

**Financial statements of  
Bank Zachodni WBK S.A.  
for 2007**



***Ladies and Gentlemen,***

Last year was the best period in the history of Bank Zachodni WBK. In 2007, not only did we post record high profits but we started a process of growing the scale of our business. Opening 50 new branches, establishment of Business Banking Centres, growth of corporate banking and direct banking, implementation of the secure Internet payments system and development of the private banking proposition – are the key and most ambitious projects of the last year. Effects of their implementation are bound to impact the Bank's position in the years to come.

In 2007, Bank Zachodni WBK generated PBT of PLN 979m which represented a nearly 31% increase on the previous year. At the same time, the EPS grew to reach PLN 11.09 against PLN 8.13 in 2006, and the ROE was 26.6%. In spite of the significant growth in the scale of operations, expansion of the branch network, and increased staff number, we managed to reduce our cost/income ratio from 60.5% in 2006 to 58.5% in 2007. Bank Zachodni WBK traditionally has the best NPL ratio in the banking sector as in 2007 we reduced it from 5.2% to merely 2.8%.

Other drivers of our 2007 success are dynamic growth in credit volumes, significant growth in deposit base, growth in net assets of investment funds and impressive growth of prospective business lines: bancassurance products, advisory and share issuing services on capital markets, services provided to financial institutions.

In 2007, Bank Zachodni WBK received a number of prestigious awards. We feel that in the document that is primarily addressed to investors it is worthwhile to mention one of them. Last year, we were awarded the "Company Worth Trusting" title in the fourth edition of listed companies rating developed by the Kapituła Inwestorów Instytucjonalnych (Institutional Investors Award Committee) and Polski Instytut Dyrektorów (Polish Institute of Directors).

The 2007 success would not have been possible without the harmonious relationship with the Supervisory Board of Bank Zachodni WBK. I would like to warmly thank the Supervisory Board members for the relationship and for the bar raised high. I would also like to say special words of appreciation to the staff of Bank Zachodni WBK as their creativity, commitment and professional skills enabled Bank Zachodni WBK to earn record-breaking profits.

Thank you very much for this.



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

		<b>01.01.2007</b>	<b>01.01.2006</b>
<b>For reporting period ending on:</b>		<b>- 31.12.2007</b>	<b>- 31.12.2006</b>
Interest and similar income		1 957 840	1 533 606
Interest expense and similar charges		(775 402)	(576 249)
<b>Net interest income</b>	Note 8	<b>1 182 438</b>	<b>957 357</b>
Fee and commission income		1 000 083	871 979
Fee and commission expense		(81 502)	(60 323)
<b>Net fee and commission income</b>	Note 9	<b>918 581</b>	<b>811 656</b>
Dividend income	Note 10	177 978	98 712
Net trading income and revaluation	Note 11	52 271	27 062
Gains (losses) from other financial securities	Note 12	(25 784)	11 661
Gains from investment in subsidiaries and associates	Note 13	12 735	14 717
Other operating income	Note 14	38 459	32 088
Impairment losses on loans and advances	Note 15	565	(26 126)
Operating expenses incl.:		(1 378 213)	(1 181 965)
Bank's staff, operating expenses and management costs	Note 16,17	(1 224 905)	(995 781)
Depreciation/amortisation		(127 264)	(153 008)
Other operating expenses	Note 18	(26 044)	(33 176)
<b>Operating profit</b>		<b>979 030</b>	<b>745 162</b>
<b>Profit before tax</b>		<b>979 030</b>	<b>745 162</b>
Corporate income tax	Note 19	(169 556)	(152 367)
<b>Profit for the period</b>		<b>809 474</b>	<b>592 795</b>
Net earnings per share (PLN/share)	Note 20		
Basic earnings per share		11,09	8,13
Diluted earnings per share		11,07	8,12

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

			31.12.2007	31.12.2006
<b>ASSETS</b>				
Cash and balances with central bank	Note 21		2 206 259	1 534 469
Loans and advances to banks	Note 22		2 563 755	3 149 267
Financial assets held for trading	Note 23		1 148 659	1 048 010
Hedging derivatives	Note 24		41 410	19 956
Loans and advances to customers	Note 25		22 150 633	16 172 354
Investment securities	Note 26		9 698 307	7 993 770
Investments in associates	Note 27		155 967	186 318
Intangible assets	Note 28		102 906	127 101
Property, plant & equipment	Note 29		528 027	483 594
Current income tax due			37 950	947
Deferred tax assets	Note 30		312 700	346 508
Other assets	Note 31		248 674	270 724
Total assets			39 195 247	31 333 018
<b>LIABILITIES</b>				
Deposits from banks	Note 32		3 145 395	1 960 144
Hedging derivatives	Note 24		7 613	12 912
Financial liabilities held for trading	Note 23		1 000 787	246 875
Deposits from customers	Note 33		30 264 734	24 481 996
Debt securities in issue	Note 34		99 348	95 897
Deferred tax liabilities	Note 35		188 620	282 196
Other liabilities	Note 36		637 981	639 754
Total liabilities			35 344 478	27 719 774
<b>Equity</b>				
Share capital	Note 37		729 603	729 603
Other reserve funds	Note 38		1 951 251	1 785 744
Revaluation reserve	Note 39		360 441	505 102
Profit of the current period			809 474	592 795
Total equity			3 850 769	3 613 244
Total equity and liabilities			39 195 247	31 333 018



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

MOVEMENTS ON EQUITY	Equity				Total
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	
<b>Opening balance at 31.12.2006</b>	<b>729 603</b>	<b>1 785 744</b>	<b>505 102</b>	<b>592 795</b>	<b>3 613 244</b>
Net change in available for sale investments - increase	-	-	14 470	-	14 470
Net change in available for sale investments - decrease	-	-	(193 379)	-	(193 379)
Share scheme charge	-	10 474	-	-	10 474
Net (gains)/losses not recognised in income statement	-	-	34 248	-	34 248
Net profit	-	-	-	809 474	809 474
<b>Total recognised increase in equity in 2007</b>	<b>-</b>	<b>10 474</b>	<b>(144 661)</b>	<b>809 474</b>	<b>675 287</b>
Dividend relating to 2006	-	-	-	(437 762)	(437 762)
Transfer to other reserve capitals	-	155 033	-	(155 033)	-
<b>As at 31.12.2007</b>	<b>729 603</b>	<b>1 951 251</b>	<b>360 441</b>	<b>809 474</b>	<b>3 850 769</b>

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.

MOVEMENTS ON EQUITY	Equity				Total
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	
<b>Opening balance at 31.12.2005</b>	<b>729 603</b>	<b>1 950 396</b>	<b>239 495</b>	<b>269 436</b>	<b>3 188 930</b>
Change in available for sale investments- increase	-	-	306 585	-	306 585
Change in available for sale investments- decrease	-	-	(38 528)	-	(38 528)
Share scheme charge	-	3 674	-	-	3 674
Net (gains)/losses recognised in income statement	-	-	(2 450)	-	(2 450)
Net profit	-	-	-	592 795	592 795
<b>Total recognised increase in equity in 2006</b>	<b>-</b>	<b>3 674</b>	<b>265 607</b>	<b>592 795</b>	<b>862 076</b>
Dividend relating to 2005	-	-	-	(437 762)	(437 762)
Transfer from supplementary capital	-	(168 326)	-	168 326	-
<b>As at 31.12.2006</b>	<b>729 603</b>	<b>1 785 744</b>	<b>505 102</b>	<b>592 795</b>	<b>3 613 244</b>

As at the end of the period revaluation reserve in the amount of PLN 505 102 k comprises of debt securities and equity shares classified as available for sale of PLN 73 012 k and PLN 432 090 k respectively.

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

	<b>01.01.2007</b> <b>- 31.12.2007</b>	<b>01.01.2006</b> <b>- 31.12.2006</b>
<b>Profit (loss) before tax</b>	<b>979 030</b>	<b>745 162</b>
<b>Total adjustments:</b>	<b>1 943 410</b>	<b>1 434 757</b>
Depreciation	127 264	153 008
Impairment losses	(854)	(3 742)
Interests and similar charges	(89 587)	61 881
Dividend income	(177 978)	(98 712)
(Profit) loss from investing activities	(15 994)	(19 880)
Change in provisions	32 670	24 786
Change in trading portfolio financial instruments	626 510	1 242 886
Change in loans and advances to banks	596 480	445 992
Change in loans and advances to customers	(5 978 279)	(3 266 030)
Change in deposits from banks	1 185 251	(331 014)
Change in deposits from customers	5 801 894	3 575 684
Change in liabilities arising from debt securities in issue	3 451	2 862
Change in assets and liabilities arising from deferred taxation	2 022	(1)
Change in other assets and liabilities	63 063	(210 098)
Paid income tax	(235 363)	(143 946)
Other adjustments	2 860	1 081
<b>Net cash flow from operating activities - indirect method</b>	<b>2 922 440</b>	<b>2 179 919</b>
<b>Inflows</b>	<b>3 096 998</b>	<b>1 772 800</b>
Sale of shares or interests in subsidiaries and associates	46 780	71 054
Sale of investment securities	2 866 290	1 599 209
Sale of intangible and tangible fixed assets	5 944	3 682
Dividends received	177 978	98 712
Proceeds from other investments	6	143
<b>Outflows</b>	<b>(4 875 298)</b>	<b>(2 510 113)</b>
Purchase of investment securities	(4 741 120)	(2 426 437)
Purchase of intangible and tangible fixed assets	(127 757)	(81 337)
Other investments	(6 421)	(2 339)
<b>Net cash flow from investing activities</b>	<b>(1 778 300)</b>	<b>(737 313)</b>
<b>Inflows</b>	<b>-</b>	<b>-</b>
<b>Outflows</b>	<b>(461 382)</b>	<b>(491 274)</b>
Repayment of long-term loans	(19 156)	(49 980)
Dividends paid	(437 762)	(437 762)
Other financing outflows	(4 464)	(3 532)
<b>Net cash flow from financing activities</b>	<b>(461 382)</b>	<b>(491 274)</b>
<b>Total net cash flow</b>	<b>682 758</b>	<b>951 332</b>
<b>Cash at the beginning of the accounting period</b>	<b>1 542 716</b>	<b>591 384</b>
<b>Cash at the end of the accounting period</b>	<b>2 225 474</b>	<b>1 542 716</b>

## 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:

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

Financial highlights of Bank Zachodni WBK S.A.

FINANCIAL HIGHLIGHTS		PLN		EUR	
		01.01.2007 for the period: - 31.12.2007	01.01.2006 - 31.12.2006	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Stand alone financial statements					
I	Interest and similar income	1 957 840	1 533 606	518 386	393 323
II	Fee and commission income	1 000 083	871 979	264 796	223 636
III	Operating profit	979 030	745 162	259 222	191 111
IV	Gross profit (loss)	979 030	745 162	259 222	191 111
V	Net profit (loss)	809 474	592 795	214 328	152 034
VI	Total net cash flow	682 758	951 332	180 777	243 988
VII	Total assets	39 195 247	31 333 018	10 942 280	8 178 382
VIII	Deposits from banks	3 145 395	1 960 144	878 111	511 627
IX	Deposits from customers	30 264 734	24 481 996	8 449 116	6 390 164
X	Total liabilities	35 344 478	27 719 774	9 867 247	7 235 272
XI	Capital and reserves attributable to the Company's equity holders	3 850 769	3 613 244	1 075 033	943 110
XII	Number of shares	72 960 284	72 960 284		
XIII	net book value per share in PLN/EUR	52,78	49,52	14,73	12,93
XIV	Solvency ratio	11,36%	13,79%		
XV	Profit (loss) per ordinary share PLN/EUR	11,09	8,13	2,94	2,09
XVI	Diluted earnings (loss) per ordinary share in PLN/EUR	11,07	8,12	2,93	2,08
XVII	Declared or paid dividend per share in PLN/EUR	3,00	6,00	0,84	1,57

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

- for balance sheet items –3,5820 PLN rate to EUR as at 31.12.2007 in National Bank of Poland (NBP), 3,8312 PLN rate to EUR as at 31.12.2006 in NBP
- for profit and loss items - as at 31.12.2007 - 3,7768 (an average PLN rate to EUR in NBP on the last day of each month in 2007), as at 31.12.2006 - 3,8991 (an average PLN rate to EUR in NBP on the last day of each month in 2006)

## 6. Significant accounting principles

### Statement of compliance

The annual unconsolidated financial statements of the BZWBK ended 31 December 2007 have been prepared in accordance with the International Financial Reporting Standard as adopted by the European Union and with respect to matters not regulated by the above Standard, in accordance with the Accounting Act dated 29 September 1994 (Official Journal from 2002, No 76, item 694 with amendments) and the respective bylaws 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.

### Early adoption of standards

IFRIC 11 IFRS 2 *Group and Treasury Share Transactions* introduced on the strength of the Commission Regulation (EC) no.611/2007 of 11 June 2007 has not become effective yet and will apply from 1 January 2008. The Bank has not decided on early adoption of the interpretation.

Other standards and changes to the existing standards and interpretations as issued by the International Financial Reporting Interpretation Committee (IFRIC), both approved and not effective in the current financial year or pending approval from the European Council either do not apply to the Bank's financial statements or have no material impact on 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.

The preparation of financial statements in conformity with IFRSs requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

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

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

### Comparability with results of previous periods

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

a) income statement:

- accrued interest on hedging IRS of PLN 7 613 k currently disclosed in net interest income, was previously classified as „Gains (losses) on financial instruments measured at fair value through profit and loss”,
- presentation of realised f/x margins (previously “F/X profit”) of PLN 188 333 k currently classified as “Commission income”,
- other trading f/x transactions of PLN 17 378 k previously disclosed as “F/X profit”, currently classified to „Net trading income and revaluation”,
- change of presentation of “Gains and losses on hedging transactions” of PLN 2 998 k, currently in „Gains (losses) from other financial securities”, previously as at separate item of profit and loss account
- change in classification of gains on execution of Euroindex options related to indexed customer deposits, currently being a part of „Fee and commission expenses” while previously amount of PLN 5 116 k was classified as “Gains (losses) on financial instruments measured at fair value through profit and loss”.

b) in the balance sheet:

- reclassification of interest from IRS valuation to „Hedging derivatives” totaling PLN 16 948 k in assets and PLN 3 024 k in liabilities,
- reclassification of commercial bonds to “Receivables from customers” totalling PLN 34 622 k presented previously under „Investment securities”,
- change of presenting incoming and outgoing SWIFT transactions that currently total PLN nil after netting.

Also, the following IFRS 7 based changes were made in balance sheet as regards data presentation:

- reclassification of trading derivatives to “Financial assets held for trading” totaling PLN 362 755 k that were previously presented under “Derivative financial instruments”,
- reclassification of trading derivatives to “Financial liabilities held for trading” totaling PLN 241 869 k that were previously presented under “Derivative financial instruments”,
- change of presenting „Reverse repo transactions” totaling PLN 15 629 k presented currently under „Loans and advances to customers”,
- change of presenting „Repo transactions” totaling PLN 1 230 682 k currently presented under „Deposits from banks”, “Deposits from customers” and “Financial liabilities held for trading”.

The above changes were included in comparable data presented in these financial statements.

## 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.

## Financial assets and financial liabilities

### *Classification*

The Bank classifies its financial instruments into the following categories:

- financial assets or financial liabilities at fair value through profit or loss
- loans and receivables
- available-for-sale financial assets
- 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 as at fair value through profit or loss. As at the balance sheet date the Bank doesn't hold this category of financial instrument.

### *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.

### ***Other financial liabilities***

Other 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 regular way purchase or sale 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 when cash is advanced to the borrowers.

### **Derecognition**

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

### **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 same price plus initially agreed interest.

Securities sold subject to repurchase agreements ("repos") are not derecognised at the balance sheet date. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements.

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.

### 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) 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 tested for impairment.

### **Offsetting financial instruments**

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

### **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.

### **Impairment of financial assets**

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

The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that

occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets 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 (in excess of PLN 2 m),
- 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), 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 corrections, 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.

### ***Off balance sheet liabilities***

The Bank creates provisions towards impairment 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.

## **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 |

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. Useful life of computer software is defined and it range from 3 to 5 years.

***Other intangible assets***

Other intangible assets that are acquired by the Bank are stated at cost less accumulated amortisation and impairment losses. Useful life of other intangible assets is defined and it range from 3 to 5 years.

***Subsequent expenditure***

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

***Amortisation***

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

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

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

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. Revaluation reserve comprises differences from the valuation of financial assets available for sale taking into account the deferred income tax.

Revaluation reserve is not distributable.

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

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

## **Dividends**

Dividends 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 on the basis of an actuarial valuation. The actuarial valuation of those accruals is updated on an annual basis.

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

### ***Share based payments***

BZWBK 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 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 above mentioned instruments are also included in the trading result.



### **Dividend income**

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

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

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

Profit on the sale of interests in associates is set as a difference between the carrying amount and their sale price.

### **Other operating income and costs**

Other operating income and costs include expenses and revenues, which are not related directly to the statutory activity of the 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 includes credit risk, market risk, liquidity risk and operational risk. The role of risk management is to ensure that BZWBK continues to take risk in controlled way in order to enhance shareholders 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 Bank'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 Management Board.

### Operating risk

The operational risk is exposure to losses resulting from inadequate internal processes or systems, human errors or external factors.

Similarly to other financial institutions, operational risk is inherent in almost all the Bank's activities, including the outsourced functions or services delivered jointly with third parties. Each organisational unit 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 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 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 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.

***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). Credit policies comply with the AIB Group standards and are adapted to the local credit market conditions where Bank Zachodni WBK S.A. operates.

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-producing real estate, cash loans, credit cards and retail overdrafts.

***Provisioning***

In Bank Zachodni WBK S.A. 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 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 15m 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***

Bank Zachodni WBK S.A. 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 organization. As at 31.12.2007, pursuant to art. 71 of the Banking Law Act, the maximum limits for the bank amounted to:

- PLN 603 173 k (20% of bank's own funds pursuant to the Banking Law art. 127 and Banking Supervisory Resolution no. 5 & 6) in the case of exposures to subsidiary or dominant entities or to subsidiary entities of the entity dominant for the bank,
- PLN 753 967 k (25% of bank's own funds pursuant to the Banking Law art. 127 and Banking Supervisory Resolution no. 5 & 6) 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 sectoral concentrations, carried out at the end of December 2007, proved that the bank does not have any exposures in excess of the limits imposed by the regulator.

At the end of 2007, the bank had credit exposures (balance sheet and off-balance sheet) exceeding 10% of its own funds attributable to 8 entities (four of which were members of the BZWBK Group) and which accounted for 63% of own funds (against the permissible norm of 800%).

A list of the 20 largest borrowers of Bank Zachodni WBK SA (performing loans) as of 31.12.2007 (excluding subsidiaries).

No.	Industry code (PKD)	Total credit exposure	Balance	Committed credit line	Guarantees
1	70	578 685	353 151	224 640	894
2	70	570 433	562 931	7 502	-
3	70	356 562	123 148	212 415	21 000
4	15	310 000	293 712	16 288	-
5	20	295 000	57 269	237 731	-
6	70	236 316	146 621	89 695	-
7	70	215 637	56 238	159 399	-
8	70	213 875	194 939	18 937	-
9	70	204 082	90 268	113 814	-
10	70	203 965	183 959	20 006	-
11	40	201 867	68 708	60 569	72 591
12	65	200 000	119 416	80 584	-
13	70	170 326	151 002	19 324	-
14	64	162 500	35 625	126 875	-
15	45	154 904	59 076	52 097	43 731
16	70	143 259	100 126	43 133	-
17	26	140 774	135 136	5 638	-
18	70	140 029	60 141	79 888	-
19	70	139 005	107 844	31 161	-
20	70	137 562	137 562	-	-
		<b>4 774 782</b>	<b>3 036 871</b>	<b>1 599 695</b>	<b>138 216</b>

### Credit risk management

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

The tables below present the Bank exposure to credit risk.

## Credit Exposures by classes

PLN m	Provision cover	Loans and advances to customers		Loans and advances to banks		Investment securities		Financial assets held for trading	
		31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006
<b>Individually impaired</b>									
class 5	up to 50 %	113	170						
class 6	50% - 70%	-	46						
class 7	70% - 85%	16	35						
class 8	over 85 %	168	195	6	6				
<b>Gross amount</b>		<b>297</b>	<b>446</b>	<b>6</b>	<b>6</b>	-	-	-	-
Allowance for impairment		(196)	(278)	(6)	(6)				
<b>Net amount</b>		<b>101</b>	<b>168</b>	-	-	-	-	-	-
<b>Collectively impaired</b>									
class 5	up to 50 %	129	96						
class 6	50% - 70%	59	58						
class 7	70% - 85%	103	123						
class 8	over 85 %	72	76						
<b>Gross amount</b>		<b>363</b>	<b>353</b>	-	-	-	-	-	-
Allowance for impairment		(228)	(246)						
<b>Net amount</b>		<b>135</b>	<b>107</b>	-	-	-	-	-	-
<b>Not impaired portfolio (past-due and non-past due)</b>									
class 1	up to 0,10 %	5 014	3 279	2 564	3 149	9 698	7 994	1 149	1 048
class 2	0,10% - 0,30%	4 365	3 589						
class 3	0,30% - 0,65%	5 039	3 543						
class 4	over 0,65 %	7 583	5 520						
<b>Gross amount</b>		<b>22 001</b>	<b>15 931</b>	<b>2 564</b>	<b>3 149</b>	<b>9 698</b>	<b>7 994</b>	<b>1 149</b>	<b>1 048</b>
Allowance for impairment		(132)	(95)						
<b>Net amount</b>		<b>21 869</b>	<b>15 836</b>	<b>2 564</b>	<b>3 149</b>	<b>9 698</b>	<b>7 994</b>	<b>1 149</b>	<b>1 048</b>
<b>Other receivables</b>		<b>45</b>	<b>61</b>	-	-	-	-	-	-
<b>Off- balance sheet exposures</b>									
Financing granted		8 183	7 064						
Guarantees		795	748						
Nominal value of derivatives -sold								114 385	71 860
<b>Off- balance sheet exposure- total</b>		<b>8 978</b>	<b>7 812</b>					<b>114 385</b>	<b>71 860</b>
<b>Total net carrying amount</b>		<b>31 128</b>	<b>23 984</b>	<b>2 564</b>	<b>3 149</b>	<b>9 698</b>	<b>7 994</b>	<b>115 534</b>	<b>72 908</b>

**IBNR overdue**

PLN m	Loans and advances to customers	
	31.12.2007	31.12.2006
<b>Not impaired portfolio</b>		
<b>Non-past due</b>	<b>21 522</b>	<b>15 150</b>
<b>Past-due</b>	<b>479</b>	<b>781</b>
<i>0-30 days</i>	382	745
<i>30-60 days</i>	73	26
<i>60-90 days</i>	24	10
<b>Gross amount</b>	<b>22 001</b>	<b>15 931</b>

Portfolio of loans with incurred but not reported losses (IBNR) includes loans that in the past had renegotiated terms of agreements and would have otherwise been impaired. For the current reporting period and comparable period it was PLN 27.5 m and PLN 27.2 m respectively.

**Allowances for impairment by classes**

PLN m	Loans and advances to customers		Loans and advances to banks	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
<b>Individual allowances for impairment</b>				
<i>class 5</i>	(16)	(36)		
<i>class 6</i>	-	(29)		
<i>class 7</i>	(12)	(27)		
<i>class 8</i>	(168)	(186)	(6)	(6)
<b>Total individual allowances for impairment</b>	<b>(196)</b>	<b>(278)</b>	<b>(6)</b>	<b>(6)</b>
<b>Collective allowances for impairment</b>				
<i>class 5</i>	(38)	(48)	-	-
<i>class 6</i>	(37)	(36)	-	-
<i>class 7</i>	(81)	(97)	-	-
<i>class 8</i>	(72)	(65)	-	-
<b>Total collective allowances for impairment</b>	<b>(228)</b>	<b>(246)</b>	-	-
<b>IBNR</b>				
<i>class 1</i>	(3)	(4)	-	-
<i>class 2</i>	(8)	(6)	-	-
<i>class 3</i>	(23)	(16)	-	-
<i>class 4</i>	(98)	(69)	-	-
<b>Total IBNR</b>	<b>(132)</b>	<b>(95)</b>	-	-
<b>Total allowances for impairment</b>	<b>(556)</b>	<b>(619)</b>	<b>(6)</b>	<b>(6)</b>

**Risk weighted off-balance sheet liabilities**

Off- balance sheet liabilities	31.12.2007		31.12.2006	
	carrying amount	RWA	carrying amount	RWA
<b>Sanctioned</b>				
<i>Financing granted</i>	8 183	3 031	7 064	2 554
<i>Guarantees</i>	795	435	748	420
<b>Total</b>	<b>8 978</b>	<b>3 466</b>	<b>7 812</b>	<b>2 974</b>



## 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 credit	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

## Industry concentration

The credit policy of Bank Zachodni WBK S.A. 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 the end of 2007, the highest concentration level was recorded in the "property service" (26% of the Bank's credit exposure). Such a concentration level is compliant with the bank's lending policies and the related risk is fully acceptable.

Groups of PKD by industries:

PLN m	Industry	Exposure	
		31.12.2007	31.12.2006
	Property service	5 781	3 641
	Production	3 465	2 756
	Distribution	2 424	1 933
	Financial sector	1 245	664
	Agriculture	658	637
	Energy	276	612
	Construction	885	593
	Transportation	324	393
	Other industries	1 494	1 251
<b>A</b>	<b>Total Business Loans</b>	<b>16 552</b>	<b>12 480</b>
<b>B</b>	<b>Personal (including mortgage loans)</b>	<b>6 043</b>	<b>4 196</b>
<b>A+B</b>	<b>BZWBK portfolio</b>	<b>22 595</b>	<b>16 676</b>
<b>C</b>	<b>Other receivables (commercial bonds., reverse repo)</b>	<b>23</b>	<b>39</b>
<b>A+B+C</b>	<b>Total BZ WBK</b>	<b>22 618</b>	<b>16 715</b>

Nominal value of portfolio adjusted for unamortised commissions

## Geographical concentration

Bank Zachodni WBK S.A. 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.

The bank's operational structure is based on three macroregions: Poznań (provinces: Wielkopolskie, Zachodniopomorskie, Kujawsko-Pomorskie and Lubuskie), Warsaw (provinces: Mazowieckie, Warmińsko-Mazurskie, Podlaskie, Lubelskie, Pomorskie and Łódzkie) and Wrocław (provinces: Dolnośląskie, Śląskie, Opolskie, Świętokrzyskie, Małopolskie and Podkarpackie). Concentration in macroregion Warsaw accounts for 41% of the bank's total exposure, in macroregion Poznań 32% and Wrocław 25%. The macroregions are divided into regions.

PLN m	31.12.2007		31.12.2006	
<b>Bank BZ WBK*</b>	<b>22 702</b>	<b>16 784</b>		
<b>Makroregion Poznań</b>	<b>7 323</b>	<b>5 875</b>		
Region Poznań	2 764	1 954		
Region Wielkopolska Północ	860	654		
Region Wielkopolska Południe	1 483	1 351		
Region Kujawsko-Pomorski	635	620		
Region Lubuski	810	662		
Region Zachodniopomorski	771	634		
<b>Makroregion Warszawa</b>	<b>9 340</b>	<b>5 952</b>		
Region Warszawa	7 616	4 555		
Region Łódzki	479	366		
Region Pomorsko-Mazurski	1 245	1 031		
<b>Makroregion Wrocław</b>	<b>5 744</b>	<b>4 730</b>		
Region Wrocław	1 736	1 483		
Region Śląski	644	568		
Region Dolnośląsko-Opolski	1 256	996		
Region Dolnośląski Zachód	1 140	979		
Region Małopolsko-Podkarpacki	968	704		
<b>Credit cards**</b>	<b>295</b>	<b>227</b>		

\* Nominal value of credit portfolio

\*\* Not allocated to macroregions

## 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 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 Bank 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 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.

### **Measurement methods**

BZWBK uses several risk measures to assess 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. This is captured using statistical analysis of market rate movements (volatility) which assumes a normal distribution and is calculated to a 99% confidence level. Volatility is measured for different holding periods : 1 day, 10 days and 1 month depending on risk. VaR is calculated separately for interest rate and FX.

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 sensitivitie report and sets of assumed extreme 1 day and 1 month rates movements reported over the last 7 years.

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

<b>Interest Rate Risk (PLN m)</b>	<b><i>Value at Risk</i></b>		<b><i>Stress Scenario</i></b>	
	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
1 month holding period				
<i>Average</i>	19,38	14,24	100,77	61,64
<i>High</i>	26,1	23,11	148,33	110,68
<i>Low</i>	8,94	6,62	38,15	6,00
<i>31 December</i>	18,25	12,92	119,29	64,07

The Treasury Division operates within an operational VaR risk limit, which amounted to PLN 33,3m (EUR 10 m) at the end of 2007.

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 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 December 2007 and comparable period:

<b>Interest Rate Risk (PLN m)</b>	<b><i>Sensitivity 31-12-2007</i></b>		
parallel increase of yield curves by 1 bp	Trading book	Banking book	Total
<i>0-3m</i>	(0.06)	(0.06)	(0.12)
<i>3m-1Y</i>	0.14	(0.03)	0.11
<i>1Y-5Y</i>	(0.04)	(0.32)	(0.36)
<i>over 5Y</i>	(0.01)	(0.02)	(0.03)
<b>Total</b>	0.03	(0.43)	(0.40)

<b>Interest Rate Risk (PLN m)</b>	<b><i>Sensitivity 31-12-2006</i></b>		
parallel increase of yield curves by 1 bp	Trading book	Banking book	Total
<i>0-3m</i>	(0.01)	(0.01)	(0.02)
<i>3m-1Y</i>	(0.02)	(0.02)	(0.04)
<i>1Y-5Y</i>	0.01	(0.18)	(0.17)
<i>over 5Y</i>	0.00	(0.02)	(0.02)
<b>Total</b>	(0.02)	(0.23)	(0.25)

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 responsibilities. The level of such risk is closely monitored and actively managed through separate assets portfolios (NIRIL Portfolios): capital NIRIL (funding of capital surplus 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 played by ALCO. Treasury is executing such decisions.

The following tables present interest rate sensitivities of each NIRIL portfolios at the end of December 2006 and 2007:

<b>Interest Rate Risk (PLN m)</b>	<b><i>Sensitivity 31-12-2007</i></b>		
parallel increase of yield curves by 1 bp	Capital Surplus portfolio	Business Surplus portfolio	Total
<i>0-3m</i>	0.00	0.00	0.00
<i>3m-1Y</i>	(0.04)	(0.02)	(0.06)
<i>1Y-5Y</i>	(0.95)	(0.40)	(1.35)
<i>over 5Y</i>	(0.06)	(0.45)	(0.51)
<b>Total</b>	(1.05)	(0.87)	(1.92)

Interest Rate Risk (PLN m)	<i>Sensitivity</i> 31-12-2006		
parallel increase of yield curves by 1 bp	Capital Surplus portfolio	Business Surplus portfolio	Total
<i>0-3m</i>	0.00	0.00	0.00
<i>3m-1Y</i>	(0.04)	(0.01)	(0.05)
<i>1Y-5Y</i>	(0.50)	(0.40)	(0.90)
<i>over 5Y</i>	(0.10)	(0.41)	(0.51)
<b>Total</b>	(0.64)	(0.82)	(1.46)

**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.

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

FX Risk (PLN m)	<i>Value at Risk</i>		<i>Stress Scenario</i>	
1 month holding period:	<i>2007</i>	<i>2006</i>	<i>2007</i>	<i>2006</i>
<i>Average</i>	0.88	0.43	3.50	1.56
<i>High</i>	2.48	1.53	7.34	4.56
<i>Low</i>	0.04	0.05	0.30	0.30
<i>31 December</i>	0.32	0.18	3.14	0.79

The Treasury Division operates within an operational VaR risk limit, which amounted to PLN 2.5m ( EUR 0.7m) at the end of 2007.

FX risk management is centralised for maximum effectiveness, while maintaining segregation of risk measurement and risk control functions.

## Liquidity risk

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 and funding.

The Bank's policy 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 for anticipated withdrawals of term deposits, demand deposits, loan payments, guarantee payments and settlements.

The liquidity is assessed using 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. Thus determined liquidity gap is used to establish liquidity ratios, that is 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 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 expected to be received in the one-month time horizon and not less than 10% in a period longer than a month. At the end of December 2007, the Bank was compliant with the above requirements. The policy is designed to ensure cover for short and medium term liabilities. However liquidity position in a longer time horizon is also monitored. Also, for the limits indicated above there is a number of observation ratios set daily, which support the liquidity management process (e.g. loans to deposits ratio, ratio of dependence on wholesale market financing).

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

Liquidity Risk (PLN m)	<1W	<1M	<2Y	>2Y
<b>31-12-2007</b>				
Qualifying Liquid Assets	7 723	639	4	-
<i>Treasury inflows</i>	4 813	3 429	14 003	184
<i>Other inflows</i>	1 597	104	8 817	16 830
<i>Treasury outflows</i>	(5 345)	(3 292)	(13 766)	(370)
<i>Other outflows</i>	(7 527)	(738)	(10 332)	(16 771)
<b>GAP</b>	<b>1 260</b>	<b>141</b>	<b>(1 274)</b>	<b>(127)</b>
<b>Cumulative Gap</b>	<b>1 260</b>	<b>1 401</b>	<b>127</b>	

Liquidity Risk (PLN m)	<1W	<1M	<2Y	>2Y
<b>31-12-2006</b>				
Qualifying Liquid Assets	6 896	32	1	
<i>Treasury inflows</i>	3 878	1 747	7 168	24
<i>Other inflows</i>	434	89	6 296	12 715
<i>Treasury outflows</i>	(3 248)	(1 310)	(6 665)	(176)
<i>Other outflows</i>	(4 967)	(747)	(8 946)	(13 221)
<b>GAP</b>	<b>2 993</b>	<b>(189)</b>	<b>(2 145)</b>	<b>(659)</b>
<b>Cumulative Gap</b>	<b>2 993</b>	<b>2 804</b>	<b>659</b>	

The tables below show the gap arising from contractual maturity terms as at 31 December 2007 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 behaviour of the deposit base indicates that a significant part of these funds will remain with the Bank. Due to deposits roll-over this liabilities position providing a stable source of funding and in the modify gap report (presented above) 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).



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	2 285	263	10	12	-	-	(6)	2 564
Financial assets held for trading	234	217	461	95	69	73	-	1 149
Loans and advances to customers	1 001	1 355	5 078	5 602	2 616	7 055	(556)	22 151
Investment securities	149	59	1 068	1 522	4 364	1 886	650	9 698
Other assets	-	-	-	-	-	-	-	3 633
<b>Long position</b>	<b>3 669</b>	<b>1 894</b>	<b>6 617</b>	<b>7 231</b>	<b>7 049</b>	<b>9 014</b>	<b>88</b>	<b>39 195</b>
Deposits from banks	2 774	146	225	-	-	-	-	3 145
Financial liabilities held for trading	216	174	530	33	16	32	-	1 001
Deposits from customers	26 036	1 938	2 072	126	93	-	-	30 265
Debt securities in issue	-	-	100	-	-	-	(1)	99
Other liabilities	-	-	-	-	-	-	-	4 685
<b>Short position</b>	<b>29 026</b>	<b>2 258</b>	<b>2 927</b>	<b>159</b>	<b>109</b>	<b>32</b>	<b>(1)</b>	<b>39 195</b>
<b>Gap-balance sheet</b>	<b>(25 357)</b>	<b>(364)</b>	<b>3 690</b>	<b>7 072</b>	<b>6 940</b>	<b>8 982</b>	<b>89</b>	
<b>Off balance sheet liabilities- sanctioned</b>								
Financing related	1 373	557	2 763	1 712	538	1 240	-	8 183
Guarantees	55	76	286	194	178	6	-	795
<b>Hedging instruments</b>								
Inflows	5 887	4 783	7 967	1 030	-	409	-	20 076
Outflows	5 933	4 755	7 910	971	-	409	-	19 978
<b>Gap – off-balance sheet</b>	<b>(1 474)</b>	<b>(605)</b>	<b>(2 992)</b>	<b>(1 847)</b>	<b>(716)</b>	<b>(1 246)</b>	<b>-</b>	

31.12.2006	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	2 426	342	364	24	-	-	(6)	3 150
Financial assets held for trading	566	71	165	155	75	15	-	1 047
Loans and advances to customers	971	720	4 020	3 884	1 892	5 304	(619)	16 172
Investment securities	205	-	1 483	2 143	2 032	1 518	613	7 994
Other assets	-	-	-	-	-	-	-	2 970
<b>Long position</b>	<b>4 168</b>	<b>1 133</b>	<b>6 032</b>	<b>6 206</b>	<b>3 999</b>	<b>6 837</b>	<b>(12)</b>	<b>31 333</b>
Deposits from banks	1 693	229	38	-	-	-	-	1 960
Financial liabilities held for trading	34	66	105	15	13	14	-	247
Deposits from customers	19 728	2 344	2 156	154	100	-	-	24 482
Debt securities in issue	-	-	-	94	-	-	2	96
Other liabilities	-	-	-	-	-	-	-	4 548
<b>Short position</b>	<b>21 455</b>	<b>2 639</b>	<b>2 299</b>	<b>263</b>	<b>113</b>	<b>14</b>	<b>2</b>	<b>31 333</b>
<b>Gap-balance sheet</b>	<b>(17 287)</b>	<b>(1 506)</b>	<b>3 733</b>	<b>5 943</b>	<b>3 886</b>	<b>6 823</b>	<b>(14)</b>	
<b>Off balance sheet liabilities- sanctioned</b>								
Financing related	913	499	2 328	1 361	295	1 668	-	7 064
Guarantees	50	57	225	270	139	7	-	748
<b>Hedging instruments</b>								
Inflows	1 781	2 810	3 005	845	-	304		8 745
Outflows	1 749	2 799	2 977	823	-	304		8 652
<b>Gap – off-balance sheet</b>	<b>(931)</b>	<b>(545)</b>	<b>(2 525)</b>	<b>(1 609)</b>	<b>(434)</b>	<b>(1 675)</b>	<b>-</b>	

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 bare 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 Bank 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

IRs 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.

CIRs 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**

According to Polish Banking Law banks are obliged to maintain own funds at the level adequate to the risk arising from business.

Capital Adequacy ratio (CAD) is used to measure capital adequacy and present relation between capital requirements due to credit risk, market risk, settlement/counterparty risk and own funds after obligatory reductions set by the Commission for Banking Supervision (KNB).

Capital requirements are calculated in line with the Commission for Banking Supervision regulations.

Minimum level – required by Banking Law – of CAD cannot be lower than 8% for the Bank.

CAD ratio is treated as a key measure in the capital management process in BZWBK.

BZWBK capital policy assumes to maintain the level of CAD ratio of 10% for the Bank as the regulatory method of CAD ratio calculation does not cover all types of risk associated with BZWBK activity.

BZWBK Management Board delegated rights relating to day-to-day capital management to Assets and Liabilities Committee (ALCo). The ALCo is responsible for ongoing monitoring of the level of own funds and capital requirements, and for initiation of all transactions impacting capital. However, all decisions as regards rising and releasing capital (incl. dividend payment) are finally taken in accordance with Law and the Bank's Statute by relevant Management/Supervisory bodies.

During the whole 2007 CAD ratio was in excess of 10% for the Bank.

The table below presents capital adequacy of the Bank.

	PLN k	31.12.2007	31.12.2006
<b>I</b>	Total Capital requirement (Ia+Ib+Ic)	<b>2 124 735</b>	<b>1 660 199</b>
	Incl.:		
Ia	- due to credit risk	2 081 628	1 623 048
Ib	- due to market risk	21 512	29 771
Ic	- due to settlement/counterparty risk	21 595	7 380
<b>II</b>	Total own funds	<b>3 715 937</b>	<b>3 613 244</b>
<b>III</b>	Reductions:	<b>700 070</b>	<b>751 329</b>
IIIa	- Intangible assets	102 906	127 100
IIIb	- Capital investments	378 283	186 468
IIIc	- Planned dividend	218 881	437 761
<b>IV</b>	Own funds after reductions ((II+III)	<b>3 015 867</b>	<b>2 861 915</b>
<b>V</b>	<b>CAD (IV/(I*12.5)</b>	<b>11,36%</b>	<b>13,79%</b>

Amendments to the law introduced with effect from April 1, 2007 (Banking Supervision Ordinances No 1,2,3 of 2007) impacted mainly the level of own funds. The biggest impact has been noted on Revaluation Reserve of Financial Assets Available for Sale.

Before April 2007 Revaluation Reserve of Financial Assets was presented in net value - including deferred tax related to revaluation of financial assets. From April 1st 2007 own funds include 60% of positive revaluation of financial assets (excluding deferred tax) and 100% of negative revaluation (excluding deferred tax).

Capital requirements due to different risk types are determined in the Group in compliance with the Commission for Banking Supervision regulations.

## 8. Net interest income

<b>Interest and similar income</b>	<b>01.01-31.12.2007</b>	<b>01.01-31.12.2006</b>
Loans and advances to enterprises	865 855	608 005
Loans and advances to individuals of which:	439 815	328 903
<i>Mortgage loans</i>	177 642	129 478
Debt securities incl.:	434 700	418 248
<i>Trading portfolio</i>	13 404	58 375
<i>Investment portfolio</i>	421 296	359 873
Loans and advances to banks	173 397	152 744
Interest recorded on hedging IRS	(3 814)	(7 613)
Reverse repo transactions	17 547	3 019
Other from public sector	30 340	30 300
<b>Total</b>	<b>1 957 840</b>	<b>1 533 606</b>

Loans and advances to banks exclude income on repo transactions.

<b>Interest expense and similar charges</b>	<b>01.01-31.12.2007</b>	<b>01.01-31.12.2006</b>
Deposits from enterprises	(309 288)	(218 562)
Deposits from individuals	(258 900)	(226 059)
Repo transactions	(83 008)	(52 073)
Deposits from banks	(54 115)	(31 719)
Debt securities in issue	(5 558)	(5 283)
Public sector	(64 533)	(42 553)
<b>Total</b>	<b>(775 402)</b>	<b>(576 249)</b>
<b>Net interest income</b>	<b>1 182 438</b>	<b>957 357</b>

As at 31 December 2007 net interest income includes interest accrued on impaired loans of PLN 21 141 k (as at 31.12.2006 - PLN 34 973 k).

## 9. Net fee and commission income

<b>Fee and commission income</b>	<b>01.01-31.12.2007</b>	<b>01.01-31.12.2006</b>
Business & payments	247 709	223 449
Current accounts and money transfer	222 425	227 094
Profit on FX transaction	211 412	188 333
Distribution fees	165 067	115 808
Credit commissions	51 752	42 499
Insurance commissions	40 576	19 172
Credit cards	36 699	32 629
Off-balance sheet guarantee commissions	11 151	12 898
Issue arrangement	10 553	7 314
Other	2 739	2 783
<b>Total</b>	<b>1 000 083</b>	<b>871 979</b>

<b>Fee and commission expense</b>	<b>01.01-31.12.2007</b>	<b>01.01-31.12.2006</b>
eBusiness & payments	(53 361)	(43 040)
Credit cards	(4 989)	(2 485)
Commissions paid to credit agents	(11 628)	(2 577)
Other incl.:	(11 524)	(12 221)
<i>brokerage commissions</i>	(2 293)	(1 948)
<i>agency costs</i>	(173)	(180)
<i>other</i>	(9 058)	(10 093)
<b>Total</b>	<b>(81 502)</b>	<b>(60 323)</b>

<b>Net commission income</b>	<b>918 581</b>	<b>811 656</b>
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Included above is fee and commission income of PLN 99 602 k (2006: PLN 88 026 k) and fee and commission expenses of PLN (16 617) k (2006: PLN (5 062) 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.

**10. Dividend income**

<b>Dividend income</b>	<b>01.01-31.12.2007</b>	<b>01.01-31.12.2006</b>
Dividends from investment portfolio entities	63 534	56 661
Dividends from subsidiaries and associates	114 444	42 051
<b>Total</b>	<b>177 978</b>	<b>98 712</b>

**11. Net trading income and revaluation**

<b>Net trading income and revaluation</b>	<b>01.01-31.12.2007</b>	<b>01.01-31.12.2006</b>
Profit/(loss) on derivative instruments	28 408	6 559
Profit/ (loss) on equity instruments	-	9
Profit on interbank FX transactions	18 792	16 197
Profit/(loss) on debt instruments	738	3 116
Other F/X related income	4 333	1 181
<b>Total</b>	<b>52 271</b>	<b>27 062</b>

**12. Gains (losses) from other financial securities**

<b>Gains (losses) from other financial securities</b>	<b>01.01-31.12.2007</b>	<b>01.01-31.12.2006</b>
Profit/loss on sale of available-for-sale financial instruments	(26 286)	4 949
Reversal (charge) due to impairment losses	854	3 714
<b>Total profit (losses) on available-for-sale financial instruments</b>	<b>(25 432)</b>	<b>8 663</b>
Change in fair value of hedging instruments	18 160	14 296
Change in fair value of underlying hedged positions	(18 512)	(11 298)
<b>Total profit (losses) on hedging and hedged instruments</b>	<b>(352)</b>	<b>2 998</b>
<b>Total</b>	<b>(25 784)</b>	<b>11 661</b>

**13. Gains on sale of subsidiaries and associates**

<b>Gains less losses on sale of subsidiaries and associates</b>	<b>01.01-31.12.2007</b>	<b>01.01-31.12.2006</b>
Sale of subsidiaries	13 423	(2 719)
Sale of associates	(688)	17 436
<b>Total</b>	<b>12 735</b>	<b>14 717</b>

Additional information about acquisitions and disposals of investments is available in note 50.

**14. Other operating income**

<b>Other operating income</b>	<b>01.01-31.12.2007</b>	<b>01.01-31.12.2006</b>
Sundry income	12 103	9 993
Release of provision for legal cases and other assets	11 809	11 883
Recovery of non-credit receivables	4 115	2 393
Received compensations, penalties and fines	20	452
Sales or liquidation of fixed assets, intangible assets and assets for disposal	1 116	746
Donation received	6	143
Other incl.:	9 290	6 478
<i>Costs of bailiff reimbursement</i>	<i>1 446</i>	<i>1 233</i>
<i>Reimbursements of BFG charges</i>	<i>1 312</i>	<i>673</i>
<i>Other</i>	<i>6 532</i>	<i>4 572</i>
<b>Total</b>	<b>38 459</b>	<b>32 088</b>

**15. Impairment losses on loans and advances**

<b>Impairment losses on loans and advances</b>	<b>01.01-31.12.2007</b>	<b>01.01-31.12.2006</b>
Impairment charge	10 060	(35 580)
Incurred but not reported losses charge	(38 890)	(22 219)
Recoveries of loans previously written off	27 350	23 093
Off balance sheet credit related items	2 045	8 580
<b>Total</b>	<b>565</b>	<b>(26 126)</b>

**16. Employee costs**

<b>Employee costs</b>	<b>01.01-31.12.2007</b>	<b>01.01-31.12.2006</b>
Salaries and bonuses	(572 841)	(461 412)
Salary related costs	(93 651)	(80 575)
Professional trainings	(22 376)	(15 041)
Staff benefits costs	(15 502)	(33 769)
Retirement fund and holiday provisions	(5 846)	(6 887)
<b>Total</b>	<b>(710 216)</b>	<b>(597 684)</b>

**17. General and administrative expenses**

<b>General and administrative expenses</b>	<b>01.01-31.12.2007</b>	<b>01.01-31.12.2006</b>
Maintenance and rentals of premises	(119 133)	(102 147)
Marketing and public relations	(93 244)	(47 328)
IT systems costs	(67 712)	(62 627)
Postal and telecommunication costs	(41 936)	(40 313)
Consulting fees	(37 435)	(25 918)
External services	(24 710)	(12 491)
Car, transport expenses, carriage of cash	(22 499)	(19 571)
Data transmission	(15 770)	(16 018)
Costs of repairs	(15 555)	(7 779)
Sundry taxes	(13 430)	(13 573)
Security costs	(11 983)	(9 191)
Bank guarantee fund	(4 464)	(3 532)
Other incl.:	(46 818)	(37 609)
<i>KIR, SWIFT etc. Settlements</i>	<i>(10 036)</i>	<i>(8 959)</i>
<i>Stationery, printing of cheque books, plastic cards</i>	<i>(20 931)</i>	<i>(15 186)</i>
<i>Other incl.:</i>	<i>(15 851)</i>	<i>(13 464)</i>
<b>Total</b>	<b>(514 689)</b>	<b>(398 097)</b>

**18. Other operating expenses**

<b>Other operating costs</b>	<b>01.01-31.12.2007</b>	<b>01.01-31.12.2006</b>
Charge of provisions for legal cases and other assets	(9 545)	(18 871)
Debt recovery costs	(1 143)	(1 977)
Donations paid	(6 420)	(2 339)
Paid compensations, penalties and fines	(2 017)	(405)
Others incl.:	(6 919)	(9 584)
<i>Losses from past-due receivables</i>	<i>(626)</i>	<i>(745)</i>
<i>Other</i>	<i>(6 293)</i>	<i>(8 839)</i>
<b>Total</b>	<b>(26 044)</b>	<b>(33 176)</b>

**19. Corporate income tax**

<b>Income tax charge</b>	<b>01.01-31.12.2007</b>	<b>01.01-31.12.2006</b>
Current tax charge	197 413	179 989
Deferred tax charge	(27 857)	(27 622)
<b>Total</b>	<b>169 556</b>	<b>152 367</b>

<b>Corporate total tax charge information</b>	<b>01.01-31.12.2007</b>	<b>01.01-31.12.2006</b>
Profit before tax	979 030	745 162
Tax rate	19%	19%
Tax calculated at the tax rate	186 016	141 581
Non tax-deductible expenses	16 471	21 203
Non taxable income	(36 531)	(20 172)
Other:		
- write-offs	3 458	1 657
- other	142	8 098
<b>Total income tax expense</b>	<b>169 556</b>	<b>152 367</b>



Deferred tax recognised directly in equity	31.12.2007	31.12.2006
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As at 31 December the amount of deferred tax recognised directly in equity totaled:

Relating to equity securities available-for-sale	104 205	101 355
Relating to debt securities available-for-sale	(19 657)	17 126
	<b>84 548</b>	<b>118 481</b>

## 20. Earnings per share

Earning per share	01.01-31.12.2007	01.01-31.12.2006
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Profit attributable to ordinary shares	809 474	592 795
Weighted average number of ordinary shares	72 960 284	72 960 284

<b>Basic earnings per share (PLN)</b>	<b>11,09</b>	<b>8,13</b>
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Profit attributable to ordinary shares	809 474	592 795
Weighted average number of ordinary shares	72 960 284	72 960 284
Weighted average number of potential ordinary shares	161 995	61 957

<b>Diluted earnings per share (PLN)</b>	<b>11,07</b>	<b>8,12</b>
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## 21. Cash and balances with central bank

Cash and balances with central bank	31.12.2007	31.12.2006
Cash	840 919	602 329
Current account in central bank	1 365 130	931 546
Other cash equivalents	210	594
<b>Total</b>	<b>2 206 259</b>	<b>1 534 469</b>

BZWBK 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.

## 22. Loans and advances to banks

Loans and advances to banks	31.12.2007	31.12.2006
Loans and advances	1 632 444	1 462 516
Current accounts	168 621	1 693 034
Reverse-repo transactions	768 659	-
<b>Gross receivables</b>	<b>2 569 724</b>	<b>3 155 550</b>
Impairment write down	(5 969)	(6 283)
<b>Total</b>	<b>2 563 755</b>	<b>3 149 267</b>

Fair value of "loans and advances to banks" is disclosed in note 42.

Movements in impairment losses on receivables from banks	31.12.2007	31.12.2006
Balance at 1 January	(6 283)	(7 566)
Write off	314	1 283
<b>Balance at the end of the period</b>	<b>(5 969)</b>	<b>(6 283)</b>

### 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.

Trading derivatives	31.12.2007		31.12.2006	
	Assets	Liabilities	Assets	Liabilities
<b>Interest rate transactions</b>	<b>184 379</b>	<b>309 780</b>	<b>146 002</b>	<b>115 906</b>
Options	22	22	-	-
IRS	154 785	284 251	129 572	94 265
FRA	29 572	25 507	16 430	21 641
<b>Equity derivatives</b>	<b>33</b>	<b>-</b>	<b>2 390</b>	<b>-</b>
Options	33	-	2 390	-
<b>Currency derivatives</b>	<b>793 112</b>	<b>691 007</b>	<b>214 363</b>	<b>125 963</b>
FX Swap	550 176	537 422	119 480	78 157
CIRS	164 750	29 002	70 424	13 735
Forward	45 146	91 469	15 609	25 943
Spot	1 103	1 177	830	108
Options	31 937	31 937	8 020	8 020
<b>Total trading derivatives</b>	<b>977 524</b>	<b>1 000 787</b>	<b>362 755</b>	<b>241 869</b>

Debt and equity securities	31.12.2007		31.12.2006	
	Assets	Liabilities	Assets	Liabilities
Debt securities	171 135	-	685 255	-
Government securities:	171 135	-	685 255	-
- bills	60 202	-	497 460	-
- bonds	110 933	-	187 795	-
Other securities:	-	-	-	-
- bonds	-	-	-	-
Equity securities:	-	-	-	-
- listed	-	-	-	-
- unlisted	-	-	-	-
<b>Total</b>	<b>171 135</b>	<b>-</b>	<b>685 255</b>	<b>-</b>

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

Profit and loss from fair value changes of instruments measured at fair value through profit and loss are disclosed in gains (losses) from financial instruments measured at fair value through profit and loss .

All financial assets measured at fair value through profit and loss are assigned to this category due to trading character of transactions. At initial recognition there was no cases of designation to the category at 31 December 2007 and in comparable periods.

Repo transactions	31.12.2007		31.12.2006	
	Assets	Liabilities	Assets	Liabilities
<b>Total</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>5 006</b>
<b>Total financial assets/liabilities</b>	<b>1 148 659</b>	<b>1 000 787</b>	<b>1 048 010</b>	<b>246 875</b>

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

Derivatives' nominal values		31.12.2007	31.12.2006
<b>1. Derivatives (hedging)</b>		<b>1 990 754</b>	<b>1 486 018</b>
a)	Single-currency interest rate swaps – purchased amounts	995 377	743 009
b)	Single-currency interest rate swaps – sold amounts	995 377	743 009
<b>2. Term derivatives (trading)</b>		<b>226 027 483</b>	<b>139 691 593</b>
a)	Interest rate operations	185 524 124	119 364 672
-	Single-currency interest rate swaps – purchased amounts	63 462 062	38 807 336
-	Single-currency interest rate swaps – sold amounts	63 462 062	38 807 336
-	FRA-purchased amounts	29 800 000	19 650 000
-	FRA-sold amounts	28 800 000	22 100 000
b)	FX operations	40 503 359	20 326 921
-	FX swap – purchased amounts	15 612 274	7 297 468
-	FX swap – sold amounts	15 594 050	7 251 675
-	Forward- purchased	2 508 227	1 360 359
-	Forward- sold	2 559 864	1 371 345
-	Double-currency interest rate swaps – purchased amounts	2 180 719	1 550 962
-	Double-currency interest rate swaps – sold amounts	2 048 225	1 495 112
<b>3. Currency transactions- spot</b>		<b>776 657</b>	<b>921 046</b>
-	spot-purchased	388 293	460 884
-	spot-sold	388 364	460 162
<b>4. Derivatives – OTC options</b>		<b>3 064 616</b>	<b>749 280</b>
-	Options purchased	1 532 308	374 640
-	Options sold	1 532 308	374 640
<b>5. Euroindex options</b>		<b>8 733</b>	<b>168 888</b>
-	Options purchased	8 733	168 888
<b>Total</b>		<b>231 868 243</b>	<b>143 016 825</b>

## 24. Hedging derivatives

Hedging derivatives	31.12.2007		31.12.2006	
	Assets	Liabilities	Assets	Liabilities
Fair value hedge	41 410	7 613	19 956	12 912
IRS	41 410	7 613	19 956	12 912
<b>Total hedging derivatives</b>	<b>41 410</b>	<b>7 613</b>	<b>19 956</b>	<b>12 912</b>

## 25. Loans and advances to customers

Loans and advances to customers	31.12.2007	31.12.2006
Loans and advances to enterprises	16 473 941	12 337 081
Loans and advances to individuals, of which:	6 066 942	4 212 350
<i>Real estate financing</i>	<i>3 644 937</i>	<i>2 562 786</i>
Loans and advances to public sector	159 341	222 029
Reverse-repo transactions	29	15 629
Other	6 473	3 935
<b>Gross receivables</b>	<b>22 706 726</b>	<b>16 791 024</b>
Impairment losses in loans and advances to customers	(556 093)	(618 670)
<b>Total</b>	<b>22 150 633</b>	<b>16 172 354</b>

As at 31.12.2007 fair value adjustment due to hedged risk on corporate loans totalled PLN (105) k (as at 31.12.2006 - PLN 6 949 k). Finance lease receivables are presented in additional note 46.

Movements on impairment recognised on loans and advances to customers	31.12.2007	31.12.2006
<b>Individual and collective impairment</b>		
As at 31 December	(523 537)	(620 529)
Charge of current period	(105 941)	(172 802)
Write back of current period	116 001	137 223
Write downs and write off's	88 124	131 551
Impact of exchange rate	872	1 020
<b>Balance at the end of the period</b>	<b>(424 481)</b>	<b>(523 537)</b>
<b>IBNR</b>		
As at 31 December	(95 133)	(73 794)
Charge of current period	(164 715)	(133 248)
Write back of current period	125 825	111 029
Impact of exchange rate	2 411	880
<b>Balance at the end of the period</b>	<b>(131 612)</b>	<b>(95 133)</b>
<b>Total</b>	<b>(556 093)</b>	<b>(618 670)</b>

## 26. Investment securities

Investment securities	31.12.2007	31.12.2006
Available for sale investments - measured at fair value	9 698 307	7 993 770
Debt securities:	9 047 923	7 380 942
Government securities:	8 203 609	6 250 416
- bills	263 047	206 627
- bonds	7 940 562	6 043 789
Central Bank securities:	591 379	593 104
- bonds	591 379	593 104
Commercial securities:	252 935	537 422
- bonds	252 935	537 422
Equity securities - measured at fair value:	625 461	594 126
- listed	23 265	14 361
- unlisted	602 196	579 765
Investment certificates	24 923	18 702
<b>Total</b>	<b>9 698 307</b>	<b>7 993 770</b>

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 31.12.2006 fixed interest rate debt securities measured at fair value amount to PLN 6 342 844 k, variable interest rate securities amount to PLN 1 038 100 k.

As at 31.12.2007 fair value adjustments resulting from fair value hedge on available for sale debt securities totalled PLN (12 100) k (as at 31.12.2006 - PLN 1 305 k).

As at 31 December 2006 BZWBK has revised the valuation of its investments in Polish entities of the Commercial Union Group classified as available for sale. Resulting from the revision a positive adjustment to the carrying value of these investments in the amount of PLN 354 292 k has been recognised with corresponding increase (net of deferred tax) in the revaluation reserve. In the reporting period BZWBK Group did not identify any material changes in the fair value of the investments specified above.

The revised fair values have been determined by valuation techniques using: (a) recent prospective arm's length transactions between knowledgeable and willing parties and (b) by reference to the current fair value of shares issued by similar entities. For the latter the following parameters have been used in the model: average P/E and P/BV ratios for similar entities, profit and equity figures based on 2005 data, risk adjustments related to expected variance of share prices and profits as well as liquidity discount.

Movements on investment securities	Debt securities	Equity securities	Total
<b>As at 1 January 2007</b>	<b>7 380 942</b>	<b>612 828</b>	<b>7 993 770</b>
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)
<b>As at 31 December 2007</b>	<b>9 047 923</b>	<b>650 384</b>	<b>9 698 307</b>

Movements on investment securities	Debt securities	Equity securities	Total
<b>As at 1 January 2006</b>	<b>6 637 887</b>	<b>247 957</b>	<b>6 885 844</b>
Additions	2 423 032	3 000	2 426 032
Disposals (sale and redemption)	(1 588 164)	(7 055)	(1 595 219)
Fair value adjustment (AFS)	(41 549)	367 005	325 456
Movements on interest accrued	(37 689)	-	(37 689)
Provision for impairment	-	1 921	1 921
F/X differences	(12 575)	-	(12 575)
<b>As at 31 December 2006</b>	<b>7 380 942</b>	<b>612 828</b>	<b>7 993 770</b>

## 27. Investment in associates

Investments in associates	31.12.2007	31.12.2006
Subsidiaries	144 415	156 962
Associates	11 552	29 356
<b>Total</b>	<b>155 967</b>	<b>186 318</b>

## 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
<b>registered office</b>	Poznań	Warszawa	Poznań	Poznań	Poznań	Poznań	Poznań	Poznań	Szczecin	Warszawa	
<b>Balance sheet value</b>	50	6 200	37 012	47 757	45 925	498	218	6 755	8 000	3 511	<b>155 926</b>
<b>total assets</b>	46 092	242 445	915 835	1 677 336	1 294 191	619	1 682	282 119	68 272	122 301	<b>4 650 892</b>
<b>own funds of entity, of which:</b>	5 095	9 805	82 943	133 607	168 752	1 094	938	222 798	19 734	12 758	<b>657 524</b>
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
<b>liabilities of entity, of which:</b>	40 423	229 014	675 938	1 270 155	962 157	-	-	-	46 232	29 635	<b>3 253 554</b>
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
<b>Revenues</b>	299	22 734	62 999	104 560	246 767	964	7 979	255 911	1 333	7 708	<b>711 254</b>
<b>% of holding***</b>	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

## Investments in subsidiaries and associates as at 31.12.2006

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. i Wspólnicy Sp. Komandytowa	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
<b>registered office</b>	Poznań	Warszawa	Poznań	Poznań	Poznań	Poznań	Poznań	Poznań	Poznań	Szczecin	Warszawa	
<b>Balance sheet value</b>	50	5 119	37 012	47 757	45 926	13 650	475	218	6 755	8 000	27 236	<b>192 198</b>
<b>total assets</b>	25 727	122 408	718 178	1 118 727	1 137 063	26 954	735	1 745	126 820	62 571	242 521	<b>3 583 449</b>
<b>own funds of entity, of which:</b>	24 824	5 273	73 329	116 255	133 001	26 941	467	1 100	106 418	17 929	94 677	<b>600 214</b>
share capital	50	50	37 000	108 192	44 974	13 599	500	350	13 500	16 000	3 554	237 769
other own funds, of which:	24 774	5 223	36 329	8 063	88 027	13 342	(33)	750	92 918	1 929	91 123	362 445
from previous years	-	(2 859)	-	(15 762)	-	7 488	(77)	-	-	632	(38 235)	(48 813)
net profit (loss)	18 851	1 932	9 513	19 953	61 355	5 853	33	309	87 819	997	23 084	229 699
<b>liabilities of entity, of which:</b>	-	114 274	450 343	564 981	839 492	-	-	-	-	43 187	83 325	<b>2 095 602</b>
short-term	-	114 274	78 147	178 252	839 492	-	-	-	-	73	51 488	1 261 726
long-term	-	-	372 196	386 729	-	-	-	-	-	43 114	31 837	833 876
<b>Revenues</b>	701	14 893	52 839	86 627	182 194	15 307	460	7 157	125 368	2 854	40 787	<b>529 187</b>
<b>% of holding**</b>	100,00	100,00	99,99	99,99	99,99	99,99	99,98	60,00	50,00	50,00	28,77	

\* financial highlights as at end of September 2006

\*\* 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 S.A. i Wspólnicy Sp. Komandytowa	leasing of fixed assets
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
NFI Magna Polonia S.A. Group	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

**28. Intangible assets**

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

The gross value of intangible assets mostly relates to Integrated Centralised Banking System which has been a core system for BZWBK branches since 2002 when it was capitalised. At the end of the reporting period its net value amounted to PLN 7 689 k (including modifications). Expenditures made in 2007 are included in "capital expenditures". They are calculated successively and capitalised at the end of particular projects.



<b>Intangible assets</b>		<b>Licences, patents etc.</b>	<b>Other</b>	<b>Capital expenditures</b>	<b>Total</b>
<b>Year 2006</b>					
<b>Gross value at the beginning of the period</b>		<b>463 514</b>	<b>5 975</b>	<b>20 778</b>	<b>490 267</b>
<b>Additions from:</b>					
-purchases		-	-	36 676	<b>36 676</b>
-intangible assets taken for use		17 707	44	-	<b>17 751</b>
-transfers		-	-	-	-
<b>Disposals from:</b>					
-liquidation		(948)	-	(39)	<b>(987)</b>
-intangible assets taken for use		-	-	(17 751)	<b>(17 751)</b>
-transfers		-	-	(85)	<b>(85)</b>
<b>Gross value at the end of the period</b>		<b>480 273</b>	<b>6 019</b>	<b>39 579</b>	<b>525 871</b>
<b>Accumulated depreciation at the beginning of the period</b>		<b>(318 086)</b>	<b>(5 453)</b>	-	<b>(323 539)</b>
<b>Depreciation:</b>					
-current year		(76 044)	(129)	-	<b>(76 173)</b>
-liquidation		948	-	-	<b>948</b>
-transfers		-	-	-	-
Write down/Reversal of impairment write down		(6)	-	-	<b>(6)</b>
<b>Accumulated depreciation at the end of the period</b>		<b>(393 188)</b>	<b>(5 582)</b>	-	<b>(398 770)</b>
<b>Book Value</b>					
Purchase value		480 273	6 019	39 579	<b>525 871</b>
Accumulated depreciation		(393 188)	(5 582)	-	<b>(398 770)</b>
<b>As at 31 December 2006</b>		<b>87 085</b>	<b>437</b>	<b>39 579</b>	<b>127 101</b>

The gross value of intangible assets mostly relates to Integrated Centralised Banking System. It has been a core system for BZWBK branches since 2002 when it was capitalised. At the end of the reporting period its net value amounted to PLN 55 818 k (including modifications). Expenditures made in 2006 are included in "capital expenditures". They are calculated successively and capitalised at the end of particular projects.

## 29. Property plant and equipment

Property, plant & equipment	Land and Buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
<b>31.12.2007</b>						
<b>Gross value at the beginning of the period</b>	<b>546 848</b>	<b>343 229</b>	<b>25 352</b>	<b>242 433</b>	<b>25 583</b>	<b>1 183 445</b>
<b>Additions from:</b>						
-purchases	-	-	-	-	86 760	<b>86 760</b>
-leasing	-	-	10 907	-	-	<b>10 907</b>
-donation	-	48	-	-	-	<b>48</b>
-fixed assets taken for use	12 650	28 267	-	18 755	-	<b>59 672</b>
-transfers	20 106	-	-	3 634	1 510	<b>25 250</b>
						-
<b>Disposals from:</b>						
- sale, liquidation and donation	(11 960)	(93 610)	(5 517)	(16 798)	-	<b>(127 885)</b>
-fixed assets taken for use	-	-	-	-	(59 672)	<b>(59 672)</b>
<b>Gross value at the end of the period</b>	<b>567 644</b>	<b>277 934</b>	<b>30 742</b>	<b>248 024</b>	<b>54 181</b>	<b>1 178 525</b>
<b>Accumulated depreciation at the beginning of the period</b>	<b>(201 495)</b>	<b>(321 858)</b>	<b>(13 133)</b>	<b>(163 365)</b>	-	<b>(699 851)</b>
<b>Depreciation:</b>						
- current year	(22 692)	(11 857)	(5 745)	(21 541)	-	<b>(61 835)</b>
- sale, liquidation and donation	7 160	93 581	5 404	16 466	-	<b>122 611</b>
-transfers	(8 143)	(14)	(1 017)	(1 960)	-	<b>(11 134)</b>
Reversal of impairment write down	-	-	-	(289)	-	<b>(289)</b>
<b>Accumulated depreciation at the end of the period</b>	<b>(225 170)</b>	<b>(240 148)</b>	<b>(14 491)</b>	<b>(170 689)</b>	-	<b>(650 498)</b>
<b>Book Value</b>						
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)
<b>As at 31 December 2007</b>	<b>342 474</b>	<b>37 786</b>	<b>16 251</b>	<b>77 335</b>	<b>54 181</b>	<b>528 027</b>

Expenditures made in 2007 are included in "capital expenditure". Expenditures are calculated successively and capitalised in appropriate group of fixed assets. The main items are: purchase and modernization of ATM's, electronic equipment, modernization of existing units as well as adaptation of new offices for branches. In July 2007 a piece of real estate in Wrocław was reclassified from assets held for sale to "property, plant and equipment". It is disclosed as a transfer (net value: PLN 13 729 k). The main items of "disposals from sale, liquidation and donation" are: liquidation of old, obsolete fixed assets in net value of PLN 1 137 k, sale of fix assets (gross value: PLN 12 203 k, net value: 4 126 k) and a donation (gross value: PLN 2 871 k, net value: PLN 11 k). The main items of "disposals from sale, liquidation and donation" is a sale of properties - incl. those in Karpacz (gains on sale: PLN 773 k) and in Chodzież (gains on sale: 288 k).

Property, plant & equipment	Land and Buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
<b>31.12.2006</b>						
<b>Gross value at the beginning of the period</b>	<b>548 369</b>	<b>336 235</b>	<b>25 506</b>	<b>233 104</b>	<b>7 397</b>	<b>1 150 611</b>
<b>Additions from:</b>						
-purchases	-	-	-	-	44 661	<b>44 661</b>
-leasing	-	-	3 861	-	-	<b>3 861</b>
-fixed assets taken for use	4 571	9 997	-	11 992	-	<b>26 560</b>
-transfers	21	-	-	-	85	<b>106</b>
<b>Disposals from:</b>						
- sale, liquidation and donation	(6 113)	(3 003)	(4 015)	(2 663)	-	<b>(15 794)</b>
-fixed assets taken for use	-	-	-	-	(26 560)	<b>(26 560)</b>
<b>Gross value at the end of the period</b>	<b>546 848</b>	<b>343 229</b>	<b>25 352</b>	<b>242 433</b>	<b>25 583</b>	<b>1 183 445</b>
<b>Accumulated depreciation at the beginning of the period</b>	<b>(183 629)</b>	<b>(295 710)</b>	<b>(11 691)</b>	<b>(148 605)</b>	-	<b>(639 635)</b>
<b>Depreciation:</b>						
- current year	(21 398)	(29 136)	(4 909)	(21 392)	-	<b>(76 835)</b>
- sale, liquidation and donation	3 625	2 998	3 973	2 495	-	<b>13 091</b>
-transfers	(93)	(10)	(506)	111	-	<b>(498)</b>
Reversal of impairment write down	-	-	-	4 026	-	<b>4 026</b>
<b>Accumulated depreciation at the end of the period</b>	<b>(201 495)</b>	<b>(321 858)</b>	<b>(13 133)</b>	<b>(163 365)</b>	-	<b>(699 851)</b>
<b>Book Value</b>						
Purchase value	546 848	343 229	25 352	242 433	25 583	<b>1 183 445</b>
Accumulated depreciation	(201 495)	(321 858)	(13 133)	(163 365)	-	<b>(699 851)</b>
<b>As at 31 December 2006</b>	<b>345 353</b>	<b>21 371</b>	<b>12 219</b>	<b>79 068</b>	<b>25 583</b>	<b>483 594</b>

Expenditures made in 2006 are included in "capital expenditure" .Expenditures are calculated successively and capitalised in appropriate group of fixed assets. The main items are: purchase and modernization of ATM's, electronic equipment as well as modernization of existing units. The main item of "sale" is a disposal of Banks property.

**30. Deferred tax assets**

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

As at 31 December 2007 calculation of deferred tax asset did not taken into account bought receivables of PLN 21 498 k and loans that will not be realised of PLN 18 046 k.

Deferred tax asset	31.12.2005	Increase	Decrease	31.12.2006
Unrealized deposit interest	18 115	-	(6 844)	11 271
Unrealized securities interest	26 964	-	(7 736)	19 228
Unrealized liabilities due to derivatives	138 208	-	(18 943)	119 265
Provisions for loans	134 608	-	(30 099)	104 509
Other provisions which are not yet taxable costs	40 247	7 749	-	47 996
Additional deferred tax assets resulting from art. 38 a of Corporate Tax Act	15 293	-	(1 098)	14 195
Deferred income	24 824	1 624	-	26 448
Other	4 148	-	(552)	3 596
<b>Total</b>	<b>402 407</b>	<b>9 373</b>	<b>(65 272)</b>	<b>346 508</b>

As at 31 December 2006 calculation of deferred tax asset did not taken into account bought receivables of PLN 21 671 k and loans that will not be realised of PLN 33 083 k.

**31. Other assets**

Other assets	31.12.2007	31.12.2006
Sundry debtors	140 756	85 060
Interbank and interbranch settlements	75 805	152 056
Prepayments	29 556	16 500
Assets held for sale	2 502	17 053
Other	55	55
<b>Total</b>	<b>248 674</b>	<b>270 724</b>

**Assets held for sale - BZ WBK Group**

31 December 2007	Gross value	Impairment loss	Carrying value
Land and buildings	4 224	(1 815)	2 409
Equipment	436	(343)	93
<b>Total</b>	<b>4 660</b>	<b>(2 158)</b>	<b>2 502</b>

In 2007 a property including its equipment was sold (net value PLN 788 k and PLN 34 k respectively), another one was reclassified from assets held for sale to property, plant and equipment (net value of PLN 11 965 k) with its fixed assets of net value PLN 1 764 k.

31 December 2006	Gross value	Impairment loss	Carrying value
Land and buildings	21 913	(6 751)	15 162
Equipment	1 918	(27)	1 891
<b>Total</b>	<b>23 831</b>	<b>(6 778)</b>	<b>17 053</b>

In 2006 a property was sold (carrying value- PLN 136 k) and equipment taken over for debts was liquidated (carrying value- PLN 231 k)

### 32. Deposits from banks

Deposits from banks	31.12.2007	31.12.2006
Current accounts	177 021	191 914
Deposits	1 212 253	371 635
Loans from other banks	-	174 000
Repo transactions	1 756 121	1 222 595
Other	-	-
<b>Total</b>	<b>3 145 395</b>	<b>1 960 144</b>

As at 31.12.2007 fair value adjustment for hedged deposit totaled PLN 48 k (as at 31.12.2006 - PLN 0 k).  
Fair value of deposits from banks is presented in additional note 42.

### 33. Deposits from customers

Deposits from customers	31.12.2007	31.12.2006
Deposits from individuals	14 352 209	11 694 510
- term deposits	6 057 848	7 733 698
- current accounts	8 238 294	3 908 725
- other	56 067	52 087
Deposits from enterprises	13 501 442	11 167 711
- current accounts	8 899 041	6 818 344
- term deposits	4 301 010	3 927 934
- credits	-	19 381
- repo transactions	5 269	3 081
- other	296 122	398 971
Deposits from public sector	2 411 083	1 619 775
- current accounts	1 802 707	1 265 565
- term deposits	607 789	353 237
- other	587	973
<b>Total</b>	<b>30 264 734</b>	<b>24 481 996</b>

As at 31.12.2007 deposits held as collateral totalled PLN 190 392 k. As at 31.12.2006 deposits held as collateral totalled PLN 175 871 k.

Fair value of deposits from customers is presented in additional note 42.

**34. Debt securities in issue**

Debt securities in issue	Average coupon		Nominal value	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Bond 5-Y 5S1008	fixed; 5,25%	fixed; 5,25%	7 092	7 092
Bond 5-Y 5S1108	fixed; 5,75%	fixed; 5,75%	9 953	9 953
Bond 5-Y 5S1208	fixed; 6,00%	fixed; 6,00%	61 874	61 874
<b>Total nominal value</b>			<b>78 919</b>	<b>78 919</b>
<b>Total carrying value</b>			<b>99 348</b>	<b>95 897</b>

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.

As at 31.12.2006 the nominal value was increased by interest of PLN 15 539 k, bond valuation of PLN 1 439 k related to hedging activities.

**35. Deferred tax liabilities**

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

Deferred tax liability	31.12.2005	Increase	Decrease	31.12.2006
Unrealised interests from securities and interbank deposits	47 044	-	(29 209)	17 835
Unrealised loans interests	12 920	-	(2 353)	10 567
Unrealised receivables on derivatives	140 871	-	(17 358)	123 513
Provision due to application of investment relief	5 023	-	(2 140)	2 883
Valuation of assets available for sale	56 191	62 290	-	118 481
Other	41 379	-	(32 462)	8 917
<b>Total</b>	<b>303 428</b>	<b>62 290</b>	<b>(83 522)</b>	<b>282 196</b>

**36. Other liabilities**

Other liabilities	31.12.2007	31.12.2006
Interbank and interbranch settlements	203 000	307 793
Sundry creditors	141 078	83 368
Provisions:	160 755	128 085
<i>Employee provisions</i>	131 660	99 328
<i>Provisions for legal claims</i>	27 979	25 519
<i>Provisions for off balance sheet credit facilities</i>	1 116	3 238
Accrued liabilities	91 763	70 348
Other deferred and suspended income	41 385	50 160
<b>Total</b>	<b>637 981</b>	<b>639 754</b>

Movements on provisions	31.12.2007	31.12.2006
<b>As at 31 December</b>	<b>128 085</b>	<b>103 299</b>
Provisions for off balance sheet credit facilities	3 238	11 818
Employee provisions and accruals	99 328	81 440
Provisions for legal claims	25 519	10 041
<b>Provision charge</b>	<b>139 260</b>	<b>106 512</b>
Provisions for off balance sheet credit facilities	1 477	2 323
Employee provisions and accruals	129 536	87 791
Provisions for legal claims	8 247	16 398
<b>Utilisation</b>	<b>(99 207)</b>	<b>(69 892)</b>
Provisions for off balance sheet credit facilities	(78)	-
Employee provisions and accruals	(96 192)	(69 892)
Provisions for legal claims	(2 937)	-
<b>Write back</b>	<b>(7 383)</b>	<b>(11 834)</b>
Provisions for off balance sheet credit facilities	(3 521)	(10 903)
Employee provisions and accruals	(1 012)	(11)
Provisions for legal claims	(2 850)	(920)
<b>As at the end of the period</b>	<b>160 755</b>	<b>128 085</b>
<b>Provisions for off balance sheet credit facilities</b>	<b>1 116</b>	<b>3 238</b>
<b>Employee provisions and accruals</b>	<b>131 660</b>	<b>99 328</b>
<b>Provisions for legal claims</b>	<b>27 979</b>	<b>25 519</b>

The Group 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 53.

### 37. 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
				<b>72 960 284</b>	<b>729 603</b>

Nominal value of one share is 10 PLN. All shares in issue are fully paid. There was no movements on share capital during reporting period.

According to the information available to the Bank's Management Board, as at 31.12.2007 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

From the date of registration of issued capital in 1991 to December 1996 the Bank operated in an economy of hyperinflation. IAS 29 (Financial Reporting in Hyperinflationary Economies) requires the restatement of each component of shareholder's equity (except retained earnings and any revaluations surplus) by the general price index for the period of hyperinflation. This retrospective application would have resulted in an increase in share capital PLN 336 091 k and Other reserve funds by PLN 380 983 k and a reduction in retained earnings over that period of equivalent amounts.

### 38. Other reserve funds

Other reserve funds	31.12.2007	31.12.2006
General banking risk fund	529 810	529 810
Share premium	261 699	261 699
Other reserve capitals	1 159 742	994 235
<b>Total</b>	<b>1 951 251</b>	<b>1 785 744</b>

#### 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.

Other reserve capitals consist of reserve capital in the amount of PLN 1 048 070 k and supplementary capital PLN 111 672 k (as at 31.12.2006 : PLN 882 563 k and PLN 111 672 k respectively).

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.

### 39. Revaluation reserve

Revaluation reserve	31.12.2007
As at 31 December 2006	505 102
Net change in available for sale investments, of which:	(189 124)
- related to debt investments purchased before current reporting period	(128 848)
- related to equity investments purchased before current reporting period	(2 860)
- related to debt investments purchased/assigned during the period	(75 280)
- related to equity investments purchased during current reporting period	17 864
Net change in available for sale investments matured during the period	(31 751)
Decrease in revaluation reserve related to sale of investments	28 876
Decrease in revaluation reserve related to hedge accounting	13 405
Deferred tax adjustment	33 933
<b>As at 31.12.2007</b>	<b>360 441</b>

As at 31 December 2007 BZWBK did not identify any material changes in fair value of its investments in Polish entities of the Commercial Union Group classified as available for sale.

Revaluation reserve	31.12.2006
As at 31 December 2005	239 495
Net change in available for sale investments, of which:	276 173
- related to debt investments purchased before current reporting period	(30 412)
- related to equity investments purchased before current reporting period	301 112
- related to debt investments purchased/assigned during the period	5 473
Net change in available for sale investments matured during the period	(8 116)
Decrease in revaluation reserve related to sale of investments	(549)
Decrease in revaluation reserve related to hedge accounting	(1 901)
<b>As at 31.12.2006</b>	<b>505 102</b>



As at 31 December 2006 BZWBK has revised valuation of its investments in Polish entities of the Commercial Union Group classified as available for sale. Resulting from the revision a positive adjustment to the carrying value of these investments in the amount of PLN 354 292 k has been recognised with corresponding increase (net of deferred tax) in the revaluation reserve.

**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.

#### 40. Hedge accounting

The Bank Zachodni WBK S.A. applies hedge accounting in line with the risk management assumptions described in note 7 of annual financial statements. Hedging transactions are constructed using interest rate swaps. Their purpose is to mitigate 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. Bank Zachodni WBK applies fair value hedge accounting 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,
- Deposit denominated in foreign currency,
- 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 table below contains details about individual groups of hedge transactions for 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

#### 41. Sell-buy-back transactions

The Bank raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. As at 31 December 2007, the balance sheet contains treasury bills and bonds traded under sell-buy-back transactions in the amount of PLN 1 757 802 k (PLN 1 225 264 k as at 31 December 2006).

At the same time, on the liabilities side, in the item representing obligations in respect repo transactions there were deposits recognised, corresponding to the securities traded in the amount of PLN 1 761 390 k (PLN – 1 230 682 k as at 31 December 2006).

In case of sale-by-back transactions with the Bank remains all risks and rewards related to holding of underlying debt securities as well as power to dispose them.

Financial instruments received as collateral for (reverse) repurchase agreements can be sold or repledged under standard agreements, but have to be returned at the end of the transaction. As at 31.12.2007 financial instruments with nominal value of PLN 5 000 k accepted as collateral have been repledged under subsequent repurchase transactions, which will conclude before the maturity of the original transactions. As at 31.12.2006 there were no such transactions.

#### 42. 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 that are not presented on the Bank's balance sheet at their fair value. In accordance with clause 36A of IFRS 1 Bank Zachodni WBK S.A. elected to use the exemption from disclosure of comparable data at fair value. For financial assets and liabilities, it is assumed that their carrying amount is approximately equal to their fair value.

	2007		2006	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Loans and advances to banks	2 563 755	2 563 911	3 149 267	3 150 798
Loans and advances to customers	22 150 633	22 169 714	16 172 354	16 188 956
Investments in associate undertakings	155 967	155 967	186 318	186 318
<b>Liabilities</b>				
Deposits from banks	3 145 395	3 146 042	1 960 144	1 960 230
Deposits from customers	30 264 734	30 264 546	24 481 996	24 480 927

The comparable fair values have been adjusted to reflect a change in the calculation of fair values as at 31.12.2006.

### ***Estimation of fair values***

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 provisions. 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. For loans that have floating rate interest cash flows or maturing within one year it's assumed that their fair value is not significantly different from carrying value, if there was no significant change in the credit risk of the borrower. 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.

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

*Investments in subsidiaries and associates:* Financial assets representing interests in associated entities were accounted for using the equity method. For the purpose of consolidated financial statements investments in subsidiaries and associates are: consolidated on line-by-line basis or accounted for by equity method respectively. In the opinion of the Management Board of the parent company, it was impossible to reliably estimate 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 one year 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.

## **43. Contingent liabilities**

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

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 litigations totals 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.

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

The value of all litigations totals PLN 301 287 k, which is ca. 8,34% of the Bank's equity. This amount includes PLN 62 888 k claimed by the Bank, PLN 38 283 k in claims against the Bank and PLN 200 116 k are Bank's receivables due to bankruptcy or arrangement cases.

### Off balance sheet liabilities

Bank Zachodni WBK S.A. has commitments to deliver loans. These commitments include loans sanctioned, credit card limits and overdrafts. Bank Zachodni WBK S.A. issue guarantees and letters of credit which collateralise customers' liabilities to third parties.

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

Contingent liabilities, sanctioned and received	31.12.2007	31.12.2006
<b>Liabilities sanctioned</b>	<b>8 978 520</b>	<b>7 812 302</b>
<b>- financial</b>	<b>8 183 465</b>	<b>7 064 149</b>
- including: import letters of credit	61 209	94 447
- including: credit lines	6 923 381	6 368 254
- including: credit cards debits	651 041	439 255
- including: term deposits with future commencement term	547 834	162 193
<b>- guarantees</b>	<b>795 055</b>	<b>748 153</b>
including: confirmed export letters of credit	814	1 880
<b>Received liabilities</b>	<b>1 979 265</b>	<b>1 540 683</b>
<b>Total</b>	<b>10 957 785</b>	<b>9 352 985</b>

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

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

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

#### 44. Assets pledged as collateral

Bank is obliged to set up a guaranteed funds protection fund. For the purpose as at 31 December 2007 Bank Zachodni WBK S.A. pledged as collateral PLN 64 335 k of debt securities (PLN 58 249 k in year 2006).

In 2007 a deposit for PLN 12 322 k was placed with another Polish bank as collateral for the day-to-day Treasury business.

At the end of 2006 Bank had drawn a Lombard loan from NBP in the amount of PLN 174 000 k, with a maturity date less than one month and interest rate 5,5%. It was secured with corresponding amount of bonds.

Other assets pledge as collateral are presented in note 41.

#### 45. Trust activities

Bank Zachodni WBK S.A. provided custodian services in accordance with Stock Exchange Commission license of 09 August 1999. The Bank's custodian services were addressed to residents - private individuals and legal enterprises (incl. investment funds) - and to foreign institutional investors present on the Polish capital market. They 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 Zachodni WBK S.A. also acted as a depository for 4 investment funds, managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.

As at the end of 2007 assets held by clients at the Bank Zachodni WBK S.A. securities accounts increased 5.5 % and totalled PLN 7 950 350k (PLN 7 531 764 k in 2006).

Year 2007 was the last year of trust activity. Since 1.01.2008 the process of Custodian Services Unit liquidation has begun at the securities accounts were transferred to other Depositories.

#### 46. 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 Finance & Leasing SA.

The leasing contracts finance purchase of cars.

Finance leases gross liabilities (maturity)	31.12.2007	31.12.2006
Less than 1 year	7 737	6 097
1-5 years	18 276	9 550
over 5 years	-	-
<b>Total</b>	<b>26 013</b>	<b>15 647</b>

Present value of lease payments (maturity)	31.12.2007	31.12.2006
Less than 1 year	7 061	5 438
1-5 years	16 431	8 459
over 5 years	-	-
<b>Total</b>	<b>23 492</b>	<b>13 897</b>

Reconciliation between the gross investment and the present value of minimum lease payments	31.12.2007	31.12.2006
Finance leases gross liabilities	26 013	15 647
Unearned financial costs	(2 521)	(1 750)
<b>Present value of minimum lease payments</b>	<b>23 492</b>	<b>13 897</b>

The present value of the minimum lease payments includes effects of EIR adjustments.

### Operating Leases

Bank Zachodni WBK S.A. leases offices in compliance with operational leasing agreements. Most significant agreements relate to the buildings in Poznań and Warsaw. As a standard, agreements are concluded for 5-10 years. A small part of the offices is subleased outside the Bank. In 2007 and 2006 rentals related to mentioned real estates totaled PLN 15 897 k and PLN 16 645 k respectively. These payments are presented in the profit and loss account under "administrative costs".

Total payments due to non cancelable operating leases (including land perpetual usufruct) shows the table below.

Payments (maturity)	31.12.2007	31.12.2006
Less than 1 year	16 624	20 583
1-5 years	30 828	56 696
over 5 years	60 683	63 285
<b>Total</b>	<b>108 135</b>	<b>140 565</b>

### 47. Cash flow statement- additional information

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

Cash components	31.12.2007	31.12.2006
Cash on hand	840 919	602 329
Current account in a central bank	1 365 130	931 546
Other cash equivalents	210	594
Current accounts other banks	19 215	8 247
<b>Total</b>	<b>2 225 474</b>	<b>1 542 716</b>

### 48. 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****31.12.2007**

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	-	40 771	46 128
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
<b>Total</b>	<b>818 391</b>	<b>-</b>	<b>424 976</b>	<b>1 243 367</b>

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	-	55 044	58 958
Deposits from clients	1 537 430	58 568	-	1 595 998
Other liabilities	17 675	-	14 788	32 463
<b>Total</b>	<b>1 559 019</b>	<b>58 568</b>	<b>1 020 701</b>	<b>2 638 288</b>

**31.12.2006**

Receivables	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	
				Total
Loans and advances to banks	-	-	284 272	284 272
Financial assets held for trading	81	-	48 451	48 532
Derivative financial instruments	-	-	1 023	1 023
Loans and advances to customers	395 466	-	-	395 466
Investment securities	-	-	371 218	371 218
Other assets	13 210	-	-	13 210
<b>Total</b>	<b>408 757</b>	<b>-</b>	<b>704 964</b>	<b>1 113 721</b>

Liabilities	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	
				Total
Deposits from banks	-	-	5 155	5 155
Financial assets held for trading	18 461	-	33 037	51 498
Deposits from clients	1 184 622	88 061	-	1 272 683
Other liabilities	13 452	-	19 529	32 981
<b>Total</b>	<b>1 216 535</b>	<b>88 061</b>	<b>57 721</b>	<b>1 362 317</b>

## Revenues and expenses relating to transactions with connected entities

## 1.01.2007 - 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 and revaluation income	-	-	24 408	24 408
Gains (losses) from other financial securities	-	-	357	357
<b>Total</b>	<b>200 209</b>	<b>2</b>	<b>47 091</b>	<b>247 302</b>

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
Gains less losses from financial instruments measured at fair value through profit and loss	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
<b>Total</b>	<b>66 670</b>	<b>3 913</b>	<b>23 247</b>	<b>93 787</b>

## 1.01.2006 - 31.12.2006

Income	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Interest and similar income	16 699	-	29 669	46 368
Fee and commission income	118 610	4	-	118 614
Other operating income	4 344	-	-	4 344
Net trading and revaluation income	-	-	1 023	1 023
Gains (losses) from other financial securities	-	-	12 781	12 781
<b>Total</b>	<b>139 653</b>	<b>4</b>	<b>43 473</b>	<b>183 130</b>

Expenses	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Interest expense and similar charges	32 160	3 775	87	36 022
Fee and commission expense	36	-	-	36
Gains less losses from investment in securities	77	-	-	77
Other operating expenses incl.:	820	-	32 379	33 199
Bank's operating expenses and management costs	820	-	32 379	33 199
<b>Total</b>	<b>33 093</b>	<b>3 775</b>	<b>32 466</b>	<b>69 334</b>



**Off balance sheet positions relating to transactions with connected entities****31.12.2007**

Intragroup transactions - off-balance sheet liabilities	of which from subsidiaries
<b>1. Sanctioned contingent liabilities</b>	<b>832 210</b>
- financing-related	717 400
- guarantees	114 810
<b>2. Received contingent liabilities</b>	<b>832 210</b>
- financing-related	717 400
- guarantees	114 810
<b>Total</b>	<b>1 664 420</b>

Intragroup transactions- derivatives' nominal values	of which from subsidiaries
<b>3. Derivatives' nominal values, including:</b>	<b>669 705</b>
-fx forward-purchased	3 201
-fx forward-sold	3 214
-FX swap	363 025
'-Financial instruments operations-single-currency interest rate swaps	300 265

**31.12.2006**

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

Intragroup transactions- derivatives' nominal values	of which from subsidiaries
<b>2. Derivatives' nominal values, including:</b>	<b>603 017</b>
-Financial instruments operations-single-currency interest rate swaps	603 017

**TRANSACTIONS WITH EXECUTIVES****REMUNERATION OF BANK ZACHODNI WBK S.A. MANAGEMENT BOARD AND SUPERVISORY BOARD MEMBERS****31.12.2007**

Remuneration paid to the members of Bank Zachodni WBK Supervisory Board

First and last name	Position	(PLN'000)
Aleksander Szwarc	Chairman of the Supervisory Board since 14.04.2005	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
<b>Total</b>		<b>808,4</b>

\* Mr. Kieran Crowley stepped down from on 17 April 2007

Members of the Supervisory Board who decided not to be remunerated

First and last name	Position	(PLN'000)
Gerry Byrne	Deputy Chairman of the Supervisory Board	-
Maeliosa OhOgartaigh	Member of the Supervisory Board	-

Remuneration paid to the members of Bank Zachodni WBK Management Board

First and last name	Position	Period	Remuneration and awards	Benefits	Total (PLN'000)
Mateusz Morawiecki*	President of the Management Board	16.05.2007-31.12.2007	1 645,58	13,52	1 659,10
Jacek Kseń	President of the Management Board	01.01.2007-30.04.2007	1 877,27	3 785,61	5 662,88
Andrzej Burliga	Member of the Management Board	24.07.2007-31.12.2007	273,33	6,10	279,43
Declan Flynn**	Member of the Management Board	01.01.2007-31.12.2007	2 592,08	825,35	3 417,43
Michał Gajewski	Member of the Management Board	01.01.2007-31.12.2007	1 458,56	57,48	1 516,04
Justyn Konieczny	Member of the Management Board	01.01.2007-31.12.2007	1 458,75	66,79	1 525,54
Janusz Krawczyk	Member of the Management Board	01.01.2007-31.12.2007	1 262,17	43,19	1 305,36
Jacek Marcinowski	Member of the Management Board	01.01.2007-31.12.2007	1 231,07	55,25	1 286,32
James Murphy**	Member of the Management Board	01.01.2007-31.12.2007	1 532,43	614,87	2 147,30
Marcin Prell	Member of the Management Board	01.01.2007-31.12.2007	1 229,58	61,70	1 291,28
Feliks Szyszkowski	Member of the Management Board	01.01.2007-31.12.2007	1 229,00	50,83	1 279,83
<b>Total</b>					<b>21 370,51</b>

The amount of remuneration and awards paid to the Management Board Members of Bank Zachodni WBK S.A. includes: basic salary for 2007, awards for 2006. Benefits include: any payment made or due, on termination of employment contract or retirement, annual leave equivalent, costs of insurance, costs of accommodation, costs of health care etc. Awards for results of 2007, to be paid in April 2008, have not been included as they have not yet been determined and approved by the Supervisory Board. Provision for the award pool was incurred in 2007.

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

\*\*In respect of Messrs Flynn and Murphy (Irish nationals 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.

Members of the Management Board participate in performance-related Incentive Scheme. These conditional awards are subject to performance targets in terms of EPS growth. Detailed information on the Scheme including policy of granting and vesting periods, is given in note 55 of consolidated financial statements.

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
<b>Outstanding at 1 January</b>	<b>23 494</b>
Granted	17 849
Granted before MB nomination	1 606
Forfeited	-
Exercised	-
Expired	-
<b>Outstanding at 31 December</b>	<b>42 949</b>
<b>Exercisable at 31 December 2007</b>	<b>-</b>

<i>First and last name</i>	<i>Total as at 01.01.2007</i>	<i>Granted before MB nomination</i>	<i>Granted during 2007</i>	<i>Total as at 31.12.2007</i>
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 Szyszkowski	3 397	-	2 219	5 616
<b>Total</b>	<b>23 494</b>	<b>1 606</b>	<b>17 849</b>	<b>42 949</b>

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

### 31.12.2006

Remuneration paid to the members of Bank Zachodni WBK Supervisory Board

<i>First and last name</i>	<i>Position</i>	<i>(PLN'000)</i>
Aleksander Szwarc	Chairman of the Supervisory Board since 14.04.2005	151,9
Waldemar Frąckowiak	Member of the Supervisory Board	119,5
Aleksander Galos	Member of the Supervisory Board	103,6
Jacek Ślotała	Member of the Supervisory Board	87,7
John Power	Member of the Supervisory Board	127,7
Kieran Crowley	Member of the Supervisory Board	81,1
<b>Total</b>		<b>671,5</b>

Members of the Supervisory Board who decided not to be remunerated

<i>First and last name</i>	<i>Position</i>	<i>(PLN'000)</i>
Gerry Byrne	Deputy Chairman of the Supervisory Board	-
Declan Mc Sweeney	Member of the Supervisory Board	-

## Remuneration paid to the members of Bank Zachodni WBK Management Board

<i>First and last name</i>	<i>Position</i>	<i>Period</i>	<i>Remuneration Benefits and awards</i>		<i>Total (PLN'000)</i>
Jacek Kseń	President of the Management Board	01.01.2006-31.12.2006	1 813,9	112,7	1 926,6
Declan Flynn*	Member of the Management Board	01.01.2006-31.12.2006	1 834,9	1 117,0	2 951,9
Michał Gajewski	Member of the Management Board	01.01.2006-31.12.2006	1 069,5	42,8	1 112,3
Aleksander Kompf	Member of the Management Board	01.01.2006-04.04.2006	269,9	10,7	280,6
Justyn Konieczny	Member of the Management Board	01.01.2006-31.12.2006	999,5	57,2	1 056,7
Janusz Krawczyk	Member of the Management Board	01.01.2006-31.12.2006	889,0	41,5	930,5
Jacek Marcinowski	Member of the Management Board	01.01.2006-31.12.2006	853,9	30,5	884,4
Mateusz Morawiecki	Member of the Management Board	01.01.2006-31.12.2006	1 053,5	38,1	1 091,6
James Murphy*	Member of the Management Board	01.01.2006-31.12.2006	1 081,2	628,0	1 709,2
Marcin Prell	Member of the Management Board	04.04.2006-31.12.2006	410,9	29,4	440,3
Feliks Szyszkowiak	Member of the Management Board	01.01.2006-31.12.2006	857,4	15,6	873,0
<b>Total</b>					<b>13 257,1</b>

The amount of remuneration and awards paid to the Management Board Members of Bank Zachodni WBK S.A. includes: basic salary for 2006, awards for 2005. Benefits include: annual leave equivalent, costs of insurance, costs of accommodation, costs of health care etc. Awards for results of 2006, to be paid in April 2007, have not been included as they have not yet been determined and approved by the Supervisory Board. Provision for the award pool was incurred in 2006.

\*In respect of Messrs Flynn and Murphy (Irish nationals 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.

Members of the Management Board participate in performance-related Incentive Scheme. These conditional awards are subject to performance targets in terms of EPS growth. Detailed information on the Scheme including policy of granting and vesting periods, is given in note 55 of consolidated financial statements.

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

No. of awards	2006
<b>Outstanding at 1 January</b>	-
Granted	23 494
Forfeited	-
Exercised	-
Expired	-
<b>Outstanding at 31 December</b>	<b>23 494</b>
<b>Exercisable at 31 December 2006</b>	<b>-</b>

No. of awards

<i>First and last name</i>	<i>Total as at 01.01.2006</i>	<i>Granted during 2006</i>	<i>Total as at 31.12.2006</i>
Jacek Kseń	-	-	-
Declan Flynn*	-	-	-
Michał Gajewski	-	3 591	3 591
Aleksander Kompf**	-	-	-
Justyn Konieczny	-	3 591	3 591
Janusz Krawczyk	-	3 397	3 397
Jacek Marcinowski	-	3 397	3 397
Mateusz Morawiecki	-	3 591	3 591
James Murphy*	-	-	-
Marcin Prell	-	2 530	2 530
Feliks Szyszkowiak	-	3 397	3 397
<b>Total</b>			<b>23 494</b>

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

\*\* On grant date Mr Aleksander Kompf was no longer BZWBK Management Board member.

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.

### 31 December 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 executives of BZ WBK S.A. totalled PLN 3 103. k and CHF 19 k. These facilities have been sanctioned on regular terms and conditions.

### **31 December 2006**

As of 31.12.2006, 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 2 k.

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

Loans and advances made by the Bank to the executives of BZ WBK S.A. totalled PLN 4 225 k and CHF 21k.

These facilities have been sanctioned on regular terms and conditions.

During the reporting period there had been made an agreement between one of subsidiary of BZWBK and an entity from outside the Group in which a Member of Management Board of the parent company received consideration of PLN 260 k for services provided.

## **TRANSACTIONS WITH EMPLOYEES**

### **31 December 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) and PLN 29 911 k in the case of employees of BZWBK subsidiaries and associates.

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.

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). Amount relating to employees of subsidiaries and associates totalled PLN 12 286 k.

### **31 December 2006**

As of 31.12.2006, the total of loans and advances drawn by BZWBK S.A. employees was PLN 202 220 k (including the debt of PLN 17 568 k shown in joint accounts) and PLN 14 009 k in the case of employees of BZWBK subsidiaries and associates.

In the same period, the total of loans and advances drawn by BZWBK S.A. employees from the Social Fund was PLN 17 387 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 104 220 k, (of which joined current accounts - PLN 25 630 k). Amount relating to employees of subsidiaries and associates totalled PLN 8 497 k.

#### 49. Information of number and value of banking writs of executions

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,
- credit cards – 1 801 cases of PLN 5 269 k
- mortgage loans – 9 cases of PLN 2 033 k
- corporate loans - 33 cases of PLN 40 424 k

In 2006 Bank issued 3 328 banking writs of execution with total amount of PLN 106 017 k, of which:

- cash loans and overdrafts – 1 498 cases of PLN 14 179 k,
- credit cards – 1 752 cases of PLN 5 567 k
- mortgage loans - 16 cases of PLN 3 099 k
- corporate loans - 62 cases of PLN 83 172 k

#### 50. Acquisitions and disposals of investments

Disposal/ liquidation 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
<b>Total</b>	<b>19 054</b>	<b>44 189</b>	<b>(12 400)</b>	<b>12 735</b>

Disposals in 2006	Net assets	Revenue	Gains/loss on sale
AIB WBK Fund Management Sp. z o.o.	2 989	270	(2 719)
Lubelskie Zakłady Przemysłu Skórzanego Protektor S.A.	3 231	13 245	10 014
NFI Magna Polonia S.A.	37 096	44 518	7 422
<b>Total</b>	<b>43 316</b>	<b>58 033</b>	<b>14 717</b>

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

#### ***Transfer of ownership right from BZWBK S.A. securities account to NFI Magna Polonia S.A. securities account***

On 6 December 2007, ownership right was transferred with regard to 980 517 NFI Magna Polonia S.A. shares from BZ WBK S.A. securities account to NFI Magna Polonia S.A. securities account.

The shares were purchased by NFI for redemption to deliver the Act 10/2007 of NFI Magna Polonia S.A. Extraordinary General Meeting of Shareholders of 4 October 2007 in which the Management Board was authorised to purchase NFI Magna Polonia S.A. shares for redemption.



## 51. Investments in joint ventures

As at 31 December 2007 the companies from the BZ WBK were not involved in any joint-venture activities.

## 52. Events after the balance sheet date

### *Authorization for issue of financial statements*

The unconsolidated financial statements were authorized for issue on 15<sup>th</sup> of February 2008 by the Management Board of Bank Zachodni WBK S.A. The financial statements will be approved by the shareholders at their Annual General Meeting.

## 53. 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 Group create 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	31.12.2007	31.12.2006
Provisions for accrued holiday leaves	16 146	16 618
Provisions for employee bonuses	82 618	57 319
Provisions for retirement allowances	28 661	21 815
Other staff-related provisions	4 235	3 576
<b>Total</b>	<b>131 660</b>	<b>99 328</b>

As at 31.12.2006 the difference in the amount of total staff benefits presented in 2006 results from the recognition of other staff-related expenses in sundry creditors.

Detailed information about movements on staff-relating provisions is available in additional note 36.

#### 54. Share based payments

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 lower level of the scale requires EPS pre annum growth adjusted for CPI respectively in 2006 and 2007: 5% and 8%. The upper level 12% and 16% accordingly.

During 2006 and 2007 conditional awards of shares were granted to no more than 100 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:

	2007	2006
Number of share based payments	78 341	132 476
Exercise price	10	10
Vesting period	3 years	3 years
Volatility	40,69 %	37,38 %
Award life	3 years	3 years
Risk free rate	4,90 %	4,60 %
Fair value per award	267,53 PLN	150,60 PLN

The following table summarizes the share based payments activity:

	12 months of 2007	12 months of 2006
	Number of share based payments	Number of share based payments
Outstanding at 1 January	128 223,0	-
Granted	78 341,0	132 476,0
Exercised	-	-
Forfeited	(5 842,0)	(4 253,0)
Expired	-	-
Outstanding at 31 December	200 722,0	128 223,0
<b>Exercisable at 31 December</b>	-	-

Exercise price for all share based payments amounts to 10 PLN.

For the share based payments outstanding as at 31 December 2006 and as at 31 December 2007 the average remaining contractual life is approximately 2,3 years and 1,6 years respectively.

The total expense recognized with corresponding increase in equity (other reserve capital) for 12 months of 2006 and 2007 amounts to PLN 3 675 k and PLN 10 473 k respectively

## 55. Average staff level with a break-down into professional groups

### 31 December 2007

As at 31 December 2007 the Bank employed 8521 persons, i.e. 8469 FTE's.

In 2007, the average staffing level in Bank Zachodni WBK was 7834 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	5241	61,51
High school degree	3067	35,99
Vocational	29	0,34
Other	184	2,16
<b>Total</b>	<b>8521</b>	<b>100,0</b>

### 31 December 2006

As at 31 December 2006 the Bank employed 7 512 persons, i.e. 7 467 FTE's.

In 2006, the average staffing level in Bank Zachodni WBK was 7 336 FTE's.

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

Education	No. of staffs	Strukture%
University/collage degree	4 539	60,42
High school degree	2 816	37,49
Vocational	29	0,39
Other	128	1,70
<b>Total</b>	<b>7512</b>	<b>100,00</b>

## 56. Dividend per share

As at 31.12.2007 the Management Board will propose an allocation to dividends 27,04% of BZWBK net profit (i.e. 22,93% of consolidated net profit attributable to the Company's equity holders) of PLN 218 880 852 i.e. PLN 3,00 per one share (PLN 6,00 in 2006). Outstanding profit of PLN 590 593 185,45, will be allocated to other reserve capital. Number of shares totaled 72 960 284.

## 57. Accounting estimates and judgements

### Loan impairment

The estimation of potential loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, economic climates, conditions in various industries to which BZWBK Group is exposed and other external factors such as legal and regulatory requirements. For example, should the expectation of loss within a portfolio increase, then this may result in an increase to the required incurred but not reported ("IBNR") loan loss provision level. A provision is made against problem loans when, in the judgement of management, the estimated repayment realizable from the obligor, including the value of any security available, is likely to fall short of the amount of principal and interest outstanding on the obligor's loan or overdraft account. The amount of provision made in BZWBK Group's consolidated financial statements is intended to cover the difference between the assets' carrying value and the present value of estimated future cash flows discounted at the assets' original effective interest rates. The management process for the identification of loans requiring provision is underpinned by independent tiers of review. Credit quality and loan loss provisioning are independently monitored by head office personnel on a regular basis. A groupwide system for grading advances according to agreed credit criteria exists with an important objective being the timely identification of vulnerable loans so that remedial action can be taken at the earliest opportunity. Credit rating is fundamental to the determination of provisioning in BZWBK Group; it triggers the process which results in the creation of provision on individual loans where there is doubt on recoverability. IBNR provisions are also maintained to cover loans, which are impaired at balance sheet date and, while not 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;

- Probability of default i.e. the likelihood of a customer defaulting on its obligations over the next 12 months,
- Loss given default i.e. the fraction of the exposure amount that will be lost in the event of default, and
- Exposure at default i.e. exposure is calculated by adding the expected drawn balance plus a percentage of the unused limits.

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

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

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

In case intangible assets not yet available for use, recoverable value is determined as at every balance sheet day. Write-down due to impairment is recognized if book value of an asset exceeds its recoverable value and is presented in the profit and loss account.

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

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

### **Fair value of financial instruments**

Some of the Group's financial instruments are carried at fair value, including all derivatives, financial assets at fair value through profit or loss and financial investments available for sale. Financial instruments are either priced with reference to a quoted market price for that instrument or by using a valuation model. Where the fair value is calculated using financial-markets pricing models, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices. However, where no observable price is available the instrument fair value will include a provision for the uncertainty in the market parameter based on sale price or subsequent traded levels. The calculation of fair value for any financial instrument may require adjustment of quoted price or model value to reflect the cost of credit risk (where not embedded in underlying models or prices used), hedging costs not captured in pricing models and adjustments to reflect the cost of exiting illiquid or other significant positions. This may also include an estimation of the likely occurrence of future events which could affect the cashflows of the financial instrument. The valuation model used for a particular instrument, the quality and liquidity of market data used for pricing, other fair value adjustments not specifically captured by the model and market data are all subject to internal review and approval procedures and consistent application between accounting periods.

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

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

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

<b>SIGNATURES</b>			
<b>Signatures of Members of the Management board</b>			
<b>Date</b>	<b>Name</b>	<b>Function</b>	<b>Signature</b>
15-02-2008	Mateusz Morawiecki	President	
15-02-2008	Andrzej Burliga	Member	
15-02-2008	Declan Flynn	Member	
15-02-2008	Michał Gajewski	Member	
15-02-2008	Justyn Konieczny	Member	
15-02-2008	Janusz Krawczyk	Member	
15-02-2008	Jacek Marcinowski	Member	
15-02-2008	James Murphy	Member	
15-02-2008	Marcin Prell	Member	
15-02-2008	Feliks Szyszkowiak	Member	

<b>Signature of a person who is responsible for maintaining the book of account</b>			
<b>Date</b>	<b>Name</b>	<b>Function</b>	<b>Signature</b>
15-02-2008	Wanda Rogowska	Financial Accounting Area Director	



**Bank Zachodni WBK S.A.**

Opinion and Report  
of the Independent Auditor  
Financial Year ended  
31 December 2007

KPMG Audyt Sp. z o.o.  
The opinion contains 2 pages  
The report supplementing the auditor's opinion  
contains 11 pages  
Opinion of the independent auditor  
and report supplementing the auditor's opinion  
on the unconsolidated financial statements  
for the financial year ended  
31 December 2007

*This document is a free translation of the Polish original. Terminology current in Anglo-Saxon countries has been used where practicable for the purposes of this translation in order to aid understanding. The binding Polish original should be referred to in matters of interpretation.*

## **OPINION OF THE INDEPENDENT AUDITOR**

*To the General Meeting of Shareholders of Bank Zachodni WBK S.A.*

We have audited the accompanying unconsolidated financial statements of Bank Zachodni WBK S.A. seated in Wrocław, ul. Rynek 9/11, 50-950 Wrocław (“the Bank”), which comprise the balance sheet as at 31 December 2007, with total assets of and total liabilities and equity of PLN 39.195.247 thousand, the profit and loss account for the year then ended with a net profit of PLN 809.474 thousand, the statement of changes in equity for the year then ended with an increase in equity of PLN 237.525 thousand, the cash flow statement for the year then ended with an increase in cash amounting to PLN 682.758 thousand, and notes to the financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

### *Management’s Responsibility for the Financial Statements*

Management of the Bank is responsible for the accuracy of the accounting records and the preparation and fair presentation of these unconsolidated financial statements in accordance with International Financial Reporting Standards, as adopted by European Union and with other applicable regulations. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### *Auditor’s Responsibility*

Our responsibility, based on our audit, is to express an opinion on these unconsolidated financial statements, and whether the financial statements are derived from properly maintained accounting records. We conducted our audit in accordance with section 7 of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) (“the Accounting Act”), the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements and the accounting records from which they are derived are free of material misstatements.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Opinion*

In our opinion, the accompanying unconsolidated financial statements of Bank Zachodni WBK S.A. have been prepared and present fairly in all material respects the financial position of the Bank as at 31 December 2007 and the results of its operations and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, are in compliance with the respective regulations and the provisions of the Bank's Statute that apply to the Bank's unconsolidated financial statements and have been prepared from accounting records that in all material respects have been properly maintained.

### *Other Matters*

As required under the Accounting Act we also report that the Report on the Bank's activities includes, in all material respects, the information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, No 209, item 1744) and the information is consistent with the unconsolidated financial statements.

*Signed on the Polish original*

.....  
 Certified Auditor No. 9941/7390  
 Bożena Graczyk

*Signed on the Polish original*

.....  
 For KPMG Audyt Sp. z o.o.  
 ul. Chłodna 51; 00-867 Warsaw  
 Certified Auditor No. 9941/7390  
 Bożena Graczyk,  
 Member of the Management Board

*Signed on the Polish original*

.....  
 For KPMG Audyt Sp. z o.o.  
 ul. Chłodna 51; 00-867 Warsaw  
 Richard Cysarz, Member of the Management  
 Board

Warsaw, 15 February 2008

## **Bank Zachodni WBK S.A.**

Report supplementing  
the auditor's opinion  
on the unconsolidated  
financial statements  
Financial Year ended  
31 December 2007

KPMG Audyt Sp. z o.o.  
The report supplementing the auditor's opinion  
contains 11 pages  
Report supplementing the auditor's opinion  
on the unconsolidated financial statements  
for the financial year ended  
31 December 2007

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## **1 General**

### **1.1 General information about the Bank**

#### **1.1.1 Company name**

Bank Zachodni WBK S.A.

#### **1.1.2 Registered office**

Ul. Rynek 9/11

50-950 Wrocław

#### **1.1.3 Registration in the National Court Register**

Registration court: District Court in Wrocław, VI Commercial Department of the National Court Register

Date: 04/27/2001

Registration number: KRS 0000008723

#### **1.1.4 Tax Office and Provincial Statistical Office registration**

NIP number: 896-000-56-73

REGON: 930041341

### **1.2 Auditor information**

Name: KPMG Audyt Sp. z o.o.

Registered office: Warsaw,

Address: ul. Chłodna 51, 00-867 Warsaw

Registration number.: KRS 0000104753

Registration court: District Court for the Capital City Warsaw in Warsaw, XII Commercial Department of the National Court Register;

Share capital: PLN 125,000

NIP number: 526-10-24-841

KPMG Audyt Sp. z o.o. is entered in the register of entities authorised to audit financial statements under number 458.

### **1.3 Legal status**

#### **1.3.1 Share capital**

Parent entity was established on 13 June 2001 for an indefinite period as a result of a merger of Bank Zachodni S.A. and Wielkopolski Bank Kredytowy S.A. under Resolution No 30/KNB/01 of Commission of Banking Supervision dated 7 March 2001.

The share capital of the Bank amounted to PLN 729.602.840 as at 31 December 2007 divided into 72.960.284 ordinary shares with a nominal value of PLN 10 each.

As at 31 December 2007, the shareholder structure was as follows:

Name of the Shareholder	Number of shares	Voting rights (%)	Nominal value of shares PLN '000	Percentage of share capital (%)
AIB European Investments Limited	51 413 790	70.5%	514 138	70.5%
Other shareholders	21 546 494	29.5%	215 465	29.5%
	72 960 284	100.0%	729 603	100.0%

### 1.3.2 Related parties

The Bank is a member of the Bank Zachodni WBK S.A. Group.

### 1.3.3 Management of the Company

The Management Board is responsible for management of the Bank.

At 31 December 2007, the Management Board of the Bank comprised the following members:

- Mateusz Morawiecki – President
- Andrzej Burliga – Board Member
- Declan Flynn – Board Member
- Michał Gajewski – Board Member
- Justyn Konieczny – Board Member
- Janusz Krawczyk – Board Member
- Jacek Marcinowski – Board Member
- James Murphy – Board Member
- Marcin Prell – Board Member
- Feliks Szyszkowiak – Board Member

In comparison to 12/31/2006 changes were as follows:

- Former President Mr. Jacek Kseń retired from his position on 30 April 2007.
- On 3 March 2007 Supervisory Board nominated Mr. Mateusz Morawiecki as the new President. Mr. Mateusz Morawiecki formally took office on 16 May 2007 following the approval of his nomination by the Banking Supervisory Commission.
- On 24 July 2007 Andrzej Burliga was appointed Management Board Member.

### 1.3.4 Scope of activities

The business activities listed in the Bank's Statute include the following:

- receiving and maintaining current and term deposits, including accepting and placing cash deposits in domestic and foreign banks,
- maintaining other bank accounts,
- granting loans,
- granting and confirming guarantees and letters of credit,
- issuing banking securities,
- performing cash settlements,
- issue of electronic money instrument,
- granting cash advances,
- performing cheque and bill of exchange operations,
- issuing payment cards and processing card operations,
- performing term financial operations,

- trading in receivables,
- safekeeping of goods and securities as well as providing access to safe deposit-boxes,
- agency services in making money transfers and settlements in foreign currency payments,
- granting civil law guarantees,
- performing operations related to the issue of securities,
- acting as the representative of bond holders,
- purchase and sale of foreign exchange values.

Additionally the parent entity is illegible to perform the following activities:

- acquiring shares, rights from shares and participations of another corporate entity and contributions to limited partnerships or limited joint stock partnerships, or units and investment certificates in investment funds; making contributions to limited liability companies within the limits specified by the Banking Law,
- incurring liabilities related to the issue of securities,
- trading in securities on Bank's own account or on other parties' account,
- exchanging debts for debtor's assets,
- acquiring and disposing of real estates and debts secured by a mortgage,
- providing consultancy and advisory services in relation to financial matters,
- providing certification services in line with regulations on an electronic signature, excluding qualified certificates,
- providing other financial services,
- selling pension funds,
- acting as a depository under the definition of organization and functioning of pension funds act,
- acting as a depository under the definition of investment funds act,
- acting as sales agent of insurance, leasing, factoring, forfeiting and franchising products.

Additionally the parent entity may perform the above activities on the instruction of another bank. In accordance with the parent entity's strategy, it may also cooperate with the domestic, foreign and international banks and financial institutions and perform services of transportation of goods.

## **1.4 Prior period financial statements**

The unconsolidated financial statements for the period ended 31 December 2006 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion.

The unconsolidated financial statements were approved at the General Shareholder Meeting on 19 February 2007 where it was resolved to allocate the profit for the prior financial year of PLN 592.795 ths. as follows:

- 437.762 ths – dividend payout,
- 155.033 ths – reserve capital.

The closing balances as at 31 December 2006 have been properly recorded as the opening balances of the audited year.

The unconsolidated financial statements were submitted to the Registry Court on 30 April 2007 and were published in Monitor Polski B No. 1245 on 19 July 2007 on the position 7192.

## **1.5 Audit scope and responsibilities**

This report was prepared for the General Shareholders Meeting of Bank Zachodni WBK S.A. seated in Wrocław, ul. Rynek 9/11, 50-950 Wrocław and relates to the unconsolidated financial statements comprising: the balance sheet as at 31 December 2007 with total assets and total liabilities and equity of PLN 39.195.247 thousand, the profit and loss account for the year then ended of PLN 809.474 thousand, the statement of changes in equity for the year then ended with an increase in equity of PLN 237.525 thousand, the cash flow statement for the year then ended with an increase in cash amounting to PLN 682.758 thousand and notes to the financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

The audited Bank prepares its unconsolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of General Shareholders Meeting dated 17 December 2004.

The unconsolidated financial statements have been audited in accordance with the contract dated 19 October 2007, concluded on the basis of the resolution of Bank Zachodni WBK S.A. Supervisory Board dated 20 June 2007 on the appointment of the auditor.

We conducted the audit in accordance with section 7 of the Accounting Act, the professional standards established by the Polish National Council of Certified Auditors and International Standards on Auditing.

We audited the unconsolidated financial statements in the Bank's head office and branches during the period from 15 October 2007 to 15 February 2008.

Management of the Bank is responsible for the accuracy of the accounting records and the preparation and fair presentation of the unconsolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and with other applicable regulations.

Our responsibility is to express an opinion, and to prepare a supplementing report, on the unconsolidated financial statements, and whether the unconsolidated financial statements are derived from properly maintained accounting records, based on our audit.

Management of the Bank submitted a statement dated the same date as this report as to the true and fair presentation of the unconsolidated financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the unconsolidated financial statements.

All our requests for additional documents and information necessary for expressing our opinion and preparing the report have been fulfilled.

KPMG Audyt Sp. z o.o., the members of its Management Board and Supervisory Board and other persons involved in the audit of the unconsolidated financial statements of the Bank fulfill independence requirements. The scope of the work planned and performed has not been limited in any way. The method and scope of our audit is detailed in working papers prepared by us and retained in the offices of KPMG Audyt Sp. z o.o.

## 2 Financial analysis of the Bank

### 2.1 Summary of the unconsolidated financial statements

#### 2.1.1 Balance sheet

ASSETS	31.12.2007 PLN '000	% of total	31.12.2006 PLN '000	% of total
Cash and balances with central bank	2 206 259	5.6	1 534 469	4.9
Loans and advances to banks	2 563 755	6.5	3 149 267	10.1
Financial assets held for trading	1 148 659	2.9	1 048 010	3.3
Hedging derivatives	41 410	0.1	19 956	0.1
Loans and advances to customers	22 150 633	56.6	16 172 354	51.5
Investment securities	9 698 307	24.7	7 993 770	25.5
Investment in associates	155 967	0.4	186 318	0.6
Intangible assets	102 906	0.3	127 101	0.4
Property, plant and equipment	528 027	1.4	483 594	1.5
Current income tax due	37 950	0.1	947	0.1
Deferred tax assets	312 700	0.8	346 508	1.1
Other assets	248 674	0.6	270 724	0.9
<b>TOTAL ASSETS</b>	<b>39 195 247</b>	<b>100.0</b>	<b>31 333 018</b>	<b>100.0</b>
<b>LIABILITIES</b>	<b>31.12.2007 PLN '000</b>	<b>% of total</b>	<b>31.12.2006 PLN '000</b>	<b>% of total</b>
<b>Liabilities</b>				
Deposits from banks	3 145 395	8.9	1 960 144	7.1
Hedging Derivatives	7 613	0.1	12 912	0.1
Financial liabilities held for trading	1 000 787	2.8	246 875	0.9
Deposits from customers	30 264 734	85.6	24 481 996	88.2
Debt securities in issue	99 348	0.3	95 897	0.4
Deferred tax liabilities	188 620	0.5	282 196	1.0
Other liabilities	637 981	1.8	639 754	2.3
<b>Total liabilities</b>	<b>35 344 478</b>	<b>100.0</b>	<b>27 719 774</b>	<b>100.0</b>
<b>Equity</b>				
Share capital	729 603	19.0	729 603	20.2
Other reserve funds	1 951 251	50.6	1 785 744	49.4
Revaluation reserve	360 441	9.4	505 102	14.0
Profit of the current period	809 474	21.0	592 795	16.4
<b>Total equity</b>	<b>3 850 769</b>	<b>100.0</b>	<b>3 613 244</b>	<b>100.0</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>39 195 247</b>	<b>100.0</b>	<b>31 333 018</b>	<b>100.0</b>



## 2.1.2 Profit and loss account

	<b>1.01.2007 - 31.12.2007 PLN '000</b>	<b>1.01.2006 - 31.12.2006 PLN '000</b>
Interest and similar income	1 957 840	1 533 606
Interest expense and similar charges	(775 402)	(576 249)
<b>Net interest income</b>	<b>1 182 438</b>	<b>957 357</b>
Fee and commission income	1 000 083	871 979
Fee and commission expense	(81 502)	(60 323)
<b>Net fee and commission income</b>	<b>918 581</b>	<b>811 656</b>
Dividend income	177 978	98 712
Net trading income and revaluation	52 271	27 062
Gains (losses) from other financial securities	(25 784)	11 661
Gains (losses) from investment in subsidiaries and associates	12 735	14 717
Other operating income	38 459	32 088
Impairment losses on loans and advances	565	(26 126)
Bank's staff, operating expenses and management costs	(1 224 905)	(995 781)
Depreciation/amortization	(127 264)	(153 008)
Other operating expenses	(26 044)	(33 176)
<b>Operating profit</b>	<b>979 030</b>	<b>745 162</b>
<b>Profit before income tax</b>	<b>979 030</b>	<b>745 162</b>
Income tax expense	(169 556)	(152 367)
<b>PROFIT FOR THE PERIOD</b>	<b>809 474</b>	<b>592 795</b>
Basic earnings per share (PLN)	11.09	8.13
Diluted earnings per share (PLN)	11.07	8.12

## 2.2 Selected financial ratios

	2007	2006	2005
Total assets	39 195 247	31 333 018	27 891 348
Gross profit	979 030	745 162	559 803
Net profit	809 474	592 795	446 223
Shareholders' equity *	3 041 294	3 020 449	2 742 707
Return on equity	26.6%	19.6%	16.3%
Capital adequacy ratio	11.4%	13.8%	15.1%
Receivables to total assets	63.1%	61.7%	59.2%
Income generating assets to total assets	91.1%	91.1%	92.5%
Interest bearing liabilities to total liabilities	88.0%	85.5%	85.0%

\* excluding current-year net profit

## 2.3 Interpretation of selected financial ratios

In comparison to previous year, total assets grew by 25.1%. During the year the largest growths within assets were in: loans and advances to customers and investment securities. On the liabilities side the largest increase was in the amounts due to clients.

Profit before tax for the year 2007 increased by 31.4% compared to previous year. The following items had an impact on the current year financial result: an increase of interest income and fee and commission income, increase on dividend income and a decrease of impairment losses on loans and advances and a decrease of depreciation/amortization.

### **3 Detailed report**

#### **3.1 Proper operation of the accounting system**

The Bank maintains current documentation describing the applied accounting principles, adopted by the Management Board, to the extent required by Art. 10 of the Accounting Act.

During the audit of the financial statements, we tested, on a sample basis, the operation of the accounting system. Our assessment covered in particular:

- appropriateness and consistency of the accounting principles used,
- correctness of the documentation of business transactions,
- fairness, accuracy and verifiability of the books of account, including the matching of accounting entries with supporting documentation and the financial statements,
- compliance of the adopted policies relating to safeguarding of accounting records, books of account and the financial statements with the Accounting Act.

On the basis of the work performed we have not identified material irregularities in the accounting system which have not been corrected and that could have a material impact on the financial statements. Our audit was not conducted for the purpose of expressing a comprehensive opinion on the operation of the accounting system.

#### **3.2 Verification of assets and liabilities**

The Bank performed a verification of assets and liabilities and in accordance with the requirements and time frame specified in Art. No. 26 of the Accounting Act.

Count differences have been recorded in the period covered by the unconsolidated financial statements.

#### **3.3 Compliance with banking regulations**

Based on our audit we have not identified any significant deviations in the bank's compliance with the banking regulatory norm pertaining among other to loan concentration, obligatory reserve and capital adequacy ratio.

#### **3.4 Audit materiality**

We have planned and applied an appropriate level of precision in conducting our audit procedures in order to obtain reasonable assurance about whether the unconsolidated financial statements taken as a whole are free of material misstatements.

#### **3.5 Notes to the financial statements**

All information included in the notes to the unconsolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes, is, in all material respects, presented accurately and completely. This information should be read in conjunction with the financial statements taken as a whole.

### 3.6 Report on the Bank's activities

The Report on the Bank's activities includes, in all material respects, information required by Art. 49 of the Accounting Act and by the Decree of the Ministry of Finance dated 19 October 2005 on current and periodic information provided by issuers of securities (Official Journal from 2005, No 209, item 1744) and the information is consistent with the unconsolidated financial statements.

### 3.7 Information on the opinion of the independent auditor

Based on our audit of the unconsolidated financial statements as at and for the year ended 31 December 2007, we have issued an unqualified opinion.

*Signed on the Polish original*

.....  
Certified Auditor No. 9941/7390  
Bożena Graczyk

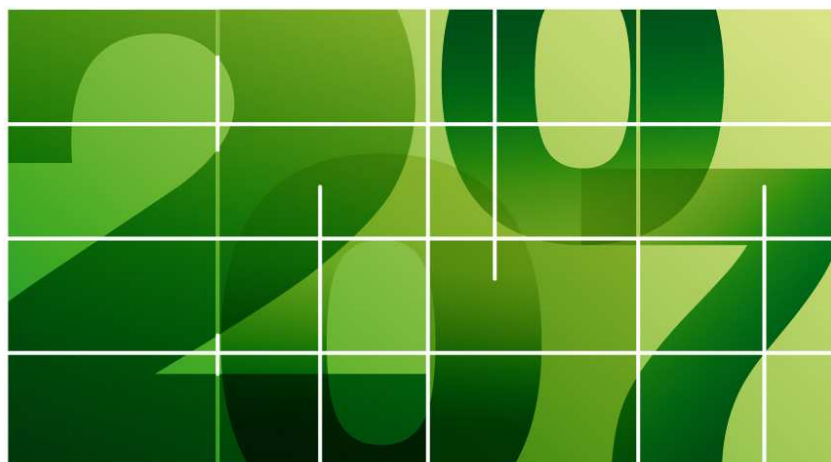
*Signed on the Polish original*

.....  
For KPMG Audyt Sp. z o.o.  
ul. Chłodna 51; 00-867 Warsaw  
Certified Auditor No. 9941/7390  
Bożena Graczyk,  
Member of the Management Board

*Signed on the Polish original*

.....  
For KPMG Audyt Sp. z o.o.  
ul. Chłodna 51; 00-867 Warsaw  
Richard Cysarz, Member of the Management  
Board

Warsaw, 15 February 2008



**Report of  
the Management Board on  
Bank Zachodni WBK S.A.  
performance in 2007**

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## I. General Review

***In 2007, Bank Zachodni WBK achieved record-breaking profit-before-tax of PLN 979 m***

***The key drivers of the profit included:***

- ***strong momentum in credit delivery***
- ***substantially higher deposit volumes***
- ***inflow of assets to mutual funds in the first half of the year in the favourable stock exchange climate***
- ***growing bancassurance business***
- ***improving sales effectiveness***

### Financial Performance in Brief

#### ● **Key financial figures and movements year-on-year:**

- profit-before-tax was PLN 979 m, an increase of 31.4% y-o-y;
- profit-after-tax was PLN 809.5 m, an increase of 36.6% y-o-y;
- higher ROE (up to 26.6% from 19.6% in 2006);
- total income increased by 20.7%, reflecting growing business volumes;
- improvement of operational efficiency (C/I ratio down from 60.5% to 58.5%) against controlled cost increases driven by the growth of business and the requirements of development projects;
- further reduction in the NPL ratio (from 5.2% to 2.8%), confirming the bank's sound credit risk management;
- positive balance of loan impairment provisions (PLN 0.6 m versus PLN -26.1 m in 2006) as an effect of solid credit decision-making processes and effective debt collection.

### Key Factors Affecting the Bank's Profit and Activity

#### ● **Favourable external environment, including:**

- economic growth and a conducive investment climate in Poland;
- favourable trends in the stock exchange market reversed in the second half of the year as a result of the turmoil on the US financial markets;
- growing demand in the credit market;
- improved labour market and salary levels;
- higher official interest rates;
- changes in the structure of household savings.

#### ● **Diversified business growth:**

- rapid growth of credit volumes: cash loans (+61%), PLN mortgage loans (+52%); business loans (+34%);
- substantially higher deposit balances (+24% y-o-y);
- strong contribution to the asset base growth of mutual funds (net assets of funds managed by the subsidiary increased by 32% y-o-y despite the downturn movements on the stock exchange);
- fast-paced development of promising business lines: bancassurance, third-party services, advisory and share issue services in the equity market;
- functional, procedural and pricing improvements in products and services.

#### ● **Effective risk and cost management:**

- continued enablement of credit processes with due regard to maintaining the prudential requirements;
- managed cost expansion amid growing business of the bank and its subsidiaries, and consistent delivery of the development programmes.

#### ● **Strong focus on service quality:**

- intensive efforts to improve customer satisfaction with service quality;
- development of IT technologies for Customer Relationship Management (CRM);
- foundations laid for the process management system.

#### ● **Dynamic development of distribution channels:**

- development through organic growth (expansion of branch, Minibank and Mobile Sales networks);
- high diversification and growing effectiveness of the delivery channels.

### **Other Key Developments**

- Maintaining the "A+" rating assigned to Bank Zachodni WBK S.A. by Fitch Ratings, Ltd. in 2006.
- Launch of the second edition of the incentive scheme for senior executives.
- Signing the agreements with Aviva International Insurance Ltd. to establish two new insurance companies providing insurance products to the bank's customers.
- Obtaining ISO 9001:2000 accreditation for the processes covered by the Total Quality Management System (TQM).



## II. Macroeconomic Environment in 2007

### Economic Growth

2007 was another very good year for the Polish economy. GDP growth was the highest for a decade, reaching almost 6.5% and exceeding earlier expectations and forecasts. Exports maintained a solid, double-digit growth throughout the year, remaining an important driving force of economic expansion. Domestic demand was gradually gaining importance, supporting a high import growth. Consequently, 2007 was the second year in a row when the net balance of foreign trade hampered GDP growth. Current account balance in relation to GDP was increasing rather slowly throughout the year (e.g. due to high inflow of EU funds) to remain below the moderate GDP level of 4%. As regards domestic demand, a very high growth of fixed investments (over 20% y-o-y) deserves special attention as it contributed to economy's modernisation, replenishment of obsolete equipment and an increase in the economic growth potential. Private consumption increased by more than 5.2%, supported by a solid improvement in households' financial situation as a result of a strong labour market revival and a reduction in tax burden (reduced pension contribution since July 2007).

### Labour Market

Fast and broad-based expansion in economic activity triggered a strong increase in demand for labour. Rise in employment accelerated at a pace that was not observed since the start of market economy in the early nineties, exceeding 5% y-o-y at the end of the year. At the same time, supply of workforce was constrained by job migration to the European Union states. Registered unemployment rate fell below 11.4% at the end of the year from 14.8% in December 2006. According to the Labour Force Survey (BAEL), however, unemployment rate fell to 9% in the third quarter, the lowest level in the history of the survey in Poland (since 1996). Amid a large demand for labour with a limited supply (particularly in some sectors of the economy), the upward pressure on wages was building during the year, and pay growth exceeded 10% y-o-y at the end of the year.

### Interest Rates

Growth in wages and employment was strong enough to trigger acceleration in unit labour costs growth to above 7% in the third quarter of 2007 from ca. 1.5% on average in 2006. This induced the Monetary Policy Council to start a tightening cycle in monetary policy. Following four rate hikes made during the year, the central bank's main reference rate increased from a record low of 4% at the beginning of the year to 5% in November.

### Inflation

Consumer price growth accelerated quite significantly in 2007, reaching 4% y-o-y in December, against 1.4% y-o-y at the end of 2006. However, the rise in inflation was triggered mainly by the surge in prices of food and crude oil resources. Net inflation (excluding prices of food and fuel) remained low throughout the year, close to the lower end of allowed fluctuations band around the target, which resulted, among others, from quite gentle pass-through of rising labour costs on retail prices amid still very good financial standing of enterprises and strong zloty.

### Loans and Deposits

2007 was another year of credit market expansion. Very rapid increase in households' debt (ca. 40% y-o-y) was driven mainly by high demand for mortgage loans amid housing market boom, yet demand for consumption loans was gradually gaining importance as well. There was a strong rise in demand for loans from enterprises, which soared almost 25% y-o-y due to, among others, very high growth in capital expenditures.

## FX Market

2007 witnessed zloty appreciation, particularly against the US dollar which weakened significantly against the euro. The EUR/PLN strengthened to 3.78 on average in 2007 from 3.90 in 2006, while USD/PLN fell to 2.77 from 3.10 in the previous year. The start of a monetary tightening cycle and expectation for further rate hikes resulted in a rise in Treasury bond yields. The last months of the year witnessed a significant volatility and nervousness in the financial market due to the crunch on the American housing and credit market. It also affected the stock exchange market which in July 2007 entered a period of downturns after several years of upturns.

## III. Basic Information

### 1. History and Current Status 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 maintains such shareholding since that date.

#### Current Status and 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, 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, including: Dom Maklerski BZ WBK S.A., BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., BZ WBK AIB Asset Management S.A., Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp. z o.o., BZ WBK Leasing S.A., BZ WBK Finance & Leasing S.A., BZ WBK Faktor Sp. z o.o. In co-operation with these companies, the bank offers its customers access to brokerage services, mutual funds, insurance, leasing and factoring products.

##### Key Features of the Offering

The rich offering of the bank allows customers to diversify their savings portfolios and carry out investments that match their individual preferences and investment objectives. The available savings/investment instruments include current and term deposits, savings accounts, index tracker deposits, mutual funds and new investment policy products.

The customers' demand for funding can be satisfied through a variety of loans. The list of credit facilities for business customers includes overdrafts, working capital, revolving, payment, investment, development and preferential loans, leasing and the multi-purpose Business Express facility. The bank also provides funding as part of the EU programmes, enjoying a very good position in the market of EU funds.

The credit offer 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 and MasterCard. The choice of credit, debit and prepaid cards can satisfy even the most demanding customers thanks to their variety and alignment with the requirements and potential of individual market segments. All the bank's credit and debit cards are equipped with chip technology to ensure the highest security of card transactions.

## Distribution Channels

As at 31 December 2007, Bank Zachodni WBK operated through 406 outlets. The bank's network covers the whole of Poland, with the highest concentration in Wielkopolska, the Lower Silesia and major cities of Poland, including Warsaw, Kraków, Łódź, Tri-city, Szczecin. The branches are supported by the Mobile Sales structures which are composed of self-employed financial advisors offering credit cards and cash loans. They have been set up in 17 Polish cities and focus on acquiring new customers in locations that are not covered by the bank's branch network.

Corporate customers are serviced through the 6 Corporate Business Centres located in Warsaw, Poznań, Wrocław, Kraków, Gdańsk and Łódź, which maintain close operating relationship with the bank's branches. In addition, Business Banking Centres are being established to provide services to large enterprises from the SME sector.

For customers with basic banking needs, Bank Zachodni WBK has established a network of 26 agency outlets under the brand of Minibank which are targeted at housing estate residents and offer them payment services as well as products such as personal account with a payment card or cash loan.

Through its modern Direct Banking 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 network of 674 ATMs 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 the 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 higher transaction limit. 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. Also, 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.

## 2. Lending Policy

The bank pursues a policy oriented towards maintaining high quality of the loan portfolio by applying and monitoring policies that mitigate the credit 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 and corporate 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. These include FX Lending and Guarantees Policy, sector policies, policies addressing lending to individual client segments (corporate, SMEs, local authorities) and Credit Scoring Policy. Individual credit products are regulated in detail in their respective procedures.

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 Deputy Chief Credit Officer, 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.

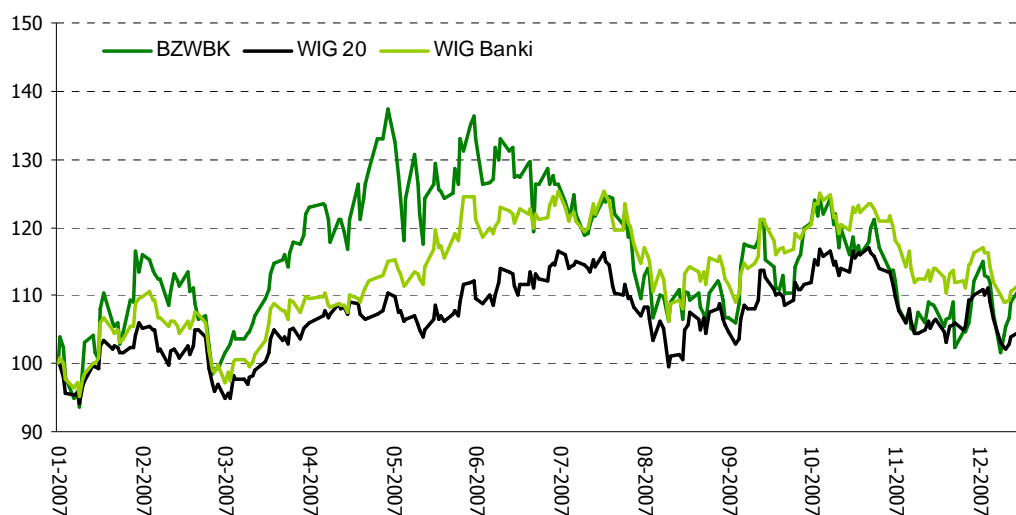
The bank's subsidiaries which specialise in leasing and factoring are governed by their internal credit risk regulations. These are compliant with the standards and policies of Bank Zachodni WBK.

### 3. Performance of Bank Zachodni WBK Shares

The price of Bank Zachodni WBK's shares increased by 11.6% y-o-y (from PLN 225 as of 29 December 2006 to PLN 251 as of 28 December 2007) against a 12.2% increase in the sectoral WIG Banks index and a 5.2% increase in the WIG 20 index. The share price hit a record high of PLN 315.3 on 4 May 2007, while the lowest yearly level (PLN 215) was recorded on 10 January 2007.

#### Quotes of Bank Zachodni WBK Shares and Stock Indices

(as of 02-01-2007 = 100)



### 4. Bank Zachodni WBK Rating

In the press release dated 4 July 2007, Fitch Ratings Ltd. affirmed the ratings assigned to Bank Zachodni WBK. Therefore, as at 31 December 2007 (effective from 17 August 2006) these were as follows:

- long-term Issuer Default Rating: A+
- short-term rating: F1
- long-term rating outlook: stable
- individual rating: C
- support rating: 1

The IDR, short-term and support ratings reflect the potential support available from the majority shareholder AIB with the stable "AA-" rating. The bank's rating is presently higher than Poland's rating (which is "A-" after the increase in January 2007).

Rationale provided with respect to the decision to affirm the ratings of Bank Zachodni WBK draws attention to the following aspects of its financial performance: "The bank remains well capitalized, while profitability and revenue diversification continue to improve"; "The bank has recently built a strong position on the retail service market, even though it did not sanction CHF mortgage loans"; "Asset quality improved in 2006 and in Q1 2007, and reserve coverage is good. The bank's ability to measure and manage credit risk has been strengthened by Basel II preparations".

## 5. Composition of Bank Zachodni WBK Group

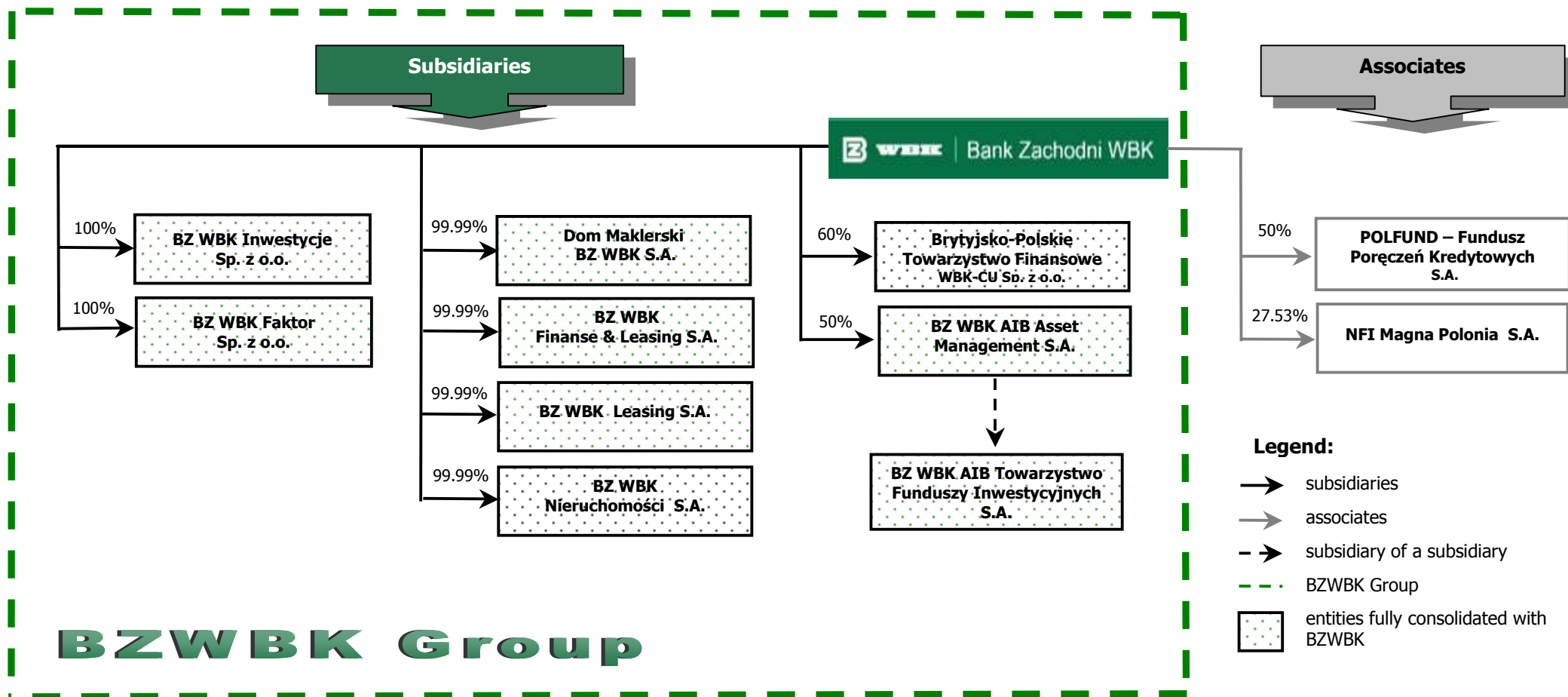
Bank Zachodni WBK forms a Group with the following subsidiaries consolidated on a line-by-line basis. These are:

- 1) Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp. z o.o.
- 2) BZ WBK AIB Asset Management S.A.
- 3) BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. - subsidiary of BZ WBK AIB Asset Management S.A.
- 4) BZ WBK Inwestycje Sp. z o.o.
- 5) BZ WBK Faktor Sp. z o.o.
- 6) BZ WBK Finanse & Leasing S.A.
- 7) BZ WBK Leasing S.A.
- 8) BZ WBK Nieruchomości S.A.
- 9) 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, distribution of insurance/banking products 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 branch 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 their products, namely investment funds, leasing and factoring have been incorporated in the bank's corporate strategy executed in close liaison with respective subsidiaries.

Compared with the end of December 2006, the composition of the Group does not include BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa. This subsidiary was established as an SPV for servicing a leasing agreement with PLL LOT and as soon as it was finalised the entity was wound up and deregistered (27 February 2007).

# Entities connected with Bank Zachodni WBK S.A.



## IV. Financial performance in 2007

### 1. Profit and Loss Account

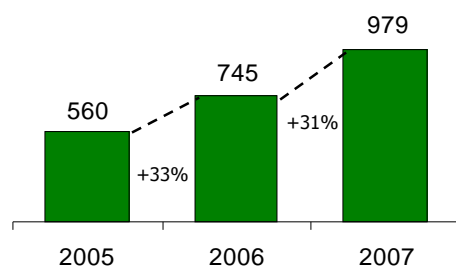
The table below presents developments in key categories of the profit and loss account of the Bank Zachodni WBK in 2007 compared with the previous year.

PLN m

Profit & Loss Account	2007	2006	Change
Total income	2,356.7	1,953.3	+20.7%
Total costs	(1,378.2)	(1,182.0)	+16.6%
Impairment losses on loans and advances	0.6	(26.1)	-
<b>Profit-before-tax</b>	<b>979.1</b>	<b>745.2</b>	<b>+31.4%</b>
Income tax	(169.6)	(152.4)	+11.3%
<b>Profit-after-tax attributable to BZWBK shareholders</b>	<b>809.5</b>	<b>592.8</b>	<b>+36.6%</b>

In 2007, Bank Zachodni WBK posted the profit-before-tax of PLN 979 m, an increase of 31.4% y-o-y. The profit-after-tax was PLN 809.5 m and higher by 36.6% y-o-y. These results were achieved due to the very strong business growth, and especially lending and deposit volumes.

#### Profit-before-tax of BZWBK in the years 2005-2007 (PLN m)



### Income

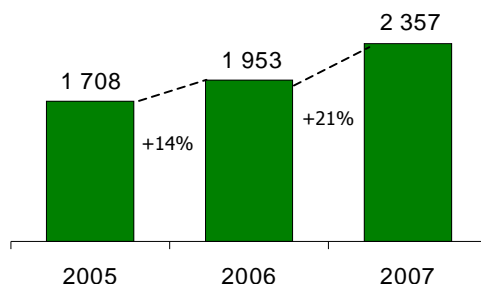
In 2007, the bank posted a total income of PLN 2,356.7 m, an increase of 20.7% on the previous year. The main components of the total income were as follows:

PLN m

Total income	2007	2006	Change
Net interest income	1,182.4	957.4	+23.5%
Net commission income	918.6	811.7	+13.2%
Dividend income	178.0	98.7	+80.3%
Net trading income and revaluation	52.3	27.1	+93.0%
Result on other financial assets	(25.8)	11.7	-
Gains on disposal of subsidiaries and associates	12.7	14.7	-13.6%
Other	38.5	32.0	+20.3%
<b>Total</b>	<b>2,356.7</b>	<b>1,953.3</b>	<b>+20.7%</b>



## Total income in the years 2005-2007 (PLN m)



### Net Interest Income

Net interest income amounted to PLN 1,182.4 m in 2007 compared with PLN 957.4 m posted in 2006. Due to the presentation changes made in June 2007, this line includes interest on hedging derivatives and profit realised on options whose underlying instrument is an index used in the calculation of the tracker bonds' return rate (total impact of these elements on the net interest income was PLN 30.3 m in 2007 versus PLN -2.5 m for 2006). Taking into account other interest-related income from FX Swaps and Basis Swaps recognised in net trading income (PLN 21.5 m in 2007 and PLN 24.7 m in 2006), the underlying net interest income increased by 22.6% y-o-y. This was achieved due to the growth of business and favourable changes in its structure, with particular impact from the fast growing business and cash loans and a substantially higher volume of demand deposits. The NBP interest rate increases were another driver of the net interest income growth, leading to a higher deposit margin achieved by the bank, but with little effect on the credit margin which was heavily restrained by the competitive market requirements.

### Net Commission Income

PLN m

Net commission income	2007	2006	Change
Account maintenance and cash transactions	222.4	227.1	-2.1%
FX fees	211.4	188.3	+12.3%
e-Business & Payments	194.3	180.4	+7.7%
Distribution of mutual funds and asset management	165.1	115.8	+42.6%
Credit, credit card and guarantee fees	83.0	83.0	0%
Insurance fees	40.6	19.2	+111.5%
Other	1.8	-2.1	-
<b>Total</b>	<b>918.6</b>	<b>811.7</b>	<b>+13.2%</b>

Net commission income amounted to PLN 918.6 m and increased by 13.2% y-o-y driven by further expansion of the bank in individual business lines. The most noteworthy changes are as follows:

- The bank's net fee income from fund distribution reached a record level of PLN 165.1 m, an increase of 42.6% y-o-y due to collection of considerable amount of assets from customers investing in Arka BZWBK mutual funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.

- As a result of presentation changes in the profit and loss account effected in June 2007, the net commission income also includes the fees on customer FX transactions (PLN 211.4 m in 2007 and PLN 188.3 m in 2006). In the previous periods, these items were recognised under FX profit. The growth of 12.3% in this profit reflects the stronger customer activity at the branch level and higher volumes of Treasury-based corporate negotiated trading.
- The net commission income reported by the e-Business and Payments Area increased by 7.7% to PLN 194.3 m. Two product lines from this Area grew particularly strongly and consequently produced noticeable fee income increases, namely "debit cards" (+24%) and "services to third party financial institutions" (+20%). The former line was driven by larger number of debit cards and higher frequency of their use, whereas the latter was impacted by the expansion of the customer base and the scope of services provided. The fee growth generated by the above-mentioned product lines was partly offset by lower income from international payment orders, an effect of the fee reductions in the second half of 2006.
- The bancassurance line is becoming an increasingly important contributor to the fee income. In 2007, it generated an income of PLN 40.6 m, which is 111.5% higher than in 2006 due to the growing sales of cash and mortgage loans insurance and the launch of the investment-linked policy.
- The 2.1% decrease in fees and charges for account maintenance and cash transactions (to PLN 222.4 m) resulted from the higher number of negotiated tariffs for business accounts, the increased migration of customers to electronic channels and the continued reduction of selected personal account maintenance fees.

### **Dividend Income**

Dividend income of PLN 178 m increased by 80.3% y-o-y as a result of a higher dividend paid out by fast growing subsidiary, associate and minority undertakings, including Dom Maklerski BZ WBK S.A. (PLN 49.1 m), BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. (PLN 37.5 m), NFI Magna Polonia S.A. (PLN 7.3m) and the Commercial Union Group members (PLN 60.3 m). In addition, the bank received dividend from its subsidiary BZ WBK Inwestycje Sp. z o.o. (PLN 20.2 m), which had not made such a disbursement in 2006.

### **Net Trading Income and Revaluation**

Net trading income and revaluation increased by 93% up to PLN 52.3 m due to higher income achieved by the bank from derivative transactions. This line also includes income from FX bank-to-bank operations and other FX trading income (PLN 23.1 m in 2007 and PLN 17.4 m in 2006), previously disclosed in FX profit.

### **Result on Other Financial Assets**

The negative result of PLN 25.8 m from other financial assets emerged on the disposal of debt securities from the investment portfolio which had been created by the bank as part of the bank's structural balance sheet risk management (in compliance with the bank's NIRIL - net interest rate insensitive liabilities - management policy). This decision was supported by interest rate hikes and the consequent availability of financial instruments having similar risk profile and higher yield for future periods.

This heading also includes hedge accounting result which shows a negative variance of PLN 3.4 m y-o-y. Prior to the changes in presentation, this item was recognised in a separate profit and loss account line.

### **Gains on Disposal of Subsidiaries and Associates**

In 2007, a profit of PLN 12.7 m was recognised under this line, which represents the sale of NFI Magna Polonia S.A. shares and liquidation of BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa. In the corresponding period of 2006, the profit on the disposal of three companies

(AIB WBK Fund Management Sp. z o.o. and LZPS Protektor S.A. and NFI Magna Polonia S.A.) totalled PLN 14.7 m.

## Loan Impairment Charge

The balance of loan impairment provisions was positive and amounted to PLN 0.6 m compared to PLN 26.1 m charge posted in 2006. This is the outcome of a number of factors, particularly the effective debt collection, the borrowers' improved service of their debts covered by the "old portfolio" and the high quality of the new loans. With the substantial y-o-y growth in lending volumes (+37%), the level of the loan impairment charge confirms the soundness of the Bank's credit risk management framework and a sharp focus on ensuring high quality of the portfolio. The effectiveness of this approach to risk management is also evidenced by further reduction of the NPL ratio. At the end of December 2007, the non-performing loans accounted for 2.8% of the gross portfolio with a provision cover at 65.9%. A year before, the corresponding ratios were at 5.2% and 60.5%.

## Costs

The sharp increase in the revenue of Bank Zachodni WBK S.A. combined with the rational and controlled cost increases, led to a reduction of the cost-to-income ratio from 60.5% to 58.5% for 2007. This trend confirms the organisation's cost effectiveness, particularly given the fact that the improvement was attained amid the rapid business growth and numerous development initiatives.

Total costs of Bank Zachodni WBK S.A. amounted to PLN 1,378.2 m and were higher by 16.6% y-o-y. The main components were as follows:

Total costs	2007	2006	Change
Staff and other administrative expenses	(1,224.9)	(995.8)	+23.0%
Depreciation	(127.3)	(153.0)	-16.8%
Other operating costs	(26.0)	(33.2)	-21.7%
<b>Total</b>	<b>1,378.2</b>	<b>1,182.0</b>	<b>+16.6%</b>

## Staff and Other Administrative Expenses

The staff and other administrative expenses of the bank were 1,224.9 m and 23% up y-o-y, driven by dynamic business development of the bank and delivery of successive stages of the strategic programmes.

- Staff Expenses**

Staff costs increased by 18.8% y-o-y to PLN 710.2 m as a result of higher employment driven by developing business (+1,002 FTEs), pay increases linked to the annual performance review, growing competition for banking experts in the labour market, bigger performance-related bonuses as well as the cost of development programmes for the managerial staff of all levels.

- Other Administrative Expenses**

With a strong business growth, the bank's other administrative expenses increased by 29,3% y-o-y to PLN 514.7 m. This movement results mainly from the Bank's intensive promotional activity designed to support the sales of its strategic products, e.g. BZ WBK Arka mutual funds, cash loans, home mortgages, savings accounts and selected personal accounts. The office space lease and maintenance expenses were also a strong driving force due to the bank's expansion of distribution channels, including the branch network, the Mobile Sales network, the Corporate Business Centres and their supporting functions in the Business Support Centre. As a consequence of the development and modernisation initiatives, there was also a significant growth in the cost of renovation of premises and equipment supply to branches. Consultancy costs increased as well, due to the larger number of projects requiring expert skills. The bank's savings initiatives (renegotiation of contracts, monitoring of

suppliers' market, streamlining of internal processes) coupled with rigorous planning and control of operating costs budgets, continued to successfully reduce the administrative expenses.

## Depreciation

Depreciation totalled PLN 127.3 m and decreased by 16.8% y-o-y due to the continued optimisation of the bank's asset base.

## 2. Balance Sheet

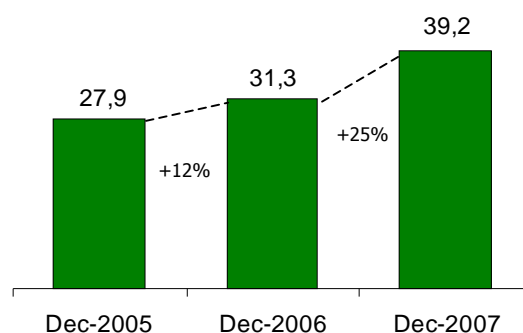
The table below presents major developments in key categories of the balance sheet of Bank Zachodni WBK at the end of December 2007 versus December 2006.

PLN m

Balance-Sheet Items	31-12-2007	Balance Sheet Structure 31-12-2007	31-12-2006	Balance Sheet Structure 31-12-2006	Change
Balance sheet total	39,195.2	100.0%	31,333.0	100.0%	+25.1%
<b>Assets</b>					
Loans and advances to customers*	22,150.6	56.51%	16,172.4	51.61%	+37.0%
Investment securities	9,698.3	24.74%	7,993.8	25.51%	+21.3%
Loans and advances to banks	2,563.8	6.54%	3,149.3	10.05%	-18.6%
Cash and operations with Central Bank	2,206.3	5.63%	1,534.5	4.90%	+43.8%
Financial assets held for trading	1,148.7	2.93%	1,048.0	3.34%	+9.6%
Other assets	1,427.5	3.65%	1,435.0	4.59%	-0.5%
<b>Liabilities</b>					
Deposits from customers	30,264.7	77.22%	24,482.0	78.13%	+23.6%
Deposits from banks	3,145.4	8.02%	1,960.1	6.26%	+60.5%
Financial liabilities held for trading	1,000.8	2.55%	246.9	0.79%	+305.3%
Debt securities in issue	99.3	0.25%	95.9	0.31%	+3.5%
Other liabilities	834.2	2.14%	934.9	2.98%	-10.8%
Total equity	3,850.8	9.82%	3,613.2	11.53%	+6.6%

\* net of impairment

### Assets as at 31 December in the years 2005-2007 (PLN bn)



As at 31 December 2007, total assets of Bank Zachodni WBK amounted to PLN 39,195.2 m and were 25.1% up y-o-y.

The main asset growth driver during past 12 months was loans and advances to customers (+37% y-o-y), which increased as a result of the strong credit delivery. Investment securities grew

(+21.3% y-o-y) as part of the management of the Bank's structural balance sheet risk. An increase was also noted in cash and operations with Central Bank (+43.8% y-o-y) and financial assets held for trading (+9.6% y-o-y), with a parallel fall in the loans and advances to banks (-18.6% y-o-y).

On the liabilities side, the Bank posted a substantial increase in deposits from customers (+23.6% y-o-y) and banks (+60.5% y-o-y), and higher financial liabilities held for trading (+305.3%).

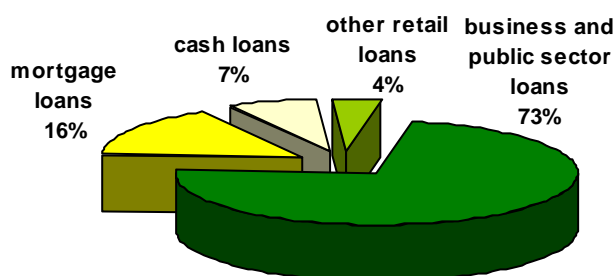
## Credit Portfolio

At the end of December 2007, net loans and advances to customers were PLN 22,150.6 m and 37% up y-o-y (+8.3% q-o-q) due to increasing volumes of the Bank's key portfolios: business loans, mortgage loans and cash loans. Gross loans and advances to customers amounted to PLN 22,706.7 m vs. PLN 16,791 m at the end of December 2006.

Loans and advances to business and public sector customers totalled PLN 16,633.3 m, of which the business loan-book was PLN 16,473.9 m and 33.5% up y-o-y, reflecting higher demand of business customers for funding towards investments, stock and working capital requirements amid fast economic expansion. The credit delivery was strongly driven by corporate lending for long-term projects, mainly related to real estate. Loans for income-producing real estate were growing at the pace of 64.9% y-o-y to build a portfolio of PLN 6,800.7 m at the year end.

The value of retail loans increased by 44% y-o-y to PLN 6,066.9 m with cash loans and mortgage loans gaining strong momentum. Cash loans increased by 60.6% to PLN 1,571 m due to the bank's attractive offer and the effectiveness of its pro-active promotion and sales methods. Total home mortgage portfolio went up by 42.5% y-o-y to PLN 3,734 m (of which zloty-denominated lending increased by 52% y-o-y) as a result of the very good parameters of the bank's offering, improved financial standing of retail customers and favourable market trends.

### Exposure structure of Bank Zachodni WBK



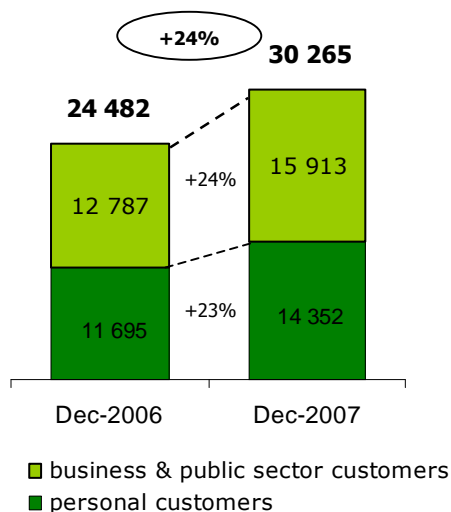
The quality of the bank's loan-book continued to improve during the year, which is reflected in the declining NPL ratio, i.e. 2.8% vs. 5.2% at the end of December 2006.

Bank Zachodni WBK S.A. complies with the Banking Law requirements with regard to the limits of exposures to a single entity or to a group of connected entities. The bank also maintains an adequate diversification of the credit portfolio in accordance with its policy on exposure to industries and financial groups. As at the end of December 2007, the highest concentration level of 26% was recorded in the property sector services.

## Deposit Base

Deposits from customers, which represent 77.2% of the Bank's liabilities, are the primary source of funding its lending business. At the end of December 2007, customer deposits totalled PLN 30,264.7m and were higher by 23.6% y-o-y (+12.6 % q-o-q).

### Deposits from customers (in PLN m)



The value of funds deposited in current accounts of personal, business and public sector customers (excluding one-day deposits) was PLN 14,111.1 m and increased by 70.8% y-o-y. This growth is attributable to the greater number of accounts and the continued improvement of the financial standing of households and their rising optimism. The strong inflow of financial resources is also attributable to the bank's attractive savings account and its increasing popularity ensuing from the successful promotional campaign.

The term deposit base (including one-day deposits) was stable compared to the end of December 2006 and amounted to PLN 15,795.6 m, of which balances held by business and public sector customers increased by 22.6% on account of increased activity and good financial performance of enterprises in the favourable macroeconomic climate. Business customers invested mainly for short-term, using the flexible maturity options and negotiating individual rates with the bank. Retail customers preferred short-term deposits, particularly the 1-month Lokata24 deposit.

### 3. Basic Financial Ratios

PLN

Key financial ratios	2007	2006
Total costs /Total income	58.5%	60.5%
Net interest income / total income	50.2%	49.0%
Net commission income / total income	39.0%	41.6%
Customer deposits / total balance sheet	77.2%	78.1%
Customer loans / total balance sheet	56.5%	51.6%
NPLs ratio	2.8%	5.2%
NPL coverage ratio	65.9%	60.5%
ROE*	26.6%	19.6%
ROA**	2.3%	2.0%
Capital Adequacy ratio	11.36%	13.79%
Diluted earnings per share	11.07	8.12
Book value per share ***	52.78	49.52

*The following were used in computations:*

\* *profit-after-tax and equity as at the end of December net of current profit;*

\*\* *profit-after-tax and average assets derived from balances as at the end of comparable periods (end of December of the reporting year and end of December of the previous year);*

\*\*\* *total equity per number of BZWBK shares.*

### 4. Interest Rates on Loans and Deposits

Bank Zachodni WBK offers its customers interest rates on products linked to the market rates and the base NBP rates.

Generally, the interest rates on business loans are based on the price of money in the wholesale interbank market (WIBOR, LIBOR), increased by a margin commensurate with the credit risk attaching to the transaction/customer. The margin is determined in the credit assessment process.

The interest rates on retail products (for personal customers) are standardised. In 2007, interest rates in this segment of the bank's offering were changed in response to increased pricing in the interbank wholesale market and formal interest rate hikes in Poland, Eurozone, other European countries and the US.

The standard interest rates on retail products are set by the Assets and Liabilities Management Committee (ALCO). For significant transactions, individualised, often negotiable, pricing applies.

As part of delivering the strategic plan, in 2007 the bank conducted promotional campaigns for its key products, offering special pricing. Particularly attractive rates were offered for mortgage loans, credit cards and cash loans.

## V. Business Development in 2007

### 1. Review of Key Business Development Directions

The actions undertaken by Bank Zachodni WBK S.A. in 2007 were a continuation of the development directions set out in its strategy and focused on the service quality improvement, development of competitive products, increasing sales, expansion of the distribution network for the bank's products and services, and reduction of operational risk. In order to deliver these projects, the bank had to optimize relevant internal procedures and further upgrade technologies and IT tools.

The most important areas of the Bank's activity in 2007 are summarized below:

- Diversification of the savings and investment product offer:
  - introduction of an innovative structured product (Investment-Linked Policy);
  - commencement of the sale of new mutual funds (Arka BZ WBK CEE Equity FIO, Arka BZ WBK New Europe Development FIO);
  - more attractive offer of savings account.
  
- Alignment of the bank's package offering to the adopted customer segmentation, including:
  - VIP customers (new package);
  - customers travelling for economic and tourist purposes (free-of-charge personal accounts denominated in GBP, EUR and USD with debit cards settled in respective currencies).
  
- Increasing the competitiveness of the bank's credit offer:
  - increasing the availability of loans for retail customers;
  - optimisation of processes and minimisation of the documentation requirements for retail customers and SMEs;
  - expansion of the scope of insurance cover for mortgage borrowers.
  
- Intensified acquisition activities on the markets with a large business potential:
  - property market (financing residential and income-producing real estates);
  - cash loans market (diversification of delivery channels);
  - capital market (arrangement of bond issue, management of shares issues in the primary and secondary market, comprehensive consultancy).
  
- Pro-active selling using a variety of tools, such as:
  - advertising campaigns (BZ WBK Arka mutual funds, cash loans, housing loans, Account<30, FX account, savings account, etc.);
  - pricing incentives and cross-selling campaigns.
  
- Implementation of the sales network development strategy to increase the Bank's market share:
  - opening of 34 new branches (more than 20 additional branches ready to be opened at the start of 2008);
  - launch of 26 Minibank agencies;
  - expansion of the Mobile Sales network.
  
- Completion of the first phase of implementing the new Medium Business and Private Banking models:
  - pilot opening of the Business Banking Centre;
  - establishment of the Private Banking Office for high net worth customers.



- Rapid development of electronic banking channels and products:
  - implementation of on-line sales of further mass products (savings account, cash loan, credit card);
  - expansion of functionality;
  - increased transaction security (masked password, 3D Secure service);
  - issuing co-branded cards in co-operation with new partners (Newsweek Polska, Lech Poznań Sports Club);
  - new innovative products available (contactless cards, Ski Credit Card).
  
- Development and implementation of comprehensive procedural and IT solutions to support key internal processes:
  - Customer Relationship Management (CRM);
  - central account management;
  - initial decision for mortgages;
  - sale of products through the agency outlets;
  - management of sales campaigns, arrears, complaints, etc.
  
- Constant improvement of service quality.
  
- Increased scale of the third-party services (cards, ATMs).

## 2. Development of Customer Service

### Customer Relationship Management (CRM)

The service quality standards of Bank Zachodni WBK provide for two models of interaction with customers, depending on their product and service requirements.

The customers who use sophisticated products and expect customised advice 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 CRM to provide a tailored service, satisfy diverse needs and establish strong ties. The type and frequency of contact with the customers is regularly planned and monitored by the bank.

Customers who require the basic products and services are serviced through electronic channels or the branch network in accordance with the highest quality standards. They are proactively contacted mainly as part of sales campaigns.

The bank increases the loyalty of customers by providing them with incentives to use existing and to purchase new products and services. In parallel, steps are taken to reduce the customer attrition rate. The bank continuously tracks the number of customers who leave or reduce their activity, which helps identify the motives behind such behaviour, eliminate its causes or actively prevent it through direct contacts and sales campaigns. The number and scope of sales campaigns have been growing consistently year on year.

Proactive contacts and sales campaigns are supported by the IT infrastructure which is gradually aligned with the information requirements of the adopted segmentation and CRM model. With an ongoing development of IT tools, the bank is provided with a fuller picture of customers' contacts with the bank, which translates into better relationship management and more effective decision-making.

## Service Quality Management

### Service Quality Programme

In early 2007, the Management Board of Bank Zachodni WBK approved an annual Service Quality Programme, which sets out the bank's actions towards achievement of a distinctive market position in terms of customer service quality. Based on the results of the previous customer satisfaction survey, particular emphasis was placed on improving the sales procedures and availability of credit. Parallel to that, individual service improvement plans were implemented in selected branches. As a result of these initiatives, the survey conducted in the fourth quarter of 2007 yielded a higher Customer Satisfaction Index than before.

### Active Service and Sales Standards

In 2007, efforts were continued to solidify the Active Service and Sales Standards across the Branch Network. The standards ensure consistently high customer service culture while promoting a pro-active and pro-sales approach among staff. The process of internalisation of the desired behaviours was supported by the following initiatives: on-going internal training, best-practice sharing and regular mystery shopping. The high effectiveness of the standards in the Branch Network is confirmed by the internal customer service reviews and the bank's second position in the Newsweek's ranking "Friendly Bank", category: "customer acquisition and retention capability".

### "Client-Friendly Firm"

In 2007, the jury of the CFF Certification Programme - launched and conducted by the Management Institute in collaboration with TNS OBOP and the Researcher by Call Center Poland - awarded Bank Zachodni WBK with the accolade of "Client-Friendly Firm". This title is a symbol and warranty of the highest customer service and its rank is underpinned by the thorough selection procedure. The bank received the award following a three-stage procedure, including self-assessment, audit and the final evaluation. The evaluation included quality management policy, knowledge of the quality procedures among the front-line staff, customer satisfaction and effectiveness of external communication channels.

### Customer Care Officer

Bank Zachodni WBK is distinctive in the market in that it has a Customer Care Officer. Apart from being the contact person for customers, the Customer Care Officer and their team are also involved in development of customer service standards through: developing complaints handling standards, supporting the bank's staff in processing the most difficult complaints, regular updates for the Management Board on the outcome of complaint analyses, initiatives aimed to eliminate sources of customer dissatisfaction and liaising with the Ombudsman at the Polish Banks Association.

In September 2007, Bank Zachodni WBK implemented new complaint management standards and an IT system to support the process. In this way, the bank obtained a tool for on-going analysis of customer satisfaction levels and exploring the sources of issues.

### Process Management

Changes and improvements in the way the organisation operates are an on-going process. Bank Zachodni WBK developed and implemented (as a pilot) a process management methodology, i.e. measurement and monitoring of processes from the point of view of customer needs and business requirements. This laid solid foundations for the further effectiveness upgrade both by way of continuous improvements in line with the Kaizen concept ("small improvements day after day") and by major improvements driven by the Lean Six Sigma methodology, already tried and tested in the bank. Process management is supported by the Business Process Architecture, which contains overall maps of processes across the bank.

In 2007, a significant number of processes were improved, ensuring high quality of service and customer satisfaction. Among these were: centralisation of bank accounts management (replacement of paper documents with electronic ones in branches), pre-generation of PINs for credit cards (PIN is

issued when the customer submits the credit card application) and pilot implementation of the front-score for mortgage loans.

- **ISO Accreditation**

As a result of the audit conducted by SGS Polska Sp. z o.o., in 2007 Bank Zachodni WBK received a certificate of compliance with the ISO 9001:2000 standard for the Quality Management System, which includes:

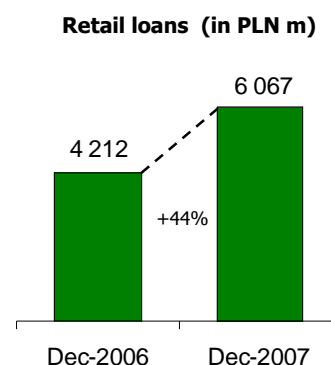
- Treasury dealing and documentary transactions support;
- Vendor selection for BZWBK Group;
- Processing of domestic and international transactions and Western Union Money transfers;
- Change management, software development and testing;
- Central support of credit and deposit facilities;
- Sale and support of Direct Banking products and services;
- Issue, personalisation and handling of payment cards and cheques;
- Cash and ATM management;
- Central service delivery.

### 3. Development of Products and Services

#### Retail Loans

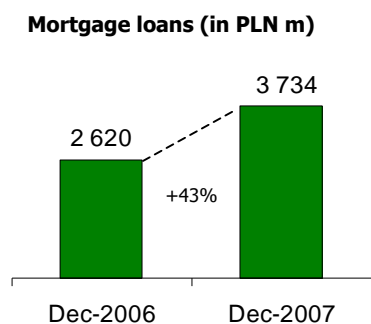
In order to better satisfy retail customers' needs amid favourable economic trends and growing competition in the credit market, in September 2007 Bank Zachodni WBK modified its previous credit policy for credit cards, mortgages, cash loans and overdraft facilities. The implemented changes extended the availability of the above-listed products, limited the scope of required documentation and standardised service procedures.

Owing to favourable configuration of internal (attractive credit proposition, procedural simplification, effective marketing initiatives, extension of delivery channels) and external factors (relatively low unemployment rate, growing salaries, optimistic social outlook), in 2007 the bank experienced a record-breaking dynamics of retail credit sales, which translated into substantial growths in individual credit portfolios.



#### Mortgage Loans

In 2007, the bank made efforts to improve the attractiveness and availability of the PLN mortgage loan. The most important changes included: implementation of an investment loan to finance construction or purchase of a property to let, introduction of an option to obtain additional funds to be allocated to any purpose (as part of the home loan), modification of selected parameters of the repayment capacity assessment process and introduction of a voluntary insurance package providing cover against illness or loss of job. The attractive price of the PLN mortgage loan stems from the combination of the following factors: promotional interest rate, low instalments without any hidden costs, a fixed margin throughout the lending term and attractive schedule of fees and charges. An important element distinguishing the bank from the competition is also the short turnaround time for obtaining a sanction in principle. In 2007, the Bank commenced a pilot of a tool enabling automated processing of credit applications and providing the applicant with a preliminary decision within 15 minutes from keying data into the system.

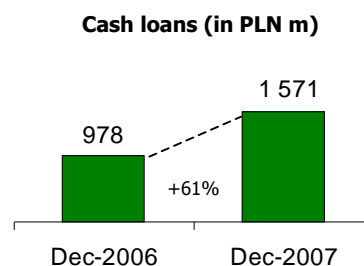


To be recognized as a lender with a leading offer of PLN-denominated home loans, in the first half-year, Bank Zachodni WBK advertised its mortgage product nationwide, highlighting two distinctive features: low instalments and secure repayment. Towards the end of the year, the bank conducted the Internet

campaign informing customers about low mortgage instalments and possibility of obtaining a higher loan amount than before.

## Cash Loans

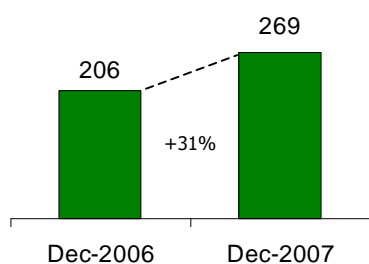
Despite intense competition in the area of cash loans, Bank Zachodni WBK portfolio was growing faster than the market. The dynamic growth of sales was driven, amongst others, by high assessment of the bank's proposition by customers due to such features as: attractive interest rate and accompanying fees, short turnaround time (10-15 minutes from submitting a complete application), option to choose a lending period. The bank's product was also appreciated by professionals, the best reflection of which is the second position awarded to it in the ranking of cash loans published by "Rzeczpospolita" (the issue dated 29 November 2007) based on analysis of offerings of 30 banks. In addition, the product was placed second in the rankings published by "Wprost" and "Gazeta Wyborcza". The higher sales of Bank Zachodni WBK cash loans were also impacted by extended availability and improved efficiency of external delivery channels. The sales were also strongly supported by three intensive advertising campaigns, two of which (H1 2007) put the stress on low instalments, whereas the last one (August/September) exploited the slogan "Wszyscy biorą nowy tani kredyt gotówkowy" ("Everyone is taking a new cheap cash loan").



## Credit Cards

In 2007, Bank Zachodni WBK continued initiatives aimed at acquiring subsequent partners for issuing co-branded cards. These products have been increasingly popular given the value added, i.e. attractive loyalty programmes. In January 2007, the bank and the Allegro.pl portal jointly issued a co-branded Allekarta card which was deemed the best card of this type available on the market by the Forbes magazine (edition dated 31 May 2007). Two other co-branded cards (Visa LuxMed and Visa Multikino) were ranked 4th and 5th, respectively. In November – in co-operation with Newsweek Polska – the Bank launched the sales of another co-branded card, namely Visa Newsweek which provides active cardholders with subscription of the magazine. The bank's innovative focus is well-exemplified by the limited edition of Narciarska Karta Kredytowa (Ski Credit Card) MasterCard Silver (standard card) which provides insurance policy for skiers and snowboarders (valid all over the world in the winter season 2007/2008) and a programme of price discounts for skiing equipment.

**Credit cards (in thousands of items)**



In order to promote the active use of credit card among customers, Bank Zachodni WBK carried out a number of promotional and sales campaigns, including an advertising campaign of credit cards ("Potrafi więcej niż inne"/ "It is capable of more than others"), a cross-selling promotion for holders of BZWBK Arka mutual funds and a price promotion aimed at encouraging the customers to pay by credit cards at merchants more often. Moreover, the Bank implemented a special credit card proposition targeted at students from many Polish universities and colleges.

## Personal Accounts

In order to increase the effectiveness of service processes and sales, in 2007 the bank implemented three new processes of selling personal accounts. Since March, customers can open the Konto24 Euro account together with BZWBK24 services and obtain a MasterCard debit card based on the eWniosek (electronic application) placed via Internet or telephone. In May, the bank introduced a "fast track" procedure for opening personal accounts in the branches, whereby the duration of this procedure has been reduced to 10 minutes and owing to further modifications of the process (e.g. the option to choose a specific package of products), even more time savings have been achieved. In

September, Bank Zachodni WBK enabled its customers to activate personal accounts with a payment card without having to visit a branch.

### **Konto<30 and Konto24 Prestiż**

In line with the strategy which defines two basic groups of prospective customers (starting out and mass affluent customers), in 2007 the bank launched nationwide sale campaigns of personal account packages, targeted at these customer groups, promoting the Konto<30 and Konto24 Prestiż packages. To promote the sale of the Konto<30 account (designed for customers aged 13 – 30), the bank waived the cash withdrawal fee for Visa Electron<30 holders using ATMs located abroad throughout the summer holiday period. The promotional campaign for Konto24 Prestiż and the related product package highlighted the advantages of this proposition, in particular the service provided by a dedicated advisor and the possibility to try this product free of charge for six months.

### **Konto24 VIP**

In March 2007, Bank Zachodni WBK launched the sale of Konto24 VIP designed for customers from the Personal Banking segment. This product is offered together with a comprehensive package of additional, free services and products. The account maintenance fee covers an unlimited number of transfers, standing orders/variable orders and payment orders. The account comes with a free debit card (Visa Electron VIP) for free-of-charge cash withdrawals in ATMs operated by other banks and financial organizations in Poland and abroad (with a specified frequency). The Konto24 VIP package is supplemented by the Gold credit card and a free investment account with Dom Maklerski BZ WBK S.A. Moreover, account holders can avail of the Teledysponent service, i.e. contact the consultant via phone and place orders for processing a number of bank operations.

## **Deposit and Investment Products**

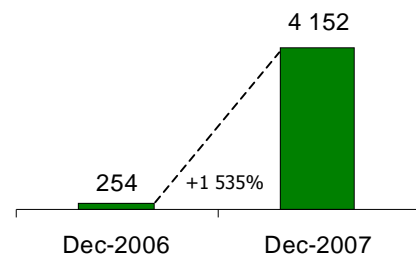
Bank Zachodni WBK addresses a comprehensive offer of savings and investment products both to mass customers and selected target groups, taking account of their diversified investment capabilities, individual preferences, expected yield, risk appetite and market environment.

### **Deposit Products**

The increase in interest rates on the full range of deposits offered by the bank contributed to the positive perception of the bank's deposit proposition in the eyes of the customers. The Bank was the first to respond to the change in the NBP interest rates in May 2007 and was flexible in adjusting its proposition to the changing environment going forward.

In 2007, the savings account became the flagship deposit product of Bank Zachodni WBK due to its huge popularity amongst customers. The gradual growth in interest in this product noted in the first half of the year was a result of making the account available on the Internet (BZWBK24) and the campaign informing customers about its advantages: easy access (new functionality of BZWBK electronic services), high interest rate (at the level for term deposits) and high liquidity (possibility to withdraw funds at any time and in any amount without losing interest). Increase of the interest rate to 5% (for the highest value threshold) towards the end of the year and promoting this parameter in the intense advertising campaign entitled "Nowa Era Oszczędzania. Megazarabiające Konto oszczędnościowe"/"New Saving Era. Ultra Profits Saving Account" proved very successful.

**Balances in savings accounts  
(in PLN m)**



## Saving and Investment Products

Last year, the Bank continued to distribute Arka BZWBK mutual funds (managed by BZWBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.) in the five key categories: balanced fund, stable growth fund, equity fund, money market and bond funds. They were popular among customers especially in the first half of 2007 due to the still favourable stock exchange climate, good fund management performance and effective promotional campaigns. In early April 2007, the sales of new Arka BZWBK CEE Equity fund were launched. The fund invests at least half of its assets in equities and similar financial instruments issued by companies with high growth potential operating in Poland and other countries of Eastern and Central Europe. In Q4 2007, the fund proposition was extended by the newly established sectoral Arka BZWBK New Europe Development fund that invests at least 66% of its assets in companies operating in Eastern and Central Europe in the broadly understood infrastructure sector (construction and financial sectors).

In 2007, investment-linked policy, i.e. endowment policy with an investment instrument embedded, was added to the basket of savings and investment products. This product combines benefits of Arka BZWBK-based investments with an insurance policy while giving a full guarantee of returning the invested capital. Four issues of the product last year satisfied needs of a sizeable customer group.

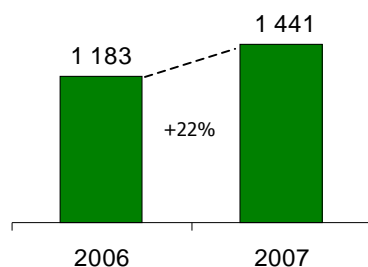
## Debit Cards

### New Items in Debit Cards Proposition

In March 2007, the bank launched the sale of Konto24 VIP for Personal Banking customers, offered together with the Visa Electron VIP package and a wide range of free-of-charge services. For customers who work abroad, the FX card offer was expanded to include MasterCard debit cards issued to the personal account denominated in GBP and USD. Customers may thus use free-of-charge personal accounts maintained in three foreign currencies (EUR, GBP and USD) and the accompanying debit cards which are settled in the account currency. July 2007 saw subsequent two propositions: Visa KKS Lech co-branded card prepared for personal customers in liaison with KKS Lech Poznań football club (bar code placed at the back allows the card holders to enter the stadium) and Visa Business fx card issued to the business account in EUR.

Starting from 2007, another innovation, i.e. prepaid Premium card without a specified nominal value has been available as part of the bank's proposition. In December 2007, Bank Zachodni WBK in cooperation with MasterCard Worldwide and Centrum Elektronicznych Usług Płatniczych eService (E-Payments Services Centre) introduced contactless payments to the Polish market by issuing pre-paid Maestro PayPass cards. The solution enables quick and safe payments for small shopping by way of waving a card over a special reader.

Debit cards (in thousands items)



### New Functionalities and Marketing Actions

The attractiveness of BZWBK debit card proposition was enhanced by numerous pricing initiatives and functional improvements. The bank's customers were offered the possibility of making free-of-charge withdrawals from AIB ATMs in Ireland and the fee for cash withdrawals in ATMs abroad was waived temporarily for the users of Visa Electron<30 cards issued to Konto<30. During the second half-year, free-of-charge withdrawals were also made available, by way of promotion, to users of MasterCard debit cards settled in foreign currencies. In August 2007, Bank Zachodni WBK was the first bank in Poland to introduce Verified by Visa (VbV) mass service based on 3D Secure technology which ensures the highest protection to payments made with cards via the Internet. First, the additional security measure was offered to the holders of AlleKarta debit card (flat Visa Classic card) issued by the bank to the users of Allegro transactional service. As of September, the service has been available to all bank's personal customers using VISA debit and credit cards.

2007 saw a further growth in the number of Bank Zachodni WBK debit cards (+22% y-o-y) and, in particular, Visa Electron<30, Visa Electron Prestiż, MasterCard in EUR, Visa Electron Business cards

as well as affinity and gift cards. The sale of these products was fuelled by numerous promotions and activation programmes undertaken in co-operation with the bank's partners. The bank also participated in initiatives carried out by Visa Int. and MasterCard Int. with a view to activating the non-cash payments market. All these actions translated into a 38% increase in the number of transactions effected with the use of debit cards at merchants.

## Insurance Products

Bank Zachodni WBK bancassurance business is growing dynamically and so is its importance as a source of additional fee income. The Bank provides insurance products to customers in conjunction with the leading insurance companies on the Polish market such as: Commercial Union Group, AIG and TU Europa.

In May 2007, a home mortgage insurance package was introduced to protect borrowers against the implications of loss of job, temporary, permanent or total disability, serious illness and death. In December, modern package of ski insurance was introduced to be attached free of charge to two types of credit cards: Visa Newsweek and MasterCard Silver "Ski" card. The product provides comprehensive cover for customers who go skiing or snowboarding in the 2007/2008 winter season all over the world. Last year, the most popular insurance product was home insurance attached to mortgages loans and payment card insurance protecting the card holders against unauthorized use of the card and theft of cash withdrawn from an ATM.

The Bank attaches a lot of importance to the development of structured investment/ insurance products which enabled it to organise four investment policy subscriptions in 2007.

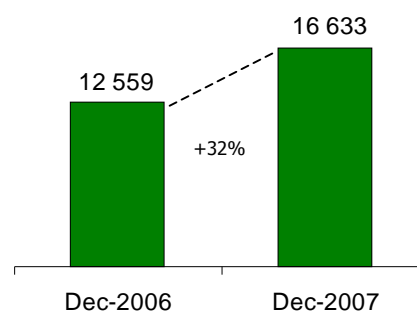
In 2008, based on the agreements concluded between Aviva International Insurance Ltd. and Bank Zachodni WBK, two insurance companies will be established. They will be offering property and life insurance products to bank customers.

## Proposition for Business Customers

### Credit Processes

In view of a growing share of property loans in the bank's credit portfolio, in April 2007 the Income Producing Real Estate (IPRE) Lending Policy was introduced which, based on the Bank's and the entire AIB Group's experience, sets out a new direction for financing such investments. In line with the adopted policy, the bank applied different approaches to individual types of operations with core business related to IPREs which include: residential investments, commercial investments, property development, and land purchase. The objective of the recommended practice is to enhance customer service and grow credit portfolio while mitigating credit risk.

Receivables from business and public sector customers (in PLN m)



### Proposition for Corporate Customers

Bank Zachodni WBK Corporate Banking business is based on a Relationship Management model, whereby a corporate customer's designated relationship manager not only controls the credit process, but has overall responsibility for co-ordinating the service to the customer across the bank.

The services offered to corporate customers include a wide range of credit facilities 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. In liaison with its subsidiaries, the bank offers specialised services, including brokerage, equity and asset management services as well as leasing and factoring. In addition, the Bank Zachodni WBK branch network offers special incentive packages for staff of corporate customers.

Bank Zachodni WBK continues to strengthen its presence on the corporate banking market, which is well reflected in the high growth both in the credit and deposit portfolios witnessed in 2007 as compared to the previous year. Credit expansion was achieved across all sectors, with the strongest contribution from structured finance and loans for income-producing real estate. The Bank's Corporate Banking Lending Policy is to strongly support business development of the existing customers and to establish relations with new customers where a strong management team and sound business strategy exists. The quality of the corporate credit portfolio is very high and shows significant improvement over the past years.

### **Proposition for Small and Medium-Sized Companies (SME)**

- **Expanding SME Customer Base and Providing Finance**

In 2007, Bank Zachodni WBK intensified actions aimed at recruiting and activating customers from the SME segment. The main stream comprised marketing and educational initiatives. A series of training sessions developing customer acquisition skills (Efficient SME Customer Advisor) was carried out for SME Advisors. Meetings and workshops for local businesses were held and conducted by the representatives of the bank and organisations supporting entrepreneurship. Many sales campaigns using cross-sale methods were held.

As part of continuous enhancement of the bank's proposition and its adjustment to the requirements of the SME sector, in 2007 a modern package of credit facilities financing Income Producing Real Estates for commercial and residential purposes was introduced. Furthermore, a comprehensive lending offer dedicated to start-ups was developed to be introduced in 2008 as a core part of a universal package for this customer group. Moreover, the bank verified its approach to the SME risk assessment which was reflected in limited scope of required documentation (this applied, in particular, to small businesses) and the possibility of raising an unsecured loan up to a certain limit.

- **Medium Business Service**

In 2007, Bank Zachodni WBK adopted a strategy for servicing the mid-business, i.e. the top segment of the SME sector. Its objective is to transform the existing business model in line with customers' expectations with a special focus on requirements related to relationship quality and access to decision makers. Under the new model, the bank will set up dedicated regional structures to service the mid-business companies and will appoint staff with adequate credit discretions. These units will supplement the existing distribution infrastructure composed of the branch network and the Corporate Business Centres. In 2007, Warsaw region witnessed a pilot of the new service model which proved successful and paved the way for the roll-out. Initially, 9 Business Banking Centres will be launched in the largest cities in 2008. Ultimately, such centres will be opened in all regions covering sizeable mid business markets.

- **Financing Projects with the Use of EU Funds**

Bank Zachodni WBK proposition of financing undertakings subsidised by the EU comprises a loan, leasing and borrowing and ensures financing of both the subsidised investment part and the remaining outlays. In 2007, the EU product proposition was expanded by Biznes Ekspres Unijny based on the structure of Biznes Ekspres loan, popular amongst the bank's customers. Similarly, it can be earmarked for any objective related to business operations. The customer needs to meet a minimum number of formalities and is ensured a lending decision within 24h from the 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 going forward. To this end, the Bank has commenced intense preparatory work aimed at servicing structural funds from the new 2007-2013 budget. As part of the adopted strategy, sales structures were strengthened, proposition modified, EU advisors trained and relevant sales and promotion plans designed.



- **Proposition for Farmers**

In line with the adopted lending policy, in 2007 the bank's attention and its sales actions focused on farms with a defined area of arable land. In respect of process development, the mode of credit decision-making for representatives of the agri-sector was further enhanced.

Bank Zachodni WBK S.A. was actively involved in the process aimed at regulating the cooperation between domestic banks and the Agriculture Restructuring and Modernisation Agency in respect of servicing preferential loans with subsidised interest. An agreement concluded in August 2007 facilitated the extension of the agri-sector financing. Additionally, the bank carried out work aimed at developing services for customers seeking EU funds under Program Rozwoju Obszarów Wiejskich 2007-2013 (Rural Area Development Programme 2007-2013). A uniform, comprehensive EU proposition and a plan of promotional actions addressed to borrowers from the agri-sector were worked out in liaison with leasing companies.

## **International Settlements**

### **International Payments**

In the process of handling international payments, the bank uses all available settlement channels, and is therefore able to offer its customers the most favourable options. In 2007, actions were taken with a view to including the Bank in the SEPA programme whose underlying key objective is to develop a single EU payments market. In addition, the Bank's potential in respect of settlements was enhanced owing to the establishment of the network of foreign agents accepting orders for cash transfers to PLN accounts held in Poland. By the end of December 2007, the Bank signed 11 relevant agreements with partners from the UK, Ireland and the Netherlands.

Payment-related messages generated by the Bank have been of very high quality for many years which streamlines the settlements process and reduces the service cost. Last year, in recognition for the error-free SWIFT message formatting, the bank received awards from its two main correspondent banks: Bank of New York and Deutsche Bank. The efficient organisation of the foreign payment handling process and the high quality of customer service is best proven by the bank being placed among the institutions that comply with ISO 9001:2000 standard for international payment orders.

Besides high quality and universality, the bank offers a very competitive schedule of fees and charges. The bank's rates for outgoing payment orders are very low, while payments received to the benefit of internal customers are free of charge. With such an attractive offering, in 2007 the bank recorded a 26% y-o-y growth in the number of direct outgoing payments (effected without the agency of third-party banks).

### **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 includes the bank's branches, Minibank outlets and agents who operate under a contract with the bank and use its clearing services. Owing to the differentiation of its product distribution channels and their continued development, the bank reaches an increasingly higher number of customers. In parallel, BZWBK ensures the highest quality of service, which is evidenced with ISO 9001:2000 certificate granted to the bank with respect to Western Union transfer handling. The bank's actions contributed to higher transaction-related turnover and, in particular, to a higher volume of outgoing international transfers (+23%).

### **Trade Finance**

The bank's offer includes a full range of international trade finance products. Continuously expanded network of cooperating banks ensures high efficiency of service processes and competitive transaction execution costs. In line with internal standards, all documentary transactions are processed within 24 hours from the receipt of a complete order and/or relevant documents by the Business Support Centre. Top quality of provided services is evidenced by ISO 9001:2000 certificate granted to the bank for handling documentary and cheque transactions.

## Provision of e-Services to Financial Institutions

Bank Zachodni WBK issues and processes payment cards for other institutions, being a leading provider of such services on the market. The bank's offer includes "traditional" magnetic cards as well as chip and bar-code cards. The bank offers its partners a modern IT infrastructure and a real-time access to transaction data, while their customers can avail of the bank's extensive ATM network. High quality and security of the bank services have been confirmed by the certificate from Visa Int. and MasterCard Int. issued for the personalisation of stripe and chip cards.

Since 2006, Bank Zachodni WBK has been providing service for the ATMs of other banks and external institutions. As a result of commencing cooperation with new partners, Bank Zachodni WBK is now one of the leading providers of such service in Poland.

The Bank expanded the scale of its operations in the above areas and at the end of 2007 serviced more cards and ATMs on behalf of external institutions than for its own customer base. As at 31 December, the number of external cards was 57% up on the previous year, while the network of external ATMs was expanded to cover over one thousand machines.

## Investment Banking

### Arrangement of Debt Securities Issues

Last year, corporate customers showed revived interest in the arranged securities issues, which were placed with the entities indicated by the issuer. The bank arranged bonds issues for more than 20 customers for a total value of PLN 401 m, which is 8 times more than a year before.

Moreover, the bank participated in the public offer of bonds issued by its leasing subsidiary (BZ WBK Finanse & Leasing S.A.) as part of the issue programme. The nominal value of the placed bonds amounted to PLN 56.8 m.

### Advisory Services

In 2007, Bank Zachodni WBK in liaison with Dom Maklerski BZ WBK S.A. acted as advisors in the following undertakings:

- a public offer of F-shares issued by PBG S.A., worth PLN 350 m, with subscription rights for the existing shareholders;
- the sale of PBG S.A. shares, worth PLN 54 m, by one of shareholders in the secondary market;
- a public offer of D-shares issued by Koelner S.A. worth PLN 82.5 m, without subscription rights for the existing shareholders;
- arrangement of the sale of Koelner S.A. shares, worth PLN 33 m, by majority shareholders in the secondary market;
- a public offer of C-shares issued by BBI Development NFI S.A., worth PLN 57.1 m, with subscription rights for the existing shareholders;
- a public offer of B-shares issued by BBI Capital NFI S.A., worth PLN 48.2 m, with subscription rights for the existing shareholders;
- a public offer of X-shares issued by Sygnity S.A. (formerly: Computerland S.A.) to the shareholders of Emax S.A. in the process of merging the two companies;
- a public offer of J-shares issued by Hydrobudowa Włocławek S.A. to the shareholders of Hydrobudowa Śląsk S.A. in the process of merging the two companies;
- a public offer of F-shares issued by TUP S.A. worth PLN 110 m, without subscription rights for the existing shareholders.

### Equity Portfolio Management

In 2007, the following changes took place in the equity portfolio of Bank Zachodni WBK:

- Having obtained the approval of the Polish Financial Supervision Authority, in March 2007 Bank Zachodni WBK purchased 152 shares issued by Commercial Union Powszechna

Towarzystwo Emerytalne BPH CU WBK S.A. from BPH S.A. at PLN 22.2 m, thus increasing its shareholding in the company to 11.1%.

- In December 2007, the transfer of 980,517 shares of NFI Magna Polonia S.A. for redemption to the issuer was settled. The transaction yielded a revenue of PLN 17.16 m.
- In December 2007, Bank Zachodni WBK made a payment of PLN 3.3 m in connection with the PLN 16 m worth issue of shares by CU Polska Towarzystwo Ubezpieczeń Ogólnych S.A. offered to the existing shareholders on a pro-rata basis. The new shares will be allocated following their registration in the National Court Register (KRS).
- 2007 saw the final liquidation of BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa, where Bank Zachodni WBK was the limited partner. Bank Zachodni WBK was returned the entire invested capital of PLN 27.1 m.

As at 31 December 2007, the equity investment portfolio of Bank Zachodni WBK was composed of subsidiaries and associates displayed in the chart on page 11 and minority shareholdings in 23 companies, including: Krajowa Izba Rozliczeniowa S A (11.48%), Commercial Union Powszechne Towarzystwo Emerytalne BPH CU WBK S.A (11.1%), Commercial Union Polska Towarzystwo Ubezpieczeń na Życie S.A. (10%), Commercial Union Polska Towarzystwo Ubezpieczeń Ogólnych S.A. (10%), AWSA Holland II BV (5.44%), Biuro Informacji Kredytowej S.A. (5.14%) and Arka BZ WBK Fundusz Rynku Nieruchomości Specjalistyczny Fundusz Inwestycyjny Zamknięty (4.42%).

### **Announced Equity Investment**

On 20 November 2007, Bank Zachodni WBK and Aviva International Insurance Ltd. from London (parent company of the Commercial Union Poland Group) entered into co-operation agreements, providing for establishment of two new insurance companies. The parties will acquire 50% stake each in the share capital of either company with a total value of PLN 72.5 m. The companies will be established subject to the approval of the regulators, including the Polish Financial Supervision Authority and the European Commission.

## **Treasury**

In 2007 there was very strong growth in Treasury activity, both in Wholesale and Corporate markets.

Treasury Services operations have continued to develop in close cooperation with Corporate and Commercial Banking activities, while maintaining focus on the retail branch client network. The Treasury services centres in Gdańsk, Kraków, Poznań, Warsaw and Wrocław all experienced strong growth. Treasury has continued to develop its product range to meet customer demand and during 2007 there was substantial growth in volumes of derivative related transactions.

Throughout 2007, Wholesale activity reported very strong gains, primarily through strategic interest rate positions taken in anticipation of rising 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 Balance Sheet. The turmoil on Global Stock and Money Markets in the second half of 2007 as a result of US sub-prime difficulties had no adverse impact on the funding and liquidity of Bank Zachodni WBK. The bank is still a net provider of funds to the Polish Interbank market and is not reliant on the markets, either Polish or International, as a net source of funding. The Bank's lending activities are funded by a stable deposit base (Bank Zachodni WBK loan/deposit ratio was 73% at the end of 2007), and the overall liquidity position remains comfortable.

## 4. Development of Distribution Channels

### Branch Network

At the end of December 2007, the bank's branch network consisted of 406 outlets (physical locations excluding 12 rationalised branches still operating in the bank's network) and was divided into 14 regions supervised by three Macroregions in Poznań, Warsaw and Wrocław. The regional and macroregional offices provided direct business and operational support to the local branches.

Last year intensive efforts were made to modernise the branch network, including replacement of equipment, security systems and computer hardware. Also, the branch banking development strategy until 2011 was followed with 34 new branches opened until end-December out of the 50 scheduled to be launched in 2007. Most of new branches were opened in the following Regions: Łódzki, Warszawski, Pomorsko-Mazurski, Zachodniopomorski, Małopolsko-Podkarpacki and Śląski. The delay in execution of the strategy was caused by external factors (telecoms infrastructure, formal obstacles) and will be made up for early in 2008 with the launching of more than 20 new branches.

### Corporate Business Centres

2007 saw continuation of the efforts aimed at expanding the bank's reach in the corporate market. During the year, a new Corporate Business Centre was opened in Łódź, and offices were set up in Szczecin and Katowice, reporting to the Centres in Poznań and Kraków, respectively. With growing business volumes there was also an employment increase in the existing Centres. At the end of 2007, Bank Zachodni WBK operated through six Corporate Business Centres: in Warsaw, Wrocław, Poznań, Kraków, Gdańsk and Łódź.

### Electronic Distribution Channels

#### BZWBK24

The BZWBK24 electronic banking service underwent dynamic growth in 2007.

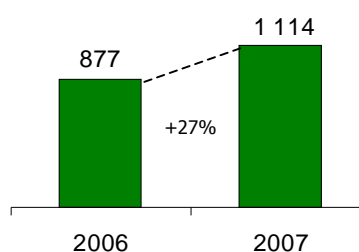
The bank launched the sale of other products and services via this channel, including a cash loan, credit card and savings account. The customers of BZWBK24 were given access to new tools and improvements. For example, the bank introduced a new functionality called "Cards to the account", which enables the customer to view the debit card information and the history of debit card transactions. The scope of currencies, countries and transaction titles to be used in payment orders processed via BZWBK24 Internet and Minibank24 were extended. Also, the daily limit for cross-border transactions approved for processing via BZWBK24 Internet was increased and the option of domestic transfers and payment orders settled via SORBNET was introduced.

In order to provide top security standards, users of the BZWBK24 service were provided the option to monitor IP addresses of computers on which they log into the transaction system. The bank has also started a systematic migration to the new, secure form of logging (masked password) and implemented the 3D-Secure service providing extra security for the Internet-based transactions effected by the holders of debit and credit cards.

High quality of the e-banking service is confirmed by ISO 9001:2000 certificates issued for the BZWBK24 and Minibank24 service. The bank's offer was also recognized by the Office of the Committee for European Integration and the Biznes Centre Club which in 2007 awarded Bank Zachodni WBK the European Medal for the BZWBK24 Moja Firma Plus e-product package designed for small and medium-sized enterprises.

Compared to the same period last year, the total number of BZWBK24 users grew by 27% y-o-y, up to 1,114k as of the end of December.

**BZWBK24 customers (in thousand)**



## **Other Internet Services**

AlleKredyt is a noteworthy electronic product of the bank, implemented in cooperation with Allegro.pl and offered to the users of this auction portal. AlleKredyt is an innovative solution which allows customers to obtain, without unnecessary formalities, a loan of PLN 1 k to PLN 10 k in less than 15 minutes.

## **ATMs**

As at 31 December 2007 the ATM network of Bank Zachodni WBK comprised 674 machines, i.e. 66 more than last year. This growth is a result of opening new branches where ATMs are installed as a standard and an increased demand for such machines given the growing number of ATM transactions (13% y-o-y). For the network expansion the bank uses modern and reliable machines with good ergonomics, which are installed in locations convenient for customers and exhibiting high business potential. Following new installations and ongoing modernization of the network, BZWBK ATMs are characterised by a high functionality - over 90% of the machines comply with the EMV standard (Europay, MasterCard and Visa). In 2007, the bank received ISO 9001:2000 accreditation for the ATM management process.

## **External Distribution Channels**

### **Mobile Sales**

The Mobile Sales structure has been in place since early 2006 and is based on self-employed Financial Advisors and their Co-ordinators who report to the Regional Mobile Sales Directors. By the end of 2007, 17 offices were established in 10 sales regions, covering the area of northern, central and south-eastern Poland. The expansion plans envisage establishment of new sales offices, mainly in the western and southern Poland to give the bank a nationwide presence. In 2007, the Mobile Banking acquired new business through the sale of credit cards and cash loans, displaying operational flexibility and efficiency.

### **Franchising Network – “Minibank”**

In 2007, the bank started establishing a network of agents to provide quick, simple and inexpensive access to standard financial services. This solution is targeted at retail customers who are interested in a limited number of banking services or have not yet availed of banking services at all. Products and services offered through this network include cheap personal accounts with a card, cash loans, bill payments, Euro payments, Western Union money transfers and Euro exchange transactions. Using simplified processes based on the dedicated IT platform, the agents provide customers with fast service at competitive prices.

Agencies are opened under the "Minibank" brand and are located close to the customers' place of residence, in locations that are not in conflict with the bank's branch network. In 2007, 26 Minibank outlets were launched and by the end of 2008 the bank plans to expand the network to about 300 agency outlets, located mainly in smaller towns.

## VI. Further Growth Prospects

### 1. Strategy for 2007-2010

#### Key Strategic Assumptions

The 2007-2010 BZWBK strategy is the continuation of the strategy developed by the bank in 2001 and implemented over the subsequent years. The key message of the updated strategy is expressed by the bank's mission statement:

**“To be regarded by our customers, wherever we operate, as outstanding for our customer proposition, and to turn this into superior profit growth”**

The main strategic assumptions remain unchanged, including the premise that in order to achieve superior profit growth the bank needs to have a distinctive proposition in the following areas:

- customer relationship;
- product offering;
- service quality;
- process enablement.

Development of these areas should give the bank a solid position in the Polish banking market with an aspiration of 10% share. With the bank's focus on ever more efficient risk management, the distinctive customer proposition should also bring value added to the shareholders.

Continued enhancement of the offering will be paralleled by the efforts to foster high management quality and corporate culture in keeping with the highest ethical standards and the expectations of the customers, shareholders and regulators.

#### Customer Relationship

Bank Zachodni WBK intends to reinforce its image of a universal bank which offers a full array of financial services for personal and business customers. The rich product offer will provide foundation for building lasting relations with customers with a strong support from solutions consistently applied under Segmentation and CRM Programme.

Plans for the future envisage expanded functionality of the IT tools used by the bank in the relationship management process. The knowledge gathered in the systems will facilitate customer advisors in anticipating customer needs, establishing and maintaining relations and simplifying service processes. In order to improve relationship management and internal decision-making processes, special tools will be implemented for profitability measurement, statistical analysis and forecasting. The efforts taken will increase the bank's capability of offering customers the right products at the right time through the most appropriate distribution channel. Such efficiency will enable delivery of the bank's key strategic objective, which is to attract specific customer groups, retain the existing customers and continue profitability growth.

#### Offering of Products and Services and their Distribution

##### Developments for Retail Customers

The bank's strategy indicates two key sources of acquiring retail business, i.e. from the “start-up” and the “mass affluent” customer segment. The strategy also encompasses numerous initiatives which seek to increase the attractiveness of retail products and services given their growth potential, profitability and impact on the customer's relationship with the bank.

- **Savings and Investment Products**

The bank will be focused on ensuring a balanced growth of the savings and investment products portfolio across the Bank Zachodni WBK Group. To this end, the bank will keep on following the same development route as before. It will provide its customers with a full range of services (including those offered by the subsidiaries) in order to diversify its portfolio, improve effectiveness & quality of sales and promotional activities, and to ensure the required training for employees. Also, in co-operation with BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., a new investment offer based on closed-end funds will be developed for high net worth individuals. Personal customers will have access to all the most attractive markets and industries through a rich choice of open-ended Arka mutual funds. The array of savings and investment products will be complemented with the structured products, including the investment-linked policies.

- **Retail Loans**

With regard to mortgages, the bank intends to reduce the cost and time of decision-making, increase the quality of advice and expand the distribution network with the key housing market players (developers, agents, brokers). To improve its position in the domestic credit cards market, the bank will increase availability of cards for non-customers, improve effectiveness of sales through internal and external delivery channels and intensify its promotional activity. Through various incentives for customers, the bank will strive to encourage more frequent use of cards for daily transactions. In the cash loans area, emphasis will be placed on growing sales through individual distribution channels (the Internet, phone, independent advisors, agents' network) and delivery of sales campaigns targeted at precisely defined audiences.

- **Bancassurance**

As part of the bancassurance line, the bank's ambition is to set out new standards in the loan insurance market by structuring the best-in-class offering and maximisation of income. The huge potential of own customer base and implementation of appropriate CRM solutions will also facilitate the development of insurance offered via phone and the Internet.

### **Developments for Business Customers**

The bank plans to intensify lending to business customers while maintaining a high quality of the portfolio. The years 2007-2010 are expected to see an increase in exposure to SME customers to the level observed in the "old" EU countries. The credit activity will be supported by numerous initiatives, such as development of the property funding offer, investment finance with EU support, development of lending to the agricultural sector and consistent up-skilling of the SME advisors. Moreover, business customers will be able to avail of a broader range of leasing and factoring products.

The agents' network and the Internet will be added to the channels used for distribution of current accounts.

### **Developments for Distribution Channels**

The bank envisages an organic growth of the bank based on integrated development of all distribution channels, with the focus on the branch network, specialised business centres and agency outlets. In the next years the bank's branch network will be intensively expanded (a few hundred branches to be opened), mainly in the locations with significant business potential, where so far the bank has not established its presence. Consequently, the bank's area of activity will cover the whole country. In parallel to the geographical expansion, the bank will introduce a new service model in its branches and will provide a new proposition for customers with most sophisticated needs (Private Banking and Personal Banking). To meet the requirements of customers who mostly use traditional products and services, the bank will extend the network of Minibank outlets offering simple financial operations such as bill payments, personal account transactions or cash loans. The bank will also increase the number of its Corporate Business Centres and launch Business Banking Centres to give its customers a more convenient access to the advisors with appropriate discretions and to increase their satisfaction with the bank's service.

The functionality of the Direct Banking will be expanded, with particular focus on the solutions facilitating product acquisition. The phone and Internet banking will be more closely integrated with the branch network on the CRM platform to deliver a harmonised system for relationship management.

## Service Quality

Bank Zachodni WBK overarching strategic objective is to build strong and profitable relations with the existing and potential customers by offering them high quality products and services and seamless workflow solutions. To this end, the bank continues to enhance its product range, service model and staff skills, implements new technologies and customer-friendly procedures and increases its flexibility in responding to customer needs. In all these areas, simplification, enablement and improvement of internal processes are of utmost importance.

Customer service quality will still be regularly reviewed and enhanced through service quality metrics, customer satisfaction/expectation surveys, service improvement programmes and the activities of the Customer Care Officer. The bank will continue the programme of certification of its key business processes based on the ISO 9001 standard, which is an essential building block of process management in the organisation. Sharp focus will also be placed on process measurement and streamlining. Selected processes will be upgraded using the Kaizen and Lean Six Sigma models which should contribute to the further improvement of the bank's service.

## Process Enablement

The bank plans to continue centralisation of its IT platforms to mitigate the key risks, reduce costs and improve the speed of IT services delivery. To keep operating costs down, competency centres will be established to provide comprehensive service to the bank, its subsidiaries and the AIB Group. The Business Intelligence systems will be expanded to derive greater income from the existing and new customer relationships.

The bank plans to centralise its credit delivery and improve its operational processes connected with the central sale of products via external distribution channels (Internet, phone, intermediaries, agents). Further processes will be optimised and centralised to increase their efficiency and to reduce risk.

Consistent cost management efforts will be continued across the Group through the planning and control of the operating cost budget, implementation of cost containment initiatives and improvement of purchasing processes.

## Targets for 2008

The projects to be delivered in 2008 are aimed to increase the bank's geographical presence, foster sales, improve service procedures for selected market segments and consolidate the bank's position as an employer of choice and a reputable player in the banking sector. The overall objective is to reinforce among the target population the bank's image as a leading provider of banking services. The bank will focus its efforts on the following initiatives:

- Further increase of the bank's distribution power:
  - development of the branch, agents' and ATM network;
  - opening of mortgage houses (i.e. outlets specialising in the sale of mortgage loans);
  - establishment of co-operation with new partners to issue 'co-branded' cards, sell cash loans, debit cards and provide electronic banking services.
- Roll-out of new business models for the upper SMEs segment and the personal customers with high and stable financial potential:
  - opening of Business Banking Centres;
  - opening of Private Banking Offices;
  - offering VIP portfolios managed on individual basis (as part of Personal Banking service) and covered by a dedicated credit process.



- Introduction of independent sales processes in the Direct Banking channels (without branch involvement), distribution of products to SMEs via the phone and the Internet.
- Starting co-operation with the insurance companies established as a joint venture with Aviva International Insurance Ltd.; introduction of new insurance products and sale of selected products in the electronic channels.
- Further improvement of procedures and service quality, including central handling of selected loans and reduction of the decision turnaround time in the business credit delivery process.
- Harmonisation of the CRM model across the distribution channels, including implementation of a central repository of customer data, development of a communication strategy and CRM tools for electronic channels, introduction of the CRM model in the leasing subsidiaries and Dom Maklerski BZ WBK S.A.
- Increasing employees' competence and professional satisfaction through:
  - comprehensive skill development programme for all personal advisors, personal development programmes for employees from all the bank's divisions and the SME Skills Academy;
  - development and implementation of new incentive schemes for branches and business units;
  - providing comprehensive medical cover for all staff.
- Reinforcement of the bank's positive image and reputation through an optimised alignment of processes and procedures to the customer, regulatory and shareholder requirements (BASEL II, SEPA Programme, 3<sup>rd</sup> Directive on Money Laundering).

## 2. Macroeconomic Outlook for 2008

### Economic Scenario for Poland

2008 should be another good year in the Polish economy although it may be difficult to sustain the momentum as recorded over the last two years. GDP will slow down slightly and the key driver will be domestic demand. With a two digit dynamics of capital expenditure, the economy should still be enjoying appetite for workforce and growing wage bill though not as vigorous as in 2007. A larger disposable income (on account of lower contributions to the disability & pension fund) will foster strong consumption. The dynamics of Polish export is also expected to remain strong, however it will be outpaced by import. Consequently, trade deficit may exceed 5% of GDP.

### Global Economic Scenario

There is much uncertainty around the forecast of global economic growth. Recently, economists have been voicing stronger concerns about a possible substantial slowdown, or even recession in the States. There would be a knock-on effect, decelerating economic growth in other developed countries, and in Euro zone in particular. Still, this scenario may not materialise. After weak performance of the American economy in the first half of the year, the second should be much better, benefiting from interest rate cuts, US government's fiscal policy stimulating consumption and depreciating dollar. The Euro zone economies should be affected by a slowdown to a much lesser extent. A global market sentiment will also be shaped by a rapidly growing Chinese economy as well as other emerging economies.

### Inflationary Pressure and Interest Rate Trends

Labour market will remain tight with upward wage pressure. This adds to the risk of medium-term inflation outlook. Until now, though, the fundamental inflationary pressure remains under control, which is reflected in a low net inflation. Nevertheless, CPI inflation in the first quarter of 2008 will exceed 4% y-o-y and may hit 3.8% on average throughout the year. Even though the main

inflation contributors (prices of food and commodities) remain beyond the Central Bank's control, the Monetary Policy Council (MPC) fears a knock-on effect, e.g. demands for wage increases. Therefore, the MPC at its first meeting in January 2008 increased interest rates by 25 bp. It is likely to raise interest rates once again in the forthcoming months by 25 bp., though the threat of recession in the US and its possible adverse impact on the Polish economy may induce MPC to postpone this decision. The world's main central banks also face the danger of climbing food and oil prices, but they also have to factor in weakening of business activities. Hence, the American Fed will continue to cut rates (down to 2.25% or deeper) and the European Central Bank is likely to get on this track as well.

## Financial Market

We expect the Polish zloty to grow slightly stronger against the main currencies in 2008 than in the previous year. Appreciating zloty against euro (though not as strong as in 2007) will reflect progressing convergence with more developed EU economies and growing interest rates, which can encourage foreign investors to invest their equity in Poland. In terms of dollar, zloty might slightly depreciate against this currency in the second half of 2008 due to the forecasted rebound of the American currency on international markets.

The domestic market of bonds will remain under pressure of forthcoming inflation and employment rate statistics. It is expected though that the market of debt securities will grow stronger in view of falling inflation (weakening impact of food prices), a less expectant mood towards tightening of the monetary policy and tendencies on the global markets where appetite for safe assets drives yields downwards.

The domestic stock market will depend on the performance of the US economy. In the event of a recession, bearish markets in the States will impact the Warsaw Stock Exchange. Continued high GDP growth in Poland and a good market outlook for the forthcoming years will support capitalisation of domestic companies.

## VII. Risk Management

### 1. Capital Management

The policy of Bank Zachodni WBK is to maintain a strong capital base (above the minimum level required on account of various types of risk related to the activities conducted) and to use it effectively in order to add value for shareholders. Capital requirements are calculated in line with the regulations of the Commission for Banking Supervision.

Bank Zachodni WBK Management Board delegated discretions relating to day-to-day capital management to Assets and Liabilities Committee (ALCO). The ALCO is responsible for ongoing monitoring of the level of own funds and capital requirements, and for initiation of all transactions impacting capital (except for those falling within sole powers of relevant Management/Supervisory bodies, like dividend payment).

Capital Adequacy ratio (CAD ratio) is a key measure in the capital management process. In accordance with the Banking Law, Bank Zachodni WBK is required to maintain this ratio at the minimum of 8%. The bank's policy is not to breach the target level of the solvency ratio at 10%.

The tables below show the historical values of the CAD ratio:

#### Bank Zachodni WBK S.A.:

PLN m

	31-12-2007	31-12-2006
Total capital requirement	2,124.7	1,660.2
Own funds	3,015.9	2,861.9
CAD ratio	11.36%	13.79%

Reduction of the Bank Zachodni WBK's CAD ratio was primarily caused by the increase in the level of risk-weighted assets by 28.3% y-o-y due to the significant growth of the credit portfolio (+37% y-o-y).

As at 31 December 2007, the Bank's total equity amounted to PLN 3,850.8m and was higher on end-December 2006 by PLN 237.5m. Own funds, calculated in accordance with the revised regulations of the Banking Supervision Committee (March 2007) increased by PLN 154 m to PLN 3,015.9 m.

The extent of change in the Bank's own funds in 2007 versus 31 December 2006 mainly results from allocation of the undistributed 2006 profits to equity, increase of investment in Commercial Union Powszechnie Towarzystwo Emerytalne BPH CU WBK S.A. by PLN 22.2 m (to 11.1%) and changes in the regulations relating to recognition of financial instruments' revaluation reserve in equity.

### 2. Financial Risk Management

The main objective of financial risk management is to ensure effective operations to support development within the approved risk limits. Risk management practice in the bank is in keeping with the AIB Group policy and covers 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), Credit Committee, Credit Policy Forum and Provisions Committee. These Committees are responsible for managing individual risk areas, monitoring the bank's general risk on an on-going basis and for shaping the current policy within the framework set out 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.

## Credit Risk Management

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

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.

### Credit Policy Forum

To manage the credit risk effectively, Bank Zachodni WBK 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. This activity is addressed to the bank's branch network and Business Support Centre units directly responsible for business development and support. The Credit Policy Forum is composed of senior representatives of individual Bank Zachodni WBK divisions.

### 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). Credit policies comply with the AIB Group standards and are adapted to the local credit market conditions where Bank Zachodni WBK operates.

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 International Accounting Standards/International Financial Reporting Standards (IAS/IFRS). These efforts are accomplished based on AIB Group expertise and best practice, 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, loans for income-producing real estate, housing loans, cash loans, credit cards and retail overdrafts.

### Provisioning

In Bank Zachodni WBK and its subsidiaries provisions are raised in accordance with 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 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 risk 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 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 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 their 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

Demonstrating the utmost care about the loan-book quality, Bank Zachodni WBK performs regular reviews to assure conformity with the best credit practice, 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 Quality Assurance Department which are independent of the risk-taking units.

## Market Risk and Liquidity Risk Management

The Bank Zachodni WBK ALCO is responsible for strategic balance sheet management in keeping with the individual risk management policies approved by the Management Board. 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 developed by the AIB Group and approved by the Bank Zachodni WBK Management Board. The ALCO's policy defines the underlying principles of management of liquidity, interest rate and FX risks arising from the bank's and the Group'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.
- A special portfolio of highly rated debt securities generates a stable income flow, mitigating the structural balance-sheet risk connected with liabilities that are not sensitive to interest rate changes. According to the Policy approved by the Management Board, any decisions relating to the value or structure of this portfolio are taken by ALCO.

Assets & Liabilities Management Department identifies, on an on-going basis, the market risk connected with retail and commercial activities and transfers the risk 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 measuring interest rate and FX risks. 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. According to the bank's policy, the interest rate risk measured as PML may not exceed 8.25% of the bank's own funds, while PML connected with FX risk may not exceed 0.5% of own funds.

### **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 and funding.

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 FX Swap market). The policy covers all assets and liabilities as well as off-balance sheet items impacting the liquidity level. Contractual and behavioural maturity is also taken into account, based on the statistical analysis of both the deposit base and the credit portfolio stability. Liquidity risk is measured daily using a modified liquidity gap report.

The bank is obliged to maintain necessary funds to allow for withdrawals of term deposits, demand deposits, loan payments, 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 and not less than 10% in a period longer than a month. Long-term liquidity position is also monitored.

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.

## **3. Operational Risk Management**

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.

Similarly to other financial institutions, operational risk is inherent in almost all the bank's activities, including the outsourced functions or services delivered jointly with third parties. Each organisational unit in the Group 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 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 whose 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 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, Officers & Directors as well as Property Insurance.

The growing importance and complexity of operational risk which manifest themselves in all areas of the banking activity trigger the need for continuous improvement of risk management methods and for safeguarding financial stability. The bank maintains adequate capital to cover operational risk requirement as per applicable regulations.

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

# VIII. Human Resources and Corporate Values

## 1. Human Resources Management

### Human Resources

#### Personnel

As at 31 December 2007, the number of FTEs in Bank Zachodni WBK was 8,469 and higher by 1,002 y-o-y. The increase in the Bank's headcount was due to the expanding range and scale of operations through organic growth, involving the launch of new outlets, economically justified recruitments in the existing branches as well as process- and technology-based organisational changes. To cater for the rapid growth of the manpower numbers, which is expected to continue in the next years, Bank Zachodni WBK S.A. has introduced an extended induction programme for the new staff.

The bank continues the Performance Management process which adds value to the corporate culture, is positively viewed by employees and brings expected results. Through the individual objectives planning process, monitoring and assessment of progress, the bank's employees gain knowledge about their role in delivery of the strategy and obtain the necessary support and feedback about their performance.

The fourth Staff Attitude Survey in Bank Zachodni WBK held in September 2007 showed an increase of the People Focus Index, which confirms that the employees have a positive perception of the changes happening in the organisation and the quality of management. The respondents are increasingly committed to the bank's objectives and see good opportunities for long-term career advancement in the organisation.

#### Training

The bank pays a lot of attention to 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 2007, the majority of training projects were addressed to the branch banking staff of whom 77% were trained through e-learning. Training for branches covered the following areas: strategic products, teamwork and quality growth-oriented sales techniques, SME lending, operational security. 2007 saw continuation of initiatives addressed to different management groups, including: BZWBK Executive Development, Directors' Development Programme, Middle Management Development Programme, Programme for Newly Appointed Managers, ABC of Management and Leaders of the Future (5<sup>th</sup> edition). The comprehensive BZWBK Management Development Programme received an honourable mention in the competition "HR Management Leader 2007".

In 2007, the total number of trainees and participants of the development programmes in Bank Zachodni WBK S.A. reached 86.5 k.

## 2. Corporate Values

### Code of Business Ethics

The bank implemented the Code of Business Ethics which applies across AIB Group. The Code sets out the general standards of behaviour which underpin the Group's corporate culture.

According to the Code, in all the aspects of its activities the bank complies with the business ethics requirements, conforms with the law and acts 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 opinion of being a dependable organisation is perceived 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.

Following implementation of the Code of Business Ethics, the bank launched special communication channels for staff to consult on ethical matters and report any issues.

## Compliance Culture

The bank attaches a great importance to the legal and regulatory compliance in all aspects of its activities. Creation of a business culture of strict adherence to law and best practice and promotion of such an approach is one of the key objectives of the bank's Compliance Area. The activities undertaken by this function are meant to raise 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 actions to enhance professional, legal and ethical employee behaviour. A one-day training in business ethics is an integral element of the induction programme for newly recruited staff. Moreover, employees of the Bank Zachodni WBK Group must complete a series of e-learning trainings on compliance and the business ethics as part of the COMeT programme. In 2007, under the programme staff members participated in the mandatory e-learning training consisting of six courses designed to increase people's awareness and shape proper behaviours when faced with a conflict of interest or other ethically dubious situations or potentially unlawful activities.

Also, the first half of 2007 saw completion of another edition of the multi-stage programme for teams of the Bank Zachodni WBK Group called "Warto być razem". The purpose of the programme is to recognise the teams for their outstanding achievements in delivery of the strategy and to promote desired values and behaviours.

## Corporate Governance

Last year Bank Zachodni WBK complied with all the corporate governance rules contained in the document "Best Practice in Public Companies in 2005", introduced by Resolution no. 44/1062/2004 of the Warsaw Stock Exchange Board dated 15 December 2004, except Rule 42, which recommends change of the chartered auditor at least every 5 years. The bank's relevant statement to this effect, including a commentary, was published in current report no. 34/2007 of 21 June 2007. In 2007, the Supervisory Board of Bank Zachodni WBK decided to extend the 5-year cooperation with KPMG Audyt Sp. z o.o. for another 12 months. This decision complies with the AIB policy which recommends employing a single auditor across the entire capital group and is based on EU regulations which allow the rotation of the auditor once in seven years. Above all, however, this is required to maintain the continuity of audit tasks performed as part of the AIB Group certification process in line with the Sarbanes-Oxley Act, which was first launched in 2006. The rule relating to the change of auditor was revised in the latest corporate governance rules adopted by the Resolution of the Supervisory Board of the Warsaw Stock Exchange (no. 12/1170/2007) of 4 July 2007, effective from 1 January 2008 ("Best Practice for Listed Companies"). The document extends the recommended period for the change of auditor to 7 years.

As recommended by the regulator of the Warsaw Stock Exchange (Resolution no. 13/1171/2007 of 4 July 2007), the bank's 2007 Corporate Governance Report based on the "Best Practice in Public Companies in 2005" reflects the requirements that formally came into force on 1 January 2008 for annual reports published after that date.

Compliance with best practice is also supported by the bank's internal procedures, including provisions of the Statutes, Supervisory and Management Board regulations. To facilitate access to information about Bank Zachodni WBK, the bank's web site has a special section for investors with all current and periodic reports, corporate documents and other material information in both Polish and English.

In June 2007, Bank Zachodni WBK was awarded the "Company Worth Trusting" ("Spółka godna zaufania") title by Institutional Investor Award Committee and the Polish Institute of Directors, in the fourth edition of the listed companies rating. As in previous years, companies were evaluated in line

with 12 criteria grouped in four areas: ownership structure, general meeting of shareholders, relations between shareholders and other stakeholders, financial transparency and availability of information, structure of the supervisory board and its effectiveness. The bank received the top rating (five stars), which strongly confirms that it adheres to the highest corporate governance standards.

## **Social Responsibility**

According to the declaration in the Code of Business Ethics, the bank is actively involved in local community matters, supporting different charities and sponsoring initiatives.

The bank's corporate giving is carried out under "The Bank of Children Smiles" Programme and focuses on children from unemployment and poverty stricken families. The programme is delivered both through the bank's own initiatives, provision of financial support and partnership programmes.

Among the bank's own initiatives, noteworthy are "Academy of the Bank of Children Smiles", a programme of funding English lessons for children from poor families or creative workshops "My World on Both Sides of the Camera from BZWBK" for children from the disadvantaged communities. Also, through the Foundation of Bank Zachodni WBK financial and non-financial support was provided to community centres, daycare centres, schools and other child support organizations.

Apart from charitable initiatives aimed to support children from poor families, Bank Zachodni WBK sponsors the "BZWBK Tennis Aces" programme for young talented tennis players and the "Track and Field Thursdays" ("Czwartki lekkoatletyczne") initiative, the largest all-Poland track-and-field event for more than 100,000 children.

## IX. Major Internal Developments and Events

### 1. Ownership Structure of Bank Zachodni WBK

According to the information held by the bank's Management Board, as at 15 February 2008 the shareholder having a minimum 5% of the total number of votes at the BZWBK Annual General Meeting of Shareholders was AIB European Investments Ltd. based in Dublin.

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%
<b>Total</b>	<b>72,960,284</b>	<b>100%</b>	<b>72,960,284</b>	<b>100%</b>

### 2. Governing Bodies

#### Annual General Meeting of Shareholders

The Annual General Meeting of BZWBK Shareholders (AGM), which was held on 17 April 2007, approved the 2006 financial statements submitted by the Management Board and the Supervisory Board, resolved on the distribution of the net profit and dividend payment, and granted discharge to the Management and Supervisory Board members for performance of their duties and responsibilities in the previous year. The AGM implemented the second edition of the three-year Incentive Scheme for senior management of the bank and its subsidiaries who significantly contribute to the growing value of Bank Zachodni WBK. The Incentive Scheme II, commencing in 2007, entitles its participants to acquire bonds with a pre-emptive right and to acquire, at a preferential rate, shares issued by the bank as part of a conditional increase of share capital. In order to enable delivery of the Incentive Scheme, the AGM passed a resolution to issue bonds with pre-emptive rights and to conditionally increase the share capital by a maximum amount of PLN 1.5 m by issuing new ordinary bearer shares. The AGM also approved changes to the bank's Statutes and adopted its consolidated version. The changes were dictated by business requirements and involved expansion of the bank's business operations to include information technology support services for connected entities, services related with maintenance of registers of mutual and pension fund scheme participants, and with book-keeping for such funds. The changes were approved by the Banking Supervision Commission and were recorded by the relevant Registry Court.

## Supervisory Board

As at 31 December 2007, the composition of the Bank Zachodni WBK Supervisory Board was as follows.

Ref.	Role	Composition as at 31-12-2007
1.	Chairman of the Supervisory Board	Aleksander Szwarc
2.	Vice Chairman of the Supervisory Board	Gerry Byrne
3.	Members of the Supervisory Board:	Waldemar Frąckowiak
4.		Aleksander Galos
5.		Maeliosa OhOgartaigh
6.		James O'Leary
7.		John Power
8.		Jacek Ślotała

In 2007, the composition of the Supervisory Board was increased to include one more person:

- Mr. Kieran Crowley stepped down from the Supervisory Board on 17 April 2007.
- Pursuant to the Resolution of the General Meeting of Shareholders (dated 17 April 2007), two new Members were appointed: Mr Maeliosa OhOgartaigh and Mr James O'Leary.

As at 31 December 2007, the following members of the Supervisory Board held an independent status: Mr Waldemar Frąckowiak, Mr Aleksander Galos, Mr John Power, Mr Aleksander Szwarc and Mr 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 Corporate 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 2006 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 2006 were published in the current report no. 18/2007 which conveyed the resolutions passed by the AGM on 17 April 2007.

## Management Board

As at 31 December 2007, the composition of the Bank Zachodni WBK Management Board was as follows:

Ref.	Role	Composition as at 31-12-2007
1.	President of the Management Board	Mateusz Morawiecki
2.	Members of the Management Board:	Andrzej Burliga
3.		Declan Flynn
4.		Michał Gajewski
5.		Justyn Konieczny
6.		Janusz Krawczyk
7.		Jacek Marcinowski
8.		James Murphy
9.		Marcin Prell
10.		Feliks Szyszkowski

Changes to the composition of the Bank Zachodni WBK senior management bodies throughout the past 12 months:

- Pursuant to the decision announced in the current report no. 9/2006 published on 25 January 2006, Mr. Jacek Kseń stepped down as Management Board President, effective from 1 May 2007.
- On 8 March 2007, the BZWBK Supervisory Board nominated Mr. Mateusz Morawiecki, Management Board member in charge of the Business Support Division, as the new CEO. Mr. Mateusz Morawiecki formally took office on 16 May 2007 following the approval of his nomination by the Banking Supervision Commission.
- On 24 July 2007, the Bank Zachodni WBK Supervisory Board nominated Mr. Andrzej Burliga, (Deputy Director of the Risk Management Division) as a Member of the Management Board. He was entrusted with the supervision over the Risk Management Division, replacing Mr. Feliks Szyszkowiak who had taken over the Business Support Division.

## 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 Banking Supervision Commission. 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 incur 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 and Value Management Committee.

Management Board members acting severally do not have any specific powers. They cannot take decisions on issuing or redeeming shares.

## BZWBK Shares Held by Supervisory and Management Board Members

As at 15 February 2008, Mr Waldemar Frąckowiak, a Supervisory Board Member, held 278 shares of Bank Zachodni WBK with a nominal value of PLN 2,780. Other Supervisory and Management Board Members did not hold any shares of Bank Zachodni WBK.

### 3. Changes to the Management Organisation

On 20 June 2007, the Bank Zachodni WBK Supervisory Board approved the organisational changes proposed by the Management Board for implementation. The changes affected a major part of the Business Support Centre (divisions, areas, departments, offices and task forces) and were designed to create a customer-centric organisation, capable of immediate response to market developments and operating effectively amid rapid growth of individual market segments. Relevant implementation actions were taken in the second half of 2007.

Major changes introduced in the Business Support Centre were as follows:

- transfer of the structures of the Strategic Development Division to the Customer Relationship and Sales Division;
- creation of two new bank areas within the Customer Relationship and Sales Division (the Personal Customers Area and Business Customers Area), to bring together all organisational units which are primarily involved in servicing of the foregoing sectors and which used to operate within the Strategic Development Division and the Customer Relationship and Sales Division;
- supervision over three highly strategic areas (operating outside of the divisional structure) entrusted to the Director of the former Strategic Development Division: Bancassurance Office, Minibank Development Program and newly established Private Banking units;
- creation of the Direct Banking Area, which will operate outside of the divisional structure and cover organisational units responsible for e-banking, direct sale channels (mobile sales agents and intermediaries), telephone banking (call centres) and the ATM network (this area is supervised by the President of the Management Board);
- Management Board President's takeover of direct supervision over the HR Management Division and establishment of the Employee Communications Department responsible for the development and delivery of a comprehensive information policy across the bank;
- improvement of co-operation between departments which are responsible for change, project and procurement management, by bringing these units together within a newly established Change and Purchase Management Area in the Business Support Division;
- change of the status of the Capital Market Department (in the Investment Banking Division) to that of an area, due to a large business potential and the bank's plans to expand this line of business.

### 4. Capital Expenditure

The capital expenditure incurred by the Bank Zachodni WBK in 2007 totalled PLN 127.8 m and was 57.2% higher than a year before. Out of this figure PLN 88 m was spent on IT projects.

IT projects included extension and upgrading of the ATM network, work on preparation of the bank's systems to support ATM networks of third parties and implementation of the first ATMs operative as part of an independent ATM network – CashNet24. Funds were also allocated to ensure compliance of the Card Personalization Centre with Visa/MasterCard security standards as well as conformity to the 3rd EU Directive with regard to anti-money laundering mechanisms and procedures. The bank commenced a large-scale initiative to introduce the Digital Merchandising technology in all branches, in order to launch new data transmission channels and provide an ongoing access to information about interest rates, FX currencies and advertised products. As part of the strategy aimed to develop and diversify distribution channels, the bank initiated a project aimed to introduce the Private Banking service, opened new Mobile Sales offices, Minibank agency outlets and launched a programme whereby a significant number of branches will be opened by the end of 2011.

## 5. Awards and Recognitions

In 2007, Bank Zachodni WBK received the following key awards:

- "Alicja" award of the "Twój Styl" monthly, for banking innovations which positively affect household budgets; the bank was honoured for its free of charge Konto<30 account package offered to people below 30 years of age;
- CoolBrand title in the first Polish edition of the CoolBrands initiative (organised in Poland by the New Communications agency); the project's aim is to recognise the "coolest", the most desired and trend-setting brands in the Polish market;
- European Medal of the EU Integration Committee and the Business Centre Club for the electronic services package BZWBK24 Moja Firma Plus dedicated to small and medium-sized companies as a tool for payment handling and finance management;
- prestigious Rock Awards 2006 from the Polish agency of MasterCard Europe in two of the six possible categories:
  - "the most notable achievements in development of EMV microchip technology" - golden statuette "for mass migration of the MasterCard debit and credit cards portfolio to the EMV standard";
  - "the most notable achievements in development of new card products" - silver statuette "for the MasterCard debit card issued as part of the package of products and services offered to the Poles working abroad";
- first position in the ranking of the best financial institutions in 2006 (category: "commercial banks"), organised by the "Rzeczpospolita" daily; the winners were selected by a jury composed of market practitioners and academics, who looked at the following criteria: change in credit and deposit portfolio, net commission and interest income, net profit, profitability ratio, number of personal and business accounts, credit cards for retail customers and cash loans;
- "High Reputation Brand" title and the third position in the ranking "Top Reputation Brand 2007", in the "Finance" category, based on the Polish brands reputation survey PremiumBrand 2007; the assessment included opinions of experts and customers, social responsibility and sponsoring, advertising campaigns, presence in the media as well as reputation as an employer;
- "Benefactor of the Year" title in the biggest Polish programme promoting corporate responsibility; the bank was awarded in the two evaluated categories: for its own programme "Bank of Children Smiles" and for co-operation with Polska Akcja Humanitarna (Polish Humanitarian Organisation), the bank's partner in issuing the "Akcja Pajacyk" affinity card (part of the fee income is allocated to finance meals for children at schools);
- "Company Worth Trusting" ("Spółka godna zaufania") title by Institutional Investor Award Committee and the Polish Institute of Directors, in the fourth edition of the rating of listed companies based on multi-dimensional assessment of corporate governance implementation in the reviewed companies;
- "Customer Friendly Company" Certification Program Emblem (Godło Programu Certyfikującego „Firma Przyjazna dla Klientów”) for excellent quality of the front-end service confirmed by mystery shopping results and a customer satisfaction survey conducted by TNS OBOP as part of the certification process supervised by Instytut Zarządzania (the Management Institute) in Warsaw;

- best Internet site award in the "big company" category of the Issuer's Golden Website (Złota Strona Emitenta) organized by the Association of Stock Market Issuers (Stowarzyszenie Emitentów Giełdowych) competition and supported by media (WSE newspaper "Parkiet", the "Forbes" monthly, Polish Press Agency and Radio PIN);
- recognition in the "personal account" category in the first edition of the Gold Standard Program, based on findings from the customer satisfaction survey conducted by TNS OBOP with respect to five parameters: interest rates, fees and charges, customization of the offer, location of bank branches and quality of customer service;
- second place in the ranking of 346 listed companies which aimed to appoint „The Company of the Year”; the ranking was published by "Puls Biznesu" (06.02.2008) based on the results of a survey carried out by Pentor among stockbrokers, analysts and investment advisors; Bank Zachodni WBK was ranked first in the category "Management Board's Competence" and second in "Investor Relations".

## 6. Other Events

### "Performance Shares Plan"

In 2006, the first "Performance Shares Plan" was launched. Its aim is to provide the Bank Zachodni WBK Group's leaders with an opportunity to purchase the bank's shares on preferential terms, subject to achievement of certain performance targets by the Bank Zachodni WBK Group in the years 2006-2008. In 2007, pursuant to the resolution of the Bank Zachodni WBK AGM dated 17 April 2007, a second edition of the scheme, with a similar structure, was introduced.

The Incentive Scheme II for the years 2007-2010 is addressed to senior management of Bank Zachodni WBK S.A and its subsidiaries with the maximum number of 100 participants. The Incentive Scheme entitles the participants to buy bonds with pre-emptive rights and in the next stage to take up – at a preferential price – the bank's shares issued as part of the conditional increase in the share capital. The right of participants will be exercised contingent upon the compounded growth in earnings per share (EPS) within 3 years of the Incentive Scheme's duration. It is the Supervisory Board that will decide about the satisfaction of the defined criteria based on the financial performance of the Group as approved by the Annual General Meeting of Shareholders. The respective resolution will be adopted by 30 August 2010. Under the Incentive Scheme II, the bank issued and allocated 78,341 bonds with pre-emptive rights with a nominal unit value of PLN 0.01. Each bond gives its holder the pre-emptive right to subscribe for one bank's share at the price of PLN 10. There were in total 210,817 bonds issued and allocated in both editions. As at the end of December 2007, there were 200,722 bonds with subscription rights.

The incentive schemes are aimed to motivate the key employees of the bank and its subsidiaries to continue their efforts, reinforce the link between long-term performance of the company and, in effect, to ensure high competitiveness and financial effectiveness of the Bank Zachodni WBK Group in the long-term perspective, thus contributing to the growth in the bank's value and value for the shareholders.

### Sarbanes-Oxley Act

Bank Zachodni WBK is a subsidiary of the AIB Group and therefore must fulfil the requirements arising from the Sarbanes-Oxley (SOX) Act as it impacts the whole Group. This regulation introduces very strict rules with respect to exercising internal control over the company's financial reports. As part of the AIB Group certification procedure (launched for the very first time in 2006), the bank's management confirmed that certain processes have been operating properly across the Bank Zachodni WBK Group. The management's assertion was confirmed by an independent audit performed by KPMG.

As the SOX compliance certification is a cyclical process, the Sarbanes-Oxley Programme was transformed in March 2007 into the Financial Reporting Assurance Department in the Finance Division. The Department will supervise the annual procedure aimed to ensure that the Bank Zachodni WBK Group meets the requirements of the AIB Group as regards the Sarbanes-Oxley Act.



## Selection of Auditor

In accordance with § 32 point 10 of the Statutes of Bank Zachodni WBK, on 20 June 2007 the bank's Supervisory Board passed a resolution appointing KPMG Audyt Sp. z o.o. as an auditor of Bank Zachodni WBK stand-alone and consolidated financial statements for the year 2007. The company audited the bank's financial statements of the Group for the prior five years and provided consulting services permitted by law and the bank's internal regulations, which ensured adequate impartiality and independence of the auditor.

AIB Group decided to re-appoint KPMG as its auditor pursuant to the European Parliament directive 2006/43/EC of 17 May 2006 on statutory audits of annual stand-alone and consolidated accounts. According to this regulation, the requirement of impartiality of the auditor is considered as met if the auditor is rotated at least every seven years. The decision to maintain that relationship with the existing auditor was primarily led by the intention to maintain continuity of the audit processes connected with validation of effectiveness of the accounting procedures and standards in keeping with the Sarbanes-Oxley Act. Documentation and testing of the relevant accounting processes is the responsibility of all the AIB Group members, as the parent company (AIB) is listed at the New York Stock Exchange.

AIB Group pursues the policy which recommends that all the Group members should have the same auditor. Accordingly, Bank Zachodni WBK did not change the auditor, also taking into consideration that the existing auditor provides a high quality service and complies with the world's best auditing standards.

## X. Additional Information

### Remuneration of the Supervisory and Management Board Members

The Remuneration of the Bank Zachodni WBK Supervisory and Management Board Members for the years 2007 and 2006 is provided in "Financial Statements of Bank Zachodni WBK for 2007" in note 48.

### Agreements Between BZWBK and Management Board Members

The Bank Zachodni WBK Management Board members signed contracts 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 once-off severance pay. The severance pay does not apply if the Management Board member accepts a new job role in the bank.

### Remuneration of the Auditor

The table below shows the remuneration paid to KPMG Audyty Sp. z o.o. for its audit/review of the financial statements of Bank Zachodni WBK S.A. under the relevant agreements:

PLN k

Remuneration of KPMG Audyty Sp. z o.o.	Financial year ended 31-12-2007	Financial year ended 31-12-2006
Audit fees in respect of the parent bank <sup>1)</sup>	1,506	1,425
Audit-related fees <sup>2)</sup>	66	23
<b>Total</b>	<b>1,572</b>	<b>1,448</b>

- 1) Professional services connected with audit of the stand-alone and consolidated financial statements of the parent (agreement of 19 October 2007) as well as review of the half-yearly stand-alone and consolidated financial statements of the parent (agreement of 22 June 2007).*
- 2) Audit-related fees comprise any other amounts due or paid to KPMG Audyty Sp. z o.o. This category relates to the assurance services connected with the audit or review of financial statements of the parent and the subsidiaries not included in point 1) above.*

### Writs of Execution

The table below shows the number and value of the writs of execution issued by Bank Zachodni WBK S.A. in 2007 compared to 2006.

PLN k

Writs of Execution for:	2007		2006	
	Number	Value	Number	Value
Cash loans and overdrafts	3,381	19,604	1,498	14,179
Credit cards	1,801	5,269	1,752	5,567
Mortgage loans	9	2,033	16	3,099
Business loans	33	40,424	62	83,172
<b>Total</b>	<b>5,224</b>	<b>67,330</b>	<b>3,328</b>	<b>106,017</b>

The collateral pledged by borrowers on their balances and assets amounted to PLN 42,894.7 m.

## Geographical Structure of the Bank's Deposits

PLN k

Bank Zachodni WBK S.A.			
Ref.	Province	Deposits from customers	
		31-12-2007	31-12-2006
1.	dolnośląskie	7,667,441	6,399,676
2.	kujawsko-pomorskie	848,028	782,619
3.	lubelskie	61,258	44,137
4.	lubuskie	1,495,931	1,256,147
5.	łódzkie	523,026	405,567
6.	małopolskie	666,516	507,080
7.	mazowieckie	3,947,093	2,759,870
8.	opolskie	900,445	830,377
9.	podkarpackie	53,447	34,107
10.	podlaskie	128,477	100,479
11.	pomorskie	1,460,884	1,400,475
12.	śląskie	1,224,358	953,638
13.	świętokrzyskie	196,676	150,552
14.	warmińsko-mazurskie	124,075	97,969
15.	wielkopolskie	9,366,414	7,551,645
16.	zachodniopomorskie	1,317,433	883,908
	other	283,232	323,750
<b>Total</b>		<b>30,264,734</b>	<b>24,481,996</b>

## Transactions With Related Parties

In 2007, Bank Zachodni WBK S.A. did not enter into transactions with any of its executive staff for an amount in excess of EUR 500,000.

Inter-company transactions in excess of EUR 500,000 which were concluded by Bank Zachodni WBK S.A. with its subsidiaries in 2007, were mainly banking transactions made as part of ordinary business activities and mainly include loans, deposits and guarantees. Inter-company transactions are eliminated from consolidated financial statements.

## Guarantees Issued

As at 31 December 2007, Bank Zachodni WBK's guarantee liability amounted to PLN 795.1 m compared to PLN 748.2 m a year before. The most common types of guarantees were: payment guarantees, performance bonds, bid bonds, advance payment guarantees, loan repayment guarantees and customs guarantees. In accordance with the Bank Zachodni WBK Regulations on non-consumer credit services, the bank provides civil law guarantees (mainly loan and advance repayment guarantees, guarantees of payments for goods and services, advance payment guarantees, performance bonds, customs guarantees, bid bonds and others) and bill of exchange law guarantees (mainly: loan repayment guarantees and guarantees for payment for goods or services).

The guarantee issuance process and information requirements are similar to the lending process. The relevant regulations are contained in the Commercial Lending Manual and the Corporate Banking Centre Lending Manual.

## Off-balance Sheet Items

The tables provided below contain contingent liabilities and nominal values of derivative transactions of Bank Zachodni WBK by customer sectors and transactions.

PLN k

Contingent liabilities, sanctioned and received	31-12-2007	31-12-2006
<b>Liabilities sanctioned</b>	<b>8,978,520</b>	<b>7,812,302</b>
- financing-related, including:	8,183,465	7,064,149
- guarantees	795,055	748,153
<b>Received liabilities</b>	<b>1,979,265</b>	<b>1,540,683</b>
<b>Total</b>	<b>10,957,785</b>	<b>9,352,985</b>

PLN k

Derivatives' nominal values	31-12-2007	31-12-2006
Term derivatives (hedging)	1,990,754	1,486,018
Term derivatives (trading)	226,027,483	139,691,593
Currency transactions – spot	776,657	921,046
Derivatives – non-stock market options	3,064,616	749,280
Euroindex options	8,733	168,888
<b>Total</b>	<b>231,868,243</b>	<b>143,016,825</b>

## XI. 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 S.A. for 2007 have been prepared in keeping with the applicable accounting policies and give a true and fair view of the assets and profit of the Bank Zachodni WBK S.A. 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 2007.

### Selection of Auditor

The firm responsible for auditing the Financial Statements of Bank Zachodni WBK for 2007 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 opinion compliant with the Polish law.

Date	Name	Position	Signature
15-02-2008	Mateusz Morawiecki	President	
15-02-2008	Andrzej Burliga	Member of the Board	
15-02-2008	Declan Flynn	Member of the Board	
15-02-2008	Michał Gajewski	Member of the Board	
15-02-2008	Justyn Konieczny	Member of the Board	
15-02-2008	Janusz Krawczyk	Member of the Board	
15-02-2008	Jacek Marcinowski	Member of the Board	
15-02-2008	James Murphy	Member of the Board	
15-02-2008	Marcin Prell	Member of the Board	
15-02-2008	Feliks Szyszkowiak	Member of the Board	

# Report on Compliance with the Corporate Governance Rules in Bank Zachodni WBK S.A.

## Introduction

Bank Zachodni WBK S, in order to meet the provisions of the Warsaw Stock Exchange Management Board's Resolution no 1013/2007 dated 11 Dec 2007 re. the specification of the scope and structure of a report on compliance with corporate governance rules, herewith presents a Report on Compliance with Corporate Governance Rules in 2007.

## I. Rules That Were Not Complied With in 2007

- It is extremely important for the Bank to be perceived as an investor-friendly company. Therefore, the Bank decided on being fully compliant with good practices and accepted certain obligations. As a result of these decisions, the Bank's Statutes were amended as well as the rules of management board and supervisory board functioning. Thus, Bank Zachodni WBK S.A. was one of few companies which adopted all corporate governance rules for application as early as in 2002. In the following years, Bank Zachodni WBK S.A. observed all the rules of corporate governance set forth in "Best Practice in Public Companies in 2002", and "Best Practice in Public Companies in 2005".
- With reference to the annual report of Bank Zachodni WBK S.A. published on 22 February 2007, where the Management Board stated that it complied with the corporate governance rules contained in the document "Best Practice in Public Companies in 2005", introduced by Resolution no. 44/1062/2004 of the Warsaw Stock Exchange Board, the Management Board confirms its compliance with the rules laid down in the said document except Rule 42 which recommends change of the auditor at least every 5 years.  
This rule could not be observed in full as the policy of the Group to which BZ WBK S.A. belongs requires that all the Group companies must have the same auditor.  
AIB did not decide to change the auditor, which is fully compliant with the applicable EU regulations (directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on the legally required annual audits of financial statements and consolidated financial statements) provide for the rule of independence of the key audit partner responsible for the audit if the auditor is changed at least every 7 years.

## **II. General Meetings of Shareholders, its Key Powers, the Rights of Shareholders and How the Rights Are Exercised**

### **Convention of the General Meeting of Shareholders (GM)**

The GM is held in the Bank's office, in Warsaw or another location, as indicated in the notice on the GM convention.

The Annual General Meeting of Shareholders (AGM) is held annually, not later than by the end of June. The Extraordinary General Meeting of Shareholders (EGM) is convened in the circumstances specified in the Commercial Companies Code.

The AGM is convened by the bank's Management Board. The Supervisory Board can convene the AGM or the EGM in the circumstances specified in the Commercial Companies Code and when the Management Board fails to convene the EGM within two weeks from the date of submitting such a request by shareholders who represent at least one tenth of the share capital.

The GM is convened through a notice in the Court and Economic Journal (*Monitor Sądowy i Gospodarczy*).

The notice on GM convention is provided in the form of a current report and as a communication published on the bank's website.

This takes place at least 3 weeks prior to the GM date.

### **GM Rights, Adopting and Appealing Against Resolutions**

The General Meeting of Shareholders adopts resolutions on matters solely within their discretions, arising from the Commercial Companies Code, Banking Law and Statutes.

According to the Statutes, purchase or disposal of real estate, perpetual usufruct rights or a share in real estate do not require a resolution of the GM.

Except as provided for in the Commercial Companies Code and in the Statutes, resolutions are adopted by an absolute majority of votes.

As required by the Statutes, the GM resolution on the decision not to discuss an item put on the agenda at the request of shareholders can be passed by 75% majority of votes, prior to an approval of all shareholders who tabled the motion.

All resolutions passed at the GM shall be recorded in the minutes taken by a notary.

Appeals against the resolutions of the GM may be filed with the Court in the mode and manner specified in the Commercial Companies Code.

### **Voting**

Except as stipulated by the Commercial Companies Code, the voting is open.

The process of voting is computer assisted, ensuring computerised casting and counting of votes according to the number of shares held, which will eliminate, in the case of a secret ballot, the possibility of identifying the way individual shareholders voted. If need be, the voting may take place without assistance of a computer voting system.

## **The rights of Shareholders and How the Rights are Exercised**

The shareholders participating in the GM have the following rights in particular:

- the shareholders holding one tenth of the share capital represented at the GM may request that an EGM is convened and that specific items be put on the agenda of the next GM;
- the right to demand copies of motions on the agenda within one week prior to the GM date;
- right to inspect the repository of the GM minutes and to request copies of the GM resolutions certified by the bank's Management Board;
- right to demand secret ballot;
- right to appeal against the GM resolutions in the circumstances contemplated in the Commercial Companies Code;
- right to request that the Management Board provide information on the cases included in the GM agenda in the circumstances and subject to the exclusions contemplated in the Commercial Companies Code;
- voting right. Each share carries one vote at the GM.
- the Shareholders may participate in the GM and exercise their voting rights personally or through proxies.

## **III. Bank's Management Board, Supervisory Board and Committees Members and Terms of Reference**

### **1. Management Board**

#### **Members of the Bank's Management Board:**

- Mateusz Morawiecki - President of the Management Board
- Janusz Krawczyk
- Declan Flynn
- Justyn Konieczny
- Michał Gajewski
- Jacek Marcinowski
- Feliks Szyszkowiak
- James Murphy
- Marcin Prell
- Andrzej Burliga



## **Terms of reference of the Management Board**

### ***Appointment of Management Board Members***

The Management Board President and the Management Board Members are appointed (and removed) by the Supervisory Board for a joint, 3-year term of office.

### ***Powers of the Management Board***

The 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 following individuals are authorized to represent the bank and make declarations of will on its behalf:

- 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 representative, or two commercial representatives acting jointly.

Authorized representatives to act severally or jointly with any of the persons listed in letter b. or with another authorized representative can be appointed.

### ***Management Board Meetings***

The Management Board meetings are convened on as-needed basis. The meetings are convened by the Management Board President acting on his own initiative or at the request of a Management Board member.

The meetings can have the following form:

- simultaneous gathering of Management Board members at one venue or
- communication between Management Board members located at different venues at the same time with the use of telecommunication or audio-visual means subject to the following rules:
  - the matters which are on the meeting agenda do not require secret voting;
  - the Management Board members are located at the place they indicated in due course.

There are minutes taken at Management Board meetings.

### ***Adopting Resolutions***

Management Board resolutions are passed by an absolute majority of votes.

Management Board resolutions are adopted in an open voting.

The Management Board adopts resolutions in a secret ballot:

- in cases stipulated by law;
- on personnel matters;
- at the request of a Management Board member.

Resolutions are passed by the Management Board as follows:

- by direct vote at the Management Board meeting;
- by vote through another Management Board Member present at the meeting;
- by circulation – such resolutions are circulated to all the Management Board members and are deemed valid once they have been signed by at least a half of the Management Board Members, including the Management Board President.

## **2. Supervisory Board**

### **Members of the Supervisory Board**

- Aleksander Szwarc- Chairman of the Supervisory Board
- Gerry Byrne-Vice Chairman of the Supervisory Board
- Waldemar Frąckowiak
- Jacek Ślotała
- John Power
- Aleksander Galos
- James O'Leary
- Maeliosa OhOgartaigh

### **Terms of reference of the Supervisory Board**

#### ***Appointment of the Supervisory Board Members***

The Supervisory Board members are appointed for a joint, 3-year term of office. The Supervisory Board members, including the Chairman of the Supervisory Board, are appointed and removed by the General Meeting of Shareholders.

At least two of the Supervisory Board's members should be independent members, including an independent chairman of audit committee.

#### ***Powers of Supervisory Board***

The Supervisory Board exercises on-going supervision over all the aspects of the bank's activities.

According to the Statutes, the Supervisory Board has the powers to:

- a) approve annual and long-term development plans for the Bank and financial plans for its operations prepared by the Management Board;
- b) approve motions of the Bank's Management Board concerning the establishment and liquidation of Bank's branches abroad;
- c) approve equity investments by the Bank, if:
  - the value of such investment exceeds a PLN equivalent of EUR 4,000,000, or
  - the value of a such investment exceeds EUR 400,000k and at the same time, if as a result of such investment the Bank's shareholding in another entity is equal to 20% of votes or exceeds 20% of votes or drops below the level of 20% of votes at the GM,

except for agreements on underwriting securities issues, if the total exposure of the Bank arising from such agreement does not exceed one tenth (1/10) of the total equity of the Bank,

- d) approve acquisition, disposal or encumbrance of fixed assets (as defined in the Accounting Act), in particular any real estate, if the value of such fixed asset exceeds a PLN equivalent of EURO 4,000,000 except for seizing a real estate by the Bank as a mortgagee, as a result of an ineffective auction conducted under execution proceedings, or as a result of repossessing another fixed asset or securities by the Bank as the creditor secured by a registered pledge in line with the regulations on registered pledges and pledge register, or a creditor secured by repossession of the security in line with the regulations of the Banking Law Act;
- e) conclude contracts on behalf of the Bank, falling within the remit of the Supervisory Board, including employment contracts or management contracts with Members of the Management Board. The Supervisory Board may authorise its Chairperson or another Supervisory Board member to conclude the same;
- f) adopt the Management Board's Regulations and other banking regulations as set forth in the Statutes and other sets of legal regulations and approve the Bank's Organizational Regulations and the Policy on the internal control system;
- g) appoint a registered auditor to audit the financial statements of the bank;
- h) apply to the Financial Supervision Authority for a consent to appoint two members of the Management Board of the bank, including the President;
- i) inform the Financial Supervision Authority on other Management Board members and, each time, on changes in the Management Board composition and those Members of the Management Board who, based on the internal division of responsibilities, are responsible for the credit risk management and the internal audit function;
- j) present to the AGM a concise description of the bank's standing on an annual basis.

### ***Meeting of Supervisory Board***

Meetings of the Supervisory Board are convened by Chairman or Vice Chairman of the Supervisory Board on their own initiative or upon a request of the Management Board or a Supervisory Board member.

The meetings are held on as-needed basis, however at least 3 times in any financial year.

The meetings can have the following form:

- a) simultaneous gathering of Supervisory Board members at one place or
- b) communication between Supervisory Board members located at different venues at the same time with the use of telecommunication or audio-visual means subject to the following rules:
  - the matters which are on the meeting agenda do not require secret voting,
  - the Supervisory Board members are located at the place they indicated in due course.

There are minutes taken at Supervisory Board meetings.

### ***Adopting Resolutions***

The Supervisory Board takes decisions by way of resolutions adopted by an absolute majority of votes.

Supervisory Board resolutions are adopted in an open voting.

The Supervisory Board adopts resolutions in a secret ballot:

- in cases stipulated by law;
- on personnel matters;
- at the request of a Management Board member.

Resolutions are passed by the Supervisory Board as follows:

- by direct vote at the Supervisory Board meeting;
- by vote through another Supervisory Board Member present at the meeting;
- by circulation – such resolutions are circulated to all the Supervisory members and are deemed valid once they have been signed by at least a half of the Supervisory Board Members, including the Supervisory Board Chairman.

Resolutions may be adopted only if all the Supervisory Board members were invited to and at least half of them attended the meeting.

### **3. Committees established by the Supervisory Board**

The Supervisory Board may establish committees and designate individuals responsible for managing the work of such committees.

The following committees are operating in the bank:

- Social Responsibility Committee;
- Remuneration & 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 or the motions presented to the Management Board.

#### **A. The Social Responsibility Committee**

##### ***Members of the Committee***

- Gerry Byrne – Chairman
- Jacek Ślotała – Member

##### ***Appointment of the Committee Members***

The Committee members are appointed for an initial term of office up to 3 years and may be re-elected thereafter.

### ***Committee Meetings***

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.

### ***Roles and responsibilities***

The key roles and responsibilities of the Committee include:

- providing opinions and recommendations regarding the budget needed by the bank to fulfil its community obligations;
- providing opinions and recommendations on the policy and actions taken in respect of 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.

## **B. Remuneration & Nominations Committee**

### ***Members of the Committee***

- Gerry Byrne – Chairman
- Aleksander Szwarc – Member

### ***Appointment of the Committee Members***

The Committee members are appointed for an initial term of office up to 3 years and may be re-elected thereafter.

### ***Committee Meetings***

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.

### ***Roles and responsibilities***

The key roles and responsibilities of the Committee include:

- recommending the Supervisory Board relevant remuneration policies and practices;
- 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.

## **C. Audit Committee**

### ***Members of the Committee***

- John Power - Chairman
- Waldemar Frąckowiak - Member
- Aleksander Galos - Member
- Maeliosa OhOgartaigh - Member

### ***Appointment of the Committee Members***

The appointed Committee members perform their role for at least two consecutive years.

All the Committee members must be knowledgeable about finance and at least one member must have expertise in finance and accounting.

### ***Committee Meetings***

The Committee meets regularly 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.

### ***Roles and responsibilities***

The key task of the Committee is to supervise the bank's financial reporting, risk management and internal control processes.

## ***IV. Bank's Process of Internal Control and its Management in relation to Financial Reporting***

The process of preparation of financial data for the purpose of statutory reporting is automated and is based on the consolidated General Ledger of BZWBK 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 BZWBK Group is created as part of the process covered by specialist controls. 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 only 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.

In addition, the 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.

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.

<b>Date</b>	<b>Name</b>	<b>Position</b>	<b>Signature</b>
15-02-2008	Mateusz Morawiecki	President	
15-02-2008	Andrzej Burliga	Member of the Board	
15-02-2008	Declan Flynn	Member of the Board	
15-02-2008	Michał Gajewski	Member of the Board	
15-02-2008	Justyn Konieczny	Member of the Board	
15-02-2008	Janusz Krawczyk	Member of the Board	
15-02-2008	Jacek Marcinowski	Member of the Board	
15-02-2008	James Murphy	Member of the Board	
15-02-2008	Marcin Prell	Member of the Board	
15-02-2008	Feliks Szyszkowiak	Member of the Board	