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Banks

Poland
Credit Analysis

Bank Zachodni WBK S.A.

Ratings

	Current Ratings
Foreign Currency	
Long-Term IDR	A+
Short-Term IDR	F1
Individual Rating	C
Support Rating	1
Sovereign Risk	
Foreign Long-Term IDR	A-
Local Long-Term IDR	A
Country Ceiling	AA-

Outlook

Sovereign Foreign Long-Term IDR	Stable
Sovereign Local Long-Term IDR	Stable

Watch

Foreign Long-Term IDR	Negative
Foreign Short-Term IDR	Negative

Financial Data

Bank Zachodni WBK S.A.

	30 Sep 08	31 Dec 07
Total assets (USDm)	22,109	16,974
Total assets (PLNm)	48,639	41,332
Total equity (PLNm)	5,209	4,577
Operating profit (PLNm)	1,130.4	1,362.4
Published net income (PLNm)	897.2	1,110.7
Comprehensive income (PLNm)	932.0	965.2
Operating ROAA (%)	3.35	3.67
Operating ROAE (%)	30.8	31.5
Internal capital generation (%)	25.4	17.3
Eligible capital/ weighted risks (%)	n.a.	13.53
Tier 1 ratio (%)	n.a.	13.27
Capital adequacy (%)	10.75	13.27

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Rating Rationale

- The Long and Short-Term Issuer Default Ratings of Bank Zachodni WBK S.A. (BZ WBK) are based on the potential support available from its 70.5% shareholder, Allied Irish Banks, p.l.c. (AIB; Long-Term IDR 'AA–'/Rating Watch Negative). BZ WBK's Individual Rating takes into account adequate capitalisation and internal capital generation, prudent risk management and improving asset quality. The rating also reflects expected slowdown in the local economy.
- Growing business volumes pushed up revenues 11% yoy in 9M08, with a stable net interest margin. Higher net interest income more than offset shrinking fee and commission (F&C) income related to capital markets (asset management and brokerage). Impairment charges grew to an annualised 0.6% of average loans in Q308 despite further improvement in portfolio quality. Nevertheless, impairment charges remained a low 0.31% in 9M08.
- Loan growth has accelerated, reaching 38% yoy in 9M08, but it was accompanied by 37% yoy growth in customer deposits. Although retail loans are outgrowing corporate loans, the portfolio remains 65% corporate. BZ WBK is taking on more credit risk in retail by re-entering foreign-currency-denominated mortgages and cash loans (5% and 8% of end-Q308 total gross loans). Asset quality continued to improve, with impaired loans falling to 2.4% at end-H108 (end-2007: 2.8%), below the sector average, while reserve coverage fell slightly to 64% from 65.3% (to 83.6% from 84.7% including incurred but not reported (IBNR) provisions). Both market risk limits and their utilisation was low; proprietary trading represented only 3% of revenues in 2006.
- Liquidity is strong, with 83% of end-Q308 total non-equity funding sourced from customers, a loan/deposit ratio of around 86% and excess liquidity placed in cash, in government bonds and on the interbank market.
- With asset growth and additional capital charges under Basel II, capitalisation tightened but was still adequate, with an eligible capital ratio of 10.99% at end-Q308. Although an internal floor of 10% is set for the total capital adequacy ratio (CAR), currently BZ WBK's capital is all Tier 1.

Support

- In Fitch Ratings' opinion, there is an extremely high probability that AIB would provide support for BZ WBK, should it be required.

What Could Trigger a Downgrade?

- As BZ WBK's Long-Term IDR is driven by support from AIB, it shares AIB's Negative Rating Watch.
- Changes to BZ WBK's Individual Rating will depend on the ability of the bank to maintain capital ratios at least at the current level and deliver adequate profitability as the operating environment is becoming less supportive.

Profile

BZ WBK is Poland's fifth-largest bank, with 451 branches and around 5% of sector assets at end-H108. Core activities are retail and corporate banking, supported by leasing, asset management, and brokerage subsidiaries; stakes in Polish insurance companies controlled by Aviva, including two joint ventures; and an 11.1% participation in Poland's largest pension fund.

- Important component of the AIB Group
- Branch expansion plan underway
- Banking services complemented by asset management, brokerage, leasing and insurance
- Still predominantly corporate lender

Profile

Both WBK and BZ were spun off from the National Bank of Poland in 1989 as regional banks for the Poznan and Wroclaw regions, respectively. WBK was privatised in 1993; AIB has built up its stake in the bank gradually, gaining control in 1997. BZ was only privatised in 1999. The merger of the two banks in 2001 created the fifth-largest bank in Poland. Under AIB ownership, BZ WBK has been restructured. Some branches have been closed, but the overall network size is being expanded, with the goal of increasing the bank's presence outside Poznan and Wroclaw. Efficiency measures include encouraging the use of alternative distribution channels for standard transactions (SMS, telephone and internet) and the elimination of back-office positions through IT investments.

The bank operated 451 outlets at end-June 2008 (up by 20% yoy) and 466 at end-September, and it plans to open around 50 more outlets by end-2009. It had 9,717 full-time equivalent staff at end-June (up 18% yoy). Apart from the traditional branches the bank operated a network of 51 franchise outlets branded Minibank (primarily payment offices, which also offer cash loans and bank accounts) at end-H108. The team of 400 mobile financial advisors selling credit cards and cash loans supplements the distribution network. It is also expanding cooperation with third-party retail loan distributors.

Large corporate customers are serviced by dedicated relationship managers located in six corporate business centres. The bank has opened two business banking centres dedicated to larger SME customers, and plans another seven openings by end-2008. Through these initiatives, BZ WBK aims to increase its 6% market share to 10% in the next few years.

Although the share of retail business in BZ WBK is growing, the bank is still predominantly a corporate lender (around 74% of gross loan book, including leasing at end-H108) and sources around 40% of customer deposits from corporate customers.

The bank provides some services via subsidiaries, including factoring (BZWBK Faktor, 100%-owned), brokerage (Dom Maklerski BZWBK, 99.99%-owned), leasing (BZWBK Finanse & Leasing, and BZWBK Leasing, both 99.99%-held), and asset management and mutual fund subsidiaries (BZ WBK AIB Asset Management, with BZ WBK and AIB each having a 50% stake, and BZ WBK TFI, 100%-held by BZ WBK Asset Management). With the aim of further diversifying revenues through exploiting opportunities with bancassurance, the bank set up two 50/50 joint ventures with Aviva in 2008: a non-life and a life insurance company, which will serve the bank's clients.

BZ WBK's investment banking division manages the bank's equity stakes. These investments are dominated by 11.1% stake in Aviva's Polish pension fund (the largest in the country), and 10% stakes in its Polish life and non-life assurance subsidiaries. These provide a steady flow of dividends to the bank.

BZ WBK is 70.5%-owned by AIB, with the balance widely held. BZ WBK shares are quoted on the Warsaw Stock Exchange. AIB's role in BZ WBK's development has been strong to date and it remains closely involved in the day-to-day running of the merged business, with two representatives on the 10-member management board and three on the eight-member supervisory board.

AIB is one of the largest banks in Ireland, with EUR9.1bn of common equity at end-H108. BZ WBK represented around 7% of AIB's assets and generated 14% of the group's pre-tax profit in H108.

Corporate Governance

BZ WBK has an eight-person supervisory board, with five independent members, including the chairman of the board and the chairman of the audit committee. BZ WBK is in full compliance with Poland's voluntary corporate governance code, which is based on OECD principles. Due to its parent's NYSE listing, BZ WBK is indirectly subject to the Sarbanes-Oxley Act.

Presentation of Accounts

BZ WBK reports according to IFRS on quarterly basis, with audited accounts presented semi-annually.

Performance

- Strong performance despite falling fees related to asset management and brokerage
- Loan growth accelerating, but accompanied by similar growth in customer deposits
- Impairment charges expected to grow, reflecting deteriorating operating environment

Poland's recent macroeconomic environment has supported the banking sector. Growth of the economy has averaged over 5% per year since 2003 (Q108: 6.0%; Q208: 5.8%; Q308: 4.8% yoy). Taking into account the economic situation and visible inflationary pressures, the Monetary Policy Council raised the reference rate four times in 2008, from 5.0% at the beginning of the year to 6.0% in June 2008, but cut it by 25bp to 5.75% in November 2008. Consequently, the three-month WIBOR increased from 5.7% in December 2007 to 6.6% in September 2008, and the deposit and loan interest rates were affected as well. During the 9M08 Polish zloty continued to appreciate against key foreign currencies.

A downturn on the stock exchange supplied the Polish banking system with massive volumes of deposits (mainly retail). This had a direct effect on income statements, holding back net F&C income but providing additional liquidity.

Market conditions have changed significantly since end-June 2008. The domestic interbank market became very shallow, as banks with surplus liquidity were unwilling to lend to other banks, mostly due to a confidence crisis "imported" from their parents. Banks also found it difficult to open new or refinance existing currency hedges, which mostly relate to the portfolio of CHF-denominated mortgage loans. The market for FX swaps and currency interest rate swaps became shallow and spreads widened significantly. On top of this, turmoil in Hungary resulted in depreciation of PLN against USD, EUR and CHF.

The central bank has tried to provide additional liquidity to the system through repo transactions, but the scope has so far been limited. It also offered swaps in PLN/USD and PLN/EUR, and now also offers PLN/CHF swaps. Banks with no stable source of CHF-denominated funding from parents reacted to changing market conditions by tightening credit standards for CHF-denominated loans, lowering loan/value ratios and shortening the tenor of loans. Margins also widened, reflecting higher funding costs in CHF.

In 2007, income growth was driven by both net interest income and F&C income, but in H108 net interest income grew 31% yoy while F&C income shrank 6% due to negative sentiment on the capital markets and ultimately lower fees from brokerage and asset management. Although some components of F&C income increased in 9M08 (e.g. payments, credit cards and insurance), it was not enough to cover lower fees related to capital markets and investments (down 34% yoy in

Table 1: Comparative Performance

	BZ WBK ('C')			ING BSK ('C')		BRE Bank ('C/D')		Millennium ('C/D')	
	9M08	2007	2006	H108	2007	H108	2007	H108	2007
Total equity (PLNm)	5,209	4,577	4,077	3,999	3,840	3,930	3,441	2,609	2,521
Equity/assets	10.71	11.07	12.36	6.61	7.38	6.09	6.15	7.62	8.26
Loans/assets	63.8	57.9	53.4	33.6	31.5	61.5	60.2	74.1	72.2
Net interest margin	4.07	4.00	3.81	2.10	2.20	2.34	2.29	3.04	3.02
Cost/income	51.7	53.4	55.3	64.0	68.5	58.6	60.1	62.2	64.2
Provisions/loans (avg.)	0.31	0.16	0.37	-0.08	-0.72	0.33	0.26	0.34	0.39
Operating ROE	32.5	31.5	27.5	23.4	20.7	27.7	25.9	24.1	22.2
Operating ROA	3.35	3.67	3.32	1.60	1.6	1.70	1.60	2.17	1.90

Peers: ING Bank Slaski, BRE Bank SA and Bank Millennium; Individual Ratings shown in brackets
Source: Bank data adapted by Fitch

9M08), which in 2007 accounted for 52% of total F&C income and 27% of total revenues.

Personnel cost growth slowed to 15% yoy in 9M08 (2007: 23%) despite the ongoing increase in headcount (up 15% yoy at end-Q308) related to expansion and salary increases in 2008. Spending on marketing grew 34% yoy, slowing from 81% in 2007, but growth in IT-related expenses picked up to 23% from 11% in 2007. Growth in overall operating costs slowed to a still high 16% yoy in 9M08 from 20% in 2007. Although the cost/income ratio improved in 9M08 compared with 2007, it weakened in Q308 compared with Q208. The cost/assets ratio is still higher than at peers but declining, reflecting rapid balance sheet growth. This is offset by higher revenue generation.

Other operating income is not significant and accounted for 5.6% of revenues in 9M08, consisting mostly of income from client-driven activities. The volume of proprietary trading activities is limited and in 9M08 their contribution to operating income was marginal.

Conservative lending policies, improved credit risk management, and a benign environment have kept credit costs low in 2007. Changes in the operating environment and limited recoveries pushed risk charges to 0.3% of average loans in 9M08. The growth was significant in Q308, when the charge amounted to an annualised 0.6% and consumed 11.3% of pre-impairment operating profit (2007: 2.4%). Although the growth was significant, Fitch notes that it was from unsustainably low levels.

Prospects

In Fitch's view, BZ WBK is well placed to withstand a changing economic environment due to its strong market position in western Poland, a good funding base and strong liquidity. Profitability may suffer from higher funding costs (a feature common to the Polish banking sector recently), likely slower asset growth and higher risk costs resulting from the expected slowdown in the economy.

The bank took on increasing risks in certain areas, through significant expansion in real-estate-related financing, the introduction of higher-risk cash loan products, and re-entering foreign-currency mortgages. Nevertheless, Fitch believes that it was supported by adequate underwriting standards and risk management procedures, as the bank's strong track record demonstrates its ability to manage risk prudently while competing successfully with larger players in the market.

Risk Management

- Credit risk dominates
- Loan quality continues to improve, provision coverage stable
- Market risk managed within conservative limits

BZ WBK's risk appetite is below average and subject to close oversight by AIB. Risk exposures are tightly controlled through limits and monitoring systems. Preparation for Basel II was performed alongside the parent, and BZ WBK intends to conform to AIB group standards. AIB adopted the foundation internal ratings-based approach for credit risk from 1 January 2008. BZ WBK applied to the local regulator for consent to introduce the same approach for four major portfolios already in mid-2007. For operational risk, it adopted the standardised approach. BZ WBK follows the internal audit policies established by its parent.

Credit Risk

Corporate loans up to PLN25m are approved at one of the six corporate centres. Larger exposures are decided by the central credit committee, and exposures over PLN100m are also reviewed by AIB. The bank intends to lengthen the average maturity of its corporate loans, which would increase the risk profile, but it also intends to increase the share of secured loans.

All retail decisions are fully centralised at the retail credit centre. The bank has scoring systems for loans up to PLN3m. Scoring models for credit cards and personal loans were introduced in 2003, while mortgage and SME scorecards were introduced in mid-2005. Retail and SME models have been strengthened with the introduction of behavioural scoring. Credit grading complying with Basel II was completed for nearly all loans in 2006.

Loan growth reached 38% yoy in 9M08 (2007: 34%), with faster growth in retail (49%) than in the corporate segment (34%). The growth of both corporate and retail loans was faster in BZ WBK than for the market. Growth in mortgages (15% of end-Q308 lending) was similar as in 2007, 43% yoy. The growth was helped by re-entering foreign-currency mortgages in 2008, which the bank had discontinued in 2001. The portfolio of foreign-currency loans almost tripled year on year at end-Q308 to constitute one-third of the total mortgage portfolio, while PLN-denominated loans increased by just 15%. Cash loans (7.8% of end-Q308 lending) continued to be a strong performer, up 77% yoy at end-Q308 (2007: +61%). Leasing companies continued to deliver around 25% yoy growth in portfolio, which accounted for 8.5% of the consolidated total loan book (Q307: 9.7%).

BZ WBK's loan book at end-Q308 was 65% corporate (including SME), 26% retail, and 8.5% leasing (leasing is mostly with corporate and SME customers of the bank), with small exposure to the public sector. The corporate loan book had some industry concentrations at end-H108, with commercial property financing accounting for the largest portion (22.6%), followed by the broader manufacturing segment (21.5%) and construction (18.5%). Within the construction sector, lending for income-producing property dominated, increasing the bank's exposure to commercial real estate to around 40% of the corporate portfolio and around 30% of the total loan portfolio at end-Q308. Given that another 15% of the total loan portfolio is in private mortgages, the bank's exposure to the wider real estate market is high. Fitch remains concerned about risks related to this exposure, although at present the quality of property-related corporate exposures is above average for the portfolio and the commercial real estate market is not experiencing a significant slowdown or price correction. The risks are exacerbated by around 3.8% of total lending being granted for residential property developments that are highly vulnerable in Fitch's view, and a similar amount is booked in off-balance-sheet commitments granted.

Concentration by borrower is relatively low, given the corporate nature of the bank, with the 10 largest exposures equal to 60% of equity at end-Q308 (top five: 41%), all of which were performing and within the top three risk grades on BZ WBK's 12-grade internal rating system.

The share of impaired loans in total lending is declining at BZ WBK, driven by an expanding loan portfolio, but also due to lower nominal amounts of impaired loans. As a result, the bank's reported asset quality ratios have improved steadily, with impaired lending falling to 2.4% of end-H108 loans (end-2007: 2.8%). Those ratios compare well with those of peers and are converging towards levels seen in more developed banking sectors. Reserve coverage of impaired lending (including IBNR) provisions fell slightly but was still adequate at 83.6% at end-H108 (end-2007: 84.7%). Impaired loans were covered 63% individually and 65% collectively. Uncovered impaired loans were low at 2.7% of end-H108 equity. Annualised impairment charges doubled in 9M08 compared with 2007 but remained a low 0.31% of average loans.

The trading portfolio is relatively small (3% of end-H108 total assets) and includes mainly FX and interest rate derivatives. The investment securities portfolio is sizeable (22% of end-H108 assets) and consists mainly of debt instruments (94% of the total) with 98% of this amount invested in government and central bank securities.

Market Risk

BZ WBK's appetite for market risk is low. Market risk exposures are independently monitored and reviewed against limits by the treasury risk department. The bank's exposure to interest rate risk is measured through gap, static basis-point-value (BPV) and value-at-risk (VaR) analysis. BZ WBK employs relatively tight stop-loss limits. It increased the interest rate VaR limit (based on a conservative three-year observation period, a 99% confidence interval and a one-month holding period) to EUR15m (around PLN50m) from EUR10m in 2008, but still represented only 1% of end-H108 equity, and was on average 41% and at maximum 56% utilised in 9M08. A new platform for BPV analysis developed by AIB was adopted in January 2007; it showed a EUR14.3m gain from a 100bp parallel decline in the yield curve at end-Q308.

FX risk is limited through a VaR limit of EUR0.5m or around PLN1.9m (based on a three-year observation period, a 99% confidence interval and a two-week holding period, which Fitch considers conservative), representing less than 1% of end-H108 equity. It was on average 39% utilised in 9M08, with one exception recorded due to the release of impairment related to FX loans.

Operational Risk

BZ WBK follows the standardised approach to operational risk measurement. The bank's operational risk database includes six years of data, with the last two years of data categorised according to business lines. Self-assessments are performed quarterly and key risk indicators are evaluated semi-annually. The operational risk function is present in all branches and head office units. The global AIB Group insurance policy and some additional policies signed locally cover a substantial part of operational risks.

At end-H108, the capital requirement for operational risk amounted to PLN340.9m and constituted 11.3% of the total capital requirement.

Funding and Capital

- Strong funding profile underpinned by high share of retail deposits
- Liquidity tightened marginally in 2008 but remains sound
- Adequate capitalisation

Customer deposits are the main source of funding for BZ WBK. They represented 83% of end-Q308 non-equity funding (2007: 81%) with 60% of the total coming from retail customers. Polish deposit growth strengthened to 18% yoy at end-Q308, partly reflecting an outflow of private savings from mutual funds. BZ WBK managed to increase its deposit base by 37% over the same period. The biggest increase in customer deposits was in savings accounts, which have the on-demand characteristics but offer higher interest. At end-Q308, these accounted for 55% of retail deposits and around a third of total customer deposits. Overall customer deposits have short contractual maturities. Current and term deposits of up to one month accounted for 87% of total customer deposits. Nevertheless, they have proven to be fairly resilient and stable. Based on a behavioural profile of its deposit base and large liquidity reserve held in liquid assets, the bank calculated a positive short term (up to one month) liquidity gap at end-H108 despite contractual maturities showing large negative gap in this time bucket.

The liquidity position is monitored daily through gap analysis for all major currencies. The internal policy calls for a positive liquidity gap in the "up to one month" time bucket. The bank has contingency plans for critical situations, and would be highly likely to receive liquidity support from its parent in case of need. Concentration is limited, with the top 20 depositors representing only 6.2% of end-H108 deposits. The bank and the leasing subsidiary have made limited use of bond financing, equal to 0.6% of end-H108 non-equity funding. Bonds are Polish zloty-denominated, mostly fixed-rate and have maturities of up to three years. BZ WBK has invested excess funds in government securities (20.5% of end-H108 assets), of which around 20% was subject to repo transactions.

Capitalisation tightened, with regulatory CAR falling to 10.99% at end-H108 and 10.75% at end-Q308 from 13.27% at end-2007 and 13.34% at end-H107. The drop was driven by 50% growth in the total capital requirement over the 12-month period ended in June 2008. This growth is partly explained by an additional risk charge for operational risk under Basel II, which was responsible for PLN340m or around one-third of the increase in total capital requirement over this period. According to the bank's estimate, application of Basel II reduced the CAR from 2008 by around 180bp. Fitch eligible capital also decreased to 10.99%, and 11.66% if eligible revaluation reserves are included. In the light of a higher expected capital requirement in 2008 and tightening capitalisation, the dividend payout ratio for 2007 was cut to 27%, markedly down from 52% for 2006 and nearly 100% in 2005. The internally set target for total CAR is 10%, which Fitch considers adequate as long as it is based on Tier 1. Currently WZ BWK is not using any Tier 2 instruments and regulatory capital is all Tier 1, except for revaluation reserves that account for less than 5% of total eligible capital. Fitch notes that consolidated regulatory capitalisation is already close to an internally set target and the standalone measure for the bank already fell below it at end-Q308.

Balance Sheet Analysis

BANK ZACHODNI WBK S.A.

	30 Sep 2008				30 Jun 2008		31 Dec 2007		31 Dec 2006	
	9 Months - 3rd Quarter USDm Original	9 Months - 3rd Quarter PLNm Original	As % of Assets Original	Average PLNm Original	6 Months - Interim PLNm Original	As % of Assets Original	Year End PLNm Original	As % of Assets Original	Year End PLNm Original	As % of Assets Original
A. LOANS										
1. Loans and Advances < 3 months	n.a.	n.a.	-	n.a.	2,642.1	5.61	2,666.9	6.45	1,943.0	5.89
2. Loans and Advances 3 - 12 months	n.a.	n.a.	-	n.a.	7,029.8	14.94	5,706.9	13.81	4,536.0	13.75
3. Loans and Advances > 1 year	n.a.	n.a.	-	n.a.	18,601.1	39.52	16,160.9	39.10	11,787.4	35.73
4. Loan Impairment (to deduct from above)	n.a.	n.a.	-	n.a.	n.a.	-	585.0	1.42	646.3	1.96
5. Loan Impairment (memo)	n.a.	n.a.	-	n.a.	577.6	1.23	n.a.	-	n.a.	-
6. Less: Loans from the Insurance Business	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
TOTAL A	**14,101.2**	**31,022.7**	**63.78**	**27,486.2**	**28,273.0**	**60.07**	**23,949.7**	**57.94**	**17,620.1**	**53.41**
B. OTHER EARNING ASSETS										
1. Loans and Advances to Banks	989.5	2,177.0	4.48	2,376.9	2,760.6	5.87	2,576.8	6.23	3,154.5	9.56
2. Government Securities	n.a.	n.a.	-	n.a.	9,683.1	20.57	8,970.4	21.70	7,543.0	22.86
3. Trading Assets	738.2	1,624.1	3.34	869.5	5.4	0.01	114.9	0.28	56.6	0.17
4. Derivatives	14.2	31.2	0.06	522.4	1,404.4	2.98	1,013.6	2.45	382.7	1.16
5. Other Securities and Investments	5,062.6	11,137.8	22.90	5,736.5	280.7	0.60	335.2	0.81	564.2	1.71
6. Equity Investments	21.3	46.9	0.10	344.8	678.4	1.44	642.7	1.55	635.6	1.93
7. Insurance	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
TOTAL B	**6,825.9**	**15,017.0**	**30.87**	**14,335.3**	**14,812.6**	**31.47**	**13,653.6**	**33.03**	**12,336.6**	**37.39**
C. TOTAL EARNING ASSETS (A+B)	**20,927.1**	**46,039.7**	**94.66**	**41,821.5**	**43,085.6**	**91.55**	**37,603.3**	**90.98**	**29,956.7**	**90.80**
D. TANGIBLE FIXED ASSETS	**258.0**	**567.5**	**1.17**	**555.4**	**559.9**	**1.19**	**543.2**	**1.31**	**493.7**	**1.50**
E. NON-EARNING ASSETS										
1. Cash and Due from Banks	527.3	1,160.0	2.38	1,683.2	2,469.4	5.25	2,206.3	5.34	1,534.5	4.65
2. Other	396.3	871.9	1.79	925.6	948.0	2.01	979.3	2.37	1,007.3	3.05
F. TOTAL ASSETS	**22,108.7**	**48,639.1**	**100.00**	**44,985.6**	**47,062.9**	**100.00**	**41,332.1**	**100.00**	**32,992.2**	**100.00**
G. DEPOSITS & MONEY MARKET FUNDING										
1. Due to Customers < 1 year	n.a.	n.a.	-	n.a.	33,473.0	71.12	29,521.8	71.43	23,924.0	72.51
2. Due to Customers > 1 year	n.a.	n.a.	-	n.a.	250.6	0.53	243.9	0.59	298.1	0.90
3. Due to Customers, no breakdown	16,442.7	36,173.9	74.37	n.a.	n.a.	-	n.a.	-	n.a.	-
4. Deposits from Banks	2,222.7	4,889.9	10.05	4,017.8	3,615.9	7.68	3,145.6	7.61	1,864.8	5.65
5. Other Deposits and Short-term Borrowings	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
TOTAL G	**18,665.4**	**41,063.8**	**84.43**	**36,987.6**	**37,339.5**	**79.34**	**32,911.3**	**79.63**	**26,086.9**	**79.07**
H. OTHER LIABILITIES										
1. Derivatives	7.4	16.3	0.03	510.4	1,186.4	2.52	1,004.5	2.43	236.3	0.72
2. Trading Liabilities	388.1	853.8	1.76	n.a.	108.9	0.23	n.a.	-	5.1	0.02
3. Fair Value Portion of Debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
4. Insurance	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	n.a.	-
TOTAL H	**395.5**	**870.1**	**1.79**	**937.3**	**1,295.3**	**2.75**	**1,004.5**	**2.43**	**241.4**	**0.73**
I. OTHER FUNDING										
1. Long-term Borrowing	128.9	283.6	0.58	987.3	2,105.0	4.47	1,690.9	4.09	1,389.9	4.21
2. Subordinated Debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	0.0	0.00
3. Other Funding	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	0.0	0.00
TOTAL I	**128.9**	**283.6**	**0.58**	**987.3**	**2,105.0**	**4.47**	**1,690.9**	**4.09**	**1,389.9**	**4.21**
J. NON-INTEREST BEARING	**551.3**	**1,212.8**	**2.49**	**1,180.8**	**1,531.1**	**3.25**	**1,148.7**	**2.78**	**1,197.3**	**3.63**
K. HYBRID CAPITAL										
1. Hybrid capital accounted for as equity	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	0.0	0.00
2. Hybrid Capital accounted for as debt	n.a.	n.a.	-	n.a.	n.a.	-	n.a.	-	0.0	0.00
L. TOTAL LIABILITIES	**19,741.0**	**43,430.3**	**89.29**	**40,092.9**	**42,270.9**	**89.82**	**36,755.4**	**88.93**	**28,915.5**	**87.64**
M. EQUITY										
1. Common Equity	2,084.6	4,586.2	9.43	4,282.4	4,333.3	9.21	3,978.6	9.63	3,451.5	10.46
2. Minority Interest	102.2	224.8	0.46	230.0	203.3	0.43	235.1	0.57	116.7	0.35
3. Revaluation Reserves	180.8	397.8	0.82	380.4	255.4	0.54	363.0	0.88	508.5	1.54
TOTAL M	**2,367.6**	**5,208.8**	**10.71**	**4,892.8**	**4,792.0**	**10.18**	**4,576.7**	**11.07**	**4,076.7**	**12.36**
MEMO: CORE CAPITAL	**2,007.3**	**4,416.1**	**9.08**	**4,130.7**	**4,150.9**	**8.82**	**3,845.3**	**9.30**	**3,175.7**	**9.63**
MEMO: ELIGIBLE CAPITAL	**n.a.**	**n.a.**	**-**	**n.a.**	**4,150.9**	**8.82**	**3,845.3**	**9.30**	**3,175.7**	**9.63**
N. TOTAL LIABILITIES & EQUITY	**22,108.7**	**48,639.1**	**100.00**	**44,985.6**	**47,062.9**	**100.00**	**41,332.1**	**100.00**	**32,992.2**	**100.00**
Exchange Rate	USD1 = PLN 2.2000				USD1 = PLN 2.1194		USD1 = PLN 2.4350		USD1 = PLN 2.9105	

Income Statement Analysis
BANK ZACHODNI WBK S.A.

	30 Sep 2008		30 Jun 2008		31 Dec 2007		31 Dec 2006	
	Income Expenses PLNm Original	As % of Total AV Earning Assts Original	Income Expenses PLNm Original	As % of Total AV Earning Assts Original	Income Expenses PLNm Original	As % of Total AV Earning Assts Original	Income Expenses PLNm Original	As % of Total AV Earning Assts Original
1. Interest Income	2,372.7	7.56	1,527.8	7.57	2,163.6	6.40	1,709.5	5.98
2. Interest Expense	1,095.7	3.49	681.1	3.38	812.3	2.40	620.5	2.17
3. NET INTEREST REVENUE	**1,277.0**	**4.07**	**846.7**	**4.20**	**1,351.3**	**4.00**	**1,089.0**	**3.81**
4. Net Fees & Commissions	1,056.4	3.37	712.6	3.53	1,545.0	4.57	1,191.4	4.17
5. Net Insurance Revenue	n.a.	-	n.a.	-	n.a.	-	n.a.	-
6. Other Operating Income	137.5	0.44	94.0	0.47	93.9	0.28	134.9	0.47
7. Personnel Expenses	719.0	2.29	470.4	2.33	842.8	2.49	683.7	2.39
8. Other Operating Expenses	557.8	1.78	374.9	1.86	753.7	2.23	647.2	2.26
9. PRE-IMPAIRMENT OPERATING PROFIT	**1,194.1**	**3.81**	**808.0**	**4.01**	**1,393.7**	**4.13**	**1,084.4**	**3.79**
10. Loan Impairment Charge	63.7	0.20	18.7	0.09	33.4	0.10	60.1	0.21
11. Other Credit Impairment and Provisions	n.a.	-	6.1	0.03	-2.1	-0.01	-8.6	-0.03
12. OPERATING PROFIT	**1,130.4**	**3.60**	**783.2**	**3.88**	**1,362.4**	**4.03**	**1,032.9**	**3.61**
13. Other Income and Expenses	-0.2	0.00	4.8	0.02	29.1	0.09	32.6	0.11
14. PUBLISHED PRE-TAX PROFIT	**1,130.2**	**3.60**	**788.0**	**3.91**	**1,391.5**	**4.12**	**1,065.5**	**3.73**
15. Taxes	233.0	0.74	160.1	0.79	280.8	0.83	221.3	0.77
16. Profit/(Loss) from Discontinued Operations	n.a.	-	n.a.	-	n.a.	-	n.a.	-
17. Change in Value of AFS investments	34.8	0.11	-107.6	-0.53	-145.5	-0.43	258.3	0.90
18. CurrencyTranslation Differences	n.a.	-	n.a.	-	n.a.	-	n.a.	-
19. Other Gains/(Losses) not in Published Net Income	n.a.	-	n.a.	-	n.a.	-	n.a.	-
20. FITCH COMPREHENSIVE INCOME	**932.0**	**2.97**	**520.3**	**2.58**	**965.2**	**2.86**	**1,102.5**	**3.85**
21. Total Gains/(Losses) not in Published Net Income	34.8	0.11	-107.6	-0.53	-145.5	-0.43	258.3	0.90
22. IFRS Dividends included in Fitch Interest Expense	n.a.	-	n.a.	-	0.0	0.00	0.0	0.00
23. PUBLISHED NET INCOME	**897.2**	**2.86**	**627.9**	**3.11**	**1,110.7**	**3.29**	**844.2**	**2.95**

Ratio Analysis
BANK ZACHODNI WBK S.A.

		30 Sep 2008	30 Jun 2008	31 Dec 2007	31 Dec 2006
		9 Months - 3rd Quarter PLNm Original	6 Months - Interim PLNm Original	Year End PLNm Original	Year End PLNm Original
I. PERFORMANCE					
1. Net Interest Margin	%	4.07	4.20	4.00	3.81
2. Loan Yield	%	n.a.	7.98	6.94	6.44
3. Cost of Funds	%	3.85	3.68	2.62	2.39
4. Costs/Average Assets	%	3.78	3.83	4.30	4.27
5. Costs/Income	%	51.65	51.13	53.39	55.33
6. Pre-Impairment Operating ROAA	%	3.54	3.66	3.75	3.48
7. Operating ROAA	%	3.35	3.54	3.67	3.32
8. Pre-impairment Operating ROAE	%	32.54	34.50	32.21	28.87
9. Operating ROAE	%	30.80	33.44	31.49	27.50
II. CAPITAL ADEQUACY					
1. Internal Capital Generation	%	25.40	22.21	17.25	17.70
2. Core Capital/Total Assets	%	9.15	8.89	9.39	9.74
3. Eligible Capital/Regulatory Weighted Risks	%	n.a.	10.99	13.53	14.34
4. Eligible Capital+Eligible Revaluation Reserves/Regulatory Weighted Risks	%	n.a.	11.66	14.81	16.64
5. Tier 1 Regulatory Capital Ratio	%	n.a.	10.99	13.27	15.47
6. Total Regulatory Capital Ratio	%	10.75	10.99	13.27	15.47
7. Free Capital/Equity	%	85.61	82.34	82.95	78.91
III. LIQUIDITY (year end)					
1. Liquid Assets/Deposits & Money Mkt Funding	%	n.a.	40.08	42.38	47.18
2. Loans/Deposits	%	85.76	83.84	80.46	72.74
IV. ASSET QUALITY					
1. Loan Impairment Charge/Gross Loans (av.)	%	0.31	0.14	0.16	0.37
2. Total Credit Impairment/Pre-impairment Operating Profit	%	5.33	3.07	2.25	4.75
3. Loan Impairment/Gross Impaired Loans	%	n.a.	83.60	84.66	78.43
4. Individual Loan Impairment/Gross Impaired Loans	%	n.a.	28.80	28.80	33.90
5. Impaired Loans Gross / Loans Gross	%	n.a.	2.41	2.83	4.57
6. Impaired Loans Net/Eligible Capital	%	n.a.	2.73	2.76	5.60
7. Net Charge-offs/Gross Loans (av.)	%	n.a.	n.a.	n.a.	n.a.