# annual

Bank Zachodni WBK S.A.

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# Letter of the Supervisory Board Chairman



**Aleksander Szwarc** Supervisory Board Chairman

#### Ladies and Gentlemen,

Last year was very successful for the Polish economy. This was best demonstrated by the highest GDP growth in 10 years. Other favourable phenomena included growth in exports in spite of the zloty appreciation, dynamic growth in capital expenditure and high private consumption supported by positive changes on the labour market and clear improvement in the situation of households. Concurrently, 2007 saw a significant growth in inflation followed by the dynamic changes in interest rates.

2007 was another year of growing competition in the banking sector. Following a merger of two large banks, a very strong player intending to dominate the Polish market came into being. In 2007, other banks announced their growing ambitions as they were aggressively competing in the area of cash loans, home mortgages, personal accounts as well as investment and saving products. I expect this trend to continue in the years to come.

BZ WBK did excellently in this difficult market environment under the pressure of the rapid changes in the banking sector. In 2007, we substantially grew our PBT and PAT, the ROE increased and so did the EPS. Subsidiaries of Bank Zachodni WBK, i.e. BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych, BZ WBK AIB Asset Management, BZ WBK Brokerage House, BZ WBK Faktor and the two leasing companies – BZ WBK Leasing and BZ WBK Finanse & Leasing also recorded excellent results.

As announced previously, last year Jacek Kseń stepped down as the President of Bank Zachodni WBK Management Board after 11 years of service in the company. He was succeeded by Mateusz Morawiecki who had been the Management Board Member for many years. This is a model change ensuring the continuation of the bank's strategy in the upcoming years.

On behalf of the Supervisory Board of Bank Zachodni WBK, I would like to thank the bank's Management Board who rose to the market challenges of the last year. I would also like to thank the managers and staff who owing to the consistently pursued strategy contributed to enhancing the strong position of BZ WBK Group on the Polish financial market.

Alehuauder Swarz

# **President's Statement**



Mateusz Morawiecki President of the Management Board

#### Ladies and Gentlemen,

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

In 2007, BZ WBK Group generated PBT of PLN 1 391.4m which represented a nearly 31% increase on the previous year. At the same time, the EPS grew to reach PLN 13.09 against PLN 10.39 in 2006, and the ROE exceeded 28%. In spite of the significant growth in the scale of operations, expansion of the branch network and increased staff number, we managed to reduce our cost/income ratio from 55.1% in 2006 to 53.4% in 2007. BZ WBK Group traditionally has the best NPL ratio in the banking sector as in 2007 we reduced it from 4.9% to merely 2.8%.

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

Our subsidiaries, i.e. BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych, and BZ WBK Brokerage House whose turnover on the stock exchange equity market was 33% up on 2006, were major contributors to the very good performance of BZ WBK Group. Our leasing companies, i.e. BZ WBK Leasing and BZ WBK Finanse & Leasing also recorded a very good year.

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

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

Thank you very much for this.

M. Moranieh-

# Assesment of Bank Zachodni WBK Group's Operations in 2007

# Macroeconomic Environment in 2007

#### **Economic Growth**

2007 was another very good year for the Polish economy. GDP growth was highest for a decade, reaching almost 6.5%. It was also the second year in a row when the net balance of foreign trade restricted GDP growth. Current account balance in relation to GDP was increasing rather slowly throughout the year (e.g. due to high inflow of EU funds) to remain below the moderate 4% level of GDP. As regards domestic demand, a very high growth of capital investments (over 20% y-o-y) deserves special attention as it contributed to economy's modernisation, replenishment of obsolete equipment and an increase in the economic growth potential. Private consumption increased by more than 5.2%, supported by a solid improvement in households' financial situation as a result of a strong labour market revival and a reduction in tax burden.

#### Labour Market

Fast and broad-based expansion in economic activity triggered a strong increase in demand for labour. Rise in employment accelerated at the pace that was not observed since the start of the market economy in the early nineties, exceeding 5% y-o-y at the end of the year. Registered unemployment rate fell below 11.4% at the end of the year from 14.8% in December 2006. Amid large demand for labour and limited supply, the pressure on wage growth was growing during the year, and pay growth exceeded 10% y-o-y at the end of 2007.

#### **Interest Rates**

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

#### Inflation

Consumer price growth accelerated quite significantly in 2007, reaching 4% y-o-y in December, against 1.4% y-o-y at the end of 2006. However, the rise in inflation was caused mainly by the increase in prices of food and crude resources. Net inflation (excluding prices of food and fuel) remained low throughout the year, close to the lower end of allowed fluctuations band around the target.

#### **Deposits and Loans**

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

# **BZ WBK Group Financial Performance in 2007**

BZ WBK Group was operating in a highly competitive environment and a dynamically changing Polish banking sector. In these demanding conditions excellent financial results were achieved due to the pursued strategy and positive business development trends.

From a shareholder perspective basic EPS increased to PLN 13.09 in 2007 from PLN 10.39 in 2006, i.e. by 26%. Receivables due from customers increased by 36% while deposits entrusted with the Group by 23%. The quality of assets improved regularly which was reflected in the reduced NPL's ratio - from 4.9% to 2.8% (one of the best ratios in the sector).

Worth emphasising, along with very good results of the bank is the performance of its subsidiaries, and in particular of BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., BZ WBK AIB Asset Management S.A., Dom Maklerski BZ WBK S.A., BZ WBK Leasing S.A. and BZ WBK Finanse & Leasing S.A.

#### **Profit and Loss Account**

In 2007, Bank Zachodni WBK generated PBT of PLN 1,391.4m and was 31% up on 2006, whereas PAT totalled PLN 954.7m and was up by 26%. ROE reached 28.2% (in 2006 – 23.7%).

#### Income

In 2007, the Bank Zachodni WBK Group generated the total income of PLN 2,992 m, 23.9% up on 2006. Net interest income totalled PLN 1,287m against PLN 1,031m in the previous year. This growth was achieved due to the growing scale of operations and favourable changes in their structure, and due to dynamic growth of business loan portfolio and significant increase of current deposits.

Fee income reached PLN 1,545m and increased in 2007 by 29.7%. Due to the flow of monies to the investment funds managed by BZ WBK AIB TFI S.A. and private portfolios of BZ WBK AIB Asset Management S.A., there was a dynamic increase in the asset management and distribution fees by 65%. The dynamics of Dom Maklerski BZ WBK S.A.'s (Brokerage House) net broker fees totalled 37% which was prompted by the larger scale of activity on the Warsaw Stock Exchange.

Dividend income – totalling PLN 64.7m – went up by 13% y-o-y. In 2007, the bank received a dividend from Commercial Union Group totalling PLN 60.3m (in 2006 – PLN 53m).

#### Costs

Total operating costs of the Bank Zachodni WBK Group closed at PLN 1,597m and were 20% up on 2006.

Staff costs increased by 23% to PLN 843m at the end of 2007 due to, among others, larger employment, pay increases, performance-related bonuses and costs of development programmes.

With significant growth of business scale, administrative costs increased by 30.1% y-o-y and equalled PLN 581.9m.

This movement results mainly from the Group's intensive promotional activity aimed to support the sales of its strategic products.

As a consequence of the development and modernisation initiatives, there was also a significant growth in the cost of premises renovation and equipment supply to branches.

Higher contribution to costs was also recorded in IT usage and development driven by costs related to IT projects which are designed to provide the infrastructure to foster further business growth of the bank and its subsidiaries.

High growth in the Bank Zachodni WBK Group income paralleled by rational and controlled cost increase resulted in the reduction of the Cost/Income ratio, which is now at the level of 53.4%, down from 55.1% in 2006.

#### **Balance Sheet**

As at 31 December 2007, the balance sheet total of the Bank Zachodni WBK Group was PLN 41,343m, i.e. 25.3% up on 2006.

#### Loans

As at the end of December 2007, net receivables from customers totalled PLN 23,950m and exceeded the balance recorded 12 months earlier by 36% as a result of the growth in personal loans, business loans and leasing receivables. Comparing to the end of 2006, the portfolio of receivables from business entities totalled PLN 15,945m and grew by 32%. Over 12 months, the value of personal loans increased by 44% to reach PLN 6,110m while the strongest lending growth was witnessed in the area of cash loans (+61%) and Polish zloty mortgages (+52%).

#### Deposits

At the end of December 2007, liabilities towards customers totalled PLN 29,766m to exceed the level recorded 12 months earlier by 23% driven by a significant growth in the balances of businesses' and public sectors' deposit accounts as well as the growth in current assets entrusted by personal customers.

The value of funds in personal customers', businesses' and public sector units' current accounts (excluding one-day deposits) closed at PLN 14,021m and was higher than the 2006-end balance by 73%.

Over the past 12 months, the term deposits base (including one-day deposits) totalled PLN 15,310m and was at the similar level to the end of 2006.

# Performance of Bank Zachodni WBK Shares

On a year-on-year basis, Bank Zachodni WBK share price grew by 11.6% (up to PLN 251 as at 28 December 2007). In 2007 sectoral WIG Banks index increased by 12.2% and WIG 20 index by 5.2%.

Over the first half of 2007, the price of Bank Zachodni WBK shares increased by 28.9% (from PLN 225 as at 29 December 2006 to PLN 290 as at 29 June 2007) to decelerate during the rest of the year under the impact of share price adjustments on the Warsaw Stock Exchange. The decrease in share prices was triggered by the turmoil in the global financial markets (including the downturn on the US mortgage market).

The Bank Zachodni WBK share price hit a record high of PLN 315.3 on 4 May 2007, while the lowest yearly level (PLN 215) was recorded on 10 January 2007.

# Rating

On 4 July 2007 Fitch Ratings Agency had affirmed Poland-based Bank Zachodni WBK's ("BZ WBK") ratings at Long-term Issuer Default 'A+', Short-term Issuer Default 'F1', Individual 'C' and Support '1'. The Outlook is Stable. The related press release noted that "the bank remains well capitalised, while profitability and revenue diversification continue to improve. Asset quality improved in 2006 and Q1 2007, and reserve coverage is good. The Long- and Short-term Issuer Default and Support ratings are based on the extremely high potential for support from BZ WBK's controlling shareholder, Allied Irish Banks ("AIB", rated 'AA-' (AA minus)/Stable Outlook) in case of need."

# **Corporate Governance and Best Practices**

Bank Zachodni WBK has always aspired to meet the highest corporate governance standards. This has recently been recognised when it was awarded the 5 star title "Spółka godna zaufania 2007" (Trustworthy Company 2007) in the fourth edition of WSE companies rating prepared by Kapituła Inwestorów Instytucjonalnych (Institutional Investors Award Committee) and Polski Instytut Dyrektorów (Polish Institute of Directors) based on the implementation of corporate governance rules and best practices.

In Puls Biznesu ranking - Stock Exchange Company of the year, published in the beginning of February 2008 Bank Zachodni WBK ranked second. The research was conducted by Pentor among 180 experts of capital market in Poland – brokers, analysts and investment advisors.

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Report of the Management Board on Bank Zachodni WBK Group Performance in 2007

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# I. General Review

# In 2007, the Bank Zachodni WBK Group achieved record-breaking profit-before-tax of PLN 1,391.4 $\rm m$

#### The key drivers of the consolidated profit included:

- strong momentum in credit delivery
- substantially higher deposit volumes
- inflow of assets to mutual funds and private portfolios in the first half of the year in the favourable stock exchange climate
- strong demand for brokerage, advisory and issuing services in the capital market
- growing bancassurance business
- improving sales effectiveness

# Financial Performance in Brief

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

- profit-before-tax was PLN 1,391.4m, an increase of 30.6% y-o-y;
- profit-after-tax was PLN 954.7m, an increase of 25.9% y-o-y;
- higher ROE (up to 28.2% from 23.7% in 2006);
- total income increased by 23.9% (of which commission income was higher by 29.7%), reflecting balanced business growth of the bank and its subsidiaries;
- improvement of operational efficiency (C/I ratio down from 55.1% to 53.4%) against controlled cost increases driven by the growth of business and the requirements of development projects;
- further reduction in the NPL ratio (from 4.9% to 2.8%), confirming the Group's sound credit risk management;
- lower provisioning charge (PLN 3.9 m versus PLN 28.3 m in 2006) as an effect of solid credit decision-making processes and effective debt collection.

# Key Factors Affecting the Group's Profit and Activity

#### Favourable external environment, including:

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

#### Diversified business growth:

- rapid growth of credit volumes: cash loans (+61%), PLN mortgage loans (+52%); leasing (+36%); business loans (+32%);
- substantial growth of deposit base (+23% y-o-y);

- higher asset base of mutual funds and private portfolios (+35% y-o-y) despite the downturn movements on the stock exchange;
- strong position of Dom Maklerski BZ WBK S.A. in the brokerage services market (trading in the equity market increased by 33%);
- fast-paced development of promising business lines: bancassurance, third-party services, advisory and share issue services in the equity market;
- functional, procedural and pricing improvements in products and services.

#### Effective risk and cost management:

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

#### Strong focus on service quality:

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

#### Dynamic development of distribution channels:

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

# **Other Key Developments**

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

# II. Macroeconomic Environment in 2007

## **Economic Growth**

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

## Labour Market

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

## **Interest Rates**

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

## Inflation

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

## Loans and Deposits

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

# **FX Market**

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

# III. Basic Information

# 1. History and Current Status of Bank Zachodni WBK

## Background

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

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

# **Current Status and Scope of Activities**

#### **Universal Bank**

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

#### Key Features of the Offering

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

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

The credit offer addressed to personal customers is likewise comprehensive, its core feature being attractively structured home and cash loans.

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

#### **Distribution Channels**

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

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

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

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

Bank Zachodni WBK also has a network of 674 ATMs in convenient and most frequented locations.

#### **Electronic Banking Services**

Bank Zachodni WBK offers a modern package of electronic banking services called BZWBK24 which gives retail and business customers a convenient and safe access to the accounts via phone, mobile or the Internet, thus facilitating financial management. Business customers can choose between the standard BZWBK24 package and the "Moja firma Plus" package which comes with a number of additional functionalities and a higher transaction limit. The bank ensures the highest security of electronic services by having transactions authorized through the text message (smsKod) or token while access to BZWBK24 Internet is safeguarded by a masked password. Also, customers can monitor the IP addresses that are used for logging onto BZWBK24, as well as authorize their Internet-based transactions using the 3D Secure technology. In addition to the BZWBK24 solution, corporate customers can avail of Minibank24, a pc-banking system whose functionality covers a broad range of safe banking transactions.

# 2. Lending Policy

The bank pursues a policy oriented towards maintaining high quality of the loan portfolio by applying and monitoring policies that mitigate the credit risk.

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

Credit manuals of Bank Zachodni WBK govern processes related to personal, commercial and corporate lending as well as securities. The individual credit policies provide a direction for lending activity and conditions on which the bank is willing to lend to specific client categories. These include "FX Lending and Guarantees Policy", sector policies, policies addressing lending to individual client segments (corporate, SMEs, local authorities) and "Credit Scoring Policy". Individual credit products are regulated in detail in their respective procedures.

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

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

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

# 3. Performance of Bank Zachodni WBK Shares

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

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

(as of 2 January, 2007=100)



# 4. Bank Zachodni WBK Rating

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

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

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

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

# 5. Composition of Bank Zachodni WBK Group

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

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

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

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



# Entities fully connected with Bank Zachodni WBK S.A.

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# IV. Financial Performance in 2007

# 1. Profit and Loss Account

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

in PLN m			
Profit & Loss Account	2007	2006	Change
Total income	2,991.7	2,415.0	+23.9%
Total costs	(1,596.6)	(1,330.9)	+20.0%
Impairment losses on loans and advances	(3.9)	(28.3)	-86.2%
Profit-before-tax*	1,391.4	1,065.5	+30.6%
Income tax	(280.7)	(221.3)	+26.8%
Profit-after-tax attributable to minority equity holders	156.0	86.0	+81.4%
Profit-after-tax attributable to BZWBK shareholders	954.7	758.2	+25.9%

\* includes profit attributable to the entities accounted for using equity method (PLN 0.2m for 2007; PLN 9.7m for 2006)

In 2007, the Bank Zachodni WBK Group posted the profit-before-tax of PLN 1,391.4 m, an increase of 30.6% y-o-y. The profit-after-tax attributable to the shareholders of Bank Zachodni WBK was PLN 954.7 m and higher by 25.9% y-o-y. These results were achieved due to the very strong performance of the bank and its subsidiaries, particularly BZ WBK AIB Asset Management S.A., BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. and Dom Maklerski BZ WBK S.A.

#### Profit-before-tax of the BZ WBK Group in the years 2005-2007 (in PLN m)



#### Income

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In 2007, the Group posted a total income of PLN 2,991.7 m, an increase of 23.9% on the previous year. The main components of the total income were as follows:

in PLN m			
Total income	2007	2006	Change
Net interest income	1,286.7	1,031.7	+24.7%
Net commission income	1,545.0	1,191.4	+29.7%
Dividend income	64.7	57.3	+12.9%
Net trading income and revaluation	67.9	43.4	+56.5%
Result on other financial assets	(25.5)	32.0	-
Other income	52.9	59.2	-10.6%
Total	2,991.7	2,415.0	+23.9%

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



#### Net Interest Income

Net interest income amounted to PLN 1,286.7 m in 2007 compared with PLN 1,031.7 m posted in 2006. Due to the presentation changes made in June 2007, this line includes interest on hedging derivatives and profit realised on options whose underlying instrument is an index used in the calculation of the tracker bonds' return rate (total impact of these elements on the net interest income was PLN 30.3 m in 2007 versus PLN -2.5 m in 2006). Taking into account other interest-related income from FX Swaps and Basis Swaps recognised in net trading income (PLN 21.5 m in 2007 and PLN 24.7 m in 2006), the underlying net interest income increased by 23.8% y-o-y. This was achieved due to the growth of business and favourable changes in its structure, with particular impact from the fast growing business and cash loans and a substantially higher volume of demand deposits. The NBP interest rate increases were another driver of the net interest income growth, leading to a higher deposit margin achieved by the bank, but with little effect on the credit margin which was heavily restrained by the competitive market requirements.

#### **Net Commission Income**

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Nat assumination in some	2007	2007	Change
Net commission income	2007	2006	Change
Distribution of mutual funds and asset management	646.5	391.3	+65.2%
Account maintenance and cash transactions	221.1	225.8	-2.1%
FX fees	211.4	188.3	+12.3%
e-Business & Payments	193.5	180.4	+7.3%
Brokerage fees	145.0	106.1	+36.7%
Credit fees	46.8	44.8	+4.5%
Insurance fees	42.5	20.7	+105.3%
Other	38.2	34.0	+12.4%
Total	1,545.0	1,191.4	+29.7%

Net commission income amounted to PLN 1,545 m and increased by 29.7% y-o-y driven by further expansion of the bank's and subsidiaries' business. The most noteworthy changes are as follows:

- The Group's net fee income from fund distribution and asset management reached a record level of PLN 646.5 m and increased by 65.2% y-o-y due to the inflows of assets to the mutual funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. and private portfolios of BZ WBK AIB Asset Management S.A. (net assets increased by PLN 6.8 bn y-o-y).
- Net commission income of Dom Maklerski BZ WBK S.A. increased by 36.7% y-o-y to PLN 145 m as a result of the company's good trading on the equity market, arrangement of share transactions in the primary market and the increased market-making activity.
- The bancassurance line is becoming an increasingly important contributor to the fee income. In 2007, it generated income of PLN 42.5 m which is more than double the figure reported a year before, resulting from the growing sales of cash and mortgage loans insurance and the launch of the investment-linked policy.

- As a result of presentation changes in the profit and loss account effected in June 2007, the net commission income also includes the fees on customer FX transactions (PLN 211.4 m in 2007 and PLN 188.3 m in 2006). In the previous periods, these items were recognised under FX profit. The growth of 12.3% in this profit reflects the stronger customer activity at the branch level and higher volumes of Treasury-based corporate negotiated trading.
- The net commission income reported by the e-Business and Payments Area increased by 7.3% to PLN 193.5 m. Two product lines in this Area grew particularly strongly and consequently produced noticeable fee income increases, namely "debit cards" (+24%) and "services to third-party financial institutions" (+20%). The former line was driven by larger number of debit cards and higher frequency of their use, whereas the latter was impacted by the expansion of the customer base and the scope of services provided. The fee growth generated by the above-mentioned product lines was partly offset by lower income from international payment orders, an effect of the fee reductions in the second half of 2006.
- The 2.1% decrease in fees and charges for account maintenance and cash transactions (to PLN 221.1 m) resulted from the higher number of negotiated tariffs for business accounts, the increased migration of customers to electronic channels and the continued reduction of selected personal account maintenance fees.

#### **Dividend Income**

Dividend income of PLN 64.7 m increased by 12.9% as a result of a higher dividend paid out by the Commercial Union Group members included in the bank's equity investment portfolio. In 2007, these entities disbursed PLN 60.3 m in dividends to the bank as compared to PLN 53 m a year before.

#### Net Trading Income and Revaluation

Net trading income and revaluation increased by 56.5% up to PLN 67.9 m due to higher income achieved by the bank from derivative transactions and the profits earned by the Brokerage House from its market-making activity. This line also includes income from FX bank-to-bank operations and other FX trading income (PLN 24.9 m in 2007 and PLN 19.8 m in 2006), previously disclosed in FX profit.

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

The negative result of PLN 25.5 m from other financial assets emerged on the disposal of debt securities from the investment portfolio which had been created by the bank as part of the Group's structural balance sheet risk management (in compliance with the bank's NIRIL - net interest rate insensitive liabilities - management policy). This decision was supported by interest rate hikes and the consequent availability of financial instruments having similar risk profile and higher yield for future periods.

The result on other financial assets also contains the profit earned on the disposal of TIM S.A. shares from the equity portfolio of the bank's subsidiary BZ WBK Inwestycje Sp. z o.o. The sale of TIM S.A. shares in 2007 generated a profit of PLN 3.3 m, while a corresponding transaction concluded a year before yielded PLN 22.6 m.

This line also includes hedge accounting result which shows a negative variance of PLN 3.2 m y-o-y. Prior to the changes in presentation, this item was recognised in a separate profit and loss account line.

# Loan Impairment Charge

The loan impairment charge to the profit and loss account was PLN 3.9 m, which is 86.2% lower than in 2006. This is the outcome of a number of factors, particularly the effective debt collection, the borrowers' improved service of their debts covered by the "old portfolio" and the high quality of the new loans. With the substantial y-o-y growth in lending volumes (+35.9%), the level of the loan impairment charge confirms the soundness of the Group's credit risk management framework and a sharp focus on ensuring high quality of the portfolio. The effectiveness of this approach to risk management is also evidenced by further reduction of the NPL ratio. At the end of December 2007, the non-performing loans accounted for 2.8% of the gross portfolio with a provision cover at 65.3%. A year before, the corresponding ratios were 4.9% and 60.7%.

### Costs

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The sharp increase in the revenue of the Bank Zachodni WBK Group combined with the rational and controlled cost increases, led to a reduction of the cost-to-income ratio from 55.1% to 53.4% for 2007. This trend confirms the organisation's cost effectiveness, particularly given the fact that the improvement was attained amid the rapid business growth and numerous development initiatives.

Total costs of the Bank Zachodni WBK Group amounted to PLN 1,596.6 m in 2007 and were higher by 20% y-o-y. The main components were as follows:

IN PLN m			
Total costs	2007	2006	Change
Staff and other administrative expenses	(1,424.7)	(1,130.9)	+26.0%
Depreciation	(134.6)	(158.8)	-15.2%
Other operating costs	(37.3)	(41.2)	-9.5%
Total	1,596.6	1,330.9	+20.0%

#### Staff and Other Administrative Expenses

The staff and other administrative expenses of the Group were PLN 1,424.7 m and 26% up y-o-y, driven by dynamic business development of the bank and its subsidiaries as well as delivery of successive stages of the strategic programmes.

#### • Staff Expenses

Staff costs increased by 23.3% y-o-y to PLN 842.8 m as a result of higher employment driven by developing business (+1,131 FTEs), pay increases linked to the annual performance review, growing competition for banking experts in the labour market, bigger performance-related bonuses as well as the cost of development programmes for the managerial staff at all levels.

#### • Other Administrative Expenses

With a strong business growth, the Group's other administrative expenses increased by 30.1% y-o-y to PLN 581.9 m. This movement results mainly from the Group's intensive promotional activity designed to support the sales of its strategic products, e.g. BZ WBK Arka mutual funds, cash loans, home mortgages, savings accounts and selected personal accounts. The office space lease and maintenance expenses were also a strong driving force due to the bank's expansion of distribution channels, including the branch network, the Mobile Sales network, the Corporate Business Centres and their supporting functions in the Business Support Centre. As a consequence of the development and modernisation initiatives, there was also a significant growth in the cost of premises renovation and equipment supply to branches. Consultancy costs increased as well, due to the larger number of projects requiring expert skills. The Group's savings initiatives (renegotiation of contracts, monitoring of suppliers' market, streamlining of internal processes) coupled with rigorous planning and control of operating costs budgets, continued to successfully reduce the administrative expenses.

#### Depreciation

Depreciation totalled PLN 134.6 m and decreased by 15.2% y-o-y due to the continued optimisation of the Group's asset base.

# 2. Balance Sheet

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

#### in PLN m

Balance Sheet Items	31-12-2007	Balance Sheet Structure 31-12-2007	31-12-2006	Balance Sheet Structure 31-12-2006	Change
Balance sheet total	41,332.1	100%	32,992.2	100%	<b>Change</b> +25.3%
	,		32,772.2	100 /0	+23.370
	Assets				
Loans and advances to customers*	23,949.7	57.94%	17,620.1	53.41%	+35.9%
Investment securities	9,763.7	23.62%	8,021.3	24.31%	+21.7%
Loans and advances to banks	2,576.9	6.23%	3,154.5	9.56%	-18.3%
Cash and operations with central bank	2,206.3	5.34%	1,534.5	4.65%	+43.8%
Financial assets held for trading	1,258.3	3.04%	1,104.6	3.35%	+13.9%
Other assets	1,577.2	3.83%	1,557.2	4.72%	+1.3%
	Liabilitie	S			
Deposits from customers	29,765.7	72.02%	24,222.1	73.42%	+22.9%
Deposits from banks	4,483.5	10.85%	2,608.4	7.91%	+71.9%
Financial liabilities held for trading	996.9	2.41%	228.4	0.69%	+336.5%
Debt securities in issue	353.0	0.85%	646.3	1.96%	-45.4%
Other liabilities	1,156.3	2.80%	1,210.3	3.66%	-4.5%
Total equity	4,576.7	11.07%	4,076.7	12.36%	+12.3%

\* net of impairment

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



As at 31 December 2007, total assets of the Bank Zachodni WBK Group amounted to PLN 41,332.1 m and were 25.3% up y-o-y. The value and structure of the Group's balance sheet is determined by the bank's balance sheet which accounts for 94.8% of the consolidated total assets.

The main asset growth driver during past 12 months was loans and advances to customers (+35.9% y-o-y) which increased as a result of the strong credit delivery. Investment securities grew (+21.7% y-o-y) as part of the management of the Group's structural balance sheet risk. An increase was also noted in cash and operations with Central Bank (+43.8% y-o-y) and financial assets held for trading (+13.9% y-o-y), with a parallel fall in the loans and advances to banks (-18.3% y-o-y).

On the liabilities side, the Group posted a substantial increase in deposits from customers (+22.9% y-o-y) and banks (+71.9% y-o-y), higher financial liabilities held for trading (+336.5%) and a decline in liabilities from issue of debt securities (-45.4% y-o-y).

## **Credit Portfolio**

At the end of December 2007, net loans and advances to customers were PLN 23,949.7 m and 35.9% up y-o-y (+7.5% q-o-q) due to increasing volumes of the Group's key portfolios: business loans, retail loans and lease rentals. Gross loans and advances to customers amounted to PLN 24,534.7 m vs. PLN 18,266.4 m at the end of December 2006.

Loans and advances to business and public sector customers totalled PLN 16,104.7 m, of which the business loan-book was PLN 15,945.3 m and 32% up y-o-y, reflecting higher demand of enterprises for funding towards investments, stock and working capital requirements amid fast economic expansion. The credit delivery was strongly driven by corporate lending for long-term projects, mainly related to real estate. Loans for income-producing real estate were growing at the pace of 64.9% y-o-y to build a portfolio of PLN 6,800.7m at the year-end.

The value of retail loans increased by 44.1% y-o-y to PLN 6,109.7 m with the cash loans and home mortgages gaining strong momentum. Cash loans increased by 60.6% to PLN 1,571 m due to the bank's attractive offer and the effectiveness of its pro-active promotion and sales methods. Total home mortgage portfolio went up by 42.5% y-o-y to PLN 3,734 m (of which zloty-denominated lending increased by 52% y-o-y) as a result of the very good parameters of the bank's offering, improved financial standing of retail customers and favourable market trends.

The leasing portfolio increased by 35.7% to PLN 2,313.8 m owing to stronger performance of the Group's leasing companies (BZ WBK Leasing S.A. and BZ WBK Finanse & Leasing S.A.) in the two key assets categories: vehicles and machines & equipment.

#### Exposure structure of the Bank Zachodni WBK Group



The quality of the Group's loan-book continued to improve during the year, which is reflected in the declining NPL ratio, i.e. 2.8% vs. 4.9% at the end of December 2006.

The Bank Zachodni WBK Group complies with the Banking Law requirements with regard to the limits of exposures to a single entity or to a group of connected entities. The Group also maintains an adequate diversification of the credit portfolio in accordance with its policy on exposure to industries and financial groups. As at the end of December 2007, the highest concentration level of 24% was recorded in the property sector services.

#### **Deposit Base**

Deposits from customers, which represent 72% of the Group's total balance sheet, are the primary source of funding its lending business. At the end of December 2007, customer deposits totalled PLN 29,765.7 m and were higher by 22.9% y-o-y (+12.8% q-o-q).

#### Deposits from customers (in PLN m)



The value of funds deposited in current accounts of personal, business and public sector customers (excluding one-day deposits) was PLN 14,021.2 m and increased by 72.7% y-o-y. This growth is attributable to the greater number of accounts and the continued improvement of the financial standing of households and their rising optimism. The strong inflow of financial resources is also attributable to the bank's attractive savings account and its increasing popularity ensuing from the successful promotional campaign.

The term deposit base (including one-day deposits) was PLN 15,310.2 m and remained at a similar level when compared with end-2006, of which balances held by business and public sector customers grew by 19.5% due to increased activity and good financial performance of enterprises in the favourable macroeconomic climate. Business customers invested mainly for short-term, using the flexible maturity options and negotiating individual rates with the bank. Personal customers preferred short-term deposits as well, particularly the 1-month Lokata24 deposit.

# **Debt Securities in Issue**

As at the end of December 2007, the Group's liabilities arising from debt securities in issue amounted to PLN 353 m which represents a 45.4% decrease y-o-y. The decrease in the own bonds portfolio is an effect of the redemption by the leasing companies (BZ WBK Finanse & Leasing S.A. and BZ WBK Leasing S.A.) of their bonds at maturity, a total of 339m by nominal value.

#### 3. **Basic Financial Ratios**

Key financial ratios	2007	2006
Total costs /Total income	53.4%	55.1%
Net interest income / total income	43.0%	42.7%
Net commission income / total income	51.6%	49.3%
Customer deposits / total balance sheet	72.0%	73.4%
Customer loans / total balance sheet	57.9%	53.4%
NPLs ratio	2.8%	4.9%
NPL coverage ratio	65.3%	60.7%
ROE*	28.2%	23.7%
ROA**	2.6%	2.4%
Capital Adequacy ratio	13.27%	15.47%
Diluted earnings per share (in PLN)	13.06	10.38
Book value per share (in PLN) ***	62.73	55.88

The following were used in computations:

\* profit-after-tax attributable to BZ WBK shareholders and equity as at the end of December net of current profit and minority interests;

\*\* profit-after-tax attributable to BZ WBK shareholders and average assets derived from balances as at the end of comparable periods (end of December in a reporting year and end of December of the previous year); \*\*\* total equity per number of BZ WBK shares.

#### **Interest Rates on Loans and Deposits** 4.

Bank Zachodni WBK offers its customers interest rates on products linked to the market rates and the base NBP rates. Generally, the interest rates on business loans are based on the price of money in the wholesale interbank market (WIBOR, LIBOR), increased by a margin commensurate with the credit risk attaching to the transaction/customer. The margin is determined in the credit assessment process.

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

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

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

# V. Business Development in 2007

# 1. Review of Key Business Development Directions

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

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

#### Diversification of the savings and investment product offer:

- introduction of an innovative structured product (Investment-Linked Policy);
- commencement of the sale of new mutual funds (Arka BZ WBK CEE Equity FIO, Arka BZ WBK New Europe Development FIO);
- more attractive offer of a savings account.

#### Alignment of the bank's package offering to the adopted customer segmentation, including:

- VIP customers (new package);
- customers travelling for economic or tourist purposes (free-of-charge personal accounts denominated in GBP, EUR and USD with debit cards settled in respective currencies).

#### Increasing the competitiveness of the bank's credit offer:

- increasing the availability of loans for retail customers;
- optimisation of processes and minimisation of the documentation requirements for retail customers and SMEs;
- expansion of the scope of insurance cover for mortgage borrowers.

#### Intensified acquisition activities on the markets with a large business potential:

- property market (financing residential and income-producing real estates);
- cash loans market (diversification of delivery channels);
- capital market (arrangement of bond issue, management of shares issues in the primary and secondary market, comprehensive consultancy).

#### Pro-active selling of BZ WBK Group products and services using a variety of tools, such as:

- advertising campaigns (BZ WBK ARKA mutual funds, cash loans, housing loans, Account<30, FX account, savings account, etc.);
- pricing incentives and cross-selling campaigns.

#### Implementation of the sales network development strategy to increase the Group's market share:

- opening of 34 new branches (more than 20 additional branches ready to be opened at the beginning of 2008);
- launch of 26 Minibank agencies;
- expansion of the Mobile Sales network.

#### Completion of the first phase of implementation of the new Business Banking and Private Banking models:

- pilot opening of the Business Banking Centre;
- establishment of the Private Banking Office for high net worth customers.

#### Rapid development of electronic banking channels and products:

- implementation of on-line sales of further mass products (savings account, cash loan, credit card);
- expansion of functionality;
- increased transaction security (masked password, 3D Secure service);
- issuing co-branded cards in co-operation with new partners (Newsweek Polska, Lech Poznań Sports Club);
- new innovative products availailable (contactless cards, Ski Credit Card).

#### Development and implementation of comprehensive procedural and IT solutions to support key internal processes:

- Customer Relationship Management (CRM);
- central account management;
- initial decision for mortgages;
- sale of products through the agency outlets;
- management of sales campaigns, arrears, complaints, etc.

#### Constant improvement of service quality.

Increased scale of third-party services (cards, ATMs).

# 2. Development of Customer Service

## Customer Relationship Management (CRM)

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

The customers who use sophisticated products and expect customised advice are approached proactively by the bank in order to better understand their needs and strengthen the business co-operation with them. The customer's direct contact with the dedicated advisor allows CRM to provide a tailored service, satisfy diverse needs and establish strong ties. The type and frequency of contact with the customers is regularly planned and monitored by the bank.

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

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

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

## Service Quality Management

#### Service Quality Programme

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

branches. As a result of these initiatives, the survey conducted in the fourth quarter of 2007 yielded a higher Customer Satisfaction Index than before.

#### **Active Service and Sales Standards**

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

#### "Client-Friendly Firm"

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

#### **Customer Care Officer**

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

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

#### **Process Management**

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

In 2007, a significant number of processes were improved, ensuring high quality of service and customer satisfaction. Among these were: centralisation of bank accounts management (replacement of paper documents with electronic ones in branches), pre-generation of PINs for credit cards (PIN is issued when the customer submits the credit card application) and pilot implementation of the front-score for mortgage loans.

#### **ISO** Accreditation

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

- Treasury dealing and documentary transactions support;
- Vendor selection for BZ WBK Group;
- Processing of domestic and international transactions and Western Union Money transfers;
- Change management, software development and testing;

- Central support of credit and deposit facilities;
- Sale and support of Direct Banking products and services;
- Issue, personalisation and handling of payment cards and cheques;
- Cash and ATM management;
- Central service delivery.

# 3. Development of Products and Services

#### **Retail Loans**

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

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

#### Retail loans (in PLN m)



#### Mortgage Loans

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

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

#### Mortgage loans (in PLN m)



#### **Cash Loans**

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

#### Cash loans (in PLN m)



#### **Credit Cards**

In 2007, Bank Zachodni WBK continued initiatives aimed at acquiring subsequent partners for issuing co-branded cards. These products have been increasingly popular given the value added, i.e. attractive loyalty programmes. In January 2007, the bank and the Allegro.pl portal jointly issued a co-branded Allekarta card which was deemed the best card of this type available on the market by the Forbes magazine (edition dated 31 May 2007). Two other co-branded cards (Visa LuxMed and Visa Multikino) were ranked 4th and 5th, respectively. In November – in co-operation with Newsweek Polska – the bank launched the sales of another co-branded card, namely Visa Newsweek which provides active cardholders with subscription of the magazine. The bank's innovative focus is well-exemplified by the limited edition of Narciarska Karta Kredytowa (Ski Credit Card) MasterCard Silver (standard card) which provides insurance policy for skiers and snowboarders (valid all over the world in the winter season 2007/2008) and a programme of price discounts for skiing equipment.
In order to promote the active use of credit cards among customers, Bank Zachodni WBK carried out a number of promotional and sales campaigns, including an advertising campaign of credit cards ("Potrafi więcej niż inne"/ "It is capable of more than others"), a cross-selling promotion for holders of BZ WBK Arka mutual funds and a price promotion aimed at encouraging the customers to pay by credit cards at merchants more often. Moreover, the bank implemented a special credit card proposition targeted at students from many Polish universities and colleges.

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



### **Personal Accounts**

In order to increase the effectiveness of service processes and sales, in 2007 the bank implemented three new processes of selling personal accounts. Since March, customers can open the Konto24 Euro account together with BZWBK24 services and obtain a MasterCard debit card based on the eWniosek (electronic application) placed via Internet or telephone. In May, the bank introduced a "fast track" procedure for opening personal accounts in the branches, whereby the duration of this procedure has been reduced to 10 minutes and owing to further modifications of the process (e.g. the option to choose a specific package of products), even more time savings have been achieved. In September, Bank Zachodni WBK enabled its customers to activate personal accounts with a payment card without having to visit a branch.

#### Konto<30 and Konto24 Prestiż

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

#### Konto24 VIP

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

### **Deposit and Investment Products**

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

#### **Deposit Products**

The increase in interest rates on the full range of deposits offered by the bank contributed to the positive perception of the bank's deposit proposition in the eyes of the customers. The bank was the first to respond to the change in the NBP interest rates in May 2007 and was flexible in adjusting its proposition to the changing environment going forward. In 2007, the savings account became the flagship deposit product of Bank Zachodni WBK due to its huge popularity amongst customers. The gradual growth in interest in this product noted in the first half of the year was a result of making the account available on the Internet (BZWBK24) and the campaign informing customers about its advantages: easy access (new functionality of BZ WBK electronic services), high interest rate (at the level for term deposits) and high liquidity (possibility to withdraw funds at any time and in any amount without losing interest). Increase of the interest rate to 5% (for the highest value threshold) towards the end of the year and promoting this parameter in the intense advertising campaign entitled "Nowa Era Oszczędzania. Megazarabiające Konto oszczędnościowe"/"New Saving Era. Ultra Profits Saving Account" proved very successful.

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



#### **Saving and Investment Products**

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

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

### **Debit Cards**

#### New Items in Debit Cards Proposition

In March 2007, the bank launched the sale of Konto24 VIP for Personal Banking customers, offered together with the Visa Electron VIP package and a wide range of free-of-charge services. For customers who work abroad, the FX card offer was expanded to include MasterCard debit cards issued to the personal account denominated in GBP and USD. Customers may thus use free-of-charge personal accounts maintained in three foreign currencies (EUR, GBP and USD) and the accompanying debit cards which are settled in the account currency. July 2007 saw subsequent two propositions: Visa KKS Lech co-branded card prepared for personal customers in liaison with KKS Lech Poznań football club (bar code placed at the back allows the card holders to enter the stadium) and Visa Business fx card issued to the business account in EUR. Starting from 2007, another innovation, i.e. prepaid Premium card without a specified nominal value has been available as part of the bank's proposition. In December 2007, Bank Zachodni WBK in cooperation with MasterCard Worldwide and Centrum Elektronicznych Ustug Ptatniczych eService (E-Payments Services Centre) introduced contactless payments to the Polish market by issuing pre-paid Maestro PayPass cards. The solution enables quick and safe payments for small shopping by way of waving a card over a special reader.

#### Debit cards (in thousands items)



#### **New Functionalities and Marketing Actions**

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

2007 saw a further growth in the number of Bank Zachodni WBK debit cards (+22% y-o-y) and, in particular, Visa Electron<30, Visa Electron Prestiż, MasterCard in EUR, Visa Electron Business cards as well as affinity and gift cards. The sale of these products was fuelled by numerous promotions and activation programmes undertaken in co-operation with the bank's partners. The bank also participated in initiatives carried out by Visa Int. and MasterCard Int. with a view to activating the non-cash payments market. All these actions translated into a 38% increase in the number of transactions effected with the use of debit cards at merchants.

### **Insurance Products**

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

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

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

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

### **Proposition for Business Customers**

#### **Credit Processes**

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

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





#### **Proposition for Corporate Customers**

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

The services offered to corporate customers include a wide range of credit facilities ranging from working capital to longterm asset financing to meet general expansion needs, acquisition and project finance. The bank also provides a broad range of Deposit, Treasury and Cash Management products, including FX and interest rate management products, international trade finance, cash pooling, mass payments, electronic banking and others. In liaison with its subsidiaries, the bank offers specialised services, including brokerage, equity and asset management services as well as leasing and factoring. In addition, the Bank Zachodni WBK branch network offers special incentive packages for staff of corporate customers. Bank Zachodni WBK continues to strengthen its presence on the corporate banking market, which is well reflected in the high growth both in the credit and deposit portfolios witnessed in 2007 as compared to the previous year. Credit expansion was achieved across all sectors, with the strongest contribution from structured finance and loans for income-producing real estate. The Bank's Corporate Banking Lending Policy is to strongly support business development of the existing customers and to establish relations with new customers where a strong management team and sound business strategy exists. The quality of the corporate credit portfolio is very high and shows significant improvement over the past years.

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

#### • Expanding SME Customer Base and Providing Finance

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

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

#### • Medium Business Service

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

#### • Financing Projects with the Use of EU Funds

Bank Zachodni WBK proposition of financing undertakings subsidised by the EU comprises a loan, leasing and borrowing and ensures financing of both the subsidised investment part and the remaining outlays. In 2007, the EU product proposition was expanded by Biznes Ekspres Unijny based on the structure of Biznes Ekspres loan, popular amongst the bank's customers. Similarly, it can be earmarked for any objective related to business operations. The customer needs to meet a minimum number of formalities and is ensured a lending decision within 24h from the submission of a complete credit application. The bank's important advantage on the EU funds market is its extensive network of EU advisors (ca. 200) supporting customers with their specialised knowledge of EU programmes and requirements to be met by entities seeking investment-related subsidies.

The bank intends to maintain its established position on the EU funds market going forward. To this end, the Bank has commenced intense preparatory work aimed at servicing structural funds from the new 2007-2013 budget. As part of the adopted strategy, sales structures were strengthened, proposition modified, EU advisors trained and relevant sales and promotion plans designed.

#### Proposition for Farmers

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

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

### **International Settlements**

#### **International Payments**

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

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

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

#### Western Union Money Transfers

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

#### **Trade Finance**

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

### Provision of e-Services to Financial Institutions

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

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

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

### **Investment Banking**

#### **Arrangement of Debt Securities Issues**

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

#### **Advisory Services**

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

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

#### **Equity Portfolio Management**

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

- Having obtained the approval of the Polish Financial Supervision Authority, in March 2007 Bank Zachodni WBK purchased 152 shares issued by Commercial Union Powszechne Towarzystwo Emerytalne BPH CU WBK S.A. from BPH S.A. at PLN 22.2 m, thus increasing its shareholding in the company to 11.1%.
- In December 2007, the transfer of 980,517 shares of NFI Magna Polonia S.A. for redemption to the issuer was settled. The transaction yielded a revenue of PLN 17.16 m.

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

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

#### **Announced Equity Investment**

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

### Treasury

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

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

Throughout 2007, Wholesale activity reported very strong gains, primarily through strategic interest rate positions taken in anticipation of rising PLN interest rates. A positive yield curve and higher repricing of assets following the credit and liquidity crunch, while overnight rates remained low, all contributed to the strong gains. These gains have been realized within the framework of a conservative appetite to risk taking, consistent with previous years.

Treasury has responsibility for the day-to-day funding and liquidity management of the Group Balance Sheet. The turmoil on Global Stock and Money Markets in the second half of 2007 as a result of US sub-prime difficulties had no adverse impact on the funding and liquidity of Bank Zachodni WBK. The bank is still a net provider of funds to the Polish Interbank market and is not reliant on the markets, either Polish or International, as a net source of funding. The bank's lending activities are funded by a stable deposit base (Bank Zachodni WBK Group loan/deposit ratio was 80% at the end of 2007), and the overall liquidity position remains comfortable.

## 4. Development of Distribution Channels

### **Branch Network**

At the end of December 2007, the bank's branch network consisted of 406 outlets (physical locations excluding 12 rationalised branches operating within the structures of other outlets) and was divided into 14 regions supervised by three Macroregions in Poznań, Warsaw and Wrocław. The regional and macroregional offices provided direct business and operational support to the local branches. Last year intensive efforts were made to modernise the branch network, including replacement of equipment, security systems and computer hardware. Also, the branch banking development strategy until 2011 was followed with 34 new branches opened until end-December out of the 50 scheduled to be launched in 2007. Most of new branches were opened in the following Regions: Łódzki, Warszawski, Pomorsko-Mazurski, Zachodniopomorski, Małopolsko-Podkarpacki and Śląski. The delay in execution of the strategy was caused by external factors (telecoms infrastructure, formal obstacles) and will be made up for early in 2008 with the launching of more than 20 new branches.

### **Corporate Business Centres**

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

### **Electronic Distribution Channels**

#### BZWBK24

The BZWBK24 electronic banking service underwent dynamic growth in 2007.

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

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

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

Compared to the same period last year, the total number of BZWBK24 users grew by 27% y-o-y, up to 1,114 k as of the end of December 2007.

#### BZWBK24 customers (in thousands)



#### **Other Internet Services**

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

### ATMs

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

### **External Distribution Channels**

#### Mobile Sales

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

#### Franchising Network – "Minibank"

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

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

## 5. Development of BZ WBK Subsidiaries

### BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.

Strong performance of the mutual funds slowed down in the second half of 2007 given a series of downturns on the stock exchange. Nevertheless, the value of assets managed by domestic mutual funds grew by 37% on a yearly basis.

In 2007 mutual funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych grew at the market rate. The value of assets accumulated by the company went up by 32% to PLN 22,626.3 m at the end of December 2007. This performance gave the company a market share of 16.8% and the second position on the domestic market.

Out of Arka funds, it was Arka BZ WBK Zrównoważony FIO (BZ WBK Arka Balanced Fund) that witnessed the biggest inflow of funds (PLN 1.5 bn, net) and accumulated PLN 7,050.1 m worth of assets at the year-end. The fastest growing Arka fund was Arka BZ WBK Funduszy Akcji Zagranicznych FIO (BZ WBK Arka Foreign Equity Fund) with a y-o-y growth rate of 118%. Another fast-growing fund was Arka BZ WBK Akcji FIO (BZ WBK Arka Equity Fund) which increased by 31% y-o-y to PLN 5,432.5 m. Substantial assets were also acquired by BZ WBK Akcji Środkowej i Wschodniej Europy (BZ WBK ARKA CEE Equity Fund). Owing to an efficient investment strategy, high rates of return and effective advertising campaign, this fund grew to PLN 1,175.2 m throughout the year. BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych launched the sales of participation units in Arka BZ WBK Akcji Środkowej i Wschodniej Europy (BZ WBK ARKA CEE Equity Fund) in April 2007. The fund was created to leverage the growth potential embedded in shares of companies based in new EU states or those aspiring for the EU membership.

The 4th quarter of 2007 saw the introduction of two sectoral funds: Arka BZ WBK Rozwoju Nowej Europy FIO (Arka BZ WBK New Europe Development FIO) investing in CEE companies from the infrastructure sector, and Arka BZ WBK Energii FIO (Arka BZ WBK Energy FIO) investing worldwide in companies from the power sector. The sales of the former were launched towards the end of 2007 whereas the latter was scheduled to start unlimited distribution from the beginning of 2008.

On 19 December 2007, closed-end fund Arka Global Index 2007 FIZ certificates were repurchased from investors for a price of PLN 154.33 which represents at least 54.3% return for the holders who acquired the certificates during the public subscription. The company started to wind up the fund on 29 December 2007.

Funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych have been recognized as the best-performing domestic funds for a number of years now. This is confirmed by many awards and top positions in prestigious rankings (see "Awards to Subsidiaries" in part IX).



#### Major ARKA BZ WBK mutual funds as at 31 December 2007 (in PLN m)

### BZ WBK AIB Asset Management S.A.

The strong customer interest in stock investments had a positive impact on the sale of private portfolios of BZ WBK AIB Asset Management, leading to their increase by PLN 1,353.3 m y-o-y to PLN 3,660 m. The biggest were equity and stable growth portfolios which increased over the year by 76% and 39%, respectively.

At the end of December 2007, the value of assets managed by BZ WBK AIB Asset Management coupled with investment funds under the management of BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych grew in comparison with the close of December last year by 35% to PLN 26,286.3 m.

### Dom Maklerski BZ WBK S.A.

In spite of downward trends observed on the equity market in the second half of the year, 2007 was a very good year for the Warsaw Stock Exchange (WSE) due to record-high volumes of trading in the equity and derivative market, growth in the IPOs value and launch of the new alternative market: NewConnect.

In this environment (especially favourable in the first two quarters of 2007), Dom Maklerski BZ WBK recorded its historically highest stock trading of PLN 50,288.5m, which was 33% up on 2006 and gave it a 10.9% market share. With such performance, the brokerage house ranked second in terms of stock trading volumes. However, taking into consideration the total value of stock and bond trading based on all the quotation systems available on the WSE, the brokerage house became the leader for the first time in its history.

In the futures market, which is the second most important WSE market, the brokerage house acted as an agent for concluding 2,021.1k transactions, an increase of 34% y-o-y. This represents a decline in the market share from 11.9% in 2006 to 10.9% in 2007.

Concurrently, Dom Maklerski BZ WBK S.A. grew its share in the futures market as the market-maker. The total value of trading generated by the brokerage house acting as market-maker went up, placing the company in the 4th position in the equity market and in the 6th position in the futures market, thus contributing to a significant increase in income.

In 2007, Dom Maklerski BZ WBK organised a number of share sale transactions in the primary market. The traded shares were issued by: PBG S.A., Koelner S.A. and Radpol S.A.

Dom Maklerski BZ WBK maintained its leading position among brokerage companies in Poland in terms of operated Internet accounts (Investor Online). Their number increased by 41% y-o-y to 50.2k at the end of December 2007. The company also improved its rate of migration of retail transactions to the Internet (in the futures market from 86% to 95%; in the equity market from 74% to 79%). Towards the end of 2007, BZ WBK Brokerage House was the first in Poland to have launched electronic services via mobile devices (Investor Mobile).

Owing to the significant income from brokerage fees, the primary market and the market-making activity, the brokerage house posted the highest profits in its entire history.

#### DM BZ WBK equity trading (in PLN m)



### BZ WBK Finanse & Leasing S.A. and BZ WBK Leasing S.A.

The leasing companies of Bank Zachodni WBK, e.g. BZ WBK Finanse & Leasing and BZ WBK Leasing offer products which finance a wide range of fixed assets. Thanks to the capital support from the bank, the companies can also successfully provide project finance.

The two leasing companies specialise in financing different asset categories. BZ WBK Finanse & Leasing focuses on the lease of machines, property, computers and office equipment for businesses. There is also a customised offer available for selected customer groups. BZ WBK Leasing specialises in financing vehicles for businesses and personal customers.

In 2007, both companies focused on projects aimed to increase the availability of leasing products. The customer financing policy was amended, including the principles regarding the maximum exposure or preliminary requirements for a customer to apply for a lease. Customers interested in a car loan may now obtain a facility for the purchase of a used vehicle from a natural person (previously only the authorized car dealers and second-hand traders were accepted). The investment financing offer for farmers was improved by extending the scope of agricultural equipment financing and lowering documentary requirements. The offer was expanded to include new items, such as lease of property and new insurance products. Both companies also devoted much time to the upgrade of external sales channels, i.e. a network of leasing advisors responsible for cooperation with fixed asset suppliers.

In 2007, the companies leased out PLN 1,757.5 m worth of assets, i.e. 47% more than in the previous year. The main sales driver was the lease of vehicles (+52%), which gained momentum along with a revival of the automotive market and changes in the leasing offer. The lease of machinery and equipment also grew at a good pace (+30%), which is attributable to a favourable market outlook, growing investments and improving service quality of BZ WBK Finanse & Leasing.

In 2007, BZ WBK Finanse & Leasing issued three series of bonds with a nominal value of PLN 56.8 m under the bond issue programme. The first two series covered bearer coupon bonds with a fixed interest, nominal value of PLN 100 and a 2-year maturity. The third series included bonds with the same features except for a floating interest (WIBOR 6M). In addition to that, on 21 November 2007 BZ WBK Leasing and BZ WBK Finanse & Leasing signed loan agreements with AIB and took out facilities of EUR 130 m and EUR 70 m, respectively, with 4-year maturity each. Thus acquired funds will be used to finance the expansion of core business.

As at 31 December 2007, the amount of credit liabilities of both leasing subsidiaries to financial institutions outside the Bank Zachodni WBK Group amounted to PLN 1.2 bn. These loans will be paid off between 2009 and 2013.

#### Leasing portfolio (in PLN m)



### BZ WBK Faktor Sp. z o.o.

BZ WBK Faktor provides recourse, non-recourse and export factoring. In 2007, the product range was extended to include reverse factoring, i.e. financing trade creditors. Also, the company intensified its co-operation with the Bank Zachodni WBK branch network, continued a training programme for the branch advisors and conducted sales campaigns in liaison with the bank.

In 2007, a total value of turnover processed by the subsidiary amounted to PLN 1,179 m and was 50% higher y-o-y thanks to the acquisition of new customers and a stronger activity of the existing ones. In terms of factoring turnover, the company was ranked 5th in Poland, with a market share of 6.3%.

### BZ WBK Inwestycje Sp. z o.o.

In 2007, BZ WBK Inwestycje continued its activities in the area of managing equity investments. In February 2007, the company disposed of TIM S.A. shares through the Warsaw Stock Exchange. The transaction, which involved the sale of 115 k of shares yielded an income of PLN 3.3 m. As agreed with BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. in November 2003, on 19 December 2007 BZ WBK Inwestycje repurchased 264 k Arka Global Index 2007 certificates at PLN 40.8 m.

# VI. Further Growth Prospects

## 1. Strategy for 2007-2010

### **Key Strategic Assumptions**

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

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

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

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

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

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

### **Customer Relationship**

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

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

### Offering of Products and Services and their Distribution

#### **Developments for Retail Customers**

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

#### • Savings and Investment Products

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

#### • Retail Loans

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

#### Bancassurance

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

#### **Developments for Business Customers**

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

#### **Developments for Distribution Channels**

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

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

### Service Quality

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

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

### **Process Enablement**

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

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

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

### Targets for 2008

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

- Further increase of the bank's distribution power:
  - development of the branch, agents' and ATM network;
  - opening of mortgage houses (i.e. outlets specialising in the sale of mortgage loans);
  - establishment of co-operation with new partners to issue 'co-branded' cards, sell cash loans, debit cards and provide electronic banking services.
- Roll-out of new business models for the upper SMEs segment and the personal customers with high and stable financial potential:
  - opening of Business Banking Centres;
  - opening of Private Banking Offices;
  - offering VIP portfolios managed on individual basis (as part of Personal Banking service) and covered by a dedicated credit process.
- Introduction of independent sales processes in the Direct Banking channels (without branch involvement), distribution of products to SMEs via the phone and the Internet.

- Starting co-operation with the insurance companies established as a joint venture with Aviva International Insurance Ltd.; introduction of new insurance products and sale of selected products in the electronic channels.
- Further improvement of procedures and service quality, including central handling of selected loans and reduction of the decision turnaround time in the business credit delivery process.
- Harmonisation of the CRM model across the distribution channels, including implementation of a central repository of customer data, development of a communication strategy and CRM tools for electronic channels, introduction of the CRM model in the leasing subsidiaries and Dom Maklerski BZ WBK S.A.
- Increasing employees' competence and professional satisfaction through:
  - comprehensive skill development programme for all personal advisors, personal development programmes for employees from all the bank's divisions and the SME Skills Academy;
  - development and implementation of new incentive schemes for branches and business units;
  - providing comprehensive medical cover for all staff.
- Reinforcement of the bank's positive image and reputation through an optimised alignment of processes and procedures to the customer, regulatory and shareholder requirements (BASEL II, SEPA Programme, 3rd Directive on Money Laundering).

### 2. Macroeconomic Outlook for 2008

### Economic Scenario for Poland

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

### **Global Economic Scenario**

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

### Inflationary Pressure and Interest Rate Trends

Labour market will remain tight with upward wage pressure. This adds to the risk of medium-term inflation outlook. Until now, though, the fundamental inflationary pressure remains under control, which is reflected in a low net inflation. Nevertheless, CPI inflation in the first quarter of 2008 will exceed 4% y-o-y and may hit 3.8% on average throughout the year. Even though the main inflation contributors (prices of food and commodities) remain beyond the central bank's control, the Monetary Policy Council (MPC) fears a knock-on effect, e.g. demands for wage increases. Therefore, the MPC at its first meeting in January 2008 increased interest rates by 25 bp. It is likely to raise interest rates once again in the forthcoming months by 25 bp., though the threat of recession in the US and its possible adverse impact on the Polish economy may induce MPC to postpone this decision. The world's main central banks also face the danger of climbing food and oil prices, but they also have to factor in weakening of business activities. Hence, the American Fed will continue to cut rates (down to 2.25% or deeper) and the European Central Bank is likely to get on this track as well.

### **Financial Market**

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

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

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

# VII. Risk Management

## 1. Capital Management

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

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

Capital Adequacy ratio (CAD ratio) is a key measure in the capital management process. In accordance with the Banking Law, both Bank Zachodni WBK and the Bank Zachodni WBK Group are required to maintain this ratio at the minimum of 8%. The bank's policy is not to breach the target level of the solvency ratio at 10% (for the bank and the group). The tables below show the historical values of the CAD ratio:

#### Bank Zachodni WBK:

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

#### Bank Zachodni WBK Group:

in PLN m

	31-12-2007	31-12-2006
Total capital requirement	2,278.7	1,771.7
Own funds	3,780.7	3,427.0
CAD ratio	13.27%	15.47%

Reduction of the Bank Zachodni WBK Group's CAD ratio was primarily caused by the increase in the level of consolidated risk-weighted assets by 28.3% y-o-y due to the significant growth of the credit portfolio (+35.9% y-o-y).

As at 31 December 2007, the Group's total equity amounted to PLN 4,576.7 m and was higher than at end-December 2006 by PLN 500 m. Own funds, calculated in accordance with the revised Resolutions of the Banking Supervision Committee (March 2007), increased by PLN 353.7 m to PLN 3,780.7 m. The extent of change in the own funds in 2007 versus 31 December 2006 mainly results from allocation of the undistributed 2006 profits to equity, increase of investment in Commercial Union Powszechne Towarzystwo Emerytalne BPH CU WBK S.A. by PLN 22.2 m (to 11.1%) and changes in the regulations relating to recognition of financial instruments' revaluation reserve in equity.

## 2. Financial Risk Management

The main objective of financial risk management is to ensure effective operations to support development within the approved risk limits. Risk management practice in the bank is in keeping with the AIB Group policy and covers the three main financial risk areas: credit risk, market risk and liquidity risk.

The bank's Management Board, which is responsible for risk management, delegated its powers in this regard to the following Committees: Asset and Liabilities Management Committee (ALCO), Credit Committee, Credit Policy Forum and Provisions Committee. These Committees are responsible for managing individual risk areas, monitoring the bank's general risk on an on-going basis and for shaping the current policy within the framework set out by the Management Board. The risk management framework rests on the risk profile accepted by the bank's Management Board, reflecting the overall risk appetite of the bank.

### **Credit Risk Management**

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

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

#### **Credit Policy Forum**

To manage the credit risk effectively, Bank Zachodni WBK established the Credit Policy Forum whose key role is to provide and approve the best sectoral practice, analyses, credit policies as well as grading and assessment systems aimed at ensuring sustainable growth of the credit portfolio. This activity is addressed to the bank's branch network and Business Support Centre units directly responsible for business development and support. The Credit Policy Forum is composed of senior representatives of individual Bank Zachodni WBK divisions.

#### **Credit Policies**

Credit policies contain guidelines for the identification and assessment of areas where specific types of risks manifest themselves and also provide the methods of limiting those risks to a level acceptable to the bank (e.g. FX risk in the case of foreign currency loans). Credit policies comply with the AIB Group standards and are adapted to the local credit market conditions where Bank Zachodni WBK operates.

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

#### **Credit Grading**

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

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

#### Provisioning

In Bank Zachodni WBK and its subsidiaries provisions are raised in accordance with IAS/IFRS. The provisions reflect credit impairment which is recognised if the bank presents an objective evidence that such amounts cannot be recovered in line with the signed loan agreement. The impairment is measured based on the estimated recoverable amount and analysed using both the individual and collective approach.

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

#### Stress Testing for Credit Risk

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

#### **Return on Risk**

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

#### **Credit Decision Making Process**

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

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

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

#### **Credit Reviews**

Demonstrating the utmost care about the loan-book quality, Bank Zachodni WBK performs regular reviews to assure conformity with the best credit practice, to determine the actual quality of the credit portfolio, to confirm that adequate credit grading and provisioning processes are in place and to objectively assess professionalism in credit management. The reviews are performed by the Credit Review Department and Quality Assurance Department which are independent of the risk-taking units.

### Market Risk and Liquidity Risk Management

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

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

#### Market Risk Management

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

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

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

- Market risk is managed by qualified personnel using the appropriate systems and controls. Management of interest rate, FX and liquidity risks is centralised in the Bank Zachodni WBK Treasury Division.
- Market risk is measured and its compliance with the stated risk limits is monitored by qualified personnel independent of the unit which manages and generates the risk. Exposure to market risk is regularly reviewed by ALCO
- Risk limits are periodically reviewed to align them with the bank's strategy and the current objectives of the bank.
- A special portfolio of highly rated debt securities generates a stable income flow, mitigating the structural balancesheet risk connected with liabilities that are not sensitive to interest rate changes. According to the Policy approved by the Management Board, any decisions relating to the value or structure of this portfolio are taken by ALCO.

Assets & Liabilities Management Department identifies, on an on-going basis, the market risk connected with retail and commercial activities and transfers the risk to the Treasury Division. Treasury Division then executes relevant transactions (e.g. in the inter-bank market, in securities, derivatives, etc.) in order to maintain the risk at an acceptable level. Interest rate and FX risks are monitored using the Value at Risk (VaR) methodology which is a standard industry tool for measuring interest rate and FX risks. VaR methodology uses a statistical process to determine the Probable Maximum Loss (PML) in economic value of a transaction or a portfolio of transactions as a result of an adverse change in market parameters. The bank applies the VaR methodology both to the trading and banking portfolio. According to the bank's policy, the interest rate risk measured as PML may not exceed 8.25% of the bank's own funds, while PML connected with FX risk may not exceed 0.5% of own funds.

#### Liquidity Risk Management

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

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

The bank is obliged to maintain necessary funds to allow for withdrawals of term deposits, demand deposits, loan payments, guarantee payments and settlements. The bank does not maintain those funds in full amount because as experience and analyses show, a certain percentage of funds with short-term maturity will be reinvested. The bank's policy states that the bank should maintain funds to cover 100% of the payments expected to be made within 1-month horizon and not less than 10% in a period longer than a month. Long-term liquidity position is also monitored.

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

## 3. Operational Risk Management

Bank Zachodni WBK adopted the operational risk management definition as agreed by the Basel Committee whereby operational risk management is understood as exposure to losses arising from inadequacy or failure of internal processes, human resources, systems or external factors.

Similarly to other financial institutions, operational risk is inherent in almost all the Group's activities, including the outsourced functions or services delivered jointly with third parties. Each organisational unit in the Group is fully responsible for identification and management of the operational risks pertaining to its operations. The objective of the operational risk management is to minimise the likelihood of unexpected adverse events. Bank Zachodni WBK operates the "Operational Risk Management Policy" and the "Rules of Operational Risk Management". In addition, detailed procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated.

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

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

#### • Identification and estimation of operational risk

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

#### • Reporting on operational incidents and lessons learned

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

#### • Analysis of risk indicators

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

#### • Business continuity management (BCM)

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

#### Regular reporting to the Management Board and Supervisory Board

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

#### Insurance

The bank's insurance cover includes the following insurance lines: Bankers' Bond, Computer Crime, Officers & Directors as well as Property Insurance.

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

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

# VIII. Human Resources and Corporate Values

## 1. Human Resources Management

### **Human Resources**

#### Personnel

As at 31 December 2007, the number of FTEs in the Bank Zachodni WBK Group was 9,086 and higher by 1,131 y-o-y. The increase in the Group's headcount was due to the expanding range and scale of operations through organic growth, involving the launch of new outlets, economically justified recruitments in the existing branches as well as process- and technology-based organisational changes. To cater for the rapid growth of the manpower numbers, which is expected to continue in the next years, Bank Zachodni WBK has introduced an extended induction programme for the new entrants.

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

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

#### Training

The bank pays a lot of attention to the improvement of staff knowledge and skills. Training courses are organised in response to the business needs and in keeping with the bank's strategic priorities. Compliance with the strategic and training objectives is ensured through the central planning and co-ordination of training, a process actively supported by the branch banking and other business units. The integrated training plan facilitates the logistics and monitoring of training quality and costs.

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

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

## 2. Corporate Values

### **Code of Business Ethics**

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

According to the Code, in all the aspects of its activities the bank complies with the business ethics requirements, conforms with the law and acts in accordance with the best corporate governance and risk management models. The bank seeks to create a climate of trust in its dealings with customers, employees, shareholders and other stakeholders, promoting such values as integrity, professionalism, prudence and competence. The opinion of being a dependable organisation

is perceived as a pre-requisite for further development and success, but the bank also has the ambition to be recognised for being engaging and pioneering. As a responsible corporate citizen, the bank supports corporate-giving and sponsorship programmes.

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

### **Compliance Culture**

The bank attaches a great importance to the legal and regulatory compliance in all aspects of its activities. Creation of a business culture of strict adherence to law and best practice and promotion of such an approach is one of the key objectives of the bank's Compliance Area. The activities undertaken by this function are meant to raise the awareness among employees that their individual actions can have a bearing on the bank's reputation. A well-developed compliance culture improves the bank's image among regulators, shareholders, investors and customers.

### **Corporate Culture**

The bank has undertaken a number of actions to enhance professional, legal and ethical employee behaviour. A one-day training in business ethics is an integral element of the induction programme for newly recruited staff. Moreover, employees of the Bank Zachodni WBK Group must complete a series of e-learning trainings on compliance and the business ethics as part of the COMeT programme. In 2007, under the programme staff members participated in the mandatory e-learning training consisting of six courses designed to increase people's awareness and shape proper behaviours when faced with a conflict of interest or other ethically dubious situations or potentially unlawful activities.

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

### **Corporate Governance**

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

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

Compliance with best practice is also supported by the bank's internal procedures, including provisions of the Statutes, Supervisory and Management Board regulations. To facilitate access to information about Bank Zachodni WBK, the bank's web site has a special section for investors with all current and periodic reports, corporate documents and other material information in both Polish and English. In June 2007, Bank Zachodni WBK was awarded the "Company Worth Trusting" ("Spółka godna zaufania") title by Institutional Investor Award Committee and the Polish Institute of Directors, in the fourth edition of the listed companies rating. As in previous years, companies were evaluated in line with 12 criteria grouped in four areas: ownership structure, general meeting of shareholders, relations between shareholders and other stakeholders, financial transparency and availability of information, structure of the supervisory board and its effectiveness. The bank received the top rating (five stars), which strongly confirms that it adheres to the highest corporate governance standards.

### Social Responsibility

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

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

Among the bank's own initiatives, noteworthy are "Academy of the Bank of Children Smiles", a programme of funding English lessons for children from poor families or creative workshops "My World on Both Sides of the Camera from BZ WBK" for children from the disadvantaged communities. Also, through the Foundation of Bank Zachodni WBK financial and nonfinancial support was provided to community centres, daycare centres, schools and other child support organizations. Apart from charitable initiatives aimed to support children from poor families, Bank Zachodni WBK sponsors the "BZ WBK Tennis Aces" programme for young talented tennis players and the "Track and Field Thursdays" ("Czwartki lekkoatletyczne") initiative, the largest all-Poland track-and-field event for more than 100,000 children.

## 3. BZ WBK Corporate Citizenship. Charity and Sponsoring.

For a number of years, Bank Zachodni WBK has been consistently implementing its strategy of involvement in local community matters by supporting different charity initiatives. In 2008, we will continue our efforts and keep contributing to a sustainable development, acting in conformance with our core values and competencies.

Our intention is to play a role in securing the welfare of the local community, not only by the way in which we will be achieving our business goals, but also through commitment to various environmental, educational and cultural initiatives. We will be supporting entrepreneurial and proactive attitudes of the community members, bearing in mind the need to maintain the necessary balance between the social, economic and environmental aspects.

In 2007, Bank Zachodni WBK, acting in line with its corporate citizenship policy, continued to develop "The Bank of Children Smiles", a charity programme addressed to children from poverty stricken families, focusing on:

- helping underprivileged children identify their talents and develop their interests;
- counteracting segregation tendencies among children due to economic inequality;
- facilitating access of disadvantaged children to all kinds of personal development opportunities, particularly when the related costs are high.

In 2007, the programme was delivered through the Bank's own initiatives, provision of financial support and partnership projects.

#### BZ WBK's Own Programmes and Initiatives

The major charity projects implemented in 2007 as part of the Bank of Children Smiles programme included:

• The Academy of the Bank of Children Smiles – a continuation of the programme launched in 2006 with an aim to offer equal educational opportunities to children from poor families. Under the programme, children attending social day-care centres all over Poland take part in free of charge English language courses. In 2007, over 1,500 children benefited from the services of the Academy of the Bank of Children Smiles.

- **Children's Day** a second event integrating the children of the Bank's employees with the beneficiaries of the BZ WBK Foundations' programme. Special film shows arranged in Wrocław, Warsaw, Cracow, Bydgoszcz and Szczecin were attended by 2,500 children.
- The Hall of the Bank of Children Smiles in Zachęta National Gallery in Warsaw. On 4 June, 2007 the Hall of the Bank of Children Smiles was officially opened, as a place of meetings with artists and creative workshops for children. The joint initiative of BZ WBK and Zachęta Gallery through which the Hall of the Bank of Children Smiles was set up received Art & Business 2007 award funded by the Commitment to Europe Foundation.
- "My World on Both Sides of the Camera from BZ WBK" workshop in 2007, a third edition of the photography and film workshop was held, addressed to children attending social day-care and therapy centres. The children received cameras and video cameras and, assisted by professional photographers and film directors, explored the secrets of photography and movie making.

#### **Corporate Giving**

In 2007, the Bank's corporate giving activities under "The Bank of Children Smiles" were continued. Through BZ WBK Foundation, we assisted local organisations helping children from disadvantaged families and provided financial and inkind support to social day-care and therapy centres, the Society of the Friends of Children, schools and other organisations serving children in need. Last year, our spending on direct donations to children-related causes totalled PLN 2,270,529.40 and the support was provided to 595 institutions. Additionally, BZ WBK Foundation funded computer equipment for 121 educational institutions.

#### Sponsoring

In addition to charity initiatives, Bank Zachodni WBK also supports sports education of children through a range of sponsoring arrangements. In 2007, we sponsored the following events:

- **BZ WBK Tennis Aces**. A second edition of an educational programme involving teaching tennis to children ages 5-10. Twelve events were held in four Polish cities (Poznań, Wrocław, Warsaw and the Tri-city) in order to identify talented children who were offered an all-year training programme called " BZ WBK Tennis Aces".
- **Athletic Thursdays**. For the fourth time, our Bank sponsored one of the largest athletics events for children attended by over 100,000 young athletes from 64 cities in Poland.

As part of its local sponsoring engagements, BZ WBK launched a photography project called "A Thousand Smiling Faces" involving 600 primary school students from Łódź. The pictures were presented in an outdoor exhibition in the city centre. In 2007, BZ WBK also supported an exhibition organised by the Independent Photo Agency Dementi from Wrocław which celebrated its 25th anniversary with a large outdoor event and an exhibition presenting the output and achievements of Dementi members on the streets of Wrocław.

In November 2007, Bank Zachodni WBK provided a support to the organisers of the Independence Parade, a highlight of the Independence Day celebrations. The parade was attended mainly by the students of Wrocław schools who took part in a contest for the most original and imaginative patriotic theme costume.

Last year, Bank Zachodni WBK acting in partnership with Rzeczpospolita national daily, ran a third edition of the BZ WBK Press Foto contest, in which the jury awarded 150 works of the total of 5,112 submitted photographs. A result of the contest was a cycle of outdoor exhibitions held in Warsaw, Gdynia, Zakopane, Cracow, Gliwice, Łódź, Poznań and Wrocław attracting altogether close to 160,000 visitors.

# IX. Major Internal Developments and Events

## 1. Ownership Structure of Bank Zachodni WBK

According to the information held by the bank's Management Board, as at 15 February 2008 the shareholder having a minimum 5% of the total number of votes at the BZ 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%
Others	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 Annual General Meeting of BZ WBK Shareholders (AGM), which was held on 17 April 2007, approved the 2006 financial statements submitted by the Management Board and the Supervisory Board, resolved on the distribution of the net profit and dividend payment, and granted discharge to the Management and Supervisory Board members for performance of their duties and responsibilities in the previous year. The AGM implemented the second edition of the three-year Incentive Scheme for senior management of the bank and its subsidiaries who significantly contribute to the growing value of Bank Zachodni WBK. The Incentive Scheme II, commencing in 2007, entitles its participants to acquire bonds with a pre-emptive right and to acquire, at a preferential rate, shares issued by the bank as part of a conditional increase of share capital. In order to enable delivery of the Incentive Scheme, the AGM passed a resolution to issue bonds with preemptive rights and to conditionally increase the share capital by a maximum amount of PLN 1.5 m by issuing new ordinary bearer shares. The AGM also approved changes to the bank's Statutes and adopted its consolidated version. The changes were dictated by business requirements and involved expansion of the bank's business operations to include information technology support services for connected entities, services related with maintenance of registers of mutual and pension fund scheme participants, and with book-keeping for such funds. The changes were approved by the Banking Supervision Commission and were recorded by the relevant Registry Court.

### Supervisory Board

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

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

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

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

As at 31 December 2007, the following members of the Supervisory Board held an independent status: Mr Waldemar Frąckowiak, Mr Aleksander Galos, Mr John Power, Mr Aleksander Szwarc and Mr Jacek Ślotała. In addition to the Supervisory Board meetings, the Board members worked in internal committees, i.e. Nominations and Remuneration Committee, Audit Committee and Corporate Responsibility Committee. The Audit Committee was composed mostly of independent Supervisory Board members. The Report on Activities of the Supervisory Board and its Committees in 2006 as well as the Supervisory Board's report on Examination of the Bank's and the Group's Annual Report along with the assessment of their operations in 2006 were published in the current report no. 18/2007 which conveyed the resolutions passed by the AGM on 17 April 2007.

### **Management Board**

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

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

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

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

### Appointment and Removal of Executives

The members of the Bank Zachodni WBK Management Board are appointed and removed in accordance with the Commercial Companies Code, the Banking Law and the bank's Statutes.

The bank's Management Board consists of at least three persons (including the Management Board President) appointed by the Supervisory Board for a joint three-year term of office. At least a half of the Management Board members should be Polish citizens. Two Management Board members, including the Management Board President, are appointed with the approval of the Banking Supervision Commission. Management Board members may be removed by the Supervisory Board or the General Meeting at any time.

### **Powers of Executives**

The Bank Zachodni WBK Management Board manages and represents the bank. The Management Board has all powers that are not restricted by law or Statutes to the remit of other governing bodies of the bank.

The Management Board takes decisions to incur obligations or transfer assets whose total value for one entity exceeds 5% of the bank's own funds. The Management Board can also, by way of resolution, delegate its powers to take such decisions to other committees or persons in the bank. The Management Board members run the bank's affairs jointly, and in particular: define the bank's mission, set long-term action plans and strategic objectives, prepare assumptions for the bank's business and financial plans, approve the plans and monitor their performance, regularly report to the Supervisory Board on the bank's position in the scope and at the dates agreed with the Supervisory Board, appoint permanent and ad hoc committees and designate individuals responsible for managing the work of such committees. The committees are composed of both Management Board members and persons from outside the Management Board. Permanent committees operative in the bank include: ALCO, Credit Committee, Provisions Committee, Credit Policy Forum, Operational Risk Management Committee and Value Management Committee.

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

### BZ WBK Shares Held by Supervisory and Management Board Members

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

### 3. Changes to the Management Organisation

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

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

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

• change of the status of the Capital Market Department (in the Investment Banking Division) to that of an area, due to a large business potential and the bank's plans to expand this line of business.

## 4. Capital Expenditure

The capital expenditure incurred by the Bank Zachodni WBK Group in 2007 totalled PLN 143.6 m and was 61% higher than a year before. Out of this figure PLN 88 m was spent on IT projects.

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

## 5. Awards and Recognitions

In 2007, Bank Zachodni WBK and its subsidiaries received a number of awards. The key ones are presented below.

### Awards to Bank Zachodni WBK

#### Bank Zachodni WBK received the following:

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

- "Company Worth Trusting" ("Spółka godna zaufania") title by Institutional Investor Award Committee and the Polish Institute of Directors, in the fourth edition of the rating of listed companies based on multi-dimensional assessment of corporate governance implementation in the reviewed companies;
- "Customer Friendly Company" Certification Program Emblem (Godło Programu Certyfikującego "Firma Przyjazna dla Klientów") for excellent quality of the front-end service confirmed by mystery shopping results and a customer satisfaction survey conducted by TNS OBOP as part of the certification process supervised by Instytut Zarządzania (the Management Institute) in Warsaw;
- best Internet site award in the "big company" category of the Issuer's Golden Website (Złota Strona Emitenta) organized by the Association of Stock Market Issuers (Stowarzyszenie Emitentów Giełdowych) competition and supported by media (WSE newspaper "Parkiet", the "Forbes" monthly, Polish Press Agency and Radio PIN);
- recognition in the "personal account" category in the first edition of the Gold Standard Program, based on findings from the customer satisfaction survey conducted by TNS OBOP with respect to five parameters: interest rates, fees and charges, customization of the offer, location of bank branches and quality of customer service;
- second place in the ranking of 346 listed companies which aimed to appoint "The Company of the Year"; the ranking
  was published by "Puls Biznesu" (06.02.2008) based on the results of a survey carried out by Pentor among stockbrokers, analysts and investment advisors; Bank Zachodni WBK was ranked first in the category "Management Board's
  Competence" and second in "Investor Relations".

### Awards to Subsidiaries

BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. was honoured with the following awards:

- the title of the best financial institution in 2006 (category: "mutual funds") granted for the fourth time in the ranking organised by the "Rzeczpospolita" daily (publication of 14.06.2007); in addition to the outstanding investment results (leader in terms of return on equity funds and debt securities funds); the company was recognised for its rapid growth in assets under management, innovation and proactive customer and market share acquisition;
- Złote Godło (the Golden Emblem) award in the "Laur Klienta 2007" (Customer Laurel 2007) contest organised by the Media Partner Group, based on findings from the opinion poll among investment fund customers which confirmed the high rating of BZ WBK Arka products;
- first position in the ranking prepared by "Puls Biznesu" (publication of 7.01.2008), in the "foreign equity fund" category, for the annual investment performance of Arka BZ WBK Akcji Środkowej i Wschodniej Europy FIO;
- first position for the highest rate of return in December 2007 in the ranking published by "Gazeta Prawna" (publication of 04.01.2008);
- "Bull & Bear" statuette for the best mutual fund in 2007 received from the "Parkiet" stock-exchange newspaper for the third time (publication of 5.02.2008); Arka BZ WBK mutual funds became leaders in four out of eight estimated categories: Arka BZ WBK Akcji Środkowej i Wschodniej Europy FIO (first place among foreign funds), Arka BZ WBK Stabilnego Wzrostu FIO (first place among stable growth funds), Arka BZ WBK Obligacji FIO (first place among debt securities funds) and Arka BZ WBK Obligacji Europejskich FIO (first place among foreign debt securities funds).

#### Dom Maklerski BZ WBK S.A. received the following awards:

- Warsaw Stock Exchange award for the highest share in the equity market in 2006 (excluding its market-making activity);
- diplomas from MTS-CeTO S.A. in the following categories:
  - first position in terms of the number of market transactions in 2006;
  - first position as the best market-maker in 2006;
  - second position in terms of trading volumes in 2006.
- The company also came top in the ranking of the brokerage houses present at the Warsaw Stock Exchange. The ranking was organised by "Parkiet" based on the average ratings assigned by institutional and private investors. The subsidiary scored highest in terms of: trust (first place), professionalism (first place), quality of service (first place), analyses and recommendations (first place).

Managers of 280 bn worth of assets and 1400 members of Stowarzyszenie Inwestorów Indywidualnych (Association
of Individual Investors) acclaimed Dom Maklerski BZ WBK S.A. the best brokerage operation in Poland. The ranking
was published by the "Forbes" magazine (November 2007).

## 6. Other Events

### "Performance Shares Plan"

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

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

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

### Sarbanes-Oxley Act

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

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

### **Selection of Auditor**

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

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

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

# X. Additional Information

### **Remuneration of the Supervisory and Management Board Members**

The Remuneration of the Bank Zachodni WBK Supervisory and Management Board Members for the years 2007 and 2006 is provided in Consolidated Financial Statements of Bank Zachodni WBK Group for 2007 in note 49.

### Agreements Between BZ WBK and Management Board Members

The Bank Zachodni WBK Management Board members signed contracts prohibiting competition after termination of their role on the Management Board.

A Management Board member who is not appointed for a new term of office or is removed from the Board is entitled to a once-off severance pay. The severance pay does not apply if the Management Board member accepts a new job role in the bank.

### **Remuneration of the Auditor**

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

in thousands of PLN

	Financial year ended	Financial year ended
Remuneration of KPMG Audyt Sp. z o.o.	31-12-2007	31-12-2006
Audit fees in respect of the parent bank <sup>1)</sup>	1,506	1,425
Audit fees in respect of the subsidiaries <sup>2)</sup>	969	814
Audit-related fees <sup>3]</sup>	66	23
Total	2,541	2,262

1) Professional services connected with audit of the stand-alone and consolidated financial statements of the parent (agreement of 19 November 2007) as well as review of the half-yearly stand-alone and consolidated financial statements of the parent (agreement of 22 June 2007).

2) Audit fees comprise amounts due or paid to KPMG Audyt Sp. z o.o. for professional audit of financial statements of subsidiaries.

3) 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.

### Writs of Execution

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

#### in thousands of PLN

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

The collateral pledged by borrowers on their account balances and assets amounted to PLN 45,563.1 m.

## Geographical Structure of the Bank's Deposits

in thousands of PLN

		-
Damle	Zacha	
Балк	zacho	dni WBK
Danny		

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

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

Inter-company transactions in excess of EUR 500,000, concluded by Bank Zachodni WBK with its subsidiaries in 2007, were mainly banking transactions made as part of ordinary business activities and included primarily loans, deposits and guarantees.

As at 31 December 2007, total exposure of Bank Zachodni WBK with respect to loans extended to subsidiaries (BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A., BZ WBK Faktor Sp. z o.o., BZ WBK Inwestycje Sp. z o.o., Dom Maklerski BZ WBK S.A., BZ WBK AIB Asset Management S.A. and BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.) amounted to PLN 801.2 m. Guarantees received/issued by order of subsidiaries (BZ WBK Finanse & Leasing S.A., BZ WBK S.A., Dom Maklerski BZ WBK S.A., BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., BZ WBK Leasing S.A., Dom Maklerski BZ WBK S.A., BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., BZ WBK S.A., BZ WBK S.A., BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., BZ WBK S.A., BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., BZ WBK Nieruchomości S.A.) totalled PLN 229.6 m.

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

#### **Guarantees Issued**

As at 31 December 2007, the Bank Zachodni WBK Group's guarantee liability amounted to PLN 680.2 m compared to PLN 623.1 m a year before. The most common types of guarantees were: payment guarantees, performance bonds, bid bonds, advance payment guarantees, loan payment 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 payment 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 payment 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 Lending Manual.

### **Off-balance Sheet Items**

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

in thousands of PLN		
Contingent liabilities, sanctioned and received	31-12-2007	31-12-2006
Liabilities sanctioned	8,512,897	7,061,422
- financing-related, including:	7,832,652	6,438,314
- guarantees	680,245	623,108
Received liabilities	2,549,435	1,622,482
Total	11,062,332	8,683,904

in thousands of PLN

Derivatives' nominal values	31-12-2007	31-12-2006
Term derivatives (hedging)	1,990,754	1,486,018
Term derivatives (trading)	225,426,953	138,485,557
Currency transactions - spot	776,657	921,046
Derivatives - off the stock market options	3,064,616	749,280
Euroindex options	8,733	168,888
Total	231,267,713	141,810,789

## XI. Representations of the Management Board

## True and Fair Presentation of the Financial Statements

According to the Management Board's best knowledge and belief, the financial figures and the comparable data presented in the Consolidated Financial Statements of Bank Zachodni WBK Group for 2007 have been prepared in keeping with the applicable accounting policies and give a true and fair view of the assets and profit of the Bank Zachodni WBK Group. The Management Board's Report contained in this document shows a true picture of the Group's development, achievements and position (including the underlying risks) in 2007.

### **Selection of Auditor**

The firm responsible for auditing the consolidated annual financial statements of Bank Zachodni WBK Group 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	Function	Signature
15-02-2008	Mateusz Morawiecki	President	Signed on the Polish original
15-02-2008	Andrzej Burliga	Member	Signed on the Polish original
15-02-2008	Declan Flynn	Member	Signed on the Polish original
15-02-2008	Michał Gajewski	Member	Signed on the Polish original
15-02-2008	Justyn Konieczny	Member	Signed on the Polish original
15-02-2008	Janusz Krawczyk	Member	Signed on the Polish original
15-02-2008	Jacek Marcinowski	Member	Signed on the Polish original
15-02-2008	James Murphy	Member	Signed on the Polish original
15-02-2008	Marcin Prell	Member	Signed on the Polish original
15-02-2008	Feliks Szyszkowiak	Member	Signed on the Polish original



Consolidated Financial Statements of Bank Zachodni WBK Group for 2007

## **Opinion of the Independent Auditor**

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

We have audited the accompanying consolidated financial statements of Bank Zachodni WBK S.A. Group seated in Wrocław, ul. Rynek 9/11, 50-950 Wrocław ("Group"), which comprise the consolidated balance sheet as at 31 December 2007, with total assets and total liabilities and equity of PLN 41,332,079 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 1,110,677 thousand (including profit attributable to ordinary shareholders of PLN 954,695 thousand), the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 499,959 thousand, the consolidated cash flow statement for the year then ended with an increase in cash amount-ing to PLN 690,935 thousand and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

#### Management's Responsibility for the Financial Statements

Management of the parent entity is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

#### Auditor's Responsibility

Our responsibility, based on our audit, is to express an opinion on these consolidated financial statements. 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 whether the financial statements are free of material misstatement.

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

#### Opinion

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

#### Other Matters

As required under the Accounting Act we also report that the Report of the Management Board on the Group'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 consolidated financial statements.

Signed on the Polish original

Signed on the Polish original

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

Signed on the Polish original

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

Warsaw, 15 February 2008

# Report Supplementing the Auditor's Opinion on the Consolidated Financial Statements

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## 1. General

## 1.1 Identification of the Group

## 1.1.1 Name of the Group

Bank Zachodni WBK S.A. Group

## 1.1.2 Registered office of the Parent Company of the Group

ul. Rynek 9/11 50-950 Wrocław

## 1.1.3 Registration of the Parent Company in the National Court Register

Registration court:District Court in Wrocław, VI Commercial Department of the National Court RegisterDate:27 April 2001Registration number:KRS 000008723

### 1.1.4 Registration of the Parent Company in the Tax Office and Statistical Office

 NIP number:
 896-000-56-73

 REGON:
 930041341

## 1.2 Information about companies comprising the Group

## 1.2.1 Companies included in the consolidated financial statements

As at 31 December 2007, the following companies were consolidated by the Group:

#### Parent Company:

• Bank Zachodni WBK S.A.

#### Subsidiaries consolidated on the full consolidation basis:

- Dom Maklerski BZ WBK S.A.
- BZ WBK Finanse & Leasing S.A.
- BZ WBK Leasing S.A.
- BZ WBK AIB Asset Management S.A.
- BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. subsidiary of BZ WBK Asset Management S.A.
- BZ WBK Faktor Sp. z o.o.
- BZ WBK Inwestycje Sp. z o.o.
- Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp. z o.o.
- BZ WBK Nieruchomości S.A.

Compared to the end of December 2006, the composition of the Group has changed. BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa completed its activities and was liquidated on 19 March 2007.

## 1.3 Auditor information

Name:	KPMG Audyt Sp. z o.o.
Registered office:	Warsaw,
Address:	ul. Chłodna 51, 00-867 Warsaw
Registration number	: KRS 0000104753
Registration court:	District Court for the Capital City Warsaw in Warsaw, XII Commercial Department of the National
	Court Register;
Share capital:	PLN 125,000
NIP number:	526-10-24-841

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

## 1.4 Legal status

## 1.4.1 Share capital

The Parent Company 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 Company amounted to PLN 729,602,840 as at 31 December 2007 divided into 72,960,284 ordinary shares with a nominal value of PLN 10 each.

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

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

### 1.4.2 Management of the Parent Company

The Management Board is responsible for management of the Parent Company. At 31 December 2007, the Management Board of the Bank comprised the following members:

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

In comparison to 31 December 2006 changes in Management Board were as follows:

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

## 1.4.3 Scope of activities

The business activities listed in the Parent Company'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 Company is eligible 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 Company may perform the above activities on the instruction of another bank. In accordance with the Parent Company's strategy, it may also cooperate with the domestic, foreign and international banks and financial institutions and perform services of transportation of goods.

The business activities listed in the subsidiaries, included in the Capital Group include the following:

- intermediary services for trading in securities,
- leasing,
- asset/fund management,
- distribution of insurance services,
- trading in shares,
- factoring services.

## 1.5 Prior period consolidated financial statements

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

The consolidated financial statements were approved at the General Shareholders Meeting on 17 April 2007.

The closing balances as at 31 December 2006 have been properly recorded as the opening balances of the audited year. The consolidated financial statements were submitted to the Registry Court on 30 April 2007 and were published in Monitor Polski B No. 1245 on 19 July 2007 on the position 7192.

## 1.6 Audit scope and responsibilities

This report was prepared for the General Shareholders Meeting of Bank Zachodni WBK S.A. seated in Wrocław, ul. Rynek 9/11, 50-950 Wrocław and relates to the consolidated financial statements comprising: the consolidated balance sheet as at 31 December 2007, with total assets and total liabilities and equity of PLN 41.332.079 thousand, the consolidated profit and loss account for the year then ended with a net profit of PLN 1.110.677 thousand (including profit attributable to ordinary shareholders of PLN 954.695 thousand), the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 499.959 thousand, the consolidated cash flow statement for the year then ended with an increase in cash amounting to PLN 690.935 thousand, and the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

The audited Company prepares its financial statements in accordance with International Financial Reporting Standards as adopted by the European Union on the basis of the decision of Bank Zachodni WBK S.A. dated 17 December 2004.

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

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

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

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated 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 financial statements.

The Management Board of the Parent Company submitted a statement, dated the same date as this report, as to the true and fair presentation of the consolidated financial statements presented for audit, which confirmed that there were no undisclosed matters which could significantly influence the information presented in the consolidated 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 consolidated financial statements fulfil independence requirements from the companies included in the Group. 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.

# **1.7** Information on audits of the financial statements of the consolidated companies

## 1.7.1 Parent Company

The financial statements of the Parent Company for the year ended 31 December 2007 were audited by KPMG Audyt Sp. z o.o., certified auditor number 458, and received an unqualified opinion.

## 1.7.2 Other consolidated entities

Financial statements of the following subsidiaries:

- BZ WBK Finanse & Leasing S.A.
- BZ WBK Leasing S.A.
- BZ WBK Asset Management S.A.
- BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.
- BZ WBK Faktor Sp. z o.o.

prepared for the year ended 31 December 2007 were audited by KPMG Audyt Sp. z o.o., certified auditor number 458, and received an unqualified opinion.

Financial statements of the following subsidiaries:

- Dom Maklerski BZ WBK S.A.
- BZ WBK Inwestycje Sp. z o.o.
- Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp. z o.o.
- BZ WBK Nieruchomości S.A.

prepared for the year ended 31 December 2007 are currently being audited by KPMG Audyt Sp. z o.o., certified auditor number 458.

## 2. Financial analysis of the Group

## 2.1 Summary of the consolidated financial statements

## 2.1.1 Consolidated balance sheet

ASSETS	31.12.2007 PLN '000	% of total	31.12.2006 PLN '000	% of total
Cash and balances with central bank	2 206 265	5.3	1 534 480	4.7
Loans and advances to banks	2 576 878	6.2	3 154 546	9.6
Financial assets held for trading	1 258 253	3.0	1 104 604	3.4
Hedging derivatives	41 410	0.1	19 956	0.1
Loans and advances to customers	23 949 714	57.9	17 620 066	53.2
Investment securities	9 763 669	23.7	8 021 289	24.3
Investment in associates	13 378	0.1	36 201	0.1
Intangible assets	115 280	0.3	135 032	0.4
Property, plant and equipment	543 226	1.3	493 657	1.5
Deferred tax	368 449	0.9	392 467	1.2
Other assets	495 557	1.2	479 885	1.5
TOTAL ASSETS	41 332 079	100.0	32 992 183	100.0
EQUITY AND LIABILITIES	31.12.2007 PLN '000	% of total	31.12.2006 PLN '000	% of total
Liabilities				
Deposits from banks	4 483 526	12.2	2 608 377	9.0
Hedging derivatives	7 613	0.1	12 912	0.1
Financial liabilities held for trading	996 874	2.7	228 415	0.8
Deposits from customers	29 765 687	80.9	24 222 051	83.7
Debt securities in issue	352 961	1.0	646 342	2.2
Current income tax liabilities	49 115	0.1	7 643	0.1
Deferred tax liabilities	202 777	0.6	293 529	1.0
Other liabilities	896 825	2.4	896 172	3.1
Total liabilities	36 755 378	100.0	28 915 441	100.0
Equity				
Share capital	729 603	15.9	729 603	17.9
Other reserve funds	2 061 578	45.1	1 857 147	45.5
Revaluation reserve	362 963	7.9	508 548	12.5
Retained earnings	232 688	5.1	106 481	2.6
Profit of the current period	954 695	20.9	758 222	18.6
Equity attributable to the bank's equity holders	4 341 527	94.9	3 960 001	97.1
Minority interest	235 174	5.1	116 741	2.9
Total equity	4 576 701	100.0	4 076 742	100.0
TOTAL EQUITY AND LIABILITIES	41 332 079	100.0	32 992 183	100.0

## 2.1.2 Consolidated profit and loss account

	1.01.2007 - 31.12.2007 PLN '000	1.01.2006 - 31.12.2006 PLN '000
Interest and similar income	2 098 865	1 652 184
Interest expense and similar charges	(812 215)	(620 473)
Net interest income	1 286 650	1 031 711
Fee and commission income	1 785 990	1 361 663
Fee and commission expense	(241 001)	(170 304)
Net fee and commission income	1 544 989	1 191 359
Dividend income	64 746	57 276
Net trading income and revaluation	67 944	43 424
Gains (losses) from other financial securities	(25 475)	31 962
Gains (losses) from investment in subsidiaries and associates	1 710	9 500
Other operating income	51 180	49 771
Impairment losses on loans and advances	(3 936)	(28 336)
Bank's staff, operating expenses and management costs	(1 424 740)	(1 130 860)
Depreciation/amortization	(134 602)	(158 817)
Other operating expenses	(37 216)	(41 218)
Operating profit	1 391 250	1 055 772
Share in net profits (losses) of associates accounted for by the equity method	194	9 726
Profit before tax	1 391 444	1 065 498
Corporate income tax	(280 767)	(221 252)
PROFIT FOR THE PERIOD	1 110 677	844 246
of which:		
attributable to the Company's equity holders	954 695	758 222
attributable to the Minority equity holders	155 982	86 024
Net earnings per share		
Basic earnings per share (PLN/share)	13.09	10.39
Diluted earnings per share (PLN/share)	13.06	10.38

## 2.2 Selected financial ratios

	2007	2006	2005
Total assets (PLN '000)	41 332 079	32 992 183	29 310 677
Profit before tax (PLN '000)	1 391 444	1 065 498	689 456
Profit for the period (PLN '000)	1 110 677	844 246	545 907
Shareholders' equity * (PLN '000)	3 466 024	3 232 496	2 920 146
Return on equity	32.0%	26.1%	18.7%
Capital adequacy ratio	13.3%	15.5%	16.1%
Receivables to total assets	64.2%	63.0%	60.7%
Income generating assets to total assets	90.9%	90.6%	92.7%
Interest bearing liabilities to total liabilities	86.1%	84.0%	84.1%

\* excluding current-year net profit

## 2.3 Interpretation of selected financial ratios

In comparison to previous year, total assets grew by 25.3%. On the liabilities side, the largest increase was in the amounts due to clients. The largest increases within assets were in: loans and advances to customers and investment securities. The Capital Group profit before tax for the year 2007 increased by 30.6% compared to previous year. The following items had an impact on the current year financial result: an increase of interest income and fee and commission income, a decrease of impairment losses on loans and advances.

## 3. Detailed report

## 3.1 Accounting principles

The Parent Company maintains current documentation describing the accounting principles applied by the Group and adopted by the Management Board of the Parent Company.

The accounting principles are described in the notes to the consolidated financial statements to the extent required by International Financial Reporting Standards as adopted by the European Union.

Entities included in the Group apply common accounting principles consistent with the accounting principles applied by the Parent Company.

The financial statements of the entities included in the consolidated financial statements were prepared at the same balance sheet date as the financial statements of the Parent Company.

## 3.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Bank Zachodni WBK S.A. Group were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations. The consolidated financial statements were prepared on the basis of the consolidation documentation prepared in accordance with the requirements of the Decree of the Ministry of Finance dated 12 December 2001 regarding the consolidated financial statements of banks and consolidated financial statements of financial holding companies (Official Journal from 2001, No.152, item 1728).

## 3.3 Method of consolidation

The method of consolidation is described in note 6 of the notes to the consolidated financial statements.

## 3.4 Consolidation of equity and calculation of minority interest

The share capital of the Group is equal to the share capital of the Parent Company.

Other equity items of the Group are determined by adding the equity balances of subsidiaries included in the consolidated financial statements in the proportion reflecting the Parent Company's share in the subsidiaries' equity as at the balance sheet date to the corresponding positions of the equity of the Parent Company.

Only equity of subsidiaries arising after the Parent Company obtained control of the subsidiary is included in the equity of the Group.

Minority interests in subsidiaries included in the consolidated financial statements were determined based on the minority shareholders' share in the subsidiaries' equity as at the balance sheet date.

## 3.5 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

Sales between entities and other intercompany operating revenues and expenses and financial revenues and expenses were eliminated on consolidation.

The consolidation eliminations were based on the accounting records of Bank Zachodni WBK S.A. (or subsidiary entities) and agreed with information received from the subsidiaries.

## 3.6 Compliance with banking regulations

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

## 3.7 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 consolidated financial statements taken as a whole are free of material misstatements.

## 3.8 Notes to the consolidated financial statements

All information included in the notes to the consolidated 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 consolidated financial statements taken as a whole.

# 3.9 Report of the Management Board of the Parent Company on the Group's activities

The Report of the Management Board of the Parent Company on the Group'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 consolidated financial statements.

## 3.10 Information on the opinion of the independent auditor

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

Signed on the Polish original

Certified Auditor No. 9941/7390 Bożena Graczyk Signed on the Polish original

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

Signed on the Polish original

.....

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

Warsaw, 15 February 2008

## Consolidated Financial Statements of Bank Zachodni WBK Group for 2007

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## 1. Consolidated income statement

in thousands of PLN

For reporting period ending on:		01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Interest and similar income		2 098 865	1 652 184
Interest expense and similar charges		(812 215)	(620 473)
Net interest income	Note 9	1 286 650	1 031 711
Fee and commission income		1 785 990	1 361 663
Fee and commission expense		(241 001)	(170 304)
Net fee and commission income	Note 10	1 544 989	1 191 359
Dividend income	Note 11	64 746	57 276
Net trading income and revaluation	Note 12	67 944	43 424
Gains (losses) from other financial securities	Note 13	(25 475)	31 962
Gains from investment in subsidiaries and associates	Note 14	1 710	9 500
Other operating income	Note 15	51 180	49 771
Impairment losses on loans and advances	Note 16	(3 936)	(28 336)
Operating expenses incl.:		(1 596 558)	(1 330 895)
Bank's staff, operating expenses and management costs	Note 17, 18	(1 424 740)	(1 130 860)
Depreciation/amortisation		(134 602)	(158 817)
Other operating expenses	Note 19	(37 216)	(41 218)
Operating profit		1 391 250	1 055 772
Share in net profits of associates accounted for by the equity method		194	9 726
Profit before tax		1 391 444	1 065 498
Corporate income tax	Note 20	(280 767)	(221 252)
Profit for the period		1 110 677	844 246
of which:		954 695	750.000
attributable to the Company's equity holders			758 222
attributable to the Minority equity holders		155 982	86 024
Net earnings per share (PLN/share)	Note 21		
Basic earnings per share		13.09	10.39 10.38
Diluted earnings per share			

## 2. Consolidated balance sheet

in thousands of PLN

	31.12.2007	31.12.2006
ASSETS		
Cash and balances with central bank Note 22	2 206 265	1 534 480
Loans and advances to banks Note 22	2 576 878	3 154 546
Financial assets held for trading Note 24	1 258 253	1 104 604
Hedging derivatives Note 25	41 410	19 956
Loans and advances to customers Note 26	23 949 714	17 620 066
Investment securities Note 27	9 763 669	8 021 289
Investments in associates Note 28	13 378	36 201
Intangible assets Note 29	115 280	135 032
Property, plant & equipment Note 30	543 226	493 657
Deferred tax assets Note 31	368 4 4 9	392 467
Other assets Note 32	495 557	479 885
Total assets	41 332 079	32 992 183
LIABILITIES		
Deposits from banks Note 33	4 483 526	2 608 377
Hedging derivatives Note 25	7 613	12 912
Financial liabilities held for trading Note 24	996 874	228 415
Deposits from customers Note 34	29 765 687	24 222 051
Debt securities in issue Note 35	352 961	646 342
Current income tax liabilities	49 115	7 643
Deferred tax liabilities Note 36	202 777	293 529
Other liabilities Note 37	896 825	896 172
Total liabilities	36 755 378	28 915 441
Equity		
Parent company equity	4 341 527	3 960 001
Share capital Note 38	729 603	729 603
Other reserve funds Note 39	2 061 578	1 857 147
Revaluation reserve Note 40	362 963	508 548
Retained earnings	232 688	106 481
Profit of the current period	954 695	758 222
Minority interest	235 174	116 741
Total equity	4 576 701	4 076 742
Total equity and liabilities	41 332 079	32 992 183

## 3. Movements on consolidated equity

Equity

in thousands of PLN

Movements on consolidated	Share	Other reserve	Revaluation	Retained earn- ings and profit	Minority	
equity	capital	funds	reserve	for the period	interest	Total
Opening balance as at 31.12.2006	729 603	1 857 147	508 548	864 703	116 741	4 076 742
Change in available for sale invest-						
ments -increase	-	-	15 864	-	165	16 029
Change in available for sale invest-						
ments -decrease	-	-	(193 445)	-	-	(193 445)
Share scheme charge	-	10 474	-	-	-	10 474
Net (gains)/losses recognised in						
income statement	-	-	31 996	-	-	31 996
Net profit	-	-	-	954 695	155 982	1 110 677
Total recognised increase in equity						
in 2007	-	10 474	(145 585)	954 695	156 147	975 731
Dividend relating to 2006	-	-	-	(437 762)	(37 723)	(475 485)
Transfer to other reserve capitals	-	193 908	-	(193 908)	-	-
Other	-	49	-	(345)	9	(287)
As at 31.12.2007	729 603	2 061 578	362 963	1 187 383	235 174	4 576 701

As at the end of the period revaluation reserve in the amount of PLN 362 963 k comprises of debt securities and equity shares classified as available for sale of PLN 83 848 k and PLN 446 811 k respectively.

#### Equity

in thousands of PLN

Movements on consolidated	Share	Other reserve	Revaluation	Retained earn- ings and profit	Minority	
equity	capital	funds	reserve	for the period	interest	Total
Opening balance at 31.12.2005	729 603	2 028 706	250 088	373 121	54 943	3 436 461
Change in available for sale inve-						
stments -increase	-	-	312 142	-	25	312 167
Change in available for sale inve-						
stments -decrease	-	-	(38 528)		-	(38 528)
Share scheme charge	-	3 674	-	-	-	3 674
Net gains not recognised in inco-						
me statement	-	-	(14 919)	-	-	(14 919)
Net profit	-	-	-	758 222	86 024	844 246
Total recognised increase in equity						
in 2006	-	3 674	258 695	758 222	86 049	1 106 640
Dividend relating to 2005	-	-	-	(437 762)	(27 044)	(464 806)
Transfer to other reserve capi-						
tals	-	6 589	-	(6 589)	-	-
Transfer from supplementary						
capital		(168 326)	-	168 326	-	-
Other	-	(13 496)	(235)	9 385	2 793	(1 553)
As at 31.12.2006	729 603	1 857 147	508 548	864 703	116 741	4 076 742

As at the end of the period revaluation reserve in the amount of PLN 508 548 k comprises of debt securities and equity shares classified as available for sale of PLN 73 041 k and PLN 435 507 k respectively.

## 4. Consolidated cash flow statement

in thousands of PLN

	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006
Profit (loss) before tax	1 391 444	1 065 498
Total adjustments:	1 323 552	913 442
Share in net profits (losses) of associates accounted for by the equity method	(194)	(9 726)
Depreciation	134 602	158 817
Impairment losses	(350)	(1 360)
Gains (losses) on exchange differences	(3 497)	1 738
Interests and similar charges	(24 497)	117 288
Dividend income	(64 746)	(57 276)
(Profit) loss from investing activities	25 113	(37 297)
Change in provisions	71 922	51 542
Change in trading portfolio financial instruments	588 057	1 195 798
Change in loans and advances to banks	596 818	445 567
Change in loans and advances to customers	(6 333 073)	(3 412 646)
Change in deposits from banks	1 031 787	(456 444)
Change in deposits from customers	5 592 663	3 360 216
Change in liabilities arising from debt securities in issue	(10 925)	(1 037)
Change in assets and liabilities arising from deferred taxation	2 089	(9 042)
Change in other assets and liabilities	(10 095)	(229 180)
Paid income tax	(274 982)	(204 619)
Other adjustments	2 860	1 103
Net cash flow from operating activities - indirect method	2 714 996	1 978 940
Inflows	2 942 028	1 786 353
Sale of shares or interests in subsidiaries and associates	17 159	58 033
Sale of investment securities	2 854 007	1 666 791
Sale of intangible and tangible fixed assets	6 110	4 110
Dividends received	64 746	57 276
Proceeds from other investments	6	143
Outflows	(4 939 944)	(2 526 277)
Purchase of investment securities	(4 789 868)	(2 434 882)
Purchase of intangible and tangible fixed assets	(143 562)	(89 056)
Other investments	(6 514)	(2 339)
Net cash flow from investing activities	(1 997 916)	(739 924)
Inflows	1 376 263	672 419
Drawing of long-term loans	1 319 425	579 075
Issue of debt securities	56 838	93 344
Outflows	(1 402 408)	(957 517)
Repayment of long-term loans	(518 168)	(147 825)
Debt securities buy out	(339 294)	(286 348)
Dividends and other payments to shareholders	(475 485)	(464 806)
Other financing outflows	(69 461)	(58 538)
Net cash flow from financing activities	(26 145)	(285 098)
Total net cash flow	690 935	953 918
Cash at the beginning of the accounting period	1 547 604	593 686
Cash at the end of the accounting period	2 238 539	1 547 604

## **Additional Notes to Consolidated Financial Statements**

## 5. General information about issuer

Bank Zachodni WBK S.A. is a bank seated in Poland (50-950 Wrocław, Rynek 9/11, TIN 896-000-56-73, National Official Business Register number (REGON) 930041341, registered in the District Court for Wrocław-Fabryczna, VI Economic Unit of the National Court Registry under 0000008723 number. Consolidated financial statements of Bank Zachodni WBK S.A. includes bank's stand alone financial information as well as information from its subsidiaries (all together called Group) and share of net assets of associated entities. The bank's ultimate parent company is Allied Irish Bank plc. Group of Bank Zachodni WBK consists of the following subsidiaries and associate entities:

			%	%
		Registered	of votes on AGM	of votes on AGM
	Subsidiaries	office	31.12.2007	31.12.2006
1.	BZ WBK Faktor Sp. z o.o.	Warsaw	100.00	100.00
2.	BZ WBK Inwestycje Sp. z o.o.	Poznań	100.00	100.00
3.	Dom Maklerski BZ WBK S.A.	Poznań	99.99	99.99
4.	BZ WBK Finanse & Leasing S.A.	Poznań	99.99	99.99
5.	BZ WBK Leasing S.A.	Poznań	99.99	99.99
6.	BZ WBK Nieruchomości S.A.	Poznań	99.99	99.98
7.	Brytyjsko-Polskie Towarzystwo Finansowe			
	WBK-CU Sp. z o.o.	Poznań	60.00	60.00
8.	BZ WBK AIB Asset Management S.A.**	Poznań	50.00	50.00
9.	BZ WBK AIB Towarzystwo Funduszy		100% of AGM votes is	100% of AGM votes is
	Inwestycyjnych S.A.		held by BZ WBK AIB	held by BZ WBK AIB
		Poznań	Asset Management S.A.	Asset Management S.A
10.	BZ WBK Nieruchomości S.A. i Wspólnicy Spółka			
	Komandytowa	Poznań	-	99.99

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

		Registered	% of votes on AGM	% of votes on AGM
	Associates	office	31.12.2007	31.12.2006
1.	POLFUND - Fundusz Poręczeń Kredytowych S.A.	Szczecin	50.00	50.00
2.	NFI Magna Polonia S.A.	Warsaw	27.53	28.77

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

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

## Financial highlights of BZ WBK Group:

in thousands

		PLI	N	EUR		
	for the period:	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006	01.01.2007 - 31.12.2007	01.01.2006 - 31.12.2006	
	Conse	olidated financial s	statements			
	Interest and similar income	2 098 865	1 652 184	555 726	423 735	
	Fee and commission income	1 785 990	1 361 663	472 884	349 225	
	Operating profit	1 391 250	1 055 772	368 367	270 773	
IV	Gross profit	1 391 444	1 065 498	368 419	273 268	
V	Net profit attributable to the Company's equity holders	954 695	758 222	252 779	194 461	
VI	Total net cash flow	690 935	953 918	182 942	244 651	
VII	Total assets	41 332 079	32 992 183	11 538 827	8 611 449	
VIII	Deposits from banks	4 483 526	2 608 377	1 251 682	680 825	
IX	Deposits from customers	29 765 687	24 222 051	8 309 795	6 322 314	
Х	Total liabilities	36 755 378	28 915 441	10 261 133	7 547 359	
XI	Total equity	4 576 701	4 076 742	1 277 694	1 064 090	
XII	Minority interest	235 174	116 741	65 654	30 471	
XIII	Net profit attributable to the Minority	155 982	86 024	43 546	22 063	
XIV	Number of shares	72 960 284	72 960 284			
XV	Net book value per share in PLN/EUR	62.73	55.88	17.51	14.59	
XVI	Solvency ratio	13.27%	15.47%			
XVII	Profit (loss) per share in PLN/ EUR	13.09	10.39	3.47	2.66	
XVIII	Diluted earnings (loss) per share in PLN/EUR	13.06	10.38	3.46	2.66	
XIX	Declared or paid dividend per share in PLN/EUR	3.00	6.00	0.84	1.57	

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

- for balance sheet items 3.5820 PLN rate to EUR as at 31.12.2007 stated by National Bank of Poland (NBP), 3.8312 PLN rate to EUR as at 31.12.2006.
- for profit and loss items as at 31.12.2007 3.7768 (an average PLN rate to EUR in NBP on the last day of each month in 2007), as at 31.12.2006 3.8991 (an average PLN rate to EUR in NBP on the last day of each month in 2006).

## 6. Significant accounting policies

### Statement of compliance

The annual consolidated financial statements of the BZ WBK Group ended 31 December 2007 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and with respect to matters not regulated by the above Standards, in accordance with the Accounting Act dated 29 September 1994 (Official Journal from 2002, No 76, item 694 with amendments) and the respective bylaws and in accordance with the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market.

## Early adoption of standards

IFRS 8 Operating Segments introduced on the strength of the Commission Regulation (EC) no. 1358/2007 of 21 November 2007 adopting reporting requirements in respect of operating segments and replacing IAS 14 Segment Reporting has not become effective yet and will apply from 1 January 2009. The Group did not decide on early adoption of IFRS 8.

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

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

## **Basis of preparation**

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

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

The preparation of financial statements in conformity with IFRSs requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

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

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

The accounting policies have been applied consistently by Group entities.

## Comparability with results of previous periods

To ensure comparability, the following substantial changes were made to the presentation of financial data compared with 2006:

a) in the consolidated income statement:

- accrued interest on hedging IRS of PLN 7 613 k currently disclosed in net interest income, was previously classified as "Gains (losses) on financial instruments measured at fair value through profit and loss",
- presentation of realised f/x margins (previously "F/X profit") of PLN 188 333 k currently classified as "Commission income",
- other trading f/x transactions of PLN 19 839 k previously disclosed as "F/X profit", currently classified to "Net trading income and revaluation"
- change of presentation of "Gains and losses on hedging transactions" of 2 987 PLN k, currently in "Gains (losses) from other financial securities", previously as at separate item of profit and loss account
- change in classification of gains on execution of Euroindex options related to indexed customer deposits, currently being a part of "Fee and commission expenses" while previously amount of PLN 5 116 k was classified as "Gains (losses) on financial instruments measured at fair value through profit and loss".

b) in the consolidated balance sheet:

- reclassification of interest from IRS valuation to "Hedging derivatives" totaling PLN 16 948 k in assets and PLN 3 024 k in liabilities,
- reclassification of commercial bonds to "Receivables from customers" totalling PLN 34 622 k presented previously under "Investment securities",

- change of presenting incoming and outgoing SWIFT transactions that currently total PLN nil after netting,
- change of presenting liabilities towards international financial organization by BZ WBK Leasing S.A. totaling PLN 86 410 k relating to "Deposit from customers" that were previously presented under "Deposits from banks".

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

- reclassification of trading derivatives to "Financial assets held for trading" totaling PLN 362 675 k that were previously presented under "Derivative financial instruments",
- reclassification of trading derivatives to "Financial liabilities held for trading" totaling PLN 223 409 k that were previously presented under "Derivative financial instruments",
- change of presenting "Reverse repo transactions" totaling PLN 15 629 k presented currently under "Loans and advances to customers",
- change of presenting "Repo transactions" totaling PLN 1 230 682 k currently presented under "Deposits from banks", "Deposits from customers" and "Financial liabilities held for trading".

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

### **Basis of consolidation**

#### Subsidiaries

Subsidiaries are those enterprises which are controlled by BZ WBK 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:

- (a) power over more than half of the voting rights by virtue of an agreement with other investors;
- (b) power to govern the financial and operating policies of the entity under a statute or an agreement;
- (c) 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
- (d) 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.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

#### Purchase method of accounting

The Group 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 in which the Group has significant influence, but not control, over the financial and operating policies.

The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

#### Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in the preparation of consolidated financial statements.

### Foreign currency

#### Foreign currency transactions

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

### Financial assets and financial liabilities

#### Classification

The Group classifies its financial instruments into the following categories:

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

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

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

- (a) Classified as held for trading. A financial asset or financial liability is classified as held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
  - 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;
  - derivatives are held for trading unless the derivative is a designated and effective hedging instrument.
- (b) Upon initial recognition it is designated by the Group as at fair value through profit or loss. As at the balance sheet date the Group doesn't hold this category of financial instrument.

#### Loans and receivables

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

- (a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
- (b) those that the entity upon initial recognition designates as available for sale; or
- (c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans and receivables comprise loans and advances to banks and customers including purchased receivables and investments in debt instruments provided that they are not quoted in an active market and receivables due to reverse repo.

#### Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as:

- (a) loans and receivables,
- (b) held-to-maturity investments or
- (c) financial assets at fair value through profit or loss.

#### Other financial liabilities

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

### Recognition

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

A regular way purchase or sale of a financial asset classified at fair value through profit or loss and available for sale are recognised using settlement date accounting. The method is applied consistently for all purchases and sales of financial assets. Loans are recognised when cash is advanced to the borrowers.

#### Derecognition

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

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

#### **Repo and Reverse Repo**

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

#### Measurement

When a financial asset or financial liability is recognised initially, it is measured at fair value plus (in the case of a financial asset or financial liability not at fair value through profit or loss) transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification) or based on a valuation technique whose variables include only data from observable markets. After initial recognition, the Group measures financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for:

- (a) loans and receivables which shall be measured at amortised cost using the effective interest method;
- (b) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.
- After initial recognition, financial liabilities are measured at amortised cost using the effective interest method, except for:
  - (a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value,
  - (b) financial liabilities resulting from transferring a financial asset that is not to be derecognised.

Financial assets and financial liabilities that are designated as hedged items are subject to measurement under hedge accounting requirements.

#### Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship is recognised, as follows:

- a gain or loss on a financial asset or financial liability classified at fair value through profit or loss is recognised in profit or loss;
- a gain or loss on an available-for-sale financial asset, except for impairment losses, is recognised directly in equity, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the entity's right to receive payment is established.

The fair values of quoted financial instruments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities) the Group establishes fair value by using valuation techniques which include recent arms length market transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Where a fair value cannot be reliably estimated, unquoted instruments that do not have a quoted market price in an active market are measured at cost and periodically tested for impairment.

### Offsetting financial instruments

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

## Hedge accounting

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

At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged. The Group also documents, at inception and on going basis, an assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value.

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

The Group discontinues hedge accounting when:

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

#### Fair value hedge

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

A fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) shall be recognised in profit or loss; and the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in profit or loss. This applies if the hedged item is otherwise measured at amortised cost or is an available-for-sale financial asset.

#### Impairment of financial assets

#### Assets carried at amortised cost

The Group 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 assets 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 Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group 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:
  - adverse changes in the payment status of borrowers in the group, or
  - 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.

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 Group periodically reviews its loan portfolio to check whether there is any objective evidence that a financial asset or group of financial assets are impaired.

The analysis of impairment is carried out:

- with reference to individual credit exposures representing significant reporting items (in excess of PLN 2 m),
- with reference to the portfolio of credit exposures which individually are not significant.

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

If the Group 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 the collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of the Group's credit risk evaluation or the Group'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 Group 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 Group (bank) carries out the impairment analysis based on the concept of losses already incurred but not yet reported and connected with loan impairment (IBNR), which is estimated on the basis of the historical loss experience for loans with a similar risk profile, on the basis of estimated period between the occurrence of impairment and the identification as well as evidencing loss, and on the basis of historical data corrections, as described above.

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

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

#### Available-for-sale financial assets

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

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

#### Off balance sheet liabilities

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

#### Finance lease receivables

Leases where the Group transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee are classified as finance leases. A receivable at an amount equal to the net investment in the lease is recognised. The recognition of finance lease income is based on a pattern reflecting a constant periodic rate of return on the Group's net investment in the finance lease.

Finance lease receivables are included in loans and advances to customers.

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

#### Subsequent expenditure

The Group 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 Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

#### Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- buildings 40 years
- structures 22 years
- plant and equipment 3-14 years

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

#### Fixed assets held for sale

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

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

#### Intangible assets

#### Computer software

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

Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Useful life of computer software is defined and it ranges from 3 to 5 years.

#### Other intangible assets

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

#### Subsequent expenditure

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

#### Amortisation

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

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

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

#### Other trade and other receivables

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

#### Borrowings

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

#### Liabilities

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

## Impairment of assets other than financial assets

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

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

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

#### Calculation of recoverable amount

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

### Equity

Equity comprises capital and funds created in accordance with applicable law, acts and the Statutes. Equity also includes retained earnings and prior year losses carried forward.

Share capital is stated at its nominal value in accordance with the Statutes and the entry in the court register.

Supplementary capital is created from profit allocations and share issue premiums.

Reserve capital is created from profit allocations and is earmarked for covering balance sheet losses.

The result of valuation of profit sharing scheme is included in reserve capital. Revaluation reserve comprises differences from the valuation of financial assets available for sale taking into account the deferred income tax. Revaluation reserve is not distributable.

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

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

## Dividends

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

## **Employee benefits**

#### Short-term service benefits

The Group'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 Group'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.

#### Profit Sharing Scheme

BZ WBK Group has recognized in the consolidated financial statements a liability resulting from a profit sharing scheme granted to employees of selected subsidiaries in accordance with other long term employee benefits as described in IAS 19. The scheme, formally based on issue of shares that are purchased by entitled employees of subsidiaries, has characteristics of a long term profit sharing scheme (not share based payments), as all shares issued under the scheme are subjected to conditional obligation to dispose shares at a price different from the fair value of shares. Resulting from the classification of the scheme BZ WBK Group recognized a liability in its financial statements in an amount of estimated present value of expected future pay-outs considering a relevant service period in correspondence with employee related expenses. Pay-outs under the scheme are not recognized as net profit appropriation.

#### Share based payments

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

## Provisions

A provision is recognised in the balance sheet when the 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.

In case impairment is recognized for a financial asset, interest income is accrued based on the carrying amount of receivable (this is the value reduced by revaluation charge) with the use of the interest rate according to which future cash flows were discounted for impairment valuation.

## Net commission income

Fees and commissions settled under effective interest rate are listed above. Fees on overdrafts, revolving loans, credit cards and off balance sheet liabilities are brought in a straight-line method to the profit and loss account. Other fees and charges, which are not settled according to effective interest rate, are taken to profit and loss account in accordance with accrual method.

### Net trading income and revaluation

Net trading income and revaluation includes all profits and losses resulting from changes in fair value of financial assets and liabilities classified as held for trading that are measured at fair value through profit and loss. Interest costs and incomes related to the above mentioned instruments are also included in the trading result.

### **Dividend income**

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

### Profit on disposal of subsidiaries and associates

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

## Other operating income and costs

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

## Corporate income tax

Corporate income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the balance sheet date and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the balance sheet date and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences will be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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

# 7. Segmental reporting

BZ WBK Group's operating activities have been divided into four business segments: Treasury operations, Investment Banking, Branch and Corporate operations and Leasing operations.

- Activity of the Treasury Operations Segment comprises foreign exchange and interbank transactions as well as transaction in derivative instruments and debt securities
- Activity of the Investment Banking Segment includes investment activities of Bank Zachodni WBK S.A., asset management and brokerage operations
- Activity of the Branch and Corporate Operations Segment comprises branch network operations, Corporate Banking and the related internet distribution of services and products.
- Leasing Operations Segment centralises the Group's leasing activity.

Income and costs of the individual segment mean income and costs earned/incurred on sales to external clients or on transactions with other segments of the Group. They are disclosed in the P&L account and can be allocated to a particular business segment on a rational basis.

The segment's assets and liabilities are operational assets and liabilities used by that segment in its operating activities. They can be, based on rational premises, allocated to a particular business segment. Allocations of internal income and expenses were taken into account in determining the profitability of individual segments. Sale prices between the segments are close to market prices. Operating costs and income are appropriately allocated to a relevant segment. Costs and income, which cannot be rationally assigned, are stated in "unallocated costs" and "unallocated income".

BZ WBK Group operates exclusively in the territory of Poland and no significant differences in risk were identified as regards the geographical location of its outlets. Therefore, the issuer did not present financial statements with a breakdown into geographical segments.

## Consolidated income statement (by business segments)

#### in thousands of PLN

		Branch and Corporate	Treasury	Investment	Leasing		
	31.12.2007	operations	operations	banking	operations	Eliminations	Total
1.	Total segments income	3 227 569	636 789	1 039 042	168 114	(1 091 300)	3 980 214
	Segments income (external)	2 588 575	259 515	965 617	166 507		3 980 214
	Segments income (internal)	638 994	377 274	73 425	1 607	(1 091 300)	-
2.	Total segments costs	(2 478 318)	(496 392)	(524 613)	(127 954)	1 091 300	(2 535 977)
	Segments costs (external)	(2 028 110)	(44 095)	(352 033)	(111 739)		(2 535 977)
	Segments costs (internal)	(450 208)	(452 297)	(172 580)	(16 215)	1 091 300	-
3.	Dividend income			64 746			64 746
4.	Movements in provisions	470	-	-	(4 406)	-	(3 936)
	Write off	(245 128)			(19 667)		(264 795)
	Write back	245 598			15 261		260 859
5.	Segments income on investment in associates	-	-	194	-	-	194
6.	Segments gross profit	749 721	140 397	579 369	35 754	-	1 505 241
7.	Unallocated income						_
8.	Unallocated costs						(113 797)
9.	EBT						1 391 444
10.	Income tax						(280 767)
11.	Minority interest						(155 982)
12.	Profit for the period						954 695

## Additional information

#### in thousands of PLN

	Branch				
	and Corporate	Treasury	Investment	Leasing	
31.12.2007	operations	operations	banking	operations	Total
1. Segments assets	20 468 068	14 320 277	1 130 583	2 476 918	38 395 846
2. Segments investments in associates	-	-	25 778	-	25 778
3. Unallocated assets					2 910 455
Total assets	20 468 068	14 320 277	1 156 361	2 476 918	41 332 079
1. Segments liabilities	28 702 795	4 230 720	1 258 929	1 747 449	35 939 893
2. Unallocated liabilities					815 485
3. Equity					4 576 701
Total liabilities	28 702 795	4 230 720	1 258 929	1 747 449	41 332 079
1. Amortisation	118 517	1 611	4 401	2 417	126 946
2. Capital expenditures	124 657	172	8 921	2 060	135 810

## Consolidated income statement (by business segments)

#### in thousands of PLN

		Branch	_				
	31.12.2006	and Corporate operations	Treasury operations	Investment banking	Leasing operations	Eliminations	Total
1.	Total segments income	2 755 387	619 149	696 222	154 370		3 153 620
	Segments income (external)	2 141 010	205 683	654 267	152 660		3 153 620
	Segments income (internal)	614 377	413 466	41 955	1 710	(1 071 508)	-
2.	Total segments costs	(2 121 689)	(518 812)	(352 965)	(109 759)	1 071 508	(2 031 717)
	Segments costs (external)	(1 668 269)	(38 151)	(230 076)	(95 221)		(2 031 717)
	Segments costs (internal)	(453 420)	(480 661)	(122 889)	(14 538)	1 071 508	-
3.	Dividend income	-	-	57 276	-		57 276
4.	Movements in provisions	(26 062)	-	-	(2 274)	-	(28 336)
	Write off	(308 884)	-	-	(20 420)		(329 304)
	Write back	282 822	-	-	18 146		300 968
5.	Segments income on investment in associates	-	-	9 726	-	-	9 726
6.	Segments gross profit	607 636	100 337	410 259	42 337	-	1 160 569
7.	Unallocated income						-
8.	Unallocated costs						(95 071)
9.	EBT						1 065 498
10.	Income tax						(221 252)
11.	Minority interest						(86 024)
12.	Profit for the period						758 222

### Additional information

#### in thousands of PLN

		Branch and				
		Corporate	Treasury	Investment	Leasing	
	31.12.2006	operations	operations	banking	operations	Total
1.	Segments assets	14 844 213	13 084 507	984 211	1 801 542	30 714 473
2.	Segments investments in associates	-		36 201		36 201
3.	Unallocated assets					2 241 509
	Total assets	14 844 213	13 084 507	1 020 412	1 801 542	32 992 183
1.	Segments liabilities	21 877 046	3 703 984	1 046 501	1 366 020	27 993 551
2.	Unallocated liabilities					921 890
3.	Equity					4 076 742
	Total liabilities	21 877 046	3 703 984	1 046 501	1 366 020	32 992 183
1.	Amortisation	138 819	1 478	3 484	1 784	145 565
2.	Capital expenditures	74 506	1 379	4 548	3 051	83 484

## 8. Risk management

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

Primary responsibility for risk management establishment and framework lies with the Management Board (MB). MB formally approves the overall business strategies and policies, reviews Group's financial performance, risk management activities and controls. MB has established committees, which are responsible for risk developing and monitoring in their

specified areas: Asset and Liabilities Committee (ALCo), Operational Risk Management Committee (ORMCo) and Credit Committees.

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

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

## **Operating risk**

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

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

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

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

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

#### • Identification and estimation of operational risk

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

#### • Reporting on operational incidents and lessons learned

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

#### • Analysis of risk indicators

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

#### • Business continuity management

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

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

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

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

## Credit risk

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

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

### Credit Policy Forum

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

#### **Credit Policies**

Credit policies contain guidelines for the identification and assessment of areas where specific types of risks manifest themselves and also provide the methods of limiting those risks to a level acceptable to the bank (e.g. FX risk in the case of foreign currency loans). Credit policies comply with the AIB Group standards and are adapted to the local credit market conditions where Group of Bank Zachodni WBK operates.

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

#### Credit Grading

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

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

#### Provisioning

In Bank Zachodni WBK 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 Group presents an objective evidence that such amounts cannot be recovered in line with the signed loan agreement. The impairment is calculated on the basis of the estimated recoverable amount. Impairments are analysed using both the individual and collective approach. Ensuring adequate level of provisions is the responsibility of the Provisions Committee.

#### Credit risk stress testing

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

#### Return on Risk

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

#### Credit Decision Making Process

The credit decision-making process as part of the risk management policy is based upon Individual Credit Discretions vested in credit officers, commensurate with their knowledge and experience relating to particular activities (retail banking, corporate banking and SMEs). Credit exposures in excess of PLN 15m are referred to the Credit Committee composed of senior management and top executives of Bank Zachodni WBK.

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

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

#### Credit Reviews

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

### Credit risk concentration

Bank Zachodni WBK adheres to the standards provided for in the Banking Law with regard to the concentration of risk bearing exposures to a single entity or a group of entities connected in terms of capital or organisation. As at 31.12.2007, pursuant to art. 71 of the Banking Law Act, the maximum limits for the bank totalled:

- PLN 756 135 k (20% of bank's own funds pursuant to the regulations) in the case of exposures to subsidiary or dominant entities or to subsidiary entities of the entity dominant for the bank,
- PLN 945 169 k (25% of bank's own funds pursuant to the regulation.

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

The analysis of the Group's exposures in terms of sector concentrations, carried out at the end of December 2007, proved that the Group does not have any exposures in excess of the limits imposed by the regulator.

At the end of 2007, the Group had credit exposures (balance sheet and off-balance sheet) exceeding 10% of its own funds attributable to 5 entities (of which three were members of the BZ WBK Group) and which accounted for 63% of own funds (against the permissible norm of 800%).

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

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

## Credit risk management

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

The tables below present Group exposure to credit risk.

## Credit Exposures by classes

### in PLN m

	Provision cover	Loans and to cust		Loans and to ba		Investmen	it securities	Financial a for tr	
		31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.2006	31.12.2007	31.12.200
Individually impaire	d								
class 5	up to 50%	113	175						
class 6	50% - 70%	8	46						
class 7	70% - 85%	16	35						
class 8	over 85%	168	195	6	6				
Gross amount		305	451	6	6	-	-	-	-
Allowance for									
impairment		(199)	(279)	(6)	(6)				
Net amount		106	172	-	-	-	-	-	-
<b>Collectively impaire</b>	ed								
class 5	up to 50%	141	102						
class 6	50% - 70%	59	59						
class 7	70% - 85%	103	124						
class 8	over 85%	83	88						
Gross amount		386	373	-	-	-	-	-	-
Allowance for									
impairment		(241)	(260)						
Net amount		145	113	-	-	-	-	-	-
Net amount		145	113	-	-	-	-	-	
Not impaired portfo		145	113	-	_	-	_	-	
	past due)			-			I		
Not impaired portfo (past-due and non-p class 1	past due) up to 0.10%	4 210	2 987	- 2 577	- 3 155	9 764	- 8 021	- 1 258	1 105
Not impaired portfo (past-due and non-p	past due)		2 987 3 589	<b>-</b> 2 577			I		1 105
Not impaired portfo (past-due and non-p class 1	past due) up to 0.10%	4 210 4 605 7 400	2 987 3 589 3 586	2 577			I		1 105
Not impaired portfo (past-due and non-p class 1 class 2	past due) up to 0.10% 0.10% - 0.30%	4 210 4 605	2 987 3 589	2 577			I		1 105
Not impaired portfo (past-due and non-p class 1 class 2 class 3	past due) up to 0.10% 0.10% - 0.30% 0.30% - 0.65%	4 210 4 605 7 400	2 987 3 589 3 586	2 577 2 577			I		
Not impaired portfo (past-due and non-p class 1 class 2 class 3 class 4 Gross amount Allowance for	past due) up to 0.10% 0.10% - 0.30% 0.30% - 0.65%	4 210 4 605 7 400 7 583 <b>23 798</b>	2 987 3 589 3 586 7 218 <b>17 380</b>		3 155	9 764	8 021	1 258	
Not impaired portfo (past-due and non-p class 1 class 2 class 3 class 4 Gross amount Allowance for impairment	past due) up to 0.10% 0.10% - 0.30% 0.30% - 0.65%	4 210 4 605 7 400 7 583 <b>23 798</b> (145)	2 987 3 589 3 586 7 218 <b>17 380</b> (107)	2 577	3 155 3 155	9 764 9 764	8 021 8 021	1 258 1 258	1 105
Not impaired portfo (past-due and non-p class 1 class 2 class 3 class 4 Gross amount Allowance for	past due) up to 0.10% 0.10% - 0.30% 0.30% - 0.65%	4 210 4 605 7 400 7 583 <b>23 798</b>	2 987 3 589 3 586 7 218 <b>17 380</b> (107) <b>17 273</b>		3 155	9 764	8 021	1 258	1 105
Not impaired portfo (past-due and non-p class 1 class 2 class 3 class 4 Gross amount Allowance for impairment	past due) up to 0.10% 0.10% - 0.30% 0.30% - 0.65%	4 210 4 605 7 400 7 583 <b>23 798</b> (145)	2 987 3 589 3 586 7 218 <b>17 380</b> (107)	2 577	3 155 3 155	9 764 9 764	8 021 8 021	1 258 1 258	1 105
Not impaired portfo (past-due and non-p class 1 class 2 class 3 class 4 Gross amount Allowance for impairment Net amount	past due) up to 0.10% 0.10% - 0.30% 0.30% - 0.65%	4 210 4 605 7 400 7 583 <b>23 798</b> (145) <b>23 653</b>	2 987 3 589 3 586 7 218 <b>17 380</b> (107) <b>17 273</b>	2 577 2 577	3 155 3 155 3 155	9 764 9 764 9 764	8 021 8 021 8 021 8 021	1 258 1 258 1 258	1 105
Not impaired portfo (past-due and non-p class 1 class 2 class 3 class 4 Gross amount Allowance for impairment Net amount	past due) up to 0.10% 0.10% - 0.30% 0.30% - 0.65% over 0.65%	4 210 4 605 7 400 7 583 <b>23 798</b> (145) <b>23 653</b> 46	2 987 3 589 3 586 7 218 <b>17 380</b> (107) <b>17 273</b> 62	2 577 2 577	3 155 3 155 3 155	9 764 9 764 9 764	8 021 8 021 8 021 8 021	1 258 1 258 1 258	1 105
Not impaired portfo (past-due and non-p class 1 class 2 class 3 class 4 Gross amount Allowance for impairment Net amount Other receivables	past due) up to 0.10% 0.10% - 0.30% 0.30% - 0.65% over 0.65%	4 210 4 605 7 400 7 583 <b>23 798</b> (145) <b>23 653</b>	2 987 3 589 3 586 7 218 <b>17 380</b> (107) <b>17 273</b>	2 577 2 577	3 155 3 155 3 155	9 764 9 764 9 764	8 021 8 021 8 021 8 021	1 258 1 258 1 258	1 105
Not impaired portfo (past-due and non-p class 1 class 2 class 3 class 4 Gross amount Allowance for impairment Net amount Other receivables Off- balance sheet e	past due) up to 0.10% 0.10% - 0.30% 0.30% - 0.65% over 0.65%	4 210 4 605 7 400 7 583 <b>23 798</b> (145) <b>23 653</b> 46	2 987 3 589 3 586 7 218 <b>17 380</b> (107) <b>17 273</b> 62	2 577 2 577	3 155 3 155 3 155	9 764 9 764 9 764	8 021 8 021 8 021 8 021	1 258 1 258 1 258	1 105
Not impaired portfo (past-due and non-p class 1 class 2 class 3 class 4 Gross amount Allowance for impairment Net amount Other receivables Off- balance sheet e Financing granted	past due) up to 0.10% 0.10% - 0.30% 0.30% - 0.65% over 0.65%	4 210 4 605 7 400 7 583 <b>23 798</b> (145) <b>23 653</b> <b>46</b>	2 987 3 589 3 586 7 218 <b>17 380</b> (107) <b>17 273</b> <b>62</b> 6 438	2 577 2 577	3 155 3 155 3 155	9 764 9 764 9 764	8 021 8 021 8 021 8 021	1 258 1 258 1 258	1 105

Off- balance sheet								
exposure- total	8 513	7 061	-	-	-	-	114 085	71 257
Total net carrying								
amount	32 463	24 681	2 577	3 155	9 764	8 021	115 343	72 362

## IBNR overdue

in PLN m

	Loans and a to custor	
	31.12.2007	31.12.2006
Non-past due	23 010	16 333
Past-due	788	1 047
0-30 days	643	952
30-60 days	111	70
60-90 days	34	25
Gross amount	23 798	17 380

Portfolio of loans with incurred but not reported losses (IBNR) includes loans that in the past had renegotiated terms of agreements and would have otherwise been impaired. For the current reporting period and comparable period it was PLN 31.8 m and PLN 31.5 m respectively.

## Allowances for impairment by classes

	Loans and a to custo		Loans and a to bar	
	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Individual allowances for impairment				
class 5	(16)	(38)	-	-
class 6	(2)	(29)	-	-
class 7	(12)	(27)	-	-
class 8	(169)	(185)	(6)	(6)
Total individual allowances for impairment	(199)	(279)	(6)	(6)
Collective allowances for impairment				
class 5	(40)	(49)	-	-
class 6	(37)	(36)	-	-
class 7	(82)	(99)	-	-
class 8	(82)	(76)	-	-
Total collective allowances for impairment	(241)	(260)	-	-
IBNR				
class 1	(3)	(4)	-	-
class 2	(9)	(6)	-	-
class 3	(36)	(17)	-	-
class 4	(97)	(80)	-	-
Total IBNR	(145)	(107)	-	-
Total allowances for impairment	(585)	(646)	(6)	(6)

## Risk weighted off-balance sheet liabilities

in thousands of PLN

	31.12.2007			.2006
	carrying		carrying	
Off- balance sheet liabilities	amount	RWA	amount	RWA
Sanctioned				
Financing granted	7 833	2 930	6 438	2 4 3 8
Guarantees	680	377	623	356
Total	8 513	3 307	7 061	2 794

## Collateral

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

Individual customers

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

**Business customers** 

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

## Industry concentration

The credit policy of Bank Zachodni WBK Group envisages lending to low risk industries and reduction of exposures to medium and high risk industries. In order to ensure adequate portfolio diversification and control the risk of overexposure to a single industry, the bank provides funding to sectors and groups or capital units representing a variety of industries. As at the end of 2007, the highest concentration level was recorded in the "property service" (26% of the bank's credit exposure and 24% 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:

### in PLN m

		Exp	osure
	Industry	31.12.2007	31.12.2006
	Property service	5 781	3 641
	Production	4 238	3 367
	Distribution	2 984	2 318
	Financial sector	464	278
	Agriculture	797	714
	Energy	314	630
	Construction	1 102	739
	Transportation	796	729
	Other industries	1 897	1 534
Α	Total Business Loans	18 373	13 950
В	Personal (including mortgage loans)	6 043	4 196
A+B	BZWBK Group portfolio	24 416	18 146
С	Other receivables (commercial bonds., reverse repo)	23	39
A+B+C	Total BZ WBK Group	24 439	18 185

Nominal value of portfolio adjusted for unamortised commissions

## **Geographical concentration**

BZ WBK Group is concentrated on running credit activities in the territory of the Republic of Poland – exposure towards non-residents represents a marginal part of the bank's portfolio. In Poland, the credit activities are nationwide with a focus on the marketplace of large cities (Warsaw, Poznań, Wrocław, Gdańsk, Kraków, Łódź), which stems from the location of the bank's business units – branches and Corporate Business Centres.

The bank's operational structure is based on three macroregions: Poznań (provinces: Wielkopolskie, Zachodniopomorskie, Kujawsko-Pomorskie and Lubuskie), Warsaw (provinces: Mazowieckie, Warmińsko-Mazurskie, Podlaskie, Lubelskie, Pomorskie and Łódzkie) and Wrocław (provinces: Dolnośląskie, Śląskie, Opolskie, Świętokrzyskie, Małopolskie and Podkarpackie). Concentration in macroregion Warsaw accounts for 40% of the bank's total exposure, in macroregion Poznań 32% and Wrocław 27%. The macroregions are divided into regions.

	31.12.2007	31.12.2006
BZ WBK Group*	24 547	18 255
Macroregion Poznań	7 911	6 473
Region Poznań	2 600	2 000
Region Wielkopolska Północ	1 030	760
Region Wielkopolska Południe	1 732	1 539
Region Kujawsko-Pomorski	748	708
Region Lubuski	941	762
Region Zachodniopomorski	860	704
Macroregion Warsaw	9 838	6 319
Region Warsaw	7 852	4 749
Region Łódzki	590	425
Region Pomorsko-Mazurski	1 396	1 145
Macroregion Wrocław	6 503	5 236
Region Wrocław	1 854	1 593
Region Śląski	853	680
Region Dolnośląsko-Opolski	1 452	1 120
Region Dolnośląski Zachód	1 302	1 097
Region Małopolsko-Podkarpacki	1 042	746
Credit cards**	295	227

\* Nominal value of credit portfolio

\*\* Not allocated to macroregions

### Market risk

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

### General principles of market risk management

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

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

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

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

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

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

control unit responsible to ensure that the risk measurement methodologies used are appropriate for the risk being taken and that risk monitoring and control procedures are in place.

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

## **Measurement methods**

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

VaR is determined as a difference between the market value of positions calculated using the current market prices/rates and the market values based on "worst case" movements in market rates. This is captured using statistical analysis of market rate movements (volatility) which assumes a normal distribution and is calculated to a 99% confidence level. Volatility is measured for different holding periods : 1 day, 10 days and 1 month depending on risk. VaR is calculated separately for interest rate, FX and equity risk.

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

### Interest rate risk

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

The bank's subsidiaries also try to mitigate their interest rate risk – if there is a mismatch between the repriced assets and liabilities the companies enter into standard placements or derivative transactions with the bank, which – from the transaction date – manages this risk under a limit approved by the Management Board.

Interest rate risk is managed by setting limits on Value at Risk from the open interest rate risk of Treasury. VaR is determined as a difference between the market value of the interest rate position calculated using the current profitability curve and the worst-case profitability curve, which is based on a volatility of interest rates at a 99% confidence level for a threeyear interest rate history. Volatility is based on a one-month position maintenance period. VaR is set both for the trading portfolio and the banking portfolio. The measurement excludes the securities portfolio managed by ALCO and used to hedge against the structural balance sheet risk. A stop-loss limit framework is also used to manage the risk of loss from positions that are subject to mark-to-market accounting. Stress tests are used to supplement above measures by estimating possible losses that may occur under extreme market conditions. These are based on current sensitivity report and sets of assumed extreme 1 day and 1 month rates movements reported over the last 7 years. The table below presents risk levels in 2007 and comparable period (both measures assume 1 month holding time horizon):

#### in PLN m

Interest Rate Risk	Va	Value at Risk			
1 month holding period	2007	2006	2007	2006	
Average	19.38	14.24	100.77	61.64	
High	26.1	23.11	148.33	110.68	
Low	8.94	6.62	38.15	6.00	
31 December	18.25	12.92	119.29	64.07	

The Treasury Division operates within an operational VaR risk limit, which amounted to PLN 33.3m (EUR 10 m) at the end of 2007.

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

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

The tables below present the sensitivity of trading and banking portfolios at the end of December 2007 and comparable period:

#### in PLN m

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

#### in PLN m

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

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

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

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

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

## in PLN m

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

### FX risk

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

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

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

in PLN m					
FX Risk	V	Str	Stress Scenario		
1 month holding period:	2007	2006	2007	2006	
Average	0.88	0.43	3.50	1.56	
High	2.48	1.53	7.34	4.56	
Low	0.04	0.05	0.30	0.30	
31 December	0.32	0.18	3.14	0.79	

The Treasury Division operates within an operational VaR risk limit, which amounted to PLN 2.5m (EUR 0.7 m) at the end of 2007. FX risk management is centralised for maximum effectiveness, while maintaining segregation of risk measurement and risk control functions.

### Equity risk

The entity responsible for equity risk management is BZ WBK Brokerage House (BH). The source of this risk are transactions conducted on BH own account via stock exchanges and MS CTO (shares, futures). This risk is measured based on industry standard Value at Risk, which is determined as a difference between the market value of BH open positions and worst-case prices that are based on volatility of equity instruments prices at a 99% confidence level for a three-year price history. Volatility is based on a one-month position maintenance period. PML measures also correlation between portfolio instrument's prices and hedging impact of Future contracts. Stress tests are used to supplement above measure by estimating possible losses that may occur under extreme market conditions. The table below present risk levels in 2007 and comparable period:

in PLN m				
Equity Risk	Va	alue at Risk	St	ress Scenario
1 month holding period:	2007	2006	2007	2006
Average	0.45	0.49	0.34	0.09
High	1.55	1.24	5.6	0.57
Low	0.25	0.14	0.12	0.04
31 December	1.19	0.49	0.68	0.23

BH operates within operational limit that amounted to PLN 1.2 m as at the end of 2007. Any excess within the limits have been rectified and reported to relevant Units

### Liquidity risk

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

The Group'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 anticipated withdrawals of term deposits, demand deposits, loan payments, guarantee payments and settlements.

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

The Liquidity Policy adopted by the Management Board obliges the bank to maintain funds to cover 100% of the expected outflows in the one-month time horizon and not less than 10% in a period longer than a month. At the end of December 2007, the bank was compliant with the above requirements. The policy is designed to ensure cover for short and medium term liabilities. However liquidity position in a longer time horizon is also monitored. Also, for the limits indicated above there is a number of observation ratios set daily, which support the liquidity management process (e.g. loans to deposits ratio, ratio of dependence on wholesale market financing).

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

Liquidity Risk	<1W	<1M	<2Y	>2Y
31.12.2007				
Qualifying Liquid Assets	7 723	639	4	-
Treasury inflows	4 813	3 429	14 003	184
Other inflows	1 597	104	8 817	16 830
Treasury outflows	(5 345)	(3 292)	(13 766)	(370)
Other outflows	(7 527)	(738)	(10 332)	(16 771)
Gap	1 260	141	(1 274)	(127)
Cumulative Gap	1 260	1 401	127	

<1W	<1M	<2Y	>2Y
6 896	32	1	
3 878	1 747	7 168	24
434	89	6 296	12 715
(3 248)	(1 310)	(6 665)	(176)
(4 967)	(747)	(8 946)	(13 221)
2 993	(189)	(2 145)	(659)
2 993	2 804	659	
	6 896 3 878 434 (3 248) (4 967) <b>2 993</b>	6 896         32           3 878         1 747           434         89           (3 248)         (1 310)           (4 967)         (747) <b>2 993</b> (189)	6 896         32         1           3 878         1 747         7 168           434         89         6 296           (3 248)         (1 310)         (6 665)           (4 967)         (747)         (8 946) <b>2 993</b> (189)         (2 145)

The tables below show the gap arising from contractual maturity terms as at 31 December 2007 and in the comparable period. During the year there was an increase in customer deposits, which are characterised by a shorter maturity term. However the behaviour of the deposit base indicates that a significant part of these funds will remain with the Group. Due to deposits roll-over this liabilities position providing a stable source of funding and in the modify gap report (presented above) is reflected in longest maturity time buckets. At the same time the Group maintains a significant value of securities used to hedge the liquidity position (sale, deposit under repo transactions or Lombard loan).

#### in thousands of PLN

	up to 1	from 1 to	from 3 to	from 1 to	from 3 to	over 5	rate	
31.12.2007	month	3 months	12 months	3 years	5 years	years	insensitive	total
Loans and advances to bank	2 292	263	10	12	6	-	(6)	2 577
Financial assets held for trading	234	217	461	89	69	73	115	1 258
Loans and advances to customers	965	1 702	5 707	6 801	3 008	6 352	(585)	23 950
Investment securities	149	59	1 068	1 522	4 368	1 886	712	9 764
Other assets	-	-	-	-	-	-	-	3 783
Long position	3 640	2 241	7 246	8 424	7 451	8 311	236	41 332
Deposits from banks	2 800	191	477	880	83	53	-	4 4 8 4
Financial liabilities held for trading	215	173	529	32	16	32	-	997
Deposits from customers	25 462	1 938	2 122	145	99	-	-	29 766
Debt securities in issue	25	15	162	154	-	-	(3)	353
Other liabilities	-	-	-	-	-	-	-	5 732
Short position	28 502	2 317	3 290	1 211	198	85	(3)	41 332
Gap-balance sheet	(24 862)	(76)	3 956	7 213	7 253	8 226	239	
Off balance sheet liabilities- sanctioned								
Financing related	1 4 8 1	557	2 6 4 9	1 712	538	895		7 832
Guarantees	55	76	214	176	153	6		680
Derivatives settled in gross terms								
Inflows	5 884	4 783	7 968	845	-	409		19 889
Outflows	5 930	4 755	7 911	791	_	409		19 796
Gap – off-balance sheet	(1 582)	(605)	(2 806)	(1 834)	(691)	(901)	-	

#### in thousands of PLN

31.12.2006	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to		over 5	rate insensitive	total
				3 years	5 years	years		
Loans and advances to bank	2 431	342	364		-	-	(6)	3 155
Financial assets held for trading	566	71	165	155	75	15	57	1 104
Loans and advances to customers	1 028	915	4 536	4 737	2 131	4 919	(646)	17 620
Investment securities	204	10	1 483	2 143	2 0 3 7	1 518	626	8 0 2 1
Other assets	-	-	-	-	-	-	-	3 0 9 2
Long position	4 229	1 338	6 548	7 059	4 243	6 452	31	32 992
Deposits from banks	1 705	250	127	424	103	-	-	2 609
Financial liabilities held for trading	34	62	95	10	13	14	-	228
Deposits from customers	20 562	1 181	2 181	198	100	-	-	24 222
Debt securities in issue	-	64	275	252	35	-	20	646
Other liabilities	-	-	-	-	-	-	-	5 287
Short position	22 301	1 557	2 678	884	251	14	20	32 992
Gap-balance sheet	(18 072)	(219)	3 870	6 175	3 992	6 438	11	
Off balance sheet liabilities- sanctioned								
Financing related	980	623	2 257	1 251	294	1 033		6 438
Guarantees	50	56	224	194	93	6		623
Derivatives settled in gross terms								
Inflows	1 781	2 810	3 005	845	-	304		8 745
Outflows	1 749	2 799	2 977	823	-	304		8 652
Gap – off-balance sheet	(998)	(668)	(2 453)	(1 423)	(387)	(1 039)	-	

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

Each subsidiary is responsible for its own liquidity. However for short and medium term liquidity management purposes all subsidiaries typically use current account with credit limit and term deposits - if required - with the parent company. This results that all cash flows of subsidiaries are centralized in the parent bank. Medium and long term funding – in particular leasing companies – closely supervised by the parent company. BZ WBK provides support to subsidiaries when they enter into longer term funding transactions.

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

FX options are agreements to sell or buy a right to convert currencies in the future at a predetermined rate and settlement date. There are call and put options. A call option gives the holder the right to purchase a certain amount of a currency for a certain amount of another currency, while a put option gives the holder the right to sell a certain amount of a currency for a certain amount of another currency. It should be noted that the buyer of the option has the right but not obligation to enter into the transaction, while the writer of the option is obliged to enter into the transaction if the buyer chooses to exercise his right. Acquisition of the buy/sell rights entails a premium to be paid to the writer of the option. The bank concludes option contracts with customers and at the same time it closes the contracts in the interbank market thus avoiding open option positions exposed to market risk.

### Interest rate transactions

The Group enters into the following interest rate transactions:

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

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

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

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

The bank primarily uses this instrument in its trading portfolio.

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

### **Equity instruments**

The Group enters into the following equity transactions:

- Index options
- Futures

An index option entitles its holder to 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.

Futures contracts are commitments to either purchase or sell a designated financial instrument, currency, commodity or an index at a specified future date for a specified price and may be settled in cash or another financial asset. Futures are standardised exchange-traded contracts.

## **Capital Management**

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

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

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

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

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

BZ WBK capital policy assumes to maintain the level of CAD ratio of 10% for the bank and for the Group as the regulatory method of CAD ratio calculation does not cover all types of risk associated with BZ WBK activity.

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

During the whole 2007 CAD ratio was in excess of 10% for the bank and the Group.

The table below presents capital adequacy of BZ WBK Group

in thousands of PLN

		31.12.2007	31.12.2006
Ι	Total Capital requirement (Ia+Ib+Ic)	2 278 681	1 771 722
	Incl.:		
la	- due to credit risk	2 226 953	1 735 763
lb	- due to market risk	30 261	28 615
lc	<ul> <li>due to settlement/counterparty risk</li> </ul>	21 467	7 344
	Total own funds	4 441 216	4 076 742
	Reductions:	660 540	649 753
Illa	- Intangible assets	115 280	135 032
IIIb	- Capital investments	236 192	36 825
IIIc	- Planned dividend	309 068	477 896
IV	Own funds after reductions ((II+III)	3 780 676	3 426 989
۷	CAD (IV/(I*12.5)	13.27%	15.47%

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

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

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

#### 9. Net interest income

in thousands of PLN		
Interest and similar income	01.01-31.12.2007	01.01-31.12.2006
Loans and advances to enterprises	853 906	599 956
Loans and advances to individuals of which:	439 815	328 903
Mortgage loans	177 642	129 478
Debt securities incl.:	434 991	419 710
Trading portfolio	13 405	58 376
Investment portfolio	421 586	361 334
Loans and advances to banks	173 472	152 849
Leasing agreements	152 534	124 988
Interest recorded on hedging IRS	(3 814)	(7 613)
Reverse repo transactions	17 563	3 019
Other from public sector	30 398	30 372
Total	2 098 865	1 652 184

Loans and advances to banks exclude income on repo transactions.

in thousands of PLN		
Interest expense and similar charges	01.01-31.12.2007	01.01-31.12.2006
Deposits from individuals	(275 366)	(234 510)
Deposits from enterprises	(257 979)	(188 238)
Deposits from banks	(101 456)	(59 580)
Repo transactions	(83 008)	(52 073)
Debt securities in issue	(29 868)	(43 519)
Public sector	(64 538)	(42 553)
Total	(812 215)	(620 473)
Net interest income	1 286 650	1 031 711

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

## 10. Net fee and commission income

Fee and commission income	01.01-31.12.2007	01.01-31.12.2006
Asset management fees	690 344	375 785
eBusiness & payments	246 895	223 443
Current accounts and money transfer	221 070	225 769
Profit on FX transaction	211 412	188 333
Brokerage commissions	173 552	136 988
Distribution fees	74 469	82 144
Credit commissions (including factoring)	59 003	47 697
Insurance commissions	48 449	26 231
Credit cards	36 699	32 629
Off-balance sheet guarantee commissions	10 863	12 673
Issue arrangement	10 439	7 314
Finance lease commissions	847	549
Other commissions	1 948	2 108
Total	1 785 990	1 361 663
in thousands of PLN		
Fee and commission expense	01.01-31.12.2007	01.01-31.12.2006
Distribution fees	(77 605)	(40 027)
eBusiness & payments	(53 361)	(43 040)
Asset management fees and other costs	(40 725)	(26 604)
Brokerage commissions	(28 534)	(30 891)
Credit intermediation costs	(12 191)	(2 863)
Insurance commissions	(5 976)	(5 528)
Credit cards	(4 989)	(2 485)
Finance lease commissions	(4 858)	(5 821)
Other	(12 762)	(13 045)
Total	(241 001)	(170 304)
Net commission income	1 544 989	1 191 359

Included above is fee and commission income of PLN 107 412 k (2006: PLN 93 548 k) and fee and commission expenses of PLN (22 038) k (2006: PLN (11 169) k) other than fees included in determining the effective interest rate), relating to financial assets and liabilities not carried at fair value through profit or loss.

# 11. Dividend income

in thousands of PLN

Dividend income	01.01-31.12.2007	01.01-31.12.2006
Dividends from investment portfolio entities	63 534	56 689
Dividends from entities measured at fair value through profit and loss	1 212	587
Total	64 746	57 276

## 12. Net trading income and revaluation

in thousands of PLN		
Net trading income and revaluation	01.01-31.12.2007	01.01-31.12.2006
Profit/(loss) on derivative instruments	46 413	21 358
Profit/ (loss) on equity instruments	[4 206]	(982)
Profit on interbank FX transactions	18 792	16 197
Profit/(loss) on debt instruments	800	3 209
Other F/X related income	6 145	3 6 4 2
Total	67 944	43 424

# 13. Gains (losses) from other financial securities

in thousands of PLN		
Gains (losses) from other financial securities	01.01-31.12.2007	01.01-31.12.2006
Profit/loss on sale of available-for-sale financial instruments	(25 629)	27 615
Reversal (charge) due to impairment losses	350	1 360
Total profit (losses) on available-for-sale financial instruments	(25 279)	28 975
Change in fair value of hedging instruments	11 456	7 986
Change in fair value of underlying hedged positions	(11 652)	(4 999)
Total profit (losses) on hedging and hedged instruments	(196)	2 987
Total	(25 475)	31 962

# 14. Gains on sale of subsidiaries and associates

in thousands of PLN		
Gains less losses on sale of subsidiaries and associates	01.01-31.12.2007	01.01-31.12.2006
Sale of subsidiaries	-	(1 568)
Sale of associates	1 710	11 068
Total	1 710	9 500

Additional information about acquisitions and disposals of investments is available in note 51.

# 15. Other operating income

in thousands of PLN

Other operating income	01.01-31.12.2007	01.01-31.12.2006
Sundry income	11 803	10 556
Release of provision for legal cases and other assets	14 904	12 951
Recovery of non-credit receivables	4 120	2 491
Received compensations, penalties and fines	1 225	1 781
Sales or liquidation of fixed assets, intangible assets and assets for dis-		
posal	1 059	764
Donation received	6	145
Other incl.:	18 063	21 083
Financing Premium from EBRD	2 514	2 747
Costs of bailiff reimbursement	1 4 4 6	1 233
Reimbursements of BFG charges	1 312	673
Other	12 791	16 430
Total	51 180	49 771

# 16. Impairment losses on loans and advances

In thousands of PLN		
Impairment losses on loans and advances	01.01-31.12.2007	01.01-31.12.2006
Impairment charge	7 226	(37 854)
Incurred but not reported losses charge	(40 557)	(22 155)
Recoveries of loans previously written off	27 350	23 093
Off balance sheet credit related items	2 045	8 580
Total	(3 936)	(28 336)

# 17. Employee costs

In thousands of PLN		
Employee costs	01.01-31.12.2007	01.01-31.12.2006
Salaries and bonuses	(692 653)	(534 789)
Salary related costs	(101 979)	(88 952)
Professional trainings	(24 411)	(16 374)
Staff benefits costs	(17 040)	(35 966)
Retirement fund and holiday provisions	(6 758)	(7 626)
Total	(842 841)	(683 707)

# 18. General and administrative expenses

In thousands of PLN

General and administrative expenses	01.01-31.12.2007	01.01-31.12.2006
Marketing and public relations	(124 986)	(68 899)
Maintenance and rentals of premises	(124 498)	(106 104)
IT systems costs	(73 132)	(65 925)
Postal and telecommunication costs	[46 843]	(44 637)
Consulting fees	(44 259)	(31 991)
External services	[26 498]	(14 022)
Car, transport expenses, carriage of cash	(22 928)	(19 821)
Data transmission	(16 248)	(16 753)
Costs of repairs	(15 881)	(8 138)
Sundry taxes	(15 497)	(15 355)
Security costs	(12 043)	(9 369)
Bank guarantee fund	(6 106)	(4 736)
Other incl.:	(52 980)	(41 403)
KIR, SWIFT etc. Settlements	(10 663)	(9 359)
Stationery, printing of cheque books, plastic cards	(23 569)	(16 607)
Other	(18 748)	(15 437)
Total	(581 899)	(447 153)

## 19. Other operating expenses

In thousands of PLN

Other operating costs	01.01-31.12.2007	01.01-31.12.2006
Charge of provisions for legal cases and other assets	(9 728)	(20 994)
Debt recovery costs	(2 132)	(2 985)
Donations paid	(6 514)	(2 401)
Paid compensations, penalties and fines	(3 396)	(700)
Others incl.:	(15 446)	(14 138)
Losses from past-due receivables	(636)	(837)
Other	(14 810)	(13 301)
Total	(37 216)	(41 218)

# 20. Corporate income tax

 In thousands of PLN
 01.01-31.12.2007
 01.01-31.12.2006

 Current tax charge
 315 504
 253 438

 Deferred tax charge
 [34 737]
 [32 186]

 Total
 280 767
 221 252

Corporate total tax charge information	01.01-31.12.2007	01.01-31.12.2006
Profit before tax	1 391 444	1 065 498
Tax rate	19%	19%
Tax calculated at the tax rate	264 374	202 445
Non tax-deductible expenses	25 213	21 991
Non taxable income	(12 420)	(12 831)
Other:		
- write-offs	3 458	1 657
- other	142	7 990
Total income tax expense	280 767	221 252

Deferred tax recognised directly in equity	31.12.2007	31.12.2006
As at 31 December the amount of deferred tax recognised directly in equity totaled:		
Relating to equity securities available-for-sale	104 846	102 139
Relating to debt securities available-for-sale	(19 657)	17 151
Total	85 189	119 290

# 21. Earnings per share

Earning per share	01.01-31.12.2007	01.01-31.12.2006
Profit attributable to ordinary shares	954 695	758 222
Weighted average number of ordinary shares	72 960 284	72 960 284
Basic earnings per share (PLN)	13.09	10.39
Profit attributable to ordinary shares	954 695	758 222
Weighted average number of ordinary shares	72 960 284	72 960 284
Weighted average number of potential ordinary shares	161 995	61 957
Diluted earnings per share (PLN)	13.06	10.38

## 22. Cash and balances with central bank

In thousands of PLN

Cash and balances with central bank	31.12.2007	31.12.2006
Cash	840 924	602 340
Current account in central bank	1 365 131	931 546
Other cash equivalents	210	594
Total	2 206 265	1 534 480

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

## 23. Loans and advances to banks

In thousands of PLN		
Loans and advances to banks	31.12.2007	31.12.2006
Loans and advances	1 638 326	1 462 967
Current accounts	175 862	1 697 863
Reverse-repo transactions	768 659	-
Gross receivables	2 582 847	3 160 830
Impairment write down	(5 969)	(6 284)
Total	2 576 878	3 154 546

Fair value of "loans and advances to banks" is disclosed in note 43.

Movements in impairment losses on receivables from banks	31.12.2007	31.12.2006
Balance at 1 January	(6 284)	(7 566)
Write off	315	1 282
Balance at the end of the period	(5 969)	(6 284)

# 24. Financial assets and liabilities held for trading

The fair value of derivative financial instruments is determined using market quotations, discounted cash flow models and options valuation models, as appropriate.

Option contracts are stated at fair value using the market quotations or the option valuation models, as appropriate.

In thousands of PLN

	31.12	31.12.2007		31.12.2006	
Trading derivatives	Assets	Liabilities	Assets	Liabilities	
Interest rate transactions	184 070	305 866	145 922	97 447	
Options	22	22			
IRS	154 476	280 337	129 492	75 806	
FRA	29 572	25 507	16 430	21 641	
Forward					
Equity derivatives	33	-	2 390	-	
Options	33	-	2 390	-	
Currency derivatives	788 063	691 008	214 363	125 962	
FX Swap	550 176	537 422	119 480	78 157	
CIRS	159 701	29 003	70 424	13 735	
Forward	45 146	91 469	15 609	25 943	
Spot	1 103	1 177	830	107	
Options	31 937	31 937	8 0 2 0	8 0 2 0	
Total trading derivatives	972 166	996 874	362 675	223 409	

#### In thousands of PLN

	31.12.2007		31.12.2006	
Debt and equity securities	Assets	Liabilities	Assets	Liabilities
Debt securities	171 157	-	685 277	-
Government securities:	171 135	-	685 255	_
- bills	60 202	-	497 460	-
- bonds	110 933	-	187 795	-
Other securities:	22	-	22	-
- bonds	22	-	22	_
Equity securities:	114 930	-	56 652	-
- listed	114 930	-	56 652	
- unlisted	-	-	-	-
Total	286 087	-	741 929	-

Interest income from debt instruments and other fixed rate instruments is disclosed under "interest income". Profit and loss from fair value changes of instruments measured at fair value through profit and loss are disclosed in gains (losses) from financial instruments measured at fair value through profit and loss.

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

In thousands of PL	N
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	31.12.2007		31.12.2007 31.12.200	
Repo transactions	Assets	Liabilities	Assets	Liabilities
Total	-	-		5 006
Total financial assets/liabilities	1 258 253	996 874	1 104 604	228 415

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

### In thousands of PLN

Deri	vatives' nominal values	31.12.2007	31.12.2006
1.	Derivatives (hedging)	1 990 754	1 486 018
a)	Single-currency interest rate swaps – purchased amounts	995 377	743 009
b)	Single-currency interest rate swaps – sold amounts	995 377	743 009
2.	Term derivatives (trading)	225 426 953	138 485 557
a)	Interest rate operations	184 923 594	118 158 636
-	Single-currency interest rate swaps – purchased amounts	63 161 797	38 204 318
-	Single-currency interest rate swaps – sold amounts	63 161 797	38 204 318
-	FRA-purchased amounts	29 800 000	19 650 000
-	FRA-sold amounts	28 800 000	22 100 000
b)	FX operations	40 503 359	20 326 921
-	FX swap – purchased amounts	15 612 274	7 297 468
-	FX swap – sold amounts	15 594 050	7 251 675
-	Forward- purchased amounts	2 508 227	1 360 359
-	Forward- sold amounts	2 559 864	1 371 345
-	Double-currency interest rate swaps – purchased amounts	2 180 719	1 550 962
-	Double-currency interest rate swaps – sold amounts	2 048 225	1 495 112
3.	Currency transactions- spot	776 657	921 046
-	spot-purchased	388 293	460 884
-	spot-sold	388 364	460 162
4.	Derivatives – OTC options	3 064 616	749 280
-	Options purchased	1 532 308	374 640
-	Options sold	1 532 308	374 640
5.	Euroindex options	8 733	168 888
-	Options purchased	8 733	168 888
Tot	al	231 267 713	141 810 789

## 25. Hedging derivatives

In thousands of PLN				
	31.12.2007		31.12.2006	
Hedging derivatives	Assets	Liabilities	Assets	Liabilities
Fair value hedge	41 410	7 613	19 956	12 912
IRS	41 410	7 613	19 956	12 912
Total hedging derivatives	41 410	7 613	19 956	12 912

# 26. Loans and advances to customers

Loans and advances to customers	31.12.2007	31.12.2006
Loans and advances to enterprises	15 945 318	12 080 918
Loans and advances to individuals, of which:	6 109 738	4 238 855
Real estate financing	3 644 937	2 562 786
Finance lease receivables	2 313 783	1 704 988
Loans and advances to public sector	159 341	222 029
Reverse-repo transactions	29	15 629
Other	6 473	3 945
Gross receivables	24 534 682	18 266 364
Impairment losses in loans and advances to customers	(584 968)	(646 298)
Total	23 949 714	17 620 066

In thousands of PLN		
Movements on impairment recognised on loans and advances to customers	31.12.2007	31.12.2006
Individual and collective impairment		
As at the beginning of the period	(539 022)	(640 848)
Charge of current period	(115 036)	(184 615)
Write back of current period	122 262	146 761
Write downs and write off's	91 381	138 659
Impact of exchange rate	870	1 021
Balance at the end of the period	(439 545)	(539 022)
IBNR		
As at the beginning of the period	(107 276)	(86 001)
Charge of current period	(175 632)	(142 366)
Write back of current period	135 075	120 211
Impact of exchange rate	2 410	880
Balance at the end of the period	(145 423)	(107 276)
Total	(584 968)	(646 298)

## 27. Investment securities

In thousands of PLN		
Investment securities	31.12.2007	31.12.2006
Available for sale investments - measured at fair value	9 763 669	8 021 289
Debt securities:	9 052 095	7 395 066
Government securities:	8 207 781	6 264 540
- bills	263 047	206 627
- bonds	7 944 734	6 057 913
Central Bank securities:	591 379	593 104
- bonds	591 379	593 104
Commercial securities:	252 935	537 422
- bonds	252 935	537 422
Equity securities - measured at fair value:	629 309	599 410
- listed	26 138	18 672
- unlisted	603 171	580 738
Investment certificates	82 265	26 813
Total	9 763 669	8 021 289

As at 31.12.2007 fixed interest rate debt securities measured at fair value amount to PLN 7 648 962k, variable interest rate securities amount to PLN 1 403 133 k. As at 31.12.2006 fixed interest rate debt securities measured at fair value amount to PLN 6 342 844 k, variable interest rate securities amount to PLN 1 052 222 k. As at 31.12.2007 fair value adjustments resulting from fair value hedge on available for sale debt securities totalled PLN (12 100) k (as at 31.12.2006 - PLN 1 305 k). As at 31 December 2006 BZ WBK has revised the valuation of its investments in Polish entities of the Commercial Union Group classified as available for sale. Resulting from the revision a positive adjustment to the carrying value of these investments in the amount of PLN 354 292 k has been recognised with corresponding increase (net of deferred tax) in the revaluation reserve. In the reporting period BZ WBK Group did not identify any material changes in the fair value of the investments specified above. The revised fair values have been determined by valuation techniques using: (a) recent prospective arm's length transactions between knowledgeable and willing parties and (b) by reference to the current fair value of shares issued by similar entities. For the latter the following parameters have been used in the model: average P/E and P/PV 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.

#### In thousands of PLN

Movements on investment securities	Debt securities	<b>Equity securities</b>	Total
As at 1 January 2007	7 395 066	626 223	8 021 289
Additions	4 718 568	71 300	4 789 868
Disposals (sale and redemption)	(2 876 411)	(3 225)	(2 879 636)
Fair value adjustment (AFS)	(206 596)	20 679	(185 917)
Movements on interest accrued	100 466	-	100 466
Provision for impairment	-	350	350
F/X differences	(78 998)	(3 753)	(82 751)
As at 31 December 2007	9 052 095	711 574	9 763 669

In thousands of PLN **Movements on investment securities Debt securities Equity securities** Total As at 1 January 2006 6 695 719 263 446 6 959 165 Additions 2 423 032 11 462 2 434 494 Disposals (sale and redemption) (1 631 471) (23 824) (1 655 295) Fair value adjustment (AFS) (41 950) 373 779 331 829 Movements on interest accrued (37 689) (37 689) Provision for impairment 1 360 1 360 F/X differences (12 575) (12 575) \_ As at 31 December 2006 7 395 066 626 223 8 021 289

## 28. Investments in associates

Investments in associates	31.12.2007	31.12.2006
As at 1 January	36 201	73 237
Share of profits (losses)	194	9 726
Dividend received	(7 267)	(335)
Sale/acquisition	(15 750)	(46 427)
As at the end of the period	13 378	36 201

Investments in associates as at 31.12.2007

	POLFUND – Fundusz	NFI Magna Polonia	Tetel
Name of entity (and its legal status)	Poręczeń Kredytowych S.A.*	S.A. Group**	Total
registered office	Szczecin	Warszawa	
balance sheet value	9 867	3 511	13 378
total assets	68 272	122 301	190 573
own funds of entity, of which:	19 734	12 758	32 492
- share capital	16 000	1 518	17 518
- other own funds, of which:	3 734	11 240	14 974
- from previous years	1 325	(16 234)	(14 909)
- net profit (loss)	2 049	(1 192)	857
minority interest	-	1 494	1 494
liabilities of entity, of which:	46 232	29 635	75 867
- short-term	94	29 635	29 729
- long-term	46 138	-	46 138
revenues	1 333	7 708	9 041
% of holding***	50.00	27.53	

\* financial highlights as at end of November 2007

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

\*\*\* states percentage share of associates profits

Name of entity (and its legal status)	Business
	providing lending guarantees, investing and managing funds
POLFUND - Fundusz Poręczeń Kredytowych S.A.	invested in companies, management
	buying securities issued by State Treasury, buying or taking up interests or shares in entities registered and operating in
NFI Magna Polonia S.A. Group	Poland, buying other securities issued by these entities

Investments in associates as at 31.12.2006

	POLFUND – Fundusz	NFI Magna Polonia	
Name of entity (and its legal status)	Poręczeń Kredytowych S.A.*	S.A. Group **	Total
registered office	Szczecin	Warsaw	
balance sheet value	8 965	27 236	36 201
total assets	62 571	242 521	305 092
own funds of entity, of which:	17 929	94 677	112 606
- share capital	16 000	3 554	19 554
- other own funds, of which:	1 929	91 123	93 052
- from previous years	632	(38 235)	(37 603)
- net profit (loss)	997	23 084	24 081
minority interest	-	64 069	64 069
liabilities of entity, of which:	43 187	83 325	126 512
- short-term	73	51 488	51 561
- long-term	43 114	31 837	74 951
revenues	2 854	40 787	43 641
% of holding***	50.00	28.77	

\* financial highlights as at end of November 2006

\*\*financial highlights as at end of September 2006

\*\*\* states percentage share of associates profits

Name of entity (and its legal status)	Business
	providing lending guarantees, investing and managing funds
POLFUND - Fundusz Poręczeń Kredytowych S.A.	invested in companies, management
	buying securities issued by State Treasury, buying or taking up
	interests or shares in entities registered and operating in
NFI Magna Polonia S.A. Group	Poland, buying other securities issued by these entities

# 29. Intangible assets

In thousands of PLN

	Licences,		Capital	
Intangible assets	patents etc.	Other	expenditures	Total
Year 2007				
Gross value at the beginning of the period	501 629	8 0 2 9	40 430	550 088
Additions from:				
- purchases	-	-	48 522	48 522
- intangible assets taken for use	30 801	1	-	30 802
Disposals from:				
- liquidation	(23 855)	-	-	(23 855)
- intangible assets taken for use	-	-	(30 802)	(30 802)
- transfers	-	-	(1 751)	(1 751)
Gross value at the end of the period	508 575	8 0 3 0	56 399	573 004
Accumulated depreciation at the beginning of the period	(407 465)	(7 591)	-	(415 056)
Depreciation:				
- current year	(68 139)	(130)	-	(68 269)
- liquidation	23 855	-	-	23 855
Write down/Reversal of impairment write down	1 746	-	-	1 746
Accumulated depreciation at the end of the period	(450 003)	(7 721)	-	(457 724)
Book Value				
Purchase value	508 575	8 0 3 0	56 399	573 004
Accumulated depreciation	(450 003)	(7 721)	-	(457 724)
As at 31 December 2007	58 572	309	56 399	115 280

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

#### In thousands of PLN

Internitie eccete	Licences,	Other	Capital	Tetel
Intangible assets	patents etc.	Other	expenditures	Total
Year 2006				
Gross value at the beginning of the period	481 160	8 2 3 3	22 411	511 804
Additions from:				
- purchases	-	-	39 644	39 644
- intangible assets taken for use	21 458	43	-	21 501
- transfers	(9)	9	-	-
Disposals from:				
- liquidation	(980)	-	(39)	(1 019)
- intangible assets taken for use	-	-	(21 501)	(21 501)
- transfers	-	-	(85)	(85)
- excluding from consolidation (sale of subsidiary)	-	(256)	-	(256)
Gross value at the end of the period	501 629	8 0 2 9	40 430	550 088
Accumulated depreciation at the beginning of the period	(329 901)	(7 709)	-	(337 610)
Depreciation:				
- current year	(78 549)	(129)	-	(78 678)
- liquidation	980	-	-	980
- excluding from consolidation (sale of subsidiary)	-	256	-	256
- transfers	11	(9)	-	2
Write down/Reversal of impairment write down	(6)	-	-	(6)
Accumulated depreciation at the end of the period	(407 465)	(7 591)	-	(415 056)
Book Value				
Purchase value	501 629	8 0 2 9	40 430	550 088
Accumulated depreciation	(407 465)	(7 591)	-	(415 056)
As at 31 December 2006	94 164	438	40 430	135 032

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

In thousands of PLN

	Land and		Transportation		Capital	
Property, plant & equipment	Buildings	Equipment	means	assets	expenditures	Total
31.12.2007						
Gross value at the beginning of						
the period	547 981	356 214	30 215	247 451	26 796	1 208 657
Additions from:						
- purchases	-	-	-	-	95 040	95 040
- leasing	-	-	12 430	31	-	12 461
donation	-	48	-	-	-	48
- fixed assets taken for use	16 462	30 424	316	20 568	-	67 770
- transfers	20 106	8	268	3 634	1 510	25 526
Disposals from:						
- sale, liquidation and donation	(12 125)	(94 971)	(5 892)	(17 539)	-	(130 527)
- fixed assets taken for use	-	_	-		(67 770)	(67 770)
- transfers	-	(26)	-	(56)	(20)	(102)
Gross value at the end of	E70 / 0/	201 /07	20.20	25 ( 000		1 011 100
the period	572 424	291 697	37 337	254 089	55 556	1 211 103
Accumulated depreciation at	(201 923)	(331 332)	(14 694)	(167 051)		(715 000)
the beginning of the period	(201 723)	(331 332)	(14 074)	(167 051)	-	(715000)
Depreciation:						
- current year	(22 871)	(14 104)	(7 065)	(22 293)	-	(66 333)
- sale, liquidation and donation	7 221	94 948	5 685	17 077	-	124 931
- transfers	(8 143)	(5)	(1 120)	(1 918)	-	(11 186)
Reversal of impairment write down	-	-	-	(289)	-	(289)
Accumulated depreciation at		(050 (00)	(47.407)			
the end of the period	(225 716)	(250 493)	(17 194)	(174 474)	-	(667 877)
Book Value						
Purchase value	572 424	291 697	37 337	254 089	55 556	1 211 103
Accumulated depreciation	(225 716)	(250 493)	(17 194)	(174 474)	-	(667 877)
As at 31 December 2007	346 708	41 204	20 143	79 615	55 556	543 226

Expenditures made in 2007 are included in "capital expenditure". Expenditures are calculated successively and capitalised in appropriate group of fixed assets. The main items are: purchase and modernization of ATM's, electronic equipment, modernization of existing units as well as adaptation of new offices for branches. In July 2007 a real estate in Wrocław was reclassified from assets held for sale to "property, plant and equipment". It is disclosed as a transfer (net value: PLN 13 729 k).

The main items of "disposals from sale, liquidation and donation" are: liquidation of old, obsolete fixed assets in net value of PLN 1 246 k, sale of fix assets (gross value: PLN 12 438 k, net value: 4 131 k) and a donation (gross value: PLN 2 960 k, net value: PLN 16 k).

The main items of "disposals from sale, liquidation and donation" is a sale of properties - incl. those in Karpacz (gains on sale: PLN 773 k) and in Chodzież (gains on sale: 288 k).

#### In thousands of PLN

Drenerty plant 9 aguinment	Land and	Fauinment	Transportation		Capital	Tetel
Property, plant & equipment	Buildings	Equipment	means	assets	expenditures	Tota
31.12.2006						
Gross value at the beginning of the period	549 579	347 951	29 048	238 315	8 173	1 173 066
Additions from:						
- purchases	-	-	-	_	49 410	49 410
- leasing	-	-	5 239	-	-	5 239
- fixed assets taken for use	4 717	12 725	874	12 556	-	30 872
- transfers	21	-	-	-	85	106
Disposals from:						
- sale, liquidation and donation	(6 123)	(4 106)	(4 460)	(3 044)	-	(17 733)
- fixed assets taken for use	-	-	-	_	(30 872)	(30 872)
- transfers	-	90	(161)	(70)	-	(141)
- excluding from consolidation (sale of subsidiary)	(213)	(446)	(325)	(306)	-	(1 290)
Gross value at the end of the period	547 981	356 214	30 215	247 451	26 796	1 208 657
Accumulated depreciation at the beginning of the period	(184 173)	(304 780)	(13 070)	(152 400)	-	(654 423)
Depreciation:						
- current year	(21 500)	(30 939)	(5 704)	(21 996)	-	(80 139)
- sale, liquidation and donation	3 635	4 083	4 266	2 855	-	14 839
- transfers	(98)	(38)	(389)	186	-	(339)
<ul> <li>excluding from consolidation (sale of subsidiary)</li> </ul>	213	342	203	278	-	1 036
Reversal of impairment write down	_	-	-	4 0 2 6	-	4 0 2 6
Accumulated depreciation at						
the end of the period	(201 923)	(331 332)	(14 694)	(167 051)	-	(715 000)
Book Value						
Purchase value	547 981	356 214	30 215	247 451	26 796	1 208 657
Accumulated depreciation	(201 923)	(331 332)	(14 694)	(167 051)	-	(715 000)
As at 31 December 2006	346 058	24 882	15 521	80 400	26 796	493 657

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

# 31. Deferred tax asset

#### In thousands of PLN

Deferred tax asset	31.12.2006	Increase	Decrease	31.12.2007
Unrealized deposit interest	11 271	2 399	-	13 670
Unrealized securities interest	19 228	3 252	-	22 480
Unrealized liabilities due to derivatives	119 265	-	(47 805)	71 460
Provisions for loans	104 509	-	(2 371)	102 138
Other provisions which are not yet taxable costs	61 196	19 290	(4 540)	75 946
Difference between balance sheet and taxable value of leasing portfolio	28 171	4 705	-	32 876
Additional deferred tax assets resulting from art. 38 a of Corporate Tax Act	14 195	-	(2 837)	11 358
Tax Loss	-	792	_	792
Deferred income	26 448	4 718	-	31 166
Other	8 184	2 945	(4 566)	6 563
Total	392 467	38 101	(62 119)	368 449

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

In thousands of PLN				
Deferred tax asset	31.12.2005	Increase	Decrease	31.12.2006
Unrealized deposit interest	18 115	-	(6 844)	11 271
Unrealized securities interest	26 964	-	(7 736)	19 228
Unrealized liabilities due to derivatives	138 208	-	(18 943)	119 265
Provisions for loans	134 608	-	(30 099)	104 509
Other provisions which are not yet taxable costs	50 394	19 025	(8 223)	61 196
Difference between balance sheet and taxable value of leasing portfolio	17 831	10 512	(172)	28 171
Additional deferred tax assets resulting from art. 38 a of Corporate Tax Act	15 293	-	(1 098)	14 195
Tax Loss	330	_	(330)	-
Deferred income	24 824	1 624	-	26 4 48
Other	8 665	233	(714)	8 184
Total	435 232	31 394	(74 159)	392 467

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

# 32. Other assets

In thousands of	of	PL	Ν
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Other assets	31.12.2007	31.12.2006
Sundry debtors	244 709	148 582
Settlements of stock exchange transactions	135 397	138 907
Interbank and interbranch settlements	75 805	152 056
Prepayments	36 429	23 029
Assets held for sale	2 502	17 053
Other	715	258
Total	495 557	479 885

#### In thousands of PLN

Assets held for sale - BZ WBK Group			
31 December 2007	Gross value	Impairment loss	Carrying value
Land and buildings	4 224	(1 815)	2 409
Equipment	436	(343)	93
Total	4 660	(2 158)	2 502

In 2007 a property including its equipment was sold (net value PLN 788 k and PLN 34 k respectively), another one was reclassified from assets held for sale to property, plant and equipment (net value of PLN 11 965 k) with its fixed assets of net value PLN 1764 k.

#### In thousands of PLN

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

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

# 33. Deposits from banks

In thousands of PLN

Deposits from banks	31.12.2007	31.12.2006
Current accounts	177 122	270 526
Deposits	1 212 360	371 635
Loans from other banks	1 337 922	743 621
Repo transactions	1 756 122	1 222 595
Total	4 483 526	2 608 377

As at 31.12.2007 fair value adjustment for hedged deposit totaled PLN 48 k (as at 31.12.2006 - PLN 0 k). Fair value of deposits from banks is presented in additional note 43.

# 34. Deposits from customers

In thousands of PLN		
Deposits from customers	31.12.2007	31.12.2006
Deposits from individuals	15 142 934	12 461 759
- term deposits	6 069 828	7 742 829
- current accounts	9 017 039	4 666 843
- other	56 067	52 087
Deposits from enterprises	12 211 484	10 140 514
- current accounts	8 030 169	5 918 089
- term deposits	3 803 662	3 714 815
- credits	76 348	105 791
- repo transactions	5 269	3 081
- other	296 036	398 738
Deposits from public sector	2 411 269	1 619 778
- current accounts	1 802 893	1 265 568
- term deposits	607 789	353 237
- oher	587	973
Total	29 765 687	24 222 051

As at 31.12.2007 deposits held as collateral totalled PLN 190 306 k. As at 31.12.2006 deposits held as collateral totalled PLN 175 871 k. Fair value of deposits from customers is presented in additional note 43.

# 35. Debt securities in issue

	Ave	rage coupon	Nomina	al value
Debt securities in issue	31.12.2007	31.12.2006	31.12.2007	31.12.2006
Bond 3 Y-3Z0507	-	WIBOR 6M + 0.10%	-	6 404
Bond 3 Y-3S0807	-	fixed; 7.3%	-	49 984
Bond 3 Y-3S0907	-	fixed; 7.3%	-	49 925
Bond 3 Y-3S0707	-	fixed; 7%	-	49 833
Bond 3 Y-3S1007	-	fixed; 7.25%	-	10 235
Bond 3 Y-3S1107	-	fixed; 7%	-	29 975
Bond 3 Y-3S11A07	-	fixed; 7%	-	10 000
Bond 3 Y-3Z0807	-	WIBOR 6M + 0.20%	-	40 143
Bond 3 Y-3S0207	-	fixed; 6.5%	-	45 095
Bond 3 Y-3S0307	-	fixed; 6.5%	-	18 589
Bond 3 Y-3S0407	-	fixed; 6.5%	-	9 423
Bond 3 Y-3S0507	-	fixed; 6.75%	-	19 358
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
Bond 3 Y-3S0608	fixed; 4.4%	fixed; 4.4%	3 049	3 054
Bond 3 Y-3S0108	fixed; 6.25%	fixed; 6.25%	24 943	24 978
Bond 3 Y-3S0308	fixed; 5.55%	fixed; 5.55%	14 985	14 985
Bond 3 Y-3S0508	fixed; 5.25%	fixed; 5.25%	22 031	22 031
Bond 3 Y-3S0608	fixed; 5.15%	fixed; 5.15%	7 283	7 283
Bond 3 Y-3S1008	fixed; 4.2%	fixed; 4.2%	12 765	12 787
Bond 3 Y-3S1108	fixed; 4.6%	fixed; 4.6%	14 288	14 292
Bond 3 Y-3Z0209	WIBOR 1M + 0.44%	WIBOR 1M + 0.44%	35 000	35 000
Bond 3 Y-3S0809	fixed; 4.9%	fixed; 4.9%	46 387	46 404
Bond 3 Y-3S0809	fixed; 4.9%	fixed; 4.9%	11 889	11 914
Bond 2 Y-2S0209	fixed; 5.00%	-	32 310	-
Bond 2 Y-2S0409	fixed; 5.00%	-	10 188	-
Bond 2 Y-2Z0809	WIBOR 6M	-	14 315	-
Total nominal value	-	-	328 352	610 611
Total carrying value	-	-	352 961	646 342

As at 31.12.2007 the nominal value was increased by interest of PLN 27 907 k, bond valuation of PLN (3 298) k related to hedging activities. As at 31.12.2006 the nominal value was increased by interest of PLN 31 052 k, bond valuation of PLN 4 679 k related to hedging activities.

# 36. Deferred tax liabilities

In thousands of PLN				
Deferred tax liability	31.12.2006	Increase	Decrease	31.12.2007
Unrealised interests from securities and interbank deposits	18 164	17 102	(314)	34 952
Unrealised loans interests	10 567	5 073	-	15 640
Unrealised receivables on derivatives	123 513	-	(74 277)	49 236
Provision due to application of investment relief	2 883	375	-	3 258
Valuation of assets available for sale	119 290	1 024	(35 125)	85 189
Other	19 112	5 395	(10 005)	14 502
Total	293 529	28 969	(119 721)	202 777

In thousands of PLN	
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Deferred tax liability	31.12.2005	Increase	Decrease	31.12.2006
Unrealised interests from securities and interbank deposits	47 201	528	(29 565)	18 164
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	58 619	63 929	(3 258)	119 290
Other	50 598	2 622	(34 108)	19 112
Total	315 232	67 079	(88 782)	293 529

# 37. Other liabilities

Other liabilities	31.12.2007	31.12.2006
Interbank and interbranch settlements	203 000	307 792
Sundry creditors	210 678	152 107
Settlements of stock exchange transactions	73 560	108 302
Provisions:	246 167	174 245
- Employee provisions	215 849	142 335
- Provisions for legal claims	29 202	28 672
- Provisions for off balance sheet credit facilities	1 116	3 238
Financial lease related settlements	17 303	21 195
Accrued liabilities	99 779	78 155
Other deferred and suspended income	45 108	53 253
Other liabilities	1 230	1 123
Total	896 825	896 172

In thousands of PLN

Movements on provisions	31.12.2007	31.12.2006
As at the beginning of the period	174 245	122 703
Provisions for off balance sheet credit facilities	3 238	11 818
Employee provisions and accruals	142 335	99 367
Provisions for legal claims	28 672	11 518
Provision charge	211 641	147 057
Provisions for off balance sheet credit facilities	1 477	2 323
Employee provisions and accruals	201 917	126 280
Provisions for legal claims	8 247	18 454
Utilisation	(129 087)	(80 012)
Provisions for off balance sheet credit facilities	(78)	-
Employee provisions and accruals	(125 142)	(79 911)
Provisions for legal claims	(3 867)	(101)
Write back	(10 632)	(15 503)
Provisions for off balance sheet credit facilities	(3 521)	(10 903)
Employee provisions and accruals	(3 261)	(3 401)
Provisions for legal claims	(3 850)	(1 199)
As at the end of the period	246 167	174 245
Provisions for off balance sheet credit facilities	1 116	3 238
Employee provisions and accruals	215 849	142 335
Provisions for legal claims	29 202	28 672

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

Employee related provisions and accruals consists of items outlined in note 54.

## 38. Share capital

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

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

According to the information available to the Bank's Management Board, as at 31.12.2007 the only shareholder who had at least 5% votes at the General Meeting of BZ WBK Shareholders was AIB European Investments Ltd seated in Dublin

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

# **39. Other reserve funds**

In thousands of PLN		
Other reserve funds	31.12.2007	31.12.2006
General banking risk fund	529 810	529 810
Share premium	261 699	261 699
Other reserve capitals	1 270 069	1 065 638
Total	2 061 578	1 857 147

Share (issue) premium is created from surplus over the nominal value of shares sold less costs of share issuance and constitutes the bank's supplementary capital. Other reserve capitals consist of reserve capital in the amount of PLN 1 096 952 k and and supplementary capital PLN 173 117 k (as at 31.12.2006 : PLN 907 199 k and PLN 158 439 k respectively).

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

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

# 40. Revaluation reserve

In thousands of PLN

Revaluation reserve	31.12.2007
As at 31 December 2006	508 548
Net change in available for sale investments, of which:	(187 446)
- related to debt investments purchased before current reporting period	(128 930)
- related to equity investments purchased before current reporting period	(1 100)
- related to debt investments purchased/assigned during the period	(75 280)
- related to equity investments purchased/assigned during the period	17 864
Net change in available for sale investments matured during the period	(31 741)
Decrease in revaluation reserve related to sale of investments	26 096
Decrease in revaluation reserve related to hedge accounting	13 405
Deferred tax adjustment	34 101
As at 31.12.2007	362 963

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

In thousands of PLN	
Revaluation reserve	31.12.2006
As at 31 December 2005	250 088
Net change in available for sale investments, of which:	342 789
- related to debt investments purchased before current reporting period	(37 546)
- related to equity investments purchased before current reporting period	373 578
<ul> <li>related to debt investments purchased/assigned during the period</li> </ul>	6 757
Net change in available for sale investments matured during the period	(10 020)
Decrease in revaluation reserve related to sale of investments	(16 015)
Decrease in revaluation reserve related to hedge accounting	2 377
Deferred tax adjustment	(60 671)
As at 31.12.2006	508 548

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

Revaluation reserve comprises equity from the valuation of financial assets available for sale. Revaluation reserve is not distributable. On the day of derecognising of all or part of financial assets available for sale the total effects of periodical change in the fair value reflected in the revaluation reserve are reversed. Total or part of the previous revaluation charge increases or decreases the value of the given financial asset available for sale.

# 41. Hedge accounting

The Group applies hedge accounting in line with the risk management assumptions described in note 8 of annual consolidated financial statements.

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

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

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

The table below contains details about individual groups of hedge transactions for 2007:

#### In thousands of PLN

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

In addition, BZ WBK subsidiaries - BZ WBK Finanse & Leasing S.A. and BZ WBK Leasing S.A. - concluded IRS transactions with the bank with a view to hedging the fair value of their bonds. Details about these transactions as at 31.12.2007 are presented in the table below:

In thousands of PLN		
Subsidiary	BZ WBK Leasing S.A.	BZ WBK Finanse&Leasing S.A.
Nominal value of the hedged position	PLN 142 884	PLN 106 831
Fair value adjustment of hedged instrument due to hedged risk asset/(liability)	PLN 1 187	PLN 930
Hedged risk	Movements in the fair value of the bond issue and loans arising from changes in market interest rates	Movements in the fair value of the bond issue arising from changes in market interest rates
Period over which the instruments have an impact on the companies' results	2007-2009	2007-2009

# 42. Sell-buy-back transactions

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. As at 31 December 2007, the consolidated balance sheet contains treasury bills and bonds traded under sell-buy-back transactions in the amount of PLN 1 757 802 k (PLN 1 225 264 k as at 31 December 2006). At the same time, on the liabilities side, in the item representing obligations in respect of repo transactions there were deposits recognised, corresponding to the securities traded in the amount of PLN 1 761 390 k (PLN 1 230 682 k as at 31 December 2006).

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

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

# 43. 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 Group's balance sheet at their fair value. For financial assets and liabilities, it is assumed that their carrying amount is approximately equal to their fair value.

#### In thousands of PLN

	2007		2006	
	Carrying		Carrying	
	amount	Fair value	amount	Fair value
Assets				
Loans and advances to banks	2 576 878	2 577 034	3 154 546	3 156 077
Loans and advances to customers	23 949 714	23 968 795	17 620 066	17 636 668
Investments in associate undertakings	13 378	13 378	36 201	36 201
Liabilities				
Deposits from banks	4 483 526	4 484 173	2 608 377	2 608 463
Deposits from Deposits from customers	29 765 687	29 765 499	24 222 051	24 220 982

The comparable fair values have been adjusted to reflect a change in the calculation of fair values as at 31.12.2007.

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

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

Loans and advances to customers: These are net of any impairment. Fair value is calculated based on the discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles if there was no significant change in the credit risk of the borrower. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

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

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

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

# 44. Contingent liabilities

## Significant court proceedings conducted by Bank Zachodni WBK

As at 31 December 2007 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Group or its subsidiaries amounting to a minimum of 10% of the Group's equity. The value of all litigations totals PLN 282 843 k, which is ca 6.51% of Group's equity. This amount includes PLN 56 665 k claimed by the bank, PLN 64 309 k in claims against the bank and PLN 161 869 k are bank's receivables due to bankruptcy or arrangement cases.

As at 31 December 2006, no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Group or its subsidiaries amounting to a minimum of 10% of the Group's equity. The value of all litigations totals PLN 301 287 k, which is ca. 7.61% of Group's equity. This amount includes PLN 62 888 k claimed by the bank, PLN 38 283 k in claims against the bank and PLN 200 116 k are bank's receivables due to bankruptcy or arrangement cases.

## Off balance sheet liabilities

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

The breakdown 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.

In thousands of PLN		
Contingent liabilities, sanctioned and received	31.12.2007	31.12.2006
Liabilities sanctioned	8 512 897	7 061 422
- financial	7 832 652	6 438 314
- including: import letters of credit	61 209	94 447
- including: credit lines	6 572 568	5 742 419
- including: credit cards debits	651 041	439 255
- including: term deposits with future commencement term	547 834	162 193
- guarantees	680 245	623 108
- including: confirmed export letters of credit	814	1 880
Received liabilities	2 549 435	1 622 482
Total	11 062 332	8 683 904

As at 31.12.2007 the bank received/sanctioned guarantees of PLN 229 621 k (as at 31.12.2006- PLN 125 045 k) to following subsidiary undertakings: BZ WBK Finanse & Leasing S.A., BZ WBK Leasing SA, Dom Maklerski BZWBK SA, BZ WBK TFI S.A. and BZ WBK Nieruchomości S.A. They were eliminated as intragroup transactions.

The most common forms of guarantee are: payment guarantee, performance bond, bid bond, advance payment guarantee, antee, 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.

# 45. Assets pledged as collateral

Bank is obliged to set up a guaranteed funds protection fund.

For the purpose as at 31 December 2007 Bank Zachodni WBK S.A. pledged as collateral PLN 64 335 k of debt securities (PLN 58 249 k as at 31.12.2006).

These transactions are conducted under terms that are usual and customary to this type of agreement.

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

As at end 2006 the Group had drawn a Lombard loan from NBP in the amount of PLN 174 000 k, with a maturity date less than one month and interest rate 5.5%. It was secured with corresponding amount of bonds. Other assets pledge as collateral are presented in note 42.

# 46. Trust activities

## **Custodian services**

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

As at the end of December 2007 assets held by clients at the Group securities accounts increased 5.5 % and totalled PLN 7 950 350 k (as at end of 2006 – PLN 7 531 764 k).

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

# 47. Financial and operating leases

## **Financial leases**

## Lease agreements where the Group acts as the lessor

Bank Zachodni WBK Group operates on the leasing market through two leasing companies who specialise in funding two different asset categories. BZ WBK Finanse & Leasing focuses on lease of machines and equipment as well as computers and office equipment for businesses, while BZ WBK Leasing specialises in financing vehicles for businesses and personal customers. The activities of BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa was to manage the lease of vehicles provided to customers under ten-year lease contracts. Due to the fact that in 2H 2006 all receivables were paid off, the company was dissolved in 1H 2007. The items "receivables from customers" contains the following amounts relating to the finance lease obligations:

In thousands of PLN

Finance leases gross receivables maturity	31.12.2007	31.12.2006
less than 1 year	956 350	748 494
between 1 and 5 years	1 688 281	1 203 032
over 5 years	54 788	10 146
Total	2 699 419	1 961 672

In thousands of PLN		
Present value of minimum lease payments maturity	31.12.2007	31.12.2006
less than 1 year	728 346	635 167
between 1 and 5 years	1 530 820	1 061 227
over 5 years	54 617	8 594
Total	2 313 783	1 704 988

In thousands of PLN		
Reconciliation between the gross investment and the present value		
of minimum lease payments	31.12.2007	31.12.2006
Finance leases gross receivables	2 699 419	1 961 672
Unearned finance income	(385 636)	(256 684)
Bad debts provisions	(28 214)	(27 064)
Net present value of minimum lease payments	2 285 569	1 677 924

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

#### Lease agreements where the Group acts as a lessee

The BZ WBK Group companies also avail of lease arrangements as lessees, however as the leases are between related entities they were eliminated from the consolidated balance sheet and profit and loss account.

## **Operating leases**

The BZ WBK Group leases offices in compliance with operational leasing agreements. Most significant agreements relate to the buildings in Poznań and Warsaw. As a standard, agreements are concluded for 5-10 years. A small part of the offices is subleased outside the bank. In 2007 and 2006 rentals related to mentioned real estates totalled PLN 16 995 k and PLN 18 064 k. 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) are as below:

In thousands of PLN		
Payments (maturity)	31.12.2007	31.12.2006
Less than 1 year	16 624	20 583
1-5 years	30 828	56 696
over 5 years	60 683	63 285
Total	108 135	140 564

# 48. Consolidated cash flow statement – additional information

The table below specifies components of cash balances of BZ WBK Group.

In thousands of PLN		
Cash components	31.12.2007	31.12.2006
Cash on hand	840 924	602 340
Current account in a central bank	1 365 131	931 546
Other cash equivalents	210	594
Current accounts other banks	32 274	13 124
Total	2 238 539	1 547 604

# 49. Related party disclosures

The bank enters into intercompany transactions related parties. Most of the transactions are banking transactions made as part of ordinary business activities and mainly include loans, deposits and guarantees. Intragroup transactions have been eliminated from consolidated financial statements.

The table below contains information about transactions effected by the bank and its subsidiaries with related entities at the end of the reporting period, along with revenues and expenses for the current period:

## Receivables and liabilities relating to transactions with connected entities

#### 31.12.2007

In thousands of PLN

Receivables	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Loans and advances to banks	1 555 104	-	174 250	1 729 354
Financial assets held for trading	5 6 4 8	-	40 771	46 419
Hedging derivatives	95 636	-	1 380	97 016
Loans and advances to customers	804 004	-	-	804 004
Investment securities	102	-	208 575	208 677
Other assets	18 728	-	-	18 728
Total	2 479 222	-	424 976	2 904 198

#### In thousands of PLN

	of which	of which	of which from the parent	
Liabilities	from subsidiaries	from associates	company (AIB Group)	Total
Deposits from banks	801 155	-	1 130 077	1 931 232
Hedging derivatives	97 079	-	-	97 079
Financial liabilities held for trading	3 914	-	55 044	58 958
Deposits from clients	1 537 448	58 568	-	1 596 016
Debt securities in issue	290	-	-	290
Other liabilities	39 234	-	14 788	54 022
Total	2 479 120	58 568	1 199 909	3 737 597

The difference on transaction with subsidiaries in the amount of PLN 102 k results from prepaid expenses which are recognized in profit and loss account.

#### 31.12.2006

In thousands of PLN

Receivables	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Loans and advances to banks	1 197 229	-	284 272	1 481 501
Financial assets held for trading	582	-	48 451	49 033
Hedging derivatives	18 459	-	1 023	19 482
Loans and advances to customers	398 520	-	-	398 520
Investment securities	-	-	371 218	371 218
Other assets	26 066	-	-	26 066
Total	1 640 856	-	704 964	2 345 820

#### In thousands of PLN

	of which	of which	of which from the parent company	
Liabilities	from subsidiaries	from associates	(AIB Group)	Total
Deposits from banks	395 466	-	5 155	400 621
Hedging derivatives	79	-	-	79
Financial liabilities held for trading	18 461	-	33 037	51 498
Deposits from clients	1 185 335	88 061	-	1 273 396
Debt securities in issue	501	-	-	501
Other liabilities	41 242	-	19 619	60 861
Total	1 641 084	88 061	57 811	1 786 956

The difference on transaction with subsidiaries in the amount of PLN 228 k results from prepaid expenses which are recognized in profit and loss account.

# Revenues and expenses relating to transactions with connected entities

01.01.2007 - 31.12.2007

In thousands of PLN

Income	of which from subsidiaries	of which	of which from the parent company (AIB Group)	Total
Interest and similar income	88 565		22 326	110 891
Fee and commission income	250 126	2	-	250 128
Other operating income	5 251	-	-	5 251
Net trading income and revaluation	-	-	357	357
Gains (losses) from other financial				
securities	-	-	24 408	24 408
Total	343 942	2	47 091	391 035

In thousands of PLN

Expenses	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Interest expense and similar charges	82 981	3 913	(7 463)	79 431
Fee and commission expense	249 409	-	-	249 409
Net trading income and revaluation	4 631	-	-	4 631
Gains (losses) from investment				
in subsidiaries and associates	43	-	-	43
Other operating expenses incl.:	6 776	-	31 853	38 629
Bank's operating expenses				
and management costs	6 657	-	31 853	38 510
Other	119	-	-	119
Total	343 840	3 913	24 390	372 143

## 01.01.2006 - 31.12.2006

In thousands of PLN

			of which	
Incomo	of which from subsidiaries	of which	from the parent company (AIB Group)	Total
Income		from associates	•	
Interest and similar income	50 059	-	29 669	79 728
Fee and commission income	181 763	4	-	181 767
Other operating income	4 494	-	897	5 391
Net trading income and revaluation	-	-	1 023	1 023
Gains (losses) from other financial securities	-	-	12 781	12 781
Total	236 316	4	44 370	280 690

#### In thousands of PLN

			of which	
	of which	of which	from the parent company	
Expenses	from subsidiaries	from associates	(AIB Group)	Total
Interest expense and similar charges	49 193	3 775	87	53 055
Fee and commission expense	181 404	-	-	181 404
Gains less losses from investment	77			77
in securities	11		_	11
Other operating expenses incl.:	5 870	-	32 379	38 249
bank's operating expenses				
and management costs	5 870	-	32 379	38 249
Total	236 544	3 775	32 466	272 785

## 31.12.2007

In thousands of PLN

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

Intragroup transactions- derivatives' nominal values	of which from subsidiaries
3. Derivatives' nominal values, including:	969 970
- FX forward- purchased	3 201
- FX forward- sold	3 214
- FX swap	363 025
- Financial instruments operations-single-currency interest rate hedging swaps	300 265
- Financial instruments operations-single-currency interest rate swaps	300 265

#### 31.12.2006

In thousands of PLN

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

	Intragroup transactions- derivatives' nominal values	of which from subsidiaries
3.	Derivatives' nominal values, including:	1 206 034
	-Financial instruments operations-single-currency interest rate hedging swaps	603 017
	-Financial instruments operations-single-currency interest rate swaps	603 017

# **TRANSACTIONS WITH EXECUTIVES**

# REMUNERATION OF BANK ZACHODNI WBK MANAGEMENT AND SUPERVISORY BOARD MEMBERS

#### 31.12.2007

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

First and last name Position		(PLN'000)
Aleksander Szwarc	Chairman of the Supervisory Board	183.2
Kieran Crowley*	Member of the Supervisory Board	32.6
Waldemar Frąckowiak	Member of the Supervisory Board	144.7
Aleksander Galos	Member of the Supervisory Board	140.7
James O'Leary	Member of the Supervisory Board	58.1
John Power	Member of the Supervisory Board	152.4
Jacek Ślotała	Member of the Supervisory Board	96.7
Total		808.4

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

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

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

			Remuneration		Total
First and last name	Position	Period	and awards	Benefits	(PLN'000)
	President of				
Mateusz Morawiecki*	the Management Board	16.05.2007-31.12.2007	1 645.58	13.52	1 659.10
	President of				
Jacek Kseń	the Management Board	01.01.2007-30.04.2007	1 877.27	3 785.61	5 662.88
	Member of				
Andrzej Burliga	the Management Board	24.07.2007-31.12.2007	273.33	6.10	279.43
	Member of				
Declan Flynn**	the Management Board	01.01.2007-31.12.2007	2 592.08	825.35	3 417.43
	Member of				
Michał Gajewski	the Management Board	01.01.2007-31.12.2007	1 458.56	57.48	1 516.04
	Member of				
Justyn Konieczny	the Management Board	01.01.2007-31.12.2007	1 458.75	66.79	1 525.54
	Member of				
Janusz Krawczyk	the Management Board	01.01.2007-31.12.2007	1 262.17	43.19	1 305.36
	Member of				
Jacek Marcinowski	the Management Board	01.01.2007-31.12.2007	1 231.07	55.25	1 286.32
	Member of				
James Murphy**	the Management Board	01.01.2007-31.12.2007	1 532.43	614.87	2 147.30
	Member of				
Marcin Prell	the Management Board	01.01.2007-31.12.2007	1 229.58	61.70	1 291.28
	Member of				
Feliks Szyszkowiak	the Management Board	01.01.2007-31.12.2007	1 229.00	50.83	1 279.83
Total					21 370.51

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

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

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

\*\* In respect of Messrs Flynn and Murphy (Irish nationals on assignment to BZ WBK 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 BZ WBK in specific cases.

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

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

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

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

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

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

#### 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 since 14.04.2005	151.9
Kieran Crowley	Member of the Supervisory Board	81.1
Waldemar Frąckowiak	Member of the Supervisory Board	119.5
Aleksander Galos	Member of the Supervisory Board	103.6
John Power	Member of the Supervisory Board	127.7
Jacek Ślotała	Member of the Supervisory Board	87.7
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

			Remuneration		Total
First and last name	Position	Period	and awards	Benefits	(PLN'000)
	President of				
Jacek Kseń	the Management Board	01.01.2006-31.12.2006	1 813.9	112.7	1 926.6
	Member of				
Declan Flynn*	the Management Board	01.01.2006-31.12.2006	1 834.9	1 117.0	2 951.9
	Member of				
Michał Gajewski	the Management Board	01.01.2006-31.12.2006	1 069.5	42.8	1 112.3
	Member of				
Aleksander Kompf	the Management Board	01.01.2006-04.04.2006	269.9	10.7	280.6
	Member of				
Justyn Konieczny	the Management Board	01.01.2006-31.12.2006	999.5	57.2	1 056.7
	Member of				
Janusz Krawczyk	the Management Board	01.01.2006-31.12.2006	889.0	41.5	930.5
	Member of				
Jacek Marcinowski	the Management Board	01.01.2006-31.12.2006	853.9	30.5	884.4
	Member of				
Mateusz Morawiecki	the Management Board	01.01.2006-31.12.2006	1 053.5	38.1	1 091.6
	Member of				
James Murphy*	the Management Board	01.01.2006-31.12.2006	1 081.2	628.0	1 709.2
	Member of				
Marcin Prell	the Management Board	04.04.2006-31.12.2006	410.9	29.4	440.3
	Member of				
Feliks Szyszkowiak	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 for the award pool was incurred in 2006.

\*In respect of Messrs Flynn and Murphy (Irish nationals on assignment to BZ WBK 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 BZ WBK in specific cases.

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

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

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

#### No. of awards

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

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

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

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

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

## Profit sharing scheme

In 2006 selected subsidiaries of BZ WBK Group introduced a motivation scheme for their key management in a form of a long term profit sharing scheme classified as other long-term benefits in accordance with IAS 19. The formal framework of the scheme is based on an issue of shares that are purchased by entitled individuals. Considering underlying characteristics of the scheme it has been classified as a long term profit sharing scheme and recognized as a liability in the consolidated financial statements. Shares issued under the scheme are deprived of voting rights, have significant limitations on disposal and are subject to conditional obligation to dispose shares at a price different from the fair value of shares.

In 2007 any of crucial elements of the motivation scheme were not changed significantly.

Considering the above BZ WBK Group has estimated a present value of the future obligations to pay-outs resulting from rights granted under the scheme respectively to the service period of the entitled individuals participating in the scheme. The value of the liability resulting from the scheme as at 31 December 2007 amounted to PLN 27 186 k and the amount recognized as the scheme related expense in the profit and loss account for the period was 26 087 k.

The value of the liability resulting from the scheme as at 31 December 2006 amounted to PLN 9 218 k and was equal to the amount recognized as the scheme related expense in the profit and loss account.

### 31 December 2007

As of 31.12.2007, the total of loans, advances and guarantees provided to members of the Management Board of BZ WBK by the subsidiaries and associates amounted to PLN 47 k. Social Fund loans and advances provided to Board Members totalled nil.

Loans and advances made by the bank to the executives of BZ WBK totalled PLN 3 103 k and CHF 19 k. These facilities have been sanctioned on regular terms and conditions.

### 31 December 2006

As of 31.12.2006, the total of loans, advances and guarantees provided to members of the Management Board of BZ WBK 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 BZ WBK and an entity from outside the Group in which a Member of Management Board of the parent company received consideration of PLN 260 k for services provided.

# TRANSACTIONS WITH EMPLOYEES

### 31 December 2007

As of 31.12.2007, the total of loans and advances drawn by BZ WBK employees was PLN 319 542 k (including the debt of PLN 34 947 k shown in joint accounts) and PLN 29 911 k in the case of employees of BZ WBK subsidiaries and associates. In the same period, the total of loans and advances drawn by BZ WBK employees from the Social Fund was PLN 15 709 k. These facilities have been sanctioned on regular terms and conditions.

On current accounts and term deposits employees of the bank held balances of PLN 135 268 k, (of which joined current accounts - PLN 22 027 k). Amount relating to employees of subsidiaries and associates totalled PLN 12 286 k.

### 31 December 2006

As of 31.12.2006, the total of loans and advances drawn by BZ WBK 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 BZ WBK subsidiaries and associates. In the same period, the total of loans and advances drawn by BZ WBK 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.

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

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

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

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

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

In thousands of PLN

# 51. Acquisitions and disposals of investments

Disposals/ Liquidation in 2007	Net assets	Revenue	Gains/loss on sale
BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa	27 073	27 073	-
NFI Magna Polonia S.A.	15 449	17 159	1 710
Total	42 522	44 232	1 710
			Gains/loss
Disposals in 2006	Net assets	Revenue	on sale
AIB WBK Fund Management Sp. z o.o.	1 838	270	(1 568)
Lubelskie Zakłady Przemysłu Skórzanego Protektor S.A.	5 4 3 4	13 245	7 811
NFI Magna Polonia S.A.	41 261	44 518	3 257
Total	48 533	58 033	9 500

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

#### Transfer of ownership right from BZ WBK S.A. securities account to NFI Magna Polonia S.A. securities account

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

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

## 52. Investments in joint ventures

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

# 53. Events which occurred after the balance sheet date

#### Authorization for issue of financial statements

The consolidated financial statements were authorised for issue on 15th of February 2008 by the Management Board of Bank Zachodni WBK. The financial statements will be approved by the shareholders at their Annual General Meeting.

# 54. Staff benefits

Staff benefits include the following categories:

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

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

## Provisions for accrued holiday leaves

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

## Provisions for employee bonuses

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

## Provisions for retirement allowances

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

## Other staff-related provisions

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

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

In thousands of PLN		
Provisions	31.12.2007	31.12.2006
Provisions for accrued holiday leaves	18 652	18 619
Provisions for employee bonuses	163 863	98 119
Provisions for retirement allowances	29 076	21 992
Other staff-related provisions	4 258	3 605
Total	215 849	142 335

As at 31.12.2006 the difference in the amount of total staff benefits presented in 2006 results from the recognition of the profit sharing scheme between subsidiaries and other staff-related expenses in sundry creditors.

Detailed information about movements on staff-relating provisions is available in additional note 37 .

# 55. Share based payments

In 2006, BZ WBK 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 long-term performance against stretching growth targets over the three financial years period 2006 – 2008. Conditional awards of shares are made to employees with vesting to take place on the date of the AGM approving financial statements for the last year of the scheme. Subject to vesting conditions the scheme will be realized by distribution of shares only.

Share will vest on a linear pattern between 25% and 100% remuneration contingent on EPS growth adjusted by Consumer Price Index (CPI). The lower level of the scale requires EPS per annum growth adjusted for CPI respectively in 2006 and 2007: 5% and 8%. The upper level 12% and 16% accordingly.

During 2006 and 2007 conditional awards of shares were granted to no more then 100 individuals.

The Black Scholes model has been used to value awards granted at the grant date. The expected volatility is based on an analysis of historical volatility based on 160 sessions preceding the grant date. The following table details the assumptions used, and the resulting fair value.

Share based payments granted:

	2007	2006
Number of share based payments	78 341	132 476
Exercise price	10 PLN	10 PLN
Vesting period	3 years	3 years
Volatility	40.69 %	37.38 %
Award life	3 years	3 years
Risk free rate	4.90 %	4.60 %
Fair value per award	267.53 PLN	150.60 PLN

The following table summarizes the share based payments activity:

	12 months of 2007 Number of share based payments	12 months of 2006 Number of share based payments
Outstanding at 1 January	128 223.0	-
Granted	78 341.0	132 476.0
Exercised	-	-
Forfeited	(5842.0)	(4 253.0)
Expired	-	-
Outstanding at 31 December	200 722.0	128 223.0
Exercisable at 31 December	-	-

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

For the share based payments outstanding as at 31 December 2006 and as at 31 December 2007 the average remaining contractual life is approximately 2.3 years and 1.6 years respectively.

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

# 56. Average staff level with a breakdown into professional groups

## 31 December 2007

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

As at this date, in subsidiaries there were 685 persons employed, i.e. 617 FTE's.

In 2007, the average staffing level in Bank Zachodni WBK was 7834 FTE's whereas an average staffing level in subsidiaries was 544 FTE's.

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

Education	No. of staffs	Structure %
University/college degree	5820	63.2
High school degree	3172	34.5
Vocational	30	0.3
Other	184	2.0
Total	9206	100.0

## 31 December 2006

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

As at this date, in subsidiaries there were 598 persons employed, i.e. 488 FTE's.

In 2006, the average staffing level in Bank Zachodni WBK was 7 336 FTE's whereas an average staffing level in subsidiaries was 473 FTE's.

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

Education	No. of staffs	Structure %
University/college degree	5 025	62.0
High school degree	2 922	36.0
Vocational	30	0.4
Other	133	1.6
Total	8 110	100.0

## 57. Dividend per share

As at 31.12.2007 the Management Board will propose an allocation to dividends 27.04% of BZ WBK net profit (i.e. 22.93% of consolidated net profit attributable to the Company's equity holders) of PLN 218 880 852 i.e. PLN 3.00 per one share (PLN 6.00 in 2006). Outstanding profit of PLN 590 593 185.45 will be allocated to other reserve capital. Number of shares totalled 72 960 284.

## 58. Accounting estimates and judgements

## Loan impairment

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

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

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

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

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

In case intangible assets not yet available for use, recoverable value is determined as at every balance sheet day.

Write-down due to impairment is recognized if book value of an asset exceeds its recoverable value and is presented in the profit and loss account.

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

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

## Fair value of financial instruments

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

## Other accounting estimates and judgements

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

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

Date	Name	Function	Signature
15-02-2008	Mateusz Morawiecki	President	Signed on the Polish original
15-02-2008	Andrzej Burliga	Member	Signed on the Polish original
15-02-2008	Declan Flynn	Member	Signed on the Polish original
15-02-2008	Michał Gajewski	Member	Signed on the Polish original
15-02-2008	Justyn Konieczny	Member	Signed on the Polish original
15-02-2008	Janusz Krawczyk	Member	Signed on the Polish original
15-02-2008	Jacek Marcinowski	Member	Signed on the Polish original
15-02-2008	James Murphy	Member	Signed on the Polish original
15-02-2008	Marcin Prell	Member	Signed on the Polish original
15-02-2008	Feliks Szyszkowiak	Member	Signed on the Polish original

## Signature of a person who is responsible for maintaining the book of account

Date	Name	Function	Signature
15-02-2008	Wanda Rogowska	Financial Accounting Area Director	Signed on the Polish original

# annual 20 20 7 7 7 7

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

# Introduction

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

# I. Rules That Were Not Complied With in 2007

- It is extremely important for the Bank to be perceived as an investor-friendly company. Therefore, the Bank decided on being fully compliant with good practices and accepted certain obligations. As a result of these decisions, the Bank's Statutes were amended as well as the rules of Management Board and Supervisory Board functioning. Thus, Bank Zachodni WBK was one of few companies which adopted all corporate governance rules for application as early as in 2002. In the following years, Bank Zachodni WBK observed all the rules of corporate governance set forth in "Best Practice in Public Companies in 2002", and "Best Practice in Public Companies in 2005".
- With reference to the annual report of Bank Zachodni WBK published on 22 February 2007, where the Management Board stated that it complied with the corporate governance rules contained in the document "Best Practice in Public Companies in 2005", introduced by Resolution no. 44/1062/2004 of the Warsaw Stock Exchange Board, the Management Board confirms its compliance with the rules laid down in the said document except Rule 42 which recommends change of the auditor at least every 5 years.

This rule could not be observed in full as the policy of the Group to which BZ WBK belongs requires that all the Group companies must have the same auditor.

AIB did not decide to change the auditor, which is fully compliant with the applicable EU regulations (Directive 2006/43/ EC of the European Parliament and of the Council of 17 May 2006 on the legally required annual audits of financial statements and consolidated financial statements) provide for the rule of independence of the key audit partner responsible for the audit if the auditor is changed at least every 7 years.

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

# Convention of the General Meeting of Shareholders (GM)

The GM is held in the bank's office, in Warsaw or another location, as indicated in the notice on the GM convention. The Annual General Meeting of Shareholders (AGM) is held annually, not later than by the end of June. The Extraordinary General Meeting of Shareholders (EGM) is convened in the circumstances specified in the Commercial Companies Code. The AGM is convened by the bank's Management Board. The Supervisory Board can convene the AGM or the EGM in the circumstances specified in the Commercial Companies Code and when the Management Board fails to convene the EGM within two weeks from the date of submitting such a request by shareholders who represent at least one tenth of the share capital. The GM is convened through a notice in the Court and Economic Journal (*Monitor Sądowy i Gospodarczy*). The notice on GM convention is provided in the form of a current report and as a communication published on the bank's website. This takes place at least 3 weeks prior to the GM date.

# GM Rights, Adopting and Appealing Against Resolutions

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

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

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

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

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

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

# Voting

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

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

# The Rights of Shareholders and How the Rights are Exercised

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

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

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

# 1. Management Board

## Members of the Bank's Management Board:

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

## Terms of Reference of the Management Board

## **Appointment of Management Board Members**

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

## Powers of the Management Board

The Management Board manages and represents the bank. The Management Board has all powers that are not restricted by law or Statutes to the remit of other governing bodies of the bank.

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

- a) President of the Management Board acting severally;
- b) two members of the Management Board acting jointly, or a member of the Management Board acting jointly with a commercial representative, or two commercial representatives acting jointly.

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

## **Management Board Meetings**

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

The meetings can have the following form:

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

There are minutes taken at Management Board meetings.

### **Adopting Resolutions**

Management Board resolutions are passed by an absolute majority of votes. Management Board resolutions are adopted in an open voting. The Management Board adopts resolutions in a secret ballot:

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

#### Resolutions are passed by the Management Board as follows:

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

## 2. Supervisory Board

## Members of the Supervisory Board

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

## Terms of Reference of the Supervisory Board

#### Appointment of the Supervisory Board Members

The Supervisory Board members are appointed for a joint, 3-year term of office. The Supervisory Board members, including the Chairman of the Supervisory Board, are appointed and removed by the General Meeting of Shareholders. At least two of the Supervisory Board's members should be independent members, including an independent chairman of audit committee.

### Powers of Supervisory Board

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

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

- a) approve annual and long-term development plans for the bank and financial plans for its operations prepared by the Management Board;
- b) approve motions of the bank's Management Board concerning the establishment and liquidation of bank's branches abroad;
- c) approve equity investments by the bank, if:
  - the value of such investment exceeds a PLN equivalent of EUR 4,000,000, or
  - the value of a such investment exceeds EUR 400,000k and at the same time, if as a result of such investment the bank's shareholding in another entity is equal to 20% of votes or exceeds 20% of votes or drops below the level of 20% of votes at the GM, except for agreements on underwriting securities issues, if the total exposure of the bank arising from such agreement does not exceed one tenth (1/10) of the total equity of the bank,

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

## Meetings of Supervisory Board

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

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

The meetings can have the following form:

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

There are minutes taken at Supervisory Board meetings.

### **Adopting Resolutions**

The Supervisory Board takes decisions by way of resolutions adopted by an absolute majority of votes. Supervisory Board resolutions are adopted in an open voting.

The Supervisory Board adopts resolutions in a secret ballot:

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

Resolutions are passed by the Supervisory Board as follows:

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

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

# 3. Committees Established by the Supervisory Board

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

The following committees are operating in the bank:

- Social Responsibility Committee;
- Remuneration & Nominations Committee
- Audit Committee.

These committees are designed to facilitate the current activities of the Supervisory Board by preparing draft Supervisory Board decisions with regard to their own motions or the motions presented to the Management Board.

## A. The Social Responsibility Committee

#### Members of the Committee

- Gerry Byrne Chairman
- Jacek Ślotała Member

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

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

#### **Committee Meetings**

The Committee meets regularly at least 3 times in a year. At the request of the Committee Chairman ad-hoc meetings may be held.

At any meeting, two members constitute the quorum.

#### **Roles and responsibilities**

The key roles and responsibilities of the Committee include:

- providing opinions and recommendations regarding the budget needed by the bank to fulfil its community obligations;
- providing opinions and recommendations on the policy and actions taken in respect of the bank's community service, including corporate giving;
- reviewing the Management Board's reports on delivery of the community integration plans;
- presenting to the Supervisory Board annual reports on the review of the Management Board's reports.

## B. Remuneration & Nominations Committee

#### Members of the Committee

- Gerry Byrne Chairman
- Aleksander Szwarc Member

#### Appointment of the Committee Members

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

#### **Committee Meetings**

- The Committee meets regularly at least 3 times in a year. At the request of the Committee Chairman ad-hoc meetings may be held.
- At any meeting, two members constitute the quorum.

### **Roles and responsibilities**

The key roles and responsibilities of the Committee include:

- recommending the Supervisory Board relevant remuneration policies and practices;
- performing an annual review of the remuneration of the bank's Management Board members;
- reviewing proposals seeking to implement in the bank or its subsidiaries any new remuneration systems, including incentives schemes, or reviewing proposed changes to any remuneration systems already existing in the Bank.

## C. Audit Committee

#### Members of the Committee

- John Power Chairman
- Waldemar Frąckowiak Member
- Aleksander Galos Member
- Maeliosa OhOgartaigh Member

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

The appointed Committee members perform their role for at least two consecutive years.

All the Committee members must be knowledgeable about finance and at least one member must have expertise in finance and accounting.

#### **Committee Meetings**

The Committee meets regularly during the year at the dates adjusted to the reporting and audit cycles. Any ad-hoc meetings may be held as the Committee and its Chairman see fit.

#### **Roles and responsibilities**

The key task of the Committee is to supervise the bank's financial reporting, risk management and internal control processes.

# IV. Bank's Process of Internal Control and its Management in relation to Financial Reporting

The process of preparation of financial data for the purpose of statutory reporting is automated and is based on the consolidated General Ledger of BZ WBK Group. The system is equipped with automatic interfaces and reconciliation functions. Preparation of the data in the source systems is subject to the formal operational and approval procedures which set out the responsibilities of individual staff members. The General Ledger of BZ WBK Group is created as part of the process covered by specialist controls. Any manual corrections and management overrides are subject to strict control. Any financial tables and descriptive data are prepared by the Reporting Team which primarily relies on the General Ledger

as the only source of information.

The internal and external reports must be fully reconciled.

The key persons responsible for individual data areas are required to formally confirm that the data are true and that they are recorded in the books of account and disclosed in line with the Accounting Policy of BZ WBK Group.

In addition, the financial statements must be formally approved by the Disclosures Committee, which is responsible for ensuring that the accounts and the data contained therein comply with the applicable law. The Disclosures Committee presents the financial statements to the Management Board for ratification.

The financial statements are also reviewed by the Audit Committee of the Supervisory Board.

The risks around financial reporting are covered by the Self-Assessment process and are monitored in accordance with the relevant Group procedures.

Date	Name	Function	Signature
15-02-2008	Mateusz Morawiecki	President	Signed on the Polish original
15-02-2008	Andrzej Burliga	Member	Signed on the Polish original
15-02-2008	Declan Flynn	Member	Signed on the Polish original
15-02-2008	Michał Gajewski	Member	Signed on the Polish original
15-02-2008	Justyn Konieczny	Member	Signed on the Polish original
15-02-2008	Janusz Krawczyk	Member	Signed on the Polish original
15-02-2008	Jacek Marcinowski	Member	Signed on the Polish original
15-02-2008	James Murphy	Member	Signed on the Polish original
15-02-2008	Marcin Prell	Member	Signed on the Polish original
15-02-2008	Feliks Szyszkowiak	Member	Signed on the Polish original

