Financial Statements of Bank Zachodni WBK S.A. for 2008

Bank Zachodni WBK S.A.

Dear All,

2008 was a year with two distinct halves. The first six months were characterised by a rapid increase in the GDP, which peaked at an impressive 6 pc. during the first two quarters. Unfortunately, the trend reversed in the second half-year as the global financial crisis unfolded and slowed the Polish economy. In effect, the GDP growth in the last quarter of the year was reduced to 3 pc. The adverse developments in the last six months of 2008 strongly affected the banking sector and had a profound impact on the performance of all banks. Despite these challenges, in 2008 Bank Zachodni WBK achieved a gross profit of PLN 987.4 m, the best result in our history. We owe this success to the diversification of our income streams, rapid growth of many business lines and expansion of our sales potential.

During the year, our key objective was to increase the market share. And we achieved this primarily through the unprecedented expansion of our branch network. Last year we opened 95 new branches in the Eastern Poland, where we previously had no foothold. But we also increased our presence in the major economic regions of Poland: in Warsaw, Upper Silesia, Kraków and Gdańsk. In addition, we opened 30 BZ WBK Partner agencies and 7 Business Banking Centres, and set up two private banking offices to provide service to high-net-worth individuals. 2008 may thus be called a breakthrough year for Bank Zachodni WBK. On the back of such massive investments we underwent a transformation from a multiregional player into an institution which spans the whole of Poland.

Despite the volatile market, we expanded the range of our products. New features on our offer included the innovative Moneyback Account, a package of products for start-ups and contactless payment cards which are absolutely new to the Polish market. Our huge success last year was the unprecedented growth, by nearly 71 pc., in cash loan sales. Our customers could also avail of the attractive savings and investment offer, including new structured products, savings account denominated in EUR and GBP and the "Quickly Earning" deposit. Only during the last 12 months, the number of savings accounts maintained by Bank Zachodni WBK increased by a staggering 65 pc., credit cards increased by 21 pc. and debit cards by 19 pc. We completely remodelled our SME offer, making it perfectly suited to this key sector of the Polish economy. Our another significant success was enhancement of the bank's presence among the Poles working abroad. We achieved this by implementing a special mortgage sales system, introducing the EUR/GBP savings account and expanding the options for cash transfer from the UK. We noted a particularly spectacular success in the sale of cash loans, significantly improving our position in this difficult market.

Needless to say, 2008 was the hardest year for the banking sector in the last 20 years. This is why I would like to extend my sincere thanks to the employees of our bank who contributed to our strong performance during this year. Their hard work, skills and commitment coupled with the efforts at all levels of management allowed us to win a prominent place on the banking map of Poland. And I would also like to thank all the members of the BZ WBK Supervisory Board for their outstanding co-operation.

Mateusz Morawiecki
President of Management Board

Table of contents:

in thousands of PLN

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

For reporting period:		01.01.2008-31.12.2008	01.01.2007-31.12.2007
Interest and similar income		3 017 121	1 957 840
Interest expense and similar charges		(1 525 654)	(775 402)
Net interest income	Note 8	**1 491 467**	**1 182 438**
Fee and commission income		1 111 474	1 000 083
Fee and commission expense		(121 477)	(81 502)
Net fee and commission income	Note 9	**989 997**	**918 581**
Dividend income	Note 10	218 331	177 978
Net trading income and revaluation	Note 11	29 488	52 271
Gains (losses) from other financial securities	Note 12	55 890	(25 784)
Net (loss)/gain on sale of subsidiaries and associates	Note 13	226	12 735
Other operating income	Note 14	54 283	38 459
Impairment losses on loans and advances	Note 15	(351 889)	565
Operating expenses incl.:		(1 500 360)	(1 378 213)
Bank's staff, operating expenses and management costs	*Note 16,17*	*(1 386 807)*	*(1 224 905)*
Depreciation/amortisation		*(97 611)*	*(127 264)*
Other operating expenses	*Note 18*	*(15 942)*	*(26 044)*
Operating profit		**987 433**	**979 030**
Profit before tax		**987 433**	**979 030**
Corporate income tax	Note 19	(178 268)	(169 556)
Profit for the period		**809 165**	**809 474**
Net earnings per share (PLN/share)	Note 20		
Basic earnings per share		11,09	11,09
Diluted earnings per share		11,05	11,07

in thousands of PLN

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

	as at:	31.12.2008	31.12.2007
ASSETS			
Cash and balances with central bank	Note 21	3 178 099	2 206 259
Loans and advances to banks	Note 22	1 347 832	2 563 755
Financial assets held for trading	Note 23	3 222 357	1 142 060
Hedging derivatives	Note 24	347	35 850
Loans and advances to customers	Note 25	32 654 263	22 150 633
Investment securities	Note 26,27	12 894 385	9 698 307
Investments in associates and joint ventures	Note 28	234 225	155 967
Intangible assets	Note 29	155 459	102 906
Property, plant & equipment	Note 30	618 705	528 027
Current income tax due		-	37 950
Deferred tax assets	Note 31	567 169	312 700
Other assets	Note 32	337 243	247 490
Total assets		**55 210 084**	**39 181 904**
LIABILITIES			
Deposits from central banks	Note 33	1 242 574	-
Deposits from banks	Note 34	1 957 609	3 145 395
Hedging derivatives	Note 24	68 562	2 054
Financial liabilities held for trading	Note 23	3 253 289	994 187
Deposits from customers	Note 35	43 381 905	30 264 734
Debt securities in issue	Note 36	-	99 348
Current income tax liabilities		10 971	-
Deferred tax liabilities	Note 37	399 028	188 620
Other liabilities	Note 38	475 588	636 797
Total liabilities		50 789 526	35 331 135
Equity			
Share capital	Note 39	729 603	729 603
Other reserve funds	Note 40	2 543 577	1 951 251
Revaluation reserve	Note 41	338 213	360 441
Profit of the current period		809 165	809 474
Total equity		4 420 558	3 850 769
Total equity and liabilities		**55 210 084**	**39 181 904**

in thousands of PLN

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

MOVEMENTS ON EQUITY	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Total
Opening balance as at 31.12.2007	**729 603**	**1 951 251**	**360 441**	**809 474**	**3 850 769**
Change in available for sale investments - increase	-	-	33 543	-	33 543
Change in available for sale investments - decrease	-	-	(7 444)	-	(7 444)
Share scheme charge	-	1 733	-	-	1 733
Cash flow hedge activities	-	-	(24 673)	-	(24 673)
Net (gains)/losses recognised in income statement	-	-	(23 654)	-	(23 654)
Profit for the period	-	-	-	809 165	809 165
Total recognised increase in equity in 2008	**-**	**1 733**	**(22 228)**	**809 165**	**788 670**
Dividend relating to 2007	-	-	-	(218 881)	(218 881)
Transfer to other reserve capital	-	590 593	-	(590 593)	-
As at 31.12.2008	**729 603**	**2 543 577**	**338 213**	**809 165**	**4 420 558**

As at the end of the period revaluation reserve in the amount of PLN 338 213 k comprises of debt securities of (51 895) k and equity shares classified as available for sale of PLN 414 781 k and additionally cash flow hedge activities PLN (24 673) k.

MOVEMENTS ON EQUITY	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Total
Opening balance as at 31.12.2006	**729 603**	**1 785 744**	**505 102**	**592 795**	**3 613 244**
Change in available for sale investments - increase	-	-	14 470	-	14 470
Change in available for sale investments - decrease	-	-	(182 521)	-	(182 521)
Share scheme charge	-	10 474	-	-	10 474
Net (gains)/losses recognised in income statement	-	-	23 390	-	23 390
Profit for the period	-			809 474	809 474
Total recognised increase in equity in 2007	**-**	**10 474**	**(144 661)**	**809 474**	**675 287**
Dividend relating to 2006	-	-	-	(437 762)	(437 762)
Transfer to other reserve capital	-	155 033	-	(155 033)	-
As at 31.12.2007	**729 603**	**1 951 251**	**360 441**	**809 474**	**3 850 769**

As at the end of the period revaluation reserve in the amount of PLN 360 441 k comprises of debt securities and equity shares classified as available for sale of PLN (83 803) k and PLN 444 244 k respectively.

in thousands of PLN

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

	01.01.2008 - 31.12.2008	01.01.2007 - 31.12.2007
Profit before tax	**987 433**	**979 030**
Total adjustments:	**3 127 308**	**1 943 526**
Depreciation	97 611	127 264
Impairment losses	(72)	(854)
Interests and similar charges	(103 005)	(89 587)
Dividend income	(218 331)	(177 978)
(Profit) loss from investing activities	(58 123)	(15 994)
Change in provisions	(36 205)	32 670
Change in trading portfolio financial instruments	280 816	626 510
Change in loans and advances to banks	1 208 963	596 596
Change in loans and advances to customers	(10 503 630)	(5 978 279)
Change in deposits from banks	54 788	1 185 251
Change in deposits from customers	13 117 171	5 801 894
Change in liabilities arising from debt securities in issue	(99 348)	3 451
Change in assets and liabilities arising from deferred taxation	-	2 022
Change in other assets and liabilities	(446 583)	63 063
Paid income tax	(168 195)	(235 363)
Other adjustments	1 451	2 860
Net cash flow from operating activities	**4 114 741**	**2 922 556**
Inflows	**2 546 576**	**3 096 998**
Sale of shares or interests in subsidiaries and associates	3 021	46 780
Sale of investment securities	2 308 655	2 866 290
Sale of intangible and tangible fixed assets	16 559	5 944
Dividends received	218 331	177 978
Proceeds from other investments	10	6
Outflows	**(5 463 274)**	**(4 875 298)**
Purchase of subsidiaries and associates	(81 831)	-
Purchase of investment securities	(5 144 390)	(4 741 120)
Purchase of intangible and tangible fixed assets	(235 468)	(127 757)
Other investments	(1 585)	(6 421)
Net cash flow from investing activities	**(2 916 698)**	**(1 778 300)**
Inflows	**-**	**-**
Outflows	**(233 163)**	**(461 382)**
Repayment of long-term loans	-	(19 156)
Debt securities buy out	(218 881)	(437 762)
Dividends and other payments to shareholders	(14 282)	(4 464)
Other financing outflows	-	-
Net cash flow from financing activities	**(233 163)**	**(461 382)**
Total net cash flow	**964 880**	**682 874**
Cash at the beginning of the accounting period	**2 225 590**	**1 542 716**
Cash at the end of the accounting period	**3 190 470**	**2 225 590**

in thousands of PLN

Additional notes to financial statement of Bank Zachodni WBK S.A.

5. General information about the issuer

Bank Zachodni WBK S.A. is a bank seated in Poland, 50-950 Wrocław, Rynek 9/11, TIN 896-000-56-73, National Official Business Register number (REGON) 930041341, registered in the District Court for Wrocław-Fabryczna, VI Economic Unit of the National Court Registry under 0000008723 number.

Bank Zachodni WBK S.A. is a universal commercial bank that offers a wide range of banking services for individual and business customers and operates in domestic and interbank foreign markets. Additionally, through its subsidiaries, BZ WBK offers the following services:

- intermediation in trading in securities,
- leasing,
- factoring,
- asset / fund management,
- insurance services,
- trading in stocks and shares of commercial companies.

Financial highlights of Bank Zachodni WBK S.A.

	FINANCIAL HIGHLIGHTS	PLN k		EUR k	
	for the period ended:	31.12.2008	31.12.2007	31.12.2008	31.12.2007
	Stand alone financial statements				
I	Interest and similar income	3 017 121	1 957 840	854 200	518 386
II	Fee and commission income	1 111 474	1 000 083	314 678	264 796
III	Operating profit	987 433	979 030	279 560	259 222
IV	Profit before tax	987 433	979 030	279 560	259 222
V	Net profit	809 165	809 474	229 089	214 328
VI	Total net cash flow	964 880	682 874	273 175	180 808
VII	Total assets	55 210 084	39 181 904	13 232 213	10 938 555
VIII	Deposits from banks	1 957 609	3 145 395	469 181	878 111
IX	Deposits from customers	43 381 905	30 264 734	10 397 350	8 449 116
X	Total liabilities	50 789 526	35 331 135	12 172 737	9 863 522
XI	Equity attributable to the Company's equity holders	4 420 558	3 850 769	1 059 476	1 075 033
XII	Number of shares	72 960 284	72 960 284		
XIII	Net book value per share in PLN/EUR	60,59	52,78	14,52	14,73
XIV	Solvency ratio	9,81%	11,36%		
XV	Profit (loss) per share in PLN/ EUR	11,09	11,09	3,14	2,94
XVI	Diluted earnings (loss) per share in PLN/EUR	11,05	11,07	3,13	2,93
XVII	Declared or paid dividend per share in PLN/EUR	-	3,00	-	0,84

The following principles were applied in order to convert financial figures into EUR:

- for balance sheet items – 4.1724 PLN rate to EUR as at 31.12.2008 in National Bank of Poland (NBP), 3.5820 PLN rate to EUR as at 31.12.2007 in NBP
- for profit and loss items - as at 31.12.2008 – 3.5321 (an average PLN mid- rate to EUR in NBP on the last day of each month in 2008), as at 31.12.2007 – 3.7768 (an average PLN mid-rate to EUR in NBP on the last day of each month in 2007)

6. Significant accounting principles

Statement of compliance

The annual unconsolidated financial statements of Bank Zachodni WBK S.A. for the year ended 31 December 2008 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and with respect to matters not regulated by the Standards, in accordance with the Accounting Act dated 29 September 1994 (Journal of Laws of 2002, No. 76, item 694 as amended) and the respective operating regulations, and in accordance with the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market.

New standards and interpretations or changes to existing standards or interpretations that are not yet effective and have not been early implemented

Standard or interpretation	Character of changes	Effective from	Impact on the bank
Revised IAS 1 *Presentation of Financial Statements*	Changed some requirements for presentation of financial statements, introduced a requirement to disclose additional information in particular circumstances; this standard also makes changes to several other accounting standards	1 January 2009	Revised IAS 1 will not have a material impact of the financial statements.
Amendments to IFRS 2 *Share-based payments*	The amendments introduce guidance on accounting for non-vesting conditions. Details were also provided on the definition of vesting conditions, how to account for non-vesting conditions and how to account for cancellations by the entity or the counterparty.	1 January 2009	Amendments to IFRS 2 will not have a material impact of the financial statements.

Revised IFRS 3 *Business Combinations*	The scope of the revised standard has been broadened (some business combinations excluded from the previous version of the standard have now been included). A definition of a business has been refined. The definition of contingent liabilities capable of being recognised in the business combination has been narrowed. Transaction costs have been included in the cost of business combination. Rules of recognition of contingent consideration have been modified. Introduced a rule that non-controlling (minority) interest may be measured at fair value.	1 July 2009	Revised IFRS 3 will not have a material impact of the financial statements.
IFRS 8 Operating *Segments*	The Standard requires segment disclosure based on the components of the entity that management monitors in making decisions about operating matters. Operating segments are components of an entity about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.	1 January 2009	The bank has not yet completed its analysis of the impact of the changes on its operations.

Revised IAS 1 *Presentation of Financial Statements*	The revised Standard requires information in financial statements to be aggregated on the basis of shared characteristics and introduces a statement of comprehensive income. Items of income and expense and components of other comprehensive income may be presented either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of comprehensive income).	1 January 2009	Revised IAS 1 will not have a material impact of the financial statements.
Revised IAS 23 *Borrowing Costs*	The revised Standard will require the capitalization of borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale.	1 January 2009	Revised IAS 23 will not have a material impact of the financial statements.
Amendments to IAS 27 *Consolidated and Separate Financial Statements*	In relation with the revised IFRS 3 (above), the changes introduced to IAS 27 include the following: • changed definition of non-controlling (minority) interest; • regulation of recognition of transactions with minority shareholders; • changed recognition and measurement of loss of control; • new disclosure requirements.	1 July 2009	Amendments to IFRS 27 will not have a material impact of the financial statements.

in thousands of PLN

Amendments to IAS 32: Financial Instruments - *Presentation and IAS 1: Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*	The amendments provide an exemption to the principle otherwise applied in IAS 32 for the classification of some puttable financial instruments as equity. The amendments require certain financial instruments that represent a residual interest in the net assets of an entity, which would otherwise be classified as financial liabilities, to be classified as equity, if both the financial instrument and the capital structure of the issuing entity meet certain conditions.	1 January 2009	Amendments to IAS 32 will not have a material impact of the financial statements.
IFRIC Interpretation 13 Customer Loyalty Programmes	Eliminates the current inconsistencies in practice regarding the accounting treatment of free or discounted goods or services sold under customer loyalty programmes	1 January 2009	This IFRIC 13 will not have a material impact of the financial statements .
Amendment to IAS 39, Financial Instruments: Recognition and Measurement	The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances.	1 July 2009	Amendments to IAS 39 will not have a material impact of the financial statements.

IFRIC 18 Transfers of Assets from Customers	The Interpretation applies to agreements in which an entity receives from a customer an item of property, plant and equipment that the entity must use the PPE received either to connect the customer to a network or to provide the customer with ongoing access to a supply of goods and services, or to do both. This Interpretation also applies to agreements in which the entity receives cash from customer when that amount of cash must be used only to construct or acquire an item of property. The entity that received a contribution in the scope of the interpretation recognises this item as an asset if it determines that the transferred item meets the definition of an asset. The corresponding amount will be recognised as revenue. The exact timing of the revenue recognition will depend on the facts and circumstances of each particular arrangement.	1 July 2009	IFRIC 18 will not have a material impact of the financial statements.

Basis of preparation

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

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

Fixed assets held for sale are measured at the lower of their carrying amount and fair value less cost to sell.

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

Accounting estimates and judgments

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.

Key estimates made by the bank

Loan impairment

The estimation of potential loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, economic climates, conditions in various industries to which Bank Zachodni WBK S.A. is exposed and other external factors such as legal and regulatory requirements. A provision is made against problem loans when, in the judgement of management, the estimated repayment realizable from the obligor, including the value of any security available, is likely to fall short of the amount of exposure outstanding on the obligor's loan or overdraft account. The amount of provision in the bank is intended to cover the difference between the assets' carrying value and the present value of estimated future cash flows discounted at the assets' original effective interest rates.

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

- PD-Probability of default i.e. the likelihood of a customer defaulting on its obligations over the next 12 months,
- LGD-Loss given default i.e. the fraction of the exposure amount that will be lost in the event of default, and
- EP-Emergence period i.e. estimated time between the occurrence of event of default and its identification by the Bank.

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

Write-down due to impairment of non-financial assets

Balance sheet values assets other than deferred tax assets are reviewed as at a balance sheet day to specify whether there are reasons for write-down due to impairment. If there are such reasons, recoverable value of assets should be determined.
In case intangible assets not yet available for use, recoverable value is determined as at every balance sheet day.
Write-down due to impairment is recognized if book value of an asset exceeds its recoverable value and is presented in the profit and loss account.
For other receivables impairment amount has been recognised considering the expected recoverable amounts, and for long term other receivables discounting has been applied.
Asset held for sale at the lower of its carrying amount and estimated fair value less estimated costs to sell.

Fair value of financial instruments

Some of the bank's financial instruments are carried at fair value, including all derivatives, other financial assets at fair value through profit or loss and financial investments available for sale. Financial instruments are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using financial-markets pricing models, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices. The calculation of fair value for any financial instrument may require adjustment of quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used).

Other accounting estimates and judgements

Provisions for employee benefits paid on termination of employment, i.e. post-employment benefits, are estimated on the basis of an actuarial valuation. The actuarial valuation of those accruals is updated at least on an annual basis.

Provisions for legal claims have been estimated considering the expected loss arising on individual cases.

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, are translated at the foreign exchange rate ruling at the balance sheet date. 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. Foreign exchange differences arising on translation are recognised in the income statement except for differences arising on retranslation of available for sale equity instruments, which are recognised in the revaluation reserve.

Financial assets and financial liabilities

Classification

The bank classifies its financial instruments into the following categories:

- financial assets or financial liabilities measured at fair value through profit or loss
- held-to-maturity investments;
- loans and receivables
- available-for-sale financial assets
- other financial liabilities.

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.

(a) Classified as held for trading. A financial asset or financial liability is classified as held for trading if:
   (i) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
   (ii) 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;
   (iii) derivatives are held for trading unless the derivative is a designated and effective hedging instrument.

(b) Upon initial recognition it is designated by the bank at fair value through profit or loss. As at the balance sheet date the bank doesn't hold this category of financial instrument.

Held-to-maturity investments

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the bank's management has the positive intention and ability to hold to maturity. If the bank 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 bank would not utilise the held to maturity classification.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;

(b) those that the entity upon initial recognition designates as available for sale;

(c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

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 and receivables due to reverse repo.

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

(c) financial assets at fair value through profit or loss.

Financial liabilities

Financial liabilities include financial liabilities not classified as those valued at fair value through profit and loss account. Those liabilities are valued at amortised cost and comprise: deposits from banks, deposits from customers, liabilities due to repo transactions and debt securities in issue.

Recognition

The bank recognises a financial asset or a financial liability on its balance sheet when, and only when, the entity becomes a party to the contractual provisions of the instrument.

A standardised purchase or sale transaction of a financial asset classified at fair value through profit or loss 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 in the balance sheet when cash is advanced to the borrowers. At the time of signing the loan agreement, the loans are recognised as off-balance sheet commitments.

Derecognition

Financial assets are derecognised when the contractual rights to the cash flows from the financial assets expire or when the bank transfers the contractual rights to receive the cash flows in a transaction in which substantially all risk and rewards of ownership of the financial asset are transferred.

The bank removes a financial liability (or a part of a financial liability) from its balance sheet when, and only when, it is extinguished — i.e. when the obligation specified in the contract is discharged or cancelled or expires.

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. 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.
After initial recognition, the bank measures financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for:

(a) loans and receivables which shall be measured at amortised cost using the effective interest method;
(b) held-to-maturity investments, which are measured at amortised cost using the effective interest rate;
(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.

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 at fair value through profit or loss is recognised in profit or loss,
- a gain or loss on an available-for-sale financial asset, except for impairment losses, is recognised directly in equity, 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 financial instruments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities) the bank 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 reviewed 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) a legally enforceable right to set off the recognised amounts
(b) and when there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Repo and Reverse Repo

The bank also generates/invests funds by selling/purchasing financial instruments under repurchase/reverse repurchase agreements whereby the instruments must be repurchased/resold at the previously agreed price.
Securities sold subject to repurchase agreements ("repos") are not derecognised at the balance sheet date. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements.
Securities purchased subject to resale agreements ("reverse repos") are not recognised at the balance sheet date. The difference between purchase and resale price is treated as interest and accrued over the life of the agreements.

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).

Certain derivative embedded in other financial instruments shall be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and the host contract is not carried at fair value through profit or loss. Embedded derivatives are measured at fair value with changes recognised through the profit and loss account.

The bank uses derivative financial instruments to hedge its exposure to foreign exchange and 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

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 bank'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 bank 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.

The bank uses derivative financial instruments among others to hedge its exposure to interest rate risks arising from operational, financing and investment activities.

The bank discontinues hedge accounting when:

(a) it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
(b) the derivative expires, or is sold, terminated, or exercised;
(c) the hedged item matures or is sold or repaid.

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 or is an available-for-sale financial asset.

Cash flow hedge

This is a hedge of the exposure to variability in cash flows that

(a) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and
(b) could affect profit or loss.

A cash flow hedge is accounted for as follows: the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised directly in equity and the ineffective portion of the gain or loss on the hedging instrument shall be recognised in profit or loss.

Interest income and expenses from cash flow hedge instruments are recognised in profit & loss statement as net interest income.

Impairment of financial assets

Assets carried at amortised cost – loans and receivables

The bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets, or off-balance sheet commitments are impaired. A financial asset or a group of financial assets, or off-balance sheet commitments are 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 bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the bank 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 bank, including:
    (i) adverse changes in the payment status of borrowers in the bank,
    (ii) national or local economic conditions that correlate with defaults on the assets in the bank.

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

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 bank 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 (those covered by commercial, property or local government rating classifications),
- with reference to the portfolio of credit exposures which individually are not significant.

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

If the bank 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 bank are not included in a collective assessment of impairment.

For the purpose of the 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 bank's credit risk evaluation or the bank'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 bank. 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 bank and their magnitude). The bank 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 bank carries out the impairment analysis based on the concept of losses already incurred but not yet reported and connected with loan impairment (IBNR – Incurred But Not Reported), which is estimated on the basis of the historical loss experience for loans with a similar risk profile, on the basis of estimated period between the occurrence of impairment and the identification as well as evidencing loss, and on the basis of historical data adjustments, as described above.

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

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

Available-for-sale financial assets

For financial assets classified as available-for-sale for which there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss. The amount of the cumulative loss that is removed from equity and recognised in profit or loss shall be the difference between the acquisition cost (net of any principal repayments and amortisation) and current fair value. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

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, 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.

Held-to-maturity investments

If there is objective evidence of impairment of the held-to-maturity investments carried at amortised cost, the impairment loss is the difference between the balance sheet value of the asset and the present value of estimated future cash flows discounted using the original effective interest rate (i.e. the effective interest rate at the date of initial recognition). If the investment is a variable rate instrument, the discount rate used for estimation of impairment is the present effective interest rate set under the particular contract. The balance sheet value of the asset is reduced by the applicable provisions. The loss amount is reflected in the profit and loss account.

Off balance sheet liabilities

The bank creates provisions towards impairment of risk-bearing irrevocable conditional liabilities (irrevocable credit lines, financial guarantees, Letter of Credits, etc). The value of the provision is determined as a difference between the estimated amount of available conditional exposure and the current value of expected future cash flows under this exposure. The provision is reflected in other liabilities.

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

Subsequent expenditure

The bank 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 bank 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
- vehicles 4 years

Depreciation rates are verified annually. On the basis of this verification, depreciation periods might be changed.

Fixed assets held for sale

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

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

Intangible assets

Computer software

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

Costs that are directly associated with the production of identifiable and unique software products controlled by the bank, 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 bank 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. The estimated useful lives are 3 to 5 years.

Depreciation rates are verified annually. On the basis of this verification, depreciation periods might be changed.

Other items

Other trade and other receivables

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

Borrowings

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

Liabilities

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

Impairment of assets other than financial assets

The carrying amounts of the bank's assets, other than financial 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.
An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.
An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Calculation of recoverable amount

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

Equity

Equity comprises capital and funds created in accordance with applicable law, acts and the Statutes. Equity also includes retained earnings and prior year losses carried forward.
Share capital is stated at its nominal value in accordance with the Statutes and the entry in the court register.
Supplementary capital is created from profit allocations and share issue premiums.
Reserve capital is created from profit allocations and is earmarked for covering balance sheet losses.
The result of valuation of profit sharing scheme is included in reserve capital (IFRS 2.53).
Revaluation reserve is comprised of adjustments relating to the valuation of available-for-sale financial assets and adjustments relating to the valuation of effective cash flow hedges taking into account deferred tax. The 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. The effects of the fair value changes are removed from the revaluation reserve with a corresponding change in the profit and loss account.
Net financial result for the accounting year is the profit disclosed in the profit and loss account of the current year adjusted by the corporate income tax charge.

Dividends

Dividends for particular year, which have been declared but not paid at the balance sheet date are recognised as dividend liabilities in "other liabilities" item.

Employee benefits

Short-term service benefits

The bank'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 bank'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 using actuarial valuation method. The valuation of those accruals is updated at least once a year.

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.

Share based payments

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

Provisions

A provision is recognised in the balance sheet when the bank has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.
Provisions for off balance sheet items such as guarantees, letters of credit, and unutilised irrevocable credit facilities are recognised in accordance with this policy.

Net interest income

Interest income and expenses for all financial instruments is recognised in the income statement at amortised cost using the effective interest rate method.
The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the bank 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.
In case impairment is recognized for a financial asset, interest income is accrued based on the carrying amount of receivable (this is the value reduced by revaluation charge) with the use of the interest rate according to which future cash flows were discounted for impairment valuation.

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 in accordance with accrual method.
Net commission income from FX transactions in the branch network includes elements of revaluation.

Net trading income and revaluation

Net trading income and revaluation include all profits and losses resulting from changes in fair value of financial assets and liabilities classified as held for trading that are measured at fair value through profit and loss. Interest costs and incomes related to the debt instruments are also reflected in the net interest income.

Dividend income

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

Profit on disposal of subsidiaries, associates and joint ventures

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

Other operating income and costs

Other operating income and costs include expenses and revenues, which are not related directly to the statutory activity of the bank. 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 is allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Corporate income tax

Corporate income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.
Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.
Deferred income tax is provided, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the balance sheet date and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences will

be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

7. Risk management

BZWBK assumes a variety of risks in its ordinary business activities. These include credit risk, market risk, liquidity risk and operational risk. The role of risk management is to ensure that BZWBK continues to take risk in a controlled way in order to enhance shareholder value. BZWBK's risk management policies are designed to identify and analyse these risks, to set appropriate risk limits continually. BZWBK continues to modify and enhance its risk management practices to reflect changes in Market, products, regulatory environment and evolving best practice.

Primary responsibility for risk management establishment and framework lies with the Management Board (MB). MB formally approves the overall business strategies and policies, reviews Group's financial performance, risk management activities and controls. MB has established committees, which are responsible for risk developing and monitoring in their specified areas: Asset and Liabilities Committee (ALCo), Operational Risk Management Committee (ORMCo) and Credit Committees.

ALCO is chaired by MB President and is responsible for capital, funding, liquidity, market risk and structural balance sheet activities. Upon the recommendation from the ALCo the MB approves the Strategies and Policies for liquidity, market and structural balance sheet risk management along with the limits that define the maximum acceptable exposure to individual risk types.

Risk management is consistent with risk profile resulting from agreed general risk appetite approved by the Management Board.

Operating risk

BZWBK adopted the definition of operational risk from the Basel Banking Supervision Committee which states that an operational risk is exposure to losses resulting from inadequate internal processes or systems, human errors or external factors.

Operational risk is inherent in almost all the Bank's business activities, including the outsourced functions or services delivered jointly with third parties. Each organisational unit in the Bank is fully responsible for identification and management of the operational risks pertaining to its operations. The objective of the operational risk management is to minimise the likelihood of unexpected adverse events.

Bank Zachodni WBK S.A. operates the 'Operational Risk Management Policy' and the 'Rules of Operational Risk Management'. In addition, detailed procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated.

The Operational Risk Management Committee (ORMCo) appointed by the Management Board set the strategic direction for operational risk activities, including in the area of BCM, information security and fraud prevention. ORMCo is a forum for official discussions on operational risk, determines and monitors operational risk management objectives and sets priorities with regard to high risks. The effects of this work are reported to the Management Board.

To ensure adequate risk management and identification of the key threats, the following processes are employed:

- Identification and estimation of operational risk

  In their self-assessment process, organisational units identify risks present in their processes, systems or products, assess inherent and residual risks for their likelihood and consequences, and describe the existing controls. As part of the self-assessment review, potential threats to the bank's business are identified. The risks with high residual rating have proper action plans developed on which progress is reviewed quarterly by ORMCo.

- Reporting on operational incidents and lessons learned

  Each organizational unit is required to report operational incidents on a monthly basis. The data are used to carry out a root-cause analysis of the incidents with a view to ensuring that lessons learned are captured and preventive and corrective measures are actioned. The lessons learned process is a tool aimed to reinforce and facilitate operational risk management; it ensures also that decisive steps are taken if operational incidents materialize.

- Analysis of risk indicators

  Risk indicators are financial and operational indicators which depict the risk level present in Bank Zachodni WBK, and provide early warning of emerging threats and operational losses.

- Business continuity management

  Each organizational unit is required to develop and update their business continuity management plans to ensure that critical business processes remain uninterrupted following an unplanned disruption. The plans also provide for absence of staff. Business continuity plans must be tested at least annually to ensure that it is possible to restore critical business processes at the required service level and within the agreed timeframe. There are backup locations where critical processes can be restored and continued should an incident occur.

- Regular reporting to the Management Board and Supervisory Board

  Operational risk issues are reported to the Management and Supervisory Board, including: operational risk incidents, risk indicators, operational risk self-assessment.

- Insurance

  The bank’s insurance cover includes the following insurance lines: Bankers’ Bond, Computer Crime and Officers & Directors.

Bank Zachodni WBK S.A. co-operates closely with the AIB Group in the area of development and implementation of strategies and policies for operational risk management, selection and launch of supporting instruments, and ensuring compliance with the requirements of the New Capital Accord.

Credit risk

Bank Zachodni WBK's credit delivery activities focus on growing a high quality loan-book with a good yield and customer satisfaction.

Credit risk is defined as the possibility of suffering a loss as a result that a borrower will fail to meet its credit obligation, including interest and fees. Credit risk arises from the impairment of credit assets and contingent liabilities, resulting from worsening of the borrower's credit quality. Credit risk measurement is based on the estimation of credit risk weighted assets, with the relevant risk weights representing both the probability of default and the potential loss given default of the borrower.

Credit risk arises mainly from lending activities on the retail, corporate and inter-bank markets. This risk is managed as part of the policy approved by the Management Board on the basis of the adopted credit delivery procedures as well as on the basis of discretionary limits allocated to individual credit officers based on their knowledge and experience. The bank's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan book.

The bank's credit risk management involves actions taken as a result of the on-going analysis of the macroeconomic environment and the internal review of the individual credit portfolios. The advanced credit risk assessment tools allow quick management action to be taken in response to the first signals of changes in the portfolio quality or structure. In the second half of 2008, due to the strong market volatility and the indications of economic slowdown, the bank revised its approach to credit risk management, applied new parameters to its risk measurement methods and tightened its (already conservative) credit policies. The high quality of the credit portfolio confirms that these actions have been effective.

Credit Policy Forum

To manage the credit risk effectively, Bank Zachodni WBK S.A. established the Credit Policy Forum whose key role is to provide and approve the best sectoral practice, analyses, credit policies as well as grading and assessment systems aimed at ensuring sustainable growth of the credit portfolio, addressed for the Bank's Branch Network and Business Support Centre units directly responsible for business development and support.

Credit Policies

Credit policies contain guidelines for the identification and assessment of areas where specific types of risks manifest themselves and also provide the methods of limiting those risks to a level acceptable to the bank (e.g. FX risk in the case of foreign currency loans).

At the same time, credit policies are subject to periodical reviews aimed to bring these guidelines up to date with the bank's current needs.

Credit Grading

Intensive work has been undertaken to further develop credit risk assessment tools to conform to the Basel requirements and IAS/IFRS. These efforts are accomplished based on AIB Group expertise and best practices, as well as in close liaison with external, internationally recognized advisors.

Currently the bank uses new credit risk grading models for its key credit portfolios, including corporate customers, SMEs, housing loans, income-generating real estate, cash loans, credit cards and retail overdrafts.

The Bank carries out monitoring of credit grading periodically according to the rules described in Credit Manuals. Additionally, for selected models automated process of credit grade verification is carried out based on the number of due days or behavioural features analysis of clients. Change of credit grade may result from the subsequent credit approval decisions or in case of arising new circumstances that are basis for reclassification.

Provisioning

In Bank Zachodni WBK S.A. and its subsidiaries provisions are raised in accordance with the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS). The provisions reflect credit impairment which is recognised if the bank presents an objective evidence that such amounts cannot be recovered in line with the signed loan agreement.

The objective evidences of impairment were defined in accordance with recommendation of Basel Committee and with the International Accounting Standards (IAS 39), which were described in the section of accounting policies concerning valuation of assets carried at amortised cost.

The impairment is calculated on the basis of the estimated recoverable amount. Impairments are analysed using both the individual and collective approach.

Ensuring adequate level of provisions is the responsibility of the Provisions Committee.

Credit risk stress testing

Stress testing is a part of the credit risk management process used to evaluate potential effects of specific events or movement of a set of financial and macroeconomic variables or change in risk profile on Bank's condition. Stress tests are composed of assessment of potential changes in credit portfolio quality when faced with adverse conditions. The process also delivers management information about adequacy of agreed limit and internal capital allocation.

Return on Risk

Bank Zachodni WBK S.A. continues to develop and implement risk based methods of grading loans, allocating capital and measuring returns. Currently for all significant portfolios risk valuation models based on EVA (Economic Value Added) are being implemented.

Credit Decision Making Process

The credit decision-making process as part of the risk management policy is based upon Individual Credit Discretions vested in credit officers, commensurate with their knowledge and experience relating to particular activities (retail banking, corporate banking and SMEs). Credit exposures in excess of PLN 25 m are referred to the Credit Committee composed of senior management and top executives of Bank Zachodni WBK S.A.

Bank Zachodni WBK S.A. continually strives to ensure best quality credit service to meet the borrowers' expectations and relevant risk policy standards. To this end, the credit risk approval function has been separated from the sales function. Credit decision making functions and sales functions are combined only at the Branch Banking level and these are limited to exposures up to a pre-defined ceiling. The responsibility for credit decisions and loan portfolio quality assurance lies with the Chief Credit Officer and reporting managers.

In order to ensure better risk management, the bank implemented scoring techniques for retail customers, SMEs and home mortgages. The scoring systems are continuously refined to enhance the quality of risk management and the decision-making process.

Credit Reviews

The bank performs regular reviews to the quality of the credit portfolio, to confirm that adequate credit grading and provisioning processes are in place and to objectively assess professionalism in credit management. The reviews are performed by the Credit Review Department and Quality Assurance Department which are a function independent of risk-taking units.

Credit risk concentration

Bank Zachodni WBK adheres to the standards provided for in the Banking Law with regard to the concentration of risk bearing exposures to a single entity or a group of entities connected in terms of capital or organisation. As at 31.12.2008, pursuant to art. 71 of the Banking Law Act, the maximum limits for the bank totalled:

- PLN 789 616 k (20% of bank's own funds) in the case of exposures to subsidiary or dominant entities or to subsidiary entities of the entity dominant for the bank,
- PLN 987 020 k (25% of bank's own funds) in other cases.

The policy pursued by the bank aims at minimising the credit concentration risk, by for example applying more rigorous than regulatory rules in this respect, which are set out in the Large Exposures Policy. The effect of this policy is maintenance of high level of diversification of exposures towards individual customers.

The analysis of the bank's exposures in terms of sector concentrations, carried out at the end of December 2008, proved that the bank does not have any exposures in excess of the limits imposed by the regulator.

As at 31 December 2008, the bank had credit exposures (balance sheet and off-balance sheet) exceeding 10% of its own funds attributable to 4 entities which accounted for 67,4% of own funds (against the permissible norm of 800%).

in thousands of PLN

A list of the 20 largest borrowers of Bank Zachodni WBK SA (performing loans) as at 31.12.2008 (excluding subsidiaries).

No.	Industry code (PKD)	Total credit exposure	Balance sheet exposure	Committed credit lines and guarantees
1	68.00	777 827	730 160	47 667
2	68.00	704 508	293 348	411 160
3	68.00	739 376	664 461	74 915
4	68.00	485 726	266 084	219 642
5	41.00	367 666	181 266	186 400
6	41.00	363 697	286 947	76 750
7	68.00	313 764	169 548	144 216
8	11.00	310 000	213 586	96 414
9	68.00	301 923	-	301 923
10	68.00	324 196	211 348	112 848
11	41.00	271 206	158 247	112 959
12	68.00	262 785	166 189	96 596
13	16.00	281 050	121 837	159 213
14	68.00	260 911	245 411	15 500
15	41.00	237 153	237 153	-
16	68.00	270 772	194 197	76 575
17	43.41	219 462	164 603	54 859
18	41.00	211 950	189 467	22 483
19	68.00	209 049	147 268	61 781
20	70.20	197 517	174 214	23 303
Total gross exposure		**7 110 538**	**4 815 334**	**2 295 204**

Credit risk management

The bank’s credit risk management depends on internal ratings that, for presentational purposes, are grouped in provision cover differentiated classes.

The tables below present the bank exposure to credit risk.

in thousands of PLN

Credit Exposures by classes

The table below presents breakdown of financial instruments into classes which correspond to different levels of impairment. There are separate percentage levels for unimpaired portfolio (both for the past-due and non-past due) and for impaired portfolio (identical for individually and collectively impaired).

	Provision cover	Loans and advances to customers		Loans and advances to banks		Investment securities		Financial assets held for trading*	
		31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Individually impaired									
class 5	*up to 50 %*	288 661	112 672						
class 6	*50% - 70%*	96 352	453						
class 7	*70% - 85%*	26 284	16 147						
class 8	*over 85 %*	170 799	168 273	5 969	5 969				
Gross amount		**582 096**	**297 545**	**5 969**	**5 969**				
Allowance for impairment		(295 231)	(196 243)	(5 969)	(5 969)				
Net amount		**286 865**	**101 302**	-	-	-	-	-	-
Collectively impaired									
class 5	*up to 50 %*	105 383	129 307						
class 6	*50% - 70%*	71 023	58 917						
class 7	*70% - 85%*	109 216	102 947						
class 8	*over 85 %*	97 617	72 117						
Gross amount		**383 239**	**363 288**	-	-	-	-	-	-
Allowance for impairment		(250 092)	(228 238)						
Net amount		**133 147**	**135 050**	-	-	-	-	-	-
Not impaired portfolio (past-due and non-past due)									
class 1	*up to 0,10 %*	8 730 796	5 013 546	1 347 832	2 563 755	12 894 385	9 698 307	3 222 357	1 142 060
class 2	*0,10% - 0,30%*	6 992 635	4 365 173						
class 3	*0,30% - 0,65%*	6 999 737	5 039 035						
class 4	*over 0,65 %*	9 308 798	7 582 646						
Gross amount		**32 031 966**	**22 000 400**	**1 347 832**	**2 563 755**	**12 894 385**	**9 698 307**	**3 222 357**	**1 142 060**
Allowance for impairment		(304 554)	(131 612)					-	
Net amount		**31 727 412**	**21 868 788**	**1 347 832**	**2 563 755**	**12 894 385**	**9 698 307**	**3 222 357**	**1 142 060**
Other receivables		**506 839**	**45 493**	-	-	-	-	-	-
Off- balance sheet exposures									
Financing granted		9 847 961	8 183 465						
Guarantees		950 992	795 055						
Nominal value of derivatives -sold								116 147 307	115 492 616
Off- balance sheet exposure- total		**10 798 953**	**8 978 520**	-	-	-	-	**116 147 307**	**115 492 616**

*the value of financial assets held for trading includes adjustment of the fair value as described in Note 23.

in thousands of PLN

IBNR portfolio

	Loans and advances to customers 31.12.2008	31.12.2007
Not impaired portfolio		
Non-past due	**31 178 095**	**21 521 171**
Past-due	**853 871**	**479 229**
0-30 days	736 450	382 041
30-60 days	86 124	73 314
60-90 days	29 175	21 834
>90 days	2 122	2 040
Gross amount	**32 031 966**	**22 000 400**

Allowances for impairment by classes

	Provision cover	Loans and advances to customers 31.12.2008	31.12.2007	Loans and advances to banks 31.12.2008	31.12.2007
Individual allowances for impairment					
class 5	*up to 50 %*	(47 816)	(16 382)		
class 6	*50% - 70%*	(56 840)	(301)		
class 7	*70% - 85%*	(20 942)	(12 016)		
class 8	*over 85 %*	(169 633)	(167 544)	(5 969)	(5 969)
Total individual allowances for impairment		**(295 231)**	**(196 243)**	**(5 969)**	**(5 969)**
Collective allowances for impairment					
class 5	*up to 50 %*	(23 762)	(38 421)	-	-
class 6	*50% - 70%*	(42 981)	(37 099)	-	-
class 7	*70% - 85%*	(87 211)	(80 867)	-	-
class 8	*over 85 %*	(96 138)	(71 851)	-	-
Total collective allowances for impairment		**(250 092)**	**(228 238)**	**-**	**-**
IBNR					
class 1	*up to 0,10 %*	(4 368)	(3 221)	-	-
class 2	*0,10% - 0,30%*	(13 169)	(8 095)	-	-
class 3	*0,30% - 0,65%*	(32 718)	(23 309)	-	-
class 4	*over 0,65 %*	(254 299)	(96 987)	-	-
Total IBNR		**(304 554)**	**(131 612)**	**-**	**-**
Total allowances for impairment		**(849 877)**	**(556 093)**	**(5 969)**	**(5 969)**

As at 31 December 2008, as a result of significant changes in the economic environment, the bank has made adjustments to the level of incurred but not reported losses. To include current factors influencing the credit risk, which are reflected in the value of parameters based on the historic data and according to IAS 39.62 the Group has made the required adjustments.

Collateral

The tables below present different forms of collaterals that can be used against loans and advances to customers from non-banking sector.

Individual customers

Type of loan	Type of collateral
Cash loan	bills, guarantees, credit insurance
Credit on liquid assets	guaranty deposit, amounts frozen on account, investment funds
Student loan	sureties
Housing loan	mortgage, credit insurance, transfer of claim

Business customers

Type of loan	Type of collateral
Commercial credit	guaranty deposit, registered pledge, bills
Revolving credit	assignment of credit, bills, guarantees, registered pledge
Building credit	mortgage
Investment credit	mortgage, sureties, warranty
Granted and with supplements	guarantees, warranty

Managing its receivables, BZ WBK carries out the process of collateral execution. Selection of proper action towards execution of specific collateral depends on the type of the collateral (personal or tangible). In principle Bank aims at voluntary proceedings in the course of collateral execution. When there is no evidence of cooperation with a collateral provider, the Bank's rights are fulfilled in compliance with the law and internal regulations in the bankruptcy and enforcement proceedings.

Industry concentration

The credit policy of Bank Zachodni WBK envisages lending to low risk industries and reduction of exposures to medium and high risk industries. In order to ensure adequate portfolio diversification and control the risk of overexposure to a single industry, the bank provides funding to sectors and groups or capital units representing a variety of industries. As at 31 December 2008, the highest concentration level was recorded in the "property" (20% of the BZ WBK exposure), in " production" (14%) and " construction" (13%).

in thousands of PLN

Groups of PKD by industries:

	Industry	Exposure 31.12.2008	Exposure 31.12.2007
	Property	6 803 955	5 780 776
	Construction*	4 651 422	885 170
	Production	4 438 133	3 464 907
	Distribution	3 125 636	2 423 852
	Financial sector	1 410 218	1 244 671
	Agriculture	685 547	658 295
	Transportation	411 167	324 311
	Energy	314 931	275 829
	Other industries	1 887 291	1 493 679
A	**Total Business Loans**	**23 728 300**	**16 551 490**
B	**Personal (including mortgage loans)**	**9 171 187**	**6 043 147**
A+B	**BZWBK portfolio**	**32 899 487**	**22 594 637**
C	**Other receivables (commercial bonds, reverse repo)**	**466 232**	**22 904**
A+B+C	**Total BZ WBK**	**33 365 719**	**22 617 541**

Nominal value of portfolio adjusted for unamortised commissions
*Increase of credits in Construction industry results from a significant increase of commercial property lending and from the change in their PKD classification made in April 2008 (from Property Service to Construction industry).

Geographical concentration

BZ WBK Group is concentrated on running credit activities in the territory of the Republic of Poland – exposure towards non-residents represents a marginal part of the bank's portfolio.

In Poland, the credit activities are nationwide with a focus on the marketplace of large cities (Warszawa, Poznań, Wrocław, Gdańsk, Kraków, Łódź), which stems from the location of the bank's business units – branches and Corporate Business Centres and Business Banking Centres.

The bank's operational structure is based on twelve regions: Poznań, Wielkopolska Północ, Wielkopolska Południe, Pomorsko-Kujawski, Pomorsko-Lubuski, Warszawa, Łódzki, Wrocław, Śląski, Dolnośląsko-Opolski, Dlonośląski-Zachód and Małopolsko-Podkarpacki. Concentration in Warsaw region accounts for 40% of the bank's total exposure, in Poznań region 10% and Wrocław 8%.

	31.12.2008	31.12.2007
Bank BZ WBK*	**33 528 455**	**22 725 073**
Region Warszawa***	13 253 832	7 821 201
Region Poznań	3 326 902	2 669 507
Region Wrocław	2 529 291	1 741 990
Region Pomorsko-Lubuski	2 070 451	1 581 813
Region Pomorsko-Kujawski	1 937 109	1 676 862
Region Wielkopolska Południe	1 897 609	1 482 601
Region Dolnośląsko-Opolski	1 641 067	1 258 388
Region Małopolsko-Podkarpacki	1 527 066	968 298
Region Dolnośląski Zachód	1 473 702	1 140 661
Region Wielkopolska Północ	1 200 652	860 699
Region Śląski	1 067 819	644 347
Region Łódzki	950 168	478 600
Credit cards and other**	652 787	400 106

* Nominal value of credit portfolio
**Not allocated to regions
***In 2008 this items includes commercial loans managed by Warsaw CBC originated in different branches outside of Warsaw

As a result of reorganization of regions and canceling macro-regions in September 2008 following regions have been merged with others: Lubuski, Zachodnio-Pomorski and Pomorsko-Mazurski. Comparative figures for 2007 have been adjusted.

Market risk

Market risk is defined as an adverse earnings impact of changes in interest rates, FX rates, share quotations, stock exchange indices, etc. It arises in trading activity as well as in the ordinary course of transacting business (exchange rate products, interest rate products, equity linked trackers).

General principles of market risk management

The key objective of the market risk policy pursued by the bank is to reduce the impact of interest and FX rate changes on the bank's profitability and market value as well as to grow income within the strictly defined risk limits while ensuring the bank's liquidity.

Market risk activities and strategies are directly supervised by ALCO which also recommends policies and strategies to Management Board for approval. BZWBK's market risk policies set a number of measurement and risk limitation parameters in the form of limits, mandatory and monitoring ratios. The key risk limits are set in relation to the capital base level which can be used to cover potential losses. Measurement and limits setting methodologies are described below. Risk limits are periodically reviewed to align them with the bank's strategy and the current objectives of the bank.

Interest rate and FX risks incurred in other Divisions are transferred on to Treasury Division where qualified personnel using the appropriate systems and controls manage them centrally.

In order to reduce the structural balance sheet risk and ensure a stable income stream for the Group, a special debt securities portfolio was established funded by a pool of net interest rate insensitive liabilities. According to the Policy approved by the Management Board, any decisions relating to the value or structure of this portfolio are taken by ALCO. Treasury Division as a unit managing BZWBK's centralized market risk exposure has responsibility for the funding and liquidity management as well as executing deals on behalf of ALCO.

For the above reason the market risk policies include the operational Treasury limit set by the Bank Director in charge of Treasury Division. This limit is established in accordance with Treasury business strategy and approved at AIB Group level.

Additionally, in order to curtail losses on the trading portfolio, a stop-loss limit is in place, which allows trading positions to be closed in the event of losses exceeding the stated limit.

Within Treasury Division, there is a dedicated market risk control unit responsible to ensure that the risk measurement methodologies used are appropriate for the risk being taken and that risk monitoring and control procedures are in place.

Market risk generated by equity instruments - which exists in Brokerage House' portfolio - (shares, stock exchange indices) is managed by the BZ WBK Brokerage House and supervised by Market Risk Committee.

Measurement methods

BZWBK uses several risk measures to asses market risk exposure : Value at Risk (VaR), sensitivity measures and stress testing.

VaR is determined as a difference between the market value of positions calculated using the current market prices/rates and the market values based on "worst case" movements in market rates. VaR is calculated separately for interest rate, FX and equity risk.

The limitations of VaR measurements are well known (among others VaR does not provide prediction of the maximum worst case losses, predicts future based on historical data, assumes static exposure over holding period). They stem from the need to make assumptions about the spread of likely future price and rate movements. BZWBK supplements its VaR methodology with sensitivity measures, which present how much the value of position could change for a given change in rates/prices. The sensitivity is measured at product, currency, desk and economic intent (trading, banking, hedging) levels. These measures can also be used to decide on hedging activities. Decision can be taken to close out positions when the level of sensitivity combined with the likelihood of a rate or price change exposes BZWBK to too high a potential loss in value. VaR and sensitivities measures provide estimates of probable maximum loss in normal market conditions. Stress tests are used to supplement these measures by estimating possible losses that may occur under extreme market conditions.

Interest rate risk

The risk is that changes in interest rate will have adverse effects on earnings and on the value of BZWBK's assets and liabilities. The main source of interest rate risk are transactions entered in the bank's corporate centres or branches and transactions entered in the money market by the Treasury Division. Additionally, interest rate risk can be generated by transactions concluded by other units, e.g. through acquisition of municipal / commercial bonds, or the bank's borrowings in the interbank market. However all positions which generate a repricing risk are transferred by way of a system of internal contracts to the Treasury Division. Then the bank's dealers are responsible for investing surplus funds in relevant instruments in order to ensure a risk and reward balance for the interest rates affecting the bank's balance sheet and instruments portfolio.

Interest rate risk is managed by setting limits on Value at Risk from the open interest rate risk of Treasury. VaR is determined as a difference between the market value of the interest rate position calculated using the current profitability curve and the worst-case profitability curve, which is based on a volatility of interest rates at a 99% confidence level for a three-year interest rate history. Volatility is based on a one-month position maintenance period. VaR is set both for the trading portfolio and the banking portfolio. The measurement excludes the securities portfolio managed by ALCO and used to hedge against the structural balance sheet risk. A stop-loss limit framework is also used to manage the risk of loss from positions that are subject to mark-to-market accounting. Stress tests are used to supplement above measures by estimating possible losses that may occur under extreme market conditions. These are based on current sensitivity reports and sets of assumed extreme 1 day and 1 month rates movements reported over the last 7 years.

in thousands of PLN

The table below presents risk levels in 2008 and 2007 (both measures assume 1 month holding time horizon):

Interest Rate Risk (PLN k)	***Value at Risk***		***Stress Scenario***	
1 month holding period	*2008*	*2007*	*2008*	*2007*
Average	20 995	19 380	142 177	100 767
High	28 596	26 096	177 608	148 326
Low	12 698	8 944	101 898	38 148
31st December	20 059	18 253	102 707	119 289

The Treasury Division operates within an operational VaR risk limit, which amounted to PLN 62 586 k (EUR 15 000 k) at the end of December 2008. The limit was increased (from EUR 10 000k) in 2008 due to dynamic changes in Bank's balance sheet profile.

Interest rate risk management is centralised to enhance its effectiveness, while maintaining segregation of risk measurement and risk control functions.

In managing interest rate risk, a distinction is made between trading and banking/investment activity. The trading book includes securities and derivatives that are held for trading purposes in Treasury. These are revalued daily at market prices and any changes in value are recognised in the profit and loss account. BZWBK's banking book consists of branch banking loans and deposits, Treasury investment portfolio and derivatives dedicated for hedge accounting purposes.

The tables below present the sensitivity of trading and banking portfolios at the end of 2008 and comparable period:

Interest Rate Risk (PLN k)	***Sensitivity 31-12-2008***		
parallel increase of yield curves by 1 bp	Trading book	Banking book	Total
0-3m	12	30	42
3m-1Y	5	(71)	(66)
1Y-5Y	(25)	(280)	(305)
over 5Y	2	(15)	(13)
Total	**(6)**	**(336)**	**(342)**

Interest Rate Risk (PLN k)	***Sensitivity 31-12-2007***		
parallel increase of yield curves by 1 bp	Trading book	Banking book	Total
0-3m	(62)	(61)	(123)
3m-1Y	138	(32)	106
1Y-5Y	(38)	(325)	(363)
over 5Y	(7)	(16)	(23)
Total	**31**	**(434)**	**(403)**

in thousands of PLN

The structural balance sheet risk is defined as the Bank's sensitivity to income volatility in its non-trading activity arising from movements in interest rates. Interest rate volatility affects the Bank's income from the investment of capital and from free current account balances (net interest rate insensitive liabilities (NIRIL)). The key objective of such approach is to smooth level of Net Interest Income over time.

The supervision role over that risk is also in ALCO responsibility. The level of such risk is closely monitored and actively managed through separate assets portfolios (NIRIL Portfolios): capital NIRIL (funding of capital over the fixed assets), business NIRIL (funding of non interest bearing liabilities). The NIRIL Portfolios consists of safe and liquid assets, which are also treated as liquidity reserve. The decision maker role in relation to those portfolios is taken by ALCO and Treasury executes such decisions.

The following tables present interest rate sensitivities of each NIRIL portfolios at the end of 2008 and 2007:

Interest Rate Risk (PLN k)	***Sensitivity 31-12-2008***		
parallel increase of yield curves by 1 bp	Capital portfolio	Business portfolio	Total
0-3m	-	-	-
3m-1Y	(52)	(26)	(78)
1Y-5Y	(1036)	(590)	(1 626)
over 5Y	-	(471)	(471)
Total	**(1 088)**	**(1 087)**	**(2 175)**

Interest Rate Risk (PLN k)	***Sensitivity 31-12-2007***		
parallel increase of yield curves by 1 bp	Capital portfolio	Business portfolio	Total
0-3m	-	-	-
3m-1Y	(40)	(20)	(60)
1Y-5Y	(952)	(402)	(1 354)
over 5Y	(61)	(448)	(509)
Total	**(1 053)**	**(870)**	**(1 923)**

FX risk

FX risk is the risk that adverse movements in foreign exchange rates will result in losses. This risk is managed by setting limits on the Value at Risk based on the total open FX position of the bank. VaR is determined by means of a statistical modelling process. VAR is the potential loss on open FX positions at a 99% confidence level where open positions are maintained for 10 business days. Statistical parameters are set on the basis of a 3-year history of exchange rates. Stress tests are used to supplement above measure by estimating possible losses that may occur under extreme market conditions. These are based on current FX exposure and assumed extreme rates movements scenarios over the last 3 years (calculations are provided for 1 day and 10 days holding periods). A stop-loss limit framework is also used to manage the risk of loss from trading position.

in thousands of PLN

According to it's policy the Bank does not maintain open positions in FX options. Transactions concluded with clients are at the same time closed at the inter-bank market, thus the Bank is not exposed to market risk. As a result of recent high volatility of FX rates, individual clients' exposures have been analysed, stress-tests have been made both for inter-bank and commercial counter-parties. Having analysed exposures and the financial standing of clients, the Bank has made fair value adjustments of particular exposures against the credit risk of potential default in settlement.

Open positions of subsidiaries are negligible and are not included in the daily risk assessment.

The table below presents risk levels in 2008 and 2007 (data for both measures are scaled to 1 month holding period to make it comparable to other risks):

FX Risk (PLN k)	***Value at Risk***		***Stress Scenario***	
1 month holding period:	*2008*	*2007*	*2008*	*2007*
Average	897	882	4 370	3 501
High	3 240	2 483	14 706	7 343
Low	160	44	842	303
31st December	886	322	6 228	3 139

The Treasury Division operates within an operational VaR risk limit, which amounted to PLN 2 950 k (EUR 707 k). Once off excess above the limit has been rectified and reported to relevant Bank's Units.
FX risk management is centralised for maximum effectiveness, while maintaining segregation of risk measurement and risk control functions.

The tables below present a currency breakdown of the selected balance sheet items as at 31.12.2008 and 31.12.2007.

31.12.2008	**PLN**	**EUR**	**CHF**	**OTHER**	**TOTAL**
ASSETS					
Cash and balances with central bank	2 798 689	256 638	7 954	114 818	3 178 099
Loans and advances to banks	1 073 549	134 905	2 430	136 948	1 347 832
Loans and advances to customers	20 706 133	8 733 388	2 424 298	790 444	32 654 263
Investment securities	12 156 115	655 238	-	83 032	12 894 385
Selected assets	**36 734 486**	**9 780 169**	**2 434 682**	**1 125 242**	**50 074 579**
LIABILITIES					
Deposits from central bank	1 242 574	-	-	-	1 242 574
Deposits from banks	800 932	938 945	56 040	161 692	1 957 609
Deposits from customers	39 180 665	2 945 924	41 482	1 213 834	43 381 905
Selected liabilities	**41 224 171**	**3 884 869**	**97 522**	**1 375 526**	**46 582 088**

in thousands of PLN

31.12.2007	PLN	EUR	CHF	OTHER	TOTAL
ASSETS					
Cash and balances with central bank	1 969 927	153 718	1 976	80 638	2 206 259
Loans and advances to banks	1 900 985	409 756	29 071	223 943	2 563 755
Loans and advances to customers	16 220 634	4 985 325	563 270	381 404	22 150 633
Investment securities	8 826 738	677 157	-	194 412	9 698 307
Selected assets	**28 918 284**	**6 225 956**	**594 317**	**880 397**	**36 618 954**
LIABILITIES					
Deposits from banks	1 623 455	1 117 546	29 840	374 554	3 145 395
Deposits from customers	26 290 453	2 701 385	29 696	1 243 200	30 264 734
Debt securities in issue	99 348	-	-	-	99 348
Selected liabilities	**28 013 256**	**3 818 931**	**59 536**	**1 617 754**	**33 509 477**

During the year 2008 there was an increase in currency balance sheet gap in EUR, CHF resulting mainly from the credit activity. Those positions were closed by the off-balance sheet transactions i.e. cross-currency forward and swap in order to secure financing these positions and to eliminate impact of exchange rates on the Bank's financial statements.

Liquidity risk

ALCO has overall responsibility for the supervision of liquidity risk and advises the Management Board on appropriate strategies and policies for strategic liquidity management and funding. In 2008, based on ALCO recommendation, the Management Board approved the new Liquidity Policy (incorporating regulatory requirements of KNB resolution no. 9/2007) and Longterm Assets Funding Strategy.

The bank's policy in case of short-term liquidity sets a limit on outflow of funds to a level where the outflow is covered by expected inflows and/or liquid assets (mainly securities), which can be sold or pledged in repo transactions or through a Lombard loan with the Central Bank.

The bank is obliged to maintain necessary funds to allow for anticipated withdrawals of term deposits, demand deposits, loan payments, guarantee payments and settlements.

The liquidity is assessed using a modified gap report, which is constructed separately for PLN and for other currencies. In line with the Liquidity Policy, the reported contract positions are subject to a number of modifications based on: statistical data on the behaviour of the deposit and credit base, estimated capacity to liquidate State Treasury securities by selling or pledging them in repo transactions or in lombard loan with NBP estimated roll-over of transactions in the interbank market. A liquidity gap is determined and applied to establish liquidity ratios, based on the projected consolidated outflows to the projected consolidated inflows in a time period. The liquidity policy specifies the minimum ratios for time periods up to one week, up to one month and over one month. The ratios are set for PLN and other currencies. If a "shortage" of PLN or other currencies occurs, a surplus of foreign currency / PLN can be used to cover the shortage of PLN / foreign currency, however the value of such a conversion is limited

in thousands of PLN

depending on assessment of the possibilities of the conversion in the wholesale market.
The Liquidity Policy adopted by the Management Board obliges the bank to maintain funds to cover 100% of the expected outflows in the one-month time horizon., the Bank was compliant with the above requirements. Also, for the limits indicated above there are a number of ratios set daily to support the liquidity management process (e.g. loans to deposits ratio, ratio of dependence on wholesale market financing).
In case of long-term liquidity, the Bank applies regulatory limit, requiring capital and stable funding source to cover loans portfolio and non-liquid assets (e.g. fixed assets).
The Bank is obliged to calculate regulatory liquidity measures and has been compliant with requirements during 2008.

The liquidity profile of the Bank based on the Treasury management report at the end of 2008 and 2007 is presented below:

Liquidity Risk (PLN k)	<1W	<1M	>1M
31-12-2008			
Qualifying Liquid Assets	11 382 962	566 522	1 300 540
Treasury inflows	2 476 074	6 961 845	12 223 334
Other inflows	629 768	249 314	36 286 296
Treasury outflows	(2 263 818)	(7 564 051)	(14 016 408)
Other outflows	(5 284 241)	(516 776)	(42 431 390)
GAP	**6 940 744**	**(303 117)**	**(6 637 627)**
Cumulative Gap	**6 940 744**	**6 637 627**	**-**

As a result of a deposit gathering campaign, the Group gained significant value of deposits, which in part financed liquid assets (securities) and this was the main reason of changes in the modified gap profile.

Liquidity Risk (PLN k)	<1W	<1M	>1M
31-12-2007			
Qualifying Liquid Assets	7 723 242	638 616	4 320
Treasury inflows	4 812 733	3 428 689	14 187 238
Other inflows	1 596 578	103 828	25 646 786
Treasury outflows	(5 345 371)	(3 292 012)	(14 135 866)
Other outflows	(7 526 877)	(738 332)	(27 103 570)
GAP	**1 260 304**	**140 789**	**(1 401 093)**
Cumulative Gap	**1 260 304**	**1 401 098**	**-**

The tables below show the gap arising from contractual maturity terms as end of 30 2008 and in the comparable period. During the year there was an increase in customer deposits, which are characterised by a shorter maturity term. However, the previous behaviour of the deposit base indicates that a significant part of these funds will remain with the Group. Due to deposits roll-over, these liabilities provides a stable source of funding and in the modified gap report (presented below) is reflected in longest maturity time buckets. At the same time the Bank maintains a significant value of securities used to hedge the liquidity position (sale, deposit under repo transactions or Lombard loan).

in thousands of PLN

31.12.2008	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	total
Loans and advances to bank	1 212 459	141 342	-	-	-	-	(5 969)	1 347 832
Financial assets held for trading	396 878	580 752	1 589 705	408 902	106 352	139 768	-	3 222 357
Loans and advances to customers	1 947 967	1 884 200	7 064 739	7 953 736	4 576 451	10 077 047	(849 877)	32 654 263
Investment securities	15 956	599 846	2 604 010	3 437 478	4 080 804	1 518 129	638 162	12 894 385
Other assets	-	-	-	-	-	-	5 091 247	5 091 247
Long position	**3 573 260**	**3 206 140**	**11 258 454**	**11 800 116**	**8 763 607**	**11 734 944**	**4 873 563**	**55 210 084**
Deposits from Central Bank and banks	1 953 985	1 246 198	-	-	-	-	-	3 200 183
Financial liabilities held for trading	739 379	570 716	1 155 256	612 213	92 033	83 692	-	3 253 289
Deposits from customers	31 300 941	8 842 327	2 673 585	418 241	146 799	12	-	43 381 905
Other liabilities	-	-	-	-	-	-	5 374 707	5 374 707
Short position	**33 994 305**	**10 659 241**	**3 828 841**	**1 030 454**	**238 832**	**83 704**	**5 374 707**	**55 210 084**
Gap-balance sheet	**(30 421 045)**	**(7 453 101)**	**7 429 613**	**10 769 662**	**8 524 775**	**11 651 240**	**(501 144)**	
Off balance sheet liabilities- sanctioned								
Financing related	255 845	616 947	3 852 153	2 902 112	649 283	1 581 190	(9 569)	**9 847 961**
Guarantees	63 263	120 928	263 099	362 939	137 475	5 694	(2 406)	**950 992**
Derivatives settled in gross terms								
Inflows	7 883 443	4 026 456	6 462 310	2 190 333	44 325	364 073	-	**20 970 940**
Outflows	8 205 177	4 170 829	6 517 716	2 515 655	38 059	364 208	-	**21 811 644**
Gap – off-balance sheet	**(640 842)**	**(882 248)**	**(4 170 658)**	**(3 590 373)**	**(780 492)**	**(1 587 019)**	**11 975**	

in thousands of PLN

31.12.2007	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	total
Loans and advances to bank	2 284 846	263 050	10 000	11 828	-	-	(5 969)	2 563 755
Financial assets held for trading	232 903	216 124	456 466	94 587	68 796	73 184	-	1 142 060
Loans and advances to customers	1 001 017	1 354 770	5 078 149	5 602 072	2 615 999	7 054 719	(556 093)	22 150 633
Investment securities	149 319	59 316	1 068 492	1 522 473	4 362 147	1 886 404	650 156	9 698 307
Other assets	-	-	-	-	-	-	3 627 149	3 627 149
Long position	**3 668 085**	**1 893 260**	**6 613 107**	**7 230 960**	**7 046 942**	**9 014 307**	**3 715 243**	**39 181 904**
Deposits from banks	2 774 655	146 100	224 640	--		-	-	3 145 395
Financial liabilities held for trading	215 843	172 642	524 509	33 057	16 484	31 652	-	994 187
Deposits from customers	26 036 100	1 937 745	2 071 805	126 305	92 779	-	-	30 264 734
Debt securities in issue	-	-	99 905	-	-	-	(557)	99 348
Other liabilities	-	-	-	-	-	-	4 678 240	4 678 240
Short position	**29 026 598**	**2 256 487**	**2 920 859**	**159 362**	**109 263**	**31 652**	**4 677 683**	**39 181 904**
Gap-balance sheet	**(25 358 513)**	**(363 227)**	**3 692 248**	**7 071 598**	**6 937 679**	**8 982 655**	**(962 440)**	
Off balance sheet liabilities- sanctioned								
Financing related	1 373 456	557 118	2 762 730	1 711 641	537 635	1 240 885	-	**8 183 465**
Guarantees	55 518	76 126	285 847	194 822	177 818	6 040	(1 116)	**795 055**
Derivatives settled in gross terms								
Inflows	5 887 428	4 782 798	7 967 289	1 029 354	-	409 099	-	**20 075 968**
Outflows	5 933 226	4 754 684	7 910 548	970 517	-	409 210	-	**19 978 185**
Gap – off-balance sheet	**(1 474 772)**	**(605 130)**	**(2 991 836)**	**(1 847 626)**	**(715 453)**	**(1 247 036)**	**1 116**	

The Bank's liquidity risk management is centralised in the Treasury Division while control and measurement functions for liquidity risk are performed independent of the source of the liquidity risk.

The bank has a scenario-based contingency plan approved by the Management Board to cater for unexpected liquidity problems, whether caused by external or internal factors.

Derivative transactions connected with market risks

The Bank enters into derivative transactions for trading purposes and to mitigate / hedge against market risks. These transactions predominantly carry interest rate and FX risk, albeit the bank also enters into derivative transactions to fund FX assets, thus mitigating liquidity risk.

Individual types of transactions are characterised below:

FX transactions

FX forwards are agreements to buy or sell one currency for another at a specified price for delivery at a future date. For such a pair of currencies, the making of a current buy/sell transaction and a forward repurchase/resell transaction represents a swap deal.

The Bank enters into such transactions with customers and in the interbank market. The transactions are used for trading purposes or for liquidity management.

FX options are agreements to sell or buy a right to convert currencies in the future at a predetermined rate and settlement date. There are call and put options. A call option gives the holder the right to purchase a certain amount of a currency for a certain amount of another currency, while a put option gives the holder the right to sell a certain amount of a currency for a certain amount of another currency. It should be noted that the buyer of the option has the right but not obligation to enter into the transaction, while the writer of the option is obliged to enter into the transaction if the buyer chooses to exercise his right.

Acquisition of the buy/sell rights entails a premium to be paid to the writer of the option.

The bank concludes option contracts with customers and at the same time it closes the contracts in the interbank market thus avoiding open option positions exposed to market risk.

Interest rate transactions

The Group enters into the following interest rate transactions:

- Interest Rate Swaps – IRS
- Cross-currency Interest Rate Swaps – CIRS
- Forward Rate Agreements – FRA
- Interest rate option CAP type

IRSs are transactions where one stream of future interest payments is exchanged for another based on a previously specified principal (most often fixed interest rate payments are exchanged for interest payments based money market reference rates, e.g. WIBOR). These transactions are concluded in the interbank market and with bank customers. They are used to hedge/cancel open interest rate positions, but are also used for trading purposes.

CIRSs involve an exchange of interest rate payments in two different currencies. These transactions may also result in the exchange of principal amounts. The bank uses these instruments primarily for liquidity management – they ensure medium-term funding for the bank's FX assets.

FRAs are agreements for a pre-determined interest rate applicable for a fixed term and settled in a future period (usually within 1 month) and accrued on a principal amount specified in the agreement. The settled amount is determined based on the principal amount and the difference between the interest rate current on the settlement date (e.g. WIBOR) and the contract rate. The buyer of an FRA protects itself against a future increase in interest rates, while the seller of an FRA wants to protect itself against a future decline in interest rates. This instrument is also used for speculative reasons in anticipation of interest rate changes.

The bank primarily uses this instrument in its trading portfolio.

A CAP entitles its holder make a profit when a specified interest rate is above a base rate determined in the option agreement (the difference is referred to the notional principal amount specified in the agreement). The bank concludes option contracts with customers and at the same time it closes the contracts in the interbank market thus avoiding open option positions exposed to market risk.

Capital Management

Introduction

According to the Polish Banking Law, banks are required to maintain equity at a level appropriate to the risk they are exposed to.

The capital adequacy is measured using the solvency ratio, which shows the relation between capital requirements for particular risks to the bank's total capital recognised in keeping with the requirements of the Banking Supervisory Commission[1], after mandatory deductions.

On 1 April 2007, the Banking Supervisory Commission implemented resolutions transposing the New Capital Accord of the Basel Committee (termed Basel II) into Polish law. The New Capital Accord is based on three pillars:

Pillar 1: Minimum capital requirements – sets the minimum required equity for credit risk, market risk and operational risk;

[1] Changed resolutions with wording accepted by the Polish Financial Supervisory Authority have been in force since 01.01.2009. All the resolutions that were effective at the reporting date were respected.

Pillar 2: Supervisory review – deals with the bank's internal capital adequacy assessment process ("ICAAP"), taking into account all the risk types, not only those covered by Pillar 1;

Pillar 3: Market discipline – increases the disclosures that the bank must make to the market.

Compared with the Basel I methodology, Basel II introduces new approaches to measurement of the minimum capital requirement (regulatory capital) and internal capital by:

- adding the capital requirement for operational risk to the calculation of the minimum capital needs under Pillar 1;
- changing the parameters used in the standardised approach to the calculation of capital requirements;
- introducing the possibility to use, subject to regulatory approval, more advanced models for capital adequacy calculation and risk management.

Until the end of 2007, the bank was temporarily permitted to use Basel I rules with regard to calculation of the risk-weighted assets and the solvency ratio. Effective from 1 January 2008, the bank has been subject to the requirements laid down in Capital Adequacy Resolution no. 1/2007 of the Banking Supervisory Commission.

The risks under Pillar 1 and the minimum capital required for such risks are assessed in a quantitative method. The bank uses its own regulatory compliant and regulatory approaches to the measurement of these risks, applying precisely defined rules and parameters to ensure proper calculation of the capital required to cover such risks. In 2008, with regard to:

a) Credit risk – the bank uses the standardised approach for all portfolios

b) Operational risk – the bank uses the standardised approach;

c) Market risk – the bank uses basic measurement methods.

The capital requirement for individual risks is aggregated directly to determine the overall regulatory capital requirement (Pillar 1). The total capital requirement is the basis for estimation of the internal capital, a process which also takes into account the additional capital needs (Pillar 2) and the rules of their aggregation.

Capital Policy

The solvency ratio is the basic measure used for capital management in Bank Zachodni WBK.
Under the Banking Law, solvency ratio may not be lower than 8%, both at the bank and the Group level.

The bank's capital management policy envisages the target solvency ratio at 10% both for the bank and the Group and maintenance of the Fitch rating at above "A-". The Management Board delegated on-going capital management to ALCO/ICAAP Forum. This body is responsible for tracking the actual and required capital levels and initiates transactions affecting these levels (e.g. by recommending the value of the dividends to be paid). However, any ultimate decisions regarding increase or decrease of capital are taken by relevant authorities of the bank in accordance with the applicable law and the bank's Statutes.

in thousands of PLN

Decisions regarding the value of the equity capital of the subsidiaries are co-ordinated by ALCO/ICAAP Forum.

Solvency Ratio

The table below presents calculation of capital adequacy of BZWBK as at 31.12.2008 and 31.12.2007.

				31.12.2008	31.12.2007
I	Total Capital requirement (Ia+Ib+Ic+Id)			**3 220 737**	**2 124 735**
	Incl.:				
Ia		-	due to credit risk	2 748 200	2 081 628
Ib		-	due to market risk	20 554	21 512
Ic		-	due to settlement / counterparty risk	116 691	21 595
Id		- due to operational risk		335 292	-
II	Total own funds			4 337 694	3 715 937
III	Reductions			389 614	700 070
IV	Own funds after reductions (**(II+III)**			**3 948 080**	**3 015 867**
V	**CAD (IV/(I*12.5)**			**9,81%**	**11,36%**

Since 1 January 2008, the bank has been required to observe the rules laid down in the Capital Adequacy Resolution no. 1/2007 of the Banking Supervisory Commission and in its calculation of solvency ratio follows the Basel II principles, both with regard to capital levels and capital requirements for different risk types Until the end of 2007, the Bank was temporarily permitted to use Basel I rules for calculation of its risk weighted assets and solvency ratio (KNB Resolution no. 1/2007, Appendix 21). Since 1 January the Bank has been subject to Basel II requirements (KNB Resolution no. 1/2007 on capital adequacy with other appendices)

Internal Capital

A key element of Pillar 2 is the internal capital adequacy assessment process (ICAAP). Under this process the bank is required to estimate, allocate and maintain the required level of internal capital to ensure secure conduct of its banking business, taking into account the bank's risk profile associated with its accepted level of risk.

The key objective of the ICAAP is to create a link between the risk profile, risk management, risk mitigation and internal capital level. The bank has an appropriate process in place to assess all the key elements of capital planning and management (including aggregation of capital for different risk types). The process ensures that the bank's capital will be sufficient to cover all the particular risks.

The internal capital estimation process is adjusted to the type, scale and complexity of the bank's business.

Estimation of the total internal capital requirement looks at different risks, their interdependencies, correlations and concentration to ensure reliability of the process.

The bank's solutions in this regard assume that initially the correlation and concentration of risks will be measured in a simplified method, with the correlation set at nil where no clear tendencies and links between risks can be demonstrated. For this reason, the current approach is to aggregate the capital for Pillar 1 risks and then to add the estimated capital for all the other Pillar 2 risks that the bank is or may be exposed to. Currently it is assumed that no clear correlations exist. This is a very conservative approach as it leads to a higher capital being maintained than if the correlation was factored in.

in thousands of PLN

8. Net interest income

Interest and similar income	01.01-31.12.2008	01.01-31.12.2007
Loans and advances to institutional clients	1 418 005	865 855
Loans and advances to individuals of which:	742 834	439 815
Mortgage loans	*299 277*	*177 642*
Debt securities incl.:	602 504	434 700
Investment portfolio available for sale	*487 697*	*421 296*
Trading portfolio	*24 555*	*13 404*
Investment portfolio held to maturity	*90 252*	-
Loans and advances to banks	174 576	173 397
Reverse repo transactions	42 906	17 547
Other from public sector	32 170	30 340
Interest recorded on hedging IRS	4 126	(3 814)
Total	**3 017 121**	**1 957 840**

Interest expense and similar charges	01.01-31.12.2008	01.01-31.12.2007
Deposits from individuals	(783 506)	(258 900)
Deposits from institutional clients	(465 542)	(309 288)
Repo transactions	(107 823)	(83 008)
Public sector	(98 335)	(64 533)
Deposits from banks	(65 030)	(54 115)
Debt securities in issue	(5 418)	(5 558)
Total	**(1 525 654)**	**(775 402)**
Net interest income	**1 491 467**	**1 182 438**

As at 31 December 2008 net interest income includes interest accrued on impaired loans of PLN 45 818 k (as at 31.12.2007 - PLN 33 302 k).

9. Net fee and commission income

Fee and commission income	01.01-31.12.2008	01.01-31.12.2007
eBusiness & payments	313 280	247 709
Current accounts and money transfer	233 747	222 425
Foreign exchange commissions	250 868	211 412
Distribution fees due to asset management	92 092	165 067
Insurance commissions	71 519	40 576
Credit commissions (including factoring)	68 921	51 752
Credit cards	54 734	36 699
Off-balance sheet guarantee commissions	12 786	11 151
Issue arrangement	9 307	10 553
Other commissions	4 220	2 739
Total	**1 111 474**	**1 000 083**
Fee and commission expense	**01.01-31.12.2008**	**01.01-31.12.2007**
eBusiness & payments	(76 470)	(53 361)
Commissions paid to credit agents	(25 264)	(11 628)
Credit cards	(8 054)	(4 989)
Other incl.:	(11 689)	(11 524)
brokerage commissions	*(2 418)*	*(2 293)*
agency costs	*(209)*	*(173)*
other	*(9 062)*	*(9 058)*
Total	**(121 477)**	**(81 502)**
Net commission income	**989 997**	**918 581**

Included above is fee and commission income on credits, credit cards and off-balance sheet guarantee commissions of PLN 136 441 k (2007: PLN 99 602 k) and fee and commission expenses on credits and credits cards of PLN (33 318) k (2007: PLN (16 617) k other than fees included in determining the effective interest rate), relating to financial assets and liabilities not carried at fair value through profit or loss.

in thousands of PLN

10. Dividend income

Dividend income	01.01-31.12.2008	01.01-31.12.2007
Dividends from subsidiaries and associates	150 082	114 444
Dividends from investment portfolio entities	68 249	63 534
Total	**218 331**	**177 978**

11. Net trading income and revaluation

Net trading income and revaluation	01.01-31.12.2008	01.01-31.12.2007
Profit/(loss) on derivative instruments	(33 146)	28 408
Profit on interbank FX transactions	59 177	18 792
Profit/(loss) on debt instruments	2 181	738
Other FX related income	1 276	4 333
Total	**29 488**	**52 271**

Net trading income and revaluation includes value adjustments of FX derivatives resulting from counterparty risk (in the amount of PLN (80 996 k)).

12. Gains (losses) from other financial securities

Gains (losses) from other financial securities	01.01-31.12.2008	01.01-31.12.2007
Profit on equity shares	66 122	2 590
Loss on debt securities	(13 103)	(28 876)
Reversal (charge) due to impairment losses	71	854
Total profit (losses) on available-for-sale financial instruments	***53 090***	***(25 432)***
Change in fair value of hedging instruments	(37 803)	18 160
Change in fair value of underlying hedged positions	40 603	(18 512)
Total profit (losses) on hedging and hedged instruments	***2 800***	***(352)***
Total	**55 890**	**(25 784)**

13. Net (loss)/gain on sale of subsidiaries and associates

Net (loss)/gain on sale of subsidiaries and associates	01.01-31.12.2008	01.01-31.12.2007
Sale of subsidiaries	982	13 423
Sale of associates	(756)	(688)
Total	**226**	**12 735**

Additional information about acquisitions and disposals of investments is available in note 52.

14. Other operating income

Other operating income	01.01-31.12.2008	01.01-31.12.2007
Sundry income	31 609	12 103
Sales of fixed assets, intangible assets and assets for disposal	6 621	1 116
Release of provision for legal cases and other assets	5 150	11 809
Recovery of other receivables	2 529	4 115
Reimbursements of BFG charges	1 657	1 312
Costs of bailiff reimbursement	860	1 446
Received compensations, penalties and fines	404	20
Other	5 453	6 538
Total	**54 283**	**38 459**

in thousands of PLN

15. Impairment losses on loans and advances

Impairment losses on loans and advances	01.01-31.12.2008	01.01-31.12.2007
Collective and individual impairment charge	(179 418)	10 060
Incurred but not reported losses charge	(176 257)	(38 890)
Recoveries of loans previously written off	10 205	27 350
Off balance sheet credit related items	(6 419)	2 045
Total	**(351 889)**	**565**

16. Employee costs

Employee costs	01.01-31.12.2008	01.01-31.12.2007
Salaries and bonuses	(639 146)	(572 841)
Salary related costs	(94 791)	(93 651)
Professional trainings	(21 677)	(22 376)
Staff benefits costs	(19 613)	(15 502)
Retirement fund and holiday provisions and other employee-related costs	(10 636)	(5 846)
Total	**(785 863)**	**(710 216)**

17. General and administrative expenses

General and administrative expenses	01.01-31.12.2008	01.01-31.12.2007
Maintenance and rentals of premises	(152 388)	(119 133)
Marketing and public relations	(94 546)	(93 244)
IT systems costs	(84 348)	(67 712)
Postal and telecommunication costs	(49 883)	(41 936)
Car, transport expenses, carriage of cash	(32 180)	(22 499)
Other external services	(31 310)	(24 710)
Consulting fees	(29 702)	(37 435)
Stationery, cards, cheques etc	(23 213)	(20 931)
Costs of repairs	(17 363)	(15 555)
Data transmission	(16 198)	(15 770)
Sundry taxes	(15 190)	(13 430)
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities	(14 282)	(4 464)
Security costs	(12 440)	(11 983)
KIR, SWIFT etc. settlements	(11 156)	(10 036)
Other	(16 745)	(15 851)
Total	**(600 944)**	**(514 689)**

18. Other operating expenses

Other operating costs	01.01-31.12.2008	01.01-31.12.2007
Charge of provisions for legal cases and other assets	(4 949)	(9 545)
Liquidation of intangible assets	(1 765)	-
Donations paid	(1 585)	(6 420)
Debt recovery costs	(1 415)	(1 143)
Losses from past-due receivables	(1 093)	(626)
Paid compensations, penalties and fines	(1 056)	(2 017)
Other	(4 079)	(6 293)
Total	**(15 942)**	**(26 044)**

in thousands of PLN

19. Corporate income tax

Income tax charge	01.01-31.12.2008	01.01-31.12.2007
Current tax charge	(217 116)	(197 413)
Deferred tax charge	38 848	27 857
Total	**(178 268)**	**(169 556)**

Corporate total tax charge information	01.01-31.12.2008	01.01-31.12.2007
Profit before tax	987 433	979 030
Tax rate	19%	19%
Tax calculated at the tax rate	(187 612)	(186 016)
Non tax-deductible expenses	(4 959)	(10 098)
Loss on sale of receivables	(6 958)	(6 373)
Non-taxable income	28 520	36 531
Other:		
- write-offs	(1 128)	(3 458)
- other non tax-deductible costs	(4 494)	(1 192)
- other charges	(1 637)	1 050
Total income tax expense	**(178 268)**	**(169 556)**

Deferred tax recognised directly in equity

As at 31 December the amount of deferred tax recognised directly in equity totaled:

Relating to equity securities available-for-sale	(97 294)	(104 205)
Relating to debt securities available-for-sale	12 173	19 657
Relating to cash flow hedging activity	5 787	-
	(79 334)	**(84 548)**

20. Earnings per share

Earnings per share	01.01-31.12.2008	01.01-31.12.2007
Profit for the period attributable to ordinary shares	809 165	809 474
Weighted average number of ordinary shares	72 960 284	72 960 284
Basic earnings per share (PLN)	**11,09**	**11,09**
Profit for the period attributable to ordinary shares	809 165	809 474
Weighted average number of ordinary shares	72 960 284	72 960 284
Weighted average number of potential ordinary shares	298 400	161 995
Diluted earnings per share (PLN)	**11,05**	**11,07**

21. Cash and balances with central bank

Cash and balances with central bank	31.12.2008	31.12.2007
Current account in central bank	2 004 861	1 365 130
Cash	1 173 235	840 919
The equivalents of cash	3	210
Total	**3 178 099**	**2 206 259**

Bank holds an obligatory reserve on a current account in the National Bank of Poland. The figure is calculated as 3.5% of monthly average balance of customer deposits reduced by equivalence of EUR 500 k.

in thousands of PLN

22. Loans and advances to banks

Loans and advances to banks	31.12.2008	31.12.2007
Loans and advances	822 604	1 781 734
Reverse-repo transactions	518 826	768 659
Current accounts	12 371	19 331
Gross receivables	**1 353 801**	**2 569 724**
Impairment write down	(5 969)	(5 969)
Total	**1 347 832**	**2 563 755**

Fair value of "loans and advances to banks" is disclosed in note 44.

Movements in impairment losses on receivables from banks	31.12.2008	31.12.2007
Balance at 1 January	(5 969)	(6 283)
Write off	-	314
Balance at the end of the period	**(5 969)**	**(5 969)**

In presented reporting periods one-day deposits have been classified to loans and advances.

23. Financial assets and liabilities held for trading

The fair value of derivative financial instruments is determined using market quotations, discounted cash flow models and options valuation models, as appropriate.
Option contracts are stated at fair value using the market quotations or the option valuation models, as appropriate.

Financial assets and liabilities held for trading	31.12.2008		31.12.2007	
	Assets	Liabilities	Assets	Liabilities
Trading derivatives	**2 353 774**	**3 253 289**	**970 925**	**994 187**
Interest rate transactions	**906 745**	**886 948**	**181 013**	**306 414**
Options	8	8	22	22
IRS	664 337	640 766	151 419	280 885
FRA	242 400	246 174	29 572	25 507
Equity derivatives	**-**	**-**	**33**	**-**
Options	-	-	33	-
Currency derivatives	**1 447 029**	**2 366 341**	**789 879**	**687 773**
CIRS	63 259	507 120	164 750	29 002
Forward	352 024	210 347	45 146	91 469
FX Swap	683 470	1 259 958	550 176	537 707
Spot	4 182	3 787	1 103	891
Options	344 094	385 129	28 704	28 704
Debt and equity securities	**868 583**	**-**	**171 135**	**-**
Debt securities	868 583	-	171 135	-
Government securities:	868 583	-	171 135	-
- bills	549 120	-	60 202	-
- bonds	319 463	-	110 933	-
Total financial assets/liabilities	**3 222 357**	**3 253 289**	**1 142 060**	**994 187**

Interest income from debt instruments and other fixed rate instruments is disclosed under "interest income".

Profit and loss from fair value changes of financial assets and liabilities held for trading are disclosed under net trading income and revaluation in the consolidated financial statement.

in thousands of PLN

"Currency derivatives" comprises a value adjustment of derivative instruments resulting from counterparty risk.

All financial assets measured at fair value through profit and loss are assigned to this category due to the trading character of transactions. At 31.12.2008 and in comparable periods there were no cases of instruments designated to financial assets measured at fair value through profit and loss at initial recognition.

The table below presents off-balance sheet derivatives' nominal values.

Derivatives' nominal values	31.12.2008	31.12.2007
1. Term derivatives (hedging)	**2 704 674**	**995 377**
a) Single-currency interest rate swaps	1 854 674	995 377
b) Macro cash flow hedge	850 000	-
2. Term derivatives (trading)	**140 560 049**	**137 064 867**
a) Interest rate operations	91 617 349	93 271 017
- Single-currency IRS	47 257 128	63 462 062
- FRA	44 350 000	29 800 000
- Options	10 221	8 955
b) FX operations	48 942 700	43 793 850
- FX swap – purchased amounts	14 425 872	15 734 024
- FX swap – sold amounts	14 983 627	15 716 085
- Forward- purchased amounts	3 696 166	2 508 227
- Forward- sold amounts	3 538 979	2 559 864
- Double-currency interest rate swaps – purchased amounts	3 062 275	2 180 719
- Double-currency interest rate swaps – sold amounts	3 502 177	2 048 225
- FX options -purchased	2 866 802	1 523 353
- FX options -sold	2 866 802	1 523 353
3. Currency transactions- spot	**957 290**	**532 872**
- spot-purchased	478 844	266 543
- spot-sold	478 446	266 329
5. Euroindex options	**-**	**8 733**
- Options purchased	-	8 733
Total	**144 222 013**	**138 601 849**

In case of single-currency transactions (IRS, FRA, forward, non-FX options) – only purchased amounts are presented.

24. Hedging derivatives

Hedging derivatives	31.12.2008		31.12.2007	
	Assets	Liabilities	Assets	Liabilities
IRS hedging fair value	347	31 700	35 850	2 054
IRS hedging cash flow	-	36 862		
Total hedging derivatives	**347**	**68 562**	**35 850**	**2 054**

in thousands of PLN

25. Loans and advances to customers

Loans and advances to customers	31.12.2008	31.12.2007
Loans and advances to enterprises	23 757 297	16 473 941
Loans and advances to individuals, of which:	9 208 049	6 066 942
Real estate financing	*5 450 515*	*3 644 937*
Reverse-repo transactions	441 783	29
Loans and advances to public sector	85 668	159 341
Other	11 343	6 473
Gross receivables	**33 504 140**	**22 706 726**
Impairment losses in loans and advances to customers	(849 877)	(556 093)
Total	**32 654 263**	**22 150 633**

As at 31.12.2008 the fair value adjustment due to hedged risk on corporate loans was PLN 1 607 k (as at 31.12.2007 - PLN (105) k). Fair value of "loans and advances to customers" is disclosed in note 44.

Movements on impairment recognised on loans and advances to customers	31.12.2008	31.12.2007
Individual and collective impairment		
As at the beginning of the period	(424 481)	(523 537)
Charge/write back of current period	(179 418)	10 060
Write downs and write off's	63 514	88 124
Transfer	480	-
Impact of exchange rate	(5 418)	872
Balance at the end of the period	**(545 323)**	**(424 481)**
IBNR		
As at the beginning of the period	(131 612)	(95 133)
Charge/Write back of current period	(176 257)	(38 890)
Transfer	3 723	-
Impact of exchange rate	(408)	2 411
Balance at the end of the period	**(304 554)**	**(131 612)**
Total	**(849 877)**	**(556 093)**

in thousands of PLN

26. Investments securities

Investment securities	31.12.2008	31.12.2007
Available for sale investments - measured at fair value	6 506 108	9 698 307
Debt securities:	**5 867 946**	**9 047 923**
Government securities:	5 088 651	8 203 609
- bills	1 369 842	263 047
- bonds	3 718 809	7 940 562
Central Bank securities:	599 731	591 379
- bonds	599 731	591 379
Commercial securities:	179 564	252 935
- bonds	179 564	252 935
Equity securities - measured at fair value:	**596 732**	**625 461**
- listed	13 552	23 265
- unlisted	583 180	602 196
Investment certificates	**41 430**	**24 923**
Total	**6 506 108**	**9 698 307**

As at 31.12.2008 fixed interest rate debt securities measured at fair value amount to PLN 4 244 739 k, variable interest rate securities amount to PLN 1 623 207 k.
As at 31.12.2007 fixed interest rate debt securities measured at fair value amount to PLN 7 648 962 k, variable interest rate securities amount to PLN 1 398 961 k.
As at 31.12.2008 fair value adjustments resulting from fair value hedge on available for sale debt securities totalled PLN 27 305 k (as at 31.12.2007 - PLN (12 100) k).
As at 31 December 2008, the bank reviewed the fair value of its unlisted available-for-sale financial instruments. The review did not reveal any material changes with the disclosed carrying amount of the instruments. Fair value of the investments into the companies from the Commercial Union Polska Group was established using the relative valuation method (Price/Book Value, P/E), with average multipliers calculated for: (i) a group of comparable listed companies, or (ii) the most recent available market transactions, whichever is lower. The remaining non-listed equity instruments are measured at fair value as no active market exists for such instruments and their fair value cannot be reliably established.

Movements on investment securities	Debt securities	Equity securities	Total
As at 1 January 2008	**9 047 923**	**650 384**	**9 698 307**
Additions	5 127 467	24 822	5 152 289
Transfers	-	975	975
Disposals (sale and redemption)	(2 261 845)	(44 649)	(2 306 494)
Fair value adjustment (AFS)	78 786	5 909	84 695
Movements on interest accrued	134 109	-	134 109
Provision for impairment	-	(125)	(125)
F/X differences	148 079	846	148 925
Reclassification*	(6 406 573)	-	(6 406 573)
As at 31 December 2008	**5 867 946**	**638 162**	**6 506 108**

*In October 2008 the bank has changed classification of State Treasury bonds from Available For Sale category into Held To Maturity category. The carrying value of reclassified financial instruments amounted to PLN 6 406 573 k. The change of classification results in the adoption of valuation principles impacting net profit and equity, which are more consistent with the purpose of the instruments. The primary purpose of the portfolio of financial instruments is to manage the structure of the balance sheet, in particular equity and non-interest bearing current accounts. The bank's intention is to hold these instruments until maturity.

Movements on investment securities	Debt securities	Equity securities	Total
As at 1 January 2007	**7 380 942**	**612 828**	**7 993 770**
Additions	4 718 568	22 553	4 741 121
Disposals (sale and redemption)	(2 866 290)	-	(2 866 290)
Fair value adjustment (AFS)	(206 765)	18 756	(188 009)
Movements on interest accrued	100 466	-	100 466
Provision for impairment	-	-	-
F/X differences	(78 998)	(3 753)	(82 751)
As at 31 December 2007	**9 047 923**	**650 384**	**9 698 307**

in thousands of PLN

27. Financial assets held to maturity

Financial assets held to maturity	31.12.2008	31.12.2007
Government securities:	6 388 277	-
- bonds	6 388 277	-
Total	**6 388 277**	**-**

Movements on financial assets held to maturity	31.12.2008
As at 1 January	-
Reclassification*	6 406 573
Fair value adjustment	(3 049)
Movements on interest accrued	(15 247)
As at 31 December 2008	**6 388 277**

*In October 2008 the bank has changed classification of State Treasury bonds from Available For Sale category into Held To Maturity category. Carrying value of reclassified financial instruments amounted to PLN 6 406 573 k. The change of classification results in the adoption of valuation principles impacting net profit and equity, which are more consistent with the purpose of the instruments. The primary purpose of the portfolio of financial instruments is to manage the structure of the balance sheet, in particular equity and non-interest bearing current accounts. The bank's intention is to hold these instruments until maturity.

28. Investments in subsidiaries, associates and joint ventures

Investments in subsidiaries, associates and joint ventures	31.12.2008	31.12.2007
subsidiaries	192 694	144 415
associates	8 000	11 552
joint ventures	33 531	-
Total	**234 225**	**155 967**

Fair value of "investments in subsidiaries, associates and joint ventures" is disclosed in note 44.

in thousands of PLN

Investments in subsidiaries, associates and joint ventures as at 31.12.2008

Name of entity (and its legal status)	**BZ WBK Inwestycje Sp. z o.o.**	**BZ WBK Faktor Sp. z o.o.**	**BZ WBK Finanse & Leasing S.A.**	**BZ WBK Leasing S.A.**	**Dom Maklerski BZ WBK S.A.**	**BZ WBK Nieruchomości S.A.**	**BZ WBK AIB Asset Management S.A.**	**POLFUND - Fundusz Poręczeń Kredytowych S.A.**	**BZWBK - CU Towarzystwo Ubezpieczeń Ogólnych S.A.**	**BZWBK - CU Towarzystwo Ubezpieczeń na Życie S.A.**	**Total**
registered office	Poznań	Warszawa	Poznań	Poznań	Poznań	Poznań	Poznań	Szczecin	Poznań	Poznań	
Balance sheet value	21 350	6 200	50 513	61 257	45 925	694	6 755	8 000	15 015	18 516	**234 225**
total assets	24 397	314 106	1 332 761	1 957 472	753 531	742	343 549	75 781	104 209	61 354	**4 967 902**
own funds of entity, of which:	24 081	13 714	108 539	169 682	166 909	693	321 167	21 929	30 064	34 164	**890 942**
share capital	50	50	50 500	121 692	44 974	750	13 500	16 000	21 750	27 000	296 266
other own funds, of which:	24 031	13 664	58 039	47 990	121 935	(57)	307 667	5 929	8 314	7 164	594 676
from previous years	-	-	-		3 697	(228)	-	2 638	-	-	6 107
net profit (loss)	764	4 896	12 087	22 585	58 085	133	278 679	2 817	1 049	(1 854)	379 241
liabilities of entity, of which:	-	295 287	1 011 926	1 709 746	505 697	-	1	53 851	4 038	2 920	**3 583 466**
short-term	-	295 287	234 848	457 337	505 697	-	1	125	4 038	2 920	1 500 253
long-term	-	-	777 078	1 252 409	-	-	-	53 726	-	-	2 083 213
Revenues	2 401	40 407	96 986	157 463	219 433	852	325 038	5 961	58 090	42 428	**949 059**
% of holding**	100,00	100,00	99,99	99,99	99,99	99,99	50,00	50,00	50,00	50,00	

* financial highlights as at end of November 2008

** states percentage share of associates and joint ventures profits

Name of entity (and its legal status)	**Business**
BZ WBK Inwestycje Sp. z o.o.	trading in shares of commercial companies as well as other securities; seeking investors for companies
BZ WBK Faktor Sp. z o.o.	financial services, granting credit, market research and public opinion survey, business consulting, holding management
BZ WBK Finanse & Leasing S.A.	leasing and renting of fixed assets
BZ WBK Leasing S.A.	whole- and retail sales of vehicles, sales of spare parts and accessories for vehicles, financial leasing, renting cars, other means of transportation, machines and equipment
Dom Maklerski BZ WBK S.A.	offering securities on the primary market, buying and selling securities on customers' account, buying and selling securities on one's own account in order to perform duties related to organization of the regulated market
BZ WBK Nieruchomości SA	organisation of various events, catering and hotel services, agency services
BZ WBK AIB Asset Management SA	brokerage activities: managing customer's share portfolios (listed and not listed)
POLFUND - Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management
BZWBK - CU Towarzystwo Ubezpieczeń na Życie S.A.	life insurance
BZWBK - CU Towarzystwo Ubezpieczeń Ogółnych S.A.	property and personal insurance

in thousands of PLN

Investments in subsidiaries and associates as at 31.12.2007

Name of entity (and its legal status)	**BZ WBK Inwestycje Sp. z o.o.**	**BZ WBK Faktor Sp. z o.o.**	**BZ WBK Finanse & Leasing S.A.**	**BZ WBK Leasing S.A.**	**Dom Maklerski BZ WBK S.A.**	**BZ WBK Nieruchomości S.A.**	**Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp.z o.o.**	**BZ WBK AIB Asset Management S.A.**	**POLFUND - Fundusz Poręczeń Kredytowych S.A.**	**NFI Magna Polonia S.A****	**Total**
registered office	Poznań	Warszawa	Poznań	Poznań	Poznań	Poznań	Poznań	Poznań	Szczecin	Warszawa	
Balance sheet value	50	6 200	37 012	47 757	45 925	498	218	6 755	8 000	3 552	**155 967**
total assets	46 092	242 445	915 835	1 677 336	1 294 191	619	1 682	282 119	68 272	122 301	**4 650 892**
own funds of entity, of which:	5 095	9 805	82 943	133 607	168 752	1 094	938	222 798	19 734	12 758	**657 524**
share capital	50	50	37 000	108 192	44 974	750	350	13 500	16 000	1 518	222 384
other own funds, of which:	5 045	9 755	45 943	25 415	123 779	344	588	209 298	3 734	11 240	435 141
from previous years	-	(935)	-	-	-	(530)	-	-	1 325	(16 234)	(16 374)
net profit (loss)	2 801	3 605	9 616	17 344	84 836	332	467	191 309	2 049	(1 192)	311 167
liabilities of entity, of which:	40 423	229 014	675 938	1 270 155	962 157	-	-	-	46 232	29 635	**3 253 554**
short-term	40 423	229 014	65 444	308 291	962 157	-	-	-	94	29 635	1 635 058
long-term	-	-	610 494	961 864	-	-	-	-	46 138	-	1 618 496
Revenues	299	22 734	62 999	104 560	246 767	964	7 979	255 911	1 333	7 708	**711 254**
% of holding***	100,00	100,00	99,99	99,99	99,99	99,99	60,00	50,00	50,00	27,53	

* financial highlights as at end of September 2007

**Own funds of NFI Magna Polonia of PLN 91 172 k (as published in the company's report for 3Q 2007) have been decreased by the declared dividend of PLN 25 260 k and the value of equity in the amount of PLN 53 154 k purchased for redemption.

*** states percentage share of associates profits

Name of entity (and its legal status)	**Business**
BZ WBK Inwestycje Sp. z o.o.	trading in shares of commercial companies as well as other securities; seeking investors for companies
BZ WBK Faktor Sp. z o.o.	financial services, granting credit, market research and public opinion survey, business consulting, holding management
BZ WBK Finanse & Leasing S.A.	leasing and renting of fixed assets
BZ WBK Leasing S.A.	whole- and retail sales of vehicles, sales of spare parts and accessories for vehicles, financial leasing, renting cars, other means of transportation, machines and equipment
Dom Maklerski BZ WBK S.A.	offering securities on the primary market, buying and selling securities on customers' account, buying and selling securities on one's own account in order to perform duties related to organization of the regulated market
BZ WBK Nieruchomości SA	organisation of various events, catering and hotel services, agency services
Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp.z o.o.	distribution of insurance products
BZ WBK AIB Asset Management SA	brokerage activities: managing customer's share portfolios (listed and not listed)
POLFUND - Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management
Grupa NFI Magna Polonia S.A.	buying securities issued by State Treasury, buying or taking up interests or shares in entities registered and operating in Poland, buying other securities issued by these entities

in thousands of PLN

29. Intangible assets

Intangible assets Year 2008	Licences, patents etc.	Other	Capital expenditures	Total
Gross value at the beginning of the period	**485 583**	**6 019**	**50 663**	**542 265**
Additions from:				
- purchases	-	-	73 166	**73 166**
- intangible assets taken for use	34 794	-	-	**34 794**
Disposals from:				
- liquidation	(1 806)	-	-	**(1 806)**
- intangible assets taken for use	-	-	(34 794)	**(34 794)**
- transfers	-	-	(89)	**(89)**
Gross value at the end of the period	**518 571**	**6 019**	**88 946**	**613 536**
Accumulated depreciation at the beginning of the period	**(433 648)**	**(5 711)**	**-**	**(439 359)**
Additions/disposals from:				
- current year	(18 630)	(130)	-	**(18 760)**
- liquidation	42	-	-	**42**
Accumulated depreciation at the end of the period	**(452 236)**	**(5 841)**	**-**	**(458 077)**
Book Value				
Purchase value	518 571	6 019	88 946	**613 536**
Accumulated depreciation	(452 236)	(5 841)	-	**(458 077)**
As at 30 December 2008	**66 335**	**178**	**88 946**	**155 459**

in thousands of PLN

Intangible assets Year 2007	**Licences, patents etc.**	**Other**	**Capital expenditures**	**Total**
Gross value at the beginning of the period	**480 273**	**6 019**	**39 579**	**525 871**
Additions from:				
- purchases	-	-	40 997	**40 997**
- intangible assets taken for use	28 403	-	-	**28 403**
Disposals from:				
- liquidation	(23 093)	-	-	**(23 093)**
- intangible assets taken for use	-	-	(28 403)	**(28 403)**
- transfers	-	-	(1 510)	**(1 510)**
Gross value at the end of the period	**485 583**	**6 019**	**50 663**	**542 265**
Accumulated depreciation at the beginning of the period	**(393 188)**	**(5 582)**	**-**	**(398 770)**
Additions/disposals from:				
- current year	(65 300)	(129)	-	**(65 429)**
- liquidation	23 093	-	-	**23 093**
Write down/Reversal of impairment write down	1 747	-	-	**1 747**
Accumulated depreciation at the end of the period	**(433 648)**	**(5 711)**	**-**	**(439 359)**
Book Value				
Purchase value	485 583	6 019	50 663	**542 265**
Accumulated depreciation	(433 648)	(5 711)	-	**(439 359)**
As at 31 December 2007	**51 935**	**308**	**50 663**	**102 906**

in thousands of PLN

30. Property, plant and equipment

Property, plant & equipment Year 2008	Land and Buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value at the beginning of the period	**567 644**	**277 934**	**30 742**	**248 024**	**54 181**	**1 178 525**
Additions from:						
- purchases	-	-	-	-	162 302	**162 302**
- leasing	-	-	17 744	-	-	**17 744**
- fixeded assets taken for use	52 478	40 282	-	44 139	-	**136 899**
- transfers	-	10	-	267	89	**366**
Disposals from:						
- sale, liquidation and donation	(12 605)	(22 185)	(9 117)	(8 447)	-	**(52 354)**
- fixeded assets taken for use	-	-	-	-	(136 899)	**(136 899)**
- transfers	-	-	-	-	(110)	**(110)**
Gross value at the end of the period	**607 517**	**296 041**	**39 369**	**283 983**	**79 563**	**1 306 473**
Accumulated depreciation at the beginning of the period	**(225 170)**	**(240 148)**	**(14 491)**	**(170 689)**	**-**	**(650 498)**
Additions/disposals from:						
- current year	(23 839)	(22 983)	(8 278)	(23 751)	-	**(78 851)**
- sale, liquidation and donation	3 844	21 725	8 872	8 106	-	**42 547**
- transfers	-	5	(1 285)	(81)	-	**(1 361)**
Reversal of impairment write down	-	-	-	395	-	**395**
Accumulated depreciation at the end of the period	**(245 165)**	**(241 401)**	**(15 182)**	**(186 020)**	**-**	**(687 768)**
Book Value						
Purchase value	607 517	296 041	39 369	283 983	79 563	**1 306 473**
Accumulated depreciation	(245 165)	(241 401)	(15 182)	(186 020)	-	**(687 768)**
As at 30 December 2008	**362 352**	**54 640**	**24 187**	**97 963**	**79 563**	**618 705**

in thousands of PLN

Property, plant & equipment Year 2007	Land and Buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value at the beginning of the period	**546 848**	**343 229**	**25 352**	**242 433**	**25 583**	**1 183 445**
Additions from:						
- purchases	-	-	-	-	86 760	**86 760**
- leasing	-	-	10 907	-	-	**10 907**
- donation	-	48	-	-	-	**48**
- fixeded assets taken for use	12 650	28 267	-	18 755	-	**59 672**
- transfers	20 106	-	-	3 634	1 510	**25 250**
Disposals from:						
- sale, liquidation and donation	(11 960)	(93 610)	(5 517)	(16 798)	-	**(127 885)**
- fixed assets taken for use	-	-	-	-	(59 672)	**(59 672)**
Gross value at the end of the period	**567 644**	**277 934**	**30 742**	**248 024**	**54 181**	**1 178 525**
Accumulated depreciation at the beginning of the period	**(201 495)**	**(321 858)**	**(13 133)**	**(163 365)**	**-**	**(699 851)**
Additions/disposals from:						
- current year	(22 692)	(11 857)	(5 745)	(21 541)	-	**(61 835)**
- sale, liquidation and donation	7 160	93 581	5 404	16 466	-	**122 611**
- transfers	(8 143)	(14)	(1 017)	(1 960)	-	**(11 134)**
Reversal of impairment write down	-	-	-	(289)	-	**(289)**
Accumulated depreciation at the end of the period	**(225 170)**	**(240 148)**	**(14 491)**	**(170 689)**	**-**	**(650 498)**
Book Value						
Purchase value	567 644	277 934	30 742	248 024	54 181	**1 178 525**
Accumulated depreciation	(225 170)	(240 148)	(14 491)	(170 689)	-	**(650 498)**
As at 31 December 2007	**342 474**	**37 786**	**16 251**	**77 335**	**54 181**	**528 027**

in thousands of PLN

31. Deferred tax assets

Deferred tax asset	31.12.2007	Increase	Decrease	31.12.2008
Unrealized liabilities due to derivatives	71 460	211 802	-	283 262
Provisions for loans	102 138	47 975	-	150 113
Other provisions which are not yet taxable costs	57 839	-	(11 920)	45 919
Deferred income	31 165	14 089	-	45 254
Unrealized deposit interest	13 670	18 280	-	31 950
Additional deferred tax assets resulting from art. 38 a of Corporate Tax Act	11 358	-	(3 959)	7 399
Unrealized securities interest	22 480	-	(22 473)	7
Other	2 590	675	-	3 265
Total	**312 700**	**292 821**	**(38 352)**	**567 169**

As at 31 December 2008 the calculation of deferred tax asset did not include purchased receivables of PLN 20 216 k and loans that will not be realised of PLN 41 698 k

Deferred tax asset	31.12.2006	Increase	Decrease	31.12.2007
Provisions for loans	104 509	-	(2 371)	102 138
Unrealized liabilities due to derivatives	119 265	-	(47 805)	71 460
Other provisions which are not yet taxable costs	47 996	9 843	-	57 839
Deferred income	26 448	4 717	-	31 165
Unrealized securities interest	19 228	3 252	-	22 480
Unrealized deposit interest	11 271	2 399	-	13 670
Additional deferred tax assets resulting from art. 38 a of Corporate Tax Act	14 195	-	(2 837)	11 358
Other	3 596	-	(1 006)	2 590
Total	**346 508**	**20 211**	**(54 019)**	**312 700**

As at 31 December 2007 the calculation of deferred tax asset did not include purchased receivables of PLN 21 498 k and loans that will not be realised of PLN 18 046 k.

32. Other assets

Other assets	31.12.2008	31.12.2007
Interbank and interbranch settlements	175 679	75 805
Settlements of stock exchange transactions	131 585	139 572
Prepayments	27 421	29 556
Assets held for sale	2 502	2 502
Other	56	55
Total	**337 243**	**247 490**

Assets held for sale

31 December 2008	Gross value	Amortisation	Carrying value
Land and buildings	4 224	(1 815)	2 409
Equipment	436	(343)	93
Total	**4 660**	**(2 158)**	**2 502**

31 December 2007	Gross value	Amortisation	Carrying value
Land and buildings	4 224	(1 815)	2 409
Equipment	436	(343)	93
Total	**4 660**	**(2 158)**	**2 502**

in thousands of PLN

33. Deposits from central banks

Deposits from central banks	31.12.2008	31.12.2007
repo transactions	1 242 574	-
Total	**1 242 574**	**-**

In November 2008 BZ WBK availed of the NBP's offer and entered into repurchase agreement with validity of 91 days (with Treasury securities as collateral).

34. Deposits from banks

Deposits from banks	31.12.2008	31.12.2007
Current accounts	30 553	39 104
Term deposits	568 972	1 350 170
Repo transactions	1 358 084	1 756 121
Total	**1 957 609**	**3 145 395**

As at 31.12.2008 fair value adjustment for hedged deposit totaled PLN 0 k (as at 31.12.2007 - PLN 48 k). Fair value of deposits from banks is presented in additional note 44.
In presented reporting periods, one-day deposits have been classified to term deposits.

35. Deposits from customers

Deposits from customers	31.12.2008	31.12.2007
Deposits from individuals	23 817 147	14 352 209
-current accounts	10 621 036	8 156 317
-term deposits	13 122 765	6 139 825
- repo transactions	1 927	-
- other	71 419	56 067
Deposits from enterprises	16 059 686	13 501 442
- current accounts	4 074 077	4 516 108
- term deposits	11 700 253	8 683 943
- repo transactions	1 827	5 269
- other	283 529	296 122
Deposits from public sector	3 505 072	2 411 083
- current accounts	1 545 806	1 438 693
- term deposits	1 958 735	971 803
- oher	531	587
Total	**43 381 905**	**30 264 734**

As at 31.12.2008 deposits held as collateral totalled PLN 232 325 k. (as at 31.12.2007 - PLN 190 392 k)
Fair value of deposits from customers is presented in additional note 44.
In presented reporting periods, one-day deposits have been classified to term deposits.

36. Debt securities in issue

Debt securities in issue	Average coupon		Nominal value	
	31.12.2008	31.12.2007	31.12.2008	31.12.2007
Bond 5-Y 5S1008	-	fixed; 5,25%	-	7 092
Bond 5-Y 5S1108	-	fixed; 5,75%	-	9 953
Bond 5-Y 5S1208	-	fixed; 6,00%	-	61 874
Total nominal value			**-**	**78 919**
Total carrying value			**-**	**99 348**

As at 31.12.2007 the nominal value was increased by interest of PLN 20 986 k, bond valuation of PLN (557) k related to hedging activities.

in thousands of PLN

37. Deffered tax liabilities

Deferred tax liability	31.12.2007	Increase	Decrease	31.12.2008
Unrealised receivables on derivatives	49 236	211 181	-	260 417
Revaluation of financial instruments - equity	84 548	-	(5 214)	79 334
Unrealised loans interests	15 640	18 614	-	34 254
Unrealised interests from securities and interbank deposits	34 778	-	(13 838)	20 940
Provision due to application of investment relief	3 258	-	(291)	2 967
Other	1 160	-	(44)	1 116
Total	**188 620**	**229 795**	**(19 387)**	**399 028**

Deferred tax liability	31.12.2006	Increase	Decrease	31.12.2007
Revaluation of financial instruments - equity	118 481	-	(33 933)	84 548
Unrealised receivables on derivatives	123 513	-	(74 277)	49 236
Unrealised interests from securities and interbank deposits	17 835	16 943	-	34 778
Unrealised loans interests	10 567	5 073	-	15 640
Provision due to application of investment relief	2 883	375	-	3 258
Other	8 917	-	(7 757)	1 160
Total	**282 196**	**22 391**	**(115 967)**	**188 620**

38. Other liabilities

Other liabilities	31.12.2008	31.12.2007
Interbank and interbranch settlements	131 255	203 000
Provisions:	124 550	160 755
Employee provisions	*87 062*	*131 660*
Provisions for legal claims	*25 512*	*27 979*
Provisions for off balance sheet credit facilities	*11 976*	*1 116*
Sundry creditors	73 004	112 787
Accrued liabilities	72 980	91 763
Other deferred and suspended income	38 964	40 201
Public and law settlements	34 835	28 291
Total	**475 588**	**636 797**

Movements on provisions	31.12.2008	31.12.2007
As at the beginning of the period	**160 755**	**128 085**
Employee provisions and accruals	131 660	99 328
Provisions for off balance sheet credit facilities	1 116	3 238
Provisions for legal claims	27 979	25 519
Provision charge	**136 280**	**139 260**
Employee provisions and accruals	105 538	129 536
Provisions for off balance sheet credit facilities	28 949	1 477
Provisions for legal claims	1 793	8 247
Utilisation	**(150 277)**	**(99 207)**
Employee provisions and accruals	(150 061)	(96 192)
Provisions for off balance sheet credit facilities	238	(78)
Provisions for legal claims	(454)	(2 937)

in thousands of PLN

Write back	**(26 411)**	**(7 383)**
Employee provisions and accruals	(75)	(1 012)
Provisions for legal claims	(3 806)	(2 850)
Provisions for off balance sheet credit facilities	(22 530)	(3 521)
Transfer	**4 203**	**-**
Provisions for off balance sheet credit facilities	4 203	-
Employee provisions and accruals	-	-
Provisions for legal claims	-	-
As at the end of the period	**124 550**	**160 755**
Employee provisions and accruals	**87 062**	**131 660**
Provisions for legal claims	**25 512**	**27 979**
Provisions for off balance sheet credit facilities	**11 976**	**1 116**

The bank raises provisions for disputable or expected, certain or highly probable, future liabilities that can be reliably estimated. The liabilities result from past events and fund outflow is probable to satisfy them.

Employee related provisions and accruals consists of items outlined in note 55.

39. Share capital

Series / issue	Type of share	Type of preference	Limitation of rights to shares	Number of shares	Nominal value of series / issue
A	bearer	none	none	5 120 000	51 200
B	bearer	none	none	724 073	7 241
C	bearer	none	none	22 155 927	221 559
D	bearer	none	none	1 470 589	14 706
E	bearer	none	none	980 393	9 804
F	bearer	none	none	2 500 000	25 000
G	bearer	none	none	40 009 302	400 093
				72 960 284	**729 603**

Nominal value of one share is 10 PLN. All shares in issue are fully paid. There was no movements on share capital during the reporting period.
According to the information available to the Bank's Management Board, as at 31.12.2008 the only shareholder who had at least 5% votes at the General Meeting of BZ WBK Shareholders was AIB European Investments Ltd seated in Dublin- a subsidiary of AIB plc.

40. Other reserve funds

Other reserve funds	31.12.2008	31.12.2007
General banking risk fund	529 810	529 810
Share premium	261 699	261 699
Other reserves	1 752 068	1 159 742
Total	**2 543 577**	**1 951 251**

Other reserve funds:

Share (issue) premium is created from surplus over the nominal value of shares sold less costs of share issuance and constitutes the Bank's supplementary capital.

in thousands of PLN

Other reserves consist of reserve capital of PLN 1 640 369 k (including share scheme charge of PLN 15 882 k) and supplementary capital PLN 111 672 k.

As at 31.12.2007 other reserves consist of reserve capital of PLN 1 048 070 k (including share scheme charge of PLN 14 148 k) and supplementary capital PLN 111 672 k.

Statutory reserve (supplementary) capital is created from profit allocations in line with the prevailing banking legislation and the Bank's statute. The capital is not subject to split and is earmarked for covering balance sheet losses. Allocations from profit of the current year to reserve capital should amount to at least 8 % of profit after tax and are made until supplementary capital equals at least one third of the Bank's share capital. The amount of allocations is adopted by the General Meeting of Shareholders.

Reserve capital is created from profit allocations in the amount adopted by the General Meeting of Shareholders. The decision on reserve capital use is taken by the General Meeting of Shareholders.

41. Revaluation reserve

Revaluation reserve	31.12.2008
As at 31 December 2007	360 441
Net change in available for sale investments, of which:	29 190
- related to debt investments purchased before current reporting period	32 420
- related to equity investments purchased before current reporting period	5 817
- related to debt investments purchased/assigned in the period	(9 162)
- related to equity investments purchased in the period	(28)
-transferred from associates	143
Gross valuation related to cash flow hedge	(30 460)
Net change in available for sale investments matured in the period	3 031
Decrease in revaluation reserve related to sale of investments	(29 203)
Deferred tax adjustment	5 214
As at 31.12.2008	**338 213**

The revaluation reserve is comprised of adjustments relating to the valuation of available-for-sale financial assets and adjustments relating to the valuation of effective cash flow hedges taking into account deferred tax and is not distributable. As at 31.12.2008 the revaluation reserve includes the difference between the fair value valuation and purchase price of financial assets reclassified during the reporting period from 'Available for sale' category to 'Held to maturity' (see note 26) of PLN (38 942) k and amortisation adjustment of PLN 3 049 k.

Revaluation reserve	31.12.2007
As at 31 December 2006	505 102
Net change in available for sale investments, of which:	(175 719)
- related to debt investments purchased before current reporting period	(123 096)
- related to equity investments purchased before current reporting period	(2 860)
- related to debt investments purchased/assigned in the period	(67 627)
- related to equity investments purchased/assigned in the period	17 864
Net change in available for sale investments matured in the period	(31 751)
Decrease in revaluation reserve related to sale of investments	28 876
Deferred tax adjustment	33 933
As at 31.12.2007	**360 441**

Revaluation reserve comprises equity from the valuation of financial assets available for sale. Revaluation reserve is not distributable. On the day of derecognising 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.

in thousands of PLN

42. Hedge accounting

The Bank applies hedge accounting in line with the risk management assumptions described in note 7 of the annual financial statements.

Fair value hedge

Hedging transactions are constructed using interest rate swaps. Their purpose is to mitigate the risk of fair value in hedged instruments stemming from changes in market interest rates. These transactions are not designed to hedge against the effects of fair value changes due to credit risk. BZWBK applies fair value hedge accounting, in current and in comparable period, in relation to the following classes of financial instruments:

- Own fixed-rate bonds denominated in PLN, which form a group of financial liabilities. Each element in this group carries a risk of changes in the interbank interest rates,
- A fixed rate loan denominated in PLN recognised as a financial asset. Each element in this group carries a risk of changes in the interbank interest rates,
- Fixed rate loans denominated in foreign currency recognised as a financial asset,
- Fixed rate debt securities, forming a group of assets covered with an interest rate hedge.

The hedging items are measured at fair value. Hedged items are measured at amortised cost including fair value adjustment due to hedged risk.

The tables below contain details about individual groups of hedge transactions for 2008 and 2007:

31.12.2008	IRS hedging corporate loans	IRS hedging Treasury and NBP bonds
Nominal value of hedged position	PLN 287 674 k	PLN 1 567 000 k
Fair value adjustment of hedging instrument asset/(liability)	PLN (1 545) k	PLN (24 979) k
Fair value adjustment of hedged instrument due to hedged risk asset/(liability)	PLN 1 607 k	PLN 27 300 k
Hedged risk	Movements in the fair value of the underlining instrument arising from changes in market interest rates	
Period over which the instruments have an impact on the bank's results	2008-2011	2008-2017

31.12.2007	IRS hedging own bonds	IRS hedging corporate loans	IRS hedging deposits	IRS hedging Treasury and NBP bonds
Nominal value of hedged position	PLN 78 918 k	PLN 280 277 k	PLN 146 100 k	PLN 490 000 k
Fair value adjustment of hedging instrument asset/(liability)	PLN (538) k	PLN 134 k	PLN 24 k	PLN 11 660 k
Fair value adjustment of hedged instrument due to hedged risk asset/(liability)	PLN 557 k	PLN (105) k	PLN (48) k	PLN (12 100) k
Hedged risk	Movements in the fair value of the underlining instrument arising from changes in market interest rates			
Period over which the instruments have an impact on the bank's results	2007-2008	2007-2011	2007-2008	2007-2017

Cash flow hedging

In 2008 BZWBK applied portfolio cash flow hedging. Hedging transactions are constructed using interest rate swaps. Their purpose is to mitigate risk of cash flow volatility in hedged instruments stemming from changes in market interest rates. BZWBK applies fair value hedge accounting in relation to PLN denominated, floating rate deposits, taking rolling over into consideration.

Hedged items are measured at amortised cost. The hedging items are measured at fair value. When hedge effectiveness conditions are met, change in fair value adjustment of hedging instruments is recognised in equity. As at 31 December 2008 the nominal value of hedging and hedged instruments amounted to PLN 850 000 k. Fair value adjustment of hedging instrument amounts to PLN (30 460) k. The same amount, net of tax, is reflected in revaluation reserve. Hedging instruments are contracted to year 2015.

43. Sell-buy-back and buy-sell-back transactions

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at a predetermined price.
As at 31 December 2008, the consolidated balance sheet, on liabilities side, contains treasury bills and bonds traded under sell-buy-back transactions amounting of PLN 2 604 412 k (PLN 1 761 390 k as at 31.12.2007).
A related item being the deposit representing obligations in respect the repo transactions is held on the assets side of the consolidated balance sheet and amounts to 2 655 853 k (PLN 1 757 811 k as at 31.12.2007).
As at 31.12.2008, in the balance sheet, buy-sell-back transactions amount to PLN 960 609 k (31.12.2007 – PLN 768 688 k which were hedged by a value of PLN 1 017 970 k (31.12.2007 – PLN 767 271 k).

All risks and rewards related to the holding of the underlying debt securities in the sell-buy-back transactions remains with the Bank, as well as power to dispose them.
Financial instruments held as security for (reverse) repurchase agreements may be sold or repledged under standard agreements, the obligation to return these to the counterparty on maturity of the transaction. As at 31.12.2008 financial instruments with nominal value of PLN 10 000 k (31.12.2007 - PLN 5 000 k) accepted as security have been repledged under subsequent repurchase transactions, which will conclude before the maturity of the original transactions.

in thousands of PLN

44. Fair value

Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction other than a forced sale or liquidation and is best reflected by a quoted market price, if available.

The following is a summary of the carrying amounts and fair values of each class of assets and liabilities

	31.12.2008		31.12.2007	
k PLN	**Carrying amount**	**Fair value**	**Carrying amount**	**Fair value**
Assets				
Cash and balances with central banks	3 178 099	3 178 099	2 206 259	2 206 259
Loans and advances to banks	1 347 832	1 347 993	2 563 755	2 563 911
Financial assets held for trading	3 222 357	3 222 357	1 142 060	1 142 060
Hedging derivatives	347	347	35 850	35 850
Loans and advances to customers	32 654 263	31 917 744	22 150 633	22 169 714
Investment securities	12 894 385	12 952 850	9 698 307	9 698 307
Investments in associates and joint ventures	234 225	234 225	155 967	155 967
Liabilities				
Deposits from central banks	1 242 574	1 242 574	-	-
Deposits from banks	1 957 609	1 957 161	3 145 395	3 146 042
Hedging derivatives	68 562	68 562	2 054	2 054
Financial liabilities held for trading	3 253 289	3 253 289	994 187	994 187
Deposits from customers	43 381 905	43 379 477	30 264 734	30 264 546
Debt securities in issue	-	-	99 348	99 348

The following summarises the major methods and assumptions used in estimating the fair values of financial instruments reflected in the table above.

Loans and advances to banks: The fair value of floating rate placements and overnight deposits is their carrying amount. Fixed interest-bearing deposits fair value is estimated based on discounted cash flows using current money market interest rates for debts with similar credit risk and remaining maturity.

Loans and advances to customers: These are net of any impairment. Fair value is calculated based on the discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

In comparable period the Bank assumed, that in case of variable-rate loans and advances and if there had not been significant changes in credit risk, fair value was an approximation of caring value.

As at 31.12.2008, due to significant changes in credit risk, the Group made an estimation of fair value of variable-rate loans and advances in compliance with the disclosures in the table above.

Available-for-sale investments: The fair value of financial assets available for sale is based on quoted market prices. For certain equity instruments without quoted prices it was impossible to reliably estimate a fair value with alternative methods. For balance sheet valuation purposes instruments are recognised at purchase value adjusted for impairment write downs.

Investments in associates entities and joint ventures: Financial assets representing interests in associated entities were accounted for using the equity method. In the opinion of the Management Board of the parent company, this is the best estimate of the fair value of these instruments.

Bank and customer deposits: For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the balance sheet date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. For deposits maturing within 6 months it's assumed that their fair value is not significantly different from carrying value. The value of long-term relationships with depositors is not taken into account in estimating fair values.

45. Contingent liabilities

Significant court proceedings conducted by Bank Zachodni WBK S.A

As at 31 December 2008, no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank amounting to a minimum of 10% of the Bank's equity.
The value of all litigation amounts to PLN 244 677 k, which is ca. 5.53 % of the Bank's equity. This amount includes PLN 54 896 k claimed by the Bank, PLN 54 381k in claims against the Bank and PLN 135 400 k are Bank's receivables due to bankruptcy or arrangement cases.

As at 31 December 2007, no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank amounting to a minimum of 10% of the Bank's equity.
The value of all litigation amounts to PLN 282 843 k, which is ca 7.35 % of the Bank's equity. This amount includes PLN 56 665 k claimed by the Bank, PLN 64 309 k in claims against the Bank and PLN 161 869 k are Bank's receivables due to bankruptcy or arrangement cases.

Off balance sheet liabilities

The bank has commitments to deliver loans. These commitments include loans sanctioned, credit card limits and overdrafts. The bank issues guarantees and letters of credit which collateralise customers' liabilities to third parties.

in thousands of PLN

The break-down of contingent liabilities and off-balance transactions into categories are presented below. The values of guarantees and letters of credit as set out in the table below represent the maximum possible loss that would be disclosed as at the balance sheet day if the customers did not meet any of their obligations.

Contingent liabilities, sanctioned and received	31.12.2008	31.12.2007
Liabilities sanctioned	**10 798 953**	**8 978 520**
- financial	**9 847 961**	**8 183 465**
- credit lines	8 726 066	6 923 381
- credit cards debits	879 874	651 041
- term deposits with future commencement term	182 000	547 834
- import letters of credit	60 021	61 209
- guarantees	**950 992**	**795 055**
Received liabilities	**2 480 614**	**1 979 265**
Total	**13 279 567**	**10 957 785**

The most common forms of guarantee are: payment guarantee, performance bond, bid bond, advance payment guarantee, loan repayment guarantee, customs guarantee.

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.

46. Assets pledged as collateral

The Bank is obliged to establish a guaranteed protection fund.

Under new amendments to the Bank Guarantee Fund Act, Bank Zachodni WBK S.A. calculated this fund using 0.4% rate of the annual contribution base.

Accordingly, as at 31 December 2008 Bank Zachodni WBK S.A. pledged as collateral PLN 150 561 k of debt securities (PLN 64 335 k as at 31.12.2007).

In 2008 a deposit for PLN 182 306 k was placed with another bank as a collateral for the day-to-day Treasury business (in 2007: PLN 12 322 k).

Other assets pledge as collateral are presented in note 43.

in thousands of PLN

47. Trust activities

Up to 31.12.2007 BZ WBK provided custodian services in accordance with Stock Exchange Commission license of 9 August 1999. The Bank's custodian services were addressed to residents - private individuals and legal enterprises (incl. investment funds) - and to foreign institutional investors trading in the Polish capital markets. Trust activities involved, inter alia, maintaining securities accounts, settling transactions, handling dividend and interest payments and representing clients at the General Annual Meetings of public companies. Bank also acted as a depository for investment funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.

As at the end of 2007 assets held in custody amounted to PLN 7 950 350 k.

Year 2007 was the last year of trust activity and in 2008 securities accounts and other amounts have been transferred to other Depositories.

48. Financial and operating leases

Finance leases

Bank Zachodni WBK S.A. acts as a lessee in finance lease agreements where the lessor side is represented by BZWBK leasing subsidiaries: BZWBK Leasing SA and BZWBK Finanse & Leasing SA.
The leasing contracts finance purchase of cars.

Finance leases gross liabilities (maturity)	31.12.2008	31.12.2007
Less than 1 year	1 514	4 400
1-5 years	32 300	19 093
Total	**33 814**	**23 493**
Present value of lease payments (maturity)	**31.12.2008**	**31.12.2007**
Less than 1 year	1 153	3 314
1-5 years	24 115	14 361
Total	**25 268**	**17 675**
Reconciliation between the gross investment and the present value of minimum lease payments	**31.12.2008**	**31.12.2007**
Finance leases gross liabilities	33 814	23 493
Unearned financial costs	(8 546)	(5 818)
Present value of minimum lease payments	**25 268**	**17 675**

Operating Leases

Bank Zachodni WBK S.A. leases offices in compliance with operational leasing agreements. As a standard, agreements are concluded for 5-10 years. A small part of the offices is subleased outside the Bank. In 2008 and 2007 rentals totaled PLN 97 690 k and PLN 69 114 k respectively. These payments are presented in the profit and loss account under "operating costs".

in thousands of PLN

Total payments of all operational non cancelable leases (including land perpetual usufruct) are as below:

Payments (maturity)	31.12.2008	31.12.2007
Less than 1 year	119 302	90 999
1-5 years	374 372	299 244
over 5 years	311 110	239 658
Total	**804 784**	**629 901**

49. Cash flow statement – additional information

Table below specifies components of cash balances of Bank Zachodni WBK S.A.

Cash components	31.12.2008	31.12.2007
Current account in a central bank	2 004 861	1 365 130
Cash on hand	1 173 235	840 919
Current accounts other banks	12 371	19 331
Other cash equivalents	3	210
Total	**3 190 470**	**2 225 590**

50. Related party disclosures

The tables below contain information about transactions effected by the bank and its related entities.

Most of the transactions are banking transactions made as part of ordinary business activities and mainly include loans, deposits and guarantees.

Receivables and liabilities relating to transactions with connected entities 31.12.2008

Receivables	of which from subsidiaries	of which from associates and joint ventures	of which from the parent company (AIB Group)	Total
Loans and advances to banks	-	-	254 035	254 035
Financial assets held for trading	155	-	187 878	188 033
Hedging derivatives	-	-	-	-
Loans and advances to customers	852 828	-	-	852 828
Investment securities	-	-	129 164	129 164
Other assets	3 348	-	4 068	7 416
Total	**856 331**	**-**	**575 145**	**1 431 476**

Liabilities	of which from subsidiaries	of which from associates and joint ventures	of which from the parent company (AIB Group)	Total
Deposits from banks	-		1 050 572*	1 050 572
Hedging derivatives	99 356	-	671 136	770 492
Financial liabilities held for trading	-	-	1 489	1 489
Deposits from clients	1 103 139	121 191	-	1 224 330
Other liabilities	25 245	-	15 123	40 368
Total	**1 227 740**	**121 191**	**1 738 320**	**3 087 251**

* incl.: repo transactions in the amount of PLN 588 159 k and deposits of PLN 462 413 k.

in thousands of PLN

31.12.2007

Receivables	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Loans and advances to banks	-	-	174 250	174 250
Financial assets held for trading	5 357	-	41 053	46 410
Hedging derivatives	-	-	1 380	1 380
Loans and advances to customers	801 155	-	-	801 155
Investment securities	-	-	208 575	208 575
Other assets	11 879	-	-	11 879
Total	**818 391**	**-**	**425 258**	**1 243 649**

Liabilities	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Deposits from banks	-	-	950 869*	950 869
Financial liabilities held for trading	3 914	-	58 206	62 120
Deposits from clients	1 537 430	58 568	-	1 595 998
Other liabilities	17 675	-	14 788	32 463
Total	**1 559 019**	**58 568**	**1 023 863**	**2 641 450**

* incl.: repo transactions in the amount of PLN 645 887 k and deposits of PLN 304 982 k.

Revenues and expenses relating to transactions with connected entities

01.01 - 31.12.2008

Income	of which from subsidiaries	of which from associates and joint ventures	of which from the parent company (AIB Group)	Total
Interest and similar income	44 600	-	19 057	63 657
Fee and commission income	97 187	4	33	97 224
Other operating income	7 863	-	17 206	25 069
Net trading income and revaluation	7 493	-	-	7 493
Total	**157 143**	**4**	**36 296**	**193 443**

Expenses	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Interest expense and similar charges	75 707	5 073	40 969	121 749
Fee and commission expense	90	-	-	90
Net trading income and revaluation	-	-	2 868	2 868
Gains (losses) from other financial securities	-	-	340 410	340 410
Other operating expenses incl.:	1 657	-	30 005	31 662
Bank's operating expenses and management costs	1 608	-	30 005	31 613
other	49	-	-	49
Total	**77 454**	**5 073**	**414 252**	**496 779**

in thousands of PLN

01.01. - 31.12.2007

Income	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Interest and similar income	26 403	-	22 326	48 729
Fee and commission income	168 867	2	-	168 869
Other operating income	4 939	-	-	4 939
Net trading income and revaluation	-	-	24 408	24 408
Gains from other financial securities	-	-	357	357
Total	**200 209**	**2**	**47 091**	**247 302**

Expenses	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Interest expense and similar charges	60 809	3 913	(8 413)	56 309
Fee and commission expense	22	-	-	22
Net trading income and revaluation	4 631	-	-	4 631
Gains from investment in subsidiaries and associates	43	-	-	43
Other operating expenses incl.:	1 165	-	31 660	32 825
Bank's operating expenses and management costs	1 118	-	31 660	32 778
other	47	-	-	47
Total	**66 670**	**3 913**	**23 247**	**93 830**

Off balance sheet positions relating to transactions with connected entities

31.12.2008

Intragroup transactions - off-balance sheet liabilities and derivatives' nominal values	of which from subsidiaries	of which from the parent company (AIB Group)
1. Sanctioned contingent liabilities	**605 784**	**188 563**
- financing-related	555 510	165 000
- guarantees	50 274	23 563
2. Received contingent liabilities	**605 784**	**188 563**
- financing-related	555 510	165 000
- guarantees	50 274	23 563
3. Derivatives' nominal values, including:	**2 674 910**	**13 161 424**
-cross-currency interest rate swaps- purchased	1 124 026	480 590
-cross-currency interest rate swaps- sold	1 305 961	590 082
-single-currency interest rate swaps	244 923	3 954 781
-FRA	-	150 000
-options	-	10 221
-FX swap – purchased amounts	-	2 441 470
-FX swap – sold amounts	-	2 465 307
-FX options -purchased	-	1 226 585
-FX options -sold	-	1 761 203
-spot-purchased	-	39 224
-spot-sold	-	41 961
Total	**3 886 478**	**13 538 550**

in thousands of PLN

31.12.2007

Intragroup transactions - off-balance sheet liabilities and derivatives' nominal values	of which from subsidiaries	of which from the parent company (AIB Group)
1. Sanctioned contingent liabilities	**832 210**	**121 750**
- financing-related	717 400	121 750
- guarantees	114 810	-
2. Received contingent liabilities	**832 210**	**121 750**
- financing-related	717 400	121 750
- guarantees	114 810	-
3. Derivatives' nominal values, including:	**1 039 158**	**5 278 114**
-FX forward- purchased	6 415	-
-FX forward- sold	6 428	-
-cross-currency interest rate swaps- purchased	367 850	125 578
-cross-currency interest rate swaps- sold	358 200	151 627
-single-currency interest rate swaps	300 265	3 039 916
-options	-	17 688
-FX swap – purchased amounts	-	177 884
-FX swap – sold amounts	-	180 724
-FX options -purchased	-	639 964
-FX options -sold	-	883 389
-spot-purchased	-	30 667
-spot-sold	-	30 677
Total	**2 703 578**	**5 521 614**

In November 2008 BZ WBK entered into several short-term buy-sell-back transactions with the following investment funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.:

- Arka BZ WBK Zrównoważony FIO
- Arka BZ WBK Stabilnego Wzrostu FIO
- Arka BZ WBK Ochrony Kapitału FIO

They are collateralized with Government bonds. As at 31.12.2008 balance of those transactions amounted to PLN 427 527 k and accrued interest amounted to PLN 3 216 k.

TRANSACTIONS WITH MEMBERS OF MANAGEMENT AND SUPERVISORY BOARDS

REMUNERATION OF BANK ZACHODNI WBK S.A. MANAGEMENT AND SUPERVISORY BOARD MEMBERS

31.12.2008

Remuneration paid to the members of Bank Zachodni WBK Supervisory Board

First and last name	Position	PLN k
Aleksander Szwarc	Chairman of the Supervisory Board	201,7
Waldemar Frąckowiak	Member of the Supervisory Board	177,2
Aleksander Galos	Member of the Supervisory Board	163,0
Jcek Ślotała	Member of the Supervisory Board	119,0
John Power	Member of the Supervisory Board	214,8
James O'Leary	Member of the Supervisory Board	93,6

in thousands of PLN

Two Members of the Supervisory Board: Gerry Byrne and Maeliosa OhOgartaigh decided not to be remunerated.

Remuneration and any additional benefits paid to the members of Bank Zachodni WBK Management Board:

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2008-31.12.2008	1 214,64	638,10
Paul Barry*	Member of the Management Board	01.10.2008-31.12.2008	189,37	272,73
Andrzej Burliga	Member of the Management Board	01.01.2008-31.12.2008	566,47	59,56
Declan Flynn*	Member of the Management Board	01.01.2008-31.12.2008	995,91	792,85
Michał Gajewski	Member of the Management Board	01.01.2008-31.05.2008	415,29	29,02
Justyn Konieczny	Member of the Management Board	01.01.2008-31.12.2008	854,28	69,99
Janusz Krawczyk	Member of the Management Board	01.01.2008-31.12.2008	762,57	45,30
Jacek Marcinowski	Member of the Management Board	01.01.2008-31.12.2008	729,29	56,24
James Murphy*	Member of the Management Board	01.01.2008-30.09.2008	518,58	439,00
Marcin Prell	Member of the Management Board	01.01.2008-31.12.2008	729,02	70,83
Mirosław Skiba	Member of the Management Board	22.07.2008-31.12.2008	252,28	17,80
Feliks Szyszkowiak	Member of the Management Board	01.01.2008-31.12.2008	732,45	64,20

*In respect of Messrs Barry, Flynn and Murphy (on assignment to BZWBK from Allied Irish Banks plc, Dublin, Ireland), whose terms of assignment cover payment of salaries in their home country currency. Furthermore, their terms of assignment include reimbursement of Allied Irish Banks plc's costs in respect of pension contributions, medical insurance cover, Allied Irish Banks plc profit sharing scheme and other benefits. Costs in respect of accommodation and school fees are also paid by BZWBK in specific cases.

In 2008, none of the Members of the Management Board or the Supervisory Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities.

Members of the Management Board have signed non-competition agreements which remain in force after they step down from their function. If a Member of the Management Board is removed from their function or not appointed for another term, he/she is entitled to a once-off severance pay. The severance pay does not apply if the person accepts another function in the Bank.

in thousands of PLN

31.12.2007

Remuneration paid to the members of Bank Zachodni WBK Supervisory Board

First and last name	Position	PLN k
Aleksander Szwarc	Chairman of the Supervisory Board	183,2
Kieran Crowley*	Member of the Supervisory Board	32,6
Waldemar Frąckowiak	Member of the Supervisory Board	144,7
Aleksander Galos	Member of the Supervisory Board	140,7
James O'Leary	Member of the Supervisory Board	58,1
John Power	Member of the Supervisory Board	152,4
Jacek Ślotała	Member of the Supervisory Board	96,7

* Mr. Kieran Crowley resigned from the Board on 17 April 2007

Two Members of the Supervisory Board: Gerry Byrne and Maeliosa OhOgartaigh decided not to be remunerated.

Remuneration and any additional benefits paid to the members of Bank Zachodni WBK Management Board

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki*	President of the Management Board	16.05.2007-31.12.2007	1 011,98	13,52
Jacek Kseń	President of the Management Board	01.01.2007-30.04.2007	437,27	3 785,61
Andrzej Burliga	Member of the Management Board	24.07.2007-31.12.2007	273,33	6,10
Declan Flynn**	Member of the Management Board	01.01.2007-31.12.2007	1 299,89	825,35
Michał Gajewski	Member of the Management Board	01.01.2007-31.12.2007	798,56	57,48
Justyn Konieczny	Member of the Management Board	01.01.2007-31.12.2007	798,75	66,79
Janusz Krawczyk	Member of the Management Board	01.01.2007-31.12.2007	712,73	43,19
Jacek Marcinowski	Member of the Management Board	01.01.2007-31.12.2007	681,63	55,25
James Murphy**	Member of the Management Board	01.01.2007-31.12.2007	752,49	614,87
Marcin Prell	Member of the Management Board	01.01.2007-31.12.2007	680,13	61,70
Feliks Szyszkowiak	Member of the Management Board	01.01.2007-31.12.2007	679,56	50,83

* Mateusz Morawiecki was appointed to the position of MB President on the 16th of May 2007. Before that date, he was a Member of the Management Board.

**In respect of Messrs Flynn and Murphy (on assignment to BZWBK from Allied Irish Banks plc, Dublin, Ireland), whose terms of assignment cover payment of salaries in their home country currency. Furthermore, their terms of assignment include reimbursement of Allied Irish Banks plc's costs in respect of pension contributions, medical insurance cover, Allied Irish Banks plc profit sharing scheme and other benefits. Costs in respect of accommodation and school fees are also paid by BZWBK in specific cases.

In 2007, none of the Members of the Management Board or the Supervisory Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities.

31.12.2008

As of 31.12.2008, the total of loans, advances and guarantees provided to members of the Management Board of BZ WBK S.A. by the subsidiaries and associates amounted to PLN 30 k.

Social Fund loans and advances provided to Board Members totalled nil.

Loans and advances made by the Bank to the Board Members totalled PLN 8 769 k.
These facilities have been sanctioned on regular terms and conditions.

31.12.2007

As of 31.12.2007, the total of loans, advances and guarantees provided to members of the Management Board of BZ WBK S.A. by the subsidiaries and associates amounted to PLN 47 k.

Social Fund loans and advances provided to Board Members totalled nil.

Loans and advances made by the Bank to the Board Members totalled PLN 3 143 k.
These facilities have been sanctioned on regular terms and conditions.

TRANSACTIONS WITH EMPLOYEES

31.12.2008

As of 31.12.2008, the total of loans and advances drawn by BZWBK S.A. employees was PLN 396 263 k (including the debt of PLN 30 893 k shown in joint accounts).
In the same period, the total of loans and advances drawn by BZWBK S.A. employees from the Social Fund was PLN 15 151 k.
These facilities have been sanctioned on regular terms and conditions.
On current accounts and term deposits employees of the bank held balances of PLN 191 443 k, (of which joined current accounts - PLN 37 720 k).

31.12.2007

As of 31.12.2007, the total of loans and advances drawn by BZWBK S.A. employees was PLN 319 542 k (including the debt of PLN 34 947 k shown in joint accounts)
In the same period, the total of loans and advances drawn by BZWBK S.A. employees from the Social Fund was PLN 15 709 k.
These facilities have been sanctioned on regular terms and conditions.

in thousands of PLN

On current accounts and term deposits employees of the bank held balances of PLN 135 268 k, (of which joined current accounts - PLN 22 027 k).

51. Information of number and value of banking writs of executions

In 2008 Bank issued 17 731 banking writs of execution with total amount of PLN 125 800 k, of which:

- cash loans and overdrafts – 11 975 cases of PLN 81 001 k,
- corporate loans - 172 cases of PLN 22 451 k
- credit cards – 5 521 cases of PLN 15 628 k
- mortgage loans – 63 cases of PLN 6 720 k.

In 2007 Bank issued 5 224 banking writs of execution with total amount of PLN 67 330 k, of which:

- cash loans and overdrafts – 3 381 cases of PLN 19 604 k,
- corporate loans - 33 cases of PLN 40 424 k
- credit cards – 1 801 cases of PLN 5 269 k
- mortgage loans – 9 cases of PLN 2 033 k.

52. Acquisitions and disposals of investments in subsidiaries and associates

Disposals in 2008	Net assets	Revenue	Impairment loss	Gains/loss
Brytyjsko-Polskie Towarzystwo Finansowe WBK CU Sp. z o.o.	218	1 200	-	982
NFI Magna Polonia S.A.	1 821	1 821	(756)	(756)
Total	**2 039**	**3 021**	**(756)**	**226**

Disposals in 2007	Net assets	Revenue	Impairment loss	Gains/loss
NFI Magna Polonia S.A.	5 404	17 116	(12 400)	(688)
BZWBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa	13 650	27 073	-	13 423
Total	**19 054**	**44 189**	**(12 400)**	**12 735**

Bank Zachodni WBK S.A. made a transaction of partial disposal of NFI Magna Polonia shares. Shares representing 22.47% of votes at the AGM of NFI Magna Polonia were sold, whereas the rest (5.06%), is recognized as investment securities.

BZWBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa was dissolved on 27th of February 2007.

53. Investments in joint ventures

BZ WBK-CU Towarzystwo Ubezpieczeń Ogólnych Spółka Akcyjna and BZ WBKCU Towarzystwo Ubezpieczeń na życie Spółka Akcyjna were established on 30 July 2008.

The Bank invested in:

- BZ WBK – CU Towarzystwo Ubezpieczeń Ogólnych S.A. - 13 500 ordinary registered shares of A series with nominal value of PLN 1 000 each and issue price per share of PLN 1 334 which accounts for 50% of the share capital and 50% of votes at a general meeting. The carrying value of the shares taken up by the Bank totals PLN 18 516 k,
- BZ WBK – CU Towarzystwo Ubezpieczeń na śycie S.A. – 10 875 ordinary registered shares of A series with value of PLN 1000 each and issue price per share of PLN 1 334 which accounts for 50% of the share capital and 50% of votes at a general meeting. The carrying value of the shares taken up by the Bank totals PLN 15 014 k

These represent long-term investments and have been financed from the Bank's own funds.

They were classified as available for sale and value at acquisition price.

54. Events after the balance sheet date

Purchase of shares and registration of the Bank's new subsidiary

On 14 January 2009 a new company BZ WBK Finanse Sp. z o.o. was registered.

The Bank took up in BZ WBK Finanse Sp. z o.o. 1000 shares with the nominal value of PLN 50 each which accounts for 100% of the share capital and 100% of votes at the General Meeting.

The Bank took up the shares for the total of PLN 50 k.

The core business of the Company will be operating financial holdings, finance lease and other forms of sanctioning loans.

The Bank's purchase of the shares in BZ WBK Finanse Sp. z o.o. is a long-term investment and has been financed with the Bank's own funds.

Additional on 23 February 2009 an agreement was entered into by and between the Bank and the registered subsidiary on transferring the ownership title to shares of the Bank's selected Pursuant to the Agreement, the Bank transferred onto BZ WBK Finanse the ownership title to:

1. 1,216,919 shares of BZ WBK Leasing S.A. with a total nominal value of PLN 121 691 900.00 representing 99.99 % of the share capital and votes at the company's AGM, with the total value equalling the carrying value in the Bank's books of PLN 61,257,096.09. The value of shares in the BZ WBK Finanse books will total PLN 61,257,096.09;
2. 100 shares of BZ WBK Faktor Sp. z o.o. with a total nominal value of PLN 50 000.00 representing 100% of the share capital and votes at the company's AGM, with the total value equalling the carrying value in the

Bank's books of PLN 6,200,073.20. The value of shares in the BZ WBK Finanse books will total PLN 6,200,073.20.

The above shares represent the Bank's non-cash contribution to the BZWBK Finanse capital with a total value of PLN 67 457 169,29 in return for which the Bank at the registration of the share capital increase will take up 11 436 new shares in the increased share capital of BZ WBK Finanse.

Change in the composition of Bank Zachodni WBK Management Board since 01.02.2009

On 1 February 2009 Michael McCarthy will take up his role as BZWBK Management Board Member in charge of the Business Banking Division, having been appointed by the Supervisory Board on 16 December 2008.

Fitch Downgrades Poland's Bank Zachodni WBK's Long-term IDR to 'BBB+'; Outlook Stable

In its announcement of 15 January 2009, the agency affirmed the bank's individual rating "C" (adequate bank), downgraded its Long-term Issuer Default rating (IDR) from "A+" to "BBB+" and Short-term IDR from "F1" to "F2". The outlook on the Long-term IDR was assessed as stable. The agency has simultaneously downgraded BZ WBK's Support Rating to '2' from '1'.

Fitch Changes Bank Zachodni WBK's Outlook to Negative; Downgrades Support to '3'.

On 13 February 2009 Fitch Ratings has revised Poland-based Bank Zachodni WBK's (BZ WBK) Outlook to Negative from Stable. The Support Rating was downgraded to '3' from '2'. These rating actions follow downgrade of its controlling shareholder, Allied Irish Banks' (AIB) Individual rating to 'D' from 'C'. BZ WBK's other ratings were affirmed.

Change in foreign exchange rates

Subsequent to year end there has been a significant depreciation of Polish zloty against other major currencies:
from PLN 4.1724 /EUR on 31.12.2008 to PLN 4.6780 /EUR on 24.02.2009
from PLN 2.9618 /CHF on 31.12.2008 to PLN 3.1657 /CHF on 24.02.2009
from PLN 2.8014 /USD on 31.12.2008 to PLN 3.6602 /USD on 24.02.2009
This movement in exchange rates may have significant effect on the values and risk profiles of foreign currency assets, liabilities and off balance sheet financial instruments.

Authorization for issue of financial statements

The unconsolidated financial statements were authorized for issue on 24th of February 2009 by the Management Board of Bank Zachodni WBK S.A. The financial statements will be approved by the shareholders at their Annual General Meeting.

in thousands of PLN

55. Staff benefits

Staff benefits include the following categories:

- Short-term benefits (remuneration, social security contributions, paid leaves, profit distributions and bonuses and non-cash benefits),
- Post-employment benefits (retirement benefits and similar payments, life insurance or medical care provided during the term of employment),

Within these categories, the companies of the BZ WBK creates the following types of provisions:

Provisions for accrued holiday leaves

Liabilities related to accrued holiday leaves are stated in the expected amount (based on current salaries) without discounting.

Provisions for employee bonuses

Liabilities related to the adopted bonus system are stated in the amount of the probable payment without discounting.

Provisions for retirement allowances

Liabilities related to retirement allowances are measured using actuarial methods (including discounting).

Other staff-related provisions

These are provisions for the National Fund of Rehabilitation of the Disabled and for redundancies. These liabilities are stated at the amounts of expected payment without discounting.

The balances of the respective provisions are shown in the table below:

Provisions	31.12.2008	31.12.2007
Provisions for accrued holiday leaves	19 651	16 146
Provisions for employee bonuses	28 316	82 618
Provisions for retirement allowances	33 792	28 661
Other staff-related provisions	5 303	4 235
Total	**87 062**	**131 660**

Detailed information about movements on staff-related provisions is available in additional note 38.

in thousands of PLN

Awards for the year 2006 paid in 2007 to the Members of the Management Board of Bank Zachodni WBK S.A.

First and last name	Position	Period	Awards for 2006
Mateusz Morawiecki	President of the Management Board	01.01.2007-31.12.2007	633,60
Jacek Kseń	President of the Management Board	01.01.2007-30.04.2007	1 440,00
Andrzej Burliga	Member of the Management Board	24.07.2007-31.12.2007	0,00
Declan Flynn	Member of the Management Board	01.01.2007-31.12.2007	1 292,19
Michał Gajewski	Member of the Management Board	01.01.2007-31.12.2007	660,00
Justyn Konieczny	Member of the Management Board	01.01.2007-31.12.2007	660,00
Janusz Krawczyk	Member of the Management Board	01.01.2007-31.12.2007	549,44
Jacek Marcinowski	Member of the Management Board	01.01.2007-31.12.2007	549,44
James Murphy	Member of the Management Board	01.01.2007-31.12.2007	779,94
Marcin Prell	Member of the Management Board	01.01.2007-31.12.2007	549,44
Feliks Szyszkowiak	Member of the Management Board	01.01.2007-31.12.2007	549,44

Awards for the year 2007 paid in 2008 to the Members of the Management Board of Bank Zachodni WBK S.A.

First and last name	Position	Period	Awards for 2007
Mateusz Morawiecki	President of the Management Board	01.01.2008-31.12.2008	1 440,00
Paul Barry	Member of the Management Board	01.10.2008-31.12.2008	0,00
Andrzej Burliga	Member of the Management Board	01.01.2008-31.12.2008	540,00
Declan Flynn	Member of the Management Board	01.01.2008-31.12.2008	1 015,60
Michał Gajewski	Member of the Management Board	01.01.2008-31.05.2008	840,00
Justyn Konieczny	Member of the Management Board	01.01.2008-31.12.2008	840,00
Janusz Krawczyk	Member of the Management Board	01.01.2008-31.12.2008	684,00
Jacek Marcinowski	Member of the Management Board	01.01.2008-31.12.2008	504,00
James Murphy	Member of the Management Board	01.01.2008-30.09.2008	555,99
Marcin Prell	Member of the Management Board	01.01.2008-31.12.2008	504,00
Mirosław Skiba	Member of the Management Board	22.07.2008-31.12.2008	0,00
Feliks Szyszkowiak	Member of the Management Board	01.01.2008-31.12.2008	648,00

in thousands of PLN

56. Share based incentive scheme

In 2006 the Bank has introduced the Incentive Scheme ("the Scheme") on terms approved by the shareholders. The scheme is designed to provide market-competitive incentives for senior executives, in the context of the Bank's long-term performance against stretching growth targets over the three financial years period 2006 – 2008. Conditional awards of shares are made to employees with vesting to take place on the date of the AGM approving financial statements for the last year of the scheme. Subject to vesting conditions the scheme will be realized by distribution of shares only.
Share will vest on a linear pattern between 25% and 100% contingent on EPS growth adjusted by Consumer Price Index (CPI). The range of the scale requires EPS growth adjusted for CPI between 5% and 12% for 2006 edition and between 8% and 16% for 2007 and 2008 editions.
During 2006 and 2007 conditional awards of shares were granted to no more than 100 individuals.
In 2008 the third edition has been granted to no more than 600 individuals.
The Black Scholes model has been used to value awards granted at the grant date. The expected volatility is based on an analysis of historical volatility based on 160 sessions preceding the grant date. The following table details the assumptions used, and the resulting fair value.

Share based payments granted:

	2008	2007	2006
Number of share based payments	288 112	78 341	132 476
Share price	149,00	292,50	171,50
Exercise price	10	10	10
Vesting period	3 years	3 years	3 years
Expected volatility	40,82 %	40,69 %	37,48 %
Award life	3 years	3 years	3 years
Risk free rate	6,87 %	4,90 %	4,60 %
Fair value per award	133,01 zł	267,53 zł	150,60 zł
Dividend yield	2,01%	2,05%	2,25%

The following table summarizes the share based payments activity:

	12 months of 2008 Number of share based payments	12 months of 2007 Number of share based payments
Outstanding at 1 January	200 722	128 223
Granted	288 112	78 341
Exercised	-	-
Forfeited	(11 905)	(5 842)
Expired	-	-
Outstanding at 31 December	476 929	200 722
Exercisable at 31 December	**-**	**-**

in thousands of PLN

For the share based payments outstanding as at 31 December 2008 and as at 31 December 2007 the average remaining contractual life is approximately 1,6 years and 1,6 years respectively.

Details of number of conditional awards (bonds with pre-emptive rights) for the Members of the Management Board are given below.

No. of awards	*2007*
Outstanding at 1 January	**23 494**
Granted	17 849
Granted before MB nomination	1 606
Outstanding at 31 December	**42 949**
Exercisable at 31 December 2007	**-**

First and last name	*Total as at 01.01.2007*	*Granted before MB nomination*	*Granted during 2007*	*Total as at 31.12.2007*
Mateusz Morawiecki	3 591	-	2 558	6 149
Jacek Kseń	-	-	-	-
Andrzej Burliga	-	1 606	1 085	2 691
Declan Flynn*	-		-	-
Michał Gajewski	3 591	-	2 665	6 256
Justyn Konieczny	3 591	-	2 665	6 256
Janusz Krawczyk	3 397	-	2 219	5 616
Jacek Marcinowski	3 397	-	2 219	5 616
James Murphy*	-	-	-	-
Marcin Prell	2 530	-	2 219	4 749
Feliks Szyszkowiak	3 397	-	2 219	5 616
Total	**23 494**	**1 606**	**17 849**	**42 949**

* Members of Management Board on assignment to BZWBK from Allied Irish Banks plc do not participate in BZWBK Incentive Scheme.

No. of awards	*2008*
Outstanding at 1 January	**42 949**
Granted	35 535
Granted before MB nomination	2 538
Forfeited	(6 256)
Outstanding at 31 December	**74 766**
Exercisable at 31 December 2008	**-**

in thousands of PLN

First and last name	Total as at 01.01.2008	Forfeited during 2008	Granted before MB nomination	Granted during 2008	Total as at 31.12.2008
Mateusz Morawiecki	6 149			7 403	13 552
Paul Barry*					
Andrzej Burliga	2 691			3 332	6 023
Declan Flynn*					
Michał Gajewski	6 256	(6 256)			-
Justyn Konieczny	6 256			5 182	11 438
Janusz Krawczyk	5 616			4 442	10 058
Jacek Marcinowski	5 616			4 442	10 058
Marcin Prell	4 749			4 442	9 191
Mirosław Skiba			2 538	1 850	4 388
Feliks Szyszkowiak	5 616			4 442	10 058
Total	**42 949**	**(6 256)**	**2 538**	**35 535**	**74 766**

*Members of Management Board on assignment to BZWBK from Allied Irish Banks plc do not participate in BZWBK Incentive Scheme.

The total expense is recognized in profit and loss account and in other reserve capital. For 12 months of 2008 and 2007 increase of equity amounted to PLN 1 733 k and PLN 10 474 k respectively.

Total expense, recognized in both periods, includes estimated probability of criteria fulfillment which are essential to realization of particular scheme editions.

57. Average staff level with the break-down into professional groups

As at 31 December 2008 the Bank employed 9 590 persons, i.e. 9 515 FTE's.

In 2008, the average staffing level in Bank Zachodni WBK was 9 073 FTE's.

The table below presents the employment structure in the Bank with a break-down according to education:

Education	No. of staffs	Structure %
University/collage degree	6 306	65,76
High school degree	3 068	31,99
Vocational	27	0,28
Other	189	1,97
Total	**9 590**	**100,00**

As at 31 December 2007 the Bank employed 8 521 persons, i.e. 8 469 FTE's.

In 2007, the average staffing level in Bank Zachodni WBK was 7 834 FTE's.

in thousands of PLN

The table below presents the employment structure in the Bank with a break-down according to education:

Education	No. of staffs	Structure %
University/collage degree	5 241	61,51
High school degree	3 067	35,99
Vocational	29	0,34
Other	184	2,16
Total	**8 521**	**100,0**

58. Dividend per share

Bank Zachodni WBK S.A. is not going to pay a dividend out of its income generated in 2008.

The Management Board allocated to dividends 27.04% of BZWBK net profit of 2007 of PLN 218 880 852 i.e. PLN 3.00 per one share. Outstanding profit of PLN 590 593 185.45 was allocated to other reserve capital.

in thousands of PLN

SIGNATURES			
Signatures of Members of the Management Board			
Date	**Name**	**Function**	**Signature**
24-02-2009	Mateusz Morawiecki	President	
24-02-2009	Paul Barry	Member	
24-02-2009	Andrzej Burliga	Member	
24-02-2009	Declan Flynn	Member	
24-02-2009	Justyn Konieczny	Member	
24-02-2009	Janusz Krawczyk	Member	
24-02-2009	Jacek Marcinowski	Member	
24-02-2009	Michael McCarthy	Member	
24-02-2009	Marcin Prell	Member	
24-02-2009	Mirosław Skiba	Member	
24-02-2009	Feliks Szyszkowiak	Member	

Signature of a person who is responsible for maintaining the book of account			
Date	**Name**	**Function**	**Signature**
24-02-2009	Wojciech Skalski	Financial Accounting Area Director	

Report of the Management Board on Bank Zachodni WBK Performance in 2008

Bank Zachodni WBK S.A.

Contents

I. General Review

In 2008, amid unprecedented volatility of the financial markets and contracting economy, Bank Zachodni WBK produced higher total income by 20.5.% y-o-y (PLN 2,839.7 m). This performance reflects the fast growth of the bank's key business lines. With strong investments into the future, the profit-before-tax was PLN 987.4 m and 0.9% higher on the prior year.

Financial Performance in Brief

Key financial figures and year-on-year movements:

- Profit-before-tax was PLN 987.4 m, up 0.9% y-o-y;
- Profit-after-tax was PLN 809.2 and remained stable y-o-y;
- Return on Equity above 20% (22.4% versus 26.6% as at 31 December 2007);
- Capital adequacy ratio at 9.81%;
- Increase in total income by 20.5% y-o-y, including a rise in net interest income by 26.1%;
- Total costs higher by 8.9% with dynamic development of distribution channels and IT infrastructure;
- Improved cost efficiency (cost to income ratio reduced to 52.8% in 2008 from 58.5% in 2007);
- Stable level of NPL ratio on a y-o-y basis (3% as at 31 December 2008 versus 2.9% as at 31 December 2007) while total loan loss ratio (net impairment charge over total credit exposure) higher at 1.33% compared to 0.003% as at 31 December 2007.

Key Factors Affecting the Bank's Profit and Activity

Diversification of business:

- Rapid growth of credit volumes: cash loans (+71% y-o-y), mortgage loans (+49.5% y-o-y), business loans (+44.2% y-o-y);
- Significant growth in deposits (+43.3% y-o-y), including term deposits (+69.6% y-o-y);
- Loans to deposits ratio remained at the level which ensures adequate liquidity and access to the sources of funding (75.3% as at 31 December 2008 versus 73.2% as at 31 December 2007); adjusted for short-term large business deposits (PLN 2,786 m) included in the balance of customer deposits as at 31 December 2008, the ratio was at 80%;
- Introduction of new investment products, including closed-end funds and structured solutions;
- Further growth of prospective business lines, including bancassurance products and services to third party institutions;
- Increase in the number of BZWBK24 electronic banking users by 23% y-o-y;
- Expansion of the debit and credit cards base (+19% y-o-y and +21% y-o-y, respectively) due to the broad offer and linked services;
- Efficient equity investment management, growing activity in the area of advisory and securities services.

- **Continued focus on efficient risk and cost management:**

  - Streamlining and centralisation of credit processes;
  - Alignment of credit parameters to the economic environment;
  - Managed cost expansion amid growing business of Bank Zachodni WBK and consistent delivery of a strategic development programme.

- **Dynamic development of distribution channels:**

  - Execution of the organic growth strategy;
  - Broad diversification and specialisation combined with high effectiveness of the delivery channels;
  - Development of electronic and direct banking functionality; increased integration of these channels with the IT resources of the traditional branches.

- **Rapid changes in the external environment in the second half-year, including:**

  - Global spread of the financial and economic crisis;
  - Deceleration of economic growth (to approx. 3% in the fourth quarter from 5.9% in the first half of 2008);
  - Stagnation in the inter-bank market, breakdown of trust and liquidity crunch in the sector;
  - Interest margins under pressure from elevated cost funding as a result of fierce pricing competition for customer deposits;
  - Deteriorating financial performance of Polish companies;
  - Deepening stock market downturn and its impact on mutual funds;
  - Increased customer focus on security of savings and investment products, and creditworthiness of financial institutions;
  - End of the interest rate increases and significant rate cuts towards the end of the year;
  - Significant zloty depreciation against main currencies;
  - Reversal of the positive trends in the labour market.

Other Developments

- Establishment of two new insurance companies in co-operation with Aviva International Insurance Ltd.
- Launch of the third edition of the incentive scheme for key staff of the bank and subsidiaries.
- Implementation of the Sales Activation Programme in the bank's distribution network.
- Launch of Strategic Portfolio Management Process to create optimal conditions for the delivery of strategic undertakings.
- Modification of the branch network management model.
- Development of a new concept of the organizational structure and management of units responsible for business customers.
- Re-branding of the agency outlets network to Bank Zachodni WBK Partner.
- Receipt of ISO 20000 certification of the IT Services Management System.
- Successfully completed audit of the bank's compliance with ISO 27001 standards for Information Security Management System.
- External auditors' review of Internal Audit Function across Bank Zachodni WBK.

II. Macroeconomic Environment in 2008

Economic Growth

2008 was a year of major upheaval in the world economy. In the first half of 2008, Poland was not yet affected by the adverse economic changes and the Polish market continued on a steady growth path (GDP increased by nearly 6% y-o-y during the first two quarters). However, the second half of the year saw a substantial slowdown of the economic growth. The turning point for the economic situation was at the turn of the third quarter when after the collapse of the US bank Lehman Brothers the financial crisis suddenly intensified and strong risk aversion originated among investors, who scaled back their activity in the inter-bank markets.

GDP in Poland was at 4.8% for most of the year and in the last quarter was close to 3% y-o-y. The economic growth was mainly driven by domestic demand, including an increase in fixed investment (by 7.9%) and private consumption (by 5.4%). Negative contribution of foreign trade to GDP growth was at -0.2 pp.

During the first three quarters of 2008, Polish exports (in EUR) grew strongly, at 20% y-o-y on average, but decelerated sharply in the fourth quarter as foreign demand declined, bringing exports down by more than 7% y-o-y. Current account deficit widened to 5.3% of GDP from 4.7% in 2007.

In the third quarter, registered unemployment rate fell below 9%, the lowest level since 1991. Even though employment growth was slowly losing pace in the first months of the year, it was still strong enough to trigger strong acceleration in wage growth, amid limited supply of expert labour force in some industries. In the enterprise sector, average pay growth reached 12% y-o-y. In effect, growth in unit labour costs significantly accelerated (to ca. 10% y-o-y in the second and the third quarter), creating a risk of stronger inflationary pressure.

Inflation and Interest Rates

Inflation rate increased significantly at the start of the year, largely due to record-high prices of crude oil and food on international markets, and also as a result of the sharp increases in regulated prices in Poland and growing prices of services. In August, the annual inflation rate reached its peak at 4.8% y-o-y, much above the inflation target. Core inflation, excluding prices of food, oil and energy accelerated its annual growth from 1.3% y-o-y in December 2007 to 2.9% y-o-y in the third quarter of 2008. In response to the long economic growth stimulated by domestic demand and paralleled by inflationary pressure, the Polish Monetary Policy Council continued to tighten its monetary policy by increasing interest rates three times by 25 bp in the first quarter and once in June. As a result, the NBP reference rate increased to 6% compared with 5% in December 2007. Only in the last quarter, as the economy substantially declined, the labour market trend reversed. Companies started to reduce employment, leading to a strong deceleration in wage and labour cost growth and reduction of the inflationary pressure. The CPI growth fell to 3.3% y-o-y in December, partly due to the sharp decrease in food, fuel and commodity prices. The Monetary Policy Council reacted to these changes by cutting interest rates by 25 bp in November and 75 bp in December to 5% at the end of 2008.

Financial Markets

Despite the increase in interest rates, the first three quarters of the year were characterised by a fast growth in the credit market. The situation changed dramatically in the last quarter due to the world financial crisis and the substantial deterioration of the economic outlook. Banks tightened their credit policies and practically halted foreign currency lending. During the year, household debt increased by 44.5% y-o-y and corporate debt rose by 29.2% y-o-y. These results were heavily influenced by the PLN depreciation towards the year end, affecting the value of the FX loans. The stock market downturn and the relatively high deposit interest rates attracted substantial household savings to banks. In December 2008, the value of such deposits increased by 26.4% y-o-y. The growth in corporate deposits was more modest at 4.9% y-o-y.

For most of the year financial markets were highly volatile and risk-aversive. The collapse of Lehman Brothers was a momentous event which undermined trust in the world financial markets and led to a strong volatility in stock prices over the last months of the year. At the end of December, the EUR/PLN rate was 4.17, 16.5% weaker than in December 2007. The USD/PLN rate stood at 2.96, which was 22% weaker than a year ago.

Deepening crisis in the world financial markets and Lehman Brothers' collapse caused disruptions in the inter-bank market operations. The cost of funding increased along with the growing risk aversion and eroding wholesale liquidity as financial institutions became extremely reluctant to lend one another, fearing new victims of the crisis may emerge. Polish banks were confronted with decreased availability of financing in foreign currencies. Despite unprecedented scale of central banks' actions supporting markets with liquidity, availability of foreign currency loans for Polish banks remained limited. The National Bank of Poland announced a "confidence package" for banks designed to improve the functioning of the inter-bank market and launched liquidity-providing operations, also in foreign currencies.

The bonds yields were growing fast during the year, cumulating in October at the time of the biggest panic in the financial markets. Afterwards, the interest rates on bonds fell in response to the decreasing inflationary pressure and the expected deep interest rate cuts by the Central Bank.

III. Basic Information

1. History and Profile of Bank Zachodni WBK

Background

Bank Zachodni WBK S.A. (Bank Zachodni WBK, BZWBK) was established following the merger of Bank Zachodni with Wielkopolski Bank Kredytowy. The new Wrocław-based entity was entered into the business register in the National Court Registry on 13 June 2001 and on 23 June 2001 it debuted on the Warsaw Stock Exchange.

Both predecessors of Bank Zachodni WBK were spun off the National Bank of Poland in 1989. Subsequently, they were privatised and became members of the AIB Group under control of the same investor, i.e. AIB European Investments Ltd. from Dublin, which is a subsidiary of the Allied Irish Banks, p.l.c. (AIB). After the merger, the AIB Group became owner of a 70.5% stake in Bank Zachodni WBK and has maintained such shareholding since that date.

Scope of Activities

Universal Bank

Bank Zachodni WBK is a universal bank which provides a full range of services for personal customers, SMEs and large companies. The bank's offering is modern, comprehensive and satisfies diverse customer needs with regard to current/personal accounts, credit, savings, investment, settlement, insurance and card products. The bank aligns its product structure with the requirements of individual customer segments and combines its products into packages around current/personal accounts (Konto<30 Package, Konto24 Prestiz Package, Konto24 VIP Package, FX Konto24, Moneyback Account, Business Package, Agro Package, Package for Freelancers) to provide their users with a precisely defined, tailored and comprehensive service. The financial services of Bank Zachodni WBK also include trade finance and transactions in the capital, FX and money markets as well as in derivatives. The bank's own product range is complemented by specialist products offered by its subsidiaries and joint ventures, including: Dom Maklerski BZ WBK S.A., BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., BZ WBK AIB Asset Management S.A., BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A., BZ WBK Faktor Sp. z o.o., BZ WBK - CU Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK - CU Towarzystwo Ubezpieczeń na Życie S.A. In co-operation with all these companies, the bank offers its customers access to brokerage services, mutual funds, insurance, leasing and factoring products.

Bank Zachodni WBK is the fifth largest bank in Poland in terms of total assets, with 5% share in the banking sector (as at the end of September 2008).

Key Features of the Offering

The rich offering of the bank allows customers to diversify their savings portfolios to match their individual preferences and investment objectives. The available savings/investment instruments include current and term deposits, savings account, mutual funds and structured products.

The customers' demand for credit can be satisfied through a variety of loans. The list of credit facilities for business customers includes overdrafts, working capital, revolving, payment, investment, development, property and preferential loans, leasing and the multi-purpose Business Express facility. The bank also provides funding as part of the EU programmes, maintaining its strong position in the EU funds market. The credit proposition addressed to personal customers is likewise comprehensive, its core feature being attractively structured home and cash loans.

The bank issues payment cards of the two main card organisations: Visa Int. and MasterCard Int. The choice of credit, debit and pre-paid cards can satisfy the most demanding customers thanks to their variety and alignment with the requirements and potential of individual market segments. The bank’s offering includes contactless cards (debit, credit and prepaid cards) with modern PayPass technology whereby payments can be made by waving the card before the PayPass reader. All the bank’s cards are equipped with chip technology in accordance with the EMV standard (Europay, MasterCard, Visa) to ensure the highest security of card transactions.

Distribution Channels

As at 31 December 2008, Bank Zachodni WBK operated through 505 outlets (406 at the end of December 2007). As a result of rapid expansion of the branch network in 2007-2008, the bank's branches are present in all the provinces of Poland. The highest branch concentration is in the Poznan Region, the Lower and Upper Silesia, the Warsaw Region and major cities elsewhere in Poland, including Krakow, Lodz, Tri-city, Szczecin and Bydgoszcz. The branches are supported by the Mobile Sales structures which are composed of self-employed financial advisors selling selected products of the bank.

The bank gives great weight to diversification and specialisation of distribution channels. Accordingly, in 2008, Corporate customers were serviced through 6 Corporate Business Centres (in Warsaw, Poznan, Wroclaw, Krakow, Gdansk and Lodz). For the mid-business segment, 8 dedicated Business Banking Centres were established in Warsaw, Poznan, Wroclaw, Gdansk, Krakow, Lodz, Szczecin and Chorzow. Customers with a large volume of liquid assets may use the tailor-made investment service from the Private Banking offices in Warsaw and Poznan (and in Wroclaw from 2009).

For customers looking for basic, inexpensive and fast service, Bank Zachodni WBK has established a network agency outlets operating under the brand of Minibank. As at 31 December 2008 the network comprised 56 agencies, located close to their target customer base in small towns and residential districts of big cities. By the end of March 2009, the name Minibank will be changed to Bank Zachodni WBK Partner, a brand which carries an association with the bank.

Through its modern Phone and Electronic Sales Centre equipped with specialist infrastructure, the bank provides customers with information on its products and services, offers over-the-phone access to transactions and standard products (personal accounts, insurance, credit cards, cash loans, overdrafts) and renders after-sales service.

Bank Zachodni WBK also has a wide-ranging network of 1,004 ATMs (674 at the end of December 2007) in convenient and most frequented locations.

Electronic Banking Services

Bank Zachodni WBK offers a modern package of electronic banking services called BZWBK24 which gives retail and business customers a convenient and safe access to their accounts via phone, mobile or the Internet, thus facilitating financial management. Business customers can choose between the standard BZWBK24 package and the “Moja firma Plus” package which comes with a number of additional functionalities and a high transaction limit.

The BZWBK24 tool is gradually becoming a "virtual branch". Its functionality includes opening of savings accounts and deposits, buying Arka fund units, obtaining information on the credit limits available under the simplified procedure as well as the possibility to top-up GSM mobiles and actively support debit cards.

The bank ensures the highest security of electronic services by having transactions authorized through the text message (smsKod) or token while access to BZWBK24 Internet is safeguarded by a masked password. Besides, customers can monitor the IP addresses that are used for logging onto BZWBK24, as well as authorize their Internet-based transactions using the 3D Secure technology.

In addition to the BZWBK24 solution, corporate customers can avail of Minibank24, a PC-banking system whose functionality covers a broad range of safe banking transactions.

Customer Relationship Management (CRM)

The bank's approach to CRM is based on segmentation of the customer base with two service models responding to different customer requirements for banking products and services.

The customers who use sophisticated products and expect customised services are approached proactively by the bank in order to better understand their needs and strengthen the business co-operation with them. The customer’s direct contact with the dedicated advisor allows for providing a tailored service, satisfaction of diverse needs and establishment of relationships based on loyalty and trust.

The customers who require the basic products and services are serviced through electronic channels or the branch network in accordance with the highest quality standards. The bank contacts this group of customers mainly through sales campaigns, using all the available communication channels.

The customer segmentation adopted by the bank facilitates more effective identification of customers with similar needs, selection of the most appropriate service options and analysis of the propensity to use particular products and services. The bank's retail customer segments include among others young customers (aged 13 - 30), Prestige and VIP customers, while the business segments are as follows: mirco, small, medium and corporate enterprises.

The bank increases the loyalty of customers by providing them with incentives to use the existing and buy new products and services. The number of customers who leave or reduce their business with the bank is tracked on an on-going basis and actions are taken to minimise the attrition rate.

Proactive contacts with customers and sales campaigns are supported by the IT infrastructure which is gradually aligned with the information requirements resulting from the adopted segmentation and CRM model. Current access to the up-to-date customer data in the Central Customer Information System is of particular help in facilitating the customer relationship process.

2. Share Capital, Ownership Structure and Share Price

Share Capital & Ownership Structure

As at 31 December 2008, the share capital of Bank Zachodni WBK amounted to PLN 729,602,840 and was divided into 72,960,284 bearer shares with a nominal value of PLN 10 each.

According to the information held by the bank's Management Board, as at 24 February 2009 the shareholder having a minimum 5% of the total number of votes at the Bank Zachodni WBK Annual General Meeting of Shareholders was Dublin-based AIB European Investments Ltd., full subsidiary of Allied Irish Bank p.l.c. (AIB Bank). The company's interest in the share capital and the voting power of Bank Zachodni WBK is 70.5%. The remaining shares are in free float.

Shareholder	Number of Shares Held	Share in the Share Capital	Number of Votes at AGM	Voting Power at AGM
AIB European Investments Ltd.	51,413,790	70.5%	51,413,790	70.5%
Others	21,546,494	29.5%	21,546,494	29.5%
Total	**72,960,284**	**100%**	**72,960,284**	**100%**

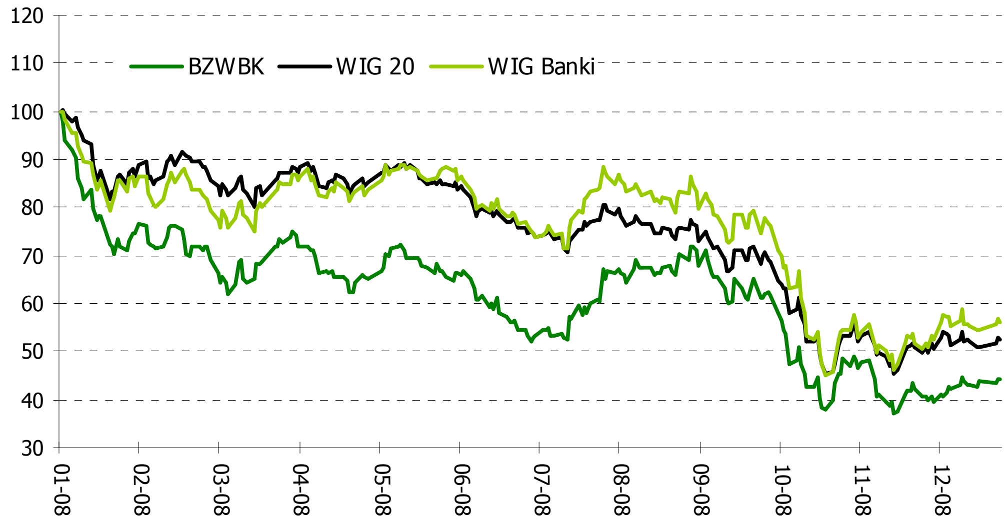
As at the date of approval of annual financial statements, the Management Board of Bank Zachodni WBK was not aware of any agreements that in the future might lead to changes in the current ownership structure.

Share Price

The situation on the Warsaw Stock Exchange in 2008 was a reflection of the sentiment prevailing in the world's equity markets in the wake of the global financial crisis (sub-prime crisis, collapse of banks in the USA, frozen interbank markets, turmoil in the European banking sector) and the deepening recession across the world (confirmed by the economic figures published in the fourth quarter of 2008). The adverse developments in the stock markets led to significant stock sell-off, particularly in October and November.

In such circumstances, in 2008 the share price of Bank Zachodni WBK fell by 55.6% (from PLN 249.80 on 2 January 2008 to PLN 110.80 on 31 December 2008) compared with a 43.8% decline in the industry index WIG Banks and a 47.7% decline in WIG 20.

BZWBK Share Quotations and Indices
(as at 02-01-2008 = 100)



3. Bank Zachodni WBK Rating

Bank Zachodni WBK has a credit rating agreement with Fitch Ratings Ltd.

In its announcement of 15 January 2009, the agency affirmed the bank's individual rating "C" (adequate bank), downgraded its Long-term Issuer Default rating (IDR) from "A+" to "BBB+" , Short-term IDR from "F1" to "F2" and Support rating from "1" to "2". The Outlook on the Long-term IDR was assessed as stable. The downgrade resulted from revised assessment of the bank's controlling shareholder (AIB) and reflected its lower ability to provide potential support to Bank Zachodni WBK Reduction of AIB's rating from "B" to "C" incorporated expectations of weaker earnings and asset quality of the Irish banking sector due to the deteriorating economic environment and contraction in forecasts for Irish economic growth.

In the subsequent announcement of 13 February 2009, Fitch Ratings Ltd. affirmed the Long-term Issuer Default (IDR) „BBB+", Short-term IDR "F2" and Individual „C" for Bank Zachodni WBK while downgrading the bank's Outlook from stable to negative and the Support rating from "2" to "3". The revision of Bank Zachodni WBK Support rating and Outlook reflects weaker likelihood of support by the dominant entity following the downgrade of its Individual rating from "C" to "D", which is due to the agency's expectation that the asset quality of AIB will deteriorate significantly as the recession in Ireland deepens. The revised Outlook for Bank Zachodni WBK also reflects the deterioration in the operating environment in Poland, which is likely to result in pressures on revenue and increased impairment charges.

The Short-term IDR and individual rating of Bank Zachodni WBK are now based on the standalone strength of the bank and reflect the bank's strong market position, solid balance sheet, profitability and liquidity as well as adequate capitalisation.

Summary of 3 Consecutive Fitch Ratings for BZWBK			
Rating Type	**Rating of 13-02-2009**	**Rating of 15-01-2009**	**Rating of 04-07-2007**
Long-term IDR (Issuer Default Rating)	BBB+	BBB+	A+
Short-term IDR	F2	F2	F1
Long-term and Short-term Rating Outlook	Negative	Stable	Stable
Individual Rating	C	C	C
Support Rating	3	2	1

4. Companies Connected with Bank Zachodni WBK

Composition of the Bank Zachodni WBK Group

Bank Zachodni WBK forms a Group with the following eight subsidiaries which are fully consolidated in accordance with IAS 27. These are:

1) BZ WBK AIB Asset Management S.A.
2) BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. – subsidiary of BZ WBK Asset Management S.A.
3) BZ WBK Inwestycje Sp. z o.o.
4) BZ WBK Faktor Sp. z o.o.
5) BZ WBK Finanse & Leasing S.A.
6) BZ WBK Leasing S.A.
7) BZ WBK Nieruchomości S.A.
8) Dom Maklerski BZ WBK S.A.

The entities connected with the bank are chiefly financial institutions which conduct specialised activities in securities trading, leasing, asset/fund management, factoring and trading in equity securities. The composition of the Group, the multi-dimensional relationships between its companies and the good coordination of their actions ensure substantial enterprise-wide synergies which improve effectiveness of individual units. In addition to multiple forms of co-operation, the bank gives the subsidiaries access to its extensive distribution network, which substantially increases their sales potential. On the other hand, the products and services of subsidiaries supplement the bank's offer and improve its competitive edge in the financial services market. Some of the products and services, namely investment funds, factoring, leasing and brokerage services have been incorporated in the bank's corporate strategy executed in close liaison with respective subsidiaries.

Compared with the end of December 2007, the composition of the Group does not include Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp. z o.o. as on 12 June 2008 the bank sold all its shareholdings in the company to Commercial Union Polska Sp. z o.o. (for more details, see Chapter V, section "Investment Banking Products").

Joint Ventures and Associates

In the consolidated financial statements of Bank Zachodni WBK for 2008, the following companies are accounted for using the equity method in accordance with IAS 28:

Joint ventures:

1) BZ WBK - CU Towarzystwo Ubezpieczeń Ogólnych S.A.
2) BZ WBK - CU Towarzystwo Ubezpieczeń na Życie S.A.

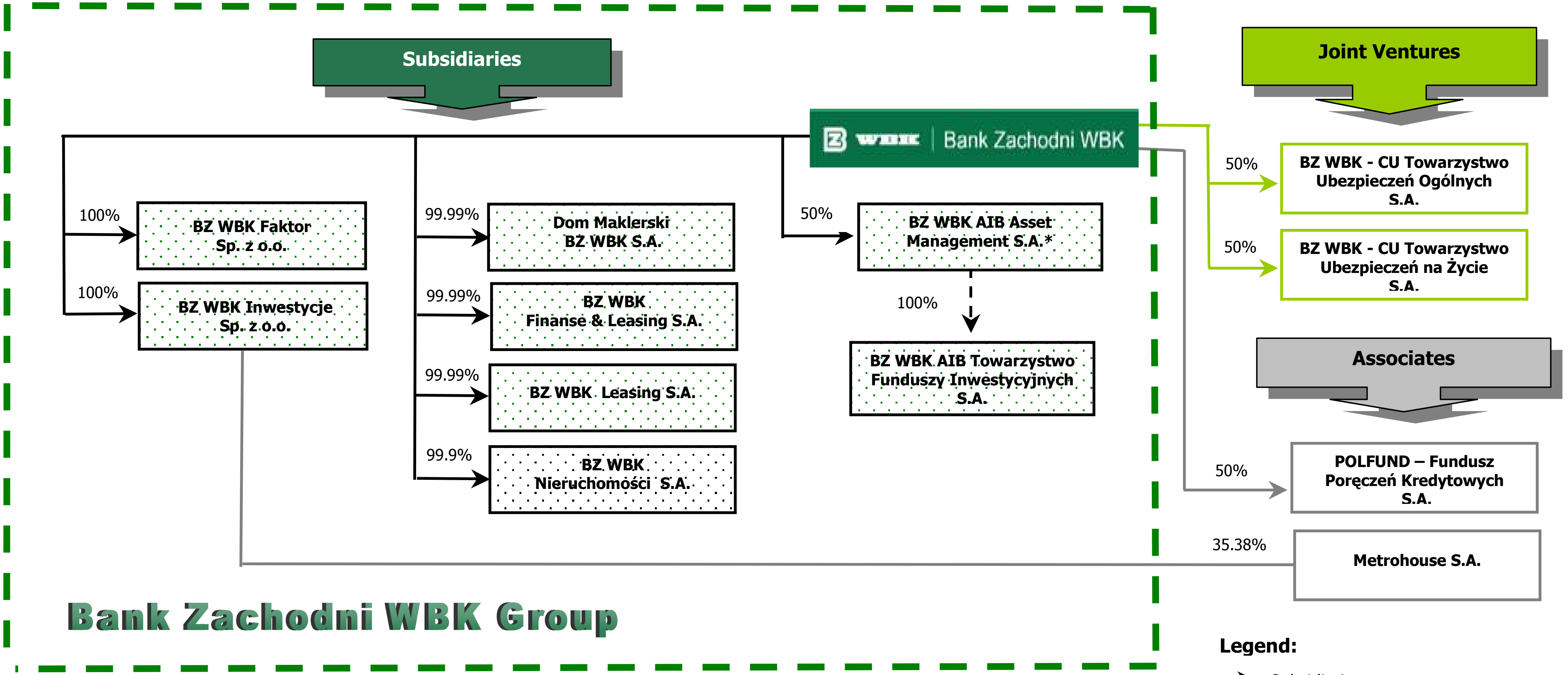
Associates:

1) POLFUND - Fundusz Poręczeń Kredytowych S.A.

The first two entities were established by the bank in co-operation with Aviva International Insurance Ltd., London in 2008. Both founders have acquired 50% stake in each undertaking and now exercise joint control over them. The core business of the new joint ventures is providing insurance services to the bank's customers. They operate under the license obtained from the Polish Financial Supervision Authority of 6 June 2008.

Compared to the end of December 2007, the list of the bank's associated companies does not include NFI Magna Polonia S.A. The company's status changed to minority undertaking as the bank transferred its shares in NFI Magna Polonia (representing 13.38% in the company's share capital and 22.47% voting power) to BBI Capital NFI S.A. to deliver the contract executed in 2008 (for more details, see chapter V. "Investment Banking Products").

Entities connected with Bank Zachodni WBK S.A.



Legend:

- Subsidiaries
- Subsidiary of a subsidiary
- Joint Ventures
- Associates
- BZWBK Group
- Entities fully consolidated with BZWBK
- % Voting power

** Bank Zachodni WBK is a co-owner of BZ WBK AIB Asset Management S.A., together with AIB Capital Markets plc. Both owners are members of AIB Group and each holds an equal stake of 50% in the company's share capital. In practice, Bank Zachodni WBK exercises control over the company and its subsidiary, BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., because through its agency the ultimate parent (AIB) pursues its policy in Poland. Consequently, the company is treated as a subsidiary undertaking.*

5. Other Equity Investments

As at 31 December 2008, the equity investment portfolio of Bank Zachodni WBK included minority shareholdings in 27 companies, owning more than 5% of share capital in the following entities:

Company	Share in Share Capital	Voting Power at AGM
Krajowa Izba Rozliczeniowa S.A.	11.48%	11.48%
Commercial Union Powszechne Towarzystwo Emerytalne BPH CU WBK S.A.	10%	10%
Commercial Union Polska Towarzystwo Ubezpieczeń na Życie S.A.	10%	10%
Commercial Union Polska Towarzystwo Ubezpieczeń Ogólnych S.A.	10%	10%
ARKA BZ WBK Fundusz Rynku Nieruchomości 2 Specjalistyczny FIZ	6.48%	-
AWSA Holland II B.V.	5.44%	5.44%
Biuro Informacji Kredytowej S.A.	5.14%	5.14%
NFI Magna Polonia S.A.	5.06%	5.06%

IV. Financial Performance in 2008

1. Profit and Loss Account

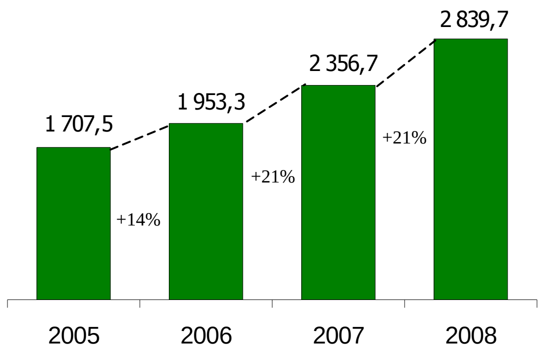
The table below presents major developments in key categories of the profit and loss account of Bank Zachodni WBK in 2008 compared with the previous year.

PLN m

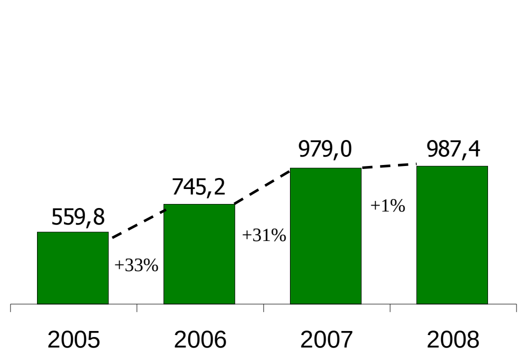
Profit and Loss Account	2008	2007	Change
Total income	2 839.7	2 356.7	+20.5%
Total costs	(1 500.4)	(1 378.2)	+8.9%
Impairment losses on loans and advances	(351.9)	0.6	-
Profit-before-tax	**987.4**	**979.0**	**+0.9%**
Profit-after-tax	**809.2**	**809.5**	**+0.0%**

In 2008, Bank Zachodni WBK posted a profit-before-tax of PLN 987.4 m, an increase of 0.9% on the previous year. Profit-after-tax was PLN 809.2 m and remained stable y-o-y. This performance was achieved amid extreme volatility in the financial markets and slowing economy, and also at a time of high investments into the bank's organic development, expansion of the IT infrastructure and intensive marketing campaigns. It was possible due to diversification of the bank's income streams, dynamic development of many important business lines and improvement of the bank's sales potential.

Total Income of BZ WBK in 2005-2008 (PLN m)



Profit-Before-Tax of BZ WBK in 2005-2008 (PLN m)



Income

In 2008, Bank Zachodni WBK posted a total income of PLN 2,839.7 m, an increase of 20.5% y-o-y. This growth was mainly driven by the core business volumes, particularly in the area of loans, deposits and connected products.

PLN m

Total Income	2008	2007	Change
Net interest income	1 491.5	1 182.4	+26,1%
Net commission income	990.0	918.6	+7,8%
Dividend income	218.3	178.0	+22,6%
Net trading income and revaluation	29.5	52.3	-43,6%
Result on sale of subsidiary / associated undertakings and other financial instruments	56.1	(13.0)	-
Other operating income	54.3	38.4	+41,4%
Total	**2 839.7**	**2 356.7**	**+20,5%**

Net Interest Income

Net interest income amounted to PLN 1 491.5 m and increased by 26.1% y-o-y due to the rapid expansion of the bank's loans and deposits. Its constituent element - interest revenue - showed a steady growth throughout the year, reflecting the balanced increases in loan volumes, including business loans, cash loans and home mortgages. Interest expense accelerated substantially at the year-end when the bank started to offer attractively priced short-term deposits.

Taking into account other interest-related income from FX Swaps and Basis Swaps (PLN 91.2 m in 2008 and PLN 21.5 in 2007), which are disclosed under "Net trading income and revaluation", the underlying net interest income increased by 31.5% y-o-y.

Net Commission Income

PLN m

Net Commission Income	2008	2007	Change
FX fees	250.9	211.4	+18.7%
E-business and payments*	236.8	194.3	+21.9%
Account maintenance and cash transactions	233.7	222.4	+5.1%
Credit fees**	103.1	83.0	+24.2%
Mutual fund distribution	92.1	165.1	-44.2%
Bancassurance fees	71.5	40.6	+76.1%
Other income	1.9	1.8	+5.6%
Total	**990.0**	**918.6**	**+7.8%**

* *includes fees for foreign and mass payments, Western Union transfers and trade finance, credit cards and services for third party institutions as well as other electronic services;*

** *includes fees for loans, credit intermediation and guarantees (excluding interest and equivalent income)*

Net commission income amounted to PLN 990 m and increased by 7.8% y-o-y due to the growth in the main business lines of Bank Zachodni WBK, particularly bancassurance, credit fees and e-business & payments. Details of the key changes are presented below:

- The fees on FX transactions increased by 18.7% y-o-y to PLN 250.9 m, reflecting the improved margins and higher volumes of the FX transactions both in the corporate and wholesale market.

- The net commission income from e-business and payments increased by 21.9% y-o-y to PLN 236.8 m. Two product lines from this area grew particularly strongly: "services to third-party financial institutions" and "debit cards". The former line showed a higher fee income (+35% y-o-y), reflecting the bank's co-operation with new financial institutions and the increase in the number of cards processed and ATMs managed on their behalf. The latter line showed a strong performance (+26% y-o-y) attributed to the growth in the number of debit cards held by the bank's customers (+19% y-o-y) and the higher number and value of the non-cash transactions made with these cards.

- Credit fees increased by 24.2% y-o-y to PLN 103.1 m, mainly due to the increase in the number of credit cards (+21% y-o-y) and the bank's higher exposure on overdrafts.

- The net income from distribution of mutual fund units was PLN 92.1 m and 44.2% lower y-o-y due to the prolonged downturn in the stock market. The market turmoil made investors more averse to high risk-bearing instruments, which curtailed sales mutual fund units.

- The bancassurance line generated an income of PLN 71.5 m, exceeding the comparable period by 76.1% on the back of the growing sale of credit insurance.

Dividend Income

Dividend income of PLN 218.3 m increased by 22.6 y-o-y, mainly due to the higher dividends from BZ WBK AIB Asset Management S.A. (PLN 90.2 m in 2008 vs. PLN 37.5 m in 2007) and Dom Maklerski BZ WBK S.A. (PLN 59.9 m in 2008 vs. PLN 49.1 m in 2007).

Net trading Income and Revaluation

Net trading income and revaluation decreased by 43.6% to PLN 29.5 m due to the fair value adjustment of PLN 81 m to derivative instruments driven by increased counter-party risk in the highly volatile environment in 2008. The impact of this movement (PLN -61.6 m y-o-y) was partly offset by the increase in income from the wholesale inter-bank market (PLN +40.4m y-o-y), particularly FX Swaps.

Result on Sale of Subsidiary/Associated Undertakings and on Other Financial Instruments

The result on these financial instruments amounted to PLN 56.1 m, which includes the profit on the sale of equity investments in MasterCard Inc. (PLN 22.4 m) and Commercial Union PTE BPH CU WBK S.A. (PLN 20.6 m), and the gains on the transactions involving Visa Inc. (PLN 23.2 m).

Loan Impairment Charge

The loan impairment charge to the profit and loss account was PLN 351.9 m, while in the previous year the balance of loan impairment was positive and amounted to PLN 0.6 m.

This provisioning level was driven by a few factors: the changes in the macroeconomic environment, growth of the bank's credit portfolio (+47.4% y-o-y) and alignment of the credit risk parameters to the new market conditions. Predominantly, however, it reflects the increased credit risk arising from the contracted economy and deteriorating financial standing of large corporations and a number of households. The bank regularly reviews its individually significant exposures and the parameters used in the collective loan analysis, thus ensuring immediate and adequate recognition of provisions for incurred losses, both reported and not reported.

Costs

The total costs of Bank Zachodni WBK amounted to PLN 1,500.4 m and were 8.9% higher than last year.

PLN m

Total Costs	2008	2007	Change
Staff and other administrative expenses, including:	(1 386.8)	(1 224.9)	+13.2%
- Staff expenses	*(785.9)*	*(710.2)*	+10.7%
- Other administrative expenses	*(600.9)*	*(514.7)*	+16.7%
Depreciation/Amortisation	(97.6)	(127.3)	-23.3%
Other operating costs	(16.0)	(26.0)	-38.5%
Total	**(1 500.4)**	**(1 378.2)**	**+8.9%**

Staff and Other Administrative Expenses

The staff and other administrative expenses of the bank increased by 13.2% to PLN 1,386.8 m, and were driven by dynamic development of the distribution channels and extension/modernisation of the IT infrastructure under the bank's strategic programmes.

- Staff costs increased by 10.7% y-o-y to PLN 785.9 m as a result of higher employment driven by the growing distribution network and centralisation of processes (1,046 new FTEs over 12 months), and pay increases (5% on average) linked to the annual performance review in April 2008.

- The bank's other administrative expenses increased by 16.7% y-o-y to PLN 600.9 m. The principal contributory factor was the growing cost of lease and maintenance of premises as a result of the bank's expanding distribution channels, including the Branch Network, specialist business centres (Business Banking Centres and Private Banking Offices) and their supporting functions in the Business Support Centre. In addition, the development and modernisation of operating outlets entailed significant costs of premises renovation and equipment supply. The other major cost driver was IT maintenance which generated higher expenses due to the execution of strategic projects, such as: development of the ATM network, provision of hardware and software to the new branches and the Credit Operations Centre (established as part of the project of centralisation and enablement of the credit and security processes). The bank’s savings initiatives, coupled with rigorous planning and control of operating cost budget, continued to keep administrative expenses at a lower level.

Depreciation/Amortisation

Depreciation / amortisation totalled PLN 97.6 m and decreased by 23.3% y-o-y due to the full amortisation of ICBS, the branch banking system.

2. Balance-Sheet

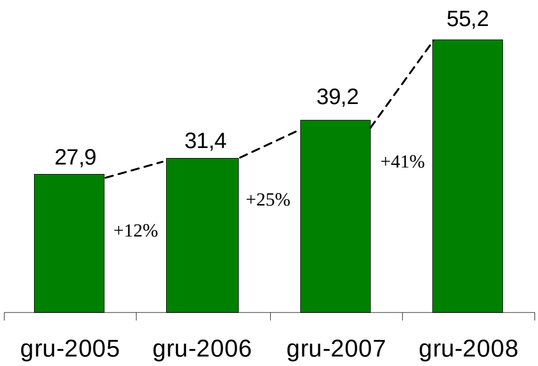
The table below presents major developments in key categories of the balance sheet of Bank Zachodni WBK at the end of December 2008 versus December 2007.

PLN m

Balance-Sheet Items	31-12-2008	Balance Sheet Structure 31-12-2008	31-12-2007	Balance Sheet Structure 31-12-2007	Change
Balance sheet total	55 210.1	*100%*	39 181.9	*100%*	+40.9%
Assets					
Loans and advances to customers*	32 654.3	*59%*	22 150.6	56%	+47.4%
Investment securities	12 894.4	*23%*	9 698.3	25%	+33.0%
Financial assets held for trading	3 222.4	*6%*	1 142.1	3%	+182.1%
Cash and operations with the Central Bank	3 178.1	*6%*	2 206.3	6%	+44.0%
Loans and advances to banks	1 347.8	*2%*	2 563.8	6%	-47.4%
Other assets	1 913.1	*4%*	1 420.8	4%	+34.6%
Liabilities & Equity					
Deposits from customers	43 381.9	79%	30 264.7	77%	+43.3%
Financial liabilities held for trading	3 253.3	6%	994.2	3%	+227.2%
Deposits from banks	1 957.6	3%	3 145.4	8%	-37.8%
Deposits from the Central Bank	1 242.6	2%	-	-	-
Debt securities in issue	-	-	99.3	-	-
Other liabilities	954.1	2%	827.5	2%	+15.3%
Equity	4 420.6	8%	3 850.8	10%	+14.8%

** less impairment charge*

Assets as at 31 December in the years 2005-2008 (PLN bn)



As at 31 December 2008, total assets of Bank Zachodni WBK amounted to PLN 55,210.1 m and were 40.9% up on the previous year.

The main asset growth driver during past 12 months was loans and advances to customers (+47.4% y-o-y). A substantial increase was also noted in financial assets held for trading (+182.1% y-o-y), which reflected the higher business transacted in the derivative market, partly due to the growth of property loans denominated in foreign currencies. Cash and operations with the Central Bank increased by +44% y-o-y as part of the bank's on-going liquidity management process, which takes into account a number of factors, including the higher obligatory reserve requirement driven by the deposit base growth. Investment securities continued to grow (+33% y-o-y) based on the decisions made as part of the bank's structural balance sheet risk management. This line includes the State Treasury bonds, which in October 2008 were reclassified from available-for-sale securities into held-to-maturity securities at their carrying value (PLN 6,406.6 m). The change of classification resulted in adoption of valuation principles that are more consistent with the purpose of the instruments. Loans and advances to banks decreased in the same period by 47.4% y-o-y due to the stagnant inter-bank money market.

On the liabilities side, Bank Zachodni WBK reported a substantial increase in deposits from customers (+43.3% y-o-y), mainly in the form of balances in short-term deposits and savings accounts. A strong growth, driven by derivative transactions, was also observed in the financial liabilities held for trading (+227.2% y-o-y). The amount owed to the Central Bank represents a repo transaction, an effect of increased activity of the National Bank of Poland in the local money market. Deposits from commercial banks decreased by 37.8% y-o-y as the inter-bank markets became frozen. Also, the bank discharged its obligation under the issue of debt securities by redeeming the instruments at maturity.

Credit Portfolio

PLN m

Gross Loans and Advances to Customers	31-12-2008	31-12-2007	Change
Loans and advances to business customers	23 757.3	16 473.9	+44.2%
Loans and advances to personal customers	9 208.0	6 066.9	+51.8%
Loans and advances to public sector and other	538.8	165.9	+224.8%
Total	**33 504.1**	**22 706.7**	**+47.6%**

** other receivables include reverse-repo transactions*

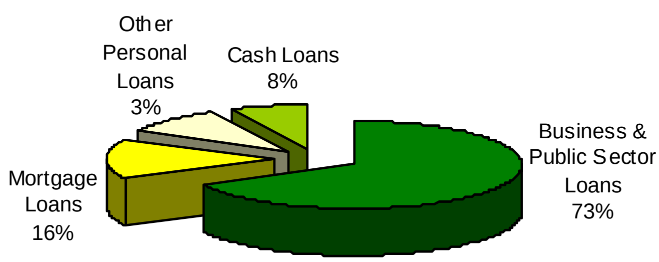
At the end of December 2008, gross loans and advances to customers were PLN 33,504.1 m and 47.6% up y-o-y due to increasing volumes of the bank's business loans and retail loans.

Loans and advances to business customers amounted to PLN 23,757.3 m and were 44.2% higher y-o-y. This growth reflects the high demand for loans to finance investments, inventory and working capital. The credit delivery accelerated driven by long-term corporate lending, particularly towards long-term property development projects.

The value of retail loans increased by 51.8% y-o-y to PLN 9.208 m due to the strong growth in cash and mortgage loans. Cash loans increased by 71% to PLN 2,687.9 m, confirming the high quality of the bank's offer and the effectiveness of its pro-active promotion and sales methods. Property loans increased by 49.5% y-o-y to PLN 5,450.5 m due to the attractive structure of the loans, availability of FX lending, effective customer service and flexibility in responding to market developments in compliance with the bank's credit policy.

At the end of December 2008, the impaired loans accounted for 3% of the gross portfolio versus 2.9% recorded 12 months before. The provision cover ratio for the impaired loans was 56.5% compared with 66.1% as at 31 December 2007.

Exposure Structure of Bank Zachodni WBK as at 31.12.2008



Bank Zachodni WBK complies with the Banking Law requirements with regard to the limits of exposures to a single entity or to a group of connected entities.

As at the end of December 2008, the highest concentration levels were recorded in the "property sector services" (20%), "construction" (14%) and "production" (13%) as per the Polish Business Classification.

Deposit Base

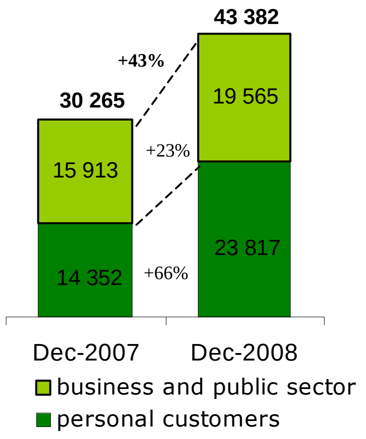
PLN m

Deposits from Customers	31-12-2008	31-12-2007	Change
Deposits from retail customers	23 817.1	14 352.2	+65.9%
Deposits from business customers*	16 059.7	13 501.4	+18.9%
Deposits from public sector*	3 505.1	2 411.1	+45.4%
Total	**43 381.9**	**30 264.7**	**+43.3%**

* *Deposits from business and public sector as at 31 December 2008 include PLN 2,786 m of deposits held by a few large customers which are not expected to be rolled-over on maturity.*

Deposits from customers, which represent 78.6% of the bank's balance sheet total, are the primary source of funding of the bank's lending business. At the end of December 2008, customer deposits totalled PLN 43,381.9 m and were higher by 43.3% y-o-y. This value comprises the funds deposited in current accounts (PLN 16,240.9 m), term deposits (PLN 26,781.8 m) and other liabilities.

Customer Deposits (PLN m)
at at 31 December in 2007-2008



Last year, particularly fast growth was noted in the balances in term deposit accounts, which exceeded the prior year's figure by 69.6%. This growth is attributable to the bank's attractive deposit offer, including the IMPET term deposits and the heavily advertised 3-month "High Earning" deposit, which attracted PLN 7,489 m by the end of December 2008. Current account balances increased by 15.1% due to the popularity of the savings accounts where PLN 6,831.6 m was gathered at the end of December 2008. The high balances in the current and term deposit accounts result from the increase in the disposable income of some households and the customers' reluctance to invest in risk-bearing financial instruments as a follow-up on the strong downturn in the stock market.

3. Basic Financial Ratios

Financial Ratios	2008	2007
Total costs /Total income	52.8%	58.5%
Net interest income / Total income	52.5%	50.2%
Net commission income / Total income	34.9%	39.0%
Customer deposits / Total liabilities	78.6%	77.2%
Customer loans / Total assets	59.1%	56.5%
Customer loans / Customer deposits	75.3%	73.2%
NPLs ratio	3.0%	2.9%
NPL coverage ratio	56.5%	66.1%
ROE*	24.4%	26.6%
ROA**	1.7%	2.3%
Solvency Ratio	9.81%	11.36%
Earnings per share (PLN)	11.09	11.09

The following were used in computations:

* *profit-after-tax of BZWBK for 12 month period starting on 1 January and equity as at the end of the reporting period, net of current year's profit;*

** *profit-after-tax of BZWBK for 12 month period starting on 1 January and average assets derived from two comparative periods.*

4. Interest Rates on Loans and Deposits

In 2008, Bank Zachodni WBK offered its customers interest rates on products tied to the market rates (prevailing rates in the inter-bank market and the banking market for the customers outside of the financial sector) and the base rates of the National Bank of Poland.

The bank's interest rates on business loans are based on the price of money in the wholesale inter-bank market (WIBOR, LIBOR), increased by a margin. The value of the margin primarily depends on the credit risk attaching to the transaction/customer and is determined in the credit assessment process.

Due to the increasing cost of funding caused by the unstable inter-bank market and the significant increase in interest rates on customer deposits (which are the main funding sources for the bank), the bank decided to reflect the market conditions in the individual credit margins. Currently, the credit margin includes both the cost of credit risk and the cost of funding.

Development of the credit risk management systems permitted diversification of credit pricing for retail customers, linked to the individual credit risk assessment of each customer. For significant retail transactions, tailored, often negotiable pricing applies. The pricing is set in accordance with the approval limits set out in the bank's internal regulations.

To deliver its strategic objectives, in 2008 the bank continued its efforts to stimulate the sale of the key products. Promotional campaigns were held, particularly for cash loans and for the 3M "High Earning" deposit with attractive interest rates.

V. Business Development in 2008

1. Review of Key Business Developments

One of the key objectives of Bank Zachodni WBK in 2008 was to achieve competitive advantage that would be meaningful for customers and would facilitate the process of their retention and acquisition, thus contributing to the increase in the bank's market share.

The most important areas of the bank's activity in 2008 are summarised below:

- Introduction of new product and service packages and upgrading the existing packages with new attractive features:
    - "Płacisz & Zarabiasz" (Moneyback) account (part of each non-cash payment made with a card refunded to the customer);
    - package for start-ups;
    - Visa Platinum credit card;
    - Visa Business Electron card with an optional insurance package and a company logo on the card.

- Continued diversification of the savings and investment products offer:
    - sale of new structured products (certificates of BZ WBK Nowa Era, Investment Policy, certificates of BZ WBK Przyjazna Planeta and BZ WBK Platinum);
    - distribution/subscription of new mutual funds (Arka BZ WBK Energy FIO, Arka BZ WBK CEE FIZ, Arka BZ WBK Property Market Fund 2 FIZ);
    - attractive Szybkozarabiające (High Earning) deposit;
    - introduction of savings accounts denominated in GBP and EUR;
    - IMPET deposits for business customers.

- Reinforcement of the bank's position in the market of services for Polish immigrant workers:
    - separate process of mortgage sales for the Polish community abroad;
    - savings account in GBP and EUR available via the Internet;
    - easier cash transfers from the UK (cheap and fast lodgments to the accounts with Bank Zachodni WBK).

- Implementation of innovative solutions to increase functionality and attractiveness of the bank's products and services:
    - new contactless cards (MasterCard PayPass and MasterCard<30 credit cards, Visa Electron< 30 payWave debit card);
    - widespread use of 3D Secure technology;
    - flexible pricing system for cash loans.

- Further development of credit services and their availability:
    - FrontScore for mortgage loans, i.e. preliminary credit decision within 15 minutes;
    - improvement of the credit process for the Mid-Business sector through dedicated units (Business Banking Centres);
    - procedural changes in the processing of business loans from PLN 1 m to PLN 3 m, with quicker credit decisions;
    - further centralisation of credit processes;
    - easy access to the bank's credit offer through diversification and increased functionality of distribution channels.

- Use of diversified promotional and sales tools to encourage customers to avail of the BZ WBK products and services:
    - advertising campaigns (cash loan, mortgage loan, savings account, Moneyback Account, High Earning deposit);
    - pricing incentives and sales campaigns.
- Increasing operational efficiency of the bank under the Sales Activation Programme:
    - uniform methodology for sales targets planning;
    - monitoring of individual and team performance;
    - new incentive system.
- Further progress of the distribution network development process:
    - opening of 95 outlets under the Branch Development Programme;
    - launch of 30 new agencies (Minibank/BZ WBK Partner);
    - reorganisation of the branch management system.
- Improving the service level by implementation of new business models:
    - opening of 7 Business Banking Centres;
    - establishment of two Private Banking Offices for high-net-worth customers (Warsaw and Poznań).
- Continuous improvement of service quality.

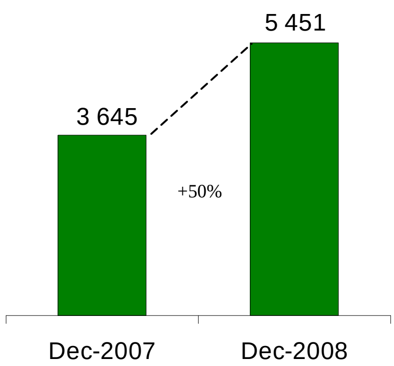
2. Development of Business Activity

Retail Loans

Mortgage Loans

In 2008, the Bank Zachodni WBK mortgage loan offer was gradually adjusted to the dynamic changes in the market environment. To improve clarity and attractiveness of the proposition, Bank Zachodni WBK implemented a number of new solutions effective from March 2008. Among other modifications, the base rate was changed from 6M to 3M one for each of the available currencies and a new margin grid was developed (fixed margins for individual categories of facilities in PLN and foreign currency). Adjustments in the second half of 2008 were the bank's response to developments on the global financial market which had driven the cost of mortgage loan funding and changed the risk profile for FX loans. The bank successively adapted the selected parameters of PLN and FX loans to the existing market conditions. Towards the end of the year, the availability of FX mortgage loan offer has been curtailed, as recommended by the Polish Financial Supervision Authority.

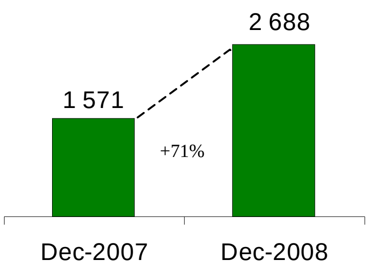
Gross Mortgage Loans (PLN m)



In March 2008, the process of credit approvals based on the Front Score tool was rolled out across the Branch Network. The tool automatically processes applications, determining the applicant's financial potential, and allows a decision to be communicated to the customer within 15 minutes of inputting the data in the system. This is a record-breaking time in the market for providing a preliminary result of the customer's repayment capacity assessment. The bank's competitive advantage gained in this area was emphasised by the mortgage loans campaign conducted from April to June 2008 under the tagline "15 minutes to know you get the loan".

Cash Loans

Gross Cash Loans (PLN m)



The demand for the BZ WBK cash loans has continued its upward trend owing to the combination of the features that make the bank's offer distinctive, including: attractive pricing, time-to-yes (10 minutes from submission of a complete application), service adjusted to customer's needs (diversified distribution channels and application methods), possibility to choose lending period and take out insurance.

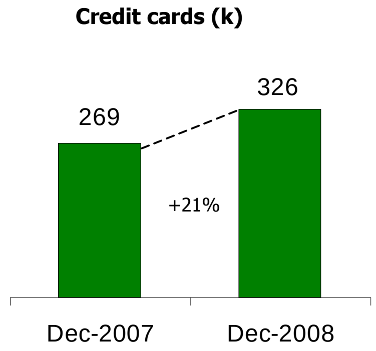
The Individual Pricing system, implemented by the bank on 25 August 2008, makes it possible to adjust the cash loan price (within the specified limit) to the customer's risk profile determined on the individual score basis. This approach improved the bank's offer, ensured a more adequate level of income and made the bank more favourably positioned in the market.

The fast growth of the cash loans of Bank Zachodni WBK is also attributable to the development of the branch network and increased efficiency of the bank's distribution channels. The sales were further enhanced by the advertising campaigns with the slogan "Jak wszyscy, to wszyscy" ("If everybody, why not me") in February, „Hit Sezonu: Kredyt Gotówkowy" ("Hit of the Season: Cash Loan") in September and "Wszyscy Biorą na Święta. Weź i Ty!" („Everybody takes one for Xmas. Why don't you take one as well?") in November and December – supported by the image of John Cleese, the icon of British comedy.

In accordance with the co-operation agreement between Bank Zachodni WBK and BZ WBK Brokerage House of 12 May 2008, customers interested in a cash loan for the purchase of securities in the primary market or in the organised secondary market have easier access to funding as they can apply outside of the branch network, i.e. through the Customer Service Points of the BZ WBK Brokerage House or on-line via the "Investor On-Line" portal.

Credit Cards

Bank Zachodni WBK was the first bank in the Central and Eastern Europe to enable its customers to make contactless payments with the pre-paid Maestro PayPass card (end of 2007). The next step was to issue MasterCard PayPass contactless credit card in March 2008. This is a multi-purpose card equipped both with a special chip and a magnetic stripe. It can be used to make payments in POSs (including contactless and PIN transactions), withdraw cash from ATMs world-wide, make on-line and MOTO (Mail Order & Telephone Order) transactions.



Another two offers were targeted at strategic customer segments. In May, the Visa Platinum credit card was introduced to supplement the VIP offer. In September, the bank brought to the market the MasterCard<30 credit card with additional contactless functionality, addressed to students and young people. In early 2008, the credit card for skiers, with embedded insurance package and a discount program for skiing equipment, was re-issued.

To stimulate demand for its credit cards and encourage their more frequent use, Bank Zachodni WBK has undertaken a number of promotional and sales initiatives, including the competition "Traf na UEFA EURO 2008" ("Go for UEFA EURO 2008"), cross-selling campaigns and individual credit card offers for customers with no such products.

Personal Accounts

Development of Offering for the Holders of PLN Accounts

In 2008, Bank Zachodni WBK introduced a number of initiatives designed to enhance its product packages built around personal accounts and to increase their sales. In March 2008, the holders of Visa Electron Prestiż cards linked to the Konto24 Prestiż account were offered free-of-charge withdrawals from all ATMs across Poland. In May, a new personal account was put on offer: Moneyback Account with a dedicated debit card offering a unique mechanism whereby 1% of the value of the transaction made with the card is refunded to the customer (for details see section "Debit Cards" below). Holders of the Konto<30 account were offered a summer holiday promotion which involved a temporary waiver of charges for ATM withdrawals made with the Visa Electron<30 card in abroad locations. In September, BZ WBK launched the promotional campaign for the Konto<30 account, with the "Młodych nie golimy" ("The young don't get ripped off") tagline which highlights the key benefit of the product, i.e. the lack of account maintenance fees. The promotion also covered the contactless debit card Visa Electron<30 payWave issued for this account (the first product of this type ever offered in Poland).

Development of Offering for the Holders of FX Accounts

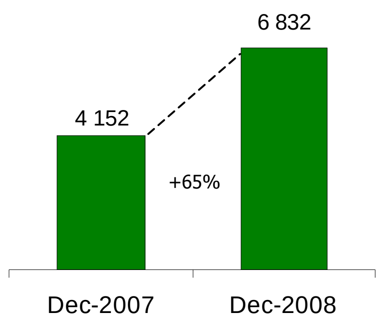
In 2008, Bank Zachodni WBK continued works to improve the offering for the Poles staying abroad. The focus was placed on the requirements of the Polish working community in the UK, Ireland and Germany, such as improvement of the distribution channels from the perspective of cross-border users. The bank's offering (with free on-line FX account in GBP, EUR and USD, FX MasterCard denominated in the account currency, free withdrawals from the AIB ATMs in Ireland and low fees for other ATMs world-wide) was expanded to include the mortgage loan promise (for the purchase of property in Poland), remote opening of a GBP and EUR savings account, inexpensive lodgements from the UK and an on-line portal for emigrants (www.zagranica.bzwbk.pl).

In 2008, the bank expanded the promotion of its international offer via popular Internet portals, the www.bzwbk.pl website, the BZ WBK24 transaction portal as well as in the Polish immigrant press.

Deposit and Investment Products

Deposit Products

Balances in Savings Accounts (PLN m)



The key features of the savings account, i.e. high interest rate (comparable to term deposits) and liquidity (funds can be drawn at any time and in any amount without losing interest) made it a flagship product of the bank's savings offering for retail customers in 2008. Its advantages were highly appreciated by customers in view of uncertain market situation, lower risk appetite and growing concerns about the liquidity of the banking sector. To make this product available to people working abroad, the bank introduced savings accounts denominated in GBP and EUR and enabled opening of such accounts via the Internet.

In the fourth quarter of 2008, the bank reported a high growth in balances of the widely advertised 3-month High Earning Deposits. This product was introduced in October 2008, in response to increased activity of competitors aimed at strengthening their deposit base amid the stagnated inter-bank market. Owing to its attractive interest rate, the High Earning Deposit induced the inflow of new funds as well as migration of funds from other deposit products, including savings accounts.

Structured Products

For customers seeking profitable and safe investment instruments, the bank introduced new structured products, focusing both on the diversity and attractiveness of its offer. The main items were as follows:

- issues of BZ WBK Nowa Era certificates: offered by Dom Maklerski BZ WBK S.A.; an investment based on the BZ WBK Nowa Era index, protection of 100% of the invested capital;
- issues of BZ WBK Przyjazna Planeta (BZ WBK Planet Friendly) certificates: offered by Dom Maklerski BZ WBK S.A.; an investment based on industry indexes: renewable energy, energy-saving technologies, waste management and water treatment; 100% protection of the invested capital;
- issues of Investment Policy (unit-linked insurance): a joint proposal of Bank Zachodni WBK and BZ WBK-CU Towarzystwo Ubezpieczeń na Życie S.A.; an investment based on the BZ WBK Nowa Era index, protection of 100% of the invested capital; exemption from the capital gains tax and a group insurance cover;

- issues of Investment Policy (unit-linked insurance): a joint proposal of Bank Zachodni WBK and BZ WBK-CU Towarzystwo Ubezpieczeń na Życie S.A.; an investment based on the BNP Paribas Platinum PLN ER index, protection of 100% of the invested capital; exemption from the capital gains tax and a group insurance cover;

- issues of Investment Policy (unit-linked insurance): a joint proposal of Bank Zachodni WBK and Commercial Union Polska Towarzystwo Ubezpieczeń na Życie S.A.; an investment based on the BZ WBK Nowa Era ER index, protection of 100% of the invested capital; exemption from the capital gains tax and a group insurance cover;

- structured deposits: Euro Plus (March 2009) and Złoty Plus (March 2009): combines the features of a 6-month regular bank deposit with an FX investment that yields profits depending on the EUR/PLN exchange rate; protection of 100% of the invested capital;

- issues of BZ WBK Platinum certificates as part of the non-public offer addressed to the group of not more than 99 VIP customers (Private Placement) and linked with the BNP Paribas Platinum PLN ER index; protection of 100% of the invested capital.

Mutual Funds

The bank continued distribution of the open-end mutual funds Arka BZ WBK (managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.), including the funds specialising in specific geographies and industries, such as Arka BZ WBK Akcji Środkowej i Wschodniej Europy FIO (Arka CCE Equity Fund) and Arka BZ WBK Rozwoju Nowej Europy FIO (Arka New Europe Development Fund). Also, the bank commenced the sale of Arka BZ WBK Energii FIO (Arka Energy Fund investing in the companies from the power sector) and participated in the public subscription of the retail tranche of certificates of the closed-end funds: Arka BZ WBK Fundusz Rynku Nieruchomości 2 FIZ and Arka BZ WBK Akcji Środkowej i Wschodniej Europy FIZ.

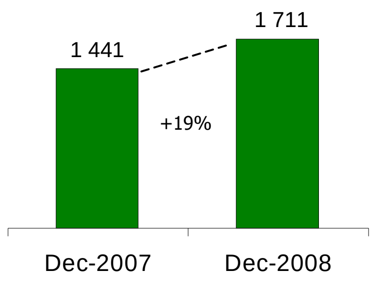
Debit cards

New Items in Debit Cards Proposition

In May 2008, the bank expanded the range of its debit cards with Visa Wydajesz & Zarabiasz (Moneyback) with a bonus programme unique across Poland. The programme ensures that for each completed and settled transaction, the customer will receive a 1% refund of the transaction value to his or her account. The new card also offers free access to several ATM networks.

The bank also launched Visa Electron<30 payWave debit cards dedicated to the Konto<30 for young customers compatible with the contactless technology. The card was issued to students in selected cities (Warsaw, Wroclaw and Poznan) as part of the promotional autumn sales campaign. Visa Electron<30 payWave card was recognised as "the most innovative product of the year 2008" in the ranking organised under the auspices of the Polish Banks Association, as part of the Central European Electronic Card conference.

Debit cards (kpcs)



The attractiveness of the bank's debit card offer has been enhanced with introduction of new pricing features and functionalities. Holders of Visa Electron VIP and Visa Electron Prestiż cards can now make free-of-charge ATM withdrawals across Poland, whereas the Visa Business Electron card comes with financial insurance package and the company logo on the face of the card.

New Functionalities

Since 2007, Bank Zachodni WBK has been providing the Verified by Visa (VbV) services based on 3D-Secure technology which ensures additional security for on-line payment card transactions by authorisation mechanisms available in the BZWBK24 Internet service. In the second half of the year, the 3D-Secure technology also covered cards of Maestro/MasterCard system as part of the MasterCard SecureCode services. As a result, customers are able to make on-line payments with all the BZ WBK cards with a minimum risk of unauthorised use.

Since September 2008, all holders of VISA and Maestro debit cards can use the Cash Back service (up to PLN 200) at merchants with the VISA Cash Back or MasterCard/Maestro Cash Back logo across Poland.

Insurance Products

The bank's bancassurance business keeps growing strongly, gaining importance as an additional source of fee income.

The bank provides insurance products in conjunction with the leading insurers on the Polish market, such as: Commercial Union, AIG and TU Europa. Together with Aviva International Insurance Ltd. from London, the bank established two new joint venture companies: BZ WBK - CU Towarzystwo Ubezpieczeń na Życie S.A. (life insurance) and BZ WBK - CU Towarzystwo Ubezpieczeń Ogólnych S.A. (non-life insurance), which will provide insurance service to the bank's customers. By the end of 2008, the above-mentioned companies took over the insurance protection for card products and cash borrowers.

The scope of the insurance products distributed by the bank was expanded to include the motor insurance offered in co-operation with Commercial Union Towarzystwo Ubezpieczeń Ogólnych S.A. The insurance is available through direct sales, i.e. via phone or the Internet.

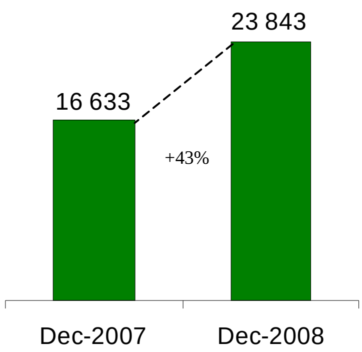
In 2008, the bank initiated issues of structured products in cooperation with Commercial Union Polska Towarzystwo Ubezpieczeń na Życie S.A. and BZWBK-CU Towarzystwo Ubezpieczeń na Życie S.A. (for details, see section "Deposit and Investment Products").

Proposition for Corporate Customers

The Corporate Banking business in Bank Zachodni WBK is based on a Relationship Management structure whereby a Corporate customer's designated Relationship Manager not only controls the credit process, but has overall responsibility for co-ordinating the service provided to the customer across all of the Bank's areas of business.

The services offered to Corporate customers include a wide range of flexible credit products ranging from working capital to long term asset financing to meet general expansion needs, acquisition and project finance. The bank also provides a broad range of Deposit, Treasury and Cash Management products including FX and Interest rate management products, international trade finance, cash pooling, mass payments, electronic banking and others. Additional services are offered through the subsidiaries including brokerage, equity and asset management services as well as leasing and factoring products. In addition, the bank continues to offer special incentive packages to employees of Corporate customers through our extensive branch network.

Gross loans to business and public sector (PLN m)



The Corporate Banking Lending Policy is to strongly support both the existing customers as their businesses grow and new customers with strong management teams and sound business strategies.

As a result, the increase in the number of Centres and rapid growth in deposits, loans and overall profitability reflects the bank's success in winning increased market share.

While Quarter 4 brought new challenges for the macroeconomic environment, the quality of the corporate credit portfolio continues to be of good quality. The robust operating model positions Corporate Banking extremely well to manage the customers and portfolio in the future.

Proposition for Small and Medium-Sized Companies (SME)

Offering Targeted at SMEs

In March 2008, in an effort to better satisfy customer requirements, Bank Zachodni WBK expanded its SME offer with a package of products and services addressed to start-ups. The proposition includes free account maintenance for the first 12 months and the possibility to use a credit limit up to PLN 50k for 5 years or to purchase a new car through leasing. There are a number of additional services available that the bank provides in co-operation with external partners, including on-line accounting, legal advice and a package of web services (web hosting, development of web portals, etc.). As the additional services offered by the bank attract significant interest, they have also been made available to other customers to strengthen their links with the bank.

The bank continued its SME risk assessment policy adopted in 2007, limiting documentary requirements (especially in relation to small firms) and facilitating unsecured lending up to a certain limit. In addition, procedural changes were implemented in the lending process for loans from PLN 1 m to PLN 3 m whereby the credit decision can be communicated to the borrower faster. As a result of delegating authority to lower levels, SME customers receive pricing decisions sooner than before.

In the second half of 2008, Bank Zachodni WBK focused on development of a competitive deposit offering. New Business IMPET PLN deposits were implemented maturing over 1, 3, 6 and 12 months. Particularly attractive pricing was offered for the 3-month deposit. Also, a Deposit Desk was established to improve acquisition of new deposits from the market.

During the year, efforts were continued to encourage SMEs to expand their relationship with the bank. As part of a sales campaign, selected customers were presented with a dedicated funding offer, namely an overdraft or the Business Express loan. The initiative was appreciated by customers and proved an effective relationship building tool. The bank's sales were also positively affected by the highly skilled SME Advisors through a cycle of trainings (Successful SME Advisor).

Mid-Business Service Model

As part of its mid-business development strategy, Bank Zachodni WBK transformed its model of service for the top SME segment, bringing it closer to customer expectations, with a special focus on requirements related to relationship quality and access to decision makers. The new model is founded on the Business Banking Centres which are dedicated regional structures dealing with mid-business customers and equipped with appropriate skills and credit discretions. These units have been established in the 8 largest cities in Poland to supplement the existing distribution infrastructure composed of the branch network and the Corporate Business Centres.

In 2008, the key focus of the Business Banking Centres was to attract new customers. In 2009, the Centres will take over all mid-business customers from the branches and Corporate Centres (for details see chapter XI. "Changes to the Management Organisation").

Financing Projects with the Use of EU Funds

The bank's offer of financing undertakings subsidised by the EU comprises loans and leasing, with finance available both for the subsidised part of the investment and the remaining outlays. The bank's flagship product is Biznes Ekspres Unijny which is based on the structure of the Biznes Ekspres loan and likewise can be used for any business purpose, requires minimum formalities and ensures a lending decision within 24h from submission of a complete credit application. The bank’s important advantage on the EU funds market is its extensive network of EU advisors (ca. 200) supporting customers with their specialised knowledge of EU programmes and requirements to be met by entities seeking investment-related subsidies.

The bank intends to maintain its established position on the EU funds market and has commenced activities under the EU budget for 2007-2013. The strategy "Together in the EU" for 2007-2013 assumes the bank's active participation in the process of acquiring the EU funding, with a particular focus on SME support. The bank also provides service to the customers seeking EU funding as part of the Rural Development Programme 2007-2013. A comprehensive offering in this area has been developed jointly with the BZWBK leasing companies.

International Settlements

Cash Lodgments to the Accounts in Bank Zachodni WBK

The bank uses all the available settlement channels to process international payments, so that its customers can use the most favourable options.

For example, the bank uses a network of foreign agents (in the UK, Ireland and Holland) to accept and send cash transfers to PLN accounts in Poland. In 2008, Bank Zachodni WBK entered into a co-operation agreement with a British bank to offer the Bank Giro Credit facility. The product allows Poles in the UK to make cheap and fast cash and cheque lodgments to BZWBK accounts.

International Payments

The payment messages generated by the bank have been for many years characterised by high quality, which facilitates the clearing process and reduces the related costs. In 2008, the bank was awarded by its two main correspondents (Bank of New York and Deutsche Bank) for the high quality of formatting SWIFT messages. The efficient organisation of the payment handling process and the high quality of customer service is best proven by the bank being placed among the institutions that comply with the ISO 9001:2000 standard for international payment orders.

The bank is now finalising a project whereby EUR payments will be processed under the SEPA (Single European Payments Area) standards and thus will become more attractive for customers.

In 2008, the number of incoming payments increased by 40% y-o-y while outgoing payments (without intermediary of third party banks) were higher by 21% y-o-y.

Western Union Money Transfers

Bank Zachodni WBK acts as an intermediary for international and local Western Union money transfers. The network of outlets processing Western Union transfers totals 694 outlets, including the bank’s branches, Minibank/BZ WBK Partner units and the agents who operate under a contract with the bank and use its clearing service. The transfers are processed in without any forms, which reduces the customer's visit in the branch to the minimum. Owing to the differentiation of its product distribution channels and their continued development, the bank reaches an increasingly higher number of customers. The high quality of the service is proven by the ISO 9001:2000 certificate for processing the Western Union transfers.

In addition to the traditional cash transfers for personal customers, the bank has also launched the Quick Pay service for transferring funds from companies to private individuals.

The bank's actions contributed to the higher number of outgoing Western Union money transfers (+23% y-o-y).

Trade Finance

The bank's offer includes a full range of international trade finance products. A continuously expanding network of cooperating banks ensures high efficiency of service processes and competitive transaction execution costs. With the bank's flexible approach to trade finance transactions, customers can enjoy a personalised service. The high quality of the services is confirmed by the ISO 9001:2000 certificate for documentary transactions and cheques processing.

2008 saw a growth in the value of export documentary transactions, including export letters of credit (+29% y-o-y) and export collections (+37% y-o-y). The value of draft and cheque collections increased as well.

Provision of e-Services to Financial Institutions

Bank Zachodni WBK is one of the leading providers of payment orders processing, card issuance/handling and ATM management services for other institutions. Using its own experience, the bank enhances its products and functionalities to suit the requirements of its customers. The bank proposes and implements innovative solutions, including the technologies that meet the requirements of EMV and SEPA standards. The bank's partners are offered a modern IT infrastructure and a real-time access to transaction data. The high quality and security of the personalisation service for both magnetic stripe and chip cards was confirmed by the certification audit conducted by the two payment organisations co-operating with the bank, i.e. Visa Int. and MasterCard Int.

Thanks to successful acquisition of new customers, the bank's business in these areas keeps growing steadily. At the end of December 2008, the bank co-operated with more than 20 banks and financial institutions, handled 3.2 m third party cards and managed a network of 1,326 ATMs under contracts with its partners.

Investment Banking

Arrangement of Debt Securities Issues

In 2008, Bank Zachodni WBK arranged the issue of non-treasury debt securities for 26 entities with a total value of PLN 399.5 m. These issues were acquired by entities indicated by the issuers. The bank also completed two bond issues for its corporate customers (for PLN 7 m and PLN 10 m) under two separate programmes with a maximum value of PLN 15 m. In addition, the bank entered into 3 underwriting arrangements with Zakłady Azotowe Tarnów S.A. (underwriting commitment of PLN 133.7 m), Enea S.A. (PLN 500 m) and Atrem S.A. (PLN 20.7 m). Besides, the bank arranged and executed an MBO transaction worth PLN 5.9 m and a mandated purchase of public company shares worth PLN 13.1 m.

Advisory Services

Bank Zachodni WBK acted as an advisor in many public and private share offerings. The following advisory projects were completed in liaison with the BZWBK Brokerage House:

- secondary public offering of the shares of Hydrobudowa Polska S.A. with a value of PLN 308 m through an increase of share capital;
- initial public offering of the shares of Zakłady Azotowe Tarnów S.A. with a value of PLN 295 m through an increase of share capital;
- secondary public offering of the shares of Barlinek S.A. with a value of PLN 67.7 m, through an increase in share capital, with subscription rights for the existing shareholders;
- initial public offering of the shares of Atrem S.A. with a value of PLN 22.8 m, through an increase in share capital;
- private placement of the shares of R&C Union S.A. with a value of PLN 8 m through an increase of share capital (the first company introduced to the alternative stock exchange market New Connect);
- introduction – through dual listing – of the French company Belvedere to the Warsaw Stock Exchange under the name Sobieski.

Equity Portfolio Management

In 2008, the following changes took place in the equity portfolio of Bank Zachodni WBK:

- Bank Zachodni WBK acquired 800 of the newly issued shares of CU Polska - Towarzystwo Ubezpieczeń Ogólnych S.A. with a nominal value of PLN 2 k per share. Due to the pro-rata allocation of the new issue amongst the existing shareholders, the bank's stake in the share capital and the voting power of the company remains unchanged at 10%.

- In March 2008, founding acts and articles of association were signed for the new insurance companies established by Bank Zachodni WBK in co-operation with Aviva International Insurance Limited: BZ WBK - CU Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK - CU Towarzystwo Ubezpieczeń na Życie S.A. Both shareholders (holding 50% stake in each undertaking) paid up the share capital of each company. Bank Zachodni WBK contributed PLN 16.5 m and PLN 13 m to respective entities.

- In March 2008, Bank Zachodni WBK signed a preliminary agreement with BBI Capital NFI to sell 1,718,105 shares of NFI Magna Polonia S.A. The parties agreed that the title to the shares will be transferred to BBI Capital NFI outside of the regulated market in two stages: 1) transfer of 1,250,000 shares representing 9.73% of the share capital not later than on 14 May 2008; 2) transfer of title to 468,105 shares representing 3.65% of the share capital not later than on 14 July 2008. The first and the second stage of the transaction were completed at the contractual dates. Consequently, the bank holds 650 k shares of NFI Magna Polonia, giving it 5.06% stake in the share capital and 5.06% in the voting rights.

- Under the agreement with Commercial Union Polska Sp. z o.o. from Warsaw, Bank Zachodni WBK sold 420 shares of Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp. z o.o., Poznań with a total nominal value of PLN 210 k, which represented 60% stake in the share capital and carried 420 votes. The shares were sold for PLN 1.2 m. As a result of the transaction, Bank Zachodni WBK disposed of all its shares in the company.

- In June, the bank sold a portion of its shareholding in MasterCard Inc., achieving a net gain of USD 10.4 m, i.e. PLN 22.4 m.

- On 28 July 2008, the court registered the increase in the share capital of BZ WBK Finanse & Leasing S.A. and BZ WBK Leasing S.A. by PLN 13.5 m in each company. The newly issued shares were acquired by Bank Zachodni WBK giving it 99.99% shareholding and voting power in the two companies.

- The bank also made capital contribution to BZ WBK Inwestycje Sp. z o.o. for a total of PLN 21.3 m to facilitate further development of the company's core operations.

- The ARKA BZ WBK Fundusz Rynku Nieruchomości 2 (Property Fund) was registered in the National Depository of Securities on 14 July 2008. The bank acquired 140,205 certificates in the new fund for PLN 13.6 m.

- In October 2008, the bank received USD 5.1 m and 63,809 shares from VISA Inc. as the company debuted on NYSE.

- In December 2008, the bank established a new subsidiary named BZ WBK Finanse Sp. z o.o. and acquired 100% stake in it. The company's share capital of PLN 50 k has been fully paid-up. The new entity is a holding company founded to centralise the management of the bank's subsidiaries operative in the business banking segment. BZ WBK Finanse Sp. z o.o. was registered by the Poznan-based court in January 2009.

- In December 2008, the bank transferred the title to 152 shares of Commercial Union Powszechne Towarzystwo Emerytalne BPH CU WBK S.A. (CU PTE) to Commercial Union Towarzystwo Ubezpieczeń na Życie S.A. under the sale agreement of 18 September 2008. The shares represented 1.11% of the share capital and voting power of CU PTE. The total price paid for the shares was PLN 22.2 m, while the profit on the transaction amounted to PLN 20.6 m. After the sale, the bank holds 1,370 shares of CU PTE, representing 10% share capital and voting power of the company.

Treasury

2008 saw continued strong growth in Treasury activity, in both Wholesale and Corporate markets.

Strong growth was experienced in business activity and profitability across all Bank Zachodni WBK Treasury Services centres in Gdansk, Krakow, Poznan, Warsaw and Wroclaw. The underlying business performed very strongly with noteworthy growth across all product lines. Notwithstanding the widely reported difficulties experienced by the Polish Corporate and Commercial sector in settling foreign exchange derivative contracts with Polish banks, the impact on BZWBK did not detract from a strong financial performance. Appropriate and prudent fair value adjustment has been made for contracts with clients who may experience difficulties in 2009.

Throughout 2008, Wholesale activity reported very strong gains, primarily through strategic interest rate positions taken in anticipation of lowering PLN interest rates. A positive yield curve and higher repricing of assets following the credit and liquidity crunch, while overnight rates remained low, all contributed to the strong gains. These gains have been realized within the framework of a conservative appetite to risk taking, consistent with previous years.

Treasury has responsibility for the day-to-day funding and liquidity management of the bank's Balance Sheet. The continued turmoil on Global Stock and Money Markets in 2008, which was further exacerbated following the collapse of Lehman Brothers in September, had a limited adverse impact on the funding and liquidity of BZWBK. It must be noted that the actions of Central Banks, including the National Bank of Poland, were successful in ensuring adequate system liquidity and so greatly assisted banks in managing through these difficult conditions. As is evident in a customer loan/deposit ratio of 75% at the year-end and the holding of a large portfolio of high quality Polish Government Bonds, the bank continues to maintain a conservative liquidity and funding position that provides sufficient contingency against a liquidity shock.

3. Development of Distribution Channels

Traditional Distribution Channels

Branch Network

In 2008, Bank Zachodni WBK continued dynamic expansion of its branch network. By the end of December, 99 new outlets were opened, mainly in the Warsaw region, the Upper Silesia and in the Malopolskie, Lodzkie and Pomorskie provinces. Included in this number are 95 branches delivered by the Branch Network Development Programme.

In order to improve management effectiveness and optimise operational processes, in the fourth quarter of 2008, the bank implemented a new management model for the expanded Bank Zachodni WBK Branch Network. The Macroregional Offices (oversight structures) were eliminated and the responsibility for supervising the regions and the Branch Network was delegated to a new position of the Branch Network Management Director. The number of the regions was reduced to 12 by merging the Zachodniopomorski and Lubuski regions and the Kujawsko-Pomorski and Pomorsko-Mazurski regions. Central Branches were established whose key role is to supervise the smaller branches reporting to them and to support their business and operational activity.

As a result of undertaken initiatives, on 31 December 2008, the bank's Branch Network consisted of 505 branches supported by 12 regional structures, reporting to the Branch Banking Office.

The bank's Branch Network includes the Mortgage House located in Lodz, a unit specialised in selling mortgages. This is also a centre of excellence for the property market and funding methods. The Mortgage House gathers and provides customers with developers' and real estate agencies' offers, thus allowing borrowers to save time looking for properties or doing a market research.

Corporate Business Centres

At the end of 2008, Bank Zachodni WBK operated through 6 Corporate Banking Offices: in Warsaw, Wroclaw, Poznan, Krakow, Gdansk and Lodz with satellite operations in Szczecin and Katowice. 2008 saw each Corporate Banking Office expanded their local market share.

Business Banking Centres

Following the successful pilot scheme of the first Business Banking Centre created in Warsaw (2007), in 2008 7 such units were opened in the biggest Polish cities: Poznan, Wroclaw, Krakow, Lodz, Gdansk, Szczecin and Chorzow. The task of these units is to provide comprehensive service to the top SME segment, including efficient credit delivery through highly-skilled officers with appropriate credit authority.

Private Banking

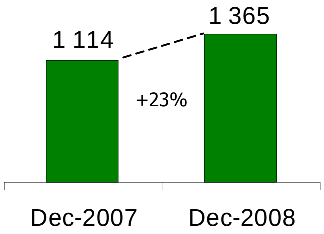
In 2008, the new Private Banking channel was launched, focusing on the customers holding liquid assets of at least PLN 1 m. The first Private Banking offices were opened in Warsaw and Poznan (also in Wroclaw early in 2009). Customers are serviced by two-person specialist teams, frequently outside of the bank premises. The new channel focuses on the sale of savings and investment products. In 2008, the key features of the bank's investment offer were structured products (e.g. FX Depo and Quo Vadis). The available services also include advice, customised investment and funding solutions. The Private Banking customers can use a dedicated IT platform with passive access to their investment portfolio.

Electronic Distribution Channels

BZWBK24

In 2008, the functionality of the BZWBK24 electronic banking system continued to expand. New solutions for BZWBK24 Internet users include active support for debit cards (new card activation, change of PIN, lifting blockades) and access to additional information on the cards used. The customers who earn their income abroad can open on-line a savings account denominated in EUR or GBP. Special web sites were also launched: wystarczysiec.pl devoted to internet payments and tutajdoladuj.pl, which consolidates all the mobile top-up options available on-line in the bank. Also, via this website customers can order an invoice for the top-ups paid by Przelew24.

BZWBK24 users (in k)



In addition to its standard role as a transaction system, BZWBK24 becomes a channel for educating, acquiring and selling to customers. Communication between the bank and customers was improved by the on-line messages used for presentation of the current products and special offers, including credit limits available under cash loans and credit cards (products offered via Telephone and Electronic Centre). The new communication tool was used in numerous campaigns encouraging customers to buy products and services such as savings accounts, deposits, Arka funds, credit cards, cash loans, Alerts 24. The bank was also developing a new communication and sales channel called Microsites, i.e. websites dedicated to a particular service or process.

Direct Channel/Telephone and Electronic Sales Centre

The Telephone and Electronic Sales Centre (CSTiE) is responsible for direct sales, primarily through active sales campaigns with CRM and cross-selling objectives. In 2008, the campaigns focused on credit cards, cash loans and overdrafts. Products were offered through the contact centre line 0801 666 444 and on-line. During customer contact cross-selling and up-selling opportunities were sought. Product sale initiated by the CSTiE is closed in a Bank Zachodni WBK branch chosen by the customer, or via courier.

The satisfactory phone sales and the quality of the acquired credit portfolio has encouraged further development of the unit's sales potential.

ATMs

As at 31 December 2008, the ATM network of Bank Zachodni WBK comprised 1 004 machines, i.e. 330 more than 12 months before. The fast growth in the number of installations is a result of the ATM network development programme, which has been successfully completed and closed. Concurrent with the ATM network development, the bank has been upgrading its existing machines. These efforts have increased the availability of the BZWBK ATMs, the number of ATM transactions and network functionality – 100% of the machines comply with the chip (EMV) standard of Europay, MasterCard and Visa.

November 2008 saw the end of certification of VISA and MasterCard microchip cards for all ATM types. In December, a review of the ATM network management took place which confirmed the high-quality of the bank’s service in this area, as required by the ISO 9001:2000 accreditation awarded to the bank in 2007.

External Distribution Channels

Mobile Sales

At the end of December 2008, the BZWBK Mobile Sales comprised 23 offices operating in 10 regions across Poland. The mobile sales teams of self-employed Financial Advisors (290 in total) were acquiring new customers for the bank, offering them cash loans and credit cards. Some regions were also selling, under a pilot scheme, mortgage loans and products for SMEs. Moreover, selected advisors were engaged in on-line sales, thus expanding the functionality of this channel from the customer's perspective.

Bank Zachodni WBK Partner - Agency Outlets Network

Bank Zachodni WBK continued to develop its agency outlets network providing quick, simple and inexpensive access to standard financial services (including bill payments, account with a card, Western Union transfers). In 2008, 30 new agencies were established, bringing their total number to 56. Due to the implementation of simplified processes on a dedicated IT platform, the units provide fast service at competitive prices to customers interested in basic banking services. In addition, the agency outlets act as intermediaries selling credit cards. To enhance the profile of this network and to improve its market position, the bank's Management Board decided to give its own brand support and rename it "Bank Zachodni WBK Partner". This process will be completed in the first quarter of 2009.

VI. Further Growth Prospects

1. Strategic Directions for 2009-2011

Mission Statement of Bank Zachodni WBK

Bank Zachodni WBK intends to strengthen its position in the financial market, as a universal bank which offers a full array of financial services in the retail, business and investment banking segment. The mission statement of Bank Zachodni WBK assumes the following:

- growth of the share in specific market segments;
- high prestige and awareness of the bank brand, based on competitive offer and top-quality service;
- strong and stable financial base for the development of credit delivery operations, including the adequate level of liquidity and a strong capital position;
- numerous and diversified sources of income in three basic segments: retail banking, business banking and investment banking area;
- efficient risk management as required by stakeholders;
- shareholders satisfied with the volume and sustainability of generated profits.

The bank aspires to make use of its distribution network to achieve 10% share in the banking sector and higher position in terms of assets, equity and number of customers.

Strategic Priorities for 2009-2011

Global financial crisis and spreading recession have changed the prospects for macroeconomic development in Poland, forcing Bank Zachodni WBK to concentrate more strongly on the following key objectives:

- strengthening the bank's capital base and maintaining appropriate capital adequacy ratio;
- active management of credit, operating and market risks;
- further diversification of income sources and searching for new ones;
- diversification of the deposit base;
- credit/deposit ratio maintained at the level confirming adequate liquidity;
- active management of costs and low cost/income ratio;
- maximum leverage of the potential ensured by 2007 and 2008 investments;
- reducing operating costs and streamlining procedures;
- expanding the capacity of the organisation to respond to customer needs and market demands.

Brand Image

The major objective is to change the common perception of Bank Zachodni WBK as a regional financial organization operating mainly in western Poland. As a result of branch expansion and brand communication, the bank should become widely recognised as an organization with a countrywide presence.

The Bank Zachodni WBK image will combine advantages of a large and secure financial organization with the distinguishing features of young dynamic banks which fight for their market share by presenting attractive offers. Customers should see Bank Zachodni WBK as a large nationwide organization, which:

- provides more value to the customer compared to other financial institutions and strives to outperform its market competitors,
- guarantees financial stability and protection of funds,
- offers attractively-priced products which are easy to understand and use,
- stands out in the market, with its modern and innovative solutions.

Corporate Values

Bank Zachodni WBK focuses on providing top-quality customer service by:

- building the relationship based on trust and ethical values,
- focusing on outcome rather than activity itself,
- readiness to learn,
- professional and timely delivery of tasks,
- demonstrating respect for work and responsibility for the actions taken,
- compliance with law, internal regulations and best practice.

The organisational culture of the bank is based on engaged, adequately qualified and motivated staff. It also promotes teamwork, as well as continuous professional and personal development with due respect for individuality of employees and the demands of their family life. The bank always maintains the strictest ethical standards in its operational activity.

Customer Acquisition and Maintenance

Retail Segment

The retail segment will focus on the acquisition of customers entering the banking market: young customers (mainly students and university graduates) and persons who are starting business. An excellent bank account offer will be among the main tools used to attract these clients.

Bank Zachodni WBK will also improve the efficiency of customer acquisition initiatives targeted at other groups in the retail segment. In addition, steps will be taken to strengthen the loyalty of customers as well as increase the scope and value of the relationship. To this effect, the bank will use its IT capability, CRM and customer information systems to ensure above-average quality of service, and will offer a wide scope of savings, credit and settlement products. Bank Zachodni WBK will also strengthen its leadership position on innovative savings products market, based on deposits, investment and insurance products.

Selected retail customers, e.g. from VIP or Private banking segments, will be offered top-quality service. Such service will involve the offering of innovative and tailored savings and credit products, as well as the assistance provided by expert advisors. Private Banking service is provided in specialised centres by top-class professionals in cooperation with renowned international financial organisations.

Retail customers will be serviced by a nationwide network of Bank Zachodni WBK branches. Supplementary service will be available from franchise outlets, a call centre, Internet, mobile agents and other distribution channels.

The priority of Bank Zachodni WBK is to integrate the distribution channels so that the customers can choose and fully avail from such method of contact with the bank that works best for them. The integration means wider access to products and processes as well as standardized customer information in all distribution channels.

Business Segment

Business customers will be serviced by a nationwide network of Business Banking Centres operating in all major cities. Three centres (in Warsaw, Poznan and Wroclaw) will handle corporate customers. All business customers will be serviced by professional advisors, on an individual basis. Bank Zachodni WBK will pursue two objectives: business diversification and take-over of the entire relationship with business customers by business advisors. Diversification will be achieved in three dimensions:

- diversification of the loan portfolio, through even penetration of customers by industry;
- diversification of the income streams, through even penetration of economic markets country-wide;
- diversification of income streams by products, through increasing revenues from non-credit products.

Such diversification involves extension of the offer, further improvement of processes and continued building of the competences of business customer advisors in order to provide more effective customer service.

Investment Banking Segment

In the time of economic slowdown, Bank Zachodni WBK intends to probe new income sources, continue to strengthen the prestige of the brand, raise the service quality, expand its share in specific capital markets as well as increase activity in other business lines such as advisory services, M&A (Mergers and Acquisitions) and MBO (Management Buyout) operations.

Operational efficiency and cost savings

The Bank Zachodni WBK will continue its cost optimisation initiatives, in particular it will:

- streamline the operating processes and customer service processes;
- centralize and automate control and back-office processes in the branches;
- seize any opportunity to reduce costs, through the implementation of savings programs, more efficient management, monitoring of contracts with key suppliers, utilization of advanced IT technologies, etc.

2. Expected Economic Conditions of Development in 2009

Economic Slowdown

2009 will be a period of deep recession in the world's biggest economies, including the Euro Zone and the USA. The weakening foreign markets will have a strong adverse impact on the Polish economy. The economic growth will decelerate compared with the previous years.

Consumption

Private consumption will be gradually decreasing as a result of negative changes in the labour market. The decrease in nominal wage rate will be significant, although the real effect will be less severe due to the falling inflation. Also, the next pension indexation will be quite high (ca. 6%). In addition, the disposable income of households will be positively affected by the changes in PIT and VAT (the government estimates that the taxpayers will save PLN 8 bn on PIT and PLN 2 bn on VAT). However, most benefits from the PIT reduction will accrue to those with higher incomes and thus lower propensity to spend on consumption.

Investments

Investments will be supported by the expected increase in funds flowing from the EU (by EUR 2 bn), which will to some degree reduce the effect of lower direct foreign investments. The government has embarked on a "stability and development plan", but there is a great deal of uncertainty around it. However, the increase in guarantees and the lending activity of BGK (Bank Gospodarstwa Krajowego) is comparable with the increase in business lending in 2008 (by more than PLN 40 bn).

Exports

Export results will depend on the GDP growth in the EU, although the Polish goods and services sector may see a positive substitution effect connected with the weak PLN. At the same time, the weaker domestic demand will hold imports back, thus contributing positively to the GDP growth. The current account deficit should decrease during the year (from 5.3% to ca. 4% of GDP), but its funding structure will deteriorate.

Inflation

The substantial weakening of internal demand and the reduction of tensions in the labour market will relieve the fundamental inflationary pressure (not connected with external factors). The last quarter of 2008 already saw a reduction in the annual price growth in some service sectors (e.g. hotels and restaurants). Food and commodity prices are expected to contribute most to the fall in inflation. The sharp decreases in the price of agricultural commodities and products over the past several months, both in Poland and world-wide, will strongly reduce the annual growth of food and non-alcoholic drink prices in 2009. Transport prices are likely to decelerate too. The impact of the falling commodity prices on inflation will be reduced, though only partly, by the weak PLN. The cost of house maintenance and energy will remain the biggest contributor to the inflation rate. It might be expected that the CPI will return to its 2.5% target in mid-2009, and the CPI excluding food and energy prices will fall below the target already in January.

Credit Market

Credit growth will substantially decelerate in 2009 as well as total deposit growth. Loans will be affected by the FX rate environment as the PLN is expected to be stronger at the 2009-end than in December 2008. Moreover, credit growth will be kept under control by the tighter lending criteria. Home loans will see the strongest decrease due to the factors mentioned above and the probable postponement of some transactions as home buyers will await price decreases. On the other hand, the government programme of loan subsidies should have a stimulating effect on lending.

Interest Rates

The Monetary Policy Council will probably continue to cut interest rates in response to the economic slowdown and the falling inflation.

PLN Rate

Given the risk aversion world-wide, the PLN rate should remain under pressure throughout the year, while changing investor moods may lead to fluctuations in the Polish currency. The PLN will also be negatively influenced by the increasingly uncertain date of Poland's accession to the ERM 2 and the difficult budget situation. The PLN might become visibly stronger only at the year-end along with recovery of the international financial markets and the Polish economy.

VII. Risk Management

The main objective of risk management in the Bank Zachodni WBK is to ensure effective operations to support development within the approved risk parameters. Risk management practice is in keeping with the industry benchmark and Basel II guidance, and covers operational risk as well as the three main financial risk areas: credit risk, market risk and liquidity risk.

The bank's Management Board, which is responsible for risk management, delegated its powers in this regard to the following Committees: Asset and Liabilities Management Committee (ALCO/ICAAP Forum), Credit Committee, Credit Policy Forum, Provisions Committee and Operational Risk Management Committee (ORMCo). These Committees are responsible for managing individual risk areas, ongoing monitoring of the bank's general risk and for shaping the current policy within the framework set by the Management Board.

The risk management framework rests on the risk profile accepted by the bank's Management Board, reflecting the overall risk appetite of the bank.

Additionally, the Management Board considered potential implications of the current market conditions on the performance of the bank, where main identified risk factors are:

- **Economic environment** - sharp decline of GDP projection across EU and the rest of Europe.

  The consensus view as at the reporting date is for positive GDP growth for Poland in 2009. Lower external demand will affect Polish exports and lower credit supply will negatively impact investments and further contribute to the slowdown. The consequences of the slowdown would include deterioration in the credit quality of business customers. An increase in unemployment will result in weaker credit standing of individuals. However, Poland is in quite a good situation relative to other EU and regional countries with regard to: higher ratios of exports/GDP and credit/GDP, lower level of private sector debt, lower dependence on property market for GDP growth and government revenues, and lower inflationary pressure generated by property market. Polish banking sector did not suffer significantly from direct involvement in sub-prime mortgage-based products and also relies to a lesser extent on external funding. There has been no Government recapitalisation in the sector to date.

- **Sharp PLN depreciation**

  In the second half of 2008 Polish złoty experienced severe depreciation that continued through January of 2009. Weakening local currency will positively impact exports while simultaneously increasing inflationary pressures through higher import prices and increased cost of raw materials and crude oil in particular. Sharp currency depreciation and falling exports made it difficult for many businesses to settle their derivative contracts with banks. This resulted in significant bankruptcy risk for corporate customers involved (some of them already observed) as well as considerably higher credit/settlement risk which needed to be recognized in the financial statements of banks acting as counterparties to such transactions. Depreciation of PLN may also result in increased credit risk losses on facilities denominated in foreign currencies, especially where payments are not economically hedged with relevant currency inflows, e.g. retail mortgages in CHF. Finally, weaker złoty may result in increased pressure on capital adequacy in the banking sector.

- **Liquidity of inter-bank market**

  Polish inter-bank market has been affected by the global crisis of trust in financial markets, preceded with spectacular bankruptcies and credit losses. This has resulted in higher pricing on the wholesale market and very limited access to longer maturity funding, including facilities denominated in foreign currencies (mainly FX derivatives – swaps, forwards) used to close currency positions. Additionally, the environment gave rise to increased price competition in the retail deposit market, which has continued into 2009.

1. Financial Risk Management

Lending Policy

Bank Zachodni WBK's credit delivery activities focus on growing a high quality profitable loan-book and customer satisfaction. The policy of the bank is to maintain a high quality loan book by applying lending and monitoring principles which mitigate the risk.

The policy of Bank Zachodni WBK is to maintain a high quality loan book by applying lending and monitoring principles which mitigate the risk.

The bank's lending policy consists of a number of rules and guidelines in the form of lending procedures and policies introduced by resolutions and ordinances issued by the Management Board, Management Board Members and Chairman of the Credit Policy Forum.

Credit manuals of Bank Zachodni WBK govern processes related to personal, commercial, corporate and SME lending as well as securities.

The individual credit policies provide a direction for lending activity and conditions on which the bank is willing to lend to specific client categories. The policies set rules for the purpose of lending, reducing the risk to an acceptable level as well as for other aspects of credit delivery. The guidelines and rules are targeted at the branch network and the Business Support Centre units that are directly responsible for business development and support. They are aimed to ensure a sustainable growth of the loan book. Credit policies are subject to periodical reviews aimed to bring the guidelines up to date with the bank's current needs.

Internal limits are an important element of the bank's lending policy as they allow to track concentration by industries, geographies and currencies.

The credit discretions system is governed by "BZWBK Discretionary Limits Guidelines". It defines credit discretions for particular organisational units engaged in the credit delivery process. Discretions of individual employees vary depending on lending skills, experience and position in the organisational structure of the bank.

The bank's lending procedures and policies are subject to approval by the Credit Policy Forum which is chaired by the Chief Credit Officer (or a deputy designated by him) and consists of representatives of the Credit Division, Risk Management Division, Customer Relationship & Sales Division, Finance Division, Legal and Compliance Division, and Corporate Banking Area.

The bank has introduced a number of actions to adapt lending policies to the more challenging environment that is currently observed. Risk Appetite Statement has been modified to reflect a more cautious approach in the current environment. The major elements that were introduced to the policies address issues resulting from sharp PLN depreciation and deteriorating economic environment. This includes curtailed lending to the Property Sectors and restrictions on FX lending. Underwriting practices have been tightened, e.g. LTV, pricing, covenants and the Large Exposure Policy has been reviewed and amended.

Credit Risk Management

Credit risk arises mainly from lending activities on the retail, corporate and inter-bank markets. This risk is managed as part of the policy approved by the Management Board on the basis of the adopted credit delivery procedures as well as on the basis of discretionary limits allocated to individual credit officers based on their knowledge and experience. The bank's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan book.

Management of credit risk is based on ongoing macroeconomic analysis as well as internal analyses of individual loan books. Advanced risk assessment tools allow the bank to take preventive actions should there be any indication of changes of the loan book quality or structure. In the second half of 2008, in response to high volatility of the market as well as downturn symptoms, the approach to credit risk management was revised and lending policies became more stringent.

Credit Grading

Intensive work has been undertaken to further develop credit risk assessment tools to conform to the Basel recommendations and International Accounting Standards/International Financial Reporting Standards.

Currently the bank uses new credit risk grading models for its key credit portfolios, including corporate customers, SMEs, housing loans, property loans, cash loans, credit cards and personal overdrafts.

The bank regularly monitors its credit grading using the rules specified in the BZWBK Lending Manuals. Additionally, selected models are subject to an automatic risk verification process based on the days in arrears or analysis of the customer's behavioural data. Credit grade may also be changed when new credit decisions are taken or in response to any developments identified through the current monitoring.

Provisioning

In Bank Zachodni WBK and its subsidiaries provisions are raised in accordance with the International Accounting Standards/International Financial Reporting Standards The provisions reflect credit impairment which is recognised if the bank has objective evidence that such amounts cannot be recovered in line with the signed loan agreement. Objective indications of impairment were defined in accordance with the Basel Committee recommendations and the International Accounting Standards (IAS 39).

The impairment is measured based on the estimated recoverable amount and analysed using both the individual and collective approach.

Ensuring adequate level of provisions is the responsibility of the Provisions Committee.

Stress Testing for Credit Risk

Stress testing is one of the components of the credit risk management process aimed at assessing how the bank might be affected by specific changes in its environment, changes in financial and macroeconomic indicators or in the risk profile. The analysis also looks at the potential credit quality changes in the wake of adverse developments. The process also provides management information on the adequacy of the existing limits and internal capital allocations.

Return on Risk

Bank Zachodni WBK continues to develop and implement risk based methods of grading loans, allocating capital and measuring returns. Currently, for all significant portfolios risk valuation models based on EVA (Economic Value Added) are being implemented.

Credit Decision Making Process

The credit decision-making process as part of the risk management policy is based upon Individual Lending Discretions vested in credit officers, commensurate with their knowledge and experience relating to particular activities (retail banking, corporate banking and SMEs). Credit exposures in excess of PLN 25 m are referred to the Credit Committee composed of senior management of Bank Zachodni WBK.

Bank Zachodni WBK continually strives to ensure best quality credit service to meet the borrowers' expectations and relevant risk policy standards. To this end, the credit risk approval function has been basically separated from the sales function. Credit decision making functions and sales functions are combined only at the Branch Banking level and these are limited to exposures up to a pre-defined ceiling. The responsibility for credit decisions and loan portfolio quality assurance lies with the Chief Credit Officer and his reporting managers.

In order to ensure better risk management, the bank implemented scoring techniques for retail customers, SMEs and home mortgages. The scoring systems are continuously upgraded which has improved the quality of risk management and accelerated the decision-making process.

Credit Reviews

The bank performs regular reviews to determine the actual quality of the credit portfolio, to confirm that adequate credit grading and provisioning processes are in place and to objectively assess professionalism in credit management. The reviews are performed by the Credit Review Department and the Quality Assurance Department which are independent of the risk-taking units.

To address the increased risk related to customer FX derivative contracts, the bank introduced detailed reviews of the individual contracts, which in some instances resulted in a write down in a fair value of the asset.

Market Risk and Liquidity Risk Management

The Bank Zachodni WBK ALCO/ICAAP Forum is responsible for, among others, strategic balance sheet management in keeping with "Risk Appetite Statement" approved by the Management Board and the individual risk management policies. The focus of ALCO's attention is the management of capital, sources of funding and liquidity as well as identification and management of market risk. ALCO consists of representatives of the bank's senior management.

Market risk and liquidity are managed within the framework approved by the Bank Zachodni WBK Management Board. ALCO defines the underlying principles of management of liquidity, interest rate and FX risks arising from the bank's balance sheet structure.

Market Risk Management

The key objective of the market risk policy pursued by the bank is to reduce the impact of interest and FX rates changes on the bank's profitability and market value as well as to increase income within the strictly defined risk limits and to ensure the bank's liquidity.

The bank's practice in market risk management complies with the following rules:

- Upon the recommendation from ALCO, the Management Board approves the Strategies and Policies for market risk management along with the limits that define the maximum acceptable exposure to individual risk types.

- Market risk is managed by qualified personnel using the appropriate systems and controls. Management of interest rate, FX and liquidity risks is centralised in the Bank Zachodni WBK Treasury Division.

- Market risk is measured and its compliance with the stated risk limits is monitored by qualified personnel independent of the unit which manages and generates the risk. Exposure to market risk is regularly reviewed by ALCO.

- Risk limits are periodically reviewed to align them with the bank's strategy and the current objectives of the bank.

Assets & Liabilities Management Department identifies, on an on-going basis, the market risk connected with retail and commercial activities and transfers it to the Treasury Division. Treasury Division then executes relevant transactions (e.g. in the inter-bank market, in securities, derivatives, etc.) in order to maintain the risk at an acceptable level.

Interest rate and FX risks are monitored using the Value at Risk (VaR) methodology which is a standard industry tool for the measurement of interest rate and FX risk. VaR methodology uses a statistical process to determine the Probable Maximum Loss (PML) in economic value of a transaction or a portfolio of transactions as a result of an adverse change in market parameters. The bank applies the VaR methodology both to the trading and banking portfolio.

Liquidity Risk Management

ALCO has overall responsibility for the supervision of liquidity risk on behalf of the Management Board. ALCO makes recommendations to the Management Board on appropriate strategies and policies for strategic liquidity management.

The liquidity policy pursued by Bank Zachodni WBK is to counter-balance the expected outflows with expected inflows and/or realisation of liquid assets (mainly debt securities) to resist any extraordinary or crisis situations triggered both by internal factors (e.g. sudden increase in the value of facilities drawn under the sanctioned credit lines) or external ones (e.g. material drop in liquidity on the interbank market). The policy covers all assets and liabilities as well as off-balance sheet items impacting the liquidity level and uses statistical data relating to the deposit base and the credit portfolio. Liquidity risk is measured daily using a modified liquidity gap report.

The bank is obliged to maintain necessary funds to allow for all withdrawals of term deposits, demand deposits, loan drawdowns, guarantee payments and settlements. The bank does not maintain those funds in full amount because as experience and analyses show, a certain percentage of funds with short-term maturity will be reinvested. The bank's policy states that the bank should maintain funds to cover 100% of the payments expected to be made within 1 month horizon. Long-term liquidity position is also monitored.

At the same time, the bank implemented the requirements stemming from Resolution no. 9/2007 of the Banking Supervisory Commission, which also involved re-working of the liquidity monitoring, measurement and reporting process. Since the effective date of the Resolution (1 January 2008), the bank has complied with the quantitative regulatory requirements in this regard.

The Bank Zachodni WBK has a scenario-based contingency plan approved by the Management Board to cater for unexpected liquidity problems, whether caused by external or internal factors.

In order to manage liquidity in a more challenging environment, the bank is focused on its loan-to-deposit ratio and on maintaining an appropriate level on unencumbered debt securities. In addition, further actions are agreed by ALCO to appropriately manage FX funding risk. The loan portfolio is managed through more restrictive policies (for details see section above) and adequate pricing. On deposits side, the bank is responding with competitively priced deposit offering assisted by effective marketing. There is also greater focus on term deposits over demand deposits, which has already resulted in a significant change in the term structure of the deposit base.

2. Operational Risk Management

The Bank Zachodni WBK adopted the operational risk management definition as agreed by the Basel Committee whereby operational risk management is understood as exposure to losses arising from inadequacy or failure of internal processes, human resources, systems or external factors.

Operational risk is inherent in all the bank's business processes, including the outsourced functions or services delivered jointly with third parties. Each organisational unit in the bank is fully responsible for identification and management of the operational risks pertaining to its operations. The objective of the operational risk management is to minimise the likelihood and/or reduce the impact of unexpected adverse events.

Bank Zachodni WBK operates the "Operational Risk Management Policy" and the "Rules of Operational Risk Management". In addition, detailed procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated.

The Operational Risk Management Committee (ORMCo) appointed by the Management Board sets the strategic direction for operational risk activities, among others in the area of BCM, information security and fraud prevention. ORMCo is a forum for official discussions on operational risk, determines and monitors operational risk management objectives and sets priorities with regard to high risks. The effects of this work are reported to the Management Board.

To ensure adequate risk management and identification of the key threats, the following processes are employed:

- Identification and estimation of operational risk

  In their self-assessment process, organisational units identify risks present in their processes, systems or products, assess inherent and residual risks for their likelihood and impact, and describe the existing controls. As part of the self-assessment review, potential threats to the bank's business are identified. The risks with high residual rating have proper action plans developed with progress against them reviewed quarterly by ORMCo.

- Reporting on operational incidents and lessons-learned

  Each organizational unit is required to report operational incidents on a monthly basis. The data are used to carry out a root-cause analysis of the incidents with a view to ensuring that lessons learned are captured and preventive and corrective measures are actioned. The lessons learned process is a tool aimed at reinforcing and facilitating operational risk management; it ensures also that decisive steps are taken if any operational incidents materialize that lead or might lead to losses.

- Analysis of risk indicators

  Risk indicators are financial and operational indicators which depict the risk level present in the Bank Zachodni WBK, and provide early warning of emerging threats and operational losses.

- Business continuity management (BCM)

  Each organizational unit is required to develop and update their business continuity management plans to ensure that critical business processes remain uninterrupted following an unplanned disruption. The plans provide also for absence of the staff. Business continuity plans must be tested at least annually to ensure that it is possible to restore critical business processes at the required service level and within the agreed timeframe. There are backup locations where critical processes can be restored and continued should an incident occur.

- Regular reporting to the Management Board and Supervisory Board

  Operational risk issues are reported to the Management and Supervisory Board, including: operational risk incidents, risk indicators, operational risk self-assessment.

- Insurance

  The bank's insurance cover includes the following insurance lines: Bankers' Bond, Computer Crime and Professional Indemnity

3. Capital Management

The New Capital Accord of the Basel Committee (Basel II), which became effective in Poland on 1 April 2007 by virtue of the Resolution of the Banking Supervisory Commission, was implemented by Bank Zachodni WBK at the beginning of January 2008. Until the end of 2007, the bank was temporarily permitted to use Basel I rules with regard to calculation of the risk-weighted assets and the solvency ratio. The current measurement of capital adequacy, which is the basis for capital management in the bank, is based on the Basel II rules.

The New Capital Accord introduced new or modified methods of measurement and estimation of the minimum requirements. For example, it added operational risk to calculation of the minimum regulatory capital requirements and changed the parameters used in the standard approach to capital requirements estimation. The bank uses standard approaches to the measurement of credit, operational and market risk. However, work is under way to implement the Foundation Internal Rating Based Approach, in the scope covered by the regulatory permissions, for measurement of credit risk.

The capital requirement for individual risks is aggregated directly to determine the overall regulatory capital requirement (Pillar 1) and calculate the solvency ratio. In accordance with the Banking Law, Bank Zachodni WBK is required to maintain solvency ratio at minimum 8%.

The table below shows historical values of the Bank Zachodni WBK solvency ratio:

PLN m

	31-12-2008	31-12-2007
Total capital requirement	3 220.7	2 124.7
Own funds after deductions	3 948.1	3 015.9
Solvency ratio	9.81%	11.36%

The policy of Bank Zachodni WBK is to maintain a capital base above the minimum level required for the different types of risk related to the activities conducted and to use the capital base effectively in order to add value for shareholders. For this reason, the bank's capital management policy envisages the threshold solvency ratio at 10%.

The bank's Management Board delegated the day-to-day capital management to the Assets & Liabilities Management Committee (ALCO/ICAAP Forum). The Committee monitors the capital level on an on-going basis and recommends to the Management Board and the Supervisory Board any transactions which affect the capital level.

The total regulatory capital requirement (Pillar 1) is the basis for estimation of internal capital. Also – as part of Pillar 2 – an internal assessment and quantification is performed to estimate capital requirement for the other risks associated with the bank's business. The bank adopted the rule that in the aggregation process the internal capital is quantified, which in the bank's assessment sets the minimum level of own funds to be maintained.

As a result of recent turmoil in economic environment, the bank is proactive in managing its capital position. Stress testing and scenario analysis are used to help determine possible outcomes and impacts on capital adequacy. Sharp depreciation of PLN impacts the growth of risk-weighted assets while deteriorating credit quality affects banks' profitability. Both factors will have impact on capital adequacy. In addition to already stipulated actions (see Lending policy and Liquidity management sections), the bank is committed to aligning dividend policy to current capital and ongoing demands on capital. It is also focused on a reduction in capital expenditures and strict control of costs.

VIII. Human Resources and Corporate Values

1. Human Resources Management

Human Resources

As at 31 December 2008, the number of FTEs in the Bank Zachodni WBK was 9,515 and was higher by 1,046 y-o-y. The increase in the employment was due to the expanding network of the bank's outlets and implementation of new service models for targeted market segments (e.g. Business Banking Centres and Private Banking Offices). In order to facilitate integration of new employees into the organisation and decrease the time necessary to make them fully efficient in their roles, Bank Zachodni WBK continued its comprehensive induction programme for the newly-recruited staff. Vacancies were also filled through the internal recruitment process, which involved transfers of experienced staff members to new functions and locations, often under promotion arrangements. Clear development and promotion paths were set for branch employees compliant with the requirements of individual job roles under the newly implemented branch model.

HR Initiatives

The bank continued its cyclical Performance Management Process which involves setting objectives for each staff member as well as monitoring and evaluating their progress. Due to the strictly followed procedures, employees are aware of their role in the delivery of the bank's strategy and obtain the feedback about their performance. Realizing the importance of Performance Management Process for the bank's strategy and professional development of its employees, the bank's management took steps to further improve the procedure through consultations with staff. The resulting amendments will be introduced in 2009.

At the beginning of 2008, Bank Zachodni WBK implemented the Sales Activation Programme in the BZWBK Branch Network. The Programme introduced a uniform methodology for sales targets planning, effective control of individual performance and a new incentive system. The new bonus system rewards individual branch staff members for their monthly achievement of sales targets, which improves the bank's overall efficiency. Team bonuses are available as an additional incentive for staff to perform better through a joint effort.

In February 2008, the "BZWBK Policy for Expectant and New Mothers" became effective with a number of solutions supporting expectant and nursing mothers. The scope of the support exceeds the existing legal requirements and includes such benefits as extension of the maternity leave and flexible worktime management.

2008 saw implementation of the new IT platform (SAP) facilitating HR management. The e-HR portal is currently available to all bank employees providing them with interactive on-line access to their personal, payroll and training details.

The results of Staff Attitude Survey held in September 2008 show the highest historical satisfaction of the bank's employees in the areas under surveillance as well as high commitment to work and growth of the bank. The staff were most satisfied with the ethical conduct of the bank. Customer focus, teamwork, business focus and ethical conduct were viewed as key elements of the corporate values. Management style, skills and knowledge (used as the main promotion criteria), and management responsibility for staff development turned out to have the major impact on staff commitment.

Training

The bank places a great emphasis on the improvement of staff knowledge and skills. Training courses are organised in response to the business needs and in keeping with the bank's strategic priorities. Compliance with the strategic and training objectives is ensured through the central planning and co-ordination of training, a process actively supported by the branch banking and other business units. The integrated training plan facilitates the logistics and monitoring of training quality and costs.

In 2008, most of the training projects were addressed to the branch banking staff with frequent use of e-learning. Training for branches included the following areas: strategic products, sales techniques supporting the Sales Activation Programme, SME lending, applications and tools. Under the leadership development strategy, programmes addressed to individual management levels were continued, including: BZWBK Leader Programme (individual development plans for members of senior management), Directors' Development Programme; Managers' Development Programme; Programme for Newly Appointed Managers; ABC of Management, Leaders of the Future (5th edition).

In 2008, the total number of trainees and participants of the development programmes in Bank Zachodni WBK reached 85.3 k.

Performance Share Programme

Each year since 2006, Bank Zachodni WBK has launched a 3-year incentive scheme for the key employees of the Bank Zachodni WBK Group, allowing them to purchase the bank's shares on preferential terms, subject to achievement of performance targets in the years covered by the scheme.

The first two editions of the Performance Share Programme entitled its participants to buy bonds with pre-emptive rights and in the next stage to take up – at nominal prices – the bank's shares issued as part of the conditional increase of the share capital.

In 2008, pursuant to the resolution of the Annual General Meeting of Shareholders of 18 April, Incentive Scheme III was launched. It was addressed to the management of Bank Zachodni WBK and its subsidiaries (not more than 600 persons). Each candidate had to be accepted by the Supervisory Board and sign the "Participation Agreement" defining the number of shares and the conditions for their acquisition at the nominal price (PLN 10). The shares will vest subject to achievement of a minimum accumulated consolidated earnings per share (EPS) over the 3 years of the scheme's duration (2008-2010). The list of participants proposed by the Management Board was approved by the Supervisory Board on 22 July 2008.

The incentive schemes have been designed to motivate the key employees of the bank and its subsidiaries to continue their efforts, inspire strong dedication to the organisation's strategic objectives and thus ensure high competitiveness and financial efficiency of Bank Zachodni WBK Group in the long-term perspective. The programme should eventually contribute to the growth in the bank's value and bring benefit to the shareholders.

2. Corporate Values

Code of Business Ethics

Bank Zachodni WBK follows the adopted Code of Business Ethics which sets out the general standards of behaviour which underpin the bank's corporate culture.

According to the Code, in all aspects of its activities, the bank will comply with the business ethics requirements, conform with the law and act in accordance with the best corporate governance and risk management models. The bank seeks to create a climate of trust in its dealings with customers, employees, shareholders and other stakeholders, promoting such values as integrity, professionalism, prudence and competence. The perception of being a dependable organisation is seen as a pre-requisite for further development and success, but the bank also has the ambition to be recognised for being engaging and pioneering. As a responsible corporate citizen, the bank supports corporate-giving and sponsorship programmes.

The Code of Business Ethics is supported by detailed policies and procedures which are regularly reviewed and updated.

The bank has provided its staff with dedicated communication channels to consult on ethical matters and report any issues.

Compliance Culture

The bank attaches a great importance to compliance with the law, internal regulations and best practice in all aspects of its activities. The bank's Compliance Area is responsible for implementation and monitoring of controls against the risk of non-compliance of the bank's internal regulations with the applicable laws and the standards imposed by the Financial Regulator. The Compliance Area develops and promotes the culture of strict adherence to law, best practice and ethical standards. However, its key focus is on promoting the awareness among employees that their individual actions can have a bearing on the bank's reputation.

A well-developed compliance culture improves the bank's image among regulators, shareholders, investors and customers.

Corporate Culture

The bank has undertaken a number of initiatives to enhance professional, legal and ethical employee behaviour. A training in business ethics is an integral element of the induction programme for newly recruited staff. Moreover, all employees of the Bank Zachodni WBK must complete a series of e-learning training on compliance and business ethics as part of the COMeT programme. Under the programme all staff participated in the mandatory e-learning training consisting of six courses designed to increase people's awareness and shape appropriate behaviours when faced with a conflict of interest or other ethically ambiguous situations or potentially unlawful activities.

3. Social Responsibility

According to its declaration in the Code of Business Ethics, the bank is actively involved in local community matters, supporting different social programmes.

One of the focal areas is business education. The bank provides financial and non-financial support for educational initiatives and programmes. In liaison with the Entrepreneurial Poland Foundation, the Entrepreneurial Poland Week was organized for students from selected universities from Warsaw, Krakow, Wroclaw, Poznan and Gdansk. The event, attended by more than 200 students, featured conferences, workshops and meetings and focused on personal finance, start-ups and responsible business.

Charity initiatives are carried out by the BZ WBK Foundation. The bank's corporate giving is focused on children from financially disadvantaged families who are supported through a donation programme targeting NGOs, daily care centres, schools and through own educational programmes. This way the bank helped 18,634 children from all over Poland. The aid included school kits, holidays, trips and events. The bank financed scholarships for 26 gifted schoolchildren from poor families in the following areas: sciences, humanities, sports and arts. The scholarships are designed to support each child throughout annual personal development programme.

As part of the programme "My World on Both Sides of the Camera from BZWBK", creative photography and film workshops were organised for 80 children from Krakow, Wroclaw, Gdansk, Lodz and Warsaw. For a couple of weeks the children practiced the basics of the profession, including composition, acting and editing.

Bank Zachodni WBK is also one of the leaders of BI-NGO Index and was recognised for its web-based communication on its corporate responsibility initiatives.

Bank Zachodni WBK is a partner of the Responsible Business Forum where it liaises with other companies to promote corporate social responsibility. As part of the Global Compact initiative, the bank is committed to adhere to the top ethical standards.

IX. Corporate Governance

1. Compliance with Best Practice

In 2008, Bank Zachodni WBK complied with all the corporate governance rules contained in the document "Best Practice in Public Companies", which was implemented by the Warsaw Stock Exchange Board on 4 July 2007 (Resolution no. 12/1170/2007) and became effective from 1 January 2008. The rules are available at the bank's website at:
http://inwestor.bzwbk.pl/_items/doc/zalacznik_do_uchwaly_87_dobre_praktyki.pdf

The bank reflected the "Best Practice in Public Companies" in its corporate documents, including the Statutes, General Meeting Regulations and the terms of reference of the Management Board and the Supervisory Board. The changes were also approved by the General Meeting of Shareholders on 18 April 2008. Compliance with best practice is supported by the bank's internal procedures which specify the roles of individual units in this regard. All interested readers may easily access information on Bank Zachodni WBK via the bank's website in the Investor Relations section where all current and periodic reports, corporate documents and other material details (in Polish and English) are published.

Pursuant to § 29 section 5 of the Stock Exchange Regulations, concurrent with its annual report, the bank published the "Report on compliance with the corporate governance rules in 2007". As recommended by the Stock Exchange, the bank's report refers to the corporate governance rules contained in the document "Best Practice in Public Companies in 2005" and includes the items required by the Stock Exchange Board resolution no. 1013/2007 of 11 December 2007. The relevant document based on the binding collection of best practice is attached to the Annual Report of Bank Zachodni WBK for 2008.

2. Governing Bodies

General Meeting of Shareholders

General Meeting of BZWBK Shareholders is held as provided for in the Commercial Companies Code of 15 September 2000, BZWBK Statutes and BZWBK Annual General Meeting Regulations (AGM Regulations). The Statutes as well as AGM Regulations are available at the bank's website.

General Meeting takes decisions on issues within its remit, as defined by the Commercial Companies Code, Banking Law and the bank's Statutes.

Shareholders' Rights

During General Meetings (GM), shareholders may:

- request that Extraordinary General Meeting be convened and that certain items be put on the GM agenda (provided they represent at least one tenth of share capital);
- demand copies of motions placed on the GM agenda one week prior to GM;
- have access to minutes and request copies certified by the Management Board;
- request voting by secret ballot;
- appeal against the resolutions passed by GM in cases permitted in the Commercial Companies Code,
- seek information from the Management Board on issues on the GM agenda in cases and with exceptions stipulated in the Commercial Companies Code;
- exercise their voting rights (each share gives one vote at GM).

Shareholders may attend a GM and vote personally or through proxies.

Agenda of the Last Annual General Meeting of Shareholders

The Annual General Meeting of BZWBK Shareholders (AGM) held on 18 April 2008, approved the 2007 financial statements submitted by the Management Board and the Supervisory Board, resolved on distribution of the net profit and dividend payment and granted discharge to the Management and Supervisory Board members for the performance of their duties in the previous year. The AGM elected BZWBK Supervisory Board Members and the Chairman for a new term of office and set their remuneration. The AGM also implemented the third edition of the three-year Incentive Scheme for key employees of the bank and its subsidiaries who significantly contribute to growing value of Bank Zachodni WBK (for details, see Chapter VIII "Performance Share Scheme"). At the meeting, changes to the bank's Statutes and the consolidated version of the Statutes were approved. The changes stemmed from the need to reflect in the document the updated Banking Law, business requirements and the "Best Practice in Public Companies" (Appendix to the Stock Exchange Board Resolution no. 12/1170/2007 of 4 July 2007). Upon the required approval of the Polish Financial Supervision Authority, the changes were entered in the National Court Register on 31 July 2008. Also, the General Meeting Regulations were amended to reflect the recommendations contained in the "Best Practice in Public Companies".

Supervisory Board

As at 31 December 2008, the composition of the Bank Zachodni WBK Supervisory Board was as follows:

Role		Composition as at 31-12-2008
Chairman of the Supervisory Board:	1.	Aleksander Szwarc
Members of the Supervisory Board:	2.	Gerry Byrne
	3.	Waldemar Frąckowiak
	4.	Aleksander Galos
	5.	Maeliosa OhOgartaigh
	6.	James O'Leary
	7.	John Power
	8.	Jacek Ślotała

The persons listed above were appointed by the AGM of 18 April 2008 for a new 3-year term of office. Compared with the end of December 2007, the composition of the Board did not change.

As at 31 December 2008, the following members of the Supervisory Board held an independent status: Waldemar Frąckowiak, Aleksander Galos, John Power, Aleksander Szwarc and Jacek Ślotała. In addition to the Supervisory Board meetings, the Board members worked in internal committees, i.e. Nominations and Remuneration Committee, Audit Committee and Social Responsibility Committee. The Audit Committee was composed mostly of independent Supervisory Board members. The Report on Activities of the Supervisory Board and its Committees in 2007 as well as the Supervisory Board's report on Examination of the Bank's and the Group's Annual Report along with the assessment of their operations in 2007 were published in the current report no. 22/2008 which conveyed the resolutions passed by the AGM on 18 April 2008.

Management Board

As at 31 December 2008, the composition of the Bank Zachodni WBK Management Board was as follows:

Role	Composition as at 31-12-2008
President of the Management Board:	1. Mateusz Morawiecki
Members of the Management Board:	2. Paul Barry
	3. Andrzej Burliga
	4. Declan Flynn
	5. Justyn Konieczny
	6. Janusz Krawczyk
	7. Jacek Marcinowski
	8. Marcin Prell
	9. Mirosław Skiba
	10. Feliks Szyszkowiak

Changes to the composition of the bank's Management Board over the past 12 months:

- On 30 April 2008, Michał Gajewski resigned from the function of Bank Zachodni WBK Management Board Member responsible for Customer and Relationship Sales Division. On 22 July, the bank's Supervisory Board appointed Mirosław Skiba to the Management Board as Head of this Division.
- At the end of September 2008, James Murphy completed his term as Management Board Member in charge of the Finance Division of Bank Zachodni WBK. He has subsequently taken up a new position back in AIB Group. On 1 October 2008, Paul Barry became the bank's Management Board Member and Head of Finance by virtue of the Supervisory Board's decision of 12 June 2008.

On 1 February 2009, Michael McCarthy took up position as the Management Board Member in charge of Business Banking Division, having been appointed by the bank’s Supervisory Board on 16 December 2008.

Appointment and Removal of Executives

The members of the Bank Zachodni WBK Management Board are appointed and removed in accordance with the Commercial Companies Code, the Banking Law and the bank’s Statutes.

The bank’s Management Board consists of at least three persons (including the Management Board President) appointed by the Supervisory Board for a joint three-year term of office. At least a half of the Management Board members should be Polish citizens. Two Management Board members, including the Management Board President, are appointed with the approval of the Polish Financial Supervision Authority (KNF). Management Board members may be removed by the Supervisory Board or the General Meeting at any time.

Powers of Executives

The Bank Zachodni WBK Management Board manages and represents the bank. The Management Board has all powers that are not restricted by law or Statutes to the remit of other governing bodies of the bank.

The Management Board takes decisions to raise obligations or transfer assets whose total value for one entity exceeds 5% of the bank's own funds. The Management Board can also, by way of resolution, delegate its powers to take such decisions to other committees or persons in the bank. The Management Board members run the bank's affairs jointly, and in particular: define the bank's mission, set long-term action plans and strategic objectives, prepare assumptions for the bank's business and financial plans, approve the plans and monitor their performance, regularly report to the Supervisory Board on the bank's position in the scope and at the dates agreed with the Supervisory Board, appoint permanent and ad hoc committees and designate individuals responsible for managing the work of such committees. The committees are composed of both Management Board members and persons from outside the Management Board. Permanent committees operative in the bank include: ALCO, Credit Committee, Provisions Committee, Credit Policy Forum, Operational Risk Management Committee, Capital Expenditure Committee, Committee for the Strategy of Savings and Investments Products.

Management Board members acting severally do not have any specific powers. They cannot take decisions on issuing or redeeming shares.

Other Executive Information

Remuneration of the Supervisory and Management Board Members

Information on the remuneration of the BZWBK Supervisory and Management Board members for 2008 and the comparable period are presented in Note 50 to the Financial Statements of Bank Zachodni WBK for 2008.

Agreements between Bank Zachodni WBK and its Executive Directors

The Bank Zachodni WBK Management Board Members signed agreements prohibiting competition after termination of their role on the Management Board. A Management Board member who is not appointed for a new term of office or is removed from the Board is entitled to a one-off severance pay. The severance pay does not apply if the Management Board Member accepts a new job role in the bank.

Shares in Possession of the Supervisory and Management Board Members

As at 24 February 2009, Waldemar Frąckowiak, member of the BZWBK Supervisory Board, held 278 shares of the bank with a nominal value of PLN 2,780. The other members of the Management Board or Supervisory Board did not hold any shares of Bank Zachodni WBK.

3. Control System of Financial Statements

Internal Control System and Risk Management

The bank operates an internal control system which supports the decision-making processes and contributes to efficient operation of the bank, reliability of financial reporting and compliance with the internal and external regulations. The bank's internal control system is adjusted to the bank's organisational structure and the risk management system, and includes the Business Support Centre units, branches and subsidiaries. Development, implementation and maintenance of the written strategies and procedures of the internal control system is the responsibility of the bank's Management Board. The Supervisory Board has oversight over implementation of the internal control system and evaluates its adequacy and effectiveness.

Financial data preparation for the purpose of statutory reporting is automated and based on the consolidated General Ledger. Data inputs in the source systems are subject to formal operational and approval procedures which state responsibilities of individual staff members. A set of specialist controls is also applicable to the General Ledger processing. Any manual corrections or management overrides are under strict control.

The financial statements are formally approved by the Disclosure Committee which is responsible for ensuring that the data are true and compliant with law. The Disclosure Committee recommends the financial statements to the Management Board for ratification. The financial statements are also reviewed by the Audit Committee of the Supervisory Board.

In addition, the efficiency of control mechanisms is assessed annually as part of the certification process for compliance with Sarbanes-Oxley Act.

Internal Control Compliant with the Sarbanes-Oxley Act

Bank Zachodni WBK as a subsidiary of the AIB Group must fulfil the requirements arising from the Sarbanes-Oxley (SOX) Act insofar as it relates to the Group. This regulation introduced very strict rules with respect to exercising internal control over the company's financial reporting. As part of the AIB Group certification process for 2008, the bank's management confirmed that relevant processes operated properly across the Bank Zachodni WBK and that the bank's internal control system was robust.

Selection of Auditor

In accordance with §32 point 10 of the Statutes of Bank Zachodni WBK and the industry practice, on 10 June 2008 the bank's Supervisory Board passed a resolution appointing KPMG Audyt Sp. z o.o. as an auditor of the stand-alone and consolidated financial statements of the bank for the year 2008. KPMG Audyt Sp. z o.o. audited the bank's financial statements for the prior years and through other KPMG companies provided consulting services permitted by law and the bank's internal regulations, whereby adequate impartiality and independence of the auditor was ensured.

Remuneration of Auditor

The table below shows the remuneration paid to KPMG Audyt Sp. z o.o. for its audit/review of the financial statements of the Bank Zachodni WBK under the relevant agreements:

in PLN k

Remuneration of KPMG Audyt Sp. z o.o.	Reporting Year ended on 31-12-2008	Reporting Year ended on 31-12-2007
Audit fees in respect of Bank Zachodni WBK [1)]	1 539	1 506
Audit-related fees [2)]	182	66
Total	**1 721**	**1 572**

1) *Professional services connected with audit of the stand-alone and consolidated financial statements of Bank Zachodni WBK (agreement of 21 October 2008) as well as review of the half-yearly its stand-alone and consolidated financial statements (agreement of 6 June 2008).*

2) *Audit-related fees comprise any other amounts due or paid to KPMG Audyt Sp. z o.o. This category relates to the assurance services connected with the audit or review of financial statements of Bank Zachodni WBK not included in point 1) above.*

X. Awards and Recognitions

In 2008, Bank Zachodni WBK and its subsidiaries received a number of awards. The key ones are presented below.

Awards for Bank Zachodni WBK

Bank Zachodni WBK received the following awards / ranking positions:

- Alicja 2007 award from the "Twój Styl" magazine for promotion of the 3D-Secure system, which allows customers to make secure card payments on the web with additional authorisation (14 February 2008);
- the prestigious CEE Real Estate Quality Award for the best financial institution active in the real estate sector. The bank was awarded for its Corporate Banking offering in the area of property finance (27 February 2008); the competition is held to recognise projects, companies and people involved in the real estate sector in 10 countries of the Central and Eastern Europe;
- Lamparty award and second position in the category "Banking for Micro-Enterprises" for brand image promotion in 2007 acknowledged by the banking sector in the survey of Pentor Research International (12 March 2008);
- European Medal for the "Direct Sale of Banking Products" in the 16th edition of the competition (8 April 2008); the BZWBK electronic banking services were recognised by the Office of the Committee for European Integration, Business Centre Club and the European Economic and Social Committee;
- 3rd position in the Newsweek ranking "100 Most Valuable Companies in Poland in 2007" (21 April 2008) organised in co-operation with A.T. Kearney consultants based on companies' valuations;
- award in the 12th National Advertising Competition "Kreatura 2008" for the campaign "Mega-Earning Savings Account" prepared by "Men at Work" advertising agency (11 April 2008); the evaluation panel consisted of representatives of the advertising community from, e.g. professional press, international advertising and media organisations;
- 2nd place (for the second time) in the general classification of the 5th edition of the Ranking of Bank Supporting Residential Developments, organised by the Polish Association of Developers (23 May 2008), assessing the quality of relationship between developers and banks with regard to funding and management of residential projects;
- amber statuette HR Management Leader for application of modern HR management tools in the 9th edition of the competition organised by the Labour and Social Affairs Institute (9 June 2008); Bank Zachodni WBK was awarded in the competition second time in a row;
- new awards from correspondent banks for correct formatting of SWIFT messages: "2007 EUR STP Excellence Award" from Deutsche Bank for the high quality of the messages in 2007 and an award from the Bank of New York (18 June 2008) for the high level of correctly formatted SWIFT MT 103 messages (97%);
- accolade of "Client-Friendly Firm" (29 June 2008) - an award for the highest customer service quality granted following a three-stage certification procedure, including quality management policy, knowledge of the quality procedures among the front-line staff and customer satisfaction;
- for the second time, title of Internet Leader of Corporate Social Responsibility, as a result of the survey conducted by the Business Partnership and NGO Institute looking at the web sites of the 500 biggest Polish companies (according to the Rzeczpospolita daily) from the perspective of their social responsibility (October 2008);

- 1st position in the Independent Ranking of the Listed Companies Reputation "PremiumBrand" and the main award for the Company of the Highest Reputation in Poland in 2008 (October 2008);

- award for implementation and development of a system for automation of IT process management using the Remedy tool; the award was received during the VII BMC Forum (dedicated to promoting IT support for the business processes and automation of Data Centres), where the biggest companies were recognised for implementation of BMC solutions in Poland (28 October 2008);

- Złote Effie award (together with Universal McCann Media House), received at the IX Effie Awards Gala (the biggest advertising competition in Poland) for the bank's cash loan campaign "Wszyscy biorą"(Everybody Takes), held from September to December 2007; the award came under the category "Most Effective Advertising Campaigns in 2007" (3 November 2008);

  - award received at the Warsaw conference Central European Electronic Card for Visa Electron<30 payWave card (the first contactless debit card in Poland), recognised as the most innovative Polish card in 2008 (3 December 2008);

- 1st position for Capital Markets and Dom Maklerski BZ WBK S.A. (units of Investment Banking) as the "Best Financial Advisor and the Best Brokerage House" in the ranking „Development Despite Stock Downturn: Polish IPO Market in H1 2008" prepared for CEO: Magazine for Top managers, under the patronage of the Polish Financial Supervision Commission and the University of Warsaw/ University of Illinois (35 September 2008); the main criterion was the value of IPOs;

- was recognised, for the second time in a row, as the best broker in the Forbes ranking based on the opinion of 27 investment funds and pensions funds with PLN 258 bn worth of assets under management; received high scores in all categories and came top in the categories: "offer", "professionalism" and "service quality" (Forbes no. 10/2008, 25 September 2008);

- won the eight edition of "Best Business Partner" competition in the "Brokerage House" category (23 October 2008); the competition was held by Home & Market magazine (Home & Market no. 10/2008).

XI. Other Events

1. Changes to the Management Organisation

At the end of 2008, Bank Zachodni WBK transformed its branch management model to improve communication and management processes in the expanded branch network (for details see chapter V, part 3 "Development of distribution channels").

In 2008, the bank developed a concept of organisational changes in the business service areas and prepared a revised segmentation of business customers. The change process, which commenced early in 2009, includes foundation of the new Business Banking Division responsible for relationship with business customers (enterprises with turnover between PLN 30 m and PLN 150 m and credit liability under PLN 15 m). The new unit will also oversee the operations of the bank's leasing companies and the factoring company. Business customers will be serviced through 8 new Business Banking Centres in Warsaw, Poznan, Wroclaw, Szczecin, Gdansk, Chorzow, Krakow and Lodz established by merging the existing Business Banking Centres with Corporate Business Centres. Under the new segmentation, corporate customers (defined as entities with turnover greater than PLN 150 m and credit liability greater than PLN 15 m) will be serviced in the Corporate Banking Centre in Warsaw, which will be supported by the teams in Poznan and Wroclaw. The Customer Relationship and Sales Division will be transformed into the Retail Banking Division with a responsibility for managing the relationship with personal customers and micro and small companies (with turnover of maximum PLN 30 m and credit liability of maximum PLN 3 m).

2. Capital Expenditure

In 2008, the capital spend of the Bank Zachodni WBK was PLN 235.5 m, which is 84.3% higher than year before. Out of this figure, PLN 123.8 m was spent on IT projects.

Most notable IT initiatives included extension of the ATM network and upgrade of ATM security features. More than ten self-service zones were launched at the bank's branches. These are equipped with ATMs, lodgment machines and transaction terminals, giving customers access to banking services outside branch opening hours. The first e-Kiosks were also set up in shopping centres as specialist units selling the basic banking products. In 2008, the bank acquired a highly-efficient and modern machine for personalisation and distribution of cards, including contactless instruments. To improve the credit delivery process, all the bank's branches were equipped with devices for digital processing of credit documentation.

The remaining capital expenditures were connected with development and diversification of the bank's distribution channels. First Private Banking offices were established and the branch network was developed. Many branches were modernised to improve customer service conditions, with separate desks created for selected market segments. IT and office equipment was being gradually replaced across the branch network.

3. Other Developments

Strategic Portfolio Management Process

In January 2008, the bank introduced a new Strategic Portfolio Management Process. The Strategic Portfolio encompasses all the Programmes which directly contribute to execution of the bank's strategy. Programmes are allocated to the Strategic Portfolio through a detailed analysis (in terms of strategic objectives, key products, etc.) based on clear criteria. Strategic Programmes are delivered using a new approach involving staff assignment, creation of extra, dedicated test environments and systematic monitoring of progress. By virtue of the decision of the bank's Management Board, the Strategic Portfolio includes 16 programmes which directly or indirectly support the branch network, enrich the bank's product offering and streamline or reshape processes. Six programmes had been completed by the end 2008, including extension of the ATM network, implementation of Private Banking, building a repository of customer data and making changes in the branch model.

ISO 20000

In January 2008, Bank Zachodni WBK became the first bank in Poland and the second Polish (150^{th} international) organisation to receive ISO 20000 accreditation for the IT Service Management System. Award of the certificate confirms that the bank's ICT infrastructure management and provision of IT service to internal and external customers based on best practice - IT Infrastructure Library (ITIL) – is kept under effective control and is constantly improved. With the certification in place, IT service users have comfort that the bank will ensure high availability, continuity and security of its IT systems and will provide effective support for the implemented changes, will proactively prevent problems and respond to any potential emergencies.

ISO 27001

December 2008 saw a successful ISO 27001 certification in Bank Zachodni WBK. The following processes were audited for compliance with the standard:

- Management of information security;
- Personalization of payment cards;
- Authorization and settlement of credit cards;
- e-banking system (BZWBK24).

This sends a clear message to the clients and investors that the bank processes information in keeping with the best security practice.

Review of Internal Audit Function

In early 2008, a report was issued on the outcome of internal audit function review in Bank Zachodni WBK by one of the "Big Four" auditors. Among others, the review covered efficiency and effectiveness of the internal audit function as well as compliance with the IIA Standards (Institute of Internal Auditors). Bank Zachodni WBK Group audit practices were benchmarked against international best practices applied in the financial industry. Internal audit function was assessed in 20 categories distinguished in the following areas: organization, human resources, audit practice, technology, communication, reporting, performance and knowledge management. The audit confirmed the properly operating internal audit function across Bank Zachodni WBK.

XII. Additional Information

Garnishee Orders and Value of Collateral

Garnishee orders issued in 2008 vs. 2007, by value and volume:

PLN m

Facility	2008		2007	
	Volume	Value	Volume	Value
Cash loans and overdrafts	11 975	81.0	3 381	19.6
Credit cards	5 521	15.6	1 801	5.3
Business loans	172	22.5	33	40.4
Mortgage loans	63	6.7	9	2.0
Total	**17 731**	**125.8**	**5 224**	**67.3**

The value of collateral on customer's accounts or assets amounted to PLN 28,024.8 m.

Deposits by Geographies

PLN m

Bank Zachodni WBK			
		Deposits from Customers	
Ref.	Province	31-12-2008	31-12-2007
1.	dolnośląskie	9 744.6	7 667.4
2.	kujawsko-pomorskie	1 238.8	848.0
3.	lubelskie	172.6	61.3
4.	lubuskie	2 030.2	1 495.9
5.	łódzkie	858.4	523.0
6.	małopolskie	983.2	666.5
7.	mazowieckie	6 388.3	3 947.1
8.	opolskie	1 336.4	900.4
9.	podkarpackie	149.6	53.4
10.	podlaskie	246.8	128.5
11.	pomorskie	1 940.8	1 460.9
12.	śląskie	1 666.9	1 224.4
13.	świętokrzyskie	327.4	196.7
14.	warmińsko-mazurskie	211.0	124.1
15.	wielkopolskie	11 365.5	9 366.4
16.	zachodniopomorskie	1 607.5	1 317.4
	non-allocated	3 113.9	283.3
	Total	**43 381.9**	**30 264.7**

Transactions with Connected Entities

Transactions between the bank and its subsidiaries are banking operations carried out on the arms length basis as part of ordinary business and represent mainly loans, deposits and guarantees.

As at 31 December 2008, total exposure on loans to subsidiaries (mainly BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A., BZ WBK Faktor Sp. z o.o.) was PLN 852.8 m versus PLN 801.2 m a year before. Guarantees to/from subsidiaries (BZ WBK Finanse & Leasing S.A., BZ WBK Leasing S.A., Dom Maklerski BZ WBK S.A., BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., BZ WBK Nieruchomości S.A.) totalled PLN 100.5 m versus PLN 229.6 m as at 31 December 2007.

As at 31 December 2008, deposits held by all the subsidiaries with Bank Zachodni WBK totalled PLN 1,103.2 m vs PLN 1,537.4 m a year before.

The intercompany items have been eliminated from the consolidated accounts.

In September 2008 Bank Zachodni WBK entered into several short-term buy-sell-back transactions with the following investment funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.: Arka BZ WBK Zrównoważony FIO, Arka BZ WBK Stabilnego Wzrostu FIO, Arka BZ WBK Ochrony Kapitału FIO. As at 31 December the balance of those transactions amounted to PLN 427.6m. These are collateralized with Government bonds.

Guarantees

As at 31 December 2008, guarantees sanctioned by the Bank Zachodni WBK amounted to PLN 951 m as compared to PLN 795.1 m a year before.

Bank Zachodni WBK guarantees obligations arising from customers' operating activities. These are : payment guarantees, performance bonds, warranty bonds, bid bonds, loan repayment guarantees and customs guarantees. In accordance with the Bank Zachodni WBK Regulations for provision of non-consumer credit services, the bank provides civil law guarantees (mainly: loan repayment guarantees, guarantees of payments for goods or services, advance payment guarantees, performance bonds, customs guarantees) as well as guarantees under Law for Bills of Exchange (mainly: loan repayment guarantees, guarantees of payment for goods or services).

The process and information required are similar to the lending process. Relevant regulations are contained in the SME Lending Manual and the Corporate Lending Manual

Off-balance Sheet Items

Guarantees and Commitments

Guarantees and commitments of Bank Zachodni WBK and nominal amounts of derivative transactions were as follows:

PLN m

Guarantees and Commitments	31-12-2008	31-12-2007
Given	**10 799.0**	**8 978.5**
- financial commitments. including:	9 848.0	8 183.5
- guarantees	951.0	795.1
Received	**2 480.6**	**1 979.3**
Total	**13 279.6**	**10 957.8**

Derivatives

PLN m

Derivatives by Nominals	31-12-2008	31-12-2007
Forward (hedging)	2 704.7	995.4
Forward (trading)	140 560.0	137 064.9
Current FX transactions	957.3	532.9
Euroindex options	-	8.7
Total	**144 222. 0**	**138 601.9**

Operating Leases

Bank Zachodni WBK leases offices in compliance with operating leasing agreements. As a standard, agreements are concluded for 5-10 years. Total payments of all non-cancellable operating leases (including land perpetual usufruct) were as below:

PLN m

Leasing Payments by Maturity	31.12.2008	31.12.2007
less than 1 year	119.3	91.0
1-5 years	374.4	299.2
over 5 years	311.1	239.7
Total	**804.8**	**629.9**

Significant Court Proceedings

As at 31 December 2008 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the bank amounting to a minimum of 10% of the bank's equity.

The value of all litigations totalled PLN 244.7 m which is ca 5.5% of bank's equity (compared to PLN 282.8 m as at 31 December 2007 which is ca. 7.4% of the bank's equity). This amount includes PLN 54.9 m claimed by the bank, PLN 54.4 m in claims against the bank and PLN 135.4 m of the bank's receivables due to bankruptcy or arrangement cases.

XIII. Representations of the Management Board

True and Fair Presentation of the Financial Statements

According to the Management Board's best knowledge and belief, the financial figures and the comparable data presented in the Financial Statements of Bank Zachodni WBK for 2008 were prepared in keeping with the applicable accounting policies and give a true and fair view of the state of affairs and earnings of Bank Zachodni WBK. The Management Board's Report contained in this document shows a true picture of the bank's development, achievements and position (including the underlying risks) in 2008.

Selection of Auditor

The auditing firm responsible for auditing the annual the financial statements of the Bank Zachodni WBK was selected in compliance with the applicable legislation. The auditing firm and its auditors satisfied the necessary conditions to ensure they provide an unbiased and independent report compliant with Polish law and professional standards.

Corporate Governance

In 2008, the bank's duly complied with the corporate governance rules contained in the document "Best Practice in Public Companies" adopted by the Warsaw Stock Exchange Supervisory Board on 4 July 2007.

Date	Name	Role	Signature
24-02-2009	Mateusz Morawiecki	President of the Board	
24-02-2009	Paul Barry	Member of the Board	
24-02-2009	Andrzej Burliga	Member of the Board	
24-02-2009	Declan Flynn	Member of the Board	
24-02-2009	Justyn Konieczny	Member of the Board	
24-02-2009	Janusz Krawczyk	Member of the Board	
24-02-2009	Jacek Marcinowski	Member of the Board	
24-02-2009	Michael McCarthy	Member of the Board	
24-02-2009	Marcin Prell	Member of the Board	
24-02-2009	Mirosław Skiba	Member of the Board	
24-02-2009	Feliks Szyszkowiak	Member of the Board	

Report on Compliance with Corporate Governance Rules in Bank Zachodni WBK in 2008

Introduction

With a view to meeting the requirements under Warsaw Stock Exchange Management Board Resolution no. 1013/2007 of 11 December 2007 on the scope and structure of report on compliance with corporate governance rules in public companies, Bank Zachodni WBK hereby presents a Report on Compliance with Corporate Governance Rules in 2008.

I. Compliance with Corporate Governance Rules Set Out in "Best Practice in Public Companies"

The Management Board of Bank Zachodni WBK represents that in 2008 the bank complied with all corporate governance rules set out in "Best Practice in Public Companies". The bank undertook to be fully compliant with the best practice and, as such, accepted certain obligations. As a result, the bank's Statutes as well as Terms of Reference of Management Board and Supervisory Board were amended accordingly.

In 2008, no breaches of compliance with corporate governance rules were identified.

II. General Meeting of Shareholders, its Key Powers, Shareholders' Rights and How the Rights are Exercised

General Meeting of BZWBK Shareholders (GM) is held as provided for in the Commercial Companies Code of 15 September 2000, BZWBK Statutes and Terms of Reference for BZWBK GM. The Statutes as well as the Terms of Reference are available at the bank's website.

General Meeting takes decisions on issues within its remit, as defined by the Commercial Companies Code, Banking Law and the bank's Statutes.

During GM, shareholders may:

- request that Extraordinary General Meeting be convened and place specific items on the GM agenda (provided they represent at least one tenth of share capital);
- a week before a GM, demand copies of requests included in the GM agenda;
- have access to minutes of earlier GMs and request copies of resolutions (confirmed by the Management Board as true copies);
- request voting by secret ballot;
- appeal against resolutions made by GM in cases permitted by the Commercial Companies Code;

- seek from the Management Board information on items placed on the GM agenda, as provided for by the Commercial Companies Code;
- exercise their voting rights (each share gives one vote at GM).

Shareholders may attend GM and vote personally or trough proxies.

III. Bank's Management Board, Supervisory Board and Committees – Members and Terms of Reference

1. Bank Management Board

In 2008, the following changes took place in the bank's Management Board:

- On 30 April 2008, Mr. Michał Gajewski resigned from his role as Management Board Member effective from 30 April 2008, without giving reasons for the resignation.
- On 12 June 2008, Mr. James Murphy advised the Supervisory Board that at the end of September 2008 he would complete his role as Management Board Member.
- On 12 June 2008, the bank's Supervisory Board adopted a resolution appointing Mr. Paul Barry as Management Board Member effective from 1 October 2008.
- On 22 July 2008, the bank's Supervisory Board appointed Mr. Mirosław Skiba as Management Board Member.
- On 16 December 2008, the bank's Supervisory Board appointed Mr. Michael McCarthy as Management Board Member effective from 1 February 2009.

Members of the bank's Management Board:

- Mateusz Morawiecki - President of the Management Board
- Janusz Krawczyk
- Declan Flynn
- Justyn Konieczny
- Mirosław Skiba
- Jacek Marcinowski
- Feliks Szyszkowiak
- Paul Barry
- Marcin Prell
- Andrzej Burliga

Role of the Management Board

The Management Board operations are primarily governed by the Banking Law of 29.08.1997, the Commercial Companies Code of 15.09.2000, the bank's Statutes and the Terms of Reference of the Management Board. These documents are available from the bank's website.

The Management Board is responsible for running the affairs of and representing the Bank. According to the bank's Statutes, the following individuals are authorized to represent and bind the bank:

a) President of the Management Board acting severally;
b) two members of the Management Board acting jointly, or a member of the Management Board acting jointly with a commercial proxy, or two commercial proxies acting jointly.

Representatives authorized to act severally or jointly with any of the persons listed in letter b) or with another authorized representative can be appointed.

The remit of the Management Board includes all the bank's affairs that are not restricted to the remit of the General Meeting or the Supervisory Board. The Management Board takes decisions in the form of resolutions which are adopted by absolute majority of votes in an open voting. Secret ballot is held in the cases stipulated by law, in personal matters or at the request of any Management Board member accepted by the Management Board in a secret voting. The Management Board meetings are held as needed. The Management Board Members convene at the same time in a single location or, subject as provided in the Terms of Reference of the Management Board, in different locations communicating via telephone or video links.

2. Bank Supervisory Board

Members of the Supervisory Board

- Aleksander Szwarc - Chairman of the Supervisory Board
- Gerry Byrne
- Waldemar Frąckowiak
- Jacek Ślotała
- John Power
- Aleksander Galos
- James O'Leary
- Maeliosa OhOgartaigh

Role of the Supervisory Board

The Supervisory Board operations are primarily governed by the Banking Law of 29.08.1997, the Commercial Companies Code of 15.09.2000, the bank's Statutes and the Terms of Reference of the Supervisory Board, available on the bank's website.

The Supervisory Board exercises on-going supervision over all the aspects of the bank's activities. The Supervisory Board takes decisions in the form of resolutions which are adopted by absolute majority of votes in an open voting. Secret ballot is held in the cases stipulated by law, in personal matters or at the request of any Supervisory Board member accepted by the Supervisory Board in a secret voting. The Supervisory Board meetings are held as needed, however at least 3 times in any financial year. The Supervisory Board Members convene at the same time in a single location or, subject as provided in the Terms of Reference of the Supervisory Board, in different locations communicating via telephone or video links.

Supervisory Board Committees

The Supervisory Board may establish committees and designate individuals responsible for managing the work of such committees.

The following Supervisory Board committees operate in the bank:

- Social Responsibility Committee;
- Remuneration and Nominations Committee;
- Audit Committee.

These committees are designed to facilitate the current activities of the Supervisory Board by preparing draft Supervisory Board decisions with regard to their own motions and the motions presented to the Management Board.

1. **Social Responsibility Committee**

Members of the Committee:

- Gerry Byrne – Chairman;
- Jacek Ślotała – Member.

The key roles and responsibilities of the Committee include:

- providing opinion and recommendations regarding the budget needed by the bank to fulfil its community obligations;
- providing opinions and recommendations on the policy for the bank's community service, including corporate giving;
- reviewing the Management Board's reports on delivery of the community integration plans;
- presenting to the Supervisory Board annual reports on the review of the Management Board's reports.

The Committee meets regularly at least 3 times in a year. At the request of the Committee Chairman ad-hoc meetings may be held. At any meeting, two members constitute the quorum.

2. **Remuneration and Nominations Committee**

Members of the Committee

- Gerry Byrne – Chairman;
- Aleksander Szwarc – Member;
- Jacek Ślotała – Member.

The key roles and responsibilities of the Committee include:

- recommending relevant remuneration policies and practices to the Supervisory Board;
- performing an annual review of the remuneration of the bank's Management Board members;

- reviewing proposals seeking to implement in the bank or its subsidiaries any new remuneration systems, including incentives schemes, or reviewing proposed changes to any remuneration systems already existing in the Bank.

The Committee meets regularly at least 3 times in a year. At the request of the Committee Chairman ad-hoc meetings may be held. At any meeting, two members constitute the quorum.

3. **Audit Committee**

Members of the Committee:

- John Power – Chairman;
- Waldemar Frąckowiak – Member;
- Aleksander Galos – Member;
- Maeliosa OhOgartaigh – Member.

The key task of the Committee is to supervise the bank's financial reporting, risk management and internal control processes.

The Committee meets regularly 4 times during the year at the dates adjusted to the reporting and audit cycles. Any ad-hoc meetings may be held as the Committee and its Chairman see fit. At any meeting, two members constitute the quorum.

IV. Internal Control and Risk Management in Financial Reporting

The bank operates an internal control system, supporting the decision-making processes and contributing to efficient operation of the Bank, reliability of financial reporting and compliance with the internal and external regulations. The bank's internal control system is adjusted to the bank's organisational structure and the risk management system, and includes the Business Support Centre units, branches and subsidiaries.

Development, implementation and maintenance of the written strategies and procedures of the internal control system is the responsibility of the bank's Management Board. The Management Board is also responsible for effectiveness of the internal control system and its oversight, amendments and improvements in response to changes in the bank's risk profile, developments in the external environment and identified gaps in systems and processes. The Supervisory Board has oversight of the internal control system and evaluates its adequacy and effectiveness.

The process of preparation of financial data for the purpose of statutory reporting is automated and based on the consolidated General Ledger of Bank Zachodni WBK Group. The system is equipped with automatic interfaces and reconciliation functions.

Preparation of the data in the source systems is subject to the formal operational and approval procedures which set out the responsibilities of individual staff members. The General Ledger of the Bank Zachodni WBK Group is created with specialist controls as part of the process. Any manual corrections and management overrides are subject to strict control. Any financial tables and descriptive data are prepared by the Reporting Team which primarily relies on the General Ledger as the main source of information. The internal and external reports must be fully reconciled. The key persons responsible for individual data areas are required to formally confirm that the data are true and that they are recorded in the books of account and disclosed in line with the Accounting Policy of BZWBK Group.

Financial statements must be formally approved by the Disclosures Committee, which is responsible for ensuring that the accounts and the data contained therein comply with the applicable law. The Disclosures Committee presents the financial statements to the Management Board for ratification.

In addition, the efficiency of controls is assessed annually as part of the certification process for compliance with Sarbanes-Oxley Act.

The financial statements are also reviewed by the Audit Committee of the Supervisory Board.
The risks around financial reporting are covered by the Self-Assessment process and are monitored in accordance with the relevant Group procedures.

Date	Name	Role	Signature
24-02-2009	Mateusz Morawiecki	President of the Board	
24-02-2009	Paul Barry	Member of the Board	
24-02-2009	Andrzej Burliga	Member of the Board	
24-02-2009	Declan Flynn	Member of the Board	
24-02-2009	Justyn Konieczny	Member of the Board	
24-02-2009	Janusz Krawczyk	Member of the Board	
24-02-2009	Jacek Marcinowski	Member of the Board	
24-02-2009	Michael McCarthy	Member of the Board	
24-02-2009	Marcin Prell	Member of the Board	
24-02-2009	Mirosław Skiba	Member of the Board	
24-02-2009	Feliks Szyszkowiak	Member of the Board	