



Financial statements
of Bank Zachodni WBK S.A.
for 2006

Ladies and Gentlemen,

last year was a record one for Bank Zachodni WBK. In that period our PBT totalled PLN 745,2 m, and PAT was PLN 592,8 m. Against 2005 this represents a growth by 33,1 % and 32,9 % respectively.

This success was driven by a number of reasons the key one being the commitment and competence of the bank's staff. Professional Staff Attitude Surveys that have been already carried out for a few years unambiguously indicate that every year our work satisfaction and commitment keep growing, strategic management and leadership are rated higher and higher while the "Customer Focus and Strategy" is the highest rated category. In 2006, the outcome of internal customer satisfaction survey significantly improved. This proves that BZWBK staff are happy about their jobs and well motivated to achieve subsequent successes. In this context it should not come as a surprise that Bank Zachodni WBK became one of the "Dream Employers" being the best of commercial banks in a nationwide ranking. In 2006, we were awarded the "Investor in People" emblem which truly reflects how we continuously strive to upgrade skills and qualifications of Bank Zachodni WBK staff.

As the level of professionalism and commitment of our staff is high the bank has the ability to respond to growing and changing customer needs. In 2006 we had a lot of achievements in this area. We were the first bank in Poland to comprehensively replace payment cards as a result of which our customers use microprocessor cards – the safest technology of today that protects interests of card holders. Last year, our mobile sales network was launched and the relationship with credit agents started. We also started to develop a new ATM network in a unique way on the Polish market.

Last year Bank Zachodni WBK offered a number of modern products to customers to include co-branded credit cards, new accounts for customers working or travelling abroad, saving accounts and bancassurance products. Innovation and the ability to satisfy customer needs produce primarily business results but are also appreciated by institutions that monitor the market. Last year we received another trophy to be added to our collection – the title of the "Pearls of Polish Economy" awarded by the Economic Science Institute of the Polish Academy of Science. In 2006, we became one of very few banks who achieved ISO certification, and in terms of the number of certified processes we are unquestionable leader in the Polish banking sector. All these things indicate high quality of our services.

Undoubtedly, the bank's last year's success was also driven by objective factors such as the conditions of the Polish economy. In 2006, inflation was kept at a low level and the GDP growth rate amounted to 5.8% which was higher than expected by majority of analysts.

It seems that the best summary of the last year is the growth in BZWBK share price on Warsaw Stock Exchange that increased from PLN 141.50 on the last day of 2005 to PLN 225 on 29 December 2006. This represents an over 59% growth as in the same period WIG 20 grew by only 23.75%.

The 2006 success and strong foundations that ensure success in the years to come mobilise us to face new business challenges but also make us sensitive to social issues. Our charity activity addressed to



disadvantaged children is spreading wider and wider. In 2006, the number of our scholarship holders increased and so did the number of children learning English and number of children who went on summer and winter camps organised by us. In 2006 we spent PLN 2.4m on charity. Our intention is to increase this amount as we are of the opinion that our obligation is to share the success with those who deserve support.

This is the last annual report of Bank Zachodni WBK signed by me. After 11 years of managing first Wielkopolski Bank Kredytowy, and then Bank Zachodni WBK, I am retiring leaving the company in a great shape that will serve as a basis for excellent performance going forward. I would like to thank the staff, members of the Management Board and Supervisory Board, customers and investors for the excellent relationship over that period that finds its reflection in today's position of Bank Zachodni WBK.



Table of contents

Table of contents	5
1. Income statement of Bank Zachodni WBK S.A.....	7
2. Balance sheet of Bank Zachodni WBK S.A.....	8
3. Movements in equity of Bank Zachodni WBK S.A.....	9
4. Cash flow statement of Bank Zachodni WBK S.A.....	10
Additional notes to financial statement of Bank Zachodni WBK S.A.....	11
5. General information about the issuer	11
6. Significant accounting policies applied in Bank Zachodni WBK S.A.....	12
7. Risk Management.....	26
8. Net interest income	43
9. Net fee and commission income	44
10. Dividend income.....	44
11. Foreign exchange profit	44
12. Gain (losses) on hedge accounting activities	45
13. Gain (losses) from financial instruments measured at fair value through profit and loss	45
14. Gain (losses) from investment in securities	45
15. Gain (losses) on sale of subsidiaries and associates	45
16. Other operating income	45
17. Impairment losses on loans and advances	46
18. Employee costs	46
19. General and administrative expenses.....	46
20. Other operating costs	46
21. Income tax charge	47
22. Earning per share.....	47
23. Cash and balances with central bank	47
24. Loans and advances to bank	48
25. Financial instruments at fair value through profit and loss account	48
26. Derivative financial instruments.....	48
27. Loans and advances to customers	49
28. Reverse repo transactions.....	50
29. Investment securities	50
30. Investments in subsidiaries and associates.....	52
31. Intangible assets	56
32. Property, plant and equipment.....	58
33. Deferred tax assets	60
34. Other assets	60
35. Deposits from banks.....	61
36. Deposit from customers.....	61
37. Repo transactions.....	61
38. Debt security in issue	61
39. Deferred tax liabilities	62
40. Other liabilities	62
41. Share capital.....	63
42. Other reserve funds.....	64
43. Revaluation reserve	64
44. Hedge accounting	65
45. Sell-buy-back transactions	65
46. Fair Value	66
47. Contingent liabilities	67
48. Assets pledged as collateral	68
49. Trust activities.....	68
50. Financial and operating leases.....	69
51. Cash flow statement- additional information.....	70
52. Related party disclosures	70

53. Information of number and value of banking writs of execution	78
54. Acquisitions and disposals of investments	78
55. Investments in joint ventures	79
56. Staff benefits	79
57. Share based payments	80
58. Average staff level with a break-down into professional groups	81
59. Events after the balance sheet date.....	82
60. Dividend per share	82
61. Accounting estimates and judgements.....	82

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

For reporting periods ending on:		01.01.2006- 31.12.2006	01.01.2005- 31.12.2005
Interest and similar income		1 541 219	1 543 465
Interest expense and similar charges		(581 365)	(714 273)
Net interest income	Note 8	959 854	829 192
Fee and commission income		683 646	647 786
Fee and commission expense		(60 323)	(112 704)
Net fee and commission income	Note 9	623 323	535 082
Dividend income	Note 10	98 712	73 658
Foreign exchange profit	Note 11	205 711	215 311
Gains (losses) on hedge accounting activities	Note 12	2 998	(49)
Gains (losses) from financial instruments measured at fair value through profit and loss	Note 13	7 187	12 647
Gains (losses) from investment in securities	Note 14	8 663	7 203
Gains (losses) on sale of subsidiaries and associates	Note 15	14 717	-
Other operating income	Note 16	32 088	34 429
Impairment losses on loans and advances	Note 17	(26 126)	(57 471)
Operating expenses		(1 181 965)	(1 090 199)
Bank's staff, operating expenses and management costs	Notes 18 and 19	(995 781)	(885 366)
Depreciation/amortisation		(153 008)	(180 937)
Other operating expenses	Note 20	(33 176)	(23 896)
Operating profit		745 162	559 803
Profit before tax		745 162	559 803
Corporate income tax	Note 21	(152 367)	(113 580)
Profit for the period		592 795	446 223
Net earnings (loss) per ordinary share (PLN)	Note 22	8,13	6,12
Diluted earnings (loss) per ordinary share (PLN)		8,12	6,12

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

		31.12.2006	31.12.2005
ASSETS			
Cash and balances with central bank	Note 23	1 534 469	572 329
Loans and advances to banks	Note 24	3 149 267	3 606 067
Financial instruments at fair value through profit or loss	Note 25	685 255	1 925 612
Derivative financial instruments	Note 26	395 730	443 615
Loans and advances to customers	Note 27	16 159 539	12 897 389
Reverse repo transactions	Note 28	15 629	15 199
Investment securities	Note 29	8 028 392	6 917 015
Investments in associates	Note 30	186 318	240 069
Intangible assets	Note 31	127 101	166 728
Property, plant & equipment	Note 32	483 594	510 976
Current income tax due		947	21 014
Deferred tax assets	Note 33	346 508	402 407
Other assets	Note 34	269 731	172 928
Total assets		31 382 480	27 891 348
LIABILITIES			
Deposits from banks	Note 35	737 549	1 319 491
Derivative financial instruments	Note 26	267 800	313 156
Deposits from customers	Note 36	24 515 358	20 969 867
Repo transactions	Note 37	1 230 682	999 541
Debt securities in issue	Note 38	95 897	93 035
Deferred tax liabilities	Note 39	282 196	303 428
Other liabilities	Note 40	639 754	703 900
Total liabilities		27 769 236	24 702 418
Equity			
Capital and reserves attributable to the Company's equity holders		3 613 244	3 188 930
Share capital	Note 41	729 603	729 603
Other reserve funds	Note 42	1 785 744	1 950 396
Revaluation reserve	Note 43	505 102	239 495
Retained earnings			(176 787)
Profit of the current period		592 795	446 223
Total equity		3 613 244	3 188 930
Total equity and liabilities		31 382 480	27 891 348

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

MOVEMENTS ON EQUITY	Equity				Total
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	
Balance at 31.12.2005	729 603	1 950 396	239 495	269 436	3 188 930
Net change in available for sale investments	-	-	265 607	-	265 607
Share scheme charge	-	3 674	-	-	3 674
Net gains not recognised in income statement	-	3 674	265 607	-	269 281
Net profit	-	-	-	592 795	592 795
Total recognised increase in equity in 2006	-	3 674	265 607	592 795	862 076
Dividend relating to 2005	-	-	-	(437 762)	(437 762)
Transfer from supplementary capital	-	(168 326)	-	168 326	-
As at 31.12.2006	729 603	1 785 744	505 102	592 795	3 613 244

MOVEMENTS ON EQUITY	Equity				Total
	Share capital	Other reserve funds	Revaluation reserve	Retained earnings	
Balance at 31.12.2004	729 603	1 684 362	154 534	326 227	2 894 726
changes in accounting principles resulting from adoption of IFRS	-	-	20 621	(59 687)	(39 066)
Adjusted balance at 01.01.2005	729 603	1 684 362	175 155	266 540	2 855 660
Net change in available for sale investments	-	-	64 340	-	64 340
Net gains not recognised in income statement	-	-	64 340	-	64 340
Net profit	-	-	-	446 223	446 223
Total recognised increase in equity in 2005	-	-	64 340	446 223	510 563
Dividend relating to 2004	-	-	-	(177 293)	(177 293)
Transfer to general banking risk fund	-	30 000	-	(30 000)	-
Transfer to reserve capital	-	236 034	-	(236 034)	-
As at 31.12.2005	729 603	1 950 396	239 495	269 436	3 188 930

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

	01.01.2006- 31.12.2006	01.01.2005- 31.12.2005
Profit (loss) before tax	745 162	559 803
Total adjustments:	1 434 757	231 717
Amortization	153 008	180 937
Impairment losses	(3 742)	(5 140)
Interests and similar charges	58 431	(74 140)
Dividend income	(98 712)	(73 658)
(Profit) loss from investing activities	(19 880)	(2 058)
Change in provisions	24 519	9 680
Change in financial instruments at fair value through profit and loss		
	1 242 886	(653 040)
Change in loans and advances from banks	445 992	(818 831)
Change in loans and advances from customers	(3 262 150)	(97 181)
Change in receivables arising from securities purchased under reverse repo agreements	(430)	10 498
Change in deposits from banks	(581 942)	412 740
Change in deposits from customers	3 595 471	1 638 019
Change in liabilities arising from securities sold under repurchase agreements	231 141	266 851
Change in liabilities arising from debt securities in issue	2 862	(466 093)
Change in assets and liabilities arising from deferred taxation	(1)	123
Change in other assets and liabilities	(209 831)	(31 422)
Tax paid	(143 946)	(65 108)
Other adjustments	1 081	(460)
Net cash flow from operating activities - indirect method	2 179 919	791 520
Inflows	1 772 800	1 649 220
Sale of shares or interests in subsidiaries and associates	71 054	6 837
Sale of investment securities	1 599 209	1 558 382
Sale of intangible and tangible fixed assets	3 682	8 912
Dividends received	98 712	73 658
Proceeds from other investments	143	1 431
Outflows	(2 510 113)	(2 803 076)
Purchase of shares or interests in subsidiaries and associates	-	(16 360)
Purchase of investment securities	(2 426 437)	(2 720 370)
Purchase of intangible and tangible fixed assets	(81 337)	(64 741)
Other investments	(2 339)	(1 605)
Net cash flow from investing activities	(737 313)	(1 153 856)
Inflows	-	-
Outflows	(491 274)	(265 546)
Repayment of long-term loans	(49 980)	(84 874)
Dividends paid	(437 762)	(177 263)
Other financing outflows	(3 532)	(3 409)
Net cash flow from financing activities	(491 274)	(265 546)
Total net cash flow	951 332	(627 882)
Cash at the beginning of the accounting period	591 384	1 219 266
Cash at the end of the accounting period	1 542 716	591 384

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, registered in the District Court for Wrocław-Fabryczna, VI Economic Unit of the National Court Registry. The bank's ultimate parent company is Allied Irish Bank plc.

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 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 '000		EUR '000	
for period:		2006	2005	2006	2005
Stand alone financial statements					
I	Interest and similar income	1 541 219	1 543 465	395 276	383 632
II	Fee and commission income	683 646	647 786	175 334	161 009
III	Operating profit	745 162	559 803	191 111	139 140
IV	Gross profit (loss)	745 162	559 803	191 111	139 140
V	Net profit (loss)	592 795	446 223	152 034	110 910
VI	Total net cash flow	951 332	(627 882)	243 988	(156 061)
VII	Total assets	31 382 480	27 891 348	8 191 293	7 226 112
VIII	Deposits from banks	737 549	1 319 491	192 511	341 855
IX	Deposits from customers	24 515 358	20 969 867	6 398 872	5 432 890
X	Total liabilities	27 769 236	24 702 418	7 248 182	6 399 922
XI	Capital and reserves attributable to the Company's equity holders	3 613 244	3 188 930	943 110	826 190
XII	Number of shares	72 960 284	72 960 284		
XIII	net book value per share in PLN/EUR	49,52	43,71	12,93	11,32
XIV	Solvency ratio	13,79%	15,06%		
XV	Profit (loss) per ordinary share PLN/EUR	8,13	6,12	2,09	1,52
XVI	Diluted earnings (loss) per ordinary share in PLN/EUR	8,12	6,12	2,08	1,52
XVII	Declared or paid dividend per share in PLN/EUR	6,00	6,00	1,57	1,55

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

- for balance sheet items – 3,8312, EUR rate to PLN as at 31.12.2006 in National Bank of Poland (NBP), 3,8598 EUR rate to PLN as at 31.12.2005 in NBP
- For profit and loss items -as at 31.12.2006- 3,8991 (an average EUR rate to PLN in NBP on the last day of each month in 2006), as at 31.12.2005- 4,0233 (an average EUR rate to PLN in NBP on the last day of each month in 2005)

6. Significant accounting policies applied in Bank Zachodni WBK S.A.

Statement of compliance

The annual unconsolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) with respect to the preparation of a parent's separate financial statements as adopted by the European Union and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and respective bylaws and regulations, and the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market.

Standards that are issued and not yet effective.

IFRS 7 *Financial Instruments: Disclosures* is not effective until 1 January 2007 and was endorsed by the European Union on 11 January 2006. Bank Zachodni WBK S.A. has not early adopted since management believe that the disclosures under IFRS 7 would not be very different to the requirements of IAS 32 and IAS 30. Other standards, amendments to the standards and IFRIC interpretations recently endorsed or awaiting endorsement are either not relevant to the Bank or would not have a material impact on the current 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, the following substantial changes were made to the presentation of financial data compared with 2005:

a) in the consolidated income statement:

- change in recognition of fees of PLN 6 063 k under item "Fee and commission income", which were previously presented under item "Other operating income",

b) in the consolidated balance sheet:

- change in presentation of derivative financial instruments in comparable period in the amount of PLN 291 599 k, currently presented as net value of "derivative financial instruments" item.

Subsidiaries

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

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

Purchase method of accounting

The Bank uses the purchase method of accounting to account for the acquisition of subsidiaries. However, during the reporting period there was no such acquisition as mentioned above.

Associates

Associates are those entities on which Bank Zachodni WBK S.A. has significant influence, but not control, over the financial and operating policies.

Interests in subsidiaries and associates are carried at cost. The carrying amount of the investment is annually tested for impairment as per IAS 36. Impairment is recognised in the profit and loss account under "Impairment charges". Dividend payment is not reflected in the carrying amount of the shares – it is only taken to profit and loss and is included under "Dividend income".

Foreign currency***Foreign currency transactions***

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

Hedge accounting and derivative financial instruments

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

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

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

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

At the inception of the hedge there is formal designation and documentation of the hedging relationship and the bank 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. 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.

Fair value hedge

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

A fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) shall be recognised in profit or loss; and the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be

recognised in profit or loss. This applies if the hedged item is otherwise measured at amortised cost. Recognition of the gain or loss attributable to the hedged risk in profit or loss applies if the hedged item is an available-for-sale financial asset.

Financial assets and financial liabilities

Classification

The 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 and financial liabilities measured at amortised cost.

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

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

- (1) Classified as held for trading. A financial asset or financial liability is classified as held for trading if:
 - a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
 - b) it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking;
 - c) derivatives are held for trading unless the derivative is a designated and effective hedging instrument.
- (2) Upon initial recognition it is designated by the bank as at fair value through profit or loss. As at the balance sheet date bank doesn't hold the category of financial instrument.

Loans and receivables

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

Available-for-sale financial assets

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

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost using EIR method include deposits from banks, deposits from customers, repo transactions and debt securities in issue.

Recognition

A regular way purchase or sale of a financial asset classified at fair value through profit or loss, held to maturity (at present, in our portfolio we haven't such assets) 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.

Measurement

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

After initial recognition, the 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 as at fair value through profit or loss is recognised in profit or loss.

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

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities) the 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.

Sale and repurchase agreements

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

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

Impairment of financial assets**Assets carried at amortised cost**

The 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 group, including:
 - (i) adverse changes in the payment status of borrowers in the group, or
 - (ii) national or local economic conditions that correlate with defaults on the assets in the group.

If there is objective evidence that an impairment loss on loans and receivables 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.

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

The 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.

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 Group are not included in a collective assessment of impairment.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of the Group's credit risk evaluation or the 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 group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The 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 impairment analysis is carried out based on the concept of losses already incurred but not yet reported and connected with loan

impairment (IBNR), which is estimated on the basis of the historical loss experience for loans with a similar risk profile.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting the provision. The 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.

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

Available-for-sale financial assets

For financial assets classified as available-for-sale for which there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity shall be removed from equity and recognised in profit or loss. 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.

Off balance sheet liabilities

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

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 costs

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 |

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

Goodwill

Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. Goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired. At present, goodwill doesn't exist in the balance sheet of BZWBK.

Computer software

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

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

Other intangible assets

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

Subsequent expenditure

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

Amortisation

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

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

Other items**Other trade and other receivables**

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

Borrowings

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

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.

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

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

An impairment loss in respect of goodwill is not reversed.

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

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.

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 on redeemable preference shares are recognised as a liability and expressed on an accrual basis.

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

The bank operates a share based compensation plan. For grants of share based payments after 7 November 2002 (IFSR 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 Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a



pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

Net interest income

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

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

Net commission income

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

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

Dividend income

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

FX profit

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

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

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

Profit on disposal of subsidiaries and associates

Profit on the sale of interests in subsidiaries 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 Group. These are primarily revenues and costs from the sale and liquidation of fixed assets, income from sale of other services, paid and received damages, penalties and fines.

Operating lease payments

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

Finance lease payments

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

Corporate income tax

Corporate income tax consists of current and deferred tax.

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

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

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

Deferred tax assets and liabilities are not discounted.

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

7. Risk Management

It is essential in the banking business that risk is taken in a conscious and controlled manner. Therefore BZWBK is taking risk associated to its business using proper mechanisms supporting appropriate management of these risks.

Key risk areas in BZWBK business include mostly:

- Credit risk;
- Market risk, incl.:
 - o Liquidity risk,
 - o Pricing risk,
- Operational risk.

Other risk areas such as settlement and counterparty risks are monitored, however their level in 2006 was not significant.

Below is an outline of the key risks, their management, measurement and reporting mechanisms and a description of financial instruments that generate or mitigate risk.

Credit risk

Bank Zachodni WBK fully adheres to the standards provided for in the Banking Law with regard to the concentration of risk bearing exposures to a single entity or a group of entities connected in terms of capital or organisation. . As at 31.12.2006, pursuant to art. 71 of the Banking Law Act, the maximum limits for the bank totalled:

- PLN 572 383 k (20% of bank's own funds) in the case of exposures to subsidiary or dominant entities or to subsidiary entities of the entity dominant for the bank,
- PLN 715 479 k (25% of bank's own funds) in other cases.

The policy pursued by the bank aims at minimising the credit concentration risk, by for example applying more rigorous rules than the regulatory ones 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 2006, proved that the bank does not have any exposures in excess of the limits imposed by the regulator.

At the end of 2006, the bank had credit exposures (balance sheet and off-balance sheet) exceeding 10% of its own funds attributable to 6 entities (three of which were members of the BZWBK Group) and which accounted for 84% of own funds (vis-à-vis the permissible norm of 800%).

A list of the 20 largest borrowers of Bank Zachodni WBK SA (performing loans) as of 31.12.2006 (excluding subsidiaries).

No.	Industry code (PKD)	Total credit exposure	Balance	Committed credit line	Guarantees
1	70	584 643	419 359	165 283	0
2	16	360 000	210 000	150 000	0
3	70	291 067	152 823	118 244	20 000
4	70	208 807	67 425	141 382	0
5	70	185 530	118 262	67 268	0
6	55	178 015	178 015	0	0
7	20	174 155	19 140	125 957	29 058
8	24	155 000	155 000	0	0
9	70	151 977	151 977	0	0
10	45	142 347	76 954	56 066	9 327
11	65	140 204	140 204	0	0
12	52	138 348	5 663	132 662	23
13	29	137 456	133 678	3 778	0
14	25	135 463	36 653	98 347	463
15	70	132 339	132 339	0	0
16	65	125 000	0	125 000	0
17	100	125 000	0	125 000	0
18	92	119 298	119 215	83	0
19	65	118 279	50 516	65 204	2 559
20	45	116 519	12 529	50 693	53 297
		3 719 448	2 179 754	1 424 967	114 727

data in PLN k

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 eliminate 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 2006, the highest concentration level was recorded in the "property service" (22% of the Bank's credit exposure and 20% of the BZ WBK Group 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:

Industry sector	31.12.2006	31.12.2005
Property service	3 641	1 725
Manufacturing	2 756	2 670
Distribution	1 933	1 754
Financial sector	664	663
Agriculture	637	568
Energy	612	779
Construction	593	294
Transport	393	256
Other services	1 251	1 500
A Total Business Loans	12 480	10 207
B Personal (including mortgage loans)	4 196	3 293
A+B BZWBK PORTFOLIO	16 676	13 500

Portfolio includes IAS adjustments

Geographical concentration

Bank Zachodni WBK S.A. is concentrated on running credit activities in the territory of the Republic of Poland – exposure toward non-residents represents a marginal part of the bank's portfolio. In Poland, the credit activities focus on the marketplace of western provinces and 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). Credit portfolio breakdown into macroregions is very well balanced. Concentration in macroregion Warsaw accounts for 36% of the bank's total exposure, in macroregion Poznań 35% and Wrocław 28%. The macroregions are divided into regions. Warsaw Region shows the biggest credit exposure which represents 27% of the bank's total exposure.

	Personal (excl. mortgage loans)*	Mortgage loans*	Business loans*
BZ WBK	1 591 648	2 627 242	12 525 707
Poznań Macroregion	604 597	893 977	4 336 806
Region Poznań	156 901	282 611	1 475 408
Region Wielkopolska Północ	94 387	122 630	436 572
Region Wielkopolska Południe	146 668	162 692	1 041 698
Region Kujawsko-Pomorski	72 335	119 346	427 981
Region Lubuski	102 279	119 409	440 661
Region Zachodniopomorski	32 027	87 289	514 486
Warsaw Macroregion	226 408	849 567	4 876 776
Region Warsaw	101 393	605 695	3 848 204
Region Łódzki	41 311	65 727	259 459
Region Pomorsko-Mazurski	83 704	178 145	769 113
Wrocław Macroregion	534 133	883 698	3 312 125
Region Wrocław	110 742	251 638	1 120 918
Region Śląski	57 465	150 535	359 625
Region Dolnośląsko-Opolski	167 137	181 786	647 338
Region Dolnośląski Zachód	174 458	193 406	611 382
Region Małopolsko-Podkarpacki	24 331	106 333	572 862
Credit cards**	226 509		

* Nominal value of credit portfolio

** Unallocated to regions

Market Risk

Market risk management focuses on liquidity and pricing risk.

Liquidity risk is the risk that the bank will not be able to meet its contractual or contingent obligations when due.

Pricing risk is defined as an adverse earnings impact of changes in interest rates, FX rates, share quotations, stock exchange indices, etc. The main entity that manages pricing risk of interest and FX rates (presented below as interest rate and FX risk respectively) is the Bank. The market risk generated by equity instruments (shares, stock exchange indices) is marginal in the Bank, however is actively managed by the BZ WBK Brokerage House.

General principles of market risk management

The key objective of the market risk policy operated 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 while ensuring the bank's liquidity.

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

Upon the recommendation from the Assets and Liabilities Management Committee (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 BZ WBK Treasury Division.

Market risk is measured and its compliance with the stated risk limits is monitored by qualified personnel segregated from 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.

In order to reduce the structural balance sheet risk and ensure a stable income stream for the bank a special portfolio was established with debt securities funded by net liabilities that are not sensitive to interest rate fluctuations.

According to the Policy approved by the Management Board, any decisions relating to the value or structure of this portfolio are taken by ALCO.

Interest rate risk

Exposure to interest rate risk appears as result of gaps in the schedule of revaluation of assets, liabilities and their derivative instruments. Interest rate movements observed on the market where the bank holds open exposures liable to such movements contributes both to the risk of incurring losses and the possibility of earning substantial profits. Open interest rate positions which are sensitive to interest rate changes are created because it is extremely difficult to match the assets generating interest income with the liabilities generating interest expenses, both in terms of amounts and revaluation/maturity dates. Besides, there exists a base risk arising out of differences in the nature of revaluation applied to different types of variable interest rates, e.g. an instrument bearing variable interest on three-month cycles based on 3M WIBOR as of revaluation date and an instrument whose interest is based on an arithmetical average of 5 quotations on the inter-bank market preceding the revaluation date.

The main source of revaluation risk are transactions entered in the bank's 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 (e.g. loans from EBRD or from the Banking Guarantee Fund). However all positions which generate a revaluation risk are transferred from a system of internal contracts centralised in 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.

The bank perceives margins as the main source of revenues, hence limits for the open interest rate positions and stop-loss limits for trading positions can be viewed as prudent.

Interest rate risk is measured as Probable Maximum Loss (PML), a method based on an industry standard value at risk. PML 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 interval for a three-year interest rate history. Volatility is based on a one-month position maintenance period. PML 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.

The tables below show the PML values on 31 December 2006 and in comparable period:

PLN m	31.12.06	Average in 2006
PML	12,9	14,2

PLN m	31.12.05	Average in 2005
PML	8,1	9,9

The Treasury Division operates within an operational risk limit, which amounted to PLN 38.3 m at the end of December 2006.

There are also additional reports prepared to support the risk management process. Daily reports include:

- Stress-test reports, showing changes in the market value of portfolios in the event of substantial changes in interest rates;
- PV01 reports – illustrating changes in the value of portfolios where the profitability curve is moved by 1 base point.

In order to curtail losses on the trading portfolio, a stop-loss limit has been established, which allows trading positions to be closed in the event of losses exceeding the stated limit.

The risk profile can also be represented as a gap arising on repricing terms of assets and liabilities, as shown in the table below (data for the Bank as at 31 December 2006 and in comparable period).

31.12.2006	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years	rate insensitive	Total
Loans and receivables to banks	2 602 838	196 004	310 000	23 684	-	-	16 741	3 149 267
Financial instruments at fair value through profit or loss	533 202	30 224	21 298	65 906	30 321	-	4 304	685 255
Loans and receivables to customers	11 264 528	2 872 886	1 681 012	305 819	611 868	481	(577 055)	16 159 539
Investment securities	189 923	788 067	1 628 438	1 086 286	2 593 269	937 883	804 526	8 028 392
Other assets								3 360 027
Long position	14 590 491	3 887 181	3 640 748	1 481 695	3 235 458	938 364	248 516	31 382 480
Deposits from banks	596 609	105 780	-	-	-	-	35 160	737 549
Deposits from customers	19 603 728	2 311 881	2 017 291	120 551	17 497	-	444 410	24 515 358
Repo transactions	1 223 968	6 305	-	-	-	-	409	1 230 682
Debt securities in issue	-	-	-	93 730	-	-	2 167	95 897
Other liabilities								4 802 994
Short position	21 424 305	2 423 966	2 017 291	214 281	17 497	-	482 146	31 382 480
Gap	(6 833 814)	1 463 215	1 623 457	1 267 414	3 217 961	938 364	(233 630)	

31.12.2005	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years	rate insensitive	Total
Loans and receivables to banks	1 984 370	277 211	1 267 922	36 413	-	-	40 151	3 606 067
Financial instruments at fair value through profit or loss	1 675 154	9 153	108 989	62 517	67 150	-	2 649	1 925 612
Loans and receivables to customers	9 757 311	1 593 136	1 147 166	564 594	452 733	40 482	(658 033)	12 897 389
Investment securities	19 098	297 870	1 155 572	1 097 978	2 807 669	1 099 775	439 053	6 917 015
Other assets								2 545 265
Long position	13 435 933	2 177 370	3 679 649	1 761 502	3 327 552	1 140 257	(176 180)	27 891 348
Deposits from banks	727 565	-	559 764	-	-	-	32 162	1 319 491
Deposits from customers	15 113 121	2 947 483	2 232 528	277 197	34 765	296	364 477	20 969 867
Repo transactions	997 592	1 503	-	-	-	-	446	999 541
Debt securities in issue	-	-	-	-	88 507	-	4 528	93 035
Other liabilities								4 509 414
Short position	16 838 278	2 948 986	2 792 292	277 197	123 272	296	401 613	27 891 348
Gap	(3 402 345)	(771 616)	887 357	1 484 305	3 204 280	1 139 961	(577 793)	

During the year the structure of liabilities changed as a result of an increase in customer deposits (current accounts and short-term deposits). This widened the interest rate gap for terms up to 1 month. The gap was partly covered by an increase in loans and advances to customers, where interest rates are based on money market rates (WIBOR/LIBOR). Also, the Bank is an active player in the derivatives market. Interest rate risk is actively managed using interest rate SWOPs and FRAs, thus forming the repricing profile corresponding to the expected movements in interest rates.

Tables below present estimated effective interest rate for selected balance sheet items of Bank Zachodni WBK S.A. as at 31.12.2006 and in comparable period:

31.12.2006	PLN	EUR	USD	GBP	JPY	CHF
Loans and receivables to banks	4,1425%	3,6455%	5,3462%	-	-	2,0452%
Financial instruments at fair value through profit or loss (debt instruments)	4,2000%	3,9700%	-	-	-	-
Loans and receivables to customers	7,6633%	5,2965%	7,5909%	7,6546%	-	4,0374%
Investment securities (debt instruments)	5,4228%	3,2200%	5,0800%	-	-	-
Deposits from banks	5,0542%	3,5765%	5,3648%	-	-	1,8600%
Deposits from customers	2,2428%	1,4709%	2,8210%	2,0078%	-	0,3798%
Debt securities in issue	5,9011%	-	-	-	-	-
Repo	3,4082%	-	-	-	-	-

31.12.2005	PLN	EUR	USD	GBP	JPY	CHF
Loans and receivables to banks	5,1561%	2,4017%	4,4275%	4,6500%	0,2028%	-
Financial instruments at fair value through profit or loss (debt instruments)	4,5319%	-	-	-	-	-
Loans and receivables to customers	7,3436%	4,0571%	6,0785%	6,9587%	0,8219%	3,2761%
Investment securities (debt instruments)	5,7603%	2,7180%	3,5642%	-	-	-
Deposits from banks	4,3699%	2,2513%	4,0863%	-	-	-
Deposits from customers	2,2071%	1,0645%	1,5410%	1,6376%	-	0,2855%
Debt securities in issue	5,6821%	-	-	-	-	-
Repo	4,0312%	-	-	-	-	-

FX risk

The key role of inter-bank trading is to maintain a presence which allows the bank to offer competitive pricing conditions for client transactions effected through the branch banking network and the Treasury Services Department. A secondary role is to generate additional profits on trading positions, which are subject to conservative and prudential limits.

FX risk is measured as Probable Maximum Loss (PML) against the total open FX position of the bank.

PML is determined by means of a statistical modelling process (industry standard value at risk). PML 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.

The tables below show the PML values on 31 December 2006 and in comparable period:

PLN m	31.12.06	Average in 2006
PML	0,1	0,3

PLN m	31.12.05	Average in 2005
PML	0,3	0,3

The Treasury Division operates within an operational risk limit, which amounted to PLN 1.9 m at the end of December 2006.

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

Comparison of the FX balance sheets (see the tables below) for presented reporting periods shows that the overall structure of the FX position did not change. The PLN balance sheet generates a short position deepened during the year through an increase in deposits from customers. The Bank's policy envisages limited sanction of long-term home mortgages denominated in foreign currencies, especially in CHF as the FX risk borne by the customer might lead to an increase in the bank's credit risk. For this reason, FX loans and advances are mainly funded by deposits from customers and derivative transactions used PLN surplus to create funding for FX transactions.

At the reporting date and in the comparable period, the bank's balance sheet by currencies was as follows:

31.12.2006	EUR	USD	CHF	GBP	other	PLN	Total
Cash and balances with central bank	107 824	25 605	2 840	24 833	12 328	1 361 039	1 534 469
Loans and receivables to banks	281 647	1 788 657	77 373	424	3 785	997 381	3 149 267
Financial instruments at fair value through profit or loss	49 492	-	-	-	-	635 763	685 255
Loans and receivables to customers	3 770 824	629 936	609 560	6 394	39 203	11 103 622	16 159 539
Investment securities	504 291	455 425	-	-	-	7 068 676	8 028 392
Other assets	137 265	7 851	534	23 599	9 971	1 646 338	1 825 558
Long position	4 851 343	2 907 474	690 307	55 250	65 287	22 812 819	31 382 480
Deposits from banks	393 112	4 644	41 068	46	8 114	290 565	737 549
Repo transactions	-	-	-	-	-	1 230 682	1 230 682
Deposits from customers	2 693 388	1 213 830	38 839	201 660	12 916	20 354 725	24 515 358
Debt securities in issue	-	-	-	-	-	95 897	95 897
Other liabilities	21 441	241	37	1	-	4 781 274	4 802 994
Short position	3 107 941	1 218 715	79 944	201 707	21 030	26 753 143	31 382 480
Gap	1 743 402	1 688 759	610 363	(146 457)	44 257	(3 940 324)	-

31.12.2005	EUR	USD	CHF	GBP	other	PLN	Total
Cash and balances with central bank	69 654	33 691	2 458	16 300	5 607	444 619	572 329
Loans and receivables to banks	132 784	2 533 635	-	136 380	7 121	796 147	3 606 067
Financial instruments at fair value through profit or loss	-	-	-	-	-	1 925 612	1 925 612
Loans and receivables to customers	2 348 850	816 076	600 509	4 025	97 068	9 030 861	12 897 389
Investment securities	324 874	95 915	-	-	-	6 496 226	6 917 015
Other assets	54 314	3 933	-	8 279	2 400	1 904 010	1 972 936
Long position	2 930 476	3 483 250	602 967	164 984	112 196	20 597 475	27 891 348
Deposits from banks	250 657	279 695	30 692	-	-	758 447	1 319 491
Repo transactions	-	-	-	-	-	999 541	999 541
Deposits from customers	2 136 046	1 177 174	32 118	153 670	8 863	17 461 996	20 969 867
Debt securities in issue	-	-	-	-	-	93 035	93 035
Other liabilities	11 474	2 124	37	27	7	4 495 745	4 509 414
Short position	2 398 177	1 458 993	62 847	153 697	8 870	23 808 764	27 891 348
Gap	532 299	2 024 257	540 120	11 287	103 326	(3 211 289)	

Liquidity risk

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 all withdrawals of term deposits, demand deposits, loan payments, guarantee payments and settlements.

The Bank's liquidity is assessed separately using liquidity gap reports. The reports contain all flows from on balance sheet and off balance sheet transactions. Liquidity gap based on contractual maturity periods is dealt with in the first place.

The tables below show the gap arising from contractual maturity terms as at 31 December 2006 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. 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).

31.12.2006	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from to 2 to 5 years	over 5 years	rate insensitive	Total
Loans and receivables to banks	2 425 863	342 315	363 689	23 684	-	-	(6 284)	3 149 267
Financial instruments at fair value through profit or loss	485 494	198	13 718	124 181	61 664	-	-	685 255
Loans and receivables to customers	993 253	719 604	4 019 887	3 884 146	1 891 777	5 269 542	(618 670)	16 159 539
Investment securities	205 383	-	1 482 659	2 142 975	2 032 297	1 552 251	612 827	8 028 392
Other assets								3 360 027
Long position	4 109 993	1 062 117	5 879 953	6 174 986	3 985 738	6 821 793	(12 127)	31 382 480
Deposits from banks	470 093	229 145	38 311	-	-	-	-	737 549
Deposits from customers	19 760 457	2 344 037	2 156 482	154 405	99 977	-	-	24 515 358
Repo transactions	1 223 968	6 305	-	-	-	-	409	1 230 682
Debt securities in issue	-	-	-	93 730	-	-	2 167	95 897
Other liabilities								4 802 994
Short position	21 454 518	2 579 487	2 194 793	248 135	99 977	-	2 576	31 382 480
Cumulative gap	(17 344 525)	(1 517 370)	3 685 160	5 926 851	3 885 761	6 821 793	(14 703)	

31.12.2005	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from to 2 to 5 years	over 5 years	rate insensitive	Total
Loans and receivables to banks	2 032 088	277 210	1 267 922	-	36 413	-	(7 566)	3 606 067
Financial instruments at fair value through profit or loss	1 675 154	9 153	109 016	67 783	64 224	-	282	1 925 612
Loans and receivables to customers	1 158 144	839 866	3 327 732	3 038 373	1 656 841	3 570 756	(694 323)	12 897 389
Investment securities	-	319 096	1 059 444	2 205 199	1 950 854	1 134 465	247 957	6 917 015
Other assets								2 545 265
Long position	4 865 386	1 445 325	5 764 114	5 311 355	3 708 332	4 705 221	(453 650)	27 891 348
Deposits from banks	759 477	-	560 014	-	-	-	-	1 319 491
Deposits from customers	15 666 873	2 420 331	2 449 766	319 841	36	113 020	-	20 969 867
Repo transactions	998 592	503	-	-	-	-	446	999 541
Debt securities in issue	-	-	-	-	78 919	-	14 116	93 035
Other liabilities								4 509 414
Short position	17 424 942	2 420 834	3 009 780	319 841	78 955	113 020	14 562	27 891 348
Cumulative gap	(12 559 556)	(975 509)	2 754 334	4 991 514	3 629 377	4 592 201	(468 212)	

In the daily gap report for the Bank, cash flows are shown 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 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 2006, the Bank complied with the foregoing requirements. The policy is designed to ensure a 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). Dodatkowo do wskazanych powyżej limitów ustalany jest codziennie szereg wskaźników obserwacyjnych m.in. wskaźnik kredytów udzielonych do depozytów, wskaźnik uzależnienia od finansowania na rynku hurtowym; wspierających proces zarządzania płynnością.

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 bear 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.

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

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

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

The bank primarily uses this instrument in its trading portfolio.

Equity instruments

The bank enters into the following equity transactions:

- Index options;

An index option entitles its holder make a profit from the difference between the value of the stock exchange index and the underlying value determined in the option agreement (the difference is also referred to the

notional principal amount specified in the agreement). In the bank such options (also FX) are embedded in deposit products which in addition to guaranteed interest allow their holders to earn from favourable changes in stock exchange indices. In this product area, the bank sold call options to customers. Also, the bank closed its exposure to risk by purchasing options in the interbank market, so its open option positions are not exposed to market risk.

Operational risk

Operational risk is exposure to losses related to the failure of internal processes, human and system errors and external factors. Bank Zachodni WBK S.A. has been working on full implementation of operational risk management standards which conform with Recommendation M of the Banking Supervisory Commission and the Basel Committee requirements.

Operational risk management in the Bank Zachodni WBK S.A. is operated at the following levels of responsibility:

- Organizational units are responsible for direct management of the operational risks evident in their operations.
- The Operational Risk Management Department is responsible for coordination of the whole risk management process across the organisation.
- The Internal Audit Area is responsible for overseeing and assessing the quality of operational risk management.
- All operational risk management processes are supervised by the dedicated Operational Risk Management Committee (ORMCO).

Operational risk management in the Bank Zachodni WBK S.A. includes in particular:

- operational risk self-assessment;
- fraud prevention (including anti-money laundering);
- information security (including personal data protection);
- operational loss reporting and the lessons-learned process;
- preparation, analysis and regular testing of Business Continuity plans;
- periodic reporting to the Management Board on operational risk related issues, including: operational incidents report, risk indicators and analysis of operational risk self-assessment.

In order to achieve its operational risk management agenda, Bank Zachodni WBK S.A. has developed and implemented the relevant governance model as well as suitable policies, standards and procedures.

Bank Zachodni WBK S.A. closely liaises with the AIB Group on development and implementation of the operational risk management strategy and policy, introduction of tools supporting the risk management process and compliance with the Basel II requirements.

Capital adequacy

Capital requirements due to different risk types are determined in the Bank in compliance with principles set forth in Resolution no 4/2004 of the Commission for Banking Supervision and Resolution no 57/2005 of the Management Board. The Bank runs significant trade business and is subject to complete calculation of capital requirements due to different risks. The entire capital requirement as at Y/E 2006 totaled 1 660 199 including:

- 1 623 048 i.e. 97.76 % from credit risk
- 29 771 i.e. 1.79% from market risk
- 7 380 i.e. 0.45% from settlement and counterparty risk

The table below shows the calculations.

	31.12.2006			31.12.2005		
	Exposure amount in PLN k	Capital requirement amount		Exposure amount in PLN k	Capital requirement amount	
Credit risk	20 288 094	1 623 048		15 569 573	1 245 566	
Market risk	-	29 771		-	23 439	
Settlement/delivery and counter party risk	-	7 380		-	7 977	
Total		1 660 199			1 276 982	
	31.12.2006			31.12.2005		
Equity and short-term capital		2 861 915			2 403 810	
Capital adequacy ratio		13,79%			15,06%	
	31.12.2006			31.12.2005		
	Amount	Credit equivalent	RWA	Amount	Credit equivalent	RWA
STRUCTURE OF ASSETS BY RISK WEIGHT	30 392 371	17 309 117	17 309 117	26 242 136	13 552 906	13 552 906
Assets of the risk weight of 0%	9 204 240	-	-	8 769 465	-	-
Assets of the risk weight of 20%	3 854 748	770 950	770 950	4 044 008	808 802	808 802
Assets of the risk weight of 50%	1 590 432	795 216	795 216	1 369 119	684 560	684 560
Assets of the risk weight of 100%	15 742 951	15 742 951	15 742 951	12 059 544	12 059 544	12 059 544
Assets of the risk weight of 1250%	-	-	-	-	-	-
OFF BALANCE SHEET LIABILITIES	7 868 969	3 163 912	2 978 977	5 790 245	2 075 395	2 016 667
- counter party risk weighted of 0%	29 941	29 264	-	1 639	1 599	-
Product risk weight of 0%	50	-	-	40	-	-
Product risk weight of 20%	-	-	-	-	-	-
Product risk weight of 50%	1 254	627	-	-	-	-
Product risk weight of 100%	-	-	-	-	-	-
Product risk weights for forward and option transactions	28 637	28 637	-	1 599	1 599	-
- counter party risk weighted of 20%	332 634	194 590	38 918	225 712	71 411	14 282
Product risk weight of 0%	135 930	-	-	125 182	-	-

Product risk weight of 20%	-	-	-	-	-	-
Product risk weight of 50%	4 229	2 115	423	58 239	29 120	5 824
Product risk weight of 100%	164 444	164 444	32 889	4 500	4 500	900
Product risk weights for forward and option transactions	28 031	28 031	5 606	37 791	37 791	7 558
- counter party risk weighted of 100%	7 506 394	2 940 059	2 940 059	5 562 894	2 002 385	2 002 385
Product risk weight of 0%	1 721 565	-	-	1 706 700	-	-
Product risk weight of 20%	-	-	-	-	-	-
Product risk weight of 50%	5 689 541	2 844 771	2 844 771	3 707 618	1 853 809	1 853 809
Product risk weight of 100%	95 288	95 288	95 288	148 576	148 576	148 576

Capital requirements due to credit risk were calculated basing on an off-balance sheet structure in which assets and liabilities were presented according to risk weight in a bank portfolio (except of items concerning a trading portfolio).

8. Net interest income

Interest and similar income	01.01-31.12.2006	01.01-31.12.2005
Loans and advances to enterprises	608 005	572 932
Debt securities	418 248	510 248
Loans and advances to individuals of which:	328 903	291 420
<i>Mortgage loans</i>	<i>129 476</i>	<i>127 222</i>
Loans and advances to banks	152 744	118 075
Reverse repo transactions	3 019	1 705
Public sector	30 300	49 085
Total	1 541 219	1 543 465

Loans and advances to banks exclude income on repo transactions.

Interest expense and similar charges	01.01-31.12.2006	01.01-31.12.2005
Deposits from individuals	(231 175)	(322 059)
Deposits from enterprises	(218 562)	(214 177)
Deposits from banks	(31 719)	(59 587)
Debt securities in issue	(5 283)	(26 372)
Repo transactions	(52 073)	(47 880)
Public sector	(42 553)	(44 198)
Total	(581 365)	(714 273)

Net interest income	959 854	829 192
----------------------------	----------------	----------------

As at 31 December 2006 net interest income includes interest accrued on impaired financial assets of PLN 34 973 k (as at 31.12.2005 - PLN 26 661 k).

9. Net fee and commission income

Fee and commission income	01.01-31.12.2006	01.01-31.12.2005
Current accounts and money turnover	227 094	236 135
eBusiness & payments	223 449	271 758
Distribution fees	115 808	33 042
Loans and advances (incl. factoring)	42 499	43 836
Credit cards	32 629	32 592
Insurance commissions	19 172	6 908
Off-balance sheet guarantee commissions	12 898	14 425
Issue arrangement	7 314	6 063
Other	2 783	3 027
Total	683 646	647 786

Fee and commission expenses	01.01-31.12.2006	01.01-31.12.2005
eBusiness & payments	(43 040)	(95 871)
Loans and advances commissions	(2 577)	(999)
Commission pay for other banks	(5 571)	(5 885)
Credit cards	(2 485)	(2 026)
Other inc.:	(6 650)	(7 923)
<i>brokerage commissions</i>	<i>(1 948)</i>	<i>(2 376)</i>
<i>agency costs</i>	<i>(180)</i>	<i>(126)</i>
<i>others</i>	<i>(4 522)</i>	<i>(5 421)</i>
Total	(60 323)	(112 704)

Net commission income	623 323	535 082
------------------------------	----------------	----------------

10. Dividend income

Dividend income	01.01-31.12.2006	01.01-31.12.2005
Dividends from investment portfolio entities	56 661	47 325
Dividends from subsidiaries and associates	42 051	26 263
Dividends from entities measured at fair value through profit and loss	-	70
Total	98 712	73 658

11. Foreign exchange profit

F/X income	01.01-31.12.2006	01.01-31.12.2005
Corporate negotiated transactions	106 607	93 965
Branch operations	60 050	50 529
Not-negotiated transactions	21 676	18 608
Trading activities	7 811	10 569
Other	9 567	41 640
Total	205 711	215 311

Foreign exchange income includes gains and losses from spot contracts, fx derivatives and translated foreign currency assets and liabilities.

12. Gain (losses) on hedge accounting activities

Gains less losses on hedge accounting activities	01.01-31.12.2006	01.01-31.12.2005
Change in fair value of underlying hedged positions	14 296	(2 221)
Change in fair value of hedging instruments	(11 298)	2 172
Total	2 998	(49)

13. Gain (losses) from financial instruments measured at fair value through profit and loss

Gains less losses from financial instruments measured at fair value through profit and loss	01.01-31.12.2006	01.01-31.12.2005
Profit/(loss) on debt instruments	4 062	3 680
Profit/(loss) on derivative instruments	3 116	9 234
Profit/(loss) on equity instruments	9	(267)
Total	7 187	12 647

14. Gain (losses) from investment in securities

Gains less losses from investment in securities	01.01-31.12.2006	01.01-31.12.2005
Sales of available-for-sale financial instruments	5 926	6 006
Costs of sales of available-for-sale financial instruments	(977)	(4 166)
Reversal (charge) due to impairment losses on investment securities	3 714	5 363
Total	8 663	7 203

15. Gain (losses) on sale of subsidiaries and associates

Gains less losses on sale of subsidiaries and associates	01.01-31.12.2006	01.01-31.12.2005
Sale of subsidiaries	(2 719)	-
Sale of associates	17 436	-
Total	14 717	-

Information about acquisitions and disposals of subsidiaries and associates is available in additional note 54.

16. Other operating income

Other operating income	01.01-31.12.2006	01.01-31.12.2005
Release of provision	11 883	11 246
Sundry income	9 993	10 401
Recovery of non-credit receivables	2 393	1 582
Sales or liquidation of fixed assets, intangible assets and assets for disposal	746	2 808
Received compensations, penalties and fines	452	14
Donations received	143	1 431
Other incl.:	6 478	6 947
<i>Costs of bailiff reimbursement</i>	<i>1 233</i>	<i>1 163</i>
<i>Selling of rights to perpetuity of land</i>	<i>1 181</i>	<i>-</i>
<i>Insurance indemnity received</i>	<i>800</i>	<i>521</i>
<i>Reimbursements of BFG charges</i>	<i>674</i>	<i>364</i>
<i>Other</i>	<i>2 590</i>	<i>4 899</i>
Total	32 088	34 429



17. Impairment losses on loans and advances

Impairment losses on loans and advances	01.01-31.12.2006	01.01-31.12.2005
Impairment charge	(12 487)	(52 677)
Incurring but not reported losses charge	(22 219)	(812)
Credit related off balance sheet items	8 580	(3 982)
Total	(26 126)	(57 471)

Amount PLN (12 487) k "impairment charge" includes profit from recoveries of PLN 23 093 k (as at 31.12.2005 - PLN 3 379 k)

18. Employee costs

Employee costs	01.01-31.12.2006	01.01-31.12.2005
Salaries	(461 412)	(422 410)
Salary related costs and provisions	(80 575)	(72 634)
Staff benefits costs	(33 769)	(14 132)
Professional trainings	(15 041)	(9 805)
Retirement fund and holiday provisions	(6 887)	(2 318)
Total	(597 684)	(521 299)

19. General and administrative expenses

General and administrative expenses	01.01-31.12.2006	01.01-31.12.2005
Maintenance and rentals of premises	(101 319)	(100 227)
IT systems costs	(62 627)	(51 225)
Marketing and public relations	(47 328)	(34 153)
Postal and telecommunication costs	(40 313)	(38 975)
Consulting fees	(25 918)	(25 129)
Car, transport expenses, carriage of cash	(19 571)	(17 795)
Data transmission	(16 018)	(14 535)
Taxes	(13 573)	(13 989)
External services	(12 368)	(15 194)
Business trips	(10 762)	(7 433)
Security costs	(9 191)	(11 219)
Costs of repairs	(7 779)	(4 827)
BFG costs	(3 532)	(3 409)
Others incl.:	(27 798)	(25 957)
<i>KIR, SWIFT etc. settlements</i>	<i>(8 959)</i>	<i>(10 038)</i>
<i>Stationery</i>	<i>(8 209)</i>	<i>(8 015)</i>
<i>Printing of cheque books, plastic cards</i>	<i>(6 976)</i>	<i>(6 499)</i>
<i>Others</i>	<i>(3 654)</i>	<i>(1 405)</i>
Total	(398 097)	(364 067)

20. Other operating costs

Other operating costs	01.01-31.12.2006	01.01-31.12.2005
Provisions for legal risk and other assets	(24 231)	(13 845)
Donations paid	(2 339)	(1 605)
Debt recovery costs	(1 977)	(2 607)
Paid compensations, penalties and fines	(405)	(482)
Sundry costs	(369)	(393)
Others incl.:	(3 855)	(4 964)

<i>Provision for non-credit receivables</i>	(745)	(1 330)
<i>Costs of representation paid to counsellors</i>	(513)	(445)
<i>Voluntary membership fees</i>	(651)	(601)
<i>Cost of legal proceedings</i>	(315)	(80)
<i>Operating costs from Visa cards transactions</i>	(124)	(130)
<i>Other</i>	(1 507)	(2 378)
Total	(33 176)	(23 896)

21. Income tax charge

Income tax charge	01.01-31.12.2006	01.01-31.12.2005
Current tax charge	179 989	66 987
Deferred tax charge	(27 622)	46 593
Total	152 367	113 580

Corporate total tax charge information	01.01-31.12.2006	01.01-31.12.2005
Profit/loss before tax	745 162	559 803
Tax rate	19%	19%
Tax calculated at the tax rate	141 581	106 363
Non taxable expenses	21 203	10 795
Non taxable incomes	(20 172)	(13 995)

Other tax burden:

- provision costs which will not be taxable	5 704	581
- write's off's	1 657	9 520
- other	2 394	316
Total income tax expense	152 367	113 580

Deferred tax recognised directly in equity

As at 31 December 2005 the amount of deferred tax recognised directly in equity includes:

Relating to equity securities available-for-sale	101 355	31 634
Relating to debt securities available-for-sale	17 126	24 557
Total	118 481	56 191

22. Earning per share

Earning per share	01.01-31.12.2006	01.01-31.12.2005
Profit attributable to ordinary shares	592 795	446 223
Weighted average number of ordinary shares	72 960 284	72 960 284
Basic earnings per share (PLN)	8,13	6,12
Profit attributable to ordinary shares	592 795	446 223
Weighted average number of ordinary shares	72 960 284	72 960 284
Weighted average number of potential shares	61 957	-
Diluted earnings per share (PLN)	8,12	6,12

23. Cash and balances with central bank

Cash and balances with central bank	31.12.2006	31.12.2005
--	-------------------	-------------------

Current account in central bank	931 546	67 783
Cash on hand	602 329	503 339
Other cash equivalents	594	1 207
Total	1 534 469	572 329

The amount of current account in the central bank refers to the monies held in the National Bank of Poland account as the obligatory reserve. This reserve is reduced by equivalence of EUR 500 k. Obligatory reserve for period 30.11.2006-01.01.2007 amounted to PLN 805 004 k (in comparable period of previous year: PLN 717 171 k). For particular month it is calculated as a arithmetical average of a state of bank accounts at the end of each day of the month.

24. Loans and advances to bank

Loans and advances to banks	31.12.2006	31.12.2005
Current accounts	1 693 034	280 270
Loans and advances	1 462 516	3 333 363
Gross receivables	3 155 550	3 613 633
Impairment write down	(6 283)	(7 566)
Total	3 149 267	3 606 067

In the item "current accounts" one-day deposits are included.
Fair value of loans and advances to banks is presented in additional note 46.

Movements on impairment losses on receivables from banks	31.12.2006	31.12.2005
Balance at 1 January	(7 566)	(7 566)
Write down of provision	1 283	-
Balance at the end of the period	(6 283)	(7 566)

25. Financial instruments at fair value through profit and loss account

Financial instruments at fair value through profit & loss account	31.12.2006	31.12.2005
Debt securities	685 255	1 925 330
Government securities:	685 255	1 925 330
- bills	497 460	1 792 789
- bonds	187 795	132 541
Equity securities:	-	282
- listed	-	282
Total	685 255	1 925 612

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 net trading income.

All financial assets measured at fair value through profit and loss are assigned to this category due to trading character of transactions. Financial assets were not designated to this category at 31 December 2005 and in comparable periods.

26. Derivative financial instruments

Trading derivatives	31.12.2006		31.12.2005	
	Assets	Liabilities	Assets	Liabilities
Interest rate transactions	162 950	118 930	201 701	169 680
IRS	146 520	97 289	188 970	157 044
FRA	16 430	21 641	12 731	12 636
Equity derivatives	15 409	13 019	22 589	14 972

In thousands of PLN

Options long	15 409	13 019	22 589	14 972
Currency derivatives	214 363	125 963	216 839	104 842
FX Swap	119 008	76 183	137 155	71 769
CIRS	70 424	13 735	43 295	2 892
Forward	15 609	25 943	23 589	15 929
Spot	1 302	2 082	580	2 032
Options	8 020	8 020	12 220	12 220
Total trading derivatives	392 722	257 912	441 129	289 494

Hedging derivatives	Assets	Liabilities	Assets	Liabilities
IRS	3 008	9 888	2 486	23 662
Total hedging derivatives	3 008	9 888	2 486	23 662
Total derivatives	395 730	267 800	443 615	313 156

Detailed information about each group of hedging is available in additional note 44.

27. Loans and advances to customers

Loans and advances to customers	31.12.2006	31.12.2005
Loans and advances to individuals, of which:	4 212 350	3 306 295
- <i>real estate financing</i>	2 562 786	2 028 770
Loans and advances to enterprises	12 302 459	9 908 959
Loans and advances to public sector	222 029	342 450
Other	41 371	34 008
Gross receivables	16 778 209	13 591 712
Impairment losses in loans and advances to customers	(618 670)	(694 323)
Total	16 159 539	12 897 389

As at 31.12.2006 fair value adjustment due to hedged risk of corporate loans totalled PLN 6 949 k (As at 31.12.2005 - PLN 18 283k). Fair value of loans and advances to customers is presented in additional note 46.

Movements on impairment recognised on loans and advances to customers	31.12.2006	31.12.2005
Balance at 31st December of previous year	(694 323)	(597 870)
IFRS impact	-	(95 343)
Balance at 1st January of current year	(694 323)	(693 213)
Charge of current period	(306 050)	(145 363)
Write back of current period	271 345	91 874
Write downs and write off's	108 458	50 408
Currency movements	1 900	1 971
Balance at the 31st December	(618 670)	(694 323)

As at the end of the period closing balance of impairment recognised on loans and advances to clients consisted of:

Impairment charge	523 537	620 529
Incurred but not reported losses	95 133	73 794
Total	618 670	694 323



28. Reverse repo transactions

Reverse repo transactions	31.12.2006	31.12.2005
Transactions related to equity securities	15 629	15 199
Total	15 629	15 199

29. Investment securities

Investment securities	31.12.2006	31.12.2005
Available for sale securities - measured at fair value	8 028 392	6 917 015
Debt securities:	7 415 564	6 669 058
Government securities:	6 250 766	5 965 725
- bills	206 627	497 560
- bonds	6 044 139	5 468 165
Central Bank securities:	593 104	604 113
- bonds	593 104	604 113
Other securities:	571 694	99 220
- bonds	537 072	68 049
- other securities	34 622	31 171
Equity securities - measured at fair value:	594 126	232 092
- listed	3 875	6 663
- unlisted	590 251	225 429
Other	18 702	15 865
Total	8 028 392	6 917 015

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 1 072 720 k.

As at 31.12.2005 fixed interest rate debt securities measured at fair value amount to PLN 5 793 560 k, variable interest rate securities amount to PLN 875 498 k.

As at 31.12.2006 fair value adjustment due to hedged risk totalled PLN 1 305 k.

As at 31.12.2005 fair value adjustment due to hedged risk totalled PLN 3 665 k.

Reclassification of debt securities, presented as held to maturity in comparable periods, to the available for sale portfolio was made at the time of full IRFS adoption, i.e. as at 1 January 2005.

When fair value cannot be reliably determined, Bank Zachodni WBK S.A. carries certain groups of debt and capital instruments at cost, periodically testing for impairment. As at 31.12.2006 group of debt securities amount to PLN 34 622 k (2005 PLN 31 171k) and capital instruments amount to PLN 26 201 k (2004 PLN 26 201k).

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 (net of deferred tax) has been recognised with corresponding increase in the revaluation reserve. 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.

Movement on investment securities	Debt securities	Equity securities	Total
As at 1 January 2006	6 669 058	247 957	6 990 336
Additions	2 426 483	5 837	2 440 782
Disposals (sale and redemption)	(1 588 164)	(7 055)	(1 655 505)
Fair value adjustment (AFS)	(39 110)	364 168	331 431
Movements on interest accrued	(40 128)	-	(40 128)
Provision for impairment	-	1 921	1 570
F/X Difference	(12 575)	-	(12 575)
As at 31 December 2006	7 415 564	612 828	8 055 911

Movement on investment securities	Available for sale	Held to maturity	Debt securities-total	Equity securities	Investment securities-total
As at 31 December 2004	2 616 927	2 684 848	5 301 775		5 301 775
IFRS impact	2 684 848	(2 684 848)	-		-
Fair value adjustment (AFS)	20 621	-	20 621		20 621
As at 1 January 2005	5 322 396	-	5 322 396	266 233	5 588 629
Additions	2 720 370	-	2 720 370	676	2 721 046
Disposals (sale and redemption)	(1 536 216)	-	(1 536 216)	(23 824)	(1 560 040)
Fair value adjustment (AFS)	104 802	-	104 802	(380)	104 422
Movements on interest accrued	57 595	-	57 595		57 595
Provision for impairment/Reversal of impairment	111	-	111	5 252	5 363
As at 31 December 2005	6 669 058	-	6 669 058	247 957	6 917 015

30. Investments in subsidiaries and associates

Investments in subsidiaries and associates	31.12.2006	31.12.2005
Subsidiaries	156 962	170 697
Associates	29 356	69 372
Total	186 318	240 069

Investments in subsidiaries and associates
as at 31.12.2006

No.	a name of entity (and its legal status)	b business	c registered office	d balance sheet value of shares/ interests	e total assets	f own funds of entity, of which:					g liabilities of entity, of which:			h Revenues	i % of holding	
						Equity	share capital	due contributions to share capital (negative value)	other own funds, of which:		short-term	long-term				
									from previous years	net profit (loss)						
1	BZ WBK Inwestycje Sp. z o.o.	trading in shares of commercial companies as well as other securities; seeking investors for companies	Poznań	50	25 727	24 824	50	-	24 774	-	18 851	-	-	-	701	100,00
2	BZ WBK Faktor Sp. z o.o.	financial services, granting credit, market research and public opinion survey, business consulting, holding management	Warszawa	5 119	122 408	5 273	50	-	5 223	(2 859)	1 932	114 274	114 274	-	14 893	100,00
3	BZ WBK Finanse & Leasing SA	leasing and renting of fixed assets	Poznań	37 012	718 178	73 329	37 000	-	36 329	-	9 513	450 343	78 147	372 196	52 839	99,99
4	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	Poznań	47 757	1 118 727	116 255	108 192	-	8 063	(15 762)	19 953	564 981	178 252	386 729	86 627	99,99
5	Dom Maklerski BZ WBK SA	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	Poznań	45 926	1 137 063	133 001	44 974	-	88 027	-	61 355	839 492	839 492	-	182 194	99,99



6	BZ WBK Nieruchomości i Wspólnicy Sp. komandytowa	leasing of fixed assets	Poznań	13 650	26 954	26 941	13 599	-	13 342	7 488	5 853	-	-	-	15 307	99,99
7	BZ WBK Nieruchomości SA	organisation of various events, catering and hotel services, agency services	Poznań	475	735	467	500	-	(33)	(77)	33	-	-	-	460	99,98
8	Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp.z o.o.	distribution of insurance products	Poznań	218	1 745	1 100	350	-	750	-	309	-	-	-	7 157	60,00
9	BZ WBK AIB Asset Management SA	brokerage activities: managing customer's share portfolios (listed and not listed)	Poznań	6 755	126 820	106 418	13 500	-	92 918	-	87 819	-	-	-	125 368	50,00
10	POLFUND - Fundusz Poreczeń Kredytowych S.A.-As at November 2006	providing lending guarantees, investing and managing funds invested in companies, management	Szczecin	8 000	62 571	17 929	16 000	-	1 929	632	997	43 187	73	43 114	2 854	50,00
11	NFI Magna Polonia S.A.-As at September 2006	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	Warszawa	21 356	79 372	77 225	3 554	-	73 671	(35 252)	6 697	2 147	2 147	-	4 729	28,77
	Total			186 318	3 420 300	582 762	237 769	-	344 993	(45 830)	213 312	2 014 424	1 212 385	802 039	493 129	

Investments in subsidiaries and associates
as at 31.12.2005

No.	a name of entity (and its legal status)	b business	c registered office	d balance sheet value of shares/ interests	e total assets	f own funds of entity, of which:					g liabilities of entity, of which:			h Revenues	i % of holding	
						Equity	share capital	due contributions to share capital (negative value)	other own funds, of which:		short-term	long-term and contingent				
									from previous years	net profit (loss)						
1	BZ WBK Inwestycje Sp. z o.o.	trading in shares of commercial companies as well as other securities; seeking investors for companies	Poznań	4 850	20 145	17 710	50	-	17 660	(598)	2 029	-	-	-	3 868	100,00
2	BZ WBK Faktor Sp. z o.o.	financial services, granting credit, market research and public opinion survey, business consulting, holding management	Warszawa	3 088	74 699	3 363	50	-	3 313	(4 183)	1 346	70 790	70 790	-	11 717	100,00
3	BZ WBK Finanse & Leasing SA	leasing and renting of fixed assets	Poznań	37 012	603 974	63 811	37 000	-	26 811	(4 647)	7 404	294 272	31 167	263 105	47 222	99,99
4	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	Poznań	47 757	937 551	96 348	108 192	-	(11 844)	(34 680)	20 609	246 009	33 236	212 773	86 900	99,99
5	Dom Maklerski BZ WBK SA	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	Poznań	45 926	663 233	84 269	44 973	-	39 296	-	31 560	453 653	453 653	-	112 582	99,99
6	BZ WBK Nieruchomości i Wspólnicy Sp. komandytowa	leasing of fixed assets	Poznań	21 849	149 487	29 287	21 799	-	7 488	6 235	1 253	120 173	7 480	112 693	15 391	99,99



7	BZ WBK Nieruchomości SA	organisation of various events, catering and hotel services, agency services	Poznań	253	649	184	250	-	(66)	-	(77)	-	-	-	608	99,96
8	Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp.z o.o.	distribution of insurance products	Poznań	218	1 350	775	350	-	425	-	(71)	-	-	-	5 728	60,00
9	AIB WBK Fund Management Sp. z o.o.	business and management consulting, holding companies' management, accounting activities	Warszawa	2 989	29 388	27 365	2 469	-	24 896	-	10 913	-	-	-	21 022	54,00
10	BZ WBK AIB Asset Management SA	brokerage activities: managing customer's share portfolios (listed and not listed)	Poznań	6 755	54 459	49 813	13 500	-	36 313	(21 069)	32 285	-	-	-	44 197	50,00
11	POLFUND - Fundusz Poreczeń Kredytowych S.A. As at November 2005	providing lending guarantees, investing and managing funds invested in companies, management	Szczecin	8 000	67 991	17 192	16 000	-	1 192	-	761	50 043	43	50 000	1 300	50,00
12	LZPS PROTEKTOR S.A. As at September 2005	production of protective, military and ordinary footwear	Lublin	2 939	27 614	14 253	4 744	-	9 509	-	(1 153)	11 619	11 619	-	14 693	36,07
13	NFI Magna Polonia S.A. As at September 2005	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	Warszawa	58 433	210 609	209 162	3 554	-	205 608	(41 662)	1 431	1 343	1 343	-	5 833	29,67
	Total			240 069	2 841 149	613 532	252 931	-	360 601	(100 604)	108 290	1 247 902	609 331	638 571	371 061	

31. Intangible assets

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

The 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 current 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. The main items are: central platform enlargement and Programme of Optimization and Automation of Selling Campaigns.

Intangible assets	Licences, patents etc.	Other	Capital expenditures	Total
Year 2005				
Gross value at the beginning of the period	452 504	5 371	22 343	480 218
Additions from:				
-purchases	-	-	22 196	22 196
-intangible assets taken for use	23 833	604	-	24 437
-transfers	-	-	676	676
Disposals from:				
-liquidation	(12 823)	-	-	(12 823)
-intangible assets taken for use	-	-	(24 437)	(24 437)
-transfers	-	-	-	-
Gross value at the end of the period	463 514	5 975	20 778	490 267
Accumulated depreciation at the beginning of the period	(244 182)	(5 371)	-	(249 553)
Depreciation:				
- current year	(83 276)	(82)	-	(83 358)
-liquidation	11 256	-	-	11 256
-transfers	(1 884)	-	-	(1 884)
Accumulated depreciation at the end of the period	(318 086)	(5 453)	-	(323 539)
Book Value				
Purchase value	463 514	5 975	20 778	490 267
Accumulated depreciation	(318 086)	(5 453)	-	(323 539)
As at 31 December 2005	145 428	522	20 778	166 728

Transfer concerns: 1/ separating capital expenditures connected with tangible and intangible assets 2/ separating impairment losses connected with tangible and intangible assets release of provision (transfer of impairment losses). The value of intangible assets is mostly relates to Integrated Centralised Banking System presented. It is a core system for BZWBK branches since 2002. Its net book value at the end of the period amounted to PLN 103 951 k (excluding modifications).

32. Property, plant and equipment

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

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 one piece of properties of the bank. Gains on this sale amounted to PLN 132 k. Sale revenue from other real estate -especially flats- amounted to PLN 261 k.

Property, plant & equipment	Land and Buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Year 2005						
Gross value at the beginning of the period	546 323	326 534	26 990	235 306	15 491	1 150 644
Additions from:						
-purchases	-	-	-	-	42 545	42 545
-leasing	-	-	5 082	-	-	5 082
-fixed assets taken for us	1 738	27 953	-	19 809	-	49 500
-transfers	-	-	-	10	-	10
Disposals from:						
- sale, liquidation and donation	(4 100)	(18 346)	(6 566)	(22 386)	-	(51 398)
-fixed assets taken for us	-	-	-	-	(49 500)	(49 500)
-transfers	4 408	94	-	365	(1 139)	3 728
Gross value at the end of the period	548 369	336 235	25 506	233 104	7 397	1 150 611
Accumulated depreciation at the beginning of the period	(161 650)	(265 242)	(12 472)	(148 402)	-	(587 766)
Depreciation:						
- current year	(21 824)	(48 712)	(4 868)	(22 175)	-	(97 579)
- sale, liquidation and donation	1 200	18 327	5 649	16 236	-	41 412
-transfers	(1 355)	(83)	-	5 199	-	3 761
Impairment write down	-	-	-	(951)	-	(951)
Reversal of impairment write down	-	-	-	1 488	-	1 488
Accumulated depreciation at the end of the period	(183 629)	(295 710)	(11 691)	(148 605)	-	(639 635)
Book Value						
Purchase value	548 369	336 235	25 506	233 104	7 397	1 150 611
Accumulated depreciation	(183 629)	(295 710)	(11 691)	(148 605)	-	(639 635)
As at 31 December 2005	364 740	40 525	13 815	84 499	7 397	510 976

The opening balance was adjusted by perpetual usufruct value, which has been qualified to operating lease and assets held for sale. Transfers concerns: 1/ reclassification one piece of properties from assets held for sale to fixed assets (transfer of gross value and impairment losses), 2/ separating capital expenditures connected with tangible and intangible assets, 3/ reclassification one of properties to assets held for sale, 4/ separating impairment losses connected with tangible and intangible assets, release of provision.

33. Deferred tax assets

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
Specific provisions which are not yet taxable costs	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
Other	28 972	1 072	-	30 044
Total	402 407	8 821	(64 720)	346 508

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.

Deferred tax asset	31.12.2004	Increase	Decrease	31.12.2005
Unrealized deposit interest	22 967	-	(4 852)	18 115
Unrealized securities interest	13 188	13 776	-	26 964
Unrealized liabilities due to derivatives	163 168	-	(24 960)	138 208
Specific provisions which are not yet taxable costs	165 656	-	(31 048)	134 608
Other provisions which are not yet taxable costs	47 430	-	(7 183)	40 247
Additional deferred tax assets resulting from art. 38 a of Corporate Tax Act	14 808	485	-	15 293
Other	15 094	13 878	-	28 972
Total	442 311	28 139	(68 043)	402 407

As at 31 December 2005 calculation of deferred tax asset did not taken into account bought receivables of PLN 21 949 k and loans that will not be realised of PLN 3 060 k.

34. Other assets

Other assets	31.12.2006	31.12.2005
Prepayments	16 500	17 624
Sundry debtors	84 067	76 049
Assets held for sale	17 053	17 420
Interbank and interbranch settlements	152 056	61 779
Other	55	56
Total	269 731	172 928

Assets held for sale -BZWBK

31 December 2006	Impairment		
	Gross value	loss	Net value
Land and buildings	21 913	(6 751)	15 162
Other assets	1 918	(27)	1 891
Total	23 831	(6 778)	17 053

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

31 December 2005	Impairment		
	Gross value	loss	Carrying value
Land and buildings	22 376	(7 078)	15 298
Other assets	2 149	(27)	2 122
Total	24 525	(7 105)	17 420

Opening balance for 2005 was decreased by the real estate held for sale. During 2005 four properties were sold, one was qualified as held for sale, one was reclassified as tangible assets (intention of selling it was abandoned).

35. Deposits from banks

Deposits from banks	31.12.2006	31.12.2005
Deposits	371 635	651 601
Current accounts	191 914	667 632
Loans from other banks	174 000	-
Other		258
Total	737 549	1 319 491

As at 31.12.2006 fair value adjustment for hedged deposit totalled PLN nil k (2005 - PLN 85 k)
Fair value of deposits from banks is presented in additional note 46.

36. Deposit from customers

Deposits from customers	31.12.2006	31.12.2005
Deposits from individuals	11 694 510	10 886 972
- current accounts	3 908 725	2 731 847
- term deposits	7 733 698	8 120 242
- other	52 087	34 883
Deposits from enterprises	11 201 073	8 618 483
- current accounts	6 818 344	5 112 402
- term deposits	3 927 934	3 107 462
- other	19 381	69 234
- credits	435 414	329 385
Deposits from public sector	1 619 775	1 464 412
- current accounts	1 265 565	1 172 527
- term deposits	353 237	291 243
- other	973	642
Total	24 515 358	20 969 867

As at 31.12.2006 deposits held as collateral totalled PLN 175 871 k.
As at 31.12.2005 deposits held as collateral totalled PLN 167 869 k.
Fair value of deposits from customers is presented in additional note 46.

37. Repo transactions

Repo transactions	31.12.2006	31.12.2005
Banks	1 227 601	976 476
Other entities	3 081	23 065
Total	1 230 682	999 541

The transaction relates to State Treasury securities (bond and bills).

38. Debt security in issue

Debt security in issue	Average coupon		Nominal value	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
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
Total nominal value			78 919	78 919
Total carrying value			95 897	93 035

As at 31.12.2006 the nominal value was increased by interest of PLN 15 539 k and bond valuation of PLN 1 439 k related to hedging activities. As at 31.12.2005 the nominal value was increased by interest of PLN 10 367 k and bond valuation of PLN 3 749 k related to hedging activities.

39. Deferred tax liabilities

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
Total	303 428	62 290	(83 522)	282 196

Deferred tax liability	31.12.2004	Increase	Decrease	31.12.2005
Unrealised interests from securities and interbank deposits	59 703	-	(12 659)	47 044
Unrealised loans interests	8 379	4 541	-	12 920
Unrealised receivables on derivatives	149 700	-	(8 829)	140 871
Provision due to application of investment relief	6 467	-	(1 444)	5 023
Valuation of assets available for sale	36 249	19 942	-	56 191
Other	29 888	11 491	-	41 379
Total	290 386	35 974	(22 932)	303 428

40. Other liabilities

Other liabilities	31.12.2006	31.12.2005
Sundry creditors	86 010	68 641
Accrued expenses	71 270	62 118
Other deferred and suspended income	50 160	64 709
Interbank and interbranch settlements	307 792	408 439
Provisions, incl.:	124 522	99 993
<i>Employee provisions</i>	95 765	78 134
<i>Provisions for off balance sheet credit facilities</i>	3 236	11 818
<i>Provisions for legal claims</i>	25 515	10 041
Total	639 754	703 900

On the day of full adoption of IFRS on 01.01.2005 Bank Zachodni WBK S.A. seized recognizing a provision for banking general risk.

Movements on provisions	31.12.2006	31.12.2005
As at 31 December	99 993	161 900
Provisions for off balance sheet credit facilities	11 818	7 539
General risk provision	-	72 537
Employee provisions and accruals	78 134	74 114
Provisions for legal claims	10 041	7 710
IFRS impact	-	(72 247)
Provisions for off balance sheet credit facilities	-	290
General risk provision	-	(72 537)
Employee provisions and accruals	-	-
Provisions for legal claims	-	-
As at 1 January	99 993	89 653
Provisions for off balance sheet credit facilities	11 818	7 829
Employee provisions and accruals	78 134	74 114
Provisions for legal claims	10 041	7 710
Provision charge	104 747	103 527
Provisions for off balance sheet credit facilities	2 323	14 551
Employee provisions and accruals	86 026	79 982
Provisions for legal claims	16 398	8 994
Utilisation	(68 384)	(76 098)
Provisions for off balance sheet credit facilities	-	7
Employee provisions and accruals	(68 384)	(75 962)
Provisions for legal claims	-	(143)
Write back	(11 834)	(17 089)
Provisions for off balance sheet credit facilities	(10 903)	(10 569)
Employee provisions and accruals	(11)	-
Provisions for legal claims	(920)	(6 520)
As at the end of the period	124 522	99 993
Provisions for off balance sheet credit facilities	3 238	11 818
Employee provisions and accruals	95 765	78 134
Provisions for legal claims	25 519	10 041

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

Employee related provisions and accruals are described in note 56.

41. Share capital

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

Nominal value of one share is 10 PLN.

All shares in issue are fully paid. There was no movements on share capital during reported periods.

According to the information available to the Bank's Management Board, as at 31.12.2006 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.

42. Other reserve funds

Other reserve funds	31.12.2006	31.12.2005
General banking risk fund	529 810	529 810
Share premium	261 699	261 699
Other reserve capitals	994 235	1 158 887
Total	1 785 744	1 950 396

Other funds

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.

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 (supplementary) capital include a part of revaluation fund that refers to fixed assets disposed, sold or transferred that were subject to revaluation reserve by increasing revaluation fund.

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.

43. Revaluation reserve

Revaluation reserve	31.12.2006
As at 31 December 2005	239 495
Net change in available for sale investments, of which:	336 218
- related to debt investments purchased before current reporting period	(37 546)
- related to equity investments purchased before current reporting period	367 007
- related to investments purchased	6 757
Net change in available for sale investments matured during the period	(10 020)
Decrease in revaluation reserve related to sale of investments	(678)
Decrease in revaluation reserve related to hedge accounting	2 377
Deferred tax adjustment	(62 290)
Total	505 102

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 (net of deferred tax) has been recognised with corresponding increase in the revaluation reserve.

Revaluation reserve	31.12.2005
As at 31 December 2004	154 534
Impact of IFRS	20 621
As at 01 January 2005	175 155
Net change in available for sale investments, of which:	99 206
- related to debt investments purchased before current reporting period	47 058
- related to equity investments purchased before current reporting period	105
- related to investments purchased during the period	52 043
Net change in available for sale investments matured during the period	(8 179)
Decrease in revaluation reserve related to sale of investments	(6 005)
Decrease in revaluation reserve related to hedge accounting	(740)
Deferred tax adjustment	(19 942)
Total	239 495

Revaluation reserve comprises equity from the valuation of financial assets available for sale and from the valuation of tangible fixed assets. 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.

44. Hedge accounting

Bank Zachodni WBK applies hedge accounting in line with the risk management assumptions described note 7 of annual financial statements. Hedging transactions are constructed using interest rate swaps. Their purpose is to eliminate 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,
- Fixed rate loans denominated in foreign currency, forming a portfolio of assets covered with an interest rate hedge
- Fixed rate debt securities, forming a group of assets covered with an interest rate hedge

The hedged and hedging items are measured at fair value using the discounted future cash flows method or measured at amortised cost including fair value adjustment.

The table below contains details about individual groups of hedge transactions:

	IRS hedging own bonds	IRS hedging corporate loans	IRS hedging Treasury bonds
Nominal value of hedged position	PLN 78 918 k	PLN 289 009 k	PLN 375 000 k
Fair value adjustment difference of hedging instrument (asset)/liability	PLN 1 436 k	PLN (7 078) k	PLN (1 238) k
Fair value adjustment of hedged instrument asset/(liability)	PLN (1 439) k	PLN 6 949 k	PLN 1305 k
Period over which the instruments have an impact on the bank's results	2006 – 2008	2006 – 2011	2006 – 2011

45. 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 2006, the balance sheet contains treasury bills and bonds traded under sell-buy-back transactions in the amount of PLN 1 225 264 k (PLN 964 730 k as at 31 December 2005). 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 1 230 682 k (PLN – 999 541 k as at 31 December 2005).

46. 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.

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Loans and advances to banks	3 149 267	3 150 798	3 606 067	3 610 925
Loans and advances to customers	16 159 539	16 166 878	12 897 389	12 943 812
Liabilities				
Deposits from banks	737 549	737 635	1 319 491	1 320 363
Deposits from customers	24 515 358	24 501 316	20 969 867	20 940 809

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. 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.

47. Contingent liabilities

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

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 888k 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.

As at 31 December 2005, 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 290 300 k, which is ca. 9,10% of the Bank's equity. This amount includes PLN 70 148k claimed by the Bank, PLN 46 243 k in claims against the Bank and PLN 173 909 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	31.12.2006	31.12.2005
Liabilities sanctioned	7 812 302	5 750 892
-financing-related	7 064 149	4 937 346
including: import letters of credit	94 447	54 032
including: credit lines	6 368 254	4 524 908
including: credit cards debits	439 255	358 406
including: term deposits with future commencement term	162 193	-
-guarantees	748 153	813 546
including: confirmed export letters of credit	1 880	2 630
Received liabilities	68 129	24 238
Total	7 880 431	5 775 130

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.

Derivatives' nominal values	31.12.2006	31.12.2005
1. Derivatives (hedging)	1 486 018	1 144 942
a) Single-currency interest rate swaps – purchased amounts	743 009	572 471
b) Single-currency interest rate swaps – sold amounts	743 009	572 471
2. Term derivatives (trading)	136 761 943	97 952 670
a) Interest rate operations	119 364 670	78 931 768
- Single-currency interest rate swaps – purchased amounts	38 807 335	16 915 884
- Single-currency interest rate swaps – sold amounts	38 807 335	16 915 884
- FRA-purchased amounts	19 650 000	24 600 000
- FRA-sold amounts	22 100 000	20 500 000
b) FX operations	17 397 273	19 020 902
- FX swap – purchased amounts	7 193 754	8 493 174
- FX swap – sold amounts	7 157 445	8 420 063
- Double-currency interest rate swaps – purchased amounts	1 550 962	1 072 912
- Double-currency interest rate swaps – sold amounts	1 495 112	1 034 753
3. Currency transactions-spot	3 850 694	2 359 361
spot-purchased	1 924 957	1 178 956
spot-sold	1 925 737	1 180 405
4. Derivatives – OTC options	918 168	939 250
- Options purchased	543 528	616 502
- Options sold	374 640	322 748
Total	143 016 823	102 396 223

48. Assets pledged as collateral

Bank is obliged to set up a guaranteed funds protection fund. For the purpose as at 31 December 2006 Bank Zachodni WBK S.A. pledged as collateral PLN 58 249 k of debt securities (PLN 39 896 k in year 2005).

At the end of 2006 the Group drawn a Lombard loan from NBP in the amount of PLN 174 000 k. It is secured with corresponding amount of bonds.

49. Trust activities

Bank Zachodni WBK S.A. provides custodian services in accordance with Stock Exchange Commission license of 09 August 1999. The Bank's custodian services are addressed to residents - private individuals and legal enterprises (incl. investment funds) - and to foreign institutional investors present on the Polish capital market.

They involve, 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 acts as a depository for following investment funds: Fundusz Inwestycyjny ARKA BZ WBK Obligacji FIO, ARKA BZ WBK GLOBAL INDEX 2007 FIZ and LUKAS Fundusz Stabilnego Wzrostu FIO, managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.

As at the end of 2006 assets held by clients at the Bank Zachodni WBK S.A. securities accounts increased by 39% and totalled PLN 7 531 764 k (PLN 5 420 114 k in 2005).

50. Financial and operating leases

Finance leases

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

The leasing contracts finance purchase of cars and other equipment.

Finance leases gross liabilities (maturity)	31.12.2006	31.12.2005
less than 1 year	6 097	4 988
Between 1 and 5 years	9 550	10 557
Total	15 647	15 545

Present value of lease payments (maturity)	31.12.2006	31.12.2005
less than 1 year	5 438	4 294
Between 1 and 5 years	8 459	9 168
Total	13 897	13 462

Reconciliation between the gross investment and the present value of minimum lease payments	31.12.2006	31.12.2005
Finance leases gross liabilities	15 647	15 545
Unearned financial costs	(1 750)	(2 083)
Present value of minimum lease payments	13 897	13 462

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. Leasing payments are indexed on an annual basis so that the price reflects market values. A small part of the offices is subleased outside the Bank. In 2005 and 2006 rentals related to mentioned real estates totaled PLN 16 030k and PLN 16 645k 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)	31.12.2006	31.12.2005
less than 1 year	20 583	21 985
between 1 and 5 years	56 696	77 903
over 5 years	63 285	72 121
Total	140 565	172 009

51. Cash flow statement- additional information

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

Cash components	31.12.2006	31.12.2005
Cash on hand	602 329	503 339
Current account in a central bank	931 546	67 783
Other cash equivalents	594	1 207
Current accounts in other banks	8 247	19 055
Total	1 542 716	591 384

52. 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

31.12.2006

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
Derivative financial instruments	81	-	58 465	58 546
Loans and advances to customers	395 466	-	-	395 466
Investment securities	-	-	371 218	371 218
Other assets	13 210	-	-	13 210
Total	408 757	-	713 955	1 122 712

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
Derivative financial instruments	18 461	-	54 019	72 480
Deposits from clients	1 184 622	88 061	-	1 272 683
Other liabilities	13 452	-	19 529	32 981
Total	1 216 535	88 061	78 703	1 383 299

31.12.2005

	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Receivables				
Loans and advances to banks	-	-	408 889	408 889
Derivative financial instruments	-	-	55 958	55 958
Loans and advances to customers	359 876	-	-	359 876
Other assets	6 067	-	-	6 067
Total	365 943	-	464 847	830 790

	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Liabilities				
Deposits from banks	-	-	2 732	2 732
Derivative financial instruments	27 669	-	55 264	82 933
Deposits from clients	580 583	118 132	-	698 715
Other liabilities	14 147	-	14 415	28 562
Total	622 399	118 132	72 411	812 942

Revenues and expenses relating to transactions with connected entities**1.01.2006 - 31.12.2006**

	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Income				
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
Gains on hedge accounting activities	-	-	1 023	1 023
Gains from financial instruments measured at fair value through profit and loss	-	-	12 781	12 781
Total	139 653	4	43 473	183 130

	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Expenses				
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
Bank's operating expenses and management costs	820	-	-	820
Total	33 093	3 775	87	36 955

1.01.2005- 31.12.2005

	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Income				
Interest and similar income	13 421	-	22 801	36 222
Fee and commission income	35 819	-	-	35 819
Other operating income	5 491	15	-	5 506
Gains from financial instruments measured at fair value through profit and loss	-	-	9 066	9 066
Total	54 731	15	31 867	86 613

Expenses	of which from subsidiaries	of which from associates	of which from	Total
			the parent company (AIB Group)	
Interest expense and similar charges	27 781	2 128	90	29 999
Fee and commission expense	592	11	-	603
Gains from investment in securities	-	-	3 462	3 462
Other operating expenses inc.:	1 194	-	34 692	35 886
Bank's operating expenses and management costs	1 194	-	34 692	35 886
Total	29 567	2 139	38 244	69 950

Off balance sheet positions relating to transactions with connected entities

31.12.2006

Intragroup transactions - off-balance sheet liabilities	of which from subsidiaries	of which from associates	Total
1. Received/Sanctioned contingent liabilities	1 883 994	-	1 883 994
- financing-related	1 633 904	-	1 633 904
- guarantees	250 090	-	250 090

Intragroup transactions - Derivatives' nominal values	of which from subsidiaries	of which from associates	Total
2. Derivatives' nominal values, including:	603 017	-	603 017
-Financial instruments operations-single-currency interest rate hedging swaps	603 017	-	603 017

31.12.2005

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

Intragroup transactions - Derivatives' nominal values	of which from subsidiaries	of which from associates	Total
2. Derivatives' nominal values, including:	734 867	-	734 867
-Financial instruments operations-double-currency interest rate swaps	30 192	-	30 192
-Financial instruments operations-single-currency interest rate hedging swaps	704 675	-	704 675

TRANSACTIONS WITH EXECUTIVES**REMUNERATION OF BANK ZACHODNI WBK S.A. MANAGEMENT BOARD AND SUPERVISORY BOARD MEMBERS****31.12.2006**

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	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
Total		671,5

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	-
Declan Mc Sweeney	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)
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 Szyszkowski	Member of the Management Board	01.01.2006-31.12.2006	857.4	15.6	873.0
Total					13,257.1

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 from the awards totalled PLN 3,747 k. Provision raised on the occasion in 2005 and utilised in 2006 totalled PLN 3,050 k.

*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 59 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
Outstanding at 1 January	-
Granted	23 494
Forfeited	-
Exercised	-
Expired	-
Outstanding at 31 December	23 494
Exercisable at 31 December 2006	-

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 Szyszkwiaik	-	3 397	3 397
Total			23 494

* 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.

31.12.2005

Remuneration paid to the members of Bank Zachodni WBK Supervisory Board

First and last name	Position	amount (PLN'000)
Aleksander Szwarc	Chairman of the Supervisory Board since 14.04.2005	118,0
Marian Górski	Chairman of the Supervisory Board until 14.04.2005	57,8
John Power	Member of the Supervisory Board	126,8
Waldemar Frąckowiak	Member of the Supervisory Board	107,6
Don Godson*	Member of the Supervisory Board	60,2
Aleksander Galos	Member of the Supervisory Board	111,6
Jacek Ślotała	Member of the Supervisory Board	82,6
Kieran Crowley	Member of the Supervisory Board	43,9
Total		708,5

* Mr Don Godson donated his remuneration in full amount to BZ WBK charity fund.

Members of the Supervisory Board who decided not to be remunerated.

First and last name	Position	amount (PLN'000)
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

First and last name	Position	Period	Remuneration and awards	Benefits	Total (PLN'000)
Jacek Kseń	President of the Management Board	01.01-31.12.2005	1 397,4	177,2	1 574,6
Cornelius O'Sullivan*	First Vice President of the Management Board	01.01-30.04.2005	2 078,1	1 157,9	3 236,0
Declan Flynn*	Member of the Management Board	01.01-31.12.2005	1 793,0	869,0	2 662,0
Michał Gajewski	Member of the Management Board	01.01-31.12.2005	842,4	36,4	878,8
Aleksander Kompf	Member of the Management Board	21.06-31.12.2005	175,0	22,9	197,9
Justyn Konieczny	Member of the Management Board	01.01-31.12.2005	851,1	154,7	1 005,8
Janusz Krawczyk	Member of the Management Board	01.01-31.12.2005	775,2	72,4	847,6
Jacek Marcinowski	Member of the Management Board	01.01-31.12.2005	784,1	30,4	814,5
Mateusz Morawiecki	Member of the Management Board	01.01-31.12.2005	852,0	31,1	883,1
James Murphy*	Member of the Management Board	01.01-31.12.2005	999,7	447,7	1 447,4
Feliks Szyszkowiak	Member of the Management Board	01.01-31.12.2005	784,1	15,9	800,0
Total					14 347,7

The amount of remuneration and awards paid to the Management Board Members of Bank Zachodni WBK S.A. includes: basic salary for 2005, awards for 2004. Benefits include: any payment on termination of employment contract or retirement, annual leave equivalent, costs of insurance, costs of accommodation, costs of health care etc. Awards for 2005 have not been included as they have not yet been determined and approved by the Supervisory Board. Performance awards for 2005 are not expected to be materially different to the level of 2004 performance awards.

*In respect of Messrs O'Sullivan, 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 2005, none of the Members of the Management Board or the Supervisory Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities.

Members of the Management Board have signed non-competition agreements which remain in force after they step down from their function.

If a Member of the Management Board is removed from their function or not appointed for another term, he/she is entitled to a once-off severance pay. The severance pay does not apply if the person accepts another function in the Bank.

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 21 k. 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.

31 December 2005

As of 31.12.2005, 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 9 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 2 791 k and CHF 23 k. These facilities have been sanctioned on regular terms and conditions.

TRANSACTIONS WITH EMPLOYEES

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.

31 December 2005

As of 31.12.2005, the total of loans and advances drawn by BZWBK S.A. employees was PLN 135 776 k (including the debt of PLN 12 370 k shown in joint accounts) and PLN 12 962 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 18 267 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 96 301 k, (of which joined current accounts - PLN 25 605 k), Amount relating to employees of subsidiaries and associates totalled PLN 7 684 k.

53. Information of number and value of banking writs of execution

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

In 2005 Bank issued 1 498 banking writs of execution with total amount of PLN 68 524 k, of which:

- cash loans and overdrafts – 417 cases of PLN 10 378 k,
- credit cards - 901 cases of PLN 3 677 k
- mortgage loans - 52 cases of PLN 5 767 k
- corporate loans - 128 cases of PLN 48 702 k

54. Acquisitions and disposals of investments

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
Total	43 316	58 033	14 717

Sale of AIB WBK Fund Management Sp. z o.o

On 10 May 2006 Bank Zachodni WBK S.A. sold 13 331 shares of AIB WBK Fund Management Sp. z o.o., with the total nominal value of PLN 1 333 100.00 representing 54% of the share capital and 54% of votes at the AGM of AIB WBK Fund Management Sp. z o.o.

The shares sale price was set at PLN 270 000 PLN. The first price installment of PLN 135 000 was paid on the day of signing an agreement on transferring ownership of the said shares, the second installment of PLN 135 000 was paid in 29 November 2006. Total amount of loss on sale was 2 719 PLN k.

Sale of shares of associate company LZPS PROTEKTOR S.A.

On 27 January 2006 BZ WBK S.A. sold, in package transactions on the Warsaw Stock Exchange, 586 416 shares of the Company with the nominal value of PLN 3 each which represent 36.07% of the Company's share capital and the total number of votes at the AGM. Total amount of the transaction was PLN 13 245 k and total amount of profit was PLN 10 014 k. Currently BZWBK doesn't have any shares of the company.

Transfer of ownership right outside the regulated market from BZWBK S.A. securities account to NFI Magna Polonia S.A. securities account

On 5 July 2006, ownership right was transferred outside the regulated market with regard to 5 570 261 NFI Magna Polonia S.A. shares from BZ WBK S.A. securities account to NFI Magna Polonia S.A. securities account. Selling price of one share was PLN 8 whereas cost of purchase of those shares totalled PLN 37 096 k.

The shares were purchased by NFI for redemption to deliver the Act 8/2006 of NFI Magna Polonia S.A. Extraordinary General Meeting of Shareholders of 13 April 2006 in which the Management Board was authorized to purchase NFI Magna Polonia S.A. shares for redemption.

55. Investments in joint ventures

As at 31 December 2006 the companies from the BZ WBK were not involved in any joint-venture activities.

56. 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),
- Other long-term employee benefits (jubilee bonuses, disability pensions, training or scholarship leaves – if these are paid leaves longer than 12 months from the balance sheet date).

Within these categories, Bank Zachodni WBK S.A. 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 jubilee awards, 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	31.12.2006	31.12.2005
Provisions for accrued holiday leaves	16 618	13 138
Provisions for employee bonuses	54 678	44 243
Provisions for retirement allowances	21 815	18 409
Other staff-related provisions	2 654	2 344
Total	95 765	78 134

57. Share based payments

During 2006 BZWBK Group 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 and will be realised by distribution of shares only.

25% of shares will vest if compounded EPS performance over the three year period exceeds the growth in Consumer Price Index (CPI) plus 5% per annum with up to 100% vesting on a straight-line scale if compounded EPS performance over the three year period exceeds CPI plus 12% p.a..

During 2006 conditional awards of 132 476 shares were granted to no more the 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.

Number of share based payments	132 476
Exercise price	10
Vesting period	3 y
Volatility	37,38 %
Award life	3 y
Risk free rate	4,60 %
Fair value per award	PLN 150,60

The following table summarizes the share based payments activity over the year 2006

	2006	
	Number of share based payments	Weighted average exercise
Outstanding at 1 January 2006	-	-
Granted	132 476	10
Exercised	-	-
Forfeited	(4 253)	10
Expired	-	-
Outstanding at 31 December 2006	128 223	10
Exercisable at 31 December 2006	-	-

For the share based payments outstanding as at 31 December 2006 the exercise price equal 10 PLN and remaining contractual life is approximately 2.25 years.

The total expense recognized for year 2006 amounts to PLN 3 223 k.

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

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 Bank Zachodni WBK with a break-down according to education:

Education	No. of staffs	Structure %
University/college degree	4 539	60,42
High school degree	2 816	37,49
Vocational	29	0,39
Other	128	1,70
Total	7 512	100

31 December 2005

As at 31 December 2005 the Bank employed 7 252 persons, i.e. 7 204 FTE's.

In 2005, the average staffing level in Bank Zachodni WBK was 7 127 FTE's.

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

Education	No. of staffs	Structure %
University/college degree	4 309	59,4
High school degree	2 818	38,8
Vocational	33	0,5
Other	92	1,3
Total	7 252	100

59. Events after the balance sheet date

Authorization for issue of financial statements

The unconsolidated financial statements were authorised for issue on 19th of February 2007 by the Management Board of Bank Zachodni WBK S.A.

Convening the Annual General Meeting of Shareholders

Bank Zachodni WBK S.A. advised that the Bank's Management Board has convened the Annual General Meeting of Shareholders for 17th April 2007.

Incentive Scheme II for the Senior Management of Bank Zachodni WBK SA and its subsidiaries

The Management Board of Bank Zachodni WBK SA, as requested by the Supervisory Board, undertook actions aimed at implementing, as of the year 2007, the Incentive Scheme II for the Senior Management of Bank Zachodni WBK SA and its subsidiaries. The Scheme will consist in allocating bonds with pre-emptive rights to the Company's managerial cadre.

60. Dividend per share

As at 31.12.2006 Bank Zachodni WBK will propose an allocation to dividends 73,9 % of net profit of PLN 437 761 704 i.e. PLN 6,00 per one share (PLN 6,00 in 2005). Outstanding profit of PLN 155 033 626,97 will be allocated to other reserve capital. Number of shares totalled 72 960 284.

61. Accounting estimates and judgements

Impairment of financial assets

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

may have caused the impairment. The Bank makes judgements whether there is indications of objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset.

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

Where there is any objective evidence that available-for-sale investments may be impaired, the Bank creates appropriate impairment charges.

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

Write-down due to impairment of non-financial assets

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

In case 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 derivatives

The fair value of derivatives not quoted on active markets is determined using valuation techniques. If valuation techniques are used to determine the fair values, these methods are periodically assessed and



verified. All the models are approved before application. As far as possible, only observable data are used in the models, although in some areas, the entity's management must use estimates. Changes in the assumptions relating to the estimated factors may affect the fair values of derivatives disclosed.

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.

SIGNATURES			
Signatures of Members of the Management board			
Date	Name	Function	Signature
2007-02-19	Jacek Kseń	President	
2007-02-19	Declan Flynn	Member	
2007-02-19	Michał Gajewski	Member	
2007-02-19	Justyn Konieczny	Member	
2007-02-19	Janusz Krawczyk	Member	
2007-02-19	Jacek Marcinowski	Member	
2007-02-19	Mateusz Morawiecki	Member	
2007-02-19	James Murphy	Member	
2007-02-19	Marcin Prell	Member	
2007-02-19	Feliks Szyszkowiak	Member	
Signature of a person who is in charge of keeping the accounts			
Date	Name	Function	Signature
2007-02-19	Wanda Rogowska	Financial Accounting Area Director	



Bank Zachodni WBK S.A.

Opinion and Report
of the Independent Auditor
Financial Year ended
31 December 2006

KPMG Audyt Sp. z o.o.
The opinion contains 2 pages
The report supplementing the auditor's opinion
contains 12 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 2006

OPINION OF THE INDEPENDENT AUDITOR

To the General Shareholder's Meeting 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 2006, with total assets of and total liabilities and equity of PLN 31,382,480 thousand, the profit and loss account for the year then ended with a profit for the period of PLN 592,795 thousand, the statement of changes in equity for the year then ended with an increase in equity of PLN 424,314 thousand, the cash flow statement for the year then ended with an increase in cash amounting to PLN 951,332 thousand, and notes to the financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

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.

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.

In our opinion, the accompanying unconsolidated financial statements of Bank Zachodni WBK S.A. have been prepared, in all material respects, and give a true and fair view of the financial position of the Bank as at 31 December 2006, 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.

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, 19 February 2007

Bank Zachodni WBK S.A.

Report supplementing
the auditor's opinion
on the unconsolidated
financial statements
Financial Year ended
31 December 2006

KPMG Audyt Sp. z o.o.
The report supplementing the auditor's opinion
contains 12 pages
Report supplementing the auditor's opinion
on the unconsolidated financial statements
for the financial year ended
31 December 2006

Contents

1	General	3
1.1	General information about the Bank	3
1.2	Auditor information	3
1.3	Legal status	3
1.4	Prior period financial statements	5
1.5	Audit scope and responsibilities	6
2	Financial analysis of the Bank	8
2.1	Summary of the unconsolidated financial statements	8
2.2	Selected financial ratios	10
2.3	Interpretation of selected financial ratios	10
3	Detailed report	11
3.1	Proper operation of the accounting system	11
3.2	Verification of assets and liabilities	11
3.3	Compliance with banking regulations	11
3.4	Audit materiality	11
3.5	Notes to the financial statements	11
3.6	Report on the Bank's activities	12
3.7	Information on the opinion of the independent auditor	12

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

Seat of the court: District Court in Wrocław, VI Commercial Department of the
National Court Register
Date: 27 April 2001
Registration number: 0000008723

1.1.4 Tax Office and Provincial Statistical Office registration

NIP: 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
KRS number.: 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 parent entity amounted to PLN 729,602,840 as at 31 December 2006 divided into 72,960,284 ordinary shares with a nominal value of PLN 10 each.

As at 31 December 2006, the shareholder structure was as follows:

Name of the Shareholder	Number of shares	Number of 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%		100.0%

1.3.2 Related parties

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

1.3.3 Management of the Company

The Management Board is responsible for management of the Bank.

At 31 December 2006, the Management Board of the Bank comprised the following members:

President:	Jacek Kseń
Board Members:	Declan Flynn
	Michał Gajewski
	Justyn Konieczny
	Janusz Krawczyk
	Jacek Marcinowski
	Mateusz Morawiecki
	James Murphy
	Marcin Prell
	Feliks Szyszkowiak

The Management Board members listed above were appointed by the Supervisory Board to a new three-year term of office on 4 April 2006. The following changes took place in the Management Board of the Bank comparing to 31 December 2005:

- Mr Aleksander Kompf stepped down from his role on the Management Board after expiry of his term of office
- Mr Marcin Prell was appointed Management Board Member responsible for the Legal and Compliance Division.

In the current report no. 9/2006 dated 25 January 2006, Bank Zachodni WBK S.A. announced the decision of Mr Jacek Kseń to retire from his position as President of the Management Board at the end of April 2007. That decision had been approved by the bank's Supervisory Board.

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 depositary under the definition of organization and functioning of pension funds act,
- acting as a depositary 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 2005 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 4 April 2006, where it was resolved to allocate the profit for the prior financial year of PLN 446,223 thousand as follows:

- Reserve capital	PLN 8,461 thousand
- Dividend payment	PLN 437,762 thousand

The closing balances as at 31 December 2005 have been properly recorded as the opening balances of the audited year.

The unconsolidated financial statements were submitted to the Registry Court on 10 April 2006 and were published in Monitor Polski B No. 784 on 24 August 2006.

1.5 Audit scope and responsibilities

This report was prepared for the General Shareholder Meeting of mBank 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 2006 with total assets and total liabilities and equity of PLN 31,382,480 thousand, the profit and loss account for the year then ended with a profit for the period of PLN 592,795 thousand, the statement of changes in equity for the year then ended with increase in equity of PLN 424.314 thousand, the cash flow statement for the year then ended with an increase in cash amounting to PLN 951,332 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 Shareholder Meeting dated 17 December 2004.

The unconsolidated financial statements have been audited in accordance with the contract dated 10 October 2006 concluded on the basis of the resolution of the Supervisory Board dated 21 June 2006 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 2 October 2006 to 16 February 2007.

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



Bank Zachodni WBK S.A.

*Report supplementing the opinion on the unconsolidated financial statements
for the financial year ended 31 December 2006*

TRANSLATION

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	31.12.2006	% of	31.12.2005	% of
	PLN '000	total	PLN '000	total
Cash and balances with central bank	1 534 469	4.9	572 329	2.1
Loans and advances to banks	3 149 267	10.0	3 606 067	12.9
Financial instruments at fair value through profit or loss	685 255	2.2	1 925 612	6.9
Derivative financial instruments	395 730	1.3	443 615	1.6
Loans and advances to customers	16 159 539	51.4	12 897 389	46.2
Reverse repo transactions	15 629	0.1	15 199	0.1
Investment securities	8 028 392	25.6	6 917 015	24.8
Investments in associates	186 318	0.6	240 069	0.9
Intangible assets	127 101	0.4	166 728	0.6
Property, plant and equipment	483 594	1.5	510 976	1.8
Current income tax due	947	-	21 014	0.1
Deferred tax	346 508	1.1	402 407	1.4
Other assets	269 731	0.9	172 928	0.6
TOTAL ASSETS	31 382 480	100.0	27 891 348	100.0
EQUITY AND LIABILITIES	31.12.2006	% of	31.12.2005	% of
	PLN '000	total	PLN '000	total
Liabilities				
Deposits from banks	737 549	2.7	1 319 491	5.3
Derivative financial instruments	267 800	1.0	313 156	1.3
Deposits from customers	24 515 358	88.2	20 969 867	84.8
Repo transactions	1 230 682	4.4	999 541	4.1
Debt securities in issue	95 897	0.4	93 035	0.4
Deferred tax liabilities	282 196	1.0	303 428	1.2
Other liabilities	639 754	2.3	703 900	2.9
Total liabilities	27 769 236	100.0	24 702 418	100.0
Equity				
Share capital	729 603	20.2	729 603	22.9
Other reserve funds	1 785 744	49.4	1 950 396	61.1
Revaluation reserve	505 102	14.0	239 495	7.5
Retained earnings	-	-	(176 787)	(5.5)
Profit of the current period	592 795	16.4	446 223	14.0
Total equity	3 613 244	100.0	3 188 930	100.0
TOTAL EQUITY AND LIABILITIES	31 382 480	100.0	27 891 348	100.0

**2.1.2 Profit and loss account**

	1.01.2006 - 31.12.2006	1.01.2005 - 31.12.2005
	zł '000	zł '000
Interest and similar income	1 541 219	1 543 465
Interest expense and similar charges	<u>(581 365)</u>	<u>(714 273)</u>
Net interest income	<u>959 854</u>	<u>829 192</u>
Fee and commission income	683 646	647 786
Fee and commission expense	<u>(60 323)</u>	<u>(112 704)</u>
Net fee and commission income	<u>623 323</u>	<u>535 082</u>
Dividend income	98 712	73 658
Foreign exchange profit	205 711	215 311
Gains (losses) on hedge accounting activities	2 998	(49)
Gains (losses) from financial instruments measured at fair value through profit and loss	7 187	12 647
Gains (losses) from investment in securities	8 663	7 203
Gains (losses) on sale of subsidiaries and associates	14 717	-
Other operating income	32 088	34 429
Impairment losses on loans and advances	(26 126)	(57 471)
Bank's staff, operating expenses and management costs	995 781	(885 366)
Depreciation/amortization	153 008	(180 937)
Other operating costs	<u>(33 176)</u>	<u>(23 896)</u>
Operating profit	<u>745 162</u>	<u>559 803</u>
Profit before tax	<u>745 162</u>	<u>559 803</u>
Corporate income tax	<u>(152 367)</u>	<u>(113 580)</u>
Profit for the period	<u>592 795</u>	<u>446 223</u>
Net earnings (loss) per ordinary share	8.13	6.12
Diluted earnings (loss) per ordinary share	8.12	6.12



2.2 Selected financial ratios

	2006	2005	2004
Total assets	31 382 480	27 891 348	26 336 835
Profit before tax	745 162	559 803	464 603
Profit for the period	592 795	446 223	372 189
Shareholders' equity *	3 020 449	2 742 707	2 522 537
Return on equity	19.6%	16.3%	14.8%
Capital adequacy ratio	13.8%	15.1%	12.5%
Receivables to total assets	61.5%	59.2%	59.5%
Income generating assets to total assets	90.6%	92.5%	89.2%
Interest bearing liabilities to total liabilities	85.5%	85.0%	85.2%

* excluding current-year profit for the period

2.3 Interpretation of selected financial ratios

In comparison to previous year, total assets grew by 12.5%. 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 2006 increased by 33.1% compared to previous year. The following items had an impact on the current year financial result: an increase of fee and commission income, 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 2006, 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, 19 February 2007



Report
of the Management Board
on Bank Zachodni WBK
Performance in 2006

Contents:

I.	General Review	3
II.	Environment.....	5
	1. Macroeconomic Situation in 2006.....	5
	2. Macroeconomic Determinants of Future Financial Performance.....	6
	3. Main Macroeconomic Indicators.....	7
III.	Basic Information.....	8
	1. History and Current Status of Bank Zachodni WBK S.A.....	8
	2. Lending Policy	10
	3. Performance of Bank Zachodni WBK Shares	11
	4. Bank Zachodni WBK Rating	11
	5. Composition of Bank Zachodni WBK Group.....	12
IV.	Financial Performance in 2006	14
	1. Profit and Loss Account.....	14
	2. Balance-Sheet Items	16
	3. Basic Financial Ratios.....	18
	4. Interest Rates on Loans and Deposits	18
V.	Business Development in 2006	19
	1. Review of Key Business Development Directions.....	19
	2. Development of Customer Service	20
	3. Development of Products and Services.....	21
	4. Development of Distribution Channels.....	26
VI.	Strategy for 2007-2010	29
VII.	Risk Management.....	32
	1. Capital Management	32
	2. Financial Risk Management	32
VIII.	Human Resources and Corporate Values	36
	1. Human Resources Management.....	36
	2. Corporate Values	36
	3. Bank in the Society	37
IX.	Major Internal Developments and Events	38
	1. Ownership Structure of Bank Zachodni WBK S.A.....	38
	2. Governing Bodies.....	38
	3. Changes to the Management Organisation	40
	4. Capital Expenditure.....	40
	5. Other Events	41
X.	Additional Information.....	43
XI.	Representations of the Management Board	46

I. General Review

In 2006, Bank Zachodni WBK reported a record high profit-before-tax of PLN 745.2m thanks to the dynamic growth of its key business areas,

specifically:

- ***core-banking volumes: deposits and loans***
- ***sales of mutual funds***
- ***electronic and investment banking services***

Financial Performance in Brief

- **In 2006, Bank Zachodni WBK S.A. achieved record-breaking financial performance and growth rates y-o-y:**
 - profit-before-tax was PLN 745,2m, an increase of 33.1% y-o-y;
 - profit-after-tax was PLN 592.8m, an increase of 32.9% y-o-y.
- **With regard to financial performance, the most spectacular progress against 2005 was achieved in the following areas:**
 - increase in total income by 14.4%, of which net commission income went up by 16.5%;
 - cost-to-income ratio brought down to 60,5% from 63.8%;
 - reduction of the impaired loan ratio to 5.2% from 7.2%.

Key Factors Affecting the Bank's Profit and Activity

- **Favourable external environment**, including:
 - economic growth and investment climate in Poland;
 - labour market and salary levels;
 - official interest rates levels;
 - changes in the structure of household savings;
 - trends in the credit market.
- **Steady business development:**
 - growth of strategic loan portfolios: cash loans (54.1%), mortgage loans (+26%), business loans (+24.2%);
 - high quality of the loan portfolio maintained with credit delivery processes substantially improving;
 - growth of deposit base (+16.9%);
 - rapid sales of BZ WBK Arka mutual funds (net assets higher by 122% y-o-y);
 - functional, procedural and pricing improvements in products and services.
- **Effective cost management:**
 - cost discipline maintained with business of the bank quickly expanding.

● **Strong focus on service quality:**

- development of CRM technology, processes and staff skills;
- implementation of the "2006+ Standards" across the branch network;
- implementation of the Total Quality Management System;
- continued improvement and simplification of processes and procedures.

● **Better use of remote distribution channels:**

- increase in the sale of retail products through Direct Banking;
- expansion of functionality of the BZWBK24 and Minibank24 electronic banking solutions.

Other Key Developments

● **ISO 9001:2000 certification for:**

- international payment orders;
- personalization of payment cards.

● **Improved rating of Bank Zachodni WBK by Fitch Ratings, Ltd.**

● **Co-operation with new partners:**

- new co-branded cards issued in liaison with recognized partners;
- launch of a new delivery channel under agency agreement with QS Financial House.

● **Launch of mobile sales supported by a new organizational structure.**

● **Agency agreement signed with BZ WBK Brokerage House.**

● **Incentive scheme for senior executives.**

● **Advanced stage in the Sarbanes-Oxley compliance process as part of AIB Group Programme.**

● **Change in the composition of Bank Zachodni WBK Capital Group.**

- disposal of AIB WBK Fund Management Sp. z o.o., a subsidiary of the bank.

● **Adoption of the strategy for the years 2007-2010.**

II. Environment

1. Macroeconomic Situation in 2006

Economic Growth

2006 proved to be a very good year for the Polish economy. After a period of temporary economic slowdown that was recorded in the first half of 2005, GDP growth steadily recovered, speeding up from 4.5% y-o-y in the last quarter of 2005 to over 5% during the year and breaching 6% level in the fourth quarter of 2006. In the entire 2006, GDP growth was at 5.8%, which was the fastest annual rate of economic growth since 1997.

Very good results of the economy were possible thanks to solid revival in domestic demand, and also continuation of exceptionally strong rise in Polish exports, stimulated by favourable business climate abroad. Total domestic demand increased 5.8% y-o-y in 2006, driven chiefly by improvement in private consumption demand (y-o-y increase of 5.2% vs. 1.9% in 2005) and major recovery in fixed investment growth (16.7% y-o-y vs. 6.5% in the previous year). Polish exports' turnover measured in euro terms advanced almost 21% y-o-y in 2006, maintaining double-digit growth for the third straight year. Share of exports in GDP increased to ca. 35%, reaching the highest level since the beginning of economic transition.

The economic growth was not only fast but also well-balanced. Current account deficit deteriorated only slightly to 2% of GDP from 1.7% in 2005, and inflation rate remained not only below the central bank's target 2.5% but also below the lower end of acceptable fluctuations band (1.5%).

Labour Market Conditions

In line with acceleration of economic growth, there was substantial revival on the labour market. Higher activity of enterprises triggered an increase in labour demand, so that employment growth accelerated to record fast 4.1% y-o-y in December 2006. According to statistical data from the Labour Force Survey for three quarters of 2006, the number of employed advanced by more than 550,000 y-o-y. As a result, the unemployment rate dropped substantially from 17.6% in December 2005 to 14.9% in December 2006.

Fast increase in demand for labour and simultaneous process of workers' migration abroad had positive effect on wage growth that advanced from 4.7% y-o-y in the first quarter to 5.7% y-o-y in the final quarter of 2006. Consequently, in 2006 Polish households benefited more from the improvement of economic climate, as simultaneous increase in wage and employment boosted their disposable income. Wage bill growth remained high throughout the year, on average above 7% y-o-y in real terms. Positive trends on the labour market seem to be persistent. It allows to predict that the pace of private consumption growth will remain high in the subsequent quarters, but at the same time it increases the caution of the central bank as regards possible wage pressure on prices.

Loans and Deposits

Together with acceleration in economic growth, a revival in monetary aggregates took place. Money supply growth increased by 15.7% y-o-y in December 2006 against 10.5% at the end of 2005. At the same time, total deposits growth accelerated from 9.4% to 15% y-o-y and similarly as in the preceding year it resulted mostly from a dynamic increase in companies' deposits (25.6% in December 2006), although there was also some improvement in households' deposits (9.7% y-o-y growth in December 2006 against 3.6% y-o-y in 2005). As regards loans, the fastest rise has been recorded in households segment that advanced over 33% y-o-y, which was largely connected with very high demand for mortgage loans. On the other hand, there was also a clear revival in loans for enterprises that accelerated growth to 14.6% y-o-y in December 2006 from 2.9% in the preceding year.

Inflation

Amid much higher rate of economic growth and significant improvement in the labour market, which was caused to a large extent by domestic demand, inflation rate remained at a lower than expected level. In December the pace of growth in consumer prices reached merely 1.4% y-o-y,

which was not only below 2.5% inflation target but also below the lower end of acceptable fluctuations band around target (1.5%). During the year fluctuations of inflation resulted mainly from changes in prices of fuel and food, while behaviour of other prices, reflecting fundamental inflationary pressure and remaining under the influence of monetary policy, was still very favourable for medium-term inflation perspectives. Core net inflation remained low as well, staying much below 2% throughout the year.

Interest Rates

After reduction of reference rate at the beginning of 2006 to record low 4%, the Monetary Policy Council (MPC) kept main interest rates unchanged in the remaining part of the year, which was motivated by accelerating growth in GDP and domestic demand, as well as interest rate hikes abroad. On the other hand, medium term inflation prospects did not raise strong enough concern to trigger monetary policy tightening, despite some signals about possible wage pressure on prices. It seems that in the assessment of majority of MPC members current level of interest rates is still adequate to present and predicted economic situation and there is no need to tighten monetary policy in the near term. Taking into account signals about fundamental inflationary pressure and favourable picture of medium-term inflation prospects, major changes are rather unlikely in monetary policy parameters at least until the end of 2007.

Budget

Very fast economic growth helped in delivering the state budget in 2006. According to data from the Ministry of Finance the budget deficit reached PLN 25.1bn and was ca. PLN 5.5bn lower than planned in the budget bill. Nevertheless, there are still many question marks in the area of fiscal policy. Particularly, it is not clear whether (and how) it will be possible to fulfil government declarations regarding meeting Maastricht criteria on budget deficit (below 3% of GDP) until 2009. The plan of deficit reduction is based most of all on optimistic assumptions about fast revenue growth in the coming years, while plans to curb down excessive spending have been postponed. For the time being, financial market participants gave a vote of confidence in the government policy, especially that macroeconomic situation has been the best for many years. Therefore, even government reshuffles, including changes of finance minister and Prime Minister, and major political clashes, did not cause turmoil on the markets.

Polish currency and bonds were much more significantly affected by changes in risk appetite on international financial markets during the year, among other things, as a result of uncertainty regarding future economic situation in the US. Nevertheless, despite temporary fluctuations, the zloty strengthened during the year to 3.90 on average against the euro and 3.10 against the dollar, from 4.02 and 3.23 correspondingly in 2005.

2. Macroeconomic Determinants of Future Financial Performance

The most important factors which may affect financial results of Bank Zachodni WBK in future are as follows:

Economic Growth

Continuation of high economic growth, based to a growing extent on domestic demand (both consumption and investment) will be conducive to further solid rise in demand for loans, especially that it is coupled with improvement in households' financial stance and rising investment activity of enterprises.

Zloty Exchange Rate

Continuation of long-term tendency of zloty strengthening may translate with some lag into deterioration in the country's international competitiveness and negatively affect export sector (and/or negatively affect domestic demand through lower profitability of export). This effect however may not take place because negative influence of stronger zloty on international competitiveness of domestic

firms may be offset by continuation of robust gains in labour productivity and enterprises restructuring.

Interest Rates

Keeping domestic interest rates at relatively low level with increase in rates abroad, including the euro zone and Switzerland, should stimulate demand for loans in the zloty and at the same time constrain willingness to hold deposits in the banking system at the expense of other financial instruments.

Trends at the Warsaw Stock Exchange

Good prospects for further development of the Polish economy should positively affect the share prices and index levels at the WSE, as well as capitalization and trading volumes. Some price adjustments are possible during 2007, yet the decreases should not be deep enough to distort the overall rising trend of the stock exchange indexes.

3. Main Macroeconomic Indicators

Main macroeconomic indicators		2004	2005	2006	2007F
GDP	PLN bn	923.2	980.7	1,046.5	1,124.8
GDP	% y-o-y	5.3	3.5	5.8	5.4
Private consumption	% y-o-y	4.0	1.9	5.2	5.2
Fixed investment	% y-o-y	6.3	6.5	16.7	12.8
Industrial production	% y-o-y	12.3	4.0	12.5	9.2
Retail sales (real terms)	% y-o-y	7.1	1.5	11.9	11.6
Unemployment rate *	%	19.1	17.6	14.9	13.0
Gross wages in enterprise sector (real terms)	% y-o-y	0.8	1.2	4.2	4.3
Budget deficit *	PLN bn	-41.5	-28.6	-25.1	-30.0
Budget deficit *	% of GDP	-4.5	-2.9	-2.4	-2.7
CPI	% y-o-y	3.5	2.1	1.0	2.0
CPI *	% y-o-y	4.4	0.7	1.4	2.5
PPI	% y-o-y	7.0	0.7	2.6	2.3
Broad money (M3)*	% y-o-y	8.7	10.5	15.7	12.1
Deposits *	% y-o-y	8.1	9.4	15.0	10.8
Loans *	% y-o-y	2.9	11.8	23.4	18.2
USD/PLN	PLN	3.65	3.23	3.10	2.94
EUR/PLN	PLN	4.53	4.02	3.90	3.85
PLN reference rate *	%	6.50	4.50	4.00	4.00
WIBOR 3M	%	6.21	5.29	4.21	4.30

Source: CSO, NBP, own estimates and forecasts

* - end of period

F - forecast as at 12.02.2007

III. Basic Information

1. History and Current Status of Bank Zachodni WBK S.A.

Bank History

Background

Bank Zachodni WBK S.A. (BZ WBK) was established following the merger of Bank Zachodni S.A with Wielkopolski Bank Kredytowy S.A. 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 S.A. 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 70.5% stake in Bank Zachodni WBK S.A. and maintains such shareholding since that date.

Key Development Stages

The merger positioned Bank Zachodni WBK S.A. among the biggest Polish banks, with its operations covering the western Poland and other major urban areas in the country. A new organisational structure of the Head Office (currently the Business Support Centre), established by the Management Board in three locations (Wrocław, Poznań and Warsaw), laid foundations for an effective management system and facilitated integration processes. The consolidation of the two banks brought the expected synergies evidenced by costs savings achieved through the branch network and employment restructure. In 2002, after attainment of the desired level of integration, the bank started delivery of its 2002-2006 corporate strategy called "Po pierwsze klient". The strategy focused on development of the areas deemed to offer the biggest potential for growth, including: mortgage loans, credit cards, leasing and mutual funds. In April 2003, the bank finished the roll-out of the central banking platform (ICBS) across the branch network, which also entailed changes in the branch model, customer service procedures and hardware base. The investment took three years to complete and cost a total of USD 100m, being the biggest project in the history of Bank Zachodni WBK S.A. Another milestone in the development of the bank was reached by the end of 2004 with the implementation of the solutions worked out under the Segmentation and CRM Programme. The bank's branches underwent organisational and technological changes which allowed staff to focus on customer service and building long-term customer relations. This created an enabling environment for development of the "engaging bank" concept which postulated a pro-active approach to dealing with customers with sophisticated banking needs and envisaged intensification of contacts with other customers through sales campaigns, loyalty programmes and advanced sales techniques.

Continuous Development

Throughout its history the bank has continuously developed the functionality and security of its electronic delivery channels and expanded the range of its debit, credit and pre-paid cards. The growing number of users of BZWBK24 (an electronic banking solution for retail and business customers) as well as the continued migration of basic transactions to electronic channels have relieved branches from time-consuming and non-productive activities and allowed them to focus on effective customer service based on CRM assumptions. The credit delivery processes have been systematically improved to achieve the highest quality of service while maintaining safe performance of the credit portfolio. Concurrently, work continued on improvement of processes, procedures and shortening of turnaround times. Also, there have been ongoing efforts to make risk, cost and HR management more efficient.

Current Status and Scope of Activities

Universal Bank

Bank Zachodni WBK S.A. is a universal bank which provides 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 (Konto24 Prestiz Package, Konto<30 Package, Business Package, Agro Package, Package for Freelances) to provide their users with a precisely defined, complete and satisfactory service. The financial services of Bank Zachodni WBK S.A. also include custodian activity, trade finance and transactions in the capital, FX, derivatives and money market. Complementary to the bank's own product range are the 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 Finanse & 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 and mutual funds.

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 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 cards as well as new and renewed debit cards are equipped with chip technology to ensure the highest security of card transactions.

Distribution Channels

As at the end of December 2006, Bank Zachodni WBK S.A. operated through 384 outlets. The bank's network covers the whole of Poland, with the highest concentration in Wielkopolska and the Lower Silesia. The bank is also present in all the other key economic and administrative centres of Poland, such as: Warsaw, Kraków, Łódź, Trójmiasto, Szczecin.

Corporate customers have been serviced through the five Corporate Business Centres located in Warsaw, Poznań, Wrocław, Kraków and Gdańsk, which maintain close operating relationship with the bank's branches. In 2006, two additional Corporate Business Centres were established: in Szczecin and Katowice.

Through its Direct Banking Centre equipped with specialist infrastructure, the bank gives its customers access over the phone to transactions and standard products, including personal accounts, insurance, credit cards and cash loans.

The bank's products are also available through the mobile sales network (self-employed financial advisors) and through 370 outlets of the financial intermediary Dom Finansowy QS. Both distribution channels were established to acquire new customers in locations which are not covered by the bank's branch network.

Bank Zachodni WBK S.A. also has a network of 608 ATMs in convenient and most frequented locations.

Electronic Banking Services

Bank Zachodni WBK S.A. 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 finance management. Business customers can choose between the standard BZWBK24 package and the "Moja firma Plus" package with a number of additional functionalities and increased transaction limit. The bank ensures the highest security of electronic services through the authorisation methods based on the smsKod service or alternative logging onto BZWBK24 Internet using text messages (smsKod) or a token.

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.

Bank Zachodni WBK S.A. in the Banking Market

Bank Zachodni WBK S.A. is one of the biggest and most dynamically growing universal banks in Poland. At 31 December 2006, its total assets amounted to PLN 31,382.5m, with equity of PLN 3,613.2m. In 2006, the bank recorded a net income of PLN 592.8m, which is 32.9% higher than in the previous year. The significant improvement in financial performance is an effect of rapid business growth facilitated by wide-ranging initiatives of the bank and macroeconomic factors.

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.

The credit manuals of Bank Zachodni WBK S.A. 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 categories (corporate, SMEs, local authorities) and Credit Scoring Policy. Individual credit products are regulated in detail in their respective procedures.

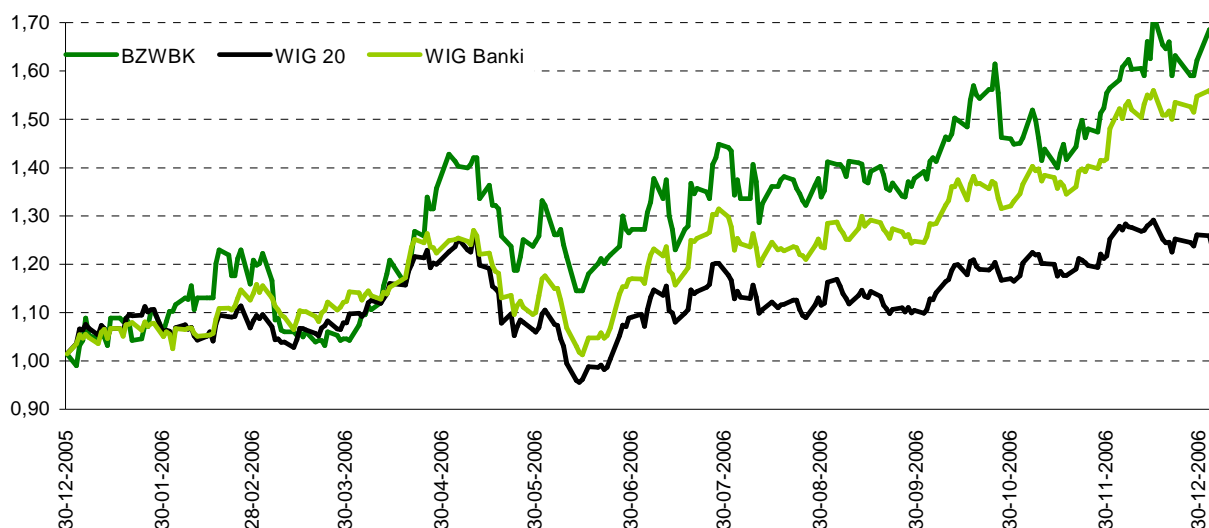
The credit discretions system is governed by Credit Discretions Guidelines. It defines credit discretions for individual positions, which vary depending on lending skills, experience and position of the individuals engaged in the credit delivery process.

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, Strategic Development Division, Customer Relationship & Sales Division and Finance Division.

The bank's subsidiaries which specialise in leasing and factoring are governed by their internal credit risk regulations.

3. Performance of Bank Zachodni WBK Shares

In 2006, the price of Bank Zachodni WBK S.A.'s shares increased by 59% (from PLN 141.50 as at 30 December 2005 to PLN 225 as at 29 December 2006) against 51.5% increase in the sectoral WIG Bank index and 23.8% increase in the WIG 20 index.



4. Bank Zachodni WBK Rating

As at 31 December 2006, the ratings assigned to Bank Zachodni WBK S.A. by Fitch Ratings Ltd. were as follows:

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

The last change of the Bank Zachodni WBK S.A. rating by Fitch Ratings Ltd was announced on 17 August 2006 and resulted from the upgrade of Country Ceiling rating for Poland. Fitch raised the bank's foreign currency Issuer Default rating ("FC IDR") from "A" to "A+", with a stable outlook. The other ratings assigned to the bank remained unchanged.

The IDR, short-term and support ratings reflect the potential support available from the majority shareholder AIB, p.l.c. IDR is constrained by the Country Ceiling "AA-" for Poland.

The report issued by Fitch Ratings Ltd. on 11 August 2006 after a yearly rating review, draws attention to the following aspects of the bank's financial performance: "the bank is performing well, with improving asset quality, good profitability and strong capitalisation. The asset management and brokerage businesses are boosting earnings and improving revenue diversification, while the long-awaited return of corporate loan growth signals improved prospects".

5. Composition of Bank Zachodni WBK Group

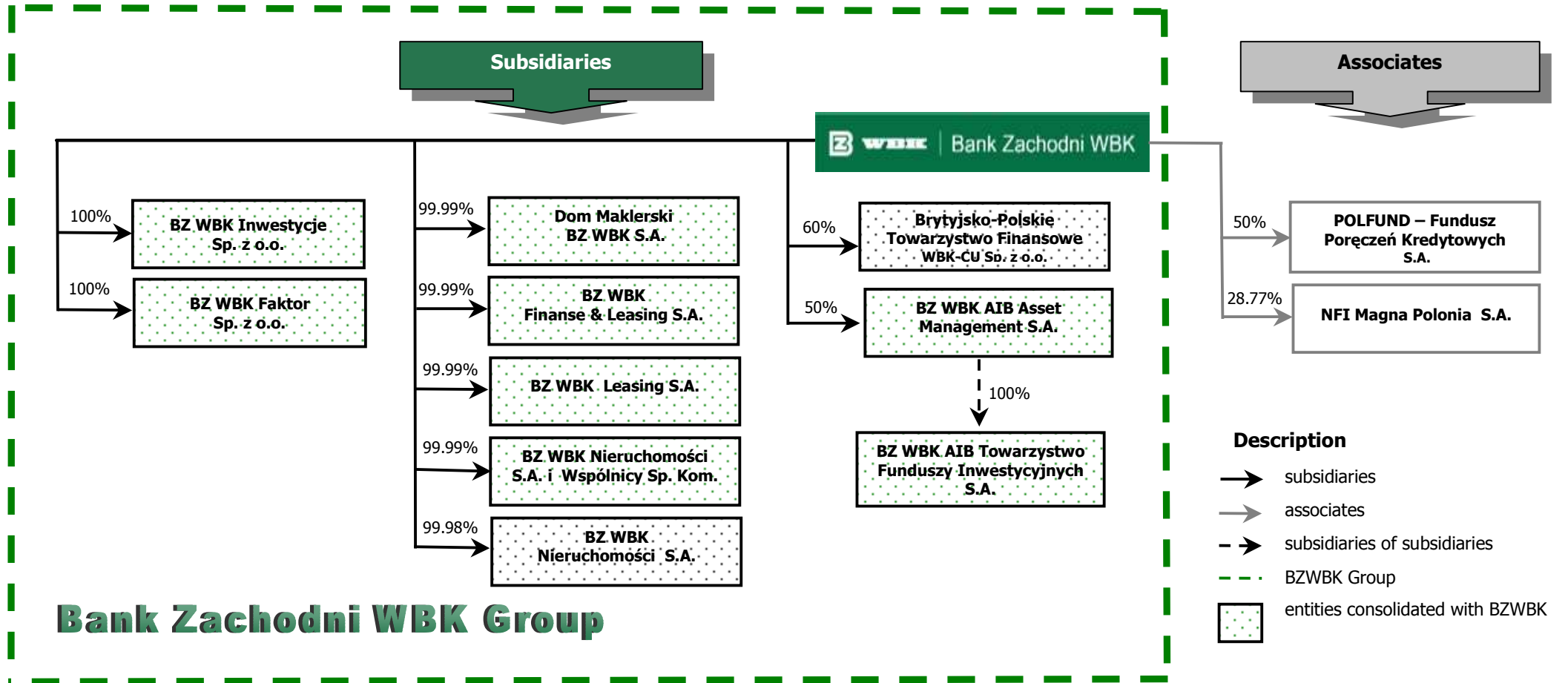
Bank Zachodni WBK S.A. forms a Group with the following ten subsidiaries consolidated on a line-by-line basis. These are:

- 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) BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa
- 10) 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 selling 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, factoring and lease rentals have been incorporated in the bank's corporate strategy executed in close liaison with respective subsidiaries.

Compared with the end of December 2005, the composition of the Group has changed as the bank disposed of its entire shareholding in AIB WBK Fund Management Sp. z o.o.

Entities connected with Bank Zachodni WBK S.A.



IV. Financial Performance in 2006

1. Profit and Loss Account

The table below presents major developments in key categories of the profit and loss account of Bank Zachodni WBK S.A. in 2006 as compared to 2005.

PLN m

Key Profit & Loss Items	2006	2005	Change
Total income	1,953.3*	1,707.5	+14.4%
Total costs	(1,182.0)	(1,090.2)	+8.4%
Profit-before-tax	745.2*	559.8	+33.1%
Income tax	(152.4)	(113.6)	+34.2%
Profit-after-tax	592.8*	446.2	+32.9%

* includes one-off gains earned in the equity market for a total of PLN 19.9m

In 2006, Bank Zachodni WBK S.A. posted profit-before-tax of PLN 745.2m which exceeds the 2005 level by 33.1%. Profit-after-tax was PLN 592.8m and 32.9% higher y-o-y.

Income

Total income produced by the bank amounted to PLN 1,953.3m, an increase of 14.4% on the previous year. The main components of total income were as follows:

- **Net Interest Income**

Net interest income amounted to PLN 959.9m compared with PLN 829.2m disclosed a year before. Taking into account interest-related income from FX Swap and FX Basis Swap transactions (recognised in "FX profit" and "Gains from assets measured at fair value through profit and loss", respectively), which declined y-o-y by PLN 48m to PLN 24.7m, the underlying net interest income increased by 9.2%. This was achieved thanks to the growth of business and favourable changes in its structure, with credit margins at relatively stable levels and deposit margins contracting in a lower interest rate environment.

- **Net Commission Income**

Net commission income amounted to PLN 623.3m and increased by 16.5% y-o-y driven by sustained expansion of the bank's business.

Due to the fast inflow of assets to BZ WBK Arka mutual funds (managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.) via the bank's branch network, a significant increase in net income was recorded in fees for distribution of respective mutual fund units (+250.9%). There was also a noteworthy increase in net commission income generated by insurance products (+178.3%) and services rendered for customers involved in capital market projects (+19.7%).

The e-Business and Payments Area reported a growth of 2.6% which is slower than a year before due to smaller net income from international payments in the aftermath of significant reduction of respective fees and commissions in July 2006. A remarkable progress in this business line was noted however in net fee income from Western Union money transfers (+31.9%), debit cards (19.5%) and electronic services (18.6%).

The slight decrease of 3.8% in fees and commissions for account maintenance and cash transactions resulted from a price promotion and negotiable schedule of current account-related fees made available to business customers, and also their increased migration to electronic channels.

- **Dividend Income**

Dividend income of PLN 98.7m increased by 33.9% as a result of higher dividend paid out in 2006 by two subsidiaries, i.e. BZ WBK AIB Asset Management S.A. (by PLN 12.1m) and AIB WBK Fund Management Sp. z o.o. (by PLN 11.2m), as well as Commercial Union Group members (by PLN 8.9m) who are part of the bank's equity investment portfolio.

- **FX Profit**

FX profit was PLN 205.7m and 4.5% down y-o-y due to the decline in FX Swap income as a result of the shrinking gap between the PLN and FX interest rates. Excluding FX Swap impact, the line shows an increase of 12.4%, which reflects higher income from increased FX transactions with customers, mainly corporate negotiated.

- **Gains on Assets Measured at Fair Value Through Profit and Loss**

Gains on financial transactions measured at fair value through profit and loss decreased by PLN 5.4m to PLN 7.2m due to less favourable conditions in the debt securities market in 2006 compared with 2005.

- **Gains on Assets from the Investment Portfolio and Disposal of Subsidiaries and Associates**

The combined gains on the investment portfolio and disposals of subsidiaries/associates amounted to PLN 23.4m and were higher by PLN 23.4m y-o-y due to the one-off gains in the equity market, i.e. profit earned on the disposal of two associated companies: LZPS Protektor S.A. (PLN 10m) and NFI Magna Polonia S.A. (PLN 7.4m), and the repurchase of shares by MasterCard Incorporated (PLN 5.2m).

Loan Impairment Charge

In 2006, the impairment charge to the profit and loss account amounted to PLN 26.1m compared to PLN 57.5m posted a year before. Such a low level of impairment recorded amid the increasing credit volumes confirms the very good performance of the bank's loan-book, consistent operation of the credit risk management policy and the sharp focus on ensuring portfolio quality. The effectiveness of the credit risk management framework is also evidenced by reduction of the NPL ratio. At the end of December 2006, the "impaired loans" accounted for 5.2% of the gross portfolio with a provision cover of 60.7%. A year before, the corresponding ratios were 7.2% and 63.3%, respectively.

Costs

The performance of Bank Zachodni WBK S.A. in 2006 caused reduction of its cost-to-income ratio to 60.5% from the level of 63.8% recorded the previous year.

Total operating costs of the bank amounted to PLN 1,182m and were higher by 8.4% y-o-y. Their main components were as follows.

- **Staff and Other Administrative Expenses**

Staff and other administrative expenses increased by 12.5% y-o-y to PLN 995.8m driven by dynamic business development.

The biggest element of this figure, i.e. the staff expenses amounted to PLN 597.7m and increased by 14.7% y-o-y due to higher employment, pay increases triggered by growing competition among banks for highly skilled banking experts, performance-related bonuses and once-off year-end payments for the employees in the form of pre-paid cards (PLN 20.8m).

With a strong business growth, the other administrative expenses increased by 9.3% y-o-y to PLN 398.1m. This movement results mainly from the promotional activities designed to support the sales of the strategic products and the costs related with the IT projects implemented to

provide infrastructure to foster further business growth of the bank and its subsidiaries. The bank's ongoing savings initiatives curbed the administrative expenses, restraining the growth of the business-driven cost items and maintaining other costs at a level comparable to the previous year.

- **Depreciation**

Depreciation totalled PLN 153m and decreased by 15.4% y-o-y due to effective management of the bank's fixed assets.

- **Other Operating Costs**

Other operating costs increased by 38.9% to PLN 33.2m due to higher level of provisions raised in 2006 for legal risk.

2. Balance-Sheet Items

The table below presents major developments in key categories of the balance sheet of Bank Zachodni WBK as at the end of December 2006 versus 2005.

PLN m

Key balance-sheet items	31-12-2006	31-12-2005	Change
Balance sheet total	31,382.5	27,891.3	+12.5%
Key assets			
Loans and advances to customers*	16,159.5	12,897.4	+25.3%
Investment securities	8,028.4	6,917.0	+16.1%
Loans and advances to banks	3,149.3	3,606.1	-12.7%
Cash and balances with Central Bank	1,534.5	572.3	+168.1%
Securities at fair value through profit & loss	685.3	1,925.6	-64.4%
Key liabilities			
Deposits from customers	24,515.4	20,969.9	+16.9%
Deposits from banks	737.5	1,319.5	-44.1%
Repo transactions	1,230.7	999.5	+23.1%

* net of impairment

As at 31 December 2006, total assets of Bank Zachodni WBK S.A. amounted to PLN 31,382.5m and were 12.5% up on the previous year.

The main growth driver of total assets were loans and advances to customers which were on the rise along with fast-developing credit delivery. Investment securities were on an upward trend as part of the bank's management of the structural balance-sheet risk. The relatively high balance under "Cash and operations with Central Bank" stems from the replenishment of the reserve which was due to the National Bank of Poland at the year-end as a result of the bank's liquidity management. The resultant increase in assets was partially offset by the decline in interbank placements and the portfolio of securities measured at fair value through profit and loss. This portfolio recorded a fall in NBP bills which are short-term securities and subject to significant fluctuations over time.

On the liabilities side, the bank posted a substantial increase in deposits from customers and repo transactions. The latter grew in importance as a source of Treasury funding due to more favourable pricing conditions compared with the money market.

Credit Portfolio

At the end of December 2006, net loans and advances to customers were PLN 16,159.5 m and 25.3% up y-o-y due to increasing volumes of retail and business loans. Gross loans and advances to customers amounted to PLN 16,778.2m vs. PLN 13,591.7m a year before.

Compared to the end of December 2005, the business loans increased by 24.2% to PLN 12,302.5m, reflecting the increased demand of business customers for funding towards investments and working capital requirements. The accelerated credit delivery was driven by the optimistic outlook for further development of the Polish economy and the quality of the bank's credit offer for businesses, both product proposal and services being well-adjusted to customers' needs. Property was one of the most rapidly growing sectors in 2006, which coupled with the bank's effective sales efforts contributed to the significant expansion of the property loan-book (loans for income-producing real estates).

The value of retail loans increased by 27.4% y-o-y to PLN 4,212.4m, with the strongest growth in cash loans (+54.1%) and mortgage loans (+26%).

The biggest item in the lending structure of Bank Zachodni WBK S.A. were loans to business and public sector customers, accounting for 75% of the gross portfolio. Retail loans contributed 25% to the total loan-book.

Bank Zachodni WBK S.A. maintains an adequate diversification of the credit portfolio in accordance with its policy of exposure to industries and financial groups. As at the end of December 2006, the highest concentration level of 22% was recorded in the property services sector.

The quality of the loan-book continued to improve during the year, which is reflected in the declining NPL ratio, i.e. 5.2% in 2006 versus 7.2% in 2005.

Deposit Base

Deposits from customers, which represent 78.1% of the bank's liabilities, are the primary source of funding its lending business. At the end of December 2006, customer deposits totalled PLN 24,515.4m and were 16.9% higher y-o-y due to the significant growth in balances accumulated in term deposits of business and public sector customers, and in personal current accounts.

The value of funds deposited in current accounts of personal, business and public sector customers (excluding one-day deposits) was PLN 8,262.7m and 29.7% higher on the end of 2005. This growth is attributable to low interest rates which made retail customers more inclined to keep their financial resources in current and savings accounts. These facilities, as opposed to term deposits, offer their holders flexibility in managing the funds, with no financial consequences involved. The bank's current deposit base was also driven by significantly improved financial standing of households and their rising optimism about the prospects for the future.

Over the last 12 months, the bank's term deposit base (including one-day deposits) increased by 11.1% to PLN 15,744.8m, mainly due to the funds deposited by business customers who recorded an increased activity and good financial performance thanks to the favourable economic climate.

3. Basic Financial Ratios

Financial ratio	2006	2005
Total costs /Total income	60.5%	63.8%
Interest income/Total income	49.1%	48.6%
Commission fee/Total Income	31.9%	31.3%
Deposits /Total assets	78.1%	75.2%
Loans/Total assets	51.5%	46.2%
Impaired loans ratio	5.2%	7.2%
Loan loss coverage ratio	60.7%	63.3%
ROE*	19.6%	16.3%
ROA**	2.0%	1.6%
Solvency ratio	13.8%	15.1%
Basic earnings per share in PLN	8.1	6.1
Book value per share in PLN	49.5	43.7

* *equity as at the end of the given period, net of current profit, was used in the computations*

** *average assets derived from two comparable end-of-period balances (end of the given year and the previous year) were used in the computations*

4. Interest Rates on Loans and Deposits

In 2006, like in the previous years, the interest rates offered to customers were tied 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 in accordance with the applicable credit discretions.

The interest rates on retail products (for personal customers and small companies) are standardised. In 2006, changes in interest rates were mainly driven by: the bank's competitive position in the market, level of interest rates in the interbank market and legal developments.

The standard interest rates on retail (personal) products are set by the Assets and Liabilities Management Committee (ALCO). For significant transactions, individualised, often negotiable, pricing conditions are applied, determined in line with the bank's internal discretionary limits.

In 2006, in line with the strategic plan assumptions, the bank conducted promotional campaigns for its strategic products, offering special pricing for selected products. Particularly attractive rates were offered for mortgage loans, credit cards and cash loans.

Last year, the bank implemented a full range of changes arising from the new regulations which came into force in February 2006 and limited the maximum interest rates on loans and advances to 4 times the NBP Lombard loan rate. From March 2006 to the end of 2006 the Lombard loan rate was 5.5%.

V. Business Development in 2006

1. Review of Key Business Development Directions

The actions undertaken by Bank Zachodni WBK S.A. in 2006 were a continuation and a natural consequence of the development directions set out in the "Po pierwsze klient" strategy and pursued in prior periods.

Striving to build a sustainable competitive advantage and achieve a long-term profit growth, the bank developed its relations with customers in compliance with the concept of an "engaging bank". To this end, it undertook regular CRM activities. The bank also focused on service quality as it determines the level of customer satisfaction and the scope of their relations with the bank. Concurrently, efforts were made to make the bank's offering more attractive and to enhance sales. The most important areas of the bank's activity in this respect included:

- active promotion and distribution of the BZ WBK Arka mutual funds as well as further development of deposit offering of the bank (introduction of the savings account), which contributed to the dynamic growth of savings base across the Bank Zachodni WBK Group;
- better alignment of the credit offering to the needs of business customers and attainment of a uniform and significantly shortened credit delivery process (the introduced changes allowed the universal business loan Biznes Ekspres to be added to the bank's proposition);
- expansion of lending based on pre-sanctioning (launch of a sales campaign targeted at businesses and continued lending to personal customers);
- continued efforts to strengthen the bank's presence in the Polish property market in view of its potential and development opportunities;
- integrated approach to customers in the area of retail lending, which was reflected in the promotion of "credit of 15 salaries" (the customer is allowed to use a cash loan, overdraft limit and a credit card in a total amount of 15 times the customer's monthly income);
- pro-active acquisition activities targeting customers below 30 years of age who are viewed as the most promising segment (promotional campaigns of personal account Konto<30);
- an offer for Poles going abroad both as tourists and to work (package composed of Konto24 Euro and accompanying products and services);
- a major reduction in the fee schedule for international payments processed for personal and business customers;
- continued development of co-operation with external partners with regard to production and sale of co-branded debit and credit cards (e.g. the issue of debit cards to the Konto24.pl account in liaison with Allegro.pl, Grono.net and Money.pl; new Visa credit cards: Money, Multikino, Luxmed and Voyage);
- expansion of the range of investment banking products and intensive advisory activity on the capital market;
- launch of an attractive cash loans insurance package as part of the consistent development of the bancassurance line;
- export factoring offered by BZ WBK Faktor Sp. z o.o. made available in the bank's branches;
- activation of the mobile sales network and sales through an independent financial intermediary.

2. Development of Customer Service

Customer Relationship Management (CRM)

The service quality standards of Bank Zachodni WBK S.A. 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 for provision of tailored service, satisfaction of diverse needs and establishment of strong ties. The number, type and frequency of the contacts with customers are regularly planned and monitored by the bank.

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

The bank invests in specialist IT infrastructure, which supports proactive contacts, long-term relations with customers and sales campaigns. Also, processes are implemented to stimulate loyalty of customers by giving them incentives to stay with the bank and to buy new products and services.

In parallel, steps are taken to reduce the 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. In 2006, the number of sales campaigns conducted by the bank almost tripled compared with the previous year, with most campaigns being targeted at personal customers. In order to achieve the highest quality of customer service, the bank improves its sales standards, trains its employees and monitors their sales skills.

Service Quality Management

2006 saw further increase in customer satisfaction from services provided by Bank Zachodni WBK S.A. as measured by the Customer Satisfaction Index (CSI).

Last year, the bank service quality improvement efforts focused on implementing the Total Quality Management System compliant with ISO 9001:2000. Six Sigma methodology was used for the first time to enhance key business processes. Service quality standards were reinforced based on internal and external customer satisfaction surveys. Focus was also placed on implementation of the "2006+ Standards" across the branch network.

Increased Customer Satisfaction

In 2006, following an analysis of customer satisfaction survey carried out in late 2005, a number of actions were taken with a view to enhancing customer service. Based on dedicated reports, each branch implemented individual service quality improvement programmes. Service Quality Managers regularly visited the bank's branches to provide specialist support and staff training.

A subsequent survey, carried out in 2006, confirmed a further growth of customer satisfaction (as evidenced by CSI increase by 2.2 p.p. y-o-y). Customer satisfaction increased driven by the assessment of the following criteria: confidentiality, friendly customer service, error-free account handling, timeliness and commitment. Among the best rated aspects of customer service were customer-friendly e-banking solutions.

Gradual increase in customer satisfaction (CIS higher by 8.3 p.p. on 2002) is due to consistent implementation of the policy aimed at raising the service quality and culture.

Total Quality Management System

In 2006, intensive efforts were made to implement the Total Quality Management System for key operational process, in compliance with ISO 9001:2000. On 29 September 2006, the bank was awarded its first ISO 9001:2000 certificate for implementing the system supporting two processes: international payment orders and personalization of payment cards. By the end of 2006, certification

of other processes in scope of the Total Quality Management System progressed to a much advanced stage.

2006+ Standards

Following the annual external customer satisfaction survey, customer needs and expectations were defined along with those aspects of customer service which had to be enhanced across the branch network. This information was used to formulate "2006+ Standards" which were implemented in all branches in the first half of 2006. The new service standards are not meant to replace the existing ones but to enhance them and to structure the service process. The post implementation review, which was carried out in the second half of 2006, confirmed successful implementation of standards across the branch network.

Customer Care Officer

Bank Zachodni WBK S.A. is distinctive in the market in that it has a Customer Care Officer. Apart from being the contact person for customers, they are also involved in development of customer service standards through: developing complaints handling standards, supporting the bank's staff in handling 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.

Enhancement of Internal Customer Service

The drive to optimise relations between individual units within the bank results from the belief that high quality interactions in the organisation translate into better service for external customers. In 2006, based on the outcome of the internal customer satisfaction survey, individual units started to deliver the so-called Relationship Enhancement Programme. These endeavours brought the internal customer satisfaction index up by 4.6 p.p. during the latest CSI survey among the bank organisational units.

3. Development of Products and Services

Retail Loans

Bank Zachodni WBK S.A. builds its competitive advantage in the retail loans market through high quality products, application of technologies accelerating the credit decision-making, diversified distribution channels and highly competent staff.

Mortgage Loans

In 2006, the bank continued to pursue its mortgage loans strategy whose objective is to develop the best PLN mortgage offer in the market, create a multi-channel distribution system and achieve the highest level of customer service. To make the mortgage lending offer more attractive, from February 2006 customers seeking a housing loan in PLN were offered new, promotional rates of interest.

Cash Loans

In the area of cash loans the bank undertook intensive promotional activities, focussing on two key advantages of its offering, namely very quick turnaround time and a possibility to obtain the highest loan available in the market (15 times monthly income). In the first half of 2006, the bank also launched the sale of cash loans in the new delivery channels, i.e. via the QS Financial House outlets and Mobile Sales.

Credit Cards

Further development of the broad offer of Bank Zachodni WBK credit cards was facilitated by acquiring new external partners for the issue of co-branded cards. In 2006, the bank issued four new co-branded cards in co-operation with the following partners: Money.pl web portal, Multikino multiplex cinema network, Luxmed medical centres and Voyage magazine. The popularity of such cards among customers was growing as evidenced by their leading positions in recognized rankings, for example the first position of Visa Money in the Expander ranking of 8 May 2006 or the top position of VISA Multikino in the ranking announced by *Gazeta Prawna* (of 26 September 2006). As part of the ongoing upgrade of the credit card service, the bank gave its customers an option to select the frequency of charging the credit card fees (annually or monthly) and modified the process of filing credit card applications and signing credit card agreements. Also, discounts were offered to frequent users of credit cards.

Offer for Small and Medium-Sized Enterprises (SMEs)

Credit Process

In 2006, Bank Zachodni WBK S.A. streamlined its credit delivery for SMEs by implementing a rating tool supporting credit decision-making. The next step was to transform the simplified and standard service options into three distinctive models with different document requirements, scope of information provided in the credit application, level of credit discretions applicable and collateral.

Thanks to these modifications, Bank Zachodni WBK S.A. introduced a universal business loan called Biznes Ekspres. This facility caters both for working capital and investment requirements of companies. Its main advantages are minimum documentary requirements, no obligation to document the purpose of the loan and a fast decision-making process (facility available within 24 hours from providing the bank with all required documents).

Loans Refinanced From EU Funds

The bank continued to strengthen its position in the EU funds market. This is confirmed by the first position in the ranking of banks (published by the Polish Agency for Entrepreneurship Development) which extend finance to projects qualified for delivery under the fourth run of the "Growth in SME Business Competitiveness, Action 2.3". During the year, the bank's offer with regard to funding projects covered by EU programmes was expanded to include a new proposal for institutional clients as part of another support programme financed by EFTA countries (EEA Financial Mechanism and the Norwegian Financial Mechanism).

Apart from providing assistance to companies seeking support from EU funds, during 2006 the bank was preparing its offer in relation to funds available under a new budget for the years 2007-2013.

Offer for Farmers

To respond to the needs of farmers, an AGRO Package was developed, with comprehensive solutions for account maintenance (under preferential conditions), working capital and investment funding, deposits, electronic banking and payment instruments. As part of the AGRO Package, farmers can avail of a wide range of credit facilities, including preferential loans, loans refinanced from the EU funds and lease of machinery, equipment and vehicles. With such a proposition, the bank can satisfy diverse requirements of the target market segment. At its web site, the bank launched a new information service called AGRO BIZNES which presents the full range of products available to farmers.

Personal Accounts

Konto<30

In 2006, sales campaigns focused on Konto<30 which is recognised as the leading account on the bank's offer addressed to the promising segment of customers between 13 and 30 years of age. The promotional slogan for the spring campaign for the package was "Don't pay for using ATMs abroad" while the autumn campaign was targeted specifically at students.

Konto24 Euro

To cater for the needs of personal customers going abroad to work or travel, the bank amended the Konto24 Euro package, thus creating one of the best propositions of this type in the market. As part of the package, customers were offered: Euro current account, a debit card (MasterCard), free BZWBK24 facility and discounts for cash withdrawals from ATMs outside Poland. This proposition immediately gained popularity among customers as evidenced by a threefold increase in the monthly number of accounts sold right after the launch of the improved package.

Konto24 Prestiz

Konto24 Prestiz account was still very popular with personal customers. Due to an attractive pricing solution applied (fixed monthly fee covering account maintenance, basic banking operations and issue/use of the Visa Electron Prestiz card) it was ranked as the best personal account in the ranking carried out by Gdańsk Institute for Market Economics at the request of Association for the Promotion of Financial Literacy (*Gazeta Bankowa*, 27 November 2006).

Deposit and Investment Products

Bank Zachodni WBK S.A. provides its customers with a comprehensive offer of savings and investment products, giving them an option to diversify their portfolios according to their individual preferences, investment objectives, expected yield, risk appetite and market environment.

Deposit Products

To address the needs of customers, a PLN savings account was added to the bank's offer in 2006 which successfully combines the features of both term deposit and a personal account with interest rate on a par with deposits (depending on the balance) and free access to money without losing interest.

In 2006, retail customers most frequently used short term deposits of 7 and 14 days and the 1 month Lokata24 deposit. There was also a good demand for IMPET deposits with very attractive interest rates based on account balance. In the second half of the year, preferences of the retail segment gradually shifted towards savings accounts. Business customers mostly opted for short-term placements, with terms and conditions negotiated individually.

Investment Funds

In 2006, the bank distributed the five main categories of BZ WBK Arka funds via its branch network: balanced fund, stable growth fund, equity fund, money market fund and bonds fund. These products achieved a remarkable success thanks to the favourable stock market, excellent investment results and intensive marketing campaigns. In June the bank began to sell a new fund, Arka BZ WBK Funduszy Akcji Zagranicznych FIO (BZ WBK Arka Foreign Shares Fund), which invests at least half of its assets in foreign shares funds. This product gives customers access to the global shares markets and allows them to diversify risk geographically.

Insurance Products

Bancassurance services are becoming an increasingly important element of the bank's business and a source of fee income. The bank offers its insurance products in liaison with the leading insurers in the Polish market: Commercial Union Group, AIG and TU Europa.

In 2006, Bank Zachodni WBK S.A. supplemented its offering with a cash loan insurance package designed to protect borrowers against consequences of unemployment, temporary or permanent inability to work or death. This product fits perfectly with customers' expectations and drives the sales growth for the bancassurance line. Also, property insurance targeted at mortgage borrowers as well as card insurance against fraudulent use or theft of money withdrawn from ATM were very popular.

FX Transactions

International Payments

Compared to other FX transactions, international payments are distinctive in terms of turnover volume and fee income for the bank. In 2006, a 16% y-o-y increase in direct outgoing payments (without intermediation of third party banks) was observed. The payment messages generated by the bank have been for many years characterised by high quality, which facilitates the clearing process and reduces the costs involved. Last year, in recognition for the error-free message formatting, the bank was awarded by its foreign partners: Bank of New York for customer payments and JP Morgan Chase Bank for interbank payments ("MT 202 Elite Quality Recognition Award"). The efficient organisation of the payment handling process and the high quality of customer service is best proven by the bank being placed among the institutions that comply with the ISO 9001-2000 standard for international payment orders. In 2006, the bank increased the competitiveness of its rates by introducing customer-friendly changes to the schedule of fees and charges. In July 2006, the fee for incoming payment orders was waived and the rates for outgoing payment orders were reduced.

Western Union Money Transfers

Bank Zachodni WBK S.A. 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 and agents who operate under a contract with the bank and use its clearing service. As at 31 December 2006 the number of outlets of third party institutions co-operating with the bank increased by 100% to 179. The bank's turnover in Western Union money transfers maintained a strong upward trend, exceeding the last year's level by 25% in terms of number.

Trade Finance

The bank's offer also includes a full range of international trade finance products. During the half year ending 31 December 2006, there was a noticeable growth in the number of such transactions y-o-y, mainly with regard to import and export Letters of Credit (+34% and +35%, respectively). 2006 also saw an increase in the number of all forms of cheque transactions, driven mainly by settlement of recourse cheques (+12% y-o-y), a service rendered in Poland only by Bank Zachodni WBK S.A.

Debit Cards

Bank Zachodni WBK S.A. has a comprehensive and innovative debit cards proposition which was expanded last year to include several new products and functionalities. Two new types of re-loadable pre-paid cards were introduced: allowance card which facilitates payment of recurring benefits by local authorities and offices as well as the affinity card ("Pajacyk") issued in liaison with Polska Akcja Humanitarna (Polish Humanitarian Organisation). The Pajacyk card offers standard payment functionality for card holders while contributing part of proceeds to the charitable undertakings of Polska Akcja Humanitarna. All holders of re-loadable cards were offered a new service, i.e. using text messages for checking card balance and history of the most recent transactions. The bank also added

two new co-branded cards to its offering, i.e. one for the users of the Money.pl financial portal and the other for the Grono.net Internet community.

In 2006, there was a significant increase in the number of debit cards (+16% y-o-y) held by the bank's customers, driven mainly by the three attractively bundled products: Allekarta, Visa Electron<30 and MasterCard accompanying Konto24 Euro account. The sale of these products was propelled by intensive campaigns promoting the accounts which are an integral part of the offer. The communication and promotional activities also contributed to the strong increase (+37% y-o-y) of non-cash transactions effected via debit cards at POSs.

Provision of Services to Financial Institutions

Bank Zachodni WBK S.A. issues and processes payment cards for other institutions, being a leading provider of such services in the market. The offer includes 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 and their customers can avail of the bank's extensive ATM network. In 2006, three other banks decided to use the bank's services. One of them was offered access to Bank Zachodni WBK ATM network while the other two decided to use the full scope of the bank's services (card issuance and processing). In 2006, the number of third party cards processed by the bank increased by 61% compared with the previous year.

Last year, Bank Zachodni WBK S.A. started to provide service for the ATMs of other banks and external institutions. The relevant agreements were concluded with three institutions.

Investment Banking

Advisory Services

In 2006, the Capital Markets Department of Bank Zachodni WBK S.A. in liaison with Dom Maklerski BZ WBK S.A. acted as advisors in the following undertakings:

- arrangement of the sale of 1m PBG S.A. shares, with a value of PLN 95m, by a shareholder in the secondary market;
- arrangement of a public offer of 1.5m PBG S.A. shares, with a value of PLN 138m, with subscription rights for the existing shareholders;
- arrangement of a public offer of series H and I shares of Hydrobudowa Śląsk S.A. addressed to qualified investors – the total value of the offer was PLN 76.2m;
- a public offer of NFI Piast S.A. shares with a value of PLN 18.3m with subscription rights for the existing shareholders;
- privatisation of RUCH S.A. through an IPO with a value of PLN 248m (Bank Zachodni WBK S.A. advised the Management Board of RUCH S.A., and Dom Maklerski BZ WBK S.A. was a member of the syndicate which distributed shares under the IPO).

Moreover, the bank acts as an advisor in the two mergers: between ComputerLand S.A. and Emax S.A. and between Hydrobudowa Włocławek S.A. and Hydrobudowa Śląsk S.A.

In August 2006, Bank Zachodni WBK S.A. received accreditation from Polska Agencja Rozwoju Przedsiębiorczości (Polish Agency for Enterprise Development), which enabled the bank to provide advisory services under the programme "Increase in Competitiveness of Small and Medium-Sized Enterprises". The accreditation covers capital market consultancy with regard to: business combinations, acquisition of finance for business development through public and non-public issues of shares and bonds as well as strategic shareholder investments.

Arrangement for Bond Issues

Last year, Bank Zachodni WBK S.A. arranged bond issues for seven external clients, totalling PLN 49m. These issues were allocated to the entities indicated by the issuers. The bank also participated in the public offer of bonds issued by its leasing subsidiaries (BZ WBK Finanse & Leasing S.A. and BZ WBK Leasing S.A.) as part of the issue programmes. The nominal value of the bonds placed by the two companies amounted to PLN 93.3m.

Equity Portfolio Management

During 2006, the following changes took place in the equity portfolio of Bank Zachodni WBK S.A.:

- disposal of 586,416 shares of LZPS Protektor S.A. at the Warsaw Stock Exchange, representing 37,56% of the company's share capital and voting power at AGM, for PLN 13.3m;
- disposal of 3,422,405 shares of Stalexport S.A. on the stock exchange market, which brought revenues of PLN 5.9m;
- disposal (under MBO transaction) of the bank's entire stake (13,331 interests) in AIB WBK Fund Management Sp. z o.o., representing 54% of the company's capital, was sold for PLN 270k;
- reclassification of shares in the possession of Bank Zachodni WBK S.A. by MasterCard Incorporated and repurchase of part of its shares worth PLN 5.2m held by the bank; as a result the bank owns the shareholding, representing 0.03% of the company's share capital;
- disposal of 5,570,261 shares of NFI Magna Polonia S.A. to their issuer for redemption, which brought revenues of PLN 44.6m.

As at 31 December 2006, the equity investment portfolio of Bank Zachodni WBK S.A. was composed of subsidiaries and associates displayed in the chart on page 13 and minority shareholdings in 23 companies, including Krajowa Izba Rozliczeniowa S.A. (11.48%), Commercial Union Polska Towarzystwo Ubezpieczeń na Życie S.A. (10%), Commercial Union Polska Towarzystwo Ubezpieczeń Ogólnych S.A. (10%), Commercial Union Powszechnie Towarzystwo Emerytalne BPH CU WBK S.A.(10%), AWSA Holland II B.V. (5.44%) and Arka BZ WBK Fundusz Rynku Nieruchomości Specjalistyczny Fundusz Inwestycyjny Zamknięty (4.42%).

Treasury Services

2006 saw continued growth in Treasury activity, in both 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. The business continues to grow, driven by strong International Trading (both imports and exports) and Treasury have continued to develop their product range to meet customer demand.

Throughout 2006, wholesale activity reported very strong gains, primarily through strategic interest rate positions taken in expectation of declining PLN interest rates. These gains have been realized within the framework of a conservative appetite to risk taking, consistent with previous years.

4. Development of Distribution Channels

Branch Network

At the end of December 2006 the bank's Branch Network consisted of 384 outlets and was divided into 14 regions supervised by three macroregions in Poznan, Warsaw and Wrocław. The regional and macroregional offices provided direct business and operational support to the local branches. Moreover, branches received support from the owners of business lines who ensured best management within individual strategic products. The biggest cities also had auxiliary structures whose objective was to develop business in branches, including Mobile Sales Teams, Housing Market Specialists and Investment & Savings Products Managers.

In 2006, work on optimising the branch network continued. As a result, new branches were opened and some existing ones were moved to economically more favourable locations. Last year, the bank prepared and started implementation of its branch network development strategy for the years 2007-2010 which aims to increase the availability of the services offered by Bank Zachodni WBK S.A. To this end, preparations have already been made to open 50 new branches in 2007. Also, the bank started a project establishing a network of agents to provide simple financial services for personal customers.

Corporate Business Centres

Bank Zachodni WBK S.A. has provided services to corporate customers through five Corporate Business Centres based in Warsaw, Wrocław, Poznań, Kraków and Gdańsk. In 2006, two additional Business Centres were established: in Szczecin and Katowice.

The operational model adopted by the Centres is based on the CRM principles and assigns the key role in the customer relationship management to Relationship Managers within the Corporate Business Centres. It also requires a close co-operation with the bank's branches which provide corporate customers with operational services.

The Corporate Business Centres strategy is to optimise the income potential from existing corporate customers and attracting new ones by satisfying their needs in a comprehensive manner and based on the specific knowledge of the local market. This means that customers seeking facilities receive a comprehensive and fully tailored proposition after a thorough review of their requirements. Apart from the lending proposals, it also covers Treasury products, foreign trade finance, investment banking services, cash management and deposit products.

Cash Management Unit

At the beginning of 2006, a Cash Management Unit was established within the Banking Operations Area. The unit operates from Poznań, Wrocław and Warsaw and is responsible for establishing and expanding co-operation with financial institutions and corporate customers from across Poland with regard to, e.g. electronic banking transactions, mass payments, cash management, domestic and international payments, card and ATM transactions, card issuance and service of ATMs for third parties. The unit provides top quality service by offering the bank's existing standard products and tailor-made solutions.

Electronic Distribution Channels

BZWBK24

In 2006, the bank successfully continued the sale of BZWBK24 services as part of the standard offer. Also, the safe and cheap method of authorisation of transactions via the smsKod services effectively encouraged customers to use the electronic channels more extensively.

Last year particular focus was placed on the development of the Moja Firma Plus package, a BZWBK24 functionality designed for SMEs. Users of the package have been offered, among other things, order batching and new transaction management options. The high quality and wide range of services as well as effective promotional activities contributed to a 144% y-o-y increase in the number of customers with access to Moja Firma Plus package.

At the same time, retail users of BZWBK Internet have been given the possibility to use eWyciąg (an electronic equivalent of a paper account statement) and make transfers from credit card accounts.

Thanks to the advantages of the BZWBK24 proposal, the number of its users grew by 28% y-o-y to 876.7k at the end of December 2006.

Minibank24 (pc-banking)

At the end of 2006, the number of Minibank24 installations was 4.4k. Last year, the pc-banking service for corporate customers was enhanced with additional functionality for FX transactions. Moreover, to ensure the highest level of security for customers new transaction authorisation cards were introduced.

ATMs

As at 31 December 2006, the ATM network of Bank Zachodni WBK S.A. comprised 608 machines, i.e. 21 more than a year before. To enhance effectiveness of ATMs, the network location optimization process was continued, driven by customer needs and business potential of the locality. Also, seasonal installations were put in place with application of mobile solutions in many prime tourist locations (at the seaside in summer and in the mountains in winter). In order to provide customers with top class technical infrastructure, the bank continued to upgrade its ATM network and replaced older ATMs with

the latest generation machines. Thanks to these efforts, the BZWBK ATMs are characterised by a high functionality and over 70% of the machines comply with the EMV standard (i.e. support chip cards).

In December 2006, the bank introduced a new operational model of an independent ATM network called Cashnet24. This is a proposal addressed to the owners of commercial establishments who are interested in having an ATM installed at their location.

Direct Banking

In 2006, Direct Banking activity focussed on growing the retail business. In order to facilitate customers buying products via the phone and the Internet, the relevant sales processes were modified, the organisational and functional solutions were optimised and subsequent products were prepared for implementation.

As part of the work on the development of the Internet-based sales, a dedicated Direct24 site was launched at the bank's www.bzwbk.pl portal and co-operation was started with the leading external financial portals (Money.pl, Bankier.pl, Onet.pl).

The Branch Banking advisors – based in Środa Wielkopolska and Warsaw – provided information on products and services, handled banking transactions, sold products and provided after-sale service. Using the capability of the CRM platform, they conducted 18 telemarketing campaigns and proactively contacted potential customers.

The efforts taken and projects implemented in 2006 led to an increase in sales via the Internet and the phone, mainly with regard to credit facilities. Compared to 2005, the number of credit cards sold by Direct Banking increased by 91% y-o-y and the value of sanctioned unsecured cash loans grew by 82% y-o-y.

External Distribution Channels

In 2006, two new distribution channels were launched, i.e. mobile sales network and a financial intermediaries network. In addition, a franchising solution was being designed to be implemented.

Mobile Sales

The Mobile Sales structure has been in place since January 2006 and is based on self-employed Financial Advisors and their Co-ordinators. They operate in 6 regions covering the area of northern, central and south-western Poland. The key objective of this network is to acquire new retail customers through the sale of credit cards and cash loans.

Agency Sales

The establishment of co-operation with financial intermediaries required extensive preparatory work which commenced already in 2005. The preparations included development of a separate sales process for credit facilities based on an automated decision-making system. Also, a technology base and IT platform were put in place. In April 2006, following the tests of the IT solutions, an agency agreement was signed with QS Financial House and the sale of cash loans via QS offices was started. At the year-end, the new sales network comprised 370 agencies, which gave the bank access to customers in smaller towns where it was not economically feasible to open branches.

Franchise network of outlets

In 2006, the bank started a project establishing a network of agents to provide simple financial services for personal customers. At the first stage of the project, 100 agency outlets will be launched.

VI. Strategy for 2007-2010

Key Strategic Assumptions

The 2007–2010 BZWBK strategy is the continuation of the “Po Pierwsze Klient” Strategy developed in 2001 by the bank and implemented over subsequent years. The key message of the updated “Po Pierwsze Klient” 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 financial services market with an aspiration of 10% share in the market of personal and business customers. In view of the bank’s focus on ever more efficient risk management, the distinctive customer proposition should also bring added value to the shareholders.

Customer Relationship

Bank Zachodni WBK S.A. 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 expansion of 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

Development Directions 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. It also foresees numerous initiatives with a view to increasing attractiveness of retail products and services.

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 directions as before. It will provide its customers with a full range of services (including those offered by the subsidiaries) for portfolio diversification, improve effectiveness and quality of sales and promotional activities, ensure the required training for employees and implement a distribution model based on professional advice. 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. Retail customers will obtain access to attractive markets and industries through open BZ WBK Arka funds investing in the Central and Eastern Europe. The range of

alternative products, including property funds, will also be expanded. The array of savings and investment products will be complemented with income-generating investment insurance schemes.

With regard to home mortgages, the bank intends to reduce the cost and time needed to take a credit decision, improve the quality of advice and develop a distribution network with the key players in the property market (developers, agents and 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 external and internal 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 intensification of sales through individual distribution channels (the Internet, phone, independent advisors, agents' network) and delivery of sales campaigns targeted at precisely defined groups.

As part of the bancassurance line, the bank's ambition is to set out new standards in the loan and lease 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 enable development of insurance offered via phone and the Internet.

The bank also plans to continue optimisation of the account opening process and implement various initiatives designed to increase loyalty of customers.

Development Directions 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 upskilling of the SME advisors. Also, business customers will be able to avail of a broader range of leasing and factoring products.

Development Directions for Distribution Channels

The "Po pierwsze Klient" strategy envisages an organic growth of the bank based on integrated development of all distribution channels. In the next years the bank's branch network will be intensively developed, mainly in the locations with significant business potential, where so far the bank has not established its presence. 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 launch a network of outlets offering simple financial operations such as bill payments, personal account transactions or cash loans.

The sales structures of Direct Banking Function will be intensively developed and works will be continued to extend the functionalities that facilitate customer access to the bank's products. Based on the CRM platform, the Internet and telephone banking will be more closely integrated with the branch network to create a seamless relationship management structure. External distribution channels, i.e. network of mobile sales (financial agents) and intermediaries will be gradually expanded to become a significant source of new business going forward. The bank also intends to increase the number of the Corporate Business Centres to reduce the distance between customers from different regions of Poland and their relationship managers.

Service Quality

The Bank Zachodni WBK overarching strategic objective is to build a recognisable, nation-wide brand of a bank distinctive by its customer-centric approach. Establishment and reinforcement of such an image requires focus on the following three values: Dependable, Engaging, Pioneering.

To earn the reputation of a dependable bank, Bank Zachodni WBK S.A. strives to provide its customers with the service that meets the highest standards in terms of security, reliability, transparency of pricing policy and clear and fair communication. Being pioneering manifests itself in constant improvement of product offering and the use of the latest technology for even better fulfilment of customer requirements.

To be regarded as dependable, the bank reinforces its image of a friendly institution which provides speedy, professional and attentive service with an individualised approach tuned to the needs of different customer segments. This strategy entails a constant improvement of service quality and rationalisation, simplification and improvement of internal processes. Service quality will continue to be regularly reviewed and refined through a number of initiatives: defining service quality standards, measurement of customer satisfaction/expectations, delivery of service improvement programmes and activities of the Customer Care Officer.

Process Enablement

Delivery of the strategic objectives requires the use of the highest quality IT service. For this reason, strategic initiatives also include development of an integrated, contextual branch environment enabling fast implementation of new business processes, reduction of the time needed to launch new branches and minimisation of the related costs. The bank plans to continue centralisation of its IT platforms to mitigate the key risks and to improve the speed of delivery of IT services. Also, the bank's ambition is to increase the quality of data contained in the bank's IT systems and to achieve ISO 9001 certification for the process of software development and integration.

In 2007, the bank is going to continue the programme of certification of its key business processes based on ISO 9001 standard which is an essential building block of process management in the bank. Particular attention will continue to be paid to the measurement of processes and their constant improvement. More processes will be streamlined using the Lean Six Sigma methodology, which will ensure further improvement of the quality of the services rendered by the bank.

In line with the bank's credit policy, credit delivery will continue to be centralised and operational processes connected with central sale of products via remote and external distribution channels (Internet, phone, intermediaries, agents) will be improved. Along with implementation of a new system for the Corporate Banking Area, a highly efficient corporate service model will be introduced. Other bank processes will also be covered by the optimisation and centralisation initiatives, which will increase the effectiveness of the bank's operations and reduce risks.

The bank will continue its consistent cost management efforts across the Bank Zachodni WBK Group through the planning and control of the operating cost budget, implementation of cost containment initiatives and improvement of purchasing processes.

VII. Risk Management

1. Capital Management

The policy of Bank Zachodni WBK S.A. 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.

In accordance with the Banking Law, Bank Zachodni WBK S.A. is required to maintain their solvency ratio above 8%.

As at 31 December 2006, the bank's solvency ratio was at 13.79%, which confirms the safe position of the bank. The bank's capital resources amounted to PLN 3,613.2m and were higher y-o-y by PLN 424.3m.

The extent of increase in the capital resources in 2006 against the previous years was due to the to substantially higher profit of the current period and record-breaking dividend (PLN 6 per share) paid from the profit generated in 2005.

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 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 a on-going basis and for shaping the current policy within the framework set by the Management Board.

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 S.A. established the Credit Policy Forum whose key role is to develop and approve credit and sectoral policies, industrial analyses, credit grading systems and credit risk assessment addressed for the branch network and Business Support Centre units directly responsible for business growth 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 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 which conform to the Basel requirements and IAS. 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, cash loans, credit cards and retail overdrafts. Work is under way to develop tools compliant with Basel requirements for other portfolios, i.e. income-producing real estate and public sector.

Provisioning

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

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 basically separated from the sales function. Credit decision making functions and sales functions are combined only at the Branch Banking level and these are limited to exposures up to a pre-defined ceiling. The responsibility for credit decisions and loan portfolio quality assurance lies with the Chief Credit Officer and his reporting managers.

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

Credit Reviews

Demonstrating the utmost care about the loan-book quality, Bank Zachodni WBK S.A. performs regular reviews to ensure 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 a function independent of 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 balance sheet structure.

Market Risk Management

The key objective of the market risk policy operated 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 types of this risk.
- 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 separated from 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 measurement of interest rate and FX risk. VaR methodology uses a statistical process to determine the Probable Maximum Loss (PML) in economic value of a transaction or a portfolio of transactions as a result of an adverse change in market parameters. The bank applies the VaR methodology both to the trading and banking portfolio. 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

Bank Zachodni WBK S.A. manages liquidity risk in accordance with its liquidity policy.

The policy 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 swaps 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 all 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.

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

Operational Risk Management

Operational risk is exposure to losses related to the failure of internal processes, human and system errors and external factors. Bank Zachodni WBK S.A. has been working on full implementation of operational risk management standards which conform with the Basel Committee requirements.

Operational risk management in Bank Zachodni WBK S.A. is operated at the following levels of responsibility:

- Organizational units responsible for management of the operational risk that may manifest itself in the area of their operations (identification, assessment and monitoring of the risk based on the self-assessment methodology, implementation and monitoring of risk controls, learning lessons from financial and non-financial operational incidents).
- The Operational Risk Management Department is responsible for coordination of the whole process (implementation of an effective risk management structure, development of methodology, providing support to other units, maintenance and analysis of a database with information on financial and non-financial losses, reporting, management of financial lines insurance).
- All operational risk management processes are monitored by the dedicated Operational Risk Management Committee (ORMCO).

Bank Zachodni WBK S.A. has developed and implemented operational risk management policies, standards and procedures, concerning in particular the risk management structure and model, fraud prevention, information security, reporting, learning lessons from operational losses, personal data protection, money laundering and approval of products and projects.

Furthermore, Bank Zachodni WBK S.A. monitors the ongoing implementation of a business continuity management policy, analyses the needs and develops and tests disaster recovery plans on a regular basis.

The bank co-operates closely with AIB Group in the area of development and implementation of strategies and policies of 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

As at 31 December 2006, the number of FTEs in Bank Zachodni WBK S.A. was 7,467, which was higher by 263 than a year before. The increase in the bank's headcount was due to the growing range and scale of banking operations, which involved development of new distribution channels. Personnel movements also occurred in the process of business units optimisation, e.g. through allocation of resources commensurate with the requirements and business potential of the local markets.

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 "Po pierwsze Klient" strategy and obtain the necessary support and feedback about their performance.

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 operational requirements of the organisation is ensured through planning and co-ordinating the training process bank-wide, with support from representatives of key business areas and branch banking. The integrated training plan facilitates the logistics and monitoring of training quality and costs. In 2006, the majority of training projects were addressed to the branch banking staff of whom 67% were trained through e-learning. Training for branches covered mainly the following areas: mortgage loans management, sales techniques, 2006+ standards, SME lending, lending to the agricultural sector, brokerage and treasury services. In the Business Support Centre, training was focused on improvement of expert knowledge and skills in the area of quality standards and models, advanced credit analysis and project finance. 2006 saw continuation of initiatives addressed to different employee groups, including Directors' Development Programme, Leaders of the Future, a programme for new managers and an induction programme. Also, Management Board Members participated in the training sessions devoted to their personal development as part of Leaders' Development Programme. Likewise, directors went through Development Centres and received feedback to plan and facilitate their personal development. The investments into management development were reflected in the results of the last Staff Attitude Survey, which show an increasingly growing rating for the bank's management style and its stimulating effect on work commitment.

In 2006, the total number of participants of the training and development programmes in Bank Zachodni WBK S.A. reached 44.9k.

Last year, Bank Zachodni WBK S.A. was awarded the prestigious title of Investor in People. The award programme emphasises the importance of investing in people as the most valuable asset of any organisation and disseminates best practice in professional HR management in Poland.

2. Corporate Values

Code of Business Ethics

The bank implemented the Code of Business Ethics which applies across the 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 socially responsible organisation, 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.

Corporate Culture

Corporate Behaviours

The key element of the Bank Zachodni WBK brand strategy is a constant reinforcement of the desired corporate behaviours in the organisation. There are various initiatives undertaken to support development of the bank's internal culture in line with its key values: Dependable, Engaging, Pioneering. In the first half of 2006, all the bank employees were briefed on the assumptions of the "Po pierwsze Klient" corporate strategy for 2006, with cascading communication on the bank's goals and challenges directed to individual teams and staff. During the year the progress of employees on their way to individual goals attainment was monitored under the Performance Management Process. Last year, the second version of the programme for teams in Bank Zachodni WBK called "Warto być razem" was initiated. The purpose of the programme is to recognise the teams for their outstanding achievements in delivery of the "Po pierwsze klient" strategy and to promote desired values and behaviours.

Compliance Culture

The bank attaches a great importance to compliance with legal and regulatory requirements in all aspects of its activities. Creation of a business culture of strict adherence to law and best practice as well as 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 Governance

Bank Zachodni WBK S.A. complies 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. 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 S.A., the bank's web site has a special section for investors with all current and periodic reports, corporate documents and other material information.

3. Bank in the Society

Corporate Citizenship

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

The bank's corporate giving is carried out under "The Bank of Children Smiles" Programme and focuses on children from poverty stricken families. The main objective is to help them develop their interests and talents. The programme is delivered both through the bank's own initiatives and through provision of financial support to the organisations which help children.

Among the bank's own initiatives, noteworthy are creative workshops "My World on Both Sides of the Camera from BZ WBK" for children of the disadvantaged communities and "Academy of the Bank of Children Smiles", a programme of funding English lessons for children from poor families. From January to April the bank ran a campaign called "Smile for 1%" designed to raise funds as part of personal income tax settlements and spend them on organisation of summer holidays for poor children and other charitable purposes. In 2006, the bank launched the second edition of the Scholarship Programme of "The Bank of Children Smiles" which supports development of children gifted in science, sports, music and arts.

IX. Major Internal Developments and Events

1. Ownership Structure of Bank Zachodni WBK S.A.

According to the information held by the bank's Management Board, as at 19 February 2007 the shareholder having a minimum 5% of the total number of votes at the Bank Zachodni WBK 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%
Other shareholders	21,546,494	29.5%	21,546,494	29.5%
Total	72,960,284	100%	72,960,284	100%

2. Governing Bodies

Annual General Meeting of Shareholders

The General Annual Meeting of BZ WBK Shareholders (AGM), which was held on 4 April 2006, approved the Bank's and the Group's Financial Statements and the Management Board Report on the Bank's and the Group's Performance in 2005. The AGM approved the Report on Activities of the Supervisory Board and its Committees as well as the Supervisory Board's Report on Examination of the Bank's and the Group's Annual Report along with its assessment of both entities' operations in 2005. Also the profit distribution and dividend pay-outs were approved and the Management and Supervisory Board Members were given a word of approval for performance of their duties in 2005. The AGM implemented a three-year Incentive Scheme for senior executives of the bank and its subsidiaries who significantly contribute to the growing value of Bank Zachodni WBK. The Incentive Scheme 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 the 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 2 m by issuing new ordinary bearer shares. The AGM approved changes to the bank's Statutes and adopted its consolidated text. The introduced changes resulted, inter alia, from business requirements and the need to comply with new Banking Law provisions. They were related to the bank's internal control system, division of powers among the Management Board members and expansion of the bank's operations with brokerage activities (including agency services in this area).

Supervisory Board

As at 31 December 2006, the composition of the Bank Zachodni WBK Supervisory Board was as follows.

Ref.	Name	Role in the Supervisory Board
1.	Aleksander Szwarc	Chairman of the Supervisory Board
2.	Gerry Byrne	Vice Chairman of the Supervisory Board
3.	Kieran Crowley	Member of the Supervisory Board
4.	Waldemar Frąckowiak	Member of the Supervisory Board
5.	Aleksander Galos	Member of the Supervisory Board
6.	John Power	Member of the Supervisory Board
7.	Jacek Ślotała	Member of the Supervisory Board

The persons listed above were appointed by the AGM of 14 April 2005 for a new 3-year term of office. As originally composed, the Supervisory Board also included Mr Declan McSweeney, but on 28 December 2006 he tendered his resignations, effective from 31 December 2006.

As at 31 December 2006, the following members of the Supervisory Board held the status of an independent member: Mr Aleksander Szwarc, Mr Waldemar Frąckowiak, Mr Aleksander Galos, Mr John Power 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 Social Responsibility Committee. The Audit Committee was composed exclusively of independent members of the Supervisory Board. The Report on Activities of the Supervisory Board and its Committees as well as the Supervisory Board's report on Examination of the Bank's and the Group's Annual Report along with its assessment of both subjects' operations in 2005 were published in the current report no. 27/2006 which conveyed the resolutions passed by the AGM on 4 April 2006.

Management Board

As at 31 December 2006, the composition of the Bank Zachodni WBK Management Board was as follows.

Ref	Name	Role in the Management Board
1.	Jacek Kseń	President of the Management Board
2.	Declan Flynn	Member of the Management Board
3.	Michał Gajewski	Member of the Management Board
4.	Justyn Konieczny	Member of the Management Board
5.	Janusz Krawczyk	Member of the Management Board
6.	Jacek Marcinowski	Member of the Management Board
7.	Mateusz Morawiecki	Member of the Management Board
8.	James Murphy	Member of the Management Board
9.	Marcin Prell	Member of the Management Board
10.	Feliks Szyszkowiak	Member of the Management Board

The Management Board members listed above were appointed by the Supervisory Board for a new three-year term of office on 4 April 2006. Compared to 31 December 2005, the composition of the Management Board changed as follows: Mr Aleksander Kompf stepped down from his role on the Management Board after expiry of his term of office. Mr Marcin Prell was appointed Management Board Member responsible for the Legal and Compliance Division.

In the current report no. 9/2006 dated 25 January 2006, Bank Zachodni WBK S.A. announced the decision of Mr Jacek Kseń to hold his position as President of the Management Board till the end of April 2007. That decision had been approved by the bank's Supervisory Board.

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, Capital Expenditure Committee, Strategy Committee for Savings and Investment Products.

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

3. Changes to the Management Organisation

The organisation of the Business Support Centre in Bank Zachodni WBK S.A. is modified to follow dynamic market environment and changes in banking processes, reflecting the bank's continued efforts for more efficient operations.

In April 2006, two previously independent functions of the Business Support Centre - Legal Area and Compliance Area – were merged into one Legal and Compliance Division. The change contributed to a more effective use of skills and resources to ensure full compliance of Bank Zachodni WBK S.A. with the legal and regulatory requirements.

4. Capital Expenditure

The capital expenditure incurred by Bank Zachodni WBK S.A. amounted to PLN 81.5m, of which PLN 64.6m was spent on IT projects while the remainder was connected with properties and other fixed assets.

IT initiatives included work on preparation of the bank's systems to support external distribution channels. In order to ensure the best level of card service, the bank purchased a modern production line for personalisation and distribution of cards. This investment contributed to an increase of the quality of service, which was confirmed by award of the ISO 9001:2000 certification to the bank. In addition to the described initiatives, the bank also continued the decongestion process, extension and upgrade of the ATM network and completed subsequent stages of implementation of the new IT

platform for managing HR processes. In 2006, self-service SAP HR applications (developed in prior periods) were subject to comprehensive tests and their functionality was expanded by traditional and e-learning training options. Also, a number of projects were implemented to improve the security, reliability and stability of the bank's systems and to build a platform for provision of services to the companies from the Bank Zachodni WBK Group.

There were also significant outlays on branch network development projects, including the launch of new branches and further upgrade of the branch architecture, including replacement of furnishings, security systems and IT equipment. Also, preparations were made for the planned 2007 expansion of the branch network.

5. Other Events

Incentive Scheme

Pursuant to the resolution of the Annual General Meeting of Shareholders of 4 April 2006, Bank Zachodni WBK S.A. introduced a three year Incentive Scheme for the years 2006-2009. The Scheme is addressed to the Management Board members and senior management of Bank Zachodni WBK S.A and its subsidiaries recommended by the Management Board and approved by the Supervisory Board with the maximum number of 100 participants in the programme. 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 of the share capital. The right of participants will be exercised contingent upon the growth in consolidated 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 2009.

The adopted Incentive Scheme is to reinforce the bond between the bank and its key executives as well as to ensure the long-term competitiveness and effectiveness of the Bank Zachodni WBK Group, which will contribute to the growth in the bank's value and bring sustainable returns to shareholders.

Under the Scheme, the bank issued and allocated 128,223 bonds with unexpired 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 of PLN 10.

Agreements with AIB

On 31 January 2006, Bank Zachodni WBK S.A. signed with AIB p.l.c. the Generic Agreement and Consultancy Agreement. The Generic Agreement provides for principles of co-operation and future agreements pertaining to specific projects and services as well as provision of information and data as required by law. The latter sets out rules of mutual consultancy services in the area of economy and finance as well as additional services related to specific projects which involve sharing experience and know-how.

Agency Agreement with Dom Maklerski BZ WBK S.A.

On 2 August 2006, Bank Zachodni WBK S.A. entered into an agency agreement with Dom Maklerski BZ WBK S.A. (Brokerage House), under which it undertook to act as an intermediary in selling the products of the subsidiary. The bank is entitled to provide such service on the basis of its entry to the Agents Register on 13 June 2006. The agreement gives the bank the right to part of the brokerage fee earned on the transactions.

The co-operation between Bank Zachodni WBK S.A. and the Brokerage House will increase availability of brokerage services to the customers of Bank Zachodni WBK S.A., which should raise the overall attractiveness of the bank's offering while increasing trading volumes of the Brokerage House.

Selection of Auditor

In accordance with § 32 point 10 of the Statutes of Bank Zachodni WBK S.A., on 21 June 2006 the bank's Supervisory Board passed a resolution appointing KPMG Audyt Sp. z o.o. as an auditor of the stand-alone and consolidated financial statements of the bank for the year 2006. KPMG Audyt Sp. z o.o. audited the bank's stand-alone and consolidated financial statements for the prior four financial years and provided consulting services permitted by law and the bank's internal regulations, which ensured adequate impartiality and independence of an auditor.

X. Additional Information

Shares in Possession of the Supervisory and Management Board

The table below shows the number and nominal value of the Bank Zachodni WBK shares held by the Management and Supervisory Board Members as at 19 February 2007.

Shareholder	Number of shares	Nominal value of shares in PLN
Supervisory Board		
Waldemar Frąckowiak	278	2,780
Management Board		
Jacek Kseń	500	5,000
Marcin Prell	1	10

Remuneration of the Supervisory and Management Board Members

The Remuneration of the Bank Zachodni WBK Supervisory and Management Board Members for the years 2006 and 2005 is provided in Financial Statements of Bank Zachodni WBK for 2006 in note 52 entitled "Related party disclosures".

Remuneration of the Auditor

The table below shows the remuneration paid to KPMG Audyt 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 Audyt Sp. z o.o.	2006	2005
Audit fees in respect of the parent bank ¹⁾	1,425	1,409
Audit-related fees ²⁾	23	249
Total	1,448	1,658

1) Professional services connected with audit of the stand-alone and consolidated financial statements of the parent (agreement of 10 October 2006) as well as review of the half-yearly stand-alone and consolidated financial statements of the parent (agreement of 8 June 2006).

2) Audit-related fees comprise any other amounts due or paid to KPMG Audyt Sp. z o.o. This category relates to the assurance services connected with the audit or review of financial statements of the parent and the subsidiaries not included in point 1) above.

Geographical Structure of the Bank's Deposits

PLN k

Bank Zachodni WBK S.A.				
Ref.	Province	Deposits from customers		
		31-12-2006	31-12-2005	
1.	dolnośląskie	6,399,676	5,716,869	
2.	kujawsko-pomorskie	782,619	665,615	
3.	lubelskie	44,137	34,818	
4.	lubuskie	1,256,147	1,114,212	
5.	łódzkie	405,567	348,008	
6.	małopolskie	507,080	269,968	
7.	mazowieckie	2,759,870	2,363,603	
8.	opolskie	830,377	748,865	
9.	podkarpackie	34,107	34,441	
10.	podlaskie	100,479	77,980	
11.	pomorskie	1,400,475	1,252,646	
12.	śląskie	953,638	847,977	
13.	świętokrzyskie	150,552	159,787	
14.	warmińsko-mazurskie	97,969	107,705	
15.	wielkopolskie	7,551,645	6,215,559	
16.	zachodniopomorskie	883,908	714,769	
	other	357,112	297,045	
Total		24,515,358	20,969,867	

Writs of Execution

The table below shows the number and value of the writs of execution issued by Bank Zachodni WBK S.A. in 2006 compared to 2005.

PLN k

Writs of Execution for:	2006		2005	
	Number	Value	Number	Value
Cash loans and overdrafts	1,498	14,179	417	10,378
Credit cards	1,752	5,567	901	3,677
Home loans	16	3,098	52	5,767
Business loans	62	83,173	128	48,702
Total	3,328	106,017	1,498	68,524

Transactions With Related Parties

In 2006 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.

The table below displays information on inter-company transactions in excess of EUR 500,000 which were concluded by Bank Zachodni WBK S.A. with its subsidiaries in 2006. Most of these are banking transactions made as part of ordinary business activities and mainly include loans, deposits

and guarantees. Inter-company transactions have been eliminated from consolidated financial statements.

PLN k

Inter-company transactions with subsidiaries		
Profit & Loss Account		
Subsidiary	2006	2005
Dom Maklerski BZ WBK S.A.	29,799	30,436
BZ WBK Finanse & Leasing S.A.	9,707	7,865
BZ WBK Leasing S.A.	5,441	4,197
BZ WBK AIB Asset Management S.A.	2,463	383
BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.	119,140	33,787
BZ WBK Faktor Sp. z o.o.	4,074	3,391
Balance-Sheet/Assets		
Subsidiary	31-12-2006	31-12-2005
BZ WBK Finanse & Leasing S.A.	223,430	170,948
BZ WBK Leasing S.A.	57,362	116,569
BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.	12,711	6,668
BZ WBK Faktor Sp. z o.o.	114,317	68,876
Balance-Sheet/Liabilities		
Subsidiary	31-12-2006	31-12-2005
Dom Maklerski BZ WBK S.A.	929,597	514,873
BZ WBK Finanse & Leasing S.A.	4,680	6,307
BZ WBK Leasing S.A.	28,556	36,297
BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa	26,947	5,924
BZ WBK Inwestycje Sp. z o.o.	20,189	3,770
BZ WBK AIB Asset Management S.A.	94,320	8,018
BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.	111,218	18,184

Guarantees Issued

As at 31 December 2006, the bank's guarantee liability amounted to PLN 748.2m compared to PLN 813.5m 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 Business Centre Lending Manual.

XI. Representations of the Management Board

Corporate Governance

According to its statement issued in the current report no. 54/2006 of 28 June 2006, Bank Zachodni WBK S.A. complies with all the corporate governance principles defined in Best Practice in Public Companies in 2005 and introduced by Resolution No. 44/1062/2004 of the Warsaw Stock Exchange Board.

True and Fair Presentation of the Financial Statements

According to the Management Board's best knowledge and belief, the financial figures and the comparable data presented in the Financial Statements of Bank Zachodni WBK for 2006 were prepared in keeping with the applicable accounting policies and give a true and fair view of the assets and profit of Bank Zachodni WBK. The Management Board's Report contained in this document shows a true picture of the bank's development, achievements and position (including the underlying risks) in 2006.

Selection of Auditor

The firm responsible for auditing the consolidated annual financial statements of Bank Zachodni WBK was selected in compliance with the applicable legislation. The auditing firm and its auditors satisfied the necessary conditions to ensure they provide an unbiased and independent opinion compliant with the Polish law.

Date	Name	Position	Signature
19-02-2007	Jacek Kseń	President	
19-02-2007	Declan Flynn	Member of the Board	
19-02-2007	Michał Gajewski	Member of the Board	
19-02-2007	Justyn Konieczny	Member of the Board	
19-02-2007	Janusz Krawczyk	Member of the Board	
19-02-2007	Jacek Marcinowski	Member of the Board	
19-02-2007	Mateusz Morawiecki	Member of the Board	
19-02-2007	James Murphy	Member of the Board	
19-02-2007	Marcin Prell	Member of the Board	
19-02-2007	Feliks Szyszkowiak	Member of the Board	