

IQ 2005

***Performance
of BZWBK Group***

9 May 2005

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***Adoption of International
Accounting Standards***

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IAS Introduction

- n First time application of International Financial Reporting Standards [IFRS] by Bank Zachodni WBK Group
- n Limited retrospective application
- n Required under EU and Polish regulations from 1.1.2005

IAS Introduction – Main Highlights

- n Transition to IFRS according with IFRS 1 requirements
 - n Application of available exemptions (*deemed cost* for tangible assets, designation of previously recognised financial assets, classification of assets held for sale)
 - n Application of release from comparative presentation (EIR, impairment impacts introduced through equity as at 1.1.2005)
 - n Simultaneous transition to IFRS in all subsidiaries
- n Changes in accounting policies, procedures, systems, etc.
- n Convergence with Basel II requirements where relevant (impairment)

IAS Introduction – Main Changes

Main areas of change:

- n Valuation of loan portfolio [IAS 39]
 - n Effective Interest Rate [EIR] methodology
 - n Impairment methodology
- n Valuation of goodwill / negative goodwill [IFRS 3]
- n Change in classification of financial instruments [IFRS 1 / IAS 39]
- n Valuation of investments in subsidiaries / associates in Bank's separate financial statements [IAS 27 / IAS 28]

IAS Introduction – Impact on Financial Statements

Effective Interest Rate methodology:

- | PAS | IFRS |
|---|--|
| <ul style="list-style-type: none">• Interest income accrued based on contractual rates• Almost all fees / commissions recognised in P&L as earned• Large fees amortised over the life of a loan on a straight-line basis• Mortgage incentives recognised as incurred (mostly first year) | <ul style="list-style-type: none">• Interest accrued based on EIR• Relevant fees / commissions amortised• Mortgage incentives amortised• Most amortised fees / commissions recognised in P&L as interest income |

Net impact: B/S -52mPLN Equity -42mPLN

IAS Introduction – Impact on Financial Statements

Impairment methodology:

PAS

- Provisions recognised according to MoF / NBP regulations
- Specific matrix provisions for most of business and whole retail portfolios
- General provision created according to the Banking Law
- Interest accrued on NPLs were suspended as liability

IFRS

- More judgment in impairment definition and measurement
- Individual and portfolio approach for provisioning
- Incurred but not reported losses provided on portfolio basis (replacing general provision)
- Interest income accrued based on „net investment” and EIR recognised in P&L

Net impact: B/S -26mPLN Equity -22mPLN

IAS Introduction – Impact on Financial Statements

Valuation of goodwill / negative goodwill:

PAS

- GW / negative GW recognised on B/S and amortised
- Impairment reviews if impairment evidence identified

IFRS

- No amortisation of GW (retrospective application)
- Regular impairment reviews
- No recognition of negative GW – write-off to equity (retrospective application)

Net impact: B/S -1mPLN Equity +7mPLN P&L -4mPLN

IAS Introduction – Impact on Financial Statements

Change in classification of financial instruments:

PAS

- Bank: some investments classified as held-to-maturity valued at amortised cost
- Subsidiaries: some investments classified as trading valued at fair value through P&L

IFRS

- Bank: no held-to-maturity investments, existing portfolio reclassified to available-for-sale category valued at fair value through equity
- Subsidiaries: trading portfolio redesignated to available-for-sale category valued at fair value through equity

Net impact: B/S +25mPLN Equity +21mPLN

IAS Introduction – Impact on Financial Statements

Valuation of investments in subsidiaries / associates in Bank's separate financial statements :

PAS

- Investments in subsidiaries / associates valued with equity method
- Dividends not recognised as income
- No significant difference between separate and consolidated financial statements

IFRS

- Investments in subsidiaries / associates valued at cost (option preferred by BZWBK)
- Dividends recognised as income
- Significant difference between separate and consolidated financial statements

Net impact: B/S -115mPLN Equity -115mPLN

IAS Introduction – Impact on Financial Statements - P & L

PLNk	Profit and loss 2004
PAS Profit before tax	576 058
IAS adjustments	
Negative goodwill reversal	(2 596)
Goodwill impairment	(1 208)
Leasing transformation	(1 716)
Other	(349)

IFRS Profit before tax	570 189

IAS Introduction – Impact on Financial Statements – Balance Sheet

Balance sheet 31.12.2004	PAS	Adjustment	IFRS
Assets			
Cash and cash equivalents	1 200 154	-	1 200 154
Receivables from monetary institutions	2 775 222	(9)	2 775 213
Financial assets at fair value through P&L	1 369 937	(14 357)	1 355 580
Positive valuation of derivatives	869 435	-	869 435
Receivables from customers	14 095 350	(143 999)	13 951 351
Receivables from repo transactions	25 697	-	25 697
Investment financial assets	5 607 851	39 815	5 647 666
Investments in subsidiaries and associates	77 781	(838)	76 943
Intangible assets	238 212	(1 156)	237 056
Tangible assets	595 851	(26 912)	568 939
Deferred tax asset	470 699	19 908	490 607
Other assets	261 685	19 014	280 699
Total assets	27 587 874	(108 534)	27 479 340

IAS Introduction – Impact on Financial Statements – Balance Sheet

Balance sheet 31.12.2004	PAS	Adjustment	IFRS
Liabilities			
Liabilities to monetary institutions	1 301 638	(791)	1 300 847
Negative valuation of derivatives	804 501	-	804 501
Liabilities to customers	19 317 970	(1 070)	19 316 900
Liabilities from repo transactions	732 690	-	732 690
Liabilities from debt securities issued	1 198 767	(5 951)	1 192 816
Negative goodwill	8 600	(8 600)	-
Deferred tax liability	301 472	7 052	308 524
Other liabilities	869 613	(57 803)	811 810
Total liabilities	24 535 251	(67 163)	24 468 088
Share capital	729 603	-	729 603
Other reserves	1 641 684	501	1 642 185
Revaluation reserve	215 454	29 202	244 656
Retained earnings	435 207	(71 206)	364 001
Minority interest	30 675	132	30 807
Total equity	3 052 623	(41 371)	3 011 252
Total liabilities and equity	27 587 874	(108 534)	27 479 340

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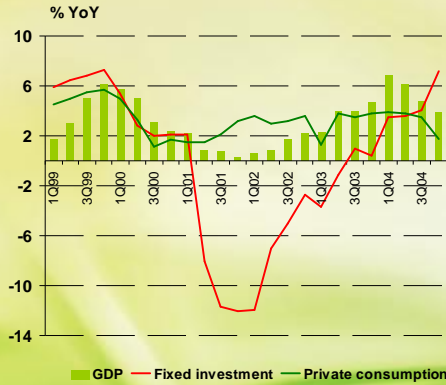
IQ 2005

Good beginning of the year
BZWBK Group
Performance

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Slower economic growth in Q1 2005



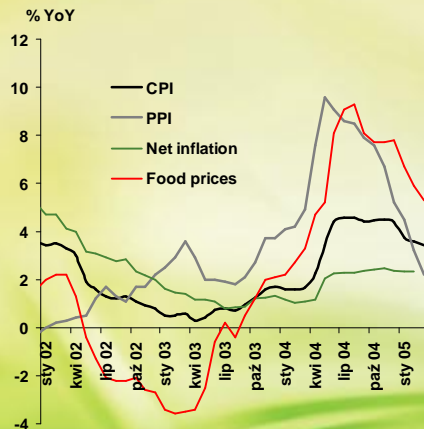
- n 1Q05 saw a deceleration of economic growth to around 3% due to weaker domestic demand
- n Accelerating investment growth will not offset slump in consumption growth and no positive effect of inventories' change
- n Reduced inflation and better labour market conditions will support growth of disposable income in real terms in 2H05
- n ...boosting GDP growth in 3Q05 and 4Q05 to above 5% again

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Sharp decline in inflation, lower interest rates



- n At the beginning of the year inflation hugely surprised
- n CPI fell to 3.4% in March amid sharp deceleration in food prices growth
- n CPI inflation should drop to ca. 1.5%yoy in June and stabilise at this level until year-end
- n Introduction of easing bias in February was followed by interest rate cut of 50bp in March and another 50bp in April
- n ... but adoption of neutral bias again suggests cautious monetary policy in the following months

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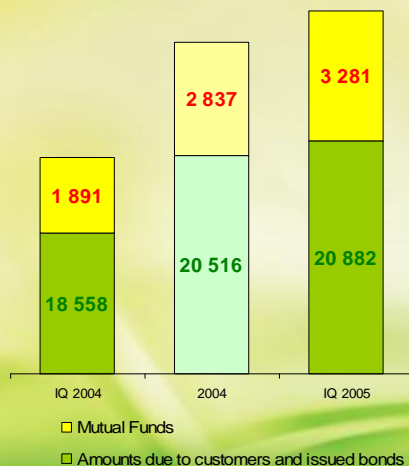
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IQ 2005 Key Features

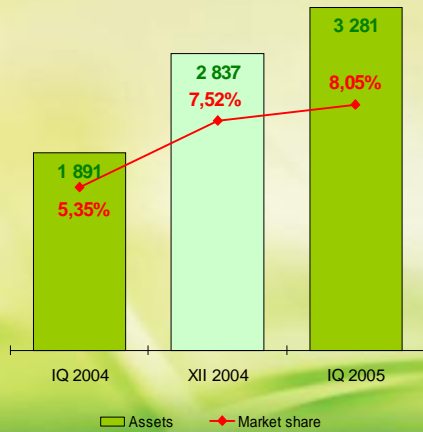
- n Positive quarterly trend in underlying performance being delivered
- n Benefits of cost management still being realised
- n Increase in deposits and dynamic increase in mutual funds
- n Increase of the strategic product loan portfolio with improved loan book quality
- n Specific product initiatives launched in Q1
- n Very good results and market position of subsidiaries
 - n Dom Maklerski
 - n ARKA Funds
 - n Leasing Subsidiaries

Customers' funds +18.2% yoy



- n Customer's funds entrusted BZWBK Group (incl. mutual funds) increased by 18.2% yoy.
- n Total Deposits (incl. Savings & Leasing bonds) increased by 12.5% yoy (15.6% on constant currency basis)
 - n Current Accounts + 1%
 - n Term Deposits +17%
 - n Savings and leasing bonds +46%
- n Mutual Funds increased by 73.5% yoy

Mutual Funds



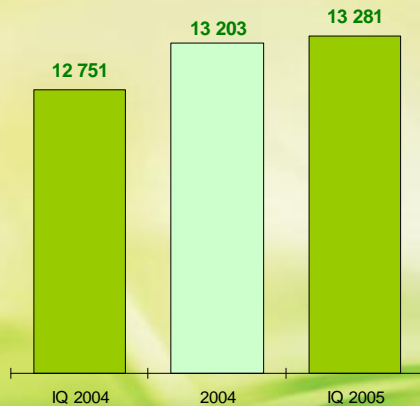
- n Increase in market share from 5.35% in the end of IQ 2004 to 8.05% in the end of IQ 2005
- n 3rd position on the market
- n Dynamic growth in fund's assets
 - n ARKA Bond Fund +95%
 - n ARKA Stable Growth Fund +30%
 - n ARKA Balanced Fund +24%
- n High profitability of fund's units in rankings:
 - n ARKA Stable Growth Fund - I place
 - n ARKA Ochrony Kapitału Fund - II place
 - n ARKA Equity Fund - III place

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Performing Loans +4% yoy



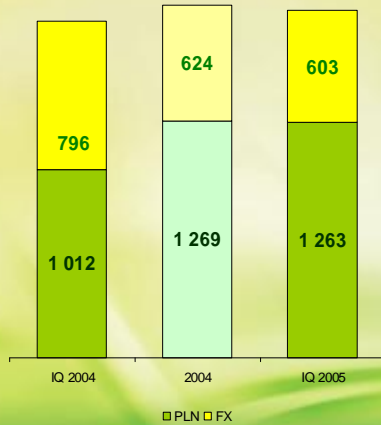
- n Increase of the Performing Loans portfolio +4.2% yoy (+9% on constant currency basis)
 - n Mortgage loans +3%
 - n Credit cards +10%
 - n Leasing +18%
 - n Personal Loans +13%
- n Corporate Banking Center managed portfolio increased by 6% yoy
- n Flat business loans portfolio due to:
 - n Increased flow backs
 - n Stronger zloty

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Mortgage loans +3% yoy



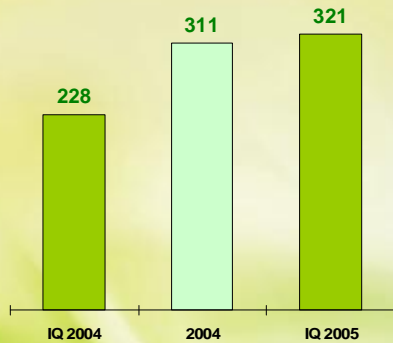
- n Performing PLN Mortgage loans portfolio increased by 24.8% yoy
- n Change in the policy of granting loans
- n Good quality of the mortgage loans portfolio (NPL's 3.0% of total Mortgage portfolio)
- n Current share in PLN Mortgage Market 8.33%
- n New aggressive PLN offer – 5.49%, WIBOR 6M +1%, LIBOR 6M + 1-2,75%

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Cash loans +41% yoy



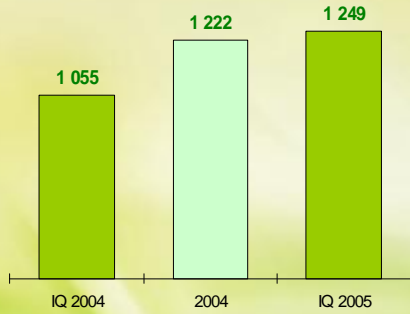
- n The portfolio increased by 40.8% yoy driven by enhanced product offerings
- n In 2005 BZWBK increased the flexibility in granting cash loans
- n Sale via telephone and Internet
- n Increased availability of cash loans
- n New pricing policy

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Leasing +18% yoy



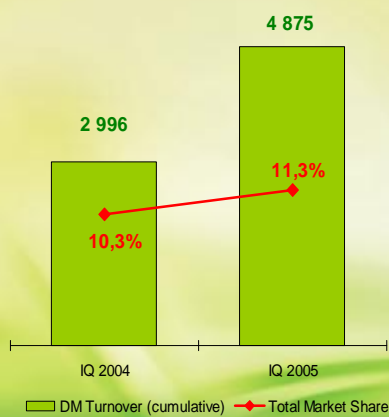
- n Leasing performing portfolio increased by 18% yoy
- n For car leasing – decision in 24h
- n Leasing product with connection to EU financing – investment financing
- n Market share 6%

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Brokerage House +63% yoy



- n The best brokerage house for individual customers in Poland according to „Rzeczpospolita”
- n Individual market share and market position:
 - n equity market - 12% (IV place)
 - n futures - 13% (II place)
 - n bond market - 6% (IV place)
 - n options - 7% (V place)

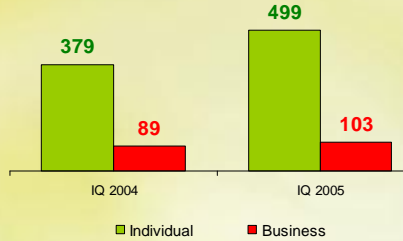
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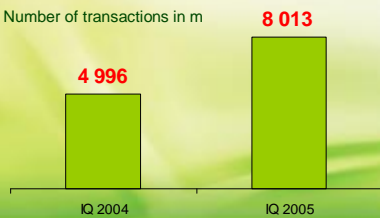
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Multi - channel distribution

Number of BZWBK 24 customers in k



Number of transactions in m



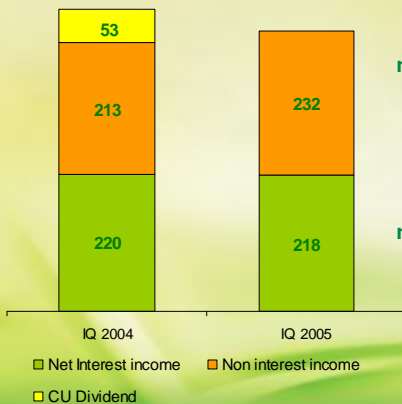
- n Leader in multi-channel distribution among traditional banks
- n The widest functionality in internet banking
- n **Minibank 24:** 4.6k units installed in the end of IQ 2005, 13.7k companies.
- n **BZWBK 24:** number of customers increased by 23k in IQ 2005
- n Internet shopping:
 - n Arka
 - n Credit cards
 - n Mortgage loan
 - n Cash loan
- n Innovative products and functionality:
 - n Moja Firma Plus
 - n Przelew 24
 - n Alerty 24

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Total Income PLN 451m -7.3% yoy



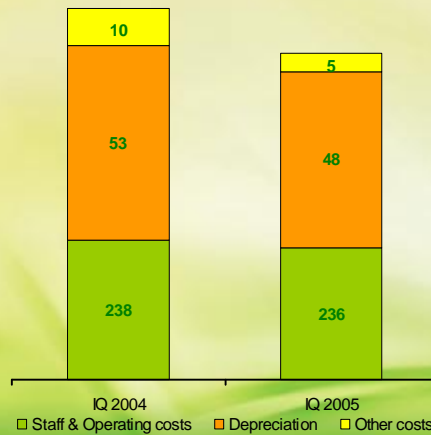
- n Total Income (excl. Dividend received from CU Qtr1 2004 PLN53m) increased by 4%
- n Total Income growth driven by growth in Non Interest Income 9% yoy
 - n FX Profit (impact of CCY swaps) + 46%
 - n Fees and commissions + 3%
- n Net Interest Income impacted by
 - n Business mix / competition
 - n Rate environment
 - n Regulatory changes

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Total Costs PLN 288m – 4.3% yoy



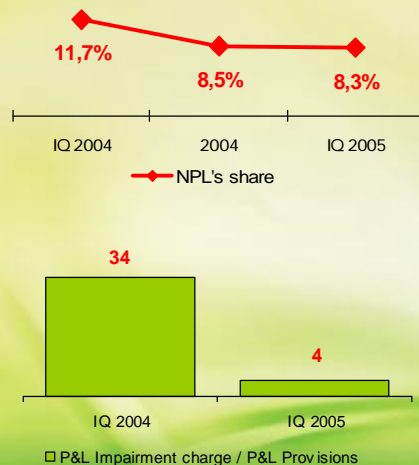
- n Tight cost control lead to reduction in Staff & Operating costs by 1%
- n Depreciation decreased by 10%
- n Other operating cost declined by 50%

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P&L Impairment charge



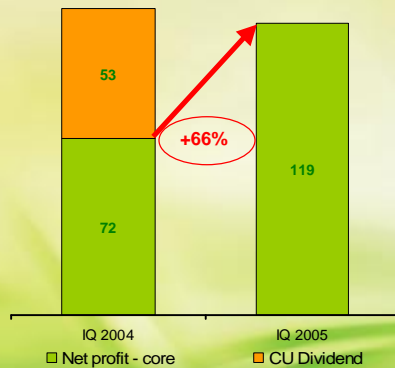
- n Level of NPL's reduced by 26% yoy. Improvement PLN 13m since end of 2004.
- n The ratio of NPL's to Total Loans decreased from 11.7% IQ 2004 to 8.3% IQ 2005
- n Lower Impairment charge in Q1 2005 by PLN30m

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Bottom Line – Net Profit PLN 119m



- n Underlying Net Profit up 66%
- n CU Dividend in IQ 2004 – PLN 53m
- n Annualised ROE for Qtr1 2005 16.6% vs 17.2% in 2004


In summary

- n Strong Q1 2005 performance resulting in:
 - n PBT increased by 66% yoy, including dividends in 2004 growth is 3.7%yoy
 - n Costs decrease by 4.3% yoy
 - n Excluding dividends Operating surplus, before impairment, increase by 23% yoy
 - n C/I Ratio reduced by 5.5 p.p. to level 64%
 - n Annualised ROE 16.6%
 - n Solvency Ratio at 13.72%

Contacts

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for any further information**

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