

FINANCIAL HIGHLIGHTS		PLN '000		EUR '000	
		1Q 2006 01-01-2006 -31-03-2006	1Q 2005 01-01-2005 -31-03-2005	1Q 2006 01-01-2006 -31-03-2006	1Q 2005 01-01-2005 -31-03-2005
Consolidated financial statements					
I	Interest and similar income	395 890	422 483	102 946	105 218
II	Fee and commission income	269 758	192 967	70 147	48 058
III	Operating profit	238 206	158 125	61 942	39 381
IV	Gross profit	239 099	156 699	62 175	39 025
V	Net profit	175 389	119 263	45 608	29 702
VI	Total net cash flow	396 380	(466 428)	103 074	(116 163)
VII	Total assets	29 912 982	28 405 094	7 600 422	6 955 725
VIII	Deposits from banks	1 495 617	1 786 359	380 013	437 436
IX	Deposits from customers	20 509 575	19 629 684	5 211 163	4 806 838
X	Total liabilities	26 298 224	25 233 039	6 681 969	6 178 965
XI	Total equity	3 614 758	3 172 055	918 454	776 760
XII	Minority interest	46 831	30 914	11 899	7 570
XIII	Net profit attributable to the Minority equity holders	16 033	3 607	4 169	898
XIV	Number of shares	72 960 284	72 960 284		
XV	Net book value per share in PLN/EURO	49,54	43,48	12,59	10,65
XVI	Solvency ratio	15,71%	13,72%		
XVII	Profit (loss) per share in PLN/ EURO	2,40	1,63	0,62	0,41
XVIII	Declared or paid dividend per share in PLN/EURO	6,00	2,43	1,52	0,60
Stand alone financial statements					
XIX	Interest income	365 313	390 031	94 995	97 136
XX	Commission income	165 623	148 910	43 068	37 086
XXI	Operating profit	209 953	127 060	54 596	31 644
XXII	Gross profit (loss)	209 953	127 060	54 596	31 644
XXIII	Net profit (loss)	175 954	102 978	45 755	25 646
XXIV	Total net cash flow	396 231	(475 203)	103 035	(118 348)
XXV	Total assets	28 440 336	27 072 197	7 226 246	6 629 331
XXVI	Deposits from banks	1 101 938	1 422 133	279 985	348 246
XXVII	Deposits from customers	20 635 717	19 740 182	5 243 214	4 833 896
XXVIII	Total liabilities	25 065 070	24 066 537	6 368 643	5 893 317
XXIX	Equity	3 375 266	3 005 660	857 602	736 014
XXX	Number of shares	72 960 284	72 960 284		
XXXI	Net book value per share in PLN/EURO	46,26	41,20	11,75	10,09
XXXII	Solvency ratio	14,44	13,10		
XXXIII	Profit (loss) per share in PLN/ EURO	2,41	1,41	0,63	0,35



## Table of contents

1. Consolidated income statement.....	3
2. Consolidated balance sheet.....	4
3. Movements on consolidated equity .....	5
4. Consolidated cash flow statement.....	7
5. Income statement of Bank Zachodni WBK S.A.....	8
6. Balance sheet of Bank Zachodni WBK S.A. ....	9
7. Movements on equity of Bank Zachodni WBK S.A. ....	10
8. Cash flow statement.....	11
<b>ADDITIONAL INFORMATION TO CONSOLIDATED QUARTERLY REPORT OF BZ WBK GROUP .....</b>	<b>12</b>
9. Bank Zachodni WBK Group performance.....	12
10. Significant accounting principles applied in Bank Zachodni WBK Group .....	18
11. Description of organization of BZWBK Group .....	32
12. Related party disclosures .....	34
13. Comments concerning the seasonal or cyclical character of the annual activities .....	37
14. Character and amounts of items which are extraordinary due to their nature, volume, or occurrence and have influence on the assets, liabilities, equity, financial performance or cash flows. ....	38
15. Accounting estimates and judgments.....	38
16. Issues, redemption or repayment of debt or equity instruments .....	39
17. Dividend information. ....	40
18. Income and profits by business segments.....	40
19. Acquisitions and disposals of investments. ....	43
20. Changes to the contingent liabilities or assets .....	43
21. Principles of PLN conversion into EURO.....	44
22. Shareholders with min. voting power of 5%.....	45
23. Changes in shareholding of members of the Management and Supervisory Boards WBK S.A. ...	45
24. Information about the commenced court proceedings .....	46
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. ....	46
26. Events which occurred after the balance sheet date .....	46



## 1. Consolidated income statement

	<b>01-01-2006 31-03-2006</b>	<b>01-01-2005 31-03-2005</b>
<b>For reporting periods ending on:</b>		
Interest and similar income	395 890	422 483
Interest expense and similar charges	(154 687)	(204 257)
Net interest income	241 203	218 226
Fee and commission income	269 758	192 967
Fee and commission expense	(35 527)	(38 373)
Net fee and commission income	234 231	154 594
Foreign exchange profit	49 931	57 913
Gains less losses on hedge accounting transactions	2 191	3
Net trading income	6 031	4 069
Gains less losses from investment in securities	829	2 268
Gains less losses on sale of subsidiaries and associates	7 812	-
Other operating income	12 739	13 142
Impairment losses on loans and advances	(12 131)	(4 320)
Operating expenses	(304 630)	(287 770)
Bank's staff, operating expenses and management costs	(254 383)	(235 487)
Depreciation/amortisation	(45 854)	(47 507)
Other operating expenses	(4 393)	(4 776)
Operating profit	238 206	158 125
Share in net profits (losses) of associates accounted for by the equity method	893	(1 426)
 Gross profit	 239 099	 156 699
 Corporate income tax	 (47 677)	 (33 829)
 Net profit	 191 422	 122 870
 of which:		
attributable to the Company's equity holders	175 389	119 263
attributable to the Minority equity holders	16 033	3 607
 Net earnings (loss) per ordinary share (PLN /share)		



## 2. Consolidated balance sheet

	For reporting periods ending on:		
	31-03-2006	31-12-2005	31-03-2005
<b>ASSETS</b>			
Cash and balances with central bank	980 540	572 342	737 444
Loans and advances to banks	4 005 893	3 608 333	2 606 205
Securities at fair value through profit or loss	1 143 741	1 925 909	1 878 750
Derivative financial instruments	711 554	735 214	800 491
Loans and advances to customers	14 531 625	14 196 899	13 856 122
Reverse repo transactions	15 202	15 199	25 910
Investment securities:	6 972 047	6 990 336	6 757 303
- available-for-sale	6 972 047	6 990 336	6 757 303
Investment in associates	69 009	73 237	75 517
Intangible asset	156 291	174 194	220 451
Property, plant & equipment	500 093	518 643	551 990
Deferred income tax assets	444 466	435 232	504 224
Other assets incl.:	382 521	358 547	390 687
- assets held for sale	17 420	17 420	22 431
<b>Total assets</b>	<b>29 912 982</b>	<b>29 604 085</b>	<b>28 405 094</b>
<b>LIABILITIES</b>			
Deposits from banks	1 495 617	1 692 595	1 786 359
Derivative financial instruments	604 036	577 086	909 432
Deposits from customers	20 509 575	20 838 980	19 629 684
Repo transactions	1 662 015	999 541	412 278
Debt securities in issue	794 742	840 383	1 253 890
Deferred income tax liabilities	311 552	315 232	311 805
Other liabilities	920 687	903 807	929 591
<b>Total liabilities</b>	<b>26 298 224</b>	<b>26 167 624</b>	<b>25 233 039</b>
<b>EQUITY</b>			
Capital and reserves attributable to the Company's equity holders	3 567 927	3 381 518	3 141 141
Share capital	729 603	729 603	729 603
Other reserve funds	2 033 920	2 028 706	1 726 098
Revaluation reserve	264 048	250 088	230 592
Retained earnings	364 967	(143 194)	335 585
Profit of the current period	175 389	516 315	119 263
Minority interest	46 831	54 943	30 914
<b>Total equity</b>	<b>3 614 758</b>	<b>3 436 461</b>	<b>3 172 055</b>
<b>Total equity and liabilities</b>	<b>29 912 982</b>	<b>29 604 085</b>	<b>28 405 094</b>



### 3. Movements on consolidated equity

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

MOVEMENTS ON CONSOLIDATED EQUITY	Equity					Total
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	Minority interest	
<b>Opening balance at 31.12.2004</b>	<b>729 603</b>	<b>1 701 632</b>	<b>156 012</b>	<b>432 153</b>	<b>30 807</b>	<b>3 050 207</b>
changes in accounting principles resulting from adoption of IFRS	-	-	29 197	(72 102)	-	(42 905)
<b>Adjusted balance at 1.01.2005</b>	<b>729 603</b>	<b>1 701 632</b>	<b>185 209</b>	<b>360 051</b>	<b>30 807</b>	<b>3 007 302</b>
Net change in available for sale investments	-	-	66 001	-	-	66 001
Net gains not recognised in income statement	-	-	66 001	-	-	66 001
Net profit	-	-	-	516 315	29 592	545 907
<b>Total recognised increase in equity in 2005</b>	<b>-</b>	<b>-</b>	<b>66 001</b>	<b>516 315</b>	<b>29 592</b>	<b>611 908</b>
Dividend relating to 2004	-	-	-	(177 293)	(5 459)	(182 752)
Transfer to general banking risk fund	-	30 000	-	(30 000)	-	-
Transfer to reserve capital	-	267 958	-	(267 958)	-	-
Transfer to supplementary capital	-	7 724	-	(7 724)	-	-
-other	-	21 392	(1 122)	(20 270)	3	3
<b>As at 31.12.2005</b>	<b>729 603</b>	<b>2 028 706</b>	<b>250 088</b>	<b>373 121</b>	<b>54 943</b>	<b>3 436 461</b>



MOVEMENTS ON CONSOLIDATED EQUITY	Equity					Total
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	Minority interest	
<b>Opening balance at 31.12.2004</b>	<b>729 603</b>	<b>1 701 632</b>	<b>156 012</b>	<b>432 153</b>	<b>30 807</b>	<b>3 050 207</b>
changes in accounting principles resulting from adoption of IFRS	-	-	29 197	(72 102)	-	(42 905)
<b>Adjusted balance at 1.01.2005</b>	<b>729 603</b>	<b>1 701 632</b>	<b>185 209</b>	<b>360 051</b>	<b>30 807</b>	<b>3 007 302</b>
Net change in available for sale investments	-	-	45 383	-	-	45 383
Net gains not recognised in income statement	-	-	45 383	-	-	45 383
Net profit	-	-	-	119 263	3 607	122 870
<b>Total recognised increase in equity in 1Q 2005</b>	<b>-</b>	<b>-</b>	<b>45 383</b>	<b>119 263</b>	<b>3 607</b>	<b>168 253</b>
Dividend relating to 2004	-	-	-	-	(3 500)	(3 500)
Transfer to reserve capital	-	18 960	-	(18 960)	-	-
Transfer to supplementary capital -other	-	5 506	-	(5 506)	-	-
<b>As at 31.03.2005</b>	<b>729 603</b>	<b>1 726 098</b>	<b>230 592</b>	<b>454 848</b>	<b>30 914</b>	<b>3 172 055</b>



#### 4. Consolidated cash flow statement

	01-01-2006 31-03-2006	01-01-2005 31-03-2005
For reporting periods ending on:		
<b>Net profit (loss)</b>	<b>175 389</b>	<b>119 263</b>
<b>Total adjustments:</b>	<b>240 601</b>	<b>486 141</b>
Profits (losses) of minorities	16 033	3 607
Share in net profits (losses) of associates accounted for by the equity method	(893)	1 426
Amortization	45 854	47 507
Gains (losses) on exchange differences	(2 865)	717
Interests and similar charges	18 205	(9 739)
(Profit) loss from investing activities	(9 211)	(559)
Change in provisions	(914)	(393)
Change in financial instruments at fair value through profit and loss	837 769	(333 429)
Change in loans and advances from banks	(494 110)	161 205
Change in loans and advances from customers	(344 327)	(109 652)
Change in receivables arising from securities purchased under reverse repo agreements	(3)	(213)
Change in deposits from banks	(244 083)	556 111
Change in deposits from customers	(206 138)	605 899
Change in liabilities arising from securities sold under repurchase agreements	662 474	(320 412)
Change in liabilities arising from debt securities in issue	2 538	17 520
Change in assets and liabilities arising from deferred taxation	(16 177)	(79 578)
Change in other assets and liabilities	(23 744)	(53 989)
Other adjustments	193	113
<b>Net cash flow from operating activities - indirect method</b>	<b>415 990</b>	<b>605 404</b>
<b>Inflows</b>	<b>318 626</b>	<b>180 451</b>
Sale of shares or interests in subsidiaries and associates	13 245	-
Sale of investment securities	304 309	178 744
Sale of intangible and tangible fixed assets	900	938
Other investment income	172	769
<b>Outflows</b>	<b>(274 075)</b>	<b>(1 217 419)</b>
Purchase of investment securities	(263 495)	(1 204 394)
Purchase of intangible and tangible fixed assets	(10 145)	(12 675)
Other investment expense	(435)	(350)
<b>Net cash flow from investing activities</b>	<b>44 551</b>	<b>(1 036 968)</b>
<b>Inflows</b>	<b>113 770</b>	<b>40 324</b>
Drawing of long-term loans	78 723	234
Issue of debt securities	35 000	40 090
Other financial income	47	-
<b>Outflows</b>	<b>(177 931)</b>	<b>(75 188)</b>
Repayment of long-term loans	(61 335)	(56 676)
Redemption of debt securities	(88 000)	-
Dividends and other payments to shareholders	(8 897)	-
Other financial expense	(19 699)	(18 512)
<b>Net cash flow from financing activities</b>	<b>(64 161)</b>	<b>(34 864)</b>
<b>Total net cash flow</b>	<b>396 380</b>	<b>(466 428)</b>
<b>Cash at the beginning of the accounting period</b>	<b>593 673</b>	<b>1 232 742</b>
<b>Cash at the end of the accounting period</b>	<b>990 053</b>	<b>766 314</b>



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

	<b>01-01-2006</b>	<b>01-01-2005</b>
<b>For reporting periods ending on:</b>	<b>31-03-2006</b>	<b>31-03-2005</b>
Interest and similar income	365 313	390 031
Interest expense and similar charges	(142 182)	(192 366)
Net interest income	223 131	197 665
Fee and commission income	165 623	148 910
Fee and commission expense	(12 642)	(26 943)
Net fee and commission income	152 981	121 967
Dividend income	41 660	3 500
Foreign exchange profit	49 476	56 947
Gains less losses on hedge accounting transactions	2 209	328
Net trading income	2 691	4 061
Gains less losses from investment in securities	1 254	2 268
Gains less losses on sale of subordinated undertakings	10 015	-
Other operating income	8 846	11 165
Impairment losses on loans and advances	(10 857)	(3 733)
Operating expenses	(271 453)	(267 108)
Bank's staff, operating expenses and management costs	(223 823)	(217 497)
Depreciation/amortisation	(44 381)	(45 990)
Other operating expenses	(3 249)	(3 621)
Operating profit	209 953	127 060
Gross profit	209 953	127 060
Corporate income tax	(33 999)	(24 082)
Net profit	175 954	102 978





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

	For reporting periods ending on:		
	31-03-2006	31-12-2005	31-03-2005
<b>ASSETS</b>			
Cash and balances with central bank	980 525	572 329	737 009
Loans and advances to banks	4 003 462	3 606 067	2 604 938
Securities at fair value through profit or loss	1 131 270	1 925 612	1 877 788
Derivative financial instruments	711 574	735 214	800 491
Loans and advances to customers	13 239 690	12 897 389	12 665 197
Reverse repo transactions	15 202	15 199	25 910
Investment securities:	6 896 665	6 917 015	6 710 845
- available-for-sale	6 896 665	6 917 015	6 710 845
Investment in subsidiaries and associates	237 824	240 069	229 494
Intangible asset	149 366	166 728	214 545
Property, plant & equipment	492 768	510 976	544 942
Deferred income tax assets	409 516	402 407	472 494
Other assets incl.:	172 474	193 942	188 544
- assets held for sale	17 420	17 420	22 431
<b>Total assets</b>	<b>28 440 336</b>	<b>28 182 947</b>	<b>27 072 197</b>
<b>LIABILITIES</b>			
Deposits from banks	1 101 938	1 319 491	1 422 133
Derivative financial instruments	633 878	604 755	934 767
Deposits from customers	20 635 717	20 969 867	19 740 182
Repo transactions	1 662 015	999 541	412 278
Debt securities in issue	94 680	93 035	569 745
Deferred income tax liabilities	297 943	303 428	300 976
Other liabilities	638 899	703 900	686 456
<b>Total liabilities</b>	<b>25 065 070</b>	<b>24 994 017</b>	<b>24 066 537</b>
<b>EQUITY</b>			
Capital and reserves attributable to the Company's equity holders	3 375 266	3 188 930	3 005 660
Share capital	729 603	729 603	729 603
Other reserve funds	1 950 396	1 950 396	1 684 362
Revaluation reserve	249 877	239 495	222 177
Retained earnings	269 436	(176 787)	266 540
Profit of the current period	175 954	446 223	102 978
<b>Total equity</b>	<b>3 375 266</b>	<b>3 188 930</b>	<b>3 005 660</b>
<b>Total equity and liabilities</b>	<b>28 440 336</b>	<b>28 182 947</b>	<b>27 072 197</b>



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

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

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

MOVEMENTS ON EQUITY	Equity				Total
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	
<b>Opening balance at 31.12.2004</b>	<b>729 603</b>	<b>1 684 362</b>	<b>154 534</b>	<b>326 227</b>	<b>2 894 726</b>
changes in accounting principles resulting from adoption of IFRS	-	-	20 621	(59 687)	(39 066)
<b>Adjusted balance at 1.01.2005</b>	<b>729 603</b>	<b>1 684 362</b>	<b>175 155</b>	<b>266 540</b>	<b>2 855 660</b>
Net change in available for sale investments	-	-	47 022	-	47 022
Net gains not recognised in income statement	-	-	47 022	-	47 022
Net profit	-	-	-	102 978	102 978
<b>Total recognised increase in equity in 1Q 2005</b>	-	-	47 022	102 978	150 000
<b>As at 31.03.2005</b>	<b>729 603</b>	<b>1 684 362</b>	<b>222 177</b>	<b>369 518</b>	<b>3 005 660</b>



## 8. Cash flow statement

	01-01-2006 31-03-2006	01-01-2005 31-03-2005
For reporting periods ending on:		
Net profit (loss)	175 954	102 978
<b>Total adjustments:</b>	<b>192 586</b>	<b>483 795</b>
Amortisation	44 381	45 990
Impairment losses	(425)	-
Gains (losses) on exchange differences	(5 415)	-
Interests and similar charges	2 690	(26 727)
Dividend income	(13 443)	-
(Profit) loss from investing activities	(11 414)	(497)
Change in provisions	(2 535)	(529)
Change in financial instruments at fair value through profit and loss	847 105	(326 717)
Change in loans and advances from banks	(409 360)	170 301
Change in loans and advances from customers	(342 301)	220 891
Change in receivables arising from securities purchased under reverse repo agreements	(3)	(213)
Change in deposits from banks	(217 553)	557 165
Change in deposits from customers	(307 394)	306 085
Change in liabilities arising from securities sold under repurchase agreements	662 474	(320 412)
Change in liabilities arising from debt securities in issue	1 645	10 609
Change in assets and liabilities arising from deferred taxation	(15 016)	(35 460)
Change in other assets and liabilities	(41 016)	(116 910)
Other adjustments	166	219
<b>Net cash flow from operating activities - indirect method</b>	<b>368 540</b>	<b>586 773</b>
<b>Inflows</b>	<b>329 019</b>	<b>169 837</b>
Sale of shares or interests in subsidiaries and associates	13 245	6 837
Sale of investment securities	301 409	161 536
Sale of intangible and tangible fixed assets	862	859
Dividends received	13 443	-
Other investment income	60	605
<b>Outflows</b>	<b>(273 689)</b>	<b>(1 205 845)</b>
Purchase of shares or interests in subsidiaries and associates	(250)	-
Purchase of investment securities	(263 495)	(1 193 541)
Purchase of intangible and tangible fixed assets	(9 509)	(11 979)
Other investment expense	(435)	(325)
<b>Net cash flow from investing activities</b>	<b>55 330</b>	<b>(1 036 008)</b>
<b>Inflows</b>	<b>-</b>	<b>-</b>
<b>Outflows</b>	<b>(27 639)</b>	<b>(25 968)</b>
Repayment of long-term loans	(26 756)	(25 116)
Dividends and other payments to shareholders	-	-
Other financial expense	(883)	(852)
<b>Net cash flow from financing activities</b>	<b>(27 639)</b>	<b>(25 968)</b>
<b>Total net cash flow</b>	<b>396 231</b>	<b>(475 203)</b>
<b>Cash at the beginning of the accounting period</b>	<b>591 384</b>	<b>1 219 266</b>
<b>Cash at the end of the accounting period</b>	<b>987 615</b>	<b>744 063</b>



9. Bank Zachodni WBK Group performance.

Summary of 1Q 2006 performance

***Record high profits:***

- *Profit-before-tax of PLN 239.1m increased by 52.6% y-o-y*
- *Profit-after-tax of PLN 175.4m increased by 47% y-o-y*

***Growing trends from 2005 continued into 2006:***

- *Development of key areas of the Group's business*
- *Steady growth of income from core banking operations*
- *Growing contribution of subsidiaries to the Group's total income*

***Most spectacular progress against 1Q 2005:***

- *Total income increased by 23.2%, of which net fees and commissions grew by 51.5%*
- *Decline of cost-to-income ratio from 63.9% to 54.9%*
- *Reduction of NPL ratio from 8.3% to 6.3%*

□ The key growth drivers of BZWBK Group financial performance in 1Q 2006 compared to the corresponding period of 2005 included:

- steady development of the Group's key business volumes, including: investment fund assets (+249%), personal lending (+20%), lease rentals (+17%), deposit base (+4.5%),
- increased sales efficiency of BZWBK distribution channels in respect of both the bank's and subsidiaries' products,
- significant growth of net fee and commission income (+51.5%), especially with regard to sale of investment funds, asset management, insurance products, brokerage services, debit cards and payments.



## Financial performance

PLN m

Key Profit & Loss Items	Q1 2006	Q1 2005	Change
Total income	554.8*	450.2	+23.2%
Total costs	(304.6)	(287.8)	+5.8%
Operating profit	238.2	158.1	+50.7%
Profit-before-tax	239.1	156.7	+52.6%
Income tax	(47.7)	(33.8)	+41.1%
Profit-after-tax	175.4	119.3	+47.0%

\* includes the Group's capital gain of PLN 7.8m earned on the sale of LZPS Protektor S.A.

- In 1Q 2006, the BZWBK Group reported **total income** of PLN 554.8m, an increase of 23.2% on 1Q 2005. The main components of total income were as follows:
- **Net interest income** was positively impacted by the accounting treatment of FX derivatives. Allowing for the fact that the difference between interest rates on PLN and foreign currencies decreased in the period, income on FX derivatives reduced, which resulted in a higher net interest income being reported by approximately PLN 18m (FX profit lower by PLN 12m and trading income by PLN 6m). Accordingly, underlying net interest income increased by 2%. Better business mix with relatively stable lending margins has contributed favourably to net interest income. However, increased competition and significantly lower rate environment has reduced income on deposits.
  - **Net commission income** amounted to PLN 234.2m and was 51.5% higher y-o-y as a result of further expansion of the bank's and subsidiaries' business. The strongest driver of the group's net fee and commission income were net distribution fees received from customers investing in Arka investment funds (527%) and combined asset management fees of the Group (+230%). Strong performance was also reported in net brokerage fees (+95%) generated by Dom Maklerski BZWBK (BZWBK Brokerage House) in the dynamic Warsaw Stock Exchange markets. The other noteworthy growths in net fees and commissions arose in the area of insurance products (+170%) and e-Business and payments (+18%).
  - **Distribution fees** (net) reported by the bank on a stand-alone-basis increased by 736%, reflecting dynamic sales rate of Arka funds in the bank's delivery channels. The income recognised here represents the bank's remuneration for assets acquired for Arka investment funds and its share in the fee collected by BZWBK AIB Towarzystwo Funduszy Inwestycyjnych for managing the portion of assets contributed by BZWBK customers.
  - **FX profit** was PLN 49.9m and 13.8% down on 1Q 2005 driven by the accounting treatment of FX Swaps described above. Underlying FX profit increased by PLN 4m on the back of customer activity.



- **Gains from financial instruments measured at fair value through profit and loss** increased by 46.3% y-o-y to PLN 6m mainly on account of higher volume of Interest Rate Swaps.
  - **Profit from sale of associated undertakings** of PLN 7.8m relates to the capital gain from the disposal of the shareholding in LZPS Protector.
- In 1Q 2006, the **impairment charge to the profit and loss account** amounted to PLN 12.1m against PLN 4.3m in 1Q 2005. Low levels of impairment charge in both accounting periods confirm high quality of the Group's loan-book.
- **Total operating costs** of the BZWBK Group went up by 5.8% y-o-y to PLN 304.6m, of which the following were the major components:
- **Staff and other administrative expenses** were PLN 254.4m and 8% up on 1Q 2005, mainly as a result of strong business growth of the bank's subsidiaries. The biggest item under this heading were staff costs which increased by 15.5% y-o-y to PLN 153.9m due to higher employment and growing competition in the labour market for highly skilled banking experts. Despite consistent business growth group-wide, further progress was recorded in the process of managing other administrative expenses. In 1Q 2006 these costs declined by 1.8% to PLN 100.5m (the bank alone reduced them by 7.8%) thanks to observance of the Group's purchasing policy rules and improved cost-effectiveness of operating processes and technologies.
  - **Depreciation** totalled PLN 45.9m and was 3.4% lower compared to the corresponding period of 2005 as a result of an ongoing process of fixed assets optimisation.
- Due to excellent business and financial performance in 1Q 2006, the BZWBK Group managed to considerably improve the proportion of reported costs in relation to income – the respective ratio declined to 54.9% from 63.9% on a y-o-y basis.

## Balance Sheet Items

PLN m

Key balance-sheet items	31-03-2006	31-03-2005	Change
Balance sheet total	29,913.0	28,405.1	+5.3%
<b>Key assets</b>			
Loans and advances to customers	14,531.6	13,856.1	+4.9%
Investment securities	6,972.0	6,757.3	+3.2%
Loans and advances to banks	4,005.9	2,606.2	+53.7%
<b>Key liabilities</b>			
Deposits from customers	20,509.6	19,629.7	+4.5%
Liabilities from repo agreements	1,662.0	412.3	+303.1%
Deposits from banks	1,495.6	1,786.4	-16.3%



- As at 31 March 2006, the total assets of the BZWBK Group amounted to PLN 29,913m and were 5.3% higher y-o-y. The size and structure of the Group's balance sheet is determined by the bank which accounts for 95.1% of the total consolidated balance sheet. Compared to end-March 2005, the Group reported a significant increase in liabilities arising from repo agreements and deposits from customers whereas on the assets side there was an increase in loans and advances to banks and customers.
  - **Deposits from customers**, which account for 68.6% of the Group's total liabilities, are the main driver of the balance sheet growth and the primary source of funding the Group's lending business. At end-March 2006, customer deposits totalled PLN 20,509.6m and were 4.5% up y-o-y driven by current personal accounts and balances held by institutional customers in term and 1D deposits.
  - **Group's liabilities in respect of issue of debt securities** decreased by 36.6% y-o-y to PLN 794.7m as a result of redemption - towards the end of 2005 - of PLN 448m worth of bonds issued by Bank Zachodni WBK in 2003 under the 2<sup>nd</sup> Programme of Investment Bonds Issue.
  - **Net loans and advances to customers** amounted to PLN 14,531.6m and increased by 4.9% y-o-y with performing loans higher by 7%. Growth trend continued in the area of personal loans and leasing. Retail portfolio increased by 20% y-o-y to PLN 3,409.9m, the main growth drivers being cash loans (+101%) and PLN mortgage loans (+20%). Lease rentals increased by 17% y-o-y to 1,645.9m driven by good 1Q sales of both machines and vehicles. The business lending area saw an improvement with increased demand for credit from both corporate and SME customers. The consistent implementation of the Group's credit risk management policy combined with lending growth resulted in improved quality of the Group's loan-book, which was reflected in the NPL ratio falling from 8.3% to 6.3%.

#### **Key achievements of Bank Zachodni WBK S.A. in 1Q 2006**

- At the beginning of January 2006, a new credit delivery channel was launched (Mobile Sales Network) for credit cards and "Dobra Pożyczka" (Good Loan) cash loans. Sales are effected here outside the branch network by agents operating under agency contracts with the bank.
- Debit card Allekarta - offered along with a dedicated free Internet account (Konto24.pl) via Allegro.pl (the Poland's biggest Internet auction house) - was announced the best Internet offer by Expander portal.
- Due to initiatives taken in 1Q 2006, attractiveness of the bank's home mortgage offer was further improved. In accordance with the new pricing policy, effective from 20 February 2006, the bank applies promotional interest rates of WIBOR6M+0.5p.p. for the first 2 years of the loan life and WIBOR6M+1p.p in subsequent years. Other changes to the home mortgage parameters include: higher LTV ratio, terms for equity release and loans for the purchase of a plot of land extended up to 30 years, uniform grace period (up to 36 months), lower requirements regarding investment delivery status for loans for apartments purchased on the primary market.



- ❑ The bank introduced a package for customers from the agricultural industry (Agro Pakiet). It is centred around a current account which is available to individual farmers at a special price. At the website of Bank Zachodni WBK ([www.bzwbk.pl](http://www.bzwbk.pl)) a new Agrobiznes news service was launched which displays the bank's offer for agricultural businesses.
- ❑ Since the beginning of February 2006, Bank Zachodni WBK has been offering a new insurance package for cash loans. This is a voluntary insurance option covering customers against unemployment, inability to work (permanently or temporarily), or death.
- ❑ During the first three months of 2006 the bank acted in advisory capacity to the sales offers of PBG and Hydrobudowa Śląsk equity shares.
- ❑ In January and February 2006, Bank Zachodni WBK S.A. disposed of 586 416 shares of LZPS Protektor representing 37.56% of the company's share equity and voting power at the General Meeting of Shareholders. The bank also sold 3 422 405 shares of Stalexport.
- ❑ Three subsidiaries from Bank Zachodni WBK investment portfolio passed resolutions on dividend pay-out to the shareholders from the profit earned in 2005. The bank received the following gross amounts of dividends: PLN 12.6m from Dom Maklerski BZWBK, PLN 15.6 m from BZWBK AIB Asset Management, PLN 13.4m from AIB WBK Fund Management.

#### **Key achievements of selected subsidiaries in 1Q 2006**

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

- ❑ In 1Q 2006, Dom Maklerski BZWBK again achieved a record turnover in the equity market. The volume of shares trading stood at PLN 8.4 bn and was higher by 75% y-o-y. The company also acted as an agent for concluding 401.6 k futures and 22.5k option contracts, which represents a y-o-y increase of 32% and 365%, respectively.
- ❑ With this performance, Dom Maklerski WBK ranked third in each of the above-mentioned markets, achieving a share of 12.1% in the futures market, 11.3% in the shares market and 10.9% in the options market.
- ❑ By the end of 1Q 2006, the brokerage house finalized the sale of shares of PBG S.A. in the secondary market and acted as an agent in subsequent issue of PBG shares in the primary market.

##### ***BZWBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.***

- ❑ In 1Q 2006, investment funds managed by BZWBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. (BZWBK TFI) experienced another period of strong growth. The value of assets under the company's management increased by 249% y-o-y to PLN 11.5 bn as at end-March 2006, giving the company the second best position in Poland with a market share of 15.8% (7.7 p.p. more than in the corresponding period in 2005).





- ❑ In 1Q 2006, phone service for BZWBK Arka customers was improved, the key changes including register opening via phone, launch of Phone based transaction service (IVR) to allow customers conversion or redemption of investment funds over phone and checking the balance without intermediary of a consultant.
- ❑ BZWBK Arka sales network was expanded by branches of two new distributors, i.e. BRE Bank S.A. Private Banking and Bankowy Dom Maklerski PKO BP S.A.
- ❑ BZWBK AIB TFI was awarded the "Bull and Bear" Award by newspaper "Parkiet" for the best investment fund corporation in 2005. On top of that, managers of Arka investment funds received the prestigious "Golden Portfolio Award" for the best managed funds in three categories (equity, balanced and stable growth funds).

***BZWBK Leasing S.A. and BZWBK Finanse & Leasing S.A.***

- ❑ The net value of assets leased during 1Q 2006 through both leasing subsidiaries of Bank Zachodni WBK amounted to PLN 214.9 m which represents a 21% increase on the corresponding period last year.
- ❑ On 30 January 2006, BZWBK Finanse & Leasing issued 350k of 3-year bonds with a nominal value of PLN 100 each as a part of the 1<sup>st</sup> Bonds Issue Programme.

**Factors that can affect the Group's performance in the next or subsequent quarters**

- ❑ The following are the key factors that may affect the Group's future performance:
  - Anticipated acceleration of economic growth in 2006, driven to a larger extent by domestic demand (investments and consumption) will be favourable to the continued growth of demand for credit, especially as the labour market is seeing a strong revival.
  - Low level of interest rates in Poland will on the one hand stimulate demand for PLN loans and on the other hand discourage customers from keeping their savings in term deposits, making them opt for other forms of investment.



## 10. Significant accounting principles applied in Bank Zachodni WBK Group

### Statement of compliance

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

### Standards that are issued and not yet effective.

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

BZWBK Group did not present an estimated impact of the above regulations on the financial report due to a lack of feasible methods of making relevant estimates and an insignificant influence of the first-time adoption of the standard or interpretation on the consolidated financial statements (interpretations IFRIC 4 and IFRIC 5 apply to the annual periods commencing 1 January 2006 or later).

### Basis of preparation

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

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

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

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

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



The accounting policies have been applied consistently by Group entities.

### **Comparability with results of previous periods**

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

a) in the consolidated income statement:

- change in recognition of brokerage fees of PLN 562 k under item "Fee and commission income", which were previously presented under item "Other operating income",

b) in the consolidated balance sheet:

- change of presentation of settlements relating to the purchase of options and transactions with the National Depository of Securities amounting to PLN 5,061 k. under item "Other assets",
- netting of the Social Fund balances of PLN 14,988 k presented in the comparable period both on the assets and liabilities side.
- change of presentation of the historical capital arising from revaluation of fixed assets in the amount of PLN 59,367 k currently presented as "Other reserve funds", while previously recognised under "Revaluation reserve",
- change of presentation of the declared dividend of PLN 177,293 k previously presented as "Other liabilities" while now recognised as an element of equity.

### **Basis of consolidation**

#### ***Subsidiaries***

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

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

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

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

The Group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or



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

### ***Associates***

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

### ***Transactions eliminated on consolidation***

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

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

### **Foreign currency**

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

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the reporting currency at the foreign exchange rates ruling at the dates that the fair values were determined.

#### **Hedge accounting and derivative financial instruments**

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



The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification) or based on a valuation technique whose variables include only data from observable markets.

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

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

At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged. The Group also documents, at inception and on going basis, an assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value.

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

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

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

### **Financial assets and financial liabilities**

#### ***Classification***

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

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

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

- (1) Classified as held for trading. A financial asset or financial liability is classified as held for trading if:
  - a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
  - b) it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.
  - c) derivatives are held for trading unless the derivative is a designated and effective hedging instrument.
- (2) Upon initial recognition it is designated by the Group as at fair value through profit or loss.



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

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

### ***Loans and receivables***

Loans and receivables arise when the Group provides money to a debtor for a purpose other than short-term profit taking. Loans and receivables comprise loans and advances to banks and customers including purchased receivables and investments in debt instruments provided that they are not quoted in an active market.

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

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss.

### ***Financial liabilities measured at amortised cost***

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

### ***Recognition***

A regular way purchase or sale of a financial asset classified at fair value through profit or loss, held to maturity and available for sale are recognised using settlement date accounting. The method is applied consistently for all purchases and sales of financial assets. Loans are recognised when cash is advanced to the borrowers.

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

### ***Measurement***

When a financial asset or financial liability is recognised initially, it is measured at fair value plus (in the case of a financial asset or financial liability not at fair value through profit or loss) transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

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



do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost.

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method, except for: (a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value (b) financial liabilities resulting from transferring a financial asset that is not to be derecognised . Financial assets and financial liabilities that are designated as hedged items are subject to measurement under hedge accounting requirements.

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

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

A gain or loss on a financial asset or financial liability classified as at fair value through profit or loss is recognised in profit or loss.

A gain or loss on an available-for-sale financial asset, except for impairment losses and foreign exchange gains and losses, is recognised directly in equity, through the statement of changes in equity until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the entity's right to receive payment is established.

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

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

### **Offsetting financial instruments**

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when there is a legally enforceable right to set off the recognised amounts and when there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### **Sale and repurchase agreements**

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

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



## **Impairment of financial assets**

### **Assets carried at amortised cost**

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

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

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

As a practical expedient, the Group may measure impairment of a financial asset carried at amortised cost on the basis of an instrument's fair value using an observable market price. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

The analysis of impairment is carried out:

- with reference to individual credit exposures representing significant reporting items (in excess of PLN 2 m),
- with reference to the portfolio of credit exposures which individually are not significant.





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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The Group reviews regularly the methodology and assumptions used for estimating future cash flows in order to reduce any differences between loss estimates and actual loss experience.

In the case of credit exposures for which no indications of impairment were identified, the impairment analysis is carried out based on the concept of losses already incurred but not yet reported and connected with loan impairment (IBNR), which is estimated on the basis of the historical loss experience for loans with a similar risk profile.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting the provision. The amount of the reversal is recognised in profit or loss. Recoveries related to previously recognised write offs are recognised in profit and loss account in "Impairment losses on loans and advances".

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

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

For financial assets classified as available-for-sale for which there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from



equity and recognised in profit or loss shall be the difference between the acquisition cost (net of any principal repayments and amortisation) and current fair value. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

### **Finance lease receivables**

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

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

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

### **Off balance sheet liabilities**

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

### **Property, plant and equipment**

#### ***Owned assets***

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

#### ***Leased assets***

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

#### ***Subsequent costs***

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

#### ***Depreciation***



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

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

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

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

Impairment of assets initially classified as available for sale is presented in the profit and loss account.

The same applies to the revaluation-related future profits and losses.

### **Intangible assets**

#### ***Goodwill***

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

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

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

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

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

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

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

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

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



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

### ***Amortisation***

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

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

### ***Other items***

#### *Other trade and other receivables*

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

### ***Borrowings***

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

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

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

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

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

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

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

### ***Reversals of impairment***

An impairment loss in respect of goodwill is not reversed.



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

## **Equity**

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

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

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

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

Revaluation reserve comprises:

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

Revaluation reserve is not distributable.

On the day of derecognition of all or part of financial assets available for sale the total effects of periodical change in the fair value reflected in the revaluation reserve are reversed. Total or part of the previous revaluation charge increases or decreases the value of the given financial asset available for sale.

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

### ***Repurchase of share capital***

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

### ***Dividends***

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

## **Employee benefits**

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

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

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

The Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The accrual for retirement bonus granted under the provisions of the Collective Labour Agreement and terms of individual employee contracts as well as the accrual for



disability pension bonus were estimated on the basis of an actuarial valuation. The actuarial valuation of those accruals is updated on an annual basis.

The identifiable actuarial gains and losses include: retrospective adjustments to the actuarial assumptions being the difference between the previous actuarial assumptions and the actual occurrences and the effects of changes in the actuarial assumptions.

### **Provisions**

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

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

### **Restructuring**

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

### **Net interest income**

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

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

### **Net commission income**

Fees and commissions settled under effective interest rate are listed above. Fees on overdrafts, revolving loans, credit cards and off balance sheet liabilities are brought in a straight-line method to the profit and loss account.

Other fees and charges, which are not settled according to effective interest rate, are taken to profit and loss account on an on-going basis.

### **Dividend income**

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



## **FX profit**

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

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

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

## **Profit on disposal of subsidiaries and associates**

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

## **Other operating income and costs**

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

## **Operating lease payments**

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

## **Finance lease payments**

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

## **Corporate income tax**

Corporate income tax consists of current and deferred tax.

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

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



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

Deferred tax assets and liabilities are not discounted.

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

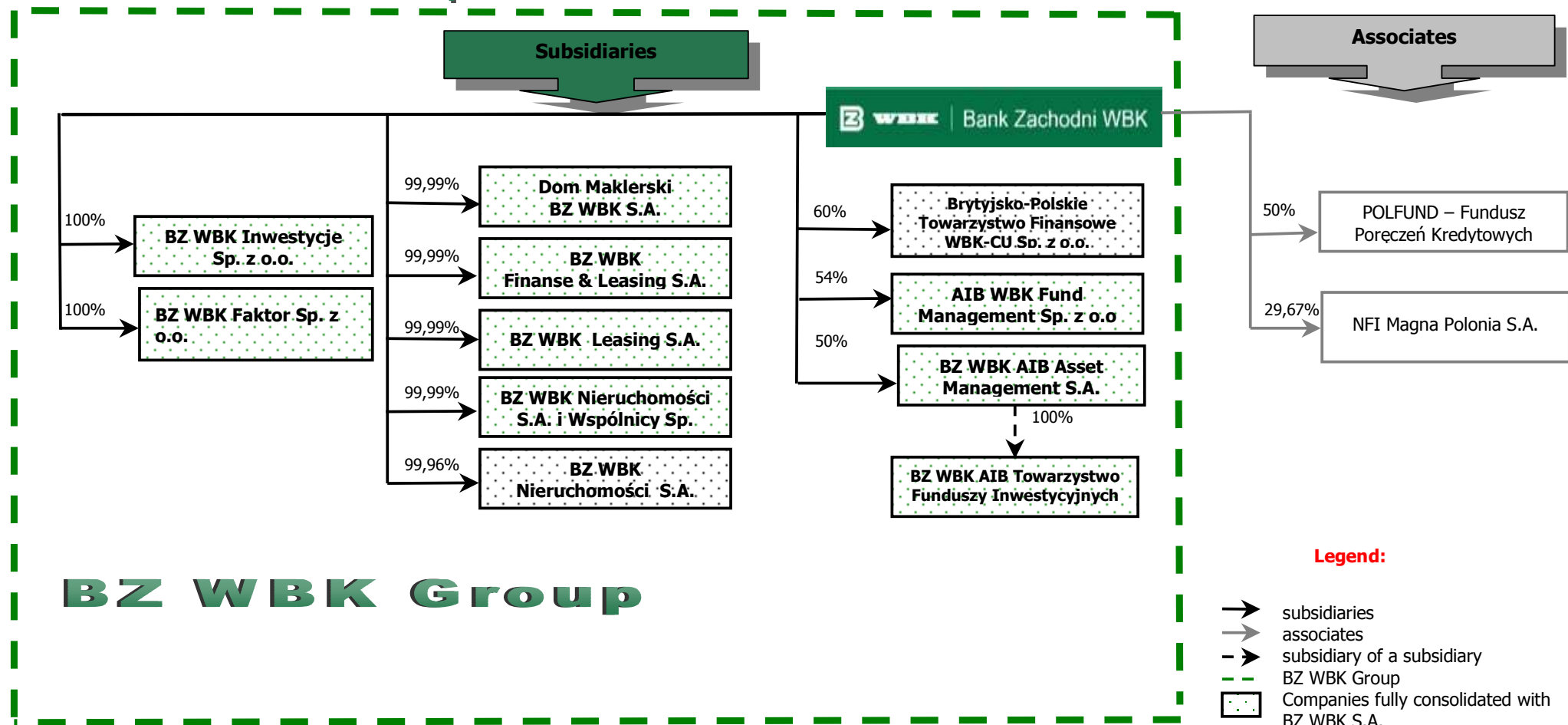
## **11. Description of organization of BZWBK Group**

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





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



Pursuant to IAS 27, the following subsidiary undertakings were fully consolidated in the financial statements of Bank Zachodni WBK for Q1 2006:

- 1) BZ WBK Inwestycje Sp. z o.o.
- 2) BZ WBK Faktor Sp. z o.o.
- 3) Dom Maklerski BZ WBK S.A. (Brokerage House)
- 4) BZ WBK Finanse & Leasing S.A.
- 5) BZ WBK Leasing S.A.
- 6) BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa
- 7) AIB WBK Fund Management Sp. Z O.O.
- 8) BZ WBK AIB Asset Management S.A.
- 9) BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. - subsidiary of BZ WBK AIB Asset Management S.A.
- 10) BZ WBK Nieruchomości S.A.
- 11) 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 2006, 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 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:



### 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
Securities at fair value through profit or loss	384	-	-	384
Derivative financial instruments	29 892	-	239 495	269 387
Loans and advances to customers	396 848	-	-	396 848
Other assets	72 200	-	726	72 926
<b>Total</b>	<b>1 156 267</b>	<b>-</b>	<b>682 924</b>	<b>1 839 191</b>

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	-	232 307	262 199
Deposits from clients	644 013	106 048	-	750 061
Debt securities in issue	493	-	-	493
Other liabilities	87 177	-	18 742	105 919
Retained earning	(131)	-	-	(131)
<b>Total</b>	<b>1 156 267</b>	<b>106 048</b>	<b>252 747</b>	<b>1 515 062</b>

### 31.12.2005

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

Liabilities	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Deposits from banks	359 876	-	2 732	362 608
Derivative financial instruments	27 825	-	187 213	215 038
Deposits from clients	581 126	118 132	-	699 258
Debt securities in issue	5 373	-	-	5 373
Other liabilities	25 556	6	14 799	40 361
Retained earning	(2 254)	-	-	(2 254)
<b>Total</b>	<b>997 502</b>	<b>118 138</b>	<b>204 744</b>	<b>1 320 384</b>



**31.03.2005**

Receivables	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Loans and advances to banks	575 186	-	1 068 826	1 644 012
Securities at fair value through profit or loss	5 351	-	-	5 351
Derivative financial instruments	25 335	-	16 017	41 352
Loans and advances to customers	233 452	-	-	233 452
Other assets	8 638	-	1 187	9 825
<b>Total</b>	<b>847 962</b>	<b>-</b>	<b>1 086 030</b>	<b>1 933 992</b>

Liabilities	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Deposits from banks	231 394	-	54 212	285 606
Derivative financial instruments	25 335	-	13 330	38 665
Deposits from clients	562 788	58 441	-	621 229
Debt securities in issue	5 714	-	-	5 714
Other liabilities	23 390	-	4 223	27 613
Retained earning	(659)	-	-	(659)
<b>Total</b>	<b>847 962</b>	<b>58 441</b>	<b>71 765</b>	<b>978 168</b>

**01.01-31.03.2006**

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 less losses from investment in securities	-	-	3 503	3 503
<b>Total</b>	<b>53 932</b>	<b>-</b>	<b>10 407</b>	<b>64 339</b>

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	1 467	-	7 664	9 131
Management costs	1 467	-	7 338	8 805
Other bank's operating expenses	-	-	326	326
<b>Total</b>	<b>54 063</b>	<b>1 075</b>	<b>7 664</b>	<b>62 802</b>

**01.01-31.03.2005**

Income	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Interest and similar income	9 721	-	5 572	15 293
Fee and commission income	8 358	-	-	8 358
Other operating income	1 475	-	1 187	2 662
Gains less losses from investment in securities	-	-	670	670
<b>Total</b>	<b>19 554</b>	<b>-</b>	<b>7 429</b>	<b>26 983</b>



Expenses	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Interest expense and similar charges	9 953	365	5	10 323
Fee and commission expense	8 764	-	-	8 764
Other operating expenses	1 496	-	7 531	9 027
Management costs	1 468	-	6 222	7 690
Other bank's operating expenses	28	-	1 309	1 337
<b>Total</b>	<b>20 213</b>	<b>365</b>	<b>7 536</b>	<b>28 114</b>

31.03.2006

Intragroup transactions - off-balance sheet liabilities	of which from subsidiaries	of which from associates	Total
<b>1. Received/Sanctioned contingent liabilities</b>	<b>1 794 438</b>	<b>6 000</b>	<b>1 800 438</b>
- financing-related	1 672 732	-	1 672 732
- guarantees	121 706	6 000	127 706

31.03.2006

Intragroup transactions - Derivatives' nominal values	of which from subsidiaries	of which from associates	Total
<b>2. Derivatives' nominal values, including:</b>	<b>1 440 521</b>	<b>-</b>	<b>1 440 521</b>
-Financial instruments operations-double-currency interest rate swaps	30 481	-	30 481
-Financial instruments operations-single-currency interest rate hedging swaps	1 410 040	-	1 410 040

31.03.2005

Intragroup transactions - off-balance sheet liabilities	of which from subsidiaries	of which from associates	Total
<b>1. Received/Sanctioned contingent liabilities</b>	<b>1 837 841</b>	<b>6 000</b>	<b>1 843 841</b>
- financing-related	1 718 164	-	1 718 164
- guarantees	119 677	6 000	125 677

31.03.2005

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

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

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



#### **14. Character and amounts of items which are extraordinary due to their nature, volume, or occurrence and have influence on the assets, liabilities, equity, financial performance or cash flows.**

No extraordinary events influencing the balance sheet structure and financial performance occurred in Bank Zachodni WBK Group.

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

##### **Impairment of financial assets**

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets. It is not necessary to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. The Bank makes judgements whether there is indications of objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset.

If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The calculation of the present value of the estimated future cash flows requires judgement by management. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly and updated where appropriate. In addition back testing is performed to compare actual and estimates of loan losses.

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

For financial assets classified as available-for-sale for which there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity and recognised in profit or loss shall be the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that financial asset previously recognised in profit or loss. Impairment losses recognised in profit or loss for an investment in an equity instrument classified as available for sale shall not be reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.



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

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

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

Write-down due to impairment is recognized if book value of an asset exceeds its recoverable value and is presented in the profit and loss account.

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

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

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

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

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

## **16. Issues, redemption or repayment of debt or equity instruments**

In Q1 2006, Bank Zachodni WBK S.A. did not issue bonds or other own debt securities, however bonds were issued in BZWBK Finanse & Leasing S.A. - 3-year bonds – 3Z0209 of PLN 35 000 k (nominal value) with the final redemption date of 01.02.2009.

As at the end of Q1 2006, the total value of obligations with respect to the issue of own bonds by Bank Zachodni WBK S.A. and BZWBK Finanse & Leasing amounted to PLN 793 196 k (nominal value).

BZWBK Finanse & Leasing made a repayment of debt securities Series A1 of PLN 88 000 k with the final redemption date of 31.01.2006.

In Q1 2005, Bank Zachodni WBK S.A. did not issue bonds or other own debt securities, however bonds were issued twice in BZWBK Leasing S.A. subsidiary undertaking :

- 3-year bonds – 3S0108 of PLN 24,998 k (nominal value) with the final redemption date of 10.01.2008.
- 3-year bonds – 3S0308 of PLN 15,000 k (nominal value) with the final redemption date of 02.03.2008.

As at the end of Q1 2005, 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 1,104,604 k (nominal value).



## **17. Dividend information.**

According to AGM resolution no. 6 dated on 4<sup>th</sup> April 2006 Bank Zachodni WBK will allocate to dividends 98,1% of net profit of PLN 437 761 704.

Dividend per share is PLN 6,00 (PLN 2,43 in 2004) and the number of shares totalled 72 960 284

The dividend will be paid to the shareholders eligible as at the end of the dividend registration day.

The dividend registration day is 21<sup>st</sup> April 2006.

The dividend will be paid on 11<sup>th</sup> May 2006.

## **18. Income and profits by business segments**

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

- Activity of the Treasury Operations Segment comprises foreign exchange and interbank transactions as well as transaction in derivative instruments and debt securities
- Activity of the Investment Banking Segment includes equity investments of Bank Zachodni WBK S.A. and brokerage operations
- Activity of the Branch Operations Segment comprises branch network operations and the related internet distribution of services and products.
- Leasing Operations Segment centralizes 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, based on rational premises, allocated to a particular business segment.

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

The segment's profits and assets were determined prior to inter-segment exclusions. 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 segment





## Consolidated income statement

31.03.2006	Branch operations	Treasury operations	Investment banking	Leasing operations	Eliminations	Total
<b>1. Total segments income</b>	<b>665 591</b>	<b>157 905</b>	<b>157 105</b>	<b>36 025</b>	<b>(231 741)</b>	<b>784 885</b>
Segments income (external)	511 286	50 484	147 776	35 634		<b>745 180</b>
Segments income (internal)	154 305	107 421	9 329	391	(231 741)	<b>39 705</b>
<b>2. Total segments costs</b>	<b>(511 192)</b>	<b>(131 541)</b>	<b>(77 859)</b>	<b>(27 114)</b>	<b>231 741</b>	<b>(515 965)</b>
Segments costs (external)	(394 015)	(9 132)	(49 082)	(24 031)		<b>(476 260)</b>
Segments costs (internal)	(117 177)	(122 409)	(28 777)	(3 083)	231 741	<b>(39 705)</b>
<b>3. Dividend income</b>	-	-	-	-	-	-
<b>4. Movements in provisions</b>	<b>(11 101)</b>	-	-	<b>(1 030)</b>	-	<b>(12 131)</b>
<b>5. Segments income on investment in associates</b>	-	-	<b>893</b>	-	-	<b>893</b>
<b>6. Segments gross profit</b>	<b>143 298</b>	<b>26 364</b>	<b>80 139</b>	<b>7 881</b>	-	<b>257 682</b>
7. Unallocated income						-
8. Unallocated costs						(18 583)
<b>9. EBT</b>						<b>239 099</b>
10. Income tax						<b>(47 677)</b>
11. Minority interest						<b>(16 033)</b>
<b>12. Net profit</b>						<b>175 389</b>



31.03.2005	Branch operations	Treasury operations	Investment banking	Leasing operations	Eliminations	Total
<b>1. Total segments income</b>	<b>715 035</b>	<b>166 311</b>	<b>63 393</b>	<b>35 482</b>	<b>(287 188)</b>	<b>693 033</b>
Segments income (external)	567 361	45 316	52 471	27 885		<b>693 033</b>
Segments income (internal)	147 674	120 995	10 922	7 597	(287 188)	-
<b>2. Total segments costs</b>	<b>(593 737)</b>	<b>(151 671)</b>	<b>(33 963)</b>	<b>(26 133)</b>	<b>287 188</b>	<b>(518 316)</b>
Segments costs (external)	(455 731)	(10 187)	(28 365)	(24 033)		<b>(518 316)</b>
Segments costs (internal)	(138 006)	(141 484)	(5 598)	(2 100)	287 188	-
<b>3. Dividend income</b>	-	-	-	-	-	-
<b>4. Movements in provisions</b>	<b>(3 873)</b>	-	-	<b>(447)</b>	-	<b>(4 320)</b>
<b>5. Segments income on investment in associates</b>	-	-	<b>(1 426)</b>	-	-	<b>(1 426)</b>
<b>6. Segments gross profit</b>	<b>117 425</b>	<b>14 640</b>	<b>28 004</b>	<b>8 902</b>	-	<b>168 971</b>
7. Unallocated income						-
8. Unallocated costs						(12 272)
<b>9. EBT</b>						<b>156 699</b>
10. Income tax						<b>(33 829)</b>
11. Minority interest						<b>(3 607)</b>
<b>12. Net profit</b>						<b>119 263</b>



## 19. Acquisitions and disposals of investments.

In Q1 2006, Bank Zachodni WBK S.A. disposed of shares of Lubelskie Zakłady Przemysłu Skórzanego PROTEKTOR S.A. Total amount of the transaction was PLN 13 245 k and total amount of earnings was PLN 10 015 k.

## 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.

<b>Contingent liabilities sanctioned and received</b>			
	<b>31.03.2006</b>	<b>31.12.2005</b>	<b>Movement</b>
Liabilities sanctioned:	5 841 766	4 926 883	914 883
- financing-related	5 130 735	4 173 175	957 560
including: import letters of credit	48 622	54 032	(5 410)
including: credit lines	4 245 516	3 665 826	579 690
including: credit card debits	384 506	358 406	26 100
- guarantees	711 031	753 708	(42 677)
including: confirmed export letters of credit	173	2 630	(2 457)
Received liabilities	440 493	2 130 958	(1 690 465)
Total	<b>6 282 259</b>	<b>7 057 841</b>	<b>(775 582)</b>

As at 31.03.2006, the Bank issued guarantees of PLN 60 853 k to following subsidiary undertakings: BZ WBK S.A. Finanse & Leasing, BZ WBK Leasing, BZWBK Dom Maklerski S.A., BZWBK TFI and Nieruchomości S.A. The guaranties were excluded as intragroup transactions.

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

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

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



<b>Derivatives' nominal values</b>			
	<b>31.03.2006</b>	<b>31.12.2005</b>	<b>Movement</b>
1. Derivatives (hedging)	1 876 250	1 144 942	731 308
a) Single-currency interest rate swaps – purchased amounts	1 223 125	572 471	650 654
b) Single-currency interest rate swaps – sold amounts	653 125	572 471	80 654
2. Term (trading) derivatives	120 657 907	96 513 128	24 144 779
a) Interest rate operations	96 122 676	77 522 418	18 600 258
- Single-currency interest rate swaps – purchased amounts	24 626 338	16 211 209	8 415 129
- Single-currency interest rate swaps – sold amounts	24 626 338	16 211 209	8 415 129
- FRA-purchased amounts	23 650 000	24 600 000	(950 000)
- FRA-sold amounts	23 220 000	20 500 000	2 720 000
b) FX operations	24 535 231	18 990 710	5 544 521
- FX swap – purchased amounts	11 289 936	8 478 482	2 811 454
- FX swap – sold amounts	11 267 448	8 404 563	2 862 885
- Double-currency interest rate swaps – purchased amounts	996 528	1 072 912	(76 384)
- Double-currency interest rate swaps – sold amounts	981 319	1 034 753	(53 434)
3. Derivatives – non-stock market options	1 283 294	1 451 276	(167 982)
- Options purchased	768 454	872 515	(104 061)
- Options sold	514 840	578 761	(63 921)
Total	<b>123 817 451</b>	<b>99 109 346</b>	<b>24 708 105</b>

## 21. Principles of PLN conversion into EURO

Selected financial figures for Q1 2006 were converted according to the following principles:

### for Q1 2006:

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

### for Q1 2005:

Selected balance sheet data and book value per share - according to the average EURO/PLN rate current at the balance sheet date and announced by the National Bank of Poland – 4,0837.

Selected items of profit and loss account and cash flow for Q1 2005 - according to the exchange rate calculated as an arithmetic mean on the last day of each month in a quarter – 4,0153 (Jan – 4,0503, Feb – 3,9119, Mar – 4,0837).



## 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 Q1 2006 /24.04.2006r./ is AIB European Investments Ltd. based in Dublin.

Shareholder	No. of shares held	% shareholding	No. of votes at AGM	% share in total number of votes at AGM
As at 24.04.2006r.				
AIB European Investments Limited	51 413 790	70,5 %	51 413 790	70,5 %
As at 22.02.2006r.				
AIB European Investments Limited	51 413 790	70,5 %	51 413 790	70,5 %

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

	No. Of Bank Zachodni WBK shares held		
	24.04.2006	22.02.2006	Change
Members of the Management Board	476	3 582	-3 106*
Members of the Supervisory Board	278	278	-

\*As at 24.04.2006 the number of Mr's Kompf's shares wasn't recognised due to the end of term Mr's Aleksander Kompf on Bank Zachodni WBK S.A. management board on 3.04.2006

Table below presents personal shareholding of Supervisory and Management Board Members as at 24 April 2006

Owner	No. of shares
<b>Supervisory Board</b>	
Waldemar Frąckowiak	278
<b>Management Board</b>	
Jacek Kseń	475
Marcin Prell	1

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



## **24. Information about the commenced court proceedings**

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

As at 31 March 2006, no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigations totals PLN 301 651 k, which is ca. 9,49% of Group's equity. This amount includes PLN 86 224 k claimed by the Bank, PLN 46 999 k in claims against the Bank and PLN 168 428 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 2006 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 occurred after the balance sheet date**

The Bank's Supervisory Board appointed the Bank's Management Board.

On 4<sup>th</sup> April 2006 the Bank's Supervisory Board appointed the Bank's Management Board for the next term of office in the following composition:

Jacek Kseń – President of the Management Board,  
Michał Gajewski – Member of the Management Board,  
Jacek Marcinowski – Member of the Management Board,  
Declan Flynn – Member of the Management Board,  
James Murphy – Member of the Management Board,  
Mateusz Morawiecki – Member of the Management Board,  
Justyn Konieczny – Member of the Management Board,  
Janusz Krawczyk – Member of the Management Board,  
Feliks Szyszkowiak – Member of the Management Board,  
Marcin Prell – Member of the Management Board.

General Meeting of Bank's Shareholders on 4<sup>th</sup> April 2006:

1. Accepted the financial accounts and consolidated financial accounts of the Bank Zachodni WBK S.A. Group for the period between 1 January 2005 to 31 December 2005.



2. Divided the net profit generated by the Bank in the year between 1 January 2005 to 31 December 2005 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 8,460,864.35

The dividend per one share amounted to PLN 6.00 and will be paid on 11 May 2006 to the shareholders who owned shares of Bank Zachodni WBK S.A. on the day the right for a dividend was set, i.e. 21 April 2006.

3. Granted the word of approval to the Members of the Management Board and the Supervisory Board

SIGNATURES OF PERSONS REPRESENTING THE ENTITY

Date	Name	Function	Signature
24-04-2006	James Murphy	Member of the Management board	
24-04-2006	Wanda Rogowska	Financial Accounting Area Director	

