. Received contingent liabilities	**988 651**
-financing-related	861 382
-guarantees	127 269
Total	**1 977 302**

Intragroup transactions- derivatives' nominal values	of which from subsidiaries
3. Derivatives' nominal values, including	**1 144 420**
-FX forward- purchased	1 077
-FX forward - sold	1 075
-Financial instruments operations-single-currency interest rate hedging swaps	571 134
-Financial instruments operations-single-currency interest rate swaps	571 134

31.12.2006

Intragroup transactions - off-balance sheet liabilities	of which from subsidiaries
1. Sanctioned contingent liabilities	**941 997**
-financing-related	816 952
-guarantees	125 045
2. Received contingent liabilities	**941 997**
-financing-related	816 952
-guarantees	125 045
Total	**1 883 994**

in thousands of PLN

Intragroup transactions- derivatives' nominal values	of which from subsidiaries
3. Derivatives' nominal values, including	**1 206 034**
-Financial instruments operations-single-currency interest rate hedging swaps	603 017
-Financial instruments operations-single-currency interest rate swaps	603 017

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 an influence on the assets, liabilities, equity, financial performance or cash flow

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 seperately identified, are known from experience to be present in any portfolio of loans. IBNR provisions are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements, historic loan loss rates, changes in credit management, procedures, processes and policies, economic climates, portfolio sector profiles/industry conditions and current estimates of expected loss in the portfolio. Estimates of expected loss are driven by the following key factors;

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

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

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

Write-down due to impairment of non-financial assets

Balance sheet values 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. Issues, redemption or repayment of debt or equity instruments

In 1Q 2007, Bank Zachodni did not issue bonds or other own debt securities, however bonds were issued in BZWBK Finanse & Leasing S.A subsidiary undertaking - 2-year bonds – 2S0209 of PLN 32 320 k (nominal value) with the final redemption date of 05.02.2009.
BZWBK Leasing S.A. made a repayment of 3-year bonds series 3S0207 and 3-year bonds series 3S0307 (total nominal value of PLN 63 834 k) with the final redemption date 03.02.2007 and 02.03.2007 respectively.

At the end of 1Q 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 Finanse & Leasing S.A. amounted to PLN 579 226 k (nominal value).

In 1Q 2006, Bank Zachodni did not issue bonds or other own debt securities, however bonds were issued in BZWBK Finanse & Leasing S.A. subsidiary undertaking - 3-year bonds – 3Z0209 of PLN 35 000 k (nominal value) with the final redemption date of 01.02.2009.
BZWBK Finanse & Leasing S.A. made a repayment of debt securities Series A1 of PLN 88 000 k with the final redemption date of 31.01.2006.

At the end of 1Q 2006, the total value of obligations with respect to the issue of own bonds by Bank Zachodni WBK S.A., BZWBK Leasing and BZWBK Finanse & Leasing amounted to PLN 793 196 k (nominal value).

17. Dividend information

Bank Zachodni WBK allocated to dividends 73,9 % of net profit (i.e. 57,7% of net profit attributable to the Company's equity holders) 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 profit 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.

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

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

in thousands of PLN

Consolidated income statement (by business segments)

31.03.2007	Branch operations	Treasury operations	Investment banking	Leasing operations	Eliminations	Total
1. Total segments income	**788 154**	**161 131**	**258 105**	**37 175**	**(282 049)**	**962 516**
Segments income (external)	621 138	60 379	244 266	36 733	-	**962 516**
Segments income (internal)	167 016	100 752	13 839	442	(282 049)	**-**
2. Total segments costs	**(591 874)**	**(127 886)**	**(125 316)**	**(27 662)**	**282 049**	**(590 689)**
Segments costs (external)	(477 506)	(10 449)	(78 913)	(23 821)	-	**(590 689)**
Segments costs (internal)	(114 368)	(117 437)	(46 403)	(3 841)	282 049	**-**
3. Dividend income	**-**	**-**	**10**	**-**	**-**	**10**
4. Movements in provisions	**21 957**	**-**	**-**	**(1 312)**	**-**	**20 645**
Write off	(53 913)	-	-	(4 448)	-	**(58 361)**
Write back	75 870	-	-	3 136	-	**79 006**
5. Segments income on investment in associates	**-**	**-**	**(77)**	**-**	**-**	**(77)**
6. Segments gross profit	**218 237**	**33 245**	**132 722**	**8 201**	**-**	**392 405**
7. Unallocated income						-
8. Unallocated costs						**(25 992)**
9. EBT						**366 413**
10. Income tax						**(73 179)**
11. Minority interest						**(32 622)**
12. Net profit						**260 612**

in thousands of PLN

Consolidated income statement (by business segments)

31.03.2006	Branch operations	Treasury operations	Investment banking	Leasing operations	Eliminations	Total
1. Total segments income	**665 591**	**157 905**	**157 105**	**36 025**	**(271 446)**	**745 180**
Segments income (external)	511 286	50 484	147 776	35 634	-	**745 180**
Segments income (internal)	154 305	107 421	9 329	391	(271 446)	**-**
2. Total segments costs	**(511 192)**	**(131 541)**	**(77 859)**	**(27 114)**	**271 446**	**(476 260)**
Segments costs (external)	(394 015)	(9 132)	(49 082)	(24 031)		**(476 260)**
Segments costs (internal)	(117 177)	(122 409)	(28 777)	(3 083)	271 446	**-**
3. Dividend income	**-**	**-**	**-**	**-**	**-**	**-**
4. Movements in provisions	**(11 101)**	**-**	**-**	**(1 030)**	**-**	**(12 131)**
Write off	(72 248)	-	-	(4 529)		**(76 777)**
Write back	61 147	-	-	3 499		**64 646**
5. Segments income on investment in associates	**-**	**-**	**893**	**-**	**-**	**893**
6. Segments gross profit	**143 298**	**26 364**	**80 139**	**7 881**	**-**	**257 682**
7. Unallocated income						-
8. Unallocated costs						**(18 583)**
9. EBT						**239 099**
10. Income tax						**(47 677)**
11. Minority interest						**(16 033)**
12. Net profit						**175 389**

in thousands of PLN

19. Acquisitions and disposals of investments in 1Q 2007

The subsidiary undertaking BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa was dissolved on 27 February 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	31.03.2007	31.12.2006	Movement
Liabilities sanctioned incl.:	**7 845 214**	**7 061 422**	**783 792**
- financing-related	**7 168 563**	**6 438 314**	**730 249**
- import letters of credit	80 376	94 447	(14 071)
- credit lines	5 664 333	5 742 419	(78 086)
- credit cards debits	474 204	439 255	34 949
- term deposits with future commencement term	949 650	162 193	787 457
- guarantees	**676 651**	**623 108**	**53 543**
including: confirmed export letters of credit	1 534	1 880	(346)
Received liabilities	**426 810**	**149 928**	**276 882**
Total	**8 272 024**	**7 211 350**	**1 060 674**

As at 31.03.2007 , the Bank issued guarantees of PLN 127 269 k (as at 31.12.06 – PLN 125 045 k) to following subsidiary undertakings: BZ WBK S.A. Finanse & Leasing, BZ WBK Leasing, BZWBK Dom Maklerski S.A., BZWBK TFI S.A. The guaranties were excluded as intragroup transactions.

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

Guarantees and civil law guarantees are issued on the basis of the same information and in accordance with the same procedure as it is in the case of loans. Applicable regulations are set out in the Commercial Lending Manual and the Lending Manual of the Corporate Banking Centre

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

in thousands of PLN

	Derivatives' nominal values	31.03.2007	31.12.2006	Movement
1.	**Derivatives (hedging)**	**2 114 352**	**1 486 018**	**628 334**
a)	Single-currency interest rate swaps – purchased amounts	1 057 176	743 009	314 167
b)	Single-currency interest rate swaps – sold amounts	1 057 176	743 009	314 167
2.	**Term derivatives (trading)**	**140 925 312**	**135 555 909**	**5 369 403**
a)	Interest rate operations	120 873 674	118 158 636	2 715 038
-	Single-currency interest rate swaps – purchased amounts	39 586 837	38 204 318	1 382 519
-	Single-currency interest rate swaps – sold amounts	39 586 837	38 204 318	1 382 519
-	FRA-purchased amounts	20 850 000	19 650 000	1 200 000
-	FRA-sold amounts	20 850 000	22 100 000	(1 250 000)
b)	FX operations	20 051 638	17 397 273	2 654 365
-	FX swap – purchased amounts	8 519 602	7 193 754	1 325 848
-	FX swap – sold amounts	8 494 580	7 157 445	1 337 135
-	Double-currency interest rate swaps – purchased amounts	1 533 809	1 550 962	(17 153)
-	Double-currency interest rate swaps – sold amounts	1 503 647	1 495 112	8 535
3.	**Currency transactions-spot**	**4 194 547**	**3 850 694**	**343 853**
	spot-purchased	2 096 748	1 924 957	171 791
	spot-sold	2 097 799	1 925 737	172 062
4.	**Derivatives – OTC options**	**1 610 870**	**918 168**	**692 702**
-	Options purchased	879 202	543 528	335 674
-	Options sold	731 668	374 640	357 028
	Total	**148 845 081**	**141 810 789**	**7 034 292**

21. Principles of PLN conversion into EUR

Selected financial figures for 1Q 2007 were converted according to the following principles:

for 1Q 2007:

Selected balance sheet data and book value per share - according to the average EUR/PLN rate current at the balance sheet date and announced by the National Bank of Poland – 3,8695.

Selected items of profit and loss account and cash flow for Q1 2007 – according to the exchange rate calculated as an arithmetic mean on the last day of each month in a quarter – 3,9063 (Jan – 3,9320, Feb – 3,9175, Mar - 3,8695).

for 1Q 2006:

Selected balance sheet data and book value per share - according to the average EUR/PLN rate current at the balance sheet date and announced by the National Bank of Poland – 3,9357.

Selected items of profit and loss account and cash flow for Q1 2006 - according to the exchange rate calculated as an arithmetic mean on the last day of each month in a quarter – 3,8456 (Jan – 3,8285, Feb – 3,7726, Mar – 3,9357).

in thousands of PLN

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 1Q 2007 (25.04.2007) is AIB European Investments Ltd. based in Dublin.

Shareholder	No. of shares held	% shareholdings	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 22.02.2007				
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 Board of Bank Zachodni WBK S.A.

	No. Of Bank Zachodni WBK shares held		
	As at 22.02.2007	As at 25.04.2007	Change
Members of the Management Board	501	526	25
Members of the Supervisory Board	278	278	-

Table below presents personal shareholding of Supervisory and Management Board Members as at 25. 04. 2007:

Owner	No. of shares
Supervisory Board	
Waldemar Frąckowiak	278
Management Board	
Jacek Kseń	525
Marcin Prell	1

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

24. Information about the commenced court proceedings

As at 31 March 2007, no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Group or its subsidiaries amounting to a minimum of 10% of the Group's equity.
The value of all litigations totals PLN 261 665 k, which is ca. 6.05% of Group's equity. This amount includes PLN 47 938 k claimed by the Bank, PLN 32 014 k in claims against the Bank and PLN 181 713 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 Group 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 guarantees by an issuer or its subsidiary- to one business unit or it's subsidiary, if the total of guarantees issued amounts to at least 10% of issuer's equity

As at 31 March 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.

in thousands of PLN

27. Events which occurred after the balance sheet date

General Meeting of Bank's Shareholders on 17th April 2007:

1. accepted the financial accounts and consolidated financial accounts of the Bank Zachodni WBK S.A. Group for the period between 1 January 2006 to 31 December 2006.
2. divided the net profit generated by the Bank in the year between 1 January 2006 to 31 December 2006 in the following way:
   - the amount allocated to shareholders dividend totalled PLN 437,761,704.00
   - the amount allocated to the reserve capital totalled PLN 155,033,626.93

   The dividend per one share amounted to PLN 6.00 and will be paid on 18 May 2007 to the shareholders who owned shares of Bank Zachodni WBK S.A. on the day the right for a dividend was set, i.e. 4 May 2007.
3. granted the word of approval to the Members of the Management Board and the Supervisory Board.
4. accepted Mr. Kieran Crowley's resignation from his position of the Supervisory Board member and appointed Mr. Maeliosa OhOgartaigh and Mr. James Edward O'Leary to the function of Members of this Board.
5. accepted, that a three-year long Incentive Scheme II, starting in 2007, will be introduced into the Company.
6. resolved to amend the Bank's Statutes.

SIGNATURES OF THE PERSONS REPRESENTING THE ENTITY			
Date	**Name**	**Function**	**Signature**
25-04-2007	James Murphy	Member of the Management Board	
25-04-2007	Wanda Rogowska	Financial Accounting Area Director	