Annual Report 2005

Bank Zachodni WBK S.A.

Ladies and Gentlemen,

Another excellent year – the best one in the history of Bank Zachodni WBK – belongs to the past now. In 2005, we generated the profit before tax of PLN 689.5m which represents a 20.9% growth on 2004. Our after tax profit was nearly as impressive reaching PLN 516.3m, i.e. growing by 17.9%.

The success posted by Bank Zachodni WBK last year was possible thanks to the growth in the deposit base, dynamic increase in personal loan sales, primarily of cash loans, improvement in the loan book quality, substantial fall in credit provisions and drop in operating costs. In addition, the focus of the Bank as well as its subsidiaries on the service quality enhancement was stronger and more visible. Customer's opinions expressed in surveys indicate that we follow the right direction while our determination to make more changes ensures growth in enhancing our customers' satisfaction.

In 2005, Bank Zachodni WBK Group generated a total income of PLN 1 944m, driven by a 4% increase in net interest income, a 9.1% increase in net commission income and a nearly 10.8% growth in FX profit. As regards operating costs of BZWBK Group, they were flat on 2004, which means that cost/income ratio, so important when assessing the effectiveness of operations, fell from 65.1% in 2004 to 61.4% in 2005.

Many factors contributed to the success of Bank Zachodni WBK Group but beyond any doubts it was an excellent year of our two subsidiaries: BZWBK AIB Towarzystwo Funduszy Inwestycyjnych and BZWBK AIB Asset Management. Our Arka funds conquered the market which is evidenced amongst others by excellent management results, leading positions in the majority of media rankings and a spectacular growth in the value of assets under their management. Still at the end of 2004, the value of these assets totaled PLN 2.6bn, whereas in December 2005 it soared to PLN 7.7bn! The increase in assets within a shorter span of time is also impressive – during last year assets entrusted with BZWBK increased by as much as 171.6%. A very dynamic growth of our funds reflects the situation on the market but primarily, excellent management of the two businesses. At the end of 2005, three of our funds hit the highest annual return rates in their respective categories: Arka BZWBK Akcji FIO (Equity Fund) – 39.4%, Arka BZWBK Zrównoważony (Balanced Fund) – 30.0%, Arka BZWBK Stabilnego Wzrostu FIO (Stable Growth Fund) – 18.8%.

Thanks to a high dynamics of sales, supported with good management results and promotional activities, the market share of BZWBK AIB Towarzystwo Funduszy Inwestycyjnych increased within 12 months from 7.5% to 12.6%, moving the company from the fourth to the second position in Poland in terms of the assets value.

Other companies from Bank Zachodni WBK can also boast very good performance. In 2005, the stock exchange trading of BZWBK Brokerage House on the equity market went up by 78%, the increase in the company's trading on the futures market was only by 1 pp lower. Both these results ranked our Brokerage House fourth on the equity market and second on the futures market in Poland. It was also a very good year for the leasing companies of Bank Zachodni WBK, which leased to clients the net assets worth PLN 927.4m, i.e. by 12.9% more than in 2004. Another success of our two leasing companies is making their proposition more attractive in respect of financing investments by entities availing of structural funds as well as the increase in the share of machines and equipment in total sales.

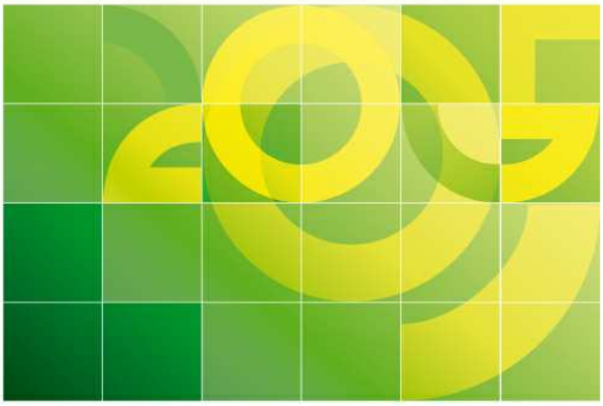
The success achieved in 2005 was possible primarily thanks to the excellent performance of Bank Zachodni WBK Group's employees. Last year proved, clearly as never before, that we have very well educated, committed and creative people in the Bank who know how to leverage both their own strengths and market opportunities. This is our most valuable asset which allows us to look with optimism at the BZWBK Group's position going forward.

I wish to thank all those who contributed to achieving in 2005 the best results in the history of Bank Zachodni WBK. Moreover, I would like to thank the Supervisory Board for their inspiration, harmonious collaboration and friendly attitude.

	FINANCIAL HIGHLIGHTS	PLN '000		EUR '000	
		2005	2004	2005	2004
I.	Interest and similar income	1 670 339	1 499 210	415 166	331 816
II	Fee and commission income	862 016	780 026	214 256	172 641
III	Operating profit	688 986	564 066	171 249	124 843
IV	Gross profit	689 456	570 151	171 366	126 190
V	Net profit	516 315	437 783	128 331	96 893
VI	Total net cash flow	(639 069)	(150 771)	(158 842)	(33 370)
VII	Total assets	29 604 085	27 545 770	7 669 849	6 753 069
VIII	Deposits from banks	1 692 595	1 301 638	438 519	319 107
IX	Deposits from customers	20 838 980	19 316 900	5 398 979	4 735 695
X	Total liabilities	26 167 624	24 495 563	6 779 528	6 005 286
XI	Equity attributable to the Company's equity holders	3 381 518	3 019 400	876 086	740 230
XII	Minority interest	54 943	30 807	14 235	7 553
XIII	Net profit attributable to the Minority	29 592	17 816	7 355	3 943
XIV	Number of shares	72 960 284	72 960 284		
XV	Net book value per share in PLN/EURO	46,35	41,38	12,01	10,14
XVI	Solvency ratio	16,05%	12,92%		
XVII	Profit (loss) per share in PLN/ EURO	7,08	6,00	1,76	1,33
XVIII	Declared or paid dividend per share in PLN/EURO	6,00	2,43	1,55	0,60

Consolidated financial statements of BZ WBK Group

for year 2005



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1. Consolidated income statement

For reporting periods ending on:		01.01.2005 -31.12.2005	01.01.2004 -31.12.2004
Interest and similar income		1 670 339	1 499 210
Interest expense and similar charges		(761 064)	(624 718)
Net interest income	Note 8	909 275	874 492
Fee and commission income		862 016	780 026
Fee and commission expense		(165 103)	(141 146)
Net fee and commission income	Note 9	696 913	638 880
Dividend income	Note 10	47 698	54 345
Foreign exchange profit	Note 11	218 292	197 108
Gains (losses) on hedge accounting activities	Note 12	(656)	(5 284)
Gains (losses) from financial instruments measured at fair value through profit and loss	Note 13	18 624	39 530
Gains (losses) from investment in securities	Note 14	5 649	(17 846)
Gains (losses) on sale of subsidiaries and associates	Note 15	-	55 138
Other operating income	Note 16	48 331	53 273
Impairment losses on loans and advances	Note 17	(61 595)	(131 425)
Operating expenses		(1 193 545)	(1 194 145)
Bank's staff, operating expenses and management costs	Note 18,19	(978 297)	(953 618)
Depreciation/amortisation		(186 481)	(199 404)
Other operating expenses	Note 20	(28 767)	(41 123)
Operating profit		688 986	564 066
Share in net profits (losses) of associates accounted for by the equity method		470	6 085
Gross profit		689 456	570 151
Corporate income tax	Note 21	(143 549)	(114 552)
Net profit		545 907	455 599
of which:			
attributable to the Company's equity holders		516 315	437 783
attributable to the Minority equity holders		29 592	17 816
Net earnings (loss) per ordinary share (PLN/share)	Note 22	7,08	6,00

2. Consolidated balance sheet

		31.12.2005	31.12.2004
ASSETS			
Cash and balances with central bank	Note 23	572 342	1 200 154
Loans and advances to banks	Note 24	3 608 333	2 800 318
Financial instruments at fair value through profit or loss	Note 25	1 925 909	1 369 937
Derivative financial instruments	Note 26	735 214	869 435
Loans and advances to customers	Note 27	14 196 899	14 051 761
Reverse repo transactions	Note 28	15 199	25 697
Investment securities:	Note 29	6 990 336	5 607 851
- available-for-sale		6 990 336	2 923 003
- held-to maturity			2 684 848
Investments in associates	Note 30	73 237	76 943
Intangible assets	Note 31	174 194	237 004
Property, plant & equipment	Note 32	518 643	593 043
Deferred tax assets	Note 33	435 232	472 903
Other assets incl.:	Note 34	358 547	240 724
- assets held for sale		17 420	317
Total assets		29 604 085	27 545 770
LIABILITIES			
Deposits from banks	Note 35	1 692 595	1 301 638
Derivative financial instruments	Note 26	577 086	804 501
Deposits from customers	Note 36	20 838 980	19 316 900
Repo transactions	Note 37	999 541	732 690
Debt securities in issue	Note 38	840 383	1 200 326
Deferred tax liabilities	Note 39	315 232	303 894
Other liabilities	Note 40	903 807	835 614
Total liabilities		26 167 624	24 495 563
Equity			
Capital and reserves attributable to the Company's equity holders		3 381 518	3 019 400
Share capital	Note 41	729 603	729 603
Other reserve funds	Note 42	2 028 706	1 701 632
Revaluation reserve	Note 43	250 088	156 012
Retained earnings		(143 194)	(5 630)
Profit of the current period		516 315	437 783
Minority interest		54 943	30 807
Total equity		3 436 461	3 050 207
Total equity and liabilities		29 604 085	27 545 770

3. Movements on consolidated equity

MOVEMENTS ON CONSOLIDATED EQUITY	Equity: Share capital	Other reserve funds	Revaluation reserve	Retained earnings	Minority interest	Total
Opening balance at 31.12.2004	**729 603**	**1 701 632**	**156 012**	**432 153**	**30 807**	**3 050 207**
changes in accounting principles resulting from adoption of IFRS	-		29 197	(72 102)		(42 905)
Adjusted balance at 1.01.2005	**729 603**	**1 701 632**	**185 209**	**360 051**	**30 807**	**3 007 302**
Net change in available for sale investments	-	-	66 001	-		66 001
Net gains not recognised in income statement	-	-	66 001	-	-	66 001
Net profit	-	-	-	516 315	29 592	545 907
Total recognised increase in equity in 2005	**-**	**-**	**66 001**	**516 315**	**29 592**	**611 908**
Dividend relating to 2004	-	-	-	(177 293)	(5 459)	(182 752)
Transfer to general banking risk fund	-	30 000	-	(30 000)		-
Transfer to reserve capital	-	267 958	-	(267 958)		-
Transfer to supplementary capital	-	7 724	-	(7 724)		-
-other	-	21 392	(1 122)	(20 270)	3	3
As at 31.12.2005	**729 603**	**2 028 706**	**250 088**	**373 121**	**54 943**	**3 436 461**

MOVEMENTS ON CONSOLIDATED EQUITY	Equity: Share capital	Other reserve funds	Revaluation reserve	Retained earnings	Minority interest	Total
Opening balance at 13.12.2003	**729 603**	**1 548 549**	**159 992**	**103 603**	**15 570**	**2 557 317**
changes in accounting principles resulting from adoption of IFRS	-	62 488	(62 057)	4 618	132	5 181
Adjusted balance at 1.01.2004	**729 603**	**1 611 037**	**97 935**	**108 221**	**15 702**	**2 562 498**
Net change in available for sale investments	-	-	58 077	-	(70)	58 007
Net gains not recognised in income statement	-	-	58 077	-	(70)	58 007
Net profit	-	-	-	437 783	17 816	455 599
Total recognised increase in equity in 2004	**-**	**-**	**58 077**	**437 783**	**17 746**	**513 606**
Dividend relating to 2003	-	-	-	(23 347)	(2 652)	(25 999)
Transfer to general banking risk fund	-	60 000	-	(60 000)		-
Transfer to reserve capital	-	26 700	-	(26 700)		-
Transfer to supplementary capital	-	3 895	-	(3 895)		-
-other	-	-	-	91	11	102
As at 31.12.2004	**729 603**	**1 701 632**	**156 012**	**432 153**	**30 807**	**3 050 207**

4. Consolidated cash flow statement

	01.01.2005 - 31.12.2005	01.01.2004 - 31.12.2004
Net profit (loss)	**516 315**	**437 783**
Total adjustments:	**376 031**	**(1 475 079)**
Profits (losses) of minorities	29 592	17 816
Share in net profits (losses) of associates accounted for by the equity method	(470)	(6 085)
Amortization	186 478	199 404
Impairment losses	(4 088)	4 588
Gains (losses) on exchange differences	22 784	38 834
Interests and similar charges	(9 522)	29 458
Dividend income	(47 698)	(54 345)
(Profit) loss from investing activities	(5 559)	(63 522)
Change in provisions	9 680	(21 920)
Change in financial instruments at fair value through profit and loss	(663 534)	(987 580)
Change in financial investments	(11 784)	-
Change in loans and advances from banks	(976 970)	(2 140 756)
Change in loans and advances from customers	(487 274)	289 466
Change in receivables arising from securities purchased under reverse repo agreements	10 498	(19 891)
Change in deposits from banks	861 067	(30 724)
Change in deposits from customers	1 682 041	690 311
Change in liabilities arising from securities sold under repurchase agreements	266 851	732 690
Change in liabilities arising from debt securities in issue	(457 353)	30 221
Change in assets and liabilities arising from deferred taxation	44 837	(12 277)
Change in other assets and liabilities	(73 728)	(172 738)
Other adjustments	183	1 971
Net cash flow from operating activities - indirect method	**892 346**	**(1 037 296)**
Inflows	**1 702 817**	**2 414 234**
Sale of shares or interests in subsidiaries and associates	13 955	68 000
Sale of investment securities	1 629 849	2 258 273
Sale of intangible and tangible fixed assets	9 030	32 570
Dividends received	47 698	54 345
Proceeds from other investments	2 285	1 046
Outflows	**(2 855 850)**	**(1 990 783)**
Purchase of investment securities	(2 777 729)	(1 912 475)
Purchase of intangible and tangible fixed assets	(76 247)	(76 529)
Other investments	(1 874)	(1 779)
Net cash flow from investing activities	**(1 153 033)**	**423 451**
Inflows	**99 701**	**602 313**
Drawing of long-term loans	-	259 943
Issue of debt securities	99 548	339 577
Other financial proceeds	153	2 793
Outflows	**(478 083)**	**(139 239)**
Repayment of long-term loans	(224 354)	(63 153)
Dividends and other payments to shareholders	(182 752)	(25 999)
Other financing outflows	(70 977)	(50 087)
Net cash flow from financing activities	**(378 382)**	**463 074**
Total net cash flow	**(639 069)**	**(150 771)**
Cash at the beginning of the accounting period	**1 232 742**	**1 383 513**
Cash at the end of the accounting period	**593 673**	**1 232 742**

Additional notes to consolidated financial statements

5. General information about the issuer

Bank Zachodni WBK S.A. is a bank seated in Poland, registered in the District Court for Wrocław-Fabryczna, VI Economic Unit of the National Court Registry. The bank's parent company is Allied Irish Bank plc.

Group of Bank Zachodni WBK consists of the following subsidiaries and associates entities:

	Subsidiaries	Registered office	% of votes on AGM 31.12.2005	% of votes on AGM 31.12.2004
1.	BZ WBK Faktor Sp. z o.o.	Warszawa	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. i Wspólnicy Spółka Komandytowa	Poznań	99,99	99,99
7.	BZ WBK Nieruchomości S.A.	Poznań	99,96	99,96
8.	Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp. z o.o.	Poznań	60,00	60,00
9.	AIB WBK Fund Management Sp. z o.o.	Warszawa	54,00	54,00
10.	BZ WBK AIB Asset Management S.A.*	Poznań	50,00	50,00
11.	BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.	Poznań	100% of votes is held by BZ WBK and AIB Asset Management S.A.	100% of votes is held by BZ WBK and AIB Asset Management S.A.

*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, in line with the accounting act, the company is treated as a subsidiary undertaking.

	Associates	Registered office	% of votes on AGM 31.12.2005	% of votes on AGM 31.12.2004
1.	POLFUND - Fundusz Poręczeń Kredytowych S.A.	Szczecin	50,00	50,00
2.	Lubelskie Zakłady Przemysłu Skórzanego Protektor S.A.	Lublin	36,07	36,07
3.	NFI Magna Polonia S.A.	Warszawa	29,67	21,57*

* Direct holding of Bank Zachodni WBK S.A. Total shareholding BZWBK Group is 26,17%.

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

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

6. Significant accounting policies

Statement of compliance

The annual consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and in respect to matters that are not regulated by the above standards, in accordance with the requirements of the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and respective bylaws and regulations, and the requirements for issuers of securities admitted or sought to be admitted to trading on an official stock-exchange listing market. These are the first IFRS annual consolidated financial statements and IFRS 1 *First-time adoption of International Financial Reporting Standards* has been applied.
An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 61.
In addition, annual unconsolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) with respect to the preparation of a parent's separate financial statements.
The unconsolidated financial statements were also authorised for issue on 17 February 2006.

Standards that are issued and not yet effective.
IFRS 7 *Financial Instruments: Disclosures* is not effective until 1 January 2007 and was recently endorsement by the European Union. The Bank has not early adopted since management believe that the disclosures under IFRS 7 would not be very different to the requirements of IAS 32 and IAS 30. Other standards, amendments to the standards and IFRIC interpretations recently endorsed or awaiting endorsement are either not relevant to the Bank or would not have a material impact on the current year financial statements**.**
BZWBK Group did not present an estimated impact of the above regulations on the financial report due to a lack of feasible methods of making relevant estimates and an insignificant influence of the first-time adoption of the standard or interpretation on the consolidated financial statements (interpretations IFRIC 4 and IFRIC 5 apply to the annual periods commencing 1 January 2006 or later).

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 and in preparing an opening IFRS balance sheet at 1 January 2004 for the purposes of the transition to IFRSs.

The accounting policies have been applied consistently by Group entities.

Basis of consolidation

Subsidiaries

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

(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. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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 preparing the consolidated financial statements.

Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency

Foreign currency transactions

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

Hedge accounting and derivative financial instruments

Derivative financial instruments are initially recognised at fair value. After their initial recognition, derivatives are subsequently measured at their fair values without any deduction for transactions costs to be incurred on sale or disposal.
The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) 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.

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

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

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

Fair value hedge

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

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

Financial assets and financial liabilities

Classification

The Group classifies its financial instruments into the following categories: financial assets or financial liabilities at fair value through profit or loss; held-to-maturity investments; loans and receivables and available-for-sale financial assets.

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

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

(1) Classified as held for trading. A financial asset or financial liability is classified as held for trading if:
   a) it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
   b) it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking.
   c) derivatives are held for trading unless the derivative is a designated and effective hedging instrument.

(2) Upon initial recognition it is designated by the Group as at fair value through profit or loss.

Held-to-maturity investments

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity, the entire category would be tainted and reclassified as available for sale and for a two year period the Group would not utilise the held to maturity classification.

Loans and receivables

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

Available-for-sale financial assets

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

Financial liabilities measured at amortised cost

Financial liabilities measured at amortised cost using EIR method include deposits from banks, deposits from customers, repo transactions and debt securities in issue which are not subject to hedge accounting.

Recognition

A regular way purchase or sale of a financial asset classified at fair value through profit or loss, held to maturity 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.

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.

Measurement

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

After initial recognition, the Group measure financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for (a) loans and receivables which shall be measured at amortised cost using the effective interest method (b) held-to-maturity investments which shall be measured at amortised cost using the effective interest method; and (c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, are measured at cost.

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method, except for: (a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value (b) financial liabilities resulting from transferring a financial asset that is not to be derecognised**.**

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

Gains and losses on subsequent measurement

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

A gain or loss on a financial asset or financial liability classified as at fair value through profit or loss is recognised in profit or loss.

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

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

Sale and repurchase agreements

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

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

Impairment of financial assets

Assets carried at amortised cost

The 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 asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment Losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that a financial asset or group of assets is impaired includes observable data about the following loss events:

(a) significant financial difficulty of the issuer or obligor;

(b) a breach of contract, such as a default or delinquency in interest or principal payments;

(c) the 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:

  (i) adverse changes in the payment status of borrowers in the group, or

  (ii) national or local economic conditions that correlate with defaults on the assets in the group.

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

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

The 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.

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

If, in a subsequent period, the amount of the impairment loss decreases and the decrease is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed either directly or by adjusting the provision. The amount of the reversal is recognised in profit or loss. Recoveries related to previosly recognised write offs are recognised in profit nad loss account in "Impairment losses on loans and advances".

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 even though the financial asset has not been derecognised. The amount of the cumulative loss that is removed from equity and recognised in profit or loss shall be the difference between the acquisition cost (net of any principal 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.

Financial assets carried at cost

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

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.

Off balance sheet liabilities

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

Property, plant and equipment

Owned assets

Items of property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses.

Leased assets

Leases in terms of which the 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 costs

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

Intangible assets

Goodwill

Goodwill represents amounts arising on acquisition of subsidiaries, associates and joint ventures. In respect of business acquisitions that have occurred since 1 January 2003, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is no longer amortised but is tested annually for impairment. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associate.

Negative goodwill arising on an acquisition is recognised directly in profit or loss.

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.

Other intangible assets

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

Subsequent expenditure

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

Amortisation

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

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

Other items

Other trade and other receivables

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

Borrowings

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

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.

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

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

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.

Reversals of impairment

An impairment loss in respect of goodwill is not reversed.

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

Equity

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

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

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

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

Revaluation reserve comprises:

- differences from the valuation of financial assets available for sale taking into account the deferred income tax,

Revaluation reserve is not distributable.

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

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

Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, including directly attributable costs, is recognised as a change in equity. Repurchased shares are classified as treasury shares and presented as a deduction from total equity.

Dividends

Dividends on redeemable preference shares are recognised as a liability and expressed on an accrual basis. Other dividends are recognised as a liability in the period in which they are declared.

Employee benefits

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.

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.

Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced publicly. Future operating costs are not provided for.

Net interest income

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

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

Net commission income

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

Dividend income

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

FX profit

Result on SPOT transactions taken to the FX profit is calculated by way of comparing the transaction exchange rate with the average NBP rate as at the balance sheet date.
Result on and valuation of FX Swap and FX Forward transactions is disclosed in "FX gains/losses".
The effects of valuation of the FX off balance sheet items (FX swaps, forwards and spot contracts) are recognized in the balance sheet and the profit and loss account at the transaction date.

Profit on disposal of subsidiaries and associates

Profit on the sale of interests in subsidiaries and associates is set as a difference between the book value of the securities and their sale price. It is disclosed as profit on disposal of subordinated entities and undertakings.

Other operating income and costs

Other operating income and costs include expenses and revenues, which are not related directly to the statutory activity of the Group. These are primarily revenues and costs from the sale and liquidation of fixed assets, income from sale of other services, paid and received damages, penalties and fines.

Operating lease payments

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

Finance lease payments

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

Corporate income tax

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

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

Deferred tax assets and liabilities should be measured as the multiple of a temporary difference and the tax rates that are expected to apply to the period when the asset is realised or the liability is settled (liability method), based on tax rates/laws that have been enacted or substantively enacted by the balance sheet date.
Deferred tax assets and liabilities are not discounted.
Pursuant to the decision of 19 December 2003, based on art. 1a of the Corporate Income Tax Act, Stare Miasto Tax Office in Wrocław registered an Agreement establishing a tax group between Bank Zachodni WBK S.A. and its subsidiary – BZ WBK Inwestycje Sp. z o.o. The agreement was concluded for 3 tax years, i.e. from 1 January 2004 to 31 December 2006.

Fixed assets held for sale

Directly before initial classification of an asset (or a group of assets for sale) as an asset for sale, the Group establishes the carrying amount of the assets (or all assets and liabilities included in the group) in line with the applicable IFRS. Then the unit recognises the asset (or a group of assets) classified as asset for sale at the lower of its carrying amount and fair value less costs of disposal.
Impairment of assets initially classified as available for sale is presented in the profit and loss account. The same applies to the revaluation-related future profits and losses.

7. Segmental reporting

BZ WBK Group’s operating activities have been divided into four business segments: Treasury operations, Investment Banking, Branch 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 equity investments of Bank Zachodni WBK S.A. and brokerage operations
- Activity of the Branch Operations Segment comprises branch network operations 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 bases.
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

31.12.2005	Branch operations	Treasury operations	Investment banking	Leasing operations	Eliminations	Total
1. Total segments income	**2 859 458**	**668 478**	**300 273**	**148 905**	**(1 154 520)**	**2 822 594**
Segments income (external)	2 251 232	164 262	260 238	146 862		2 822 594
Segments income (internal)	608 226	504 216	40 035	2 043	(1 154 520)	-
2. Total segments costs	**(2 318 859)**	**(601 599)**	**(165 642)**	**(106 481)**	**1 154 520**	**(2 038 061)**
Segments costs (external)	(1 778 232)	(41 485)	(122 061)	(96 283)		(2 038 061)
Segments costs (internal)	(540 627)	(560 114)	(43 581)	(10 198)	1 154 520	-
3. Dividend income	**-**	**-**	**47 698**	**-**		**47 698**
4. Movements in provisions	**(57 356)**	**-**	**-**	**(4 239)**	**-**	**(61 595)**
Write off	(146 143)			(21 433)		(167 576)
Write back	88 787			17 194		105 981
5. Segments income on investment in associates	**-**	**-**	**470**	**-**	**-**	**470**
6. Segments gross profit	**483 243**	**66 879**	**182 799**	**38 185**	**-**	**771 106**
7. Unallocated income						-
8. Unallocated costs						(81 650)
9. EBT						**689 456**
10. Income tax						(143 549)
11. Minority interest						(29 592)
12. Net profit						**516 315**

Additional information

31.12.2005	Branch operations	Treasury operations	Investment banking	Leasing operations	Total
1. Segments assets	13 164 884	13 027 621	537 187	1 641 354	28 371 046
2. Segments investments in associates			73 237		73 237
3. Unallocated assets					1 159 802
Total assets	**13 164 884**	**13 027 621**	**610 424**	**1 641 354**	**29 604 085**
1. Segments liabilities	19 994 330	3 369 637	588 333	1 207 997	25 160 297
2. Unallocated liabilities					1 007 327
3. Equity					3 436 461
Total liabilities	**19 994 330**	**3 369 637**	**588 333**	**1 207 997**	**29 604 085**
1. Amortisation	167 235	1 540	3 425	1 673	173 873
2. Capital expenditure	57 171	493	3 908	2 096	63 668

Consolidated income statement

31.12.2004	Branch operations	Treasury operations	Investment banking	Leasing operations	Eliminations	Total
1. Total segments income	**2 583 339**	**555 881**	**241 863**	**136 608**	**(929 797)**	**2 587 894**
Segments income (external)*	2 099 177	142 825	211 333	134 559		2 587 894
Segments income (internal)	484 162	413 056	30 530	2 049	(929 797)	-
2. Total segments costs	**(2 117 872)**	**(497 053)**	**(92 162)**	**(97 667)**	**929 797**	**(1 874 957)**
Segments costs (external)	(1 681 903)	(31 676)	(79 480)	(81 898)		(1 874 957)
Segments costs (internal)	(435 969)	(465 377)	(12 682)	(15 769)	929 797	-
3. Dividend income	**-**	**-**	**54 345**	**-**		**54 345**
4. Movements in provisions	**(126 797)**	**-**	**-**	**(4 628)**	**-**	**(131 425)**
Write off	(417 034)	-	-	(28 943)		(445 977)
Write back	290 237	-	-	24 315		314 552
5. Segments income on investment in associates	**-**	**-**	**6 085**	**-**	**-**	6 085
6. Segments gross profit	**338 670**	**58 828**	**210 131**	**34 313**	**-**	641 942
7. Unallocated income						-
8. Unallocated costs						(71 791)
9. EBT						**570 151**
10. Income tax						(114 552)
11. Minority interest						(17 816)
12. Net profit						**437 783**

* External income of Investment Banking contains the result on sale of CardPoint 55 135 PLN k

Additional information

31.12.2004	Branch operations	Treasury operations	Investment banking	Leasing operations	Total
1. Segments assets	12 788 094	10 955 718	434 607	1 415 922	25 594 341
2. Segments investments in associates			76 943		76 943
3. Unallocated assets					1 874 486
Total assets	**12 788 094**	**10 955 718**	**511 550**	**1 415 922**	**27 545 770**
1. Segments liabilities	19 544 242	2 456 932	379 748	1 117 433	23 498 355
2. Unallocated liabilities					997 208
3. Equity					3 050 207
Total liabilities	**19 544 242**	**2 456 932**	**379 748**	**1 117 433**	**27 545 770**
1. Amortization	183 181	1 585	4 259	1 435	190 460
2. Capital expenditure	41 926	4 380	3 135	1 582	51 023

8. Net interest income

Interest and similar income	01.01-31.12.2005	01.01-31.12.2004
Loans and advances to enterprises	565 465	577 817
Debt securities	515 269	408 260
Loans and advances to individuals of which:	291 420	260 219
Mortgage loans	127 222	118 148
Leasing agreements	129 064	104 131
Loans and advances to banks	118 278	89 358
Reverse repo transactions	1 758	2 124
Other (incl. public sector)	49 085	57 301
Total	**1 670 339**	**1 499 210**

Due to available reliefs there was no restatement of comparable period.
Loans and advances to banks exclude income on repo transactions.

Interest expense and similar charges	01.01-31.12.2005	01.01-31.12.2004
Deposits from individuals	(327 682)	(288 489)
Deposits from enterprises	(189 890)	(157 377)
Deposits from banks	(84 464)	(71 415)
Debt securities in issue	(66 887)	(52 925)
Repo transactions	(47 880)	(2 383)
Other (incl. public sector)	(44 261)	(52 129)
Total	**(761 064)**	**(624 718)**

Net interest income	**909 275**	**874 492**

As at 31 December 2005 net interest income includes interest accrued on impaired loans of PLN 26 661 k.

9. Net fee and commission income

Fee and commission income	01.01-31.12.2005	01.01-31.12.2004
Current accounts	247 066	259 831
Credit and payment cards and ATM commissions	219 906	200 460
Asset management fees	128 490	69 263
Brokerage commissions	81 156	57 719
F/X commissions	67 472	54 468
Loans and advances	49 505	92 371
Distribution fees	34 631	18 319
Off-balance sheet guarantee commissions	14 281	12 280
Insurance commissions	12 123	8 606
Other	6 899	6 351
Finance lease commissions	487	358
Total	**862 016**	**780 026**

Fee and commission expense	01.01-31.12.2005	01.01-31.12.2004
Credit and payment cards an ATM commissions	(91 318)	(86 664)
Brokerage commissions	(21 035)	(15 465)
Asset management fees	(13 970)	(8 690)
Distribution fees	(8 542)	(2 757)
Finance lease commissions	(6 023)	(4 846)
Commissions paid to other banks	(5 882)	(4 639)
F/X commissions paid	(4 802)	(6 271)
Loans and advances	(1 161)	(1 228)
Other	(12 370)	(10 586)
Total	**(165 103)**	**(141 146)**

Net commission income	**696 913**	**638 880**

10. Dividend income

Dividend income	01.01-31.12.2005	01.01-31.12.2004
Dividends from investment portfolio entities	47 615	54 292
Dividends from entities measured at fair value through profit and loss	83	53
Total	**47 698**	**54 345**

11. Foreign exchange profit

F/X income	01.01-31.12.2005	01.01-31.12.2004
Corporate negotiated transactions	93 965	82 094
Branch operations	50 529	52 422
Not-negotiated transactions	18 608	21 866
Trading activities	10 595	5 202
Other	44 595	35 524
Total	**218 292**	**197 108**

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

12. Gains (losses) on hedge accounting activities

Gains less losses on hedge accounting activities	01.01-31.12.2005	01.01-31.12.2004
Change in fair value of hedging instruments	3 653	(19 887)
Change in fair value of underlying hedged positions	(4 309)	14 603
Total	**(656)**	**(5 284)**

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

Gains less losses from financial instruments measured at fair value through profit and loss	01.01-31.12.2005	01.01-31.12.2004
Profit/(loss) on derivative instruments	9 341	14 418
Profit/(loss) on debt instruments	9 293	11 644
Profit/(loss) on equity instruments	(10)	13 468
Total	**18 624**	**39 530**

14. Gains (losses) from investment in securities

Gains less losses from investment in securities	01.01-31.12.2005	01.01-31.12.2004
Sales of available-for-sale financial instruments	6 006	6 839
Impairment losses or reversal of impairment losses on investment securities	4 311	389
Costs of sales of available-for-sale financial instruments	(4 668)	(25 074)
Total	**5 649**	**(17 846)**

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

Gains less losses on sale of subsidiaries and associates	01.01-31.12.2005	01.01-31.12.2004
Sale of subsidiaries	-	55 136
Sale of joint ventures	-	-
Sale of associates	-	2
Total	**-**	**55 138**

16. Other operating income

Other operating income	01.01-31.12.2005	01.01-31.12.2004
Release of provision (for liabilities relating to past commitments and other assets)	12 008	15 049
Sundry income	8 102	6 860
From management of third party assets	6 070	5 950
Sales or liquidation of fixed assets, intangible assets and assets for disposal	3 158	5 459
Recovery of prescribed, written-off and irrecoverable debts	1 582	1 395
Donations received	1 431	1 043
Received compensations, penalties and fines	280	565
Other	15 700	16 952
Total	**48 331**	**53 273**

17. Impairment losses on loans and advances

01.01-31.12.2005 Impairment losses on loans and advances	Loans and advances to customers
Impairment charge	(54 829)
Credit related off balance sheet items	(3 982)
Incurred but not reported losses charge	(2 784)
Total	**(61 595)**

Amount PLN (54 829)k "impairment charge" includes profit form recoveries of PLN 3 379k.

01.01-31.12.2004 Impairment losses on loans and advances	
Provision for loans and advances to customers	(152 696)
General risk provision charge	19 310
Credit related off balance sheet items	1 961
Total	**(131 425)**

According to available relieves resulting from IFRS 1, Bank Zachodni WBK S.A. Group did not restate comparable information.

18. Employee costs

Employee costs	01.01-31.12.2005	01.01-31.12.2004
Salaries	(463 770)	(427 593)
Salary related costs and provisions	(81 763)	(71 668)
Social benefits costs	(13 331)	(12 571)
Professional trainings	(12 343)	(9 243)
Retirement fund provision	(3 257)	(9 452)
Total	**(574 464)**	**(530 527)**

19. General and administrative expenses

General and administrative expenses	01.01-31.12.2005	01.01-31.12.2004
Maintenance and rentals of premises	(103 376)	(118 096)
IT systems costs	(53 352)	(63 343)
Postal and telecommunication costs	(42 448)	(43 368)
Consulting fees	(30 892)	(20 877)
External services	(17 988)	(18 707)
Taxes	(15 666)	(17 566)
Security costs	(11 417)	(13 496)
BFG costs	(5 127)	(6 327)
Costs of repairs	(4 882)	(5 374)
Other	(118 685)	(115 937)
Total	**(403 833)**	**(423 091)**

20. Other operating expenses

Other operating costs	01.01-31.12.2005	01.01-31.12.2004
Write-off to provisions (for liabilities relating to past commitments and other assets)	(13 902)	(21 469)
Debt recovery costs	(3 036)	(3 174)
Donations paid	(1 641)	(1 315)
Write-off of prescribed debt	(1 329)	(2 110)
Paid compensations, penalties and fines	(488)	(1 106)
Sales or liquidation of fixed assets, intangible assets and assets for disposal	(136)	(1 495)
Other	(8 235)	(10 454)
Total	**(28 767)**	**(41 123)**

21. Income tax charge

Income tax charge	01.01-31.12.2005	01.01-31.12.2004
Current tax charge	97 007	145 155
Deferred tax charge	46 542	(30 603)
Total	**143 549**	**114 552**

Corporate total tax charge information	01.01-31.12.2005	01.01-31.12.2004
Profit/loss before tax	**689 456**	**570 151**
Tax rate	19%	19%
Tax calculated at the tax rate	**130 997**	**108 329**
Permanent differences		
Non taxable expenses	11 509	10 289
Non taxable incomes	(9 409)	(12 598)
Reclassification	-	7 498
Other:		
- tax loss	35	202
- amount relating to article 38a Income tax Act	(486)	(14 807)
- write off's	9 520	8 260
- valuation of assets	-	5 719
- other	1 383	1 660
Total income tax expense	**143 549**	**114 552**

Deferred tax recognised directly in equity

As at 31 December 2005 the amount of deferred tax recognised directly in equity totalled PLN 56 177 k, in comparable period - PLN 35 888 k.

Relating to equity securities available-for-sale	31 634	31 233
Relating to debt securities available-for-sale	24 543	4 655
Total	**56 177**	**35 888**

22. Earning per share

	01.01-31.12.2005	01.01-31.12.2004
Earning per share	7,08	6,00

The calculation of basic earnings per share at 31 December 2005 was based on the profit attributable to ordinary shareholders of PLN 516 315 k (2004: PLN 437 783 k) and a weighted average number of ordinary shares outstanding during 2005 of 72 960 284 (2004: 72 960 284). BZ WBK did not issue any instruments which may be potentially converted into ordinary shares. As at 31.12.2005 diluted earning per share amount to PLN 7,08 and as at 31.12.2004 diluted earning per share amount to PLN 6,00.

23. Cash and balances with central bank

Cash and balances with central bank	31.12.2005	31.12.2004
Cash	503 352	410 713
Current account in central bank	67 783	788 182
Other cash equivalents	1 207	1 259
Total	**572 342**	**1 200 154**

The amount of current account in central bank refers to monies held as the obligatory reserve.

24. Loans and advances to banks

Loans and advances to banks	31.12.2005	31.12.2004
Loans and advances	3 333 383	2 764 227
Current accounts	282 507	43 232
Other	9	425
Gross receivables	**3 615 899**	**2 807 884**
Impairment write down	(7 566)	(7 566)
Total	**3 608 333**	**2 800 318**

Movements on impairment losses on receivables from banks	31.12.2005	31.12.2004
Balance at 1 January	(7 566)	(7 629)
Recoveries	-	63
Balance at the end of the period	**(7 566)**	**(7 566)**

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

Financial instruments at fair value through profit & loss account	31.12.2005	31.12.2004
Debt securities	1 925 406	1 354 399
Government securities:	1 925 330	1 354 388
- bills	1 792 789	1 084 124
- bonds	132 541	270 264
Other securities:	76	11
- bonds	76	11
Equity securities:	503	15 538
- listed	503	14 115
- unlisted	-	1 423
Total	**1 925 909**	**1 369 937**

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. Financial assets were not designated to this category at 31 December 2005 and in comparable periods.

26. Derivative financial instruments

Derivative financial instruments

Fair value of derivative financial instruments is determined using the market quotations, discounted cash flow models and the options valuation models, as appropriate.

FX transactions (FX SWAP,FX Forward, CIRS, Spot)
FX transactions are measured on the basis of discounting future cash flows with a market rate, the sites of Reuters and the fixing site of NBPQ are the source of rates.

Interest rate contracts
Interest rate contracts include SWAP transactions (hereinafter referred to as IRS) and FRAs. IRSs and FRAs are marked to market based on future discounted cash flows (NPV). The rates applied to generate the zero-coupon yield curve are taken from Reuters' web site.

Options
Option contracts are stated at fair value using the market quotations and the option valuation models, as appropriate.

Trading derivatives	**31.12.2005 Fair value**		**31.12.2004 Fair value**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Interest rate transactions	166 371	107 485	163 701	193 470
IRS	153 640	94 849	157 314	184 590
FRA	12 731	12 636	6 387	8 880
Equity derivatives	24 042	-	12 944	-
Options long	24 042	-	12 944	-
Currency derivatives	542 315	445 939	692 790	589 455
FX Swap	175 313	72 996	608 570	571 773
CIRS	332 066	329 821	70 653	445
Forward	23 589	15 929	11 951	16 762
Spot	580	2 031	796	475
Options	10 767	25 162	820	-
Total trading derivatives	**732 728**	**553 424**	**869 435**	**782 925**

Hedging derivatives	**31.12.2005 Fair value**		**31.12.2004 Fair value**	
	Assets	**Liabilities**	**Assets**	**Liabilities**
Fair value hedge	2 486	23 662	-	21 576
IRS	2 486	23 662	-	21 576
Total hedging derivatives	**2 486**	**23 662**	**-**	**21 576**
Total derivatives	**735 214**	**577 086**	**869 435**	**804 501**

27. Loans and advances to customers

Loans and advances to customers	31.12.2005	31.12.2004
Loans and advances to enterprises	9 621 986	9 868 344
Loans and advances to individuals, of which:	3 306 295	2 923 911
Real estate financing	2 028 770	1 883 626
Finance lease receivables	1 609 752	1 394 261
Loans and advances to public sector	342 450	466 944
Other	43 265	25 630
Gross receivables	**14 923 748**	**14 679 090**
Impairment losses in loans and advances to customers	(726 849)	(627 329)
Total	**14 196 899**	**14 051 761**

According to IFRS application Bank Zachodni WBK Group no longer recognises suspended interest.

Due to available reliefs there was no restatement of comparable period.

As at 31.12.2005 fair value adjustment due to hedged risk on corporate loans totalled PLN 18 283 k (year 2004 - PLN 13 157k).

Movements on impairment recognised on loans and advances to customers	31.12.2005	31.12.2004
Balance at 31st December	(627 329)	(726 024)
IFRS impact	(101 075)	-
Balance at 1st January	(728 404)	(726 024)
Charge of current period	(166 973)	(434 056)
Write back of current period	109 360	281 360
Write downs and write off's	57 198	266 657
Currency movements	1 970	(15 266)
Balance at the end of the period	**(726 849)**	**(627 329)**

As at 31 December 2005 closing balance of impairment recognised on loans and advances to clients consisted of:

Impairment charge	640 848
Provision for incurred but not reported losses	86 001
Total	**726 849**

In comparable periods Bank Zachodni WBK S.A. Group calculated loan loss provisions basing on Ordinance of the Minister of Finance, dated 10 December 2003, on creating provisions for risk related to banking operations.

28. Reverse repo transactions

Reverse repo transactions	31.12.2005	31.12.2004
Other entities	15 199	25 697
Total	**15 199**	**25 697**

29. Investment securities

Investment securities	31.12.2005	31.12.2004
Available for sale investments - measured at fair value	6 990 336	2 923 003
Debt securities:	6 726 890	2 656 621
Government securities:	6 023 557	2 532 434
- bills	531 230	989 088
- bonds	5 492 327	1 543 346
Central Bank securities:	604 113	-
- bonds	604 113	-
Other securities:	99 220	124 187
- bonds	68 049	92 411
- other	31 171	31 776
Equity securities - measured at fair value:	247 581	250 994
- listed	21 180	10 961
- unlisted	226 401	240 033
Other	15 865	15 388
Total	**6 990 336**	**2 923 003**
Held to maturity investments - measured at amortised cost	-	2 684 848
Debt securities:	-	2 684 848
Other securities:	-	2 684 848
- bonds	-	2 684 848
Total	**6 990 336**	**5 607 851**

As at 31.12.2005 fixed interest rate debt securities measured at fair value amount to PLN 5 812 978 k, variable interest rate securities amount to PLN 882 741 k.

As at 31.12.2004 in available for sale portfolio fixed interest rate debt securities amount to PLN 2 503 092 k, variable interest rate securities amount to PLN 121 753 k. In held to maturity portfolio fixed interest rate debt securities amount to PLN 1 894 408 k, variable interest rate securities amount to PLN 790 440 k.
As at 31.12.2005 fair value adjustment due to hedged risk on bonds totalled PLN 3 665 k (year 2004 - PLN (1 074)k).

Reclassification of debt securities, presented as held till maturity in comparable periods, to the available for sale portfolio was made at the time of full IFRS adoption, i.e. as at 1 January 2005. Bank Zachodni WBK S.A. Group reclassified no financial assets measured using the amortized cost method to another portfolio in 2005.

When fair value cannot be reliable determined, Bank Zachodni WBK S.A. carries certain groups of debt and capital instruments at cost, periodically testing for impairment. As at 31.12.2005 group of debt securities amount to PLN 31 171 k (2004 - PLN 31 776k) and capital instruments amount to PLN 26 352 k (2004 - PLN 26 335 k).

Movement on investment securities	Available for sale	Held to maturity	Total
As at 31 December 2004	**2 656 622**	**2 684 848**	**5 341 470**
IFRS impact	2 684 848	(2 684 848)	-
Fair value adjustment (AFS)	20 621	-	20 621
As at 1 January 2005	**5 362 091**	**-**	**5 362 091**
Additions	2 769 328	-	2 769 328
Disposals (sale and redemption)	(1 568 420)	-	(1 568 420)
Fair value adjustment (AFS)	163 780	-	163 780
Provision for impairment	111	-	111
As at 31 December 2005	**6 726 890**	**-**	**6 726 890**

Movement on investment securities	Available for sale	Held to maturity	Total
As at 31 December 2004	**2 915 287**	**2 752 188**	**5 667 475**
Additions	1 782 053	401 149	2 183 202
Disposals (sale and redemption)	(2 175 148)	(468 489)	(2 643 637)
Fair value adjustment (AFS)	134 540	-	134 540
Provision for impairment	(111)	-	(111)
As at 31 December 2004	**2 656 621**	**2 684 848**	**5 341 469**

30. Investments in associates

Investments in associates	31.12.2005	31.12.2004
Associates	73 237	76 943
Total	**73 237**	**76 943**

Investments in associates	31.12.2005	31.12.2004
As at 1 January	**76 943**	**70 283**
Share of profits	470	5 594
Dividend received	(1 982)	(2 217)
Sale/acquisition	(2 194)	3 283
As at 31 December	**73 237**	**76 943**

Investments in associates
31.12.2005

No.	a	b	c	d	e	f						g			h	i
						own funds of entity, of which:						liabilities of entity, of which:				
									other own funds, of which:							
	name of entity (and its legal status)	business	registered office	Balance sheet value	total assets	Equity	share capital	due contributions to share capital (negative value)		from previous years	net profit (loss)		short-term	long-term	Revenues	% of holding **
1	POLFUND - Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management	Szczecin	8 596	67 991	17 192	16 000	-	1 192	-	761	43	43	-	626	50,00
2	LZPS PROTEKTOR S.A. *	production of protective, military and ordinary footwear	Lublin	5 142	27 614	14 253	4 744	-	9 509	-	(1 153)	11 619	11 619	-	14 693	36,07
3	NFI Magna Polonia S.A. *	buying securities issued by State Treasury, buying or taking up interests or shares in entities registered and operating in Poland, buying other securities issued by these entities	Warszawa	59 499	202 317	200 510	3 006	-	197 504	9 669	1 561	1 343	1 343	-	6 215	29,67
	Total			73 237	297 922	231 955	23 750	-	208 205	9 669	1 169	13 005	13 005	-	21 534	

* financial highlights as at September 2005.
** states percentage share of associates profits

Investments in associates
31.12.2004

No.	a	b	c	d	e	f						g			h	i
	name of entity (and its legal status)	business	registered office	Balance sheet value	total assets	own funds of entity, of which:						liabilities of entity, of which:			Revenues	% of holding **
						Equity	share capital	due contributions to share capital (negative value)	other own funds, of which:	from previous years	net profit (loss)		short-term	long-term		
1	POLFUND - Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management	Szczecin	8 527	18 057	17 054	16 000	-	1 054	-	772	28	28	-	617	50,00
2	LZPS PROTEKTOR S.A. *	production of protective, military and ordinary footwear	Lublin	7 031	26 838	19 487	4 744	-	14 743	-	4 914	5 305	5 305	-	31 758	36,07
3	NFI Magna Polonia S.A. *	buying securities issued by State Treasury, buying or taking up interests or shares in entities registered and operating in Poland, buying other securities issued by these entities	Warszawa	61 385	205 620	203 989	3 006	-	200 983	6 787	8 445	1 125	1 125	-	5 393	26,17
	Total			76 943	250 515	240 530	23 750	-	216 780	6 787	14 131	6 458	6 458	-	37 768	

* financial highlights as at September 2004.
** states percentage share of associates profits

31. Intangible assets

Intangible assets Goodwill disclosures	31.12.2005	31.12.2004
As at 1 January	-	2 651
Impairment write down	-	(2 651)
As at the and of the period	**-**	**-**

Intangible assets	Computer software	Other intangible assets (brand names and copy rights)	Capital expenditures	Total
Gross value at the beginning of the period	**467 951**	**7 629**	**22 727**	**498 307**
Additions (from purchase)	2 124	-	23 828	25 952
Disposals (from liquidation)	(12 901)	-	(230)	(13 131)
Intangible assets taken for use	23 986	604	(24 590)	-
Transfers	-	-	676	676
Gross value at the end of the period	**481 160**	**8 233**	**22 411**	**511 804**
Accumulated depreciation at the beginning of the period	(253 929)	(7 372)	-	(261 301)
Current year depreciation	(85 410)	(340)	-	(85 750)
Liquidation	11 260	-	-	11 260
Transfers	(1 822)	3	-	(1 819)
Accumulated depreciation at the end of the period	**(329 901)**	**(7 709)**	**-**	**(337 610)**
Book Value				
Purchase value	481 160	8 233	22 411	511 804
Accumulated depreciation	(329 901)	(7 709)	-	(337 610)
As at 31 December 2005	**151 259**	**524**	**22 411**	**174 194**

Transfer of value concerns: 1/ separating capital expenditures connected with tangible and intangible assets (transfer of gross value) 2/ separating impairment losses connected with tangible and intangible assets, release of provision (transfer of impairment losses). The value of intangible assets is mostly related to Integrated Centralised Banking System presented. It is a core system for BZWBK branches since 2002. As at beginning of the period its value according to purchase price amounted to PLN 315 795 k and its book value at the end of the period amounted to PLN 103 951 k (excluding modifications).

Intangible assets	Computer software	Other intangible assets (brand names and copy rights)	Capital expenditures	Total
Gross value at the beginning of the period	**453 422**	**7 373**	**10 645**	**471 440**
Additions (from purchase and donation)	15 554	-	26 043	41 597
Disposals (from liquidation)	(14 731)	-	-	(14 731)
Intangible assets taken for use	14 116	-	(14 116)	-
Gross value at the end of the period	**468 361**	**7 373**	**22 572**	**498 306**
Accumulated depreciation at the beginning of the period	(167 067)	(5 671)	-	(172 738)
Current year depreciation	(88 042)	(1 001)	-	(89 043)
Liquidation	933	-	-	933
Transfers	(2)	(452)	-	(454)
Accumulated depreciation at the end of the period	**(254 178)**	**(7 124)**	**-**	**(261 302)**
Book Value				
Purchase value	468 361	7 373	22 572	498 306
Accumulated depreciation	(254 178)	(7 124)	-	(261 302)
As at 31 December 2004	**214 183**	**249**	**22 572**	**237 004**

32. Property, plant & equipment

Property, plant & equipment	Land and Buildings	Transportation means	Equipment	Other fixed assets	Capital expenditures	Total
Gross value at the beginning of the period	**547 182**	**30 161**	**564 956**	**12 529**	**15 699**	**1 170 527**
Additions (from purchase and lease)	385	5 868	1 114	973	43 320	51 660
Disposals (from sale, liquidation and donation)	(4 134)	(7 054)	(40 902)	(393)	(207)	(52 690)
Fixed assets taken for use	1 738	-	47 688	74	(49 500)	-
Transfers	4 408	73	294	(67)	(1 139)	3 569
Gross value at the end of the period	**549 579**	**29 048**	**573 150**	**13 116**	**8 173**	**1 173 066**
Accumulated depreciation at the beginning of the period	(162 055)	(13 521)	(416 799)	(7 967)	-	(600 342)
Current year depreciation	(21 965)	(5 470)	(71 665)	(1 631)	-	(100 731)
Sale, liquidation or donation of assets	1 202	5 968	34 704	323	-	42 197
Fixed assets taken for use	-	-	-	(25)	-	(25)
Transfers	(1 355)	(47)	5 217	126	-	3 941
Impairment write down	-	-	(951)	-	-	(951)
Reversal of impairment write down	-	-	1 488	-	-	1 488
Accumulated depreciation at the end of the period	**(184 173)**	**(13 070)**	**(448 006)**	**(9 174)**	**-**	**(654 423)**
Book Value						
Purchase value	549 579	29 048	573 150	13 116	8 173	1 173 066
Depreciation	(184 173)	(13 070)	(448 006)	(9 174)	-	(654 423)
As at 31 December 2005	**365 406**	**15 978**	**125 144**	**3 942**	**8 173**	**518 643**

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

Property, plant & equipment	Land and Buildings	Transportation means	Equipment	Other fixed assets	Capital expenditures	Total
Adjusted gross value at the beginning of the period	**623 946**	**26 555**	**606 319**	**11 700**	**3 066**	**1 271 586**
Additions (from purchase, lease and donation)	4 742	9 327	22 289	441	13 383	50 182
Disposals (from sale, liquidation and donation)	(38 767)	(5 508)	(57 786)	(709)	-	(102 770)
Fixed assets taken for use	4 724	-	15 027	46	(19 797)	-
Transfers	-	-	-	-	(904)	(904)
Gross value at the end of the period	**594 645**	**30 374**	**585 849**	**11 478**	**(4 252)**	**1 218 094**
Adjusted accumulated depreciation at the beginning of the period	**(175 131)**	**(12 553)**	**(386 208)**	**(6 606)**	**-**	(580 498)
Current year depreciation	(21 501)	(5 123)	(82 698)	(1 039)	-	(110 361)
Sale, liquidation or donation of assets	9 002	4 205	47 807	258	-	61 272
Transfers	5 397	(94)	2 947	98	-	8 348
Impairment write down	(1 937)	-	(4 911)	-	-	(6 848)
Reversal of impairment write down	164	-	2 872	-	-	3 036
Accumulated depreciation at the end of the period	**(184 006)**	**(13 565)**	**(420 191)**	**(7 289)**	**-**	**(625 051)**
Book value						
Purchase value	594 645	30 374	585 849	11 478	(4 252)	1 218 094
Depreciation and impairment losses	(184 006)	(13 565)	(420 191)	(7 289)	-	(625 051)
As at 31 December 2004	**410 639**	**16 809**	**165 658**	**4 189**	**(4 252)**	**593 043**

Transfer of value concerns: 1/ separating capital expenditures connected with tangible and intangible assets (transfer of gross value) 2/ adjustment of lease assets' impairment losses, release of provision and amortization PFC (transfer of impairment losses).

33. Deferred tax asset

Deferred tax asset	31.12.2004	Increase	Decrease	31.12.2005
Unrealized securities interest	13 188	-	(8 549)	4 639
Unrealized deposit interest	26 664	13 776	-	40 440
Unrealized liabilities due to derivatives	163 168	-	(24 960)	138 208
Specific provisions which are not yet taxable costs	165 656	-	(31 048)	134 608
Other provisions which are not yet taxable costs	55 338	2 927	(7 871)	50 394
Tax realized income	15 807	2 865	(841)	17 831
Additional deferred tax assets resulting from art. 38 a of Corporate Tax Act	14 808	485	-	15 293
Tax Loss	658	-	(328)	330
Other	17 616	16 734	(861)	33 489
Total	**472 903**	**36 787**	**(74 458)**	**435 232**

As at 31 December 2005 calculation of deferred tax asset did not taken into account bought receivables of (tax amount) PLN 3 060 k

Deferred tax asset	31.12.2003	Increase	Decrease	31.12.2004
Unrealized securities interest	-	13 188	-	13 188
Unrealized deposit interest	22 096	5 234	(666)	26 664
Unrealized liabilities due to derivatives	45 595	117 573	-	163 168
Specific provisions which are not yet taxable costs	149 252	16 404	-	165 656
Other provisions which are not yet taxable costs	51 669	4 049	(380)	55 338
Tax realized income	14 067	2 404	(664)	15 807
Additional deferred tax assets resulting from art. 38 a of Corporate Tax Act	-	14 808	-	14 808
Tax Loss	823	202	(367)	658
Included in equity	100	26	(126)	-
Other	8 607	10 884	(1 875)	17 616
Total	**292 209**	**184 772**	**(4 078)**	**472 903**

As at 31 December 2004 calculation of deferred tax asset did not taken into account bought receivables of (tax amount) PLN 4 438 k

34. Other assets

Other assets	31.12.2005	31.12.2004
Sundry debtors	254 110	150 596
Interbank and interbranch settlements	61 779	60 439
Prepayments	24 768	27 281
Assets held for sale	17 420	317
Other	470	2 091
Total	**358 547**	**240 724**

Assets held for sale - BZ WBK Group

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

31 December 2004	Gross value	Impairment loss	Carrying value
Land and buildings	86	-	86
Equipment	231	-	231
Total	**317**	**-**	**317**

The opening balance was increased by assets for sale. In 2005 four items were sold, one of properties has been qualified to assets held for sale and another one was removed from this position to fixed assets.

35. Deposits from banks

Deposits from banks	31.12.2005	31.12.2004
Current accounts	683 013	19 815
Deposits	651 602	886 973
Credits	357 722	394 850
Other	258	-
Total	**1 692 595**	**1 301 638**

As at 31.12.2005 fair value adjustment due to hedged risk on deposit totalled PLN 85 k.

36. Deposits from customers

Deposits from customers	31.12.2005	31.12.2004
Deposits from individuals	11 277 972	11 566 453
- term deposits	8 130 803	9 026 618
- current accounts	3 112 285	2 508 486
- other	34 884	31 349
Deposits from enterprises	8 096 595	6 604 205
- current accounts	5 142 465	3 591 848
- term deposits	2 555 233	2 644 876
- other	329 662	206 772
- credits	69 235	160 709
Deposits from public sector	1 464 413	1 146 242
- current accounts	1 172 527	875 656
- term deposits	291 244	270 213
- other	642	373
Total	**20 838 980**	**19 316 900**

As at 31.12.2005 deposits held as collateral totalled PLN 167 869 k.
As at 31.12.2004 deposits held as collateral totalled PLN 131 180 k.

37. Repo transactions

Repo transactions	31.12.2005	31.12.2004
Banks	978 673	417 685
Other entities	20 868	315 005
Total	**999 541**	**732 690**

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

38. Debt security in issue

Debt security in issue	Average coupon		Nominal value	
	31.12.2005	31.12.2004	31.12.2005	31.12.2004
Bond 2-Y 2S1005	-	fixed; 4,75%	-	36 627
Bond 2-Y 2S1105	-	fixed; 5,25%	-	298 569
Bond 2-Y 2S1205	-	fixed; 5,25%	-	112 850
Bond 5-Y 5S1008	fixed; 5,25%	fixed; 5,25%	7 091	7 091
Bond 5-Y 5S1108	fixed; 5,75%	fixed; 5,75%	9 953	9 953
Bond 5-Y 5S1208	fixed; 6,00%	fixed; 6,00%	61 875	61 875
Bond 3 Y A1	W3M + 1%	W3M + 1%	83 002	83 002
Bond 3 Y-3S0707	fixed; 7%	fixed; 7%	49 832	49 840
Bond 3 Y-3S1007	fixed; 7,25%	fixed; 7,25%	10 235	10 235
Bond 3 Y-3S1107	fixed; 7%	fixed; 7%	29 978	29 990
Bond 3 Y-3S11A07	fixed; 7%	fixed; 7%	10 000	10 000
Bond 3 Y-3S0806	fixed; 4,4%	-	3 059	-
Bond 3 Y-3SO806	fixed; 5,25%	fixed; 5,25%	149 525	149 527
Bond 3 Y-3ZO806	WIBOR 6M + 0,25%	WIBOR 6M + 0,25%	48 736	48 737
Bond 3 Y-3SO207	fixed; 6,5%	fixed; 6,5%	45 187	45 189
Bond 3 Y-3S0307	fixed; 6,5%	fixed; 6,5%	18 591	18 590
Bond 3 Y-3S0407	fixed; 6,5%	fixed; 6,5%	9 422	9 422
Bond 3 Y-3S0507	fixed; 6,75%	fixed; 6,75%	19 368	19 368
Bond 3 Y-3ZO507	WIBOR 6M + 0,10%	WIBOR 6M + 0,10%	6 415	6 420
Bond 3 Y-3SO807	fixed; 7,3%	fixed; 7,3%	49 989	49 990
Bond 3 Y-3SO907	fixed; 7,3%	fixed; 7,3%	40 152	49 925
Bond 3 Y-3ZO807	WIBOR 6M + 0,20%	WIBOR 6M + 0,20%	49 925	40 154
Bond 3 Y-3S0108	fixed; 6,25%	-	24 976	-
Bond 3 Y-3S0308	fixed; 5,55%	-	14 995	-
Bond 3 Y-3S 508	fixed; 5,25%	-	22 045	-
Bond 3 Y-3S0608	fixed; 5,15%	-	7 295	-
Bond 3 Y-3S1008	fixed; 4,2%	-	12 791	-
Bond 3 Y-3S1108	fixed; 4,6%	-	14 305	-
Total nominal value			**798 742**	**1 147 354**
Total carrying value			**840 383**	**1 200 326**

As at 31.12.2005 the nominal value was increased by interest of PLN 26 786 k, bond valuation of PLN 14 845 k related to hedging activities. As at 31.12.2004 the nominal value was increased by interest of PLN 50 125 k , bond valuation of PLN 2 847 k related to hedging activities.

39. Deferred tax liabilities

Deferred tax liability	31.12.2004	Increase	Decrease	31.12.2005
Unrealised interests from securities and interbank deposits	59 777	129	(12 705)	47 201
Unrealised loans interests	8 952	4 541	(573)	12 920
Unrealised receivables on derivatives	149 700	-	(8 829)	140 871
Provision due to application of investment relief	6 467	-	(1 444)	5 023
Deferred tax liability due to f/x differences	5 310	821	(3 640)	2 491
Valuation of assets available for sale	36 645	19 966	(402)	56 209
Other	37 043	15 822	(2 348)	50 517
Total	**303 894**	**41 279**	**(29 941)**	**315 232**

Deferred tax liability	31.12.2003	Increase	Decrease	31.12.2004
Unrealised interests from securities and interbank deposits	42 826	17 419	(468)	59 777
Restructuring bonds	10 178	-	(10 178)	-
Unrealised loans interests	5 737	3 215	-	8 952
Unrealised receivables on derivatives	24 819	124 881	-	149 700
Provision due to application of investment relief	7 571	-	(1 104)	6 467
Deferred tax liability due to f/x differences	6 207	8 398	(9 295)	5 310
Valuation of assets available for sale	16 804	19 940	(99)	36 645
Other	25 638	13 241	(1 836)	37 043
Total	**139 780**	**187 094**	**(22 980)**	**303 894**

40. Other liabilities

Other liabilities	31.12.2005	31.12.2004
Interbank and interbranch settlements	408 439	185 411
Sundry creditors	184 974	153 636
Employee provisions and accruals	95 101	75 507
Other deferred and suspended income	69 714	252 278
Prepayments	68 880	75 378
Other	54 830	4 876
Provisions for off balance sheet credit facilities	11 818	7 539
Provisions for legal claims	10 051	7 710
General risk provision	-	73 279
Total	**903 807**	**835 614**

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

Movements on provisions	31.12.2005	31.12.2004
As at 31 December	**164 035**	**184 736**
Provisions for off balance sheet credit facilities	7 539	9 581
General risk provision	73 279	92 589
Employee provisions and accruals	75 507	74 954
Provisions for legal claims	7 710	7 612
IFRS impact	**(72 989)**	**-**
Provisions for off balance sheet credit facilities	290	-
General risk provision	(73 279)	-
Employee provisions and accruals	-	-
Provisions for legal claims	-	-
As at 1 January	**91 046**	**184 736**
Provisions for off balance sheet credit facilities	7 829	9 581
General risk provision	-	92 589
Employee provisions and accruals	75 507	74 954
Provisions for legal claims	7 710	7 612
Provision charge	**120 767**	**89 371**
Provisions for off balance sheet credit facilities	14 551	11 228
General risk provision	-	690
Employee provisions and accruals	97 212	75 150
Provisions for legal claims	9 004	2 303
Utilisation	**(77 315)**	**(64 286)**
Provisions for off balance sheet credit facilities	7	-
General risk provision	-	-
Employee provisions and accruals	(77 179)	(64 260)
Provisions for legal claims	(143)	(26)
Write back	**(17 528)**	**(45 786)**
Provisions for off balance sheet credit facilities	(10 569)	(13 270)
General risk provision	-	(20 000)
Employee provisions and accruals	(439)	(10 337)
Provisions for legal claims	(6 520)	(2 179)
As at the end of the period	**116 970**	**164 035**
Provisions for off balance sheet credit facilities	**11 818**	**7 539**
General risk provision	**-**	**73 279**
Employee provisions and accruals	**95 101**	**75 507**
Provisions for legal claims	**10 051**	**7 710**

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

Employee related provisions and accruals consists of:
- provisions due to employment termination payments
- PFRON provision
- staff bonus provisions

In the opening balance according to IFRS application the off-balance sheet liabilities provision was increased by PLN 290 k.

41. Share capital

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

Nominal value of one share is 10 PLN.
All shares in issue are fully paid. There was no movements on share capital during reported periods.
There are no share options on BZ WBK shares.

According to the information available to the Bank's Management Board, as at 31.12.2005 and 31.12.04 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.

42. Other reserve funds

Other reserve funds	31.12.2005	31.12.2004
General banking risk fund	529 810	499 810
Share premium	261 699	261 699
Other reserve capitals	1 237 197	940 123
Total	**2 028 706**	**1 701 632**

Other funds

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

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

43. Revaluation reserve

Revaluation reserve		31.12.2005
As at 31 December 2004		**156 012**
Impact of IFRS		29 197
As at 1 January 2005		**185 209**
Net change in available for sale investments, of which:		96 287
- related to investments purchased before current reporting period		48 410
- related to investments purchased during the period		47 877
Net change in available for sale investments matured during the period		(8 179)
Decrease in revaluation reserve related to sale of investments		(1 425)
Decrease in revaluation reserve removed from equity and recognised in profit or loss for the period.		(740)
Deferred tax adjustment		(19 942)
Other		(1 122)
Total	**-**	**250 088**

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.

44. Hedge accounting

Bank Zachodni WBK applies hedge accounting in line with the risk management assumptions described note 60 annual consolidated financial statements. Hedging transactions are constructed using interest rate swaps. These are instruments whose fair value can be reliably determined and which do not act as options issued by the bank. Their purpose is to eliminate risk of fair value in hedged instruments stemming from changes in market interest rates. These transactions are not designed to hedge against the effects of fair value changes due to credit risk. Bank Zachodni WBK applies fair value hedge accounting in relation to the following classes of financial instruments:

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

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

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

	IRS hedging own bonds	IRS hedging corporate loans	IRS hedging deposits	IRS hedging Treasury bonds
Nominal value of hedged position	PLN 78 918 k	PLN 295 971 k	PLN 50 000 k	PLN 150 000 k
Fair value adjustment of hedging instrument asset/(liability)	PLN 2 407 k	PLN (20 792) k	PLN 79 k	PLN (2 869) k
Period over which the instruments have an impact on the bank's results	2005 – 2008	2005 – 2011	2005 - 2006	2005 – 2008

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 and lease contracts. Details about these transactions are presented in the table below:

	BZ WBK Leasing S.A.	BZ WBK Finanse & Leasing S.A.
Nominal value of the hedged position	PLN 534 003 k	PLN 191 172 k
Fair value adjustment related to hedging activities	PLN 7 413 k	PLN 3 655 k
Hedged risk	Movements in the fair value of the bond issue 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	2006-2008	2006-2007

45. 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 2005, the consolidated balance sheet contains treasury bills and bonds traded under sell-buy-back transactions in the amount of PLN 964 730 k (PLN 733 253 k as at 31 December 2004). At the same time, on the liabilities side, in the item representing obligations in respect repo transactions there were deposits recognised, corresponding to the securities traded in the amount of PLN 999 541 k (PLN – 732 690 k as at 31 December 2004).

46. Fair Value

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. In accordance with clause 36A of IFRS 1 the Group elected to use the exemption from disclosure of comparable data at fair value. For financial assets and liabilities, it is assumed that their carrying amount is approximately equal to their fair value.

	2005	
In thousands of PLN	Carrying amount	Fair value
Assets		
Loans and advances to banks	3 608 333	3 613 191
Loans and advances to customers	14 196 899	14 243 322
Investments in associates entities	73 237	73 237
Liabilities		
Deposits from banks	1 692 595	1 693 467
Deposits from customers	20 838 980	20 809 922

Estimation of fair values

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

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

Loans and advances to customers: These are net of any impairment provisions. Fair value is calculated based on the discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that 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, such as residential mortgage loans, are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

Available-for-sale investments: The fair value of financial assets available for sale is based on quoted market prices. For instruments without quoted prices it was impossible to reliably estimate a fair value with alternative methods. For balance sheet valuation purposes instruments are recognised at amortised cost (debt instruments) or at purchase value (equity instruments) 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 one year it's assumed that their fair value is not significantly different from carrying value. The value of long-term relationships with depositors is not taken into account in estimating fair values.

47. Contingent liabilities

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

As at 31 December 2005, no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigations totals PLN 290 300 k, which is ca. 8.58% of Group's equity. This amount includes PLN 70 148 k claimed by the Bank, PLN 46 243 k in claims against the Bank and PLN 173 909 k are Bank's receivables due to bankruptcy or arrangement cases.

Off balance sheet liabilities

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

Contingent liabilities, sanctioned and received		
	31.12.2005	**31.12.2004**
Liabilities sanctioned:	**4 926 883**	**4 739 854**
- financing-related	**4 173 175**	**4 035 037**
including: import letters of credit	54 032	54 082
including: credit lines	3 665 826	3 287 768
including: credit card debits	358 406	332 527
- guarantees	**753 708**	**704 817**
including: confirmed export letters of credit	2 630	3 410
Received liabilities:	**2 130 958**	**614 239**
Total	**7 057 841**	**5 354 093**

As at 31.12.2005 , the Bank issued guarantees of PLN 59 838 k to following subsidiary undertakings: BZ WBK S.A. Finanse & Leasing, BZ WBK Leasing, BZWBK Dom Maklerski SA, BZWBK TFI and Nieruchomości SA. The guaranties were excluded as intragroup transactions.

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

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

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

	Derivatives' nominal values	31.12.2005	31.12.2004
1.	**Derivatives (hedging)**	**1 144 942**	**1 615 840**
a)	Single-currency interest rate swaps – purchased amounts	572 471	807 920
b)	Single-currency interest rate swaps – sold amounts	572 471	807 920
2.	**Term (speculative) derivatives**	**96 513 128**	**58 748 787**
a)	Interest rate operations	77 552 418	40 456 871
-	Single-currency interest rate swaps – purchased amounts	16 211 209	14 765 976

-	Single-currency interest rate swaps – sold amounts	16 211 209	14 763 776
-	FRA-purchased amounts	24 600 000	6 027 119
-	FRA-sold amounts	20 500 000	4 900 000
b)	FX operations	18 990 710	18 291 916
-	FX swap – purchased amounts	8 478 482	8 361 118
-	FX swap – sold amounts	8 404 563	8 326 500
-	Cross-currency interest rate swaps – purchased amounts	1 072 912	836 614
-	Cross-currency interest rate swaps – sold amounts	1 034 753	767 684
3.	**Derivatives – non-stock market options**	**1 451 276**	**408 119**
-	Options purchased	872 515	408 119
-	Options sold	578 761	-
	Total	**99 109 346**	**60 772 746**

48. Assets pledged as collateral

Bank is obliged to set up a guaranteed funds protection fund. For the purpose as at 31 December 2005 Bank Zachodni WBK S.A. pledged as collateral PLN 39 896k of debt securities (PLN 46 686k in year 2004).

49. Trust activities

BZ WBK Group provides custodian services in accordance with Stock Exchange Commission license of 09 August 1999. The Bank's custodian services are addressed to residents - private individuals and legal enterprises (incl. investment funds) - and to foreign institutional investors present on the Polish capital market. They involve, inter alia, maintaining securities accounts, settling transactions, handling dividend and interest payments and representing clients at the General Annual Meetings of public companies. Group also acts as a depository for following investment funds: Fundusz Inwestycyjny ARKA BZ WBK Obligacji FIO, ARKA BZ WBK GLOBAL INDEX 2007 FIZ and LUKAS Fundusz Stabilnego Wzrostu FIO, managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.

As at the end of 2005 assets held by clients at the Bank Zachodni WBK S.A. securities accounts increased by 71% and totalled PLN 5 420 114k (PLN 3 161 851k in 2004).

50. Financial and operating 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 Finance & Leasing focuses on the lease of two product groups: 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 is to manage the lease of vehicles provided to customers under ten-year lease contracts. The items „receivables from customers" contains the following amounts relating to the finance lease obligations:

Finance leases gross receivables maturity	31.12.2005	31.12.2004
less then 1 year	682 211	557 968
between 1 and 5 years	1 091 389	873 172
over 5 years	106 236	102 619
Total	**1 879 836**	**1 533 759**

Present value of minimum lease payments maturity	31.12.2005	31.12.2004
less then 1 year	564 041	496 390
between 1 and 5 years	945 229	795 961
over 5 years	103 966	101 930
Total	**1 613 236**	**1 394 281**

Reconciliation between the gross investment and the present value of minimum lease payments	31.12.2005	31.12.2004
Finance leases gross receivables	1 879 836	1 533 758
Unearned finance income	(266 600)	(139 477)
Present value of minimum lease payments	**1 613 236**	**1 394 281**

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 BZWBK 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. Leasing payments are indexed on an annual basis so that the price reflects market values. A small part of the offices is subleased outside the Bank. In 2005 and 2004 rentals related to mentioned real estates totalled PLN 16 031k and PLN 18 493 k respectively. These payments are presented in the profit and loss account under "administrative costs".
Total payments due to non cancelable operating leases (including land perpetual usufruct)

Payments (maturity)	31.12.2005	31.12.2004
over 1 year	21 985	19 747
1-5 years	77 903	83 867
over 5 years	72 121	79 493
Total	**172 009**	**183 107**

51. Consolidated Cash Flow Statement – additional information

Table below specifies components of cash balances of BZ WBK Group.

Cash components	31.12.2005	31.12.2004
Cash on hand	503 339	410 713
Current account in a central bank	67 783	788 182
Other cash equivalents	1 207	1 259
Current accounts in other banks	21 344	32 588
Total	**593 673**	**1 232 742**

During the year 2005, amount of corporate income tax paid out by BZWBK Group totalled PLN 105 664k (PLN 138 646 k in 2004).

52. 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 form 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

31.12.2005

Receivables	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Loans and advances to banks	594 045	-	408 889	1 002 934
Securities at fair value through profit or loss	5 373	-	-	5 373
Derivative financial instruments	27 825	-	202 627	230 452
Loans and advances to customers	362 001	-	-	362 001
Other assets	8 258	-	728	8 986
Total	**997 502**	**-**	**612 244**	**1 609 746**

Liabilities	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Deposits from banks	359 876	-	2 732	362 608
Derivative financial instruments	27 825	-	187 213	215 038
Deposits from clients	581 126	118 132	-	699 258
Debt securities in issue	5 374	-	-	5 374
Other liabilities	25 555	6	14 799	40 360
Retained earning	(2 254)	-	-	(2 254)
Total	**997 502**	**118 138**	**204 744**	**1 320 384**

31.12.2004

Receivables	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Loans and advances to banks	420 595	-	1 146 759	1 567 354
Securities at fair value through profit or loss	5 360	-	-	5 360
Derivative financial instruments	19 461	-	51 325	70 786
Loans and advances to customers	236 808	-	-	236 808
Other assets	5 093	-	1 216	6 309
Total	**687 317**	**-**	**1 199 300**	**1 886 617**

Liabilities	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Deposits from banks	234 602	-	54 875	289 477
Derivative financial instruments	19 461	-	22 806	42 267
Deposits from clients	408 171	59 313	-	467 484
Debt securities in issue	5 309	-	-	5 309
Other liabilities	17 244	2	4 763	22 009
Retained earning	2 530	-	-	2 530
Total	**687 317**	**59 315**	**82 444**	**829 076**

Revenues and expenses relating to transactions with connected entities

1.01.2005 - 31.12.2005

Income	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Interest and similar income	41 990	-	22 801	64 791
Fee and commission income	57 639	-	-	57 639
Other operating income	5 613	15	-	5 628
Gains less losses from investment in securities	-	-	12 680	12 680
Total	**105 242**	**15**	**35 481**	**140 738**

Expenses	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Interest expense and similar charges	43 444	2 128	1 595	47 167
Fee and commission expense	57 136	11	-	57 147
Gains less losses from investment in securities	-	-	4 951	4 951
Other operating expenses	6 916	-	34 692	41 608
Bank's operating expenses and management costs	6 916	-	34 692	41 608
Total	**107 496**	**2 139**	**41 238**	**150 873**

1.01.2004 - 31.12.2004

Income	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Interest and similar income	33 645	1	31 366	65 012
Fee and commission income	28 512	7	-	28 519
Other operating income	16 591	568	-	17 159
Gains less losses from investment in securities	-	-	22 814	22 814
Total	**78 748**	**576**	**54 180**	**133 504**

Expenses	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Interest expense and similar charges	34 588	975	2 309	37 872
Fee and commission expense	18 299	35	-	18 334
Other expenses	15 385	-	-	15 385
Other operating expenses:	7 946	98	24 980	33 024
Bank's operating expenses and management costs	7 946	98	24 980	33 024
Total	**76 218**	**1 108**	**27 289**	**104 615**

Off balance sheet positions relating to transactions with connected entities

31.12.2005

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

Intragroup transactions - off-balance sheet liabilities	of which from subsidiaries	of which from associates	Total
2. Derivatives' nominal values, including:	**1 439 542**		**1 439 542**
-Financial instruments operations-double-currency interest rate swaps	30 192	-	30 192
-Financial instruments operations-single-currency interest rate hedging swaps	1 409 350	-	1 409 350

31.12.2004

	of which from subsidiaries	of which from associates	Total
1. Received/Sanctioned contingent liabilities	**2 640 394**	**6 000**	**2 646 394**
- financing-related	2 517 504	-	2 517 504
- guarantees	122 890	6 000	128 890

Intragroup transactions - off-balance sheet liabilities	of which from subsidiaries	of which from associates	Total
2. Derivatives' nominal values, including:	**1 217 208**	**-**	**1 217 208**
-Financial instruments operations-double-currency interest rate swaps	68 428	-	68 428
-Financial instruments operations-single-currency interest rate hedging swaps	1 148 780	-	1 148 780

BZ WBK Group recognises liability due to share based payments accounted in line with IFRS 2. The liability is brought to fair value through profit and loss account. Value of mark to marked adjustment is calculated basing on share option valuation model. Costs of this program in 2005 and 2004 was respectively PLN 1 235k and PLN 450k.

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

31.12.2005r.

Remuneration paid to the members of Bank Zachodni WBK Supervisory Board

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

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

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

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

Remuneration paid to the members of Bank Zachodni WBK Management Board

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

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

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

In 2005, none of the Members of the Management Board or the Supervisory Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities.

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

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

31.12.2004

Remuneration paid to the members of Bank Zachodni WBK Supervisory Board

First and last name	Position	amount (PLN'000)
Marian Górski	Chairman of the Supervisory Board	140,6
Waldemar Frąckowiak	Member of the Supervisory Board	121,3
Aleksander Galos	Member of the Supervisory Board	116,3
Marek Grzegorzewicz	Member of the Supervisory Board	43,8
Aleksander Szwarc	Member of the Supervisory Board	116,8
Jacek Ślotała	Member of the Supervisory Board	88,6
Dermot Gleeson	Member of the Supervisory Board	21,4
John Power	Member of the Supervisory Board	19,5
Total		**668,3**

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

First and last name	Position	amount (PLN'000)
Gerry Byrne	Chairman of the Supervisory Board	-
Don Godson	Member of the Supervisory Board	-
Declan Mc Sweeney	Member of the Supervisory Board	-

Remuneration paid to the members of Bank Zachodni WBK Management Board

First and last name	Position	amount (PLN'000)
Jacek Kseń	President of the Management Board	1 117,7
Cornelius O'Sullivan*	First Vice President of the Management Board	2 617,4
Declan Flynn*	Member of the Management Board	1 157,6
Michał Gajewski	Member of the Management Board	507,0
Michael Keegan*	Member of the Management Board	571,9
Justyn Konieczny	Member of the Management Board	718,6
Janusz Krawczyk	Member of the Management Board	497,0
Jacek Marcinowski	Member of the Management Board	474,6
James Murphy*	Member of the Management Board	247,2
Mateusz Morawiecki	Member of the Management Board	490,6
Feliks Szyszkowiak	Member of the Management Board	440,9
Maciej Węgrzyński	Member of the Management Board	1 037,9
Total		**9 878,4**

The amount of remuneration paid to the Management Board Members of Bank Zachodni WBK S.A. includes: basic salary for 2004, awards for 2003, pay due to termination of employment contract, annual leave equivalent, salary due to non-competition agreement, costs of insurance, costs of accommodation, costs of health care.

*In respect of Messrs O'Sullivan, Flynn, Murphy and Keegan (Irish nationals on assignment to BZWBK from Allied Irish Banks plc, Dublin, Ireland), whose terms of assignment cover payment of salaries in their home country currency and such sums are impacted by movements in currency exchange rates. Furthermore, their terms of assignment include reimbursement of Allied Irish Banks plc's costs in respect of pension contributions, medical insurance cover, Allied Irish Banks plc profit sharing scheme and other benefits. Costs in respect of accommodation and school fees are also paid by BZWBK in specific cases. The total of this reimbursement including relevant Polish social security costs and Polish income tax liability in 2004 amounts to PLN 4 011k.

In 2004, none of the Members of the Management Board or the Supervisory Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities.

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

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

TRANSACTIONS WITH THE EXECUTIVES

31 December 2005

As of 31.12.2005, the total of loans, advances and guarantees provided to members of the Management Board of BZ WBK S.A. by the subsidiaries and associates amounted to PLN 9 k. Social Fund loans and advances provided to Board Members totalled nil. Loans and advances made by the Bank to the executives of BZ WBK S.A. totalled PLN 2 791 k and CHF 23k. These facilities have been sanctioned on regular terms and conditions.

31 December 2004

As of 31.12.2004, the total of loans, advances and guarantees provided to members of the Management Board of BZ WBK S.A. by the Bank totalled PLN 2 844 k and CHF 22 k.
Social Fund loans sanctioned to the Members of the Management Board amounted to PLN 5 k
These facilities have been sanctioned on regular terms and conditions.

TRANSACTIONS WITH EMPLOYEES

31 December 2005

As of 31.12.2005, the total of loans and advances drawn by BZWBK S.A. employees was PLN 135 776 k (including the debt of PLN 12 370 k shown in joint accounts) and PLN 12 962 k in the case of employees of BZWBK subsidiaries and associates.
In the same period, the total of loans and advances drawn by BZWBK S.A. employees from the Social Fund was PLN 18 267 k.
These facilities have been sanctioned on regular terms and conditions.
On current accounts and term deposits employees of the bank held balances of PLN 96 442 k, (of which joined current accounts - PLN 25 605 k), Amount relating to employees of subsidiaries and associates totalled PLN 7 684 k.

31 December 2004

As of 31.12.2004, the total of loans and advances drawn by BZWBK S.A. employees was PLN 105 890 k. (including the debt of PLN 14 516 k shown in joint accounts and PLN 6 487 k in the case of employees of BZWBK subsidiaries and associates.
In the same period, the total of loans and advances drawn by BZWBK S.A. employees from the Social Fund was PLN 20 238 k.
These facilities have been sanctioned on regular terms and conditions

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

In 2005 Bank issued 1 498 banking writs of execution with total amount of PLN 68 524 k, of which:
- cash loans and overdrafts – 417 cases of PLN 10 378 k,
- credit cards - 901 cases of PLN 3 677 k
- mortgage loans - 52 cases of PLN 5 767 k
- corporate loans - 128 cases of PLN 48 702 k.

In the year 2004 Bank issued 991 writs of execution of PLN 16 057k related to bank agreements with individuals.

54. Acquisitions and disposals of investments

On 22 of December 2005 AIB WBK Fund Management transferred 4 508 419 shares of NFI Magna Polonia to Bank Zachodni WBK S.A. and AIB Capital Markets. Total amount of the transaction was PLN 30 296 k.

On 22 April 2004, the Bank sold 850,000 registered shares of CardPoint S.A.. The shares represented 100% of the CardPoint's share capital. The entire shareholding was purchased by NOVA EUROCONEX HOLDINGS B.V. from Holland.
CardPoint business is authorisation of transactions made with debit and credit cards. At the time of the sale, the company's activity was fully separated from the operations of the BZ WBK Group. In this context, in line with IFRS 5, CardPoint is treated as a discontinued operation.
CardPoint – financial highlights as at 31 March 2004.

Balance sheet total	8 233
Income	17 329
Costs	(18 914)
Operating profit/loss	(1 585)
Tax charges	238
Net profit/loss	(1 347)
Cash flows from operating activities	(581)
Cash flows from investment activities	(273)
Cash flows from financing activities	41
Profit on the sales transaction executed by BZ WBK Group (before taxation)	55 135

55. Investments in joint ventures

As at 31 December 2005 the companies from the BZ WBK Group were not involved in any joint-venture activities.

56. Events after the balance sheet date

Resignation of President of Management Board

Bank Zachodni WBK S.A. announces that Jacek Kseń - President of Management Board decided to perform function of President of Management Board untill April 2007. Supervisory Board of BZ WBK S.A. accepted this decision.

Amendment to statute of Bank Zachodni WBK S.A.

On 25 January 2006 BZWBK received a decision on entering changes in the Bank's Statute adopted by the Extraordinary General Meeting of the Bank's Shareholders held on 8 December 2005 to the National Court Register. The decision was made on 18 January 2006 by the District Court for Wroclaw-Fabryczna, 4th Commercial Department of the National Court Register. The reasons for the subject changes include: obligation to adjust the Bank to new regulations of the banking law, amendments to the Code of Commercial Companies, a new version of "Good practices in public companies in 2005" and a project "Brokerage services in the Bank". Additionally, the Extraordinary General Meeting of Shareholders agreed changes in the Regulations of Extraordinary General Meetings of the Bank's Shareholders.

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

On 27 January 2006 BZ WBK S.A. sold, in package transactions on the Warsaw Stock Exchange, 443 228 shares of the Company with the nominal value of PLN 3 each which represent 28.4% of the Company's share capital and the total number of votes at the AGM. The total sale price of the above assets was PLN 8 199 718, i.e. PLN 18.50 per share. Having disposed of the above shares BZ WBK holds 143 188 Company's shares which represent 9.17% of the share capital and give rights to 143 188 i.e. 9.17% of votes at the Company's AGM.

An Incentive Scheme for BZWBK Group key management personnel

As requested by the Supervisory Board, The Management Board undertook actions aimed at implementing, as of this year, the Incentive Scheme for the Senior Management of Bank Zachodni WBK SA and its subsidiaries. The Scheme will consist in allocating bonds with pre-emptive rights to the Company's managerial cadre (no more than 200,000 shares in total in years 2006-2009).

57. Staff benefits

Staff benefits include the following categories:

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

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

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

Provisions for accrued holiday leaves

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

Provisions for employee bonuses

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

Provisions for retirement allowances

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

Other staff-related provisions

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

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

Provisions	31.12.2005	31.12.2004
Provisions for accrued holiday leaves	13 565	12 605
Provisions for employee bonuses	61 715	44 893
Provisions for retirement allowances	18 409	16 624
Other staff-related provisions	1 412	1 385
Total	**95 101**	**75 507**

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

31 December 2005

As at 31 December 2005, the staffing level in Bank Zachodni WBK S.A. totalled 7 203,98 FTE's.

As at this date, the Bank employed 7 252 persons, BZWBK subsidiaries employed 522 FTE's.

In 2005, the average staffing level in Bank Zachodni WBK was 7 127,37 FTE's.

In 2005, the average staffing level in Bank Zachodni WBK subsidiaries was 407,84 FTE's.

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

Education	No. of staff	Structure %
University/college degree	4 716	60,7
High school degree	2 927	37,6
Vocational	34	0,4
Other	97	1,3
Total	**7 774**	**100,0**

31 December 2004

As at 31 December 2004, the staffing level in Bank Zachodni WBK S.A. totalled 7 091,88 FTE's.

As at this date, the Bank employed 7 121 persons, BZWBK subsidiaries employed 428 FTE's.

In 2004, the average staffing level in Bank Zachodni WBK was 7 188,52 FTE's.

In 2004, the average staffing level in Bank Zachodni WBK subsidiaries was 359,58 FTE's

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

Education	No. of staff	Structure %
University/college degree	4 513	59,8
High school degree	2 915	38,6
Vocational	33	0,4
Other	88	1,2
Total	**7 549**	**100,0**

59. Dividend per share

As at 31.12.2005 Bank Zachodni WBK will allocate to dividends 98,1% of net profit of PLN 437 761 704 i.e. PLN 6,00 per one share (PLN 2,43 in 2004). Outstanding profit of PLN 8 460 864 will be allocated to other reserve capital. Number of shares totalled 72 960 284.

60. Risk Management

Credit risk and market risk are inherent in the banking and financial business. Below is an outline of the individual risks, their management, measurement and reporting mechanisms and a description of financial instruments which generate or mitigate risk.

Market Risk

Market risk management focuses on liquidity and price risk. Liquidity risk is the risk that the Group will not be able to meet its contractual or contingent obligations when due. Price risk is defined as an adverse earnings impact of changes in interest rates, FX rates, share quotations, stock exchange indices, etc.

General principles of market risk management

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

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

Upon the recommendation from the Assets and Liabilities Management Committee (ALCO) the Management Board approves the Strategies and Policies for market risk management along with the limits that define the maximum acceptable exposure to individual risk types. Market risk is managed by qualified personnel using the appropriate systems and controls. Management of interest rate, FX and liquidity risks is centralised in the BZ WBK Treasury Division, while the risk of instruments connected with the capital market (shares, stock exchange indices) is managed by the BZ WBK Brokerage House.

Market risk is measured and its compliance with the stated risk limits is monitored by qualified personnel segregated from the unit which manages and generates the risk. Exposure to market risk is regularly reviewed by ALCO.
Risk limits are periodically reviewed to align them with the bank's strategy and the current objectives of the Group.
The Group has recognised net assets which are insensitive to interest rate movements. Hence in order to mitigate the risk of balance sheet structure a decision was taken to create a special portfolio of highly rated debt securities which generate a stable income stream for the bank. According to the Policy approved by the Management Board, any decisions relating to the value or structure of this portfolio are taken by ALCO.

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 Group 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 speculative 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 Group 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 – CIRSs;
Forward Rate Agreements – FRAs.

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 Group 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 Group uses these instruments primarily for liquidity management – they ensure medium-term funding for the Group'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 Group primarily uses this instrument in its trading portfolio.

Index options

An index option entitles its holder make a profit from the difference between the value of the stock exchange index and the underlying value determined in the option agreement (the difference is also referred to the notional principal amount specified in the agreement). In the Group 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 Group sold call options to customers. Also, the Group closed its exposure to risk by purchasing options in the interbank market, so its open option positions are not exposed to market risk.

Interest rate risk

Exposure to interest rate risk appears as result of gaps in the schedule of revaluation of assets, liabilities and their derivative instruments. Interest rate movements observed on the market where the bank holds open exposures liable to such movements contributes both to the risk of incurring losses and the possibility of earning substantial profits. Open interest rate positions which are sensitive to interest rate changes are created because it is extremely difficult to match the assets generating interest income with the liabilities generating interest expenses, both in terms of amounts and revaluation/maturity dates. Besides, there exists a base risk arising out of differences in the nature of revaluation applied to different types of variable interest rates, e.g. an instrument bearing variable interest on three-month cycles based on 3M WIBOR as of revaluation date and an instrument whose interest is based on an arithmetical average of 5 quotations on the inter-bank market preceding the revaluation date.
The main source of revaluation risk are transactions entered in the bank's branches and transactions entered in the money market by the Treasury Division. Additionally, interest rate risk can be generated by transactions concluded by other units, e.g. through acquisition of municipal / commercial bonds, or the bank's borrowings

in the interbank market (e.g. loans from EBRD or from the Banking Guarantee Fund). However all positions which generate a revaluation risk are transferred from a system of internal contracts centralised in the Treasury Division. Then the bank's dealers are responsible for investing surplus funds in relevant instruments in order to ensure a risk and reward balance for the interest rates affecting the bank's balance sheet and instruments portfolio.

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

The bank's subsidiaries also try to mitigate their interest rate risk – if there is a mismatch between the revalued assets and liabilities the companies enter into 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 measured as Probable Maximum Loss (PML), a method based on an industry standard value at risk. PML is determined as a difference between the market value of the interest rate position calculated using the current profitability curve and the worst-case profitability curve, which is based on a variability of interest rates at a 99% confidence interval for a three-year interest rate history. Variability is based on a one-month position maintenance period. PML is set both for the trading portfolio and the banking portfolio. The measurement excludes the securities portfolio managed by ALCO and used to hedge against the structural balance sheet risk.

The table below shows the average and final PML values in 2005:

PLN'000	31-12-05	Average in 2005
PML	8,078	9,860

According to the interest rate risk policy, PML may not exceed 8.25% of the bank's own funds determined in accordance with the Banking Supervisory Committee's Resolution no. 4/2004 of 8 September 2004. As at 31 December 2005 the limit amounted to PLN 195.7 m.

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

Stress-test reports, showing changes in the market value of portfolios in the event of substantial changes in interest rates;

PV01 reports – illustrating changes in the value of portfolios where the profitability curve is moved by 1 base point.

In order to curtail losses on the trading portfolio, a stop-loss limit has been established.

IRR assessment reports are generated by a unit which is independent from the unit that manages the interest rate risk.

BZWBK Group assets and liabilities subject to interest rate risk can be split into subject to fair value change risk and subject to cash flow change risk due to volatility of interest rate. The first group covers especially loans, T-bonds, bonds, deposits, repo and issuance of BZWBK Group debt securities at fixed interest rate. The other category includes loans, T-bonds, bonds and deposits at variable interest rate. BZWBK Group is also subject to interest rate risk as a result of transacting in derivatives i.e. FRA, IRS, CIRS and interest rate options. The following instruments are included under assets and liabilities not subject to interest rate risk: cash, stocks and shares, receivables from repurchase agreements, intangible assets, fixed assets, settlements from deferred income tax and other assets and liabilities.

The risk profile can also be represented as a gap arising on repricing terms of assets and liabilities, as shown in the table below (data for the Group as at 31.12.2005):

31.12.2005	up to 1 month	from 1 to 3 months	from 3 to 12 months	from1 to 2 years	from to 2 to 5 years	over 5 years	rate insensitive	Total
Loans and receivables to banks	1 986 636	277 211	1 267 922	36 413	-	-	40 151	3 608 333
Financial instruments at fair value through profit or loss	1 675 154	9 153	108 989	62 517	67 150	-	2 946	1 925 909
Loans and receivables to customers	11 089 347	1 593 136	1 147 166	564 594	452 733	40 482	(690 559)	14 196 899
Investment securities	19 098	300 456	1 210 817	1 097 978	2 807 669	1 099 775	454 543	6 990 336
Other assets								2 882 608
	14 770 235	**2 179 956**	**3 734 894**	**1 761 502**	**3 327 552**	**1 140 257**	**(192 919)**	**29 604 085**
Deposits from banks	1 100 669	-	559 764	-	-	-	32 162	1 692 595
Deposits from customers	14 982 234	2 947 483	2 232 528	277 197	34 765	296	364 477	20 838 980
Repo transactions	997 592	1 503	-	-	-	-	446	999 541
Debt securities in issue	-	88 000	244 960	-	477 902	-	29 521	840 383
Other liabilities								5 232 586
	17 080 495	**3 036 986**	**3 037 252**	**277 197**	**512 667**	**296**	**426 606**	**29 604 085**
	(2 310 260)	**(857 030)**	**697 642**	**1 484 305**	**2 814 885**	**1 139 961**	**(619 525)**	

31.12.2004	up to 1 month	from 1 to 3 months	from 3 to 12 months	from1 to 2 years	from to 2 to 5 years	over 5 years	rate insensitive	Total
Loans and receivables to banks	1 954 186	513 512	204 664		107 450		20 506	2 800 318
Financial instruments at fair value through profit or loss	1 747	4 939	1 103 330	181 859	59 586		18 476	1 369 937
Loans and receivables to customers	11 997 077	1 192 660	648 402	147 538	382 048	47 423	(363 387)	14 051 761
Investment securities	15 000	700 065	1 577 266	532 737	1 919 974	474 887	387 922	5 607 851
Other assets								3 715 903
	13 968 010	**2 411 176**	**3 533 662**	**862 134**	**2 469 058**	**522 310**	**63 517**	**27 545 770**
Deposits from banks	750 604		525 225				25 809	1 301 638
Deposits from customers	12 658 943	3 365 068	2 539 838	292 271	190 408	-	270 372	19 316 900
Repo transactions	730 860						1 830	732 690
Debt securities in issue		73 382	555 709		518 263		52 972	1 200 326
Other liabilities								4 994 216
	14 140 407	**3 438 450**	**3 620 772**	**292 271**	**708 671**	**-**	**350 983**	**27 545 770**
	(172 397)	**(1 027 274)**	**(87 110)**	**569 863**	**1 760 387**	**522 310**	**(287 466)**	

In both periods the Group's sensitivity relates to the liabilities for which the interest rate change period is shorter than for assets. In theory such a interest risk profile is favourable in the even of expected interest rate reductions as the interest rate on liabilities will be reduced faster than in the interest rate on receivables (in the bank these are chiefly medium-term and long-term State Treasury Papers). The bank uses derivative instruments (primarily interest rate swaps) to partly hedge itself against the risk of interest rate increases resulting in a diminished value of long-term investments with a fixed interest rate. Most customer deposits are based on short-term, official money market rates (WIBOR, LIBOR), so these deposits are funded by short-term loans and advances to customers.

Compared to the end of 2004, there was a change in the gap for a term up to once month as a result of an increase in customer deposits (current accounts and short-term deposits). Due to the expected interest rate reductions, the bank made new investments in securities, thus increasing the gap for the terms in excess of one year.

The table below present effective interest rates for selected balance sheet positions as at 31.12.2005.

%	PLN	EUR	USD	GBP	JPY	CHF
Loans and advances to banks	5,1561%	2,4017%	4,4275%	4,6500%	0,2028%	
Debt instruments (trading)	4,5319%	-	-	-	-	-
Loans and advances to customers	7,3436%	4,0571%	6,0785%	6,9587%	0,8219%	3,2761%
Debt instruments (a-f-s)	5,7603%	2,7180%	3,5642%	-	-	-
Deposits from banks	4,3699%	2,2513%	4,0863%	-	-	-
Deposits from customers	2,2071%	1,0645%	1,5410%	1,6376%	-	0,2855%
Debt securities in issue	5,6721%	-	-	-	-	-
Repo transactions	4,0312%	-	-	-	-	-

FX risk

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

FX risk is measured as Probable Maximum Loss (PML) against the total open FX position of the bank. Open positions of subsidiaries are negligible and are not included in the daily risk assessment.

PML is determined by means of a statistical modelling process (industry standard value at risk). PML is the potential loss on open FX positions at a 99% confidence interval where open positions are maintained for 10 business days. Statistical parameters are set on the basis of a 3-year history of interest rates.

The table below shows the average and final PML value in 2005:

PLN '000	31.12.05	Average in 2005
PML	318	266

According to the policy, PML value may not exceed 0,5% of own funds determined in accordance with the Banking Supervisory Committee's Resolution no. 4/2004 of 8 September 2004. As at 31.12.2005 the limit was PLN 11.8 m.

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

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

The Group's FX position as at 31.12.2005 was as follows:

31.12.2005	EUR	USD	CHF	GBP	other	PLN	Total
Cash and balances with central bank	69 654	33 691	2 458	16 300	5 607	444 632	572 342
Loans and advances to banks	134 187	2 534 423	2	136 380	7 121	796 220	3 608 333
Financial instruments at fair value through profit or loss	-	-	-	-	-	1 925 909	1 925 909
Derivative financial instruments	182 876	164 128	3 317	-	-	384 893	735 214
Loans and advances to customers	2 438 417	816 086	600 996	4 025	95 208	10 242 167	14 196 899
Investment securities	324 874	95 915	-	-	-	6 569 547	6 990 336
Other assets	57 300	4 314	-	8 279	2 400	1 502 759	1 575 052
	3 207 308	**3 648 557**	**606 773**	**164 984**	**110 336**	**21 866 127**	**29 604 085**
Deposits from banks	322 188	279 695	30 692	-	-	1 060 020	1 692 595
Derivative financial instruments	183 970	164 081	3 859	-	-	225 176	577 086
Repo transactions	-	-	-	-	-	999 541	999 541
Deposits from customers	2 135 807	1 177 686	32 055	153 666	8 864	17 330 902	20 838 980
Debt securities in issue	-	-	-	-	-	840 383	840 383
Other assets	15 020	660	37	27	7	4 639 749	4 655 500
	2 656 985	**1 622 122**	**66 643**	**153 693**	**8 871**	**25 095 771**	**29 604 085**
	550 323	**2 026 435**	**540 130**	**11 291**	**101 465**	**(3 229 644)**	

31.12.2004	EUR	USD	CHF	GBP	other	PLN	Total
Cash and balances with central bank	47 733	19 910	1 995	9 120	4 224	1 117 172	1 200 154
Loans and advances to banks	134 105	1 946 974	-	28 199	3 842	687 198	2 800 318
Financial instruments at fair value through profit or loss	-	-	-	-	-	1 369 937	1 369 937
Derivative financial instruments	38	188	-	-	-	869 209	869 435
Loans and advances to customers	2 166 171	647 378	786 764	2 310	24 180	10 424 958	14 051 761
Investment securities	-	-	-	-	-	5 607 851	5 607 851
Other assets						1 646 314	1 646 314
	2 348 047	**2 614 450**	**788 759**	**39 629**	**32 246**	**21 722 639**	**27 545 770**
Deposits from banks	116 112	87 963	66 987	-	1 766	1 028 810	1 301 638
Derivative financial instruments	2 597	182	181	-	-	801 541	804 501
Repo transactions	-	-	-	-	-	732 690	732 690
Deposits from customers	1 857 685	1 112 276	19 271	104 238	13 357	16 210 073	19 316 900
Debt securities in issue	-	-	-	-	-	1 200 326	1 200 326
Other assets						4 189 715	4 189 715
	1 976 394	**1 200 421**	**86 439**	**104 238**	**15 123**	**24 163 155**	**27 545 770**
	371 653	**1 414 029**	**702 320**	**(64 609)**	**17 123**	**(2 440 516)**	

Liquidity risk

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

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

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

Generally, most of the Group's liabilities are short-term, however the bank also acquires medium-term funding through active promotional campaigns and pricing policy. Compared to the end of 2004, there was an increase in customer deposits, represented mainly by current accounts and short-term deposits. However the behaviour of the deposit base justifies the expectation that a significant part of these funds will remain with the bank. Also extra investments were made in short-term and medium-term securities, which are deemed as liquid assets as they can be readily sold or pledged.

In the daily report, cash flows are shown separately for PLN and for other currencies. The reported contract positions are subject to a number of modifications, in accordance with the Liquidity Policy, 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 tables below show a contractual gap for the Group as at 31.12.2005 and in the comparative period.

31.12.2005	up to 1 month	from 1 to 3 months	from 3 to 12 months	from1 to 3 years	From to 3 to 5 years	over 5 years	rate insensitive	Total
Loans and receivables to banks	2 034 332	277 231	1 267 922	-	36 414	-	(7 566)	3 608 333
Financial instruments at fair value through profit or loss	1 675 154	9 153	109 016	67 783	64 224	-	579	1 925 909
Loans and receivables to customers	1 189 747	976 148	3 769 640	3 758 058	1 836 238	3 393 916	(726 848)	14 196 899
Investment securities	-	321 682	1 100 561	2 211 283	1 954 659	1 138 704	263 447	6 990 336
Other assets								2 882 608
	4 899 233	**1 584 214**	**6 247 139**	**6 037 124**	**3 891 535**	**4 532 620**	**(470 388)**	**29 604 085**
Deposits from banks	765 659	15 103	610 634	146 567	75 847	78 785	-	1 692 595
Deposits from customers	15 535 796	2 420 589	2 449 697	319 841	36	113 021	-	20 838 980
Repo transactions	998 592	503	-	-	-	-	446	999 541
Debt securities in issue	83 002	-	198 261	517 479	-	-	41 641	840 383
Other liabilities								5 232 586
	17 383 049	**2 436 195**	**3 258 592**	**983 887**	**75 883**	**191 806**	**42 087**	**29 604 085**
	(12 483 816)	**(851 981)**	**2 988 547**	**5 053 237**	**3 815 652**	**4 340 814**	**(512 475)**	

31.12.2004	up to 1 month	from 1 to 3 months	from 3 to 12 months	from1 to 3 years	From to 3 to 5 years	over 5 years	rate insensitive	Total
Loans and receivables to banks	1 982 086	469 025	249 515	61 170	46 088	-	(7 566)	2 800 318
Financial instruments at fair value through profit or loss	1 746	4 939	1 103 393	182 814	61 485	22	15 538	1 369 937
Loans and receivables to customers	1 599 512	949 574	3 917 829	3 700 711	1 736 985	2 774 479	(627 329)	14 051 761
Investment securities	2 093	122 818	1 269 152	1 045 829	1 784 777	1 116 801	266 381	5 607 851
Other assets								3 715 903
	3 585 437	**1 546 356**	**6 539 889**	**4 990 524**	**3 629 335**	**3 891 302**	**(352 976)**	**27 545 770**
Deposits from banks	557 941	16 792	434 637	106 924	36 650	148 694		1 301 638
Deposits from customers	13 050 676	2 781 098	2 647 676	710 075	187	127 188		19 316 900
Repo transactions	730 860						1 830	732 690
Debt securities in issue			448 046	620 389	78 919	-	52 972	1 200 326
Other liabilities								4 994 216
	14 339 477	**2 797 890**	**3 530 359**	**1 437 388**	**115 756**	**275 882**	**54 802**	**27 545 770**
	(10 754 040)	**(1 251 534)**	**3 009 530**	**3 553 136**	**3 513 579**	**3 615 420**	**(407 778)**	

The table below shows the set liquidity ratios compared to the required levels (as at 31.12.2005):

		Up to 1 week	Up to 1 month	Over 1 month
PLN	Projected outflows to inflows	178%	Positive flows	81%
	Required level	*100%*	*100%*	*10%*
Other currencies	Projected outflows to inflows	100%	100%	Positive flows
	Required level	*100%*	*100%*	*10%*

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

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

Equity instruments risk

BZ WBK Brokerage House is a Group company which manages the risk of equity instruments. Open price risk positions are connected with transactions on shares traded at the Warsaw Stock Exchange or in the OTC market run by Centralna Tabela Ofert (Central Quotations Table). Market risk is measured by a unit in the Brokerage House which is independent of the risk management unit.
The risk of such transactions is also assessed using the value at risk method, which is based on a 99% confidence interval and a one-month time horizon when the position is maintained. The level of risk is negligible as the Brokerage House acts as an agent between customers and the Stock Exchange. At the end of December PML amounted to PLN 47 k compared to the limit of PLN 1.3 m. Also, there are daily stress tests performed to illustrate losses on portfolios in the event of dramatic fluctuations of stock prices.

Credit risk

Bank Zachodni WBK fully adheres to the standards provided for in the Banking Law with regard to the concentration of risk bearing exposures to a single entity or a group of entities connected in terms of capital or organisation. As at 31.12.2005, pursuant to art. 71 of the Banking Law Act, the maximum limits for the bank totalled:
- PLN 480 726 thousand (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 600 953 thousand (25% of bank's own funds pursuant to the regulations) in other cases.

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

The analysis of the bank's exposures in terms of sectoral concentrations, carried out at the end of 2005, proved that the bank does not have any exposures in excess of the limits imposed by the regulator.

At the end of December 2005, the bank had exposures exceeding 10% of its own funds attributable to 5 entities (three of which were members of the BZWBK Group) and which accounted for 79.2% of own funds (vis-à-vis the permissible norm of 800%).

A list of the 20 largest borrowers of Bank Zachodni WBK SA (performing loans) as of 31 December 2005.

No.	Industry code (PKD)	Risk grade	Total exposure	Balance	Committed credit line	Guarantees
1	67	0	412 000	68 834	343 166	-
2	15	0	377 059	238 000	139 000	59
3	71	0	370 000	170 837	197 593	1 570
4	71	0	328 265	116 534	153 834	57 897
5	74	0	304 117	288 933	15 184	-
6	40	0	210 778	210 078	700	-
7	40,45	0	199 854	-	199 854	-
8	40	0	180 237	73 248	106 266	723
9	70	0	160 225	150 393	9 832	-
10	75	0	152 167	45 867	106 300	-
11	15	0	151 294	80 321	19 680	51 293
12	45	0	128 416	-	30 000	98 416
13	70	0	127 311	127 311	-	-
14	70	0/1	117 480	116 099	1 381	-
15	20	0	117 382	108 044	4 338	5 000
16	65	0	110 000	-	110 000	-
17	23	0	109 933	109 933	-	-
18	65	0	109 472	109 472	-	-
19	45,92	0	104 882	104 798	84	-
20	45	0	100 427	14 354	49 737	36 336
			3 871 299	**2 133 056**	**1 486 949**	**251 294**

Industry concentration

The credit policy of Bank Zachodni WBK S.A. envisages lending to low risk industries and reduction of exposures to medium and high risk industries. In order to ensure adequate portfolio diversification and eliminate the risk of overexposure to a single industry, the bank provides funding to sectors and groups or capital units representing a variety of industries. As at the end of December 2005, there was no dominant industry in the Group's loan portfolio. The highest concentration level – 11,5% of the loan portfolio – was recorded in the "real estate services" PKD 70. Such a concentration level is compliant with the bank's lending policies and the related risk is fully acceptable.

Groups of PKD by industries as at 31.12.2005

	Industry	Exposure PLN m
	Agricultural sector	568,20
	Energy sector	782,40
	Manufacturing	2 665,50
	Construction	302,00
	Distribution	1 763,70
	Transport	258,70
	Financial sector	669,80
	Property service	1 750,60
	Other services	1 487,80
A.	Business	10 248,70
B.	Personal	3 306,70
	including: mortgage loans	2 084,60
A+B	BZWBK PORTFOLIO I	13 555,40
C.	Subsidiaries	1 708,10
A+B+C	Total portfolio**	15 263,50

* Nominal value of credit portfolio. Total portfolio contains intercompany balances

Geographical concentration

Bank Zachodni WBK S.A is concentrated on running credit activities in the territory of the Republic of Poland – exposure toward non-residents represents a marginal part of the bank's portfolio. In Poland, the credit activities focus on the marketplace of western provinces and large cities (Warszawa, Gdańsk, Kraków, Łódź, Poznań, Wrocław), 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). Macroregion Poznań shows the biggest credit exposure adding up to PLN 4,129.7k., which accounts for 40.3% of the bank's total exposure. The macroregions are divided into regions. Warsaw Region shows the biggest credit exposure adding up to PLN 2,330.5k., which accounts for 23% of the bank's total exposure.

	Personal (excl. mortgage loans)*	Mortgage loans*	Business loans*
	PLN'000	PLN'000	PLN'000
BZ WBK	**1 222 236,7**	**2 084 643,8**	**10 248 514,8**
Poznań Macroregion	**445 808,7**	**737 603,7**	**4 113 560,3**
Poznań Macroregion	103 326,7	228 037,2	1 382 481,9
Region Wielkopolska Północ	69 745,2	95 667,8	496 169,4
Region Wielkopolska Południe	114 584,6	129 665,1	1 008 952,7
Region Kujawsko-Pomorski	55 588,0	104 711,0	369 699,2
Region Lubuski	75 415,7	97 375,4	440 706,4
Region Zachodniopomorski	27 148,6	82 147,3	415 550,8
Macroregion Warsaw	**150 144,7**	**632 899,5**	**3 329 700,2**
Region Warsaw	79 948,1	433 934,1	2 330 453,9
Region Łódzki	25 963,1	62 196,3	373 222,9
Region Pomorsko-Mazurski	44 233,5	136 769,1	626 023,5
Wrocław Macroregion	**418 443,7**	**714 140,5**	**2 805 254,4**
Region Wrocław	84 794,3	182 727,5	751 543,9
Region Śląski	39 716,3	120 736,7	315 026,9
Region Dolnośląsko-Opolski	130 965,4	157 840,7	658 890,2
Region Dolnośląski Zachód	145 362,8	159 306,7	592 666,0
Region Małopolsko-Podkarpacki	17 605,0	93 528,9	487 127,5
Credit cards**	**207 839,7**		

* Nominal value of credit portfolio.
** Unallocated to macroregions

61. First-time-adoption of IFRS

The consolidated financial statements of the BZ WBK Group for the year 2005 were prepared in line with the International Financial Reporting Standards and are the first time adoption of IFRS. The accounting policies specified in Note 6 were used in preparation of the financial statements for year ened on 31 December 2005 and for presentation of comparable data for the financial year ended 31 December 2004 as well as for preparation of the opening balance as at 1 January 2004 (date of IFRS adoption by the Group) in compliance with IFRS. The comparable data presented in the financial statements were not adjusted to the extent allowed by the IFRS exemptions.

Exemptions from full retrospective application of IFRS:

1. Business combinations - the Group did not apply IFRS 3 retrospectively with regard to the past business combinations. At the date of adoption of IFRS, the goodwill was tested for impairment and appropriate impairment charge was recognised.

2. Fair value or reinstatement to the deemed cost - the Group decided to accept as the deemed cost the reinstated amounts of individual items of property, plant and equipment calculated earlier in accordance with the generally accepted accounting principles.

3. Identification of earlier recognised financial instruments – the Group adopted the date of adoption of IFRS as the date of recognition of the financial instruments classified as assets held for sale or financial liabilities measured at fair value through the profit and loss account or as available for sale.

Exemption from retrospective application of IFRS:

1. Assets classified as available for sale – as at 1 January 2005 stated the assets available for sale separately, in line with IFRS 5.

2. Estimates - the Group's estimates under IFRSs at the date of transition to IFRSs are consistent with estimates made for the same date under previous GAAP (after adjustments to reflect any difference in accounting policies).

Exemptions from conversion of comparable data

3. The Group also elected to use the exemption from the requirement to convert the comparable data relating to IAS 39 and IAS 32. The adjustments arising from IAS 39 and IAS 32 were applied on 1 January 2005 and are presented in consolidated balance sheet as at 1 January 2005.

Significant differences between PAS and IFRS in the BZWBK Group consolidated financial statement

Below there are differences between financial information presented in previous interims according to the Polish Accounting Standards (PAS) and financial data including the impact of IFRS.

Consolidated balance sheet as at 1 January 2004

Assets		PAS	Adjustment	IFRS
Cash and balances with central bank		1 161 497		1 161 497
Loans and advances to banks		832 578		832 578
Securities at fair value through profit & loss account		478 173		478 173
Derivative financial instruments		159 317		159 317
Loans and advances to customers	(a)(b)(e)(f)	13 954 199	(14 995)	13 939 204
Reverse repo transactions		5 806		5 806
Investment securities	(e)	5 923 907	570	5 924 477
Investments in subsidiaries and associates	(e)	70 934	(783)	70 151
Intangible assets		301 353		301 353
Property, plant & equipment	(a)(e)	695 547	(4 559)	690 988
Deferred income tax assets	(a)(b)(d)(e)	290 724	1 485	292 209
Other assets	(e)(f)	283 532	(20 721)	262 811
Total assets		**24 157 567**	**(39 003)**	**24 118 564**
Liabilities				
Deposits from banks		937 475		937 475
Derivative financial instruments		259 409		259 409
Deposits from clients	(e)	18 348 719	(476)	18 348 243
Debt securities in issue		792 574		792 574
Negative goodwill from acquisition of subsidiaries and associates	(c)	11 196	(11 196)	-
Deferred income tax liabilities	(c)(e)	138 810	970	139 780
Other liabilities	(a)(d)(e)(f)	1 111 102	(32 516)	1 078 586
Total liabilities		**21 599 285**	**(43 218)**	**21 556 067**
Share capital		729 603		729 603
Other reserve funds	(e)(g)	1 548 549	62 488	1 611 037
Revaluation reserve	(e)(g)	159 992	(62 057)	97 935
Retained earnings	(a)(b)(c)(d)(e)	104 568	3 653	108 221
Minority interest	(e)	15 570	132	15 702
Total equity		**2 558 282**	**4 215**	**2 562 497**
Total Liabilities		**24 157 567**	**(39 003)**	**24 118 564**

a) Conversion of operating leases into finance leases

In accordance with the previous accounting standards, some types of lease were classified as operating leases based on legal ownership criteria. From 1 January 2004, these leases are classified as finance leases according to IAS 17, and their related assets are excluded from the Group balance sheet and converted into finance lease receivables. As a result, adjustments were made to the following items:

1)	Increase in loans and advances to customers	4 439
2)	Decrease in property, plant and equipment	(4 746)
3)	Increase in deferred tax assets	26
4)	Decrease in other liabilities	(169)
5)	Decrease in retained earnings	(112)

b) Use of effective interest rate and valuation of leases at amortised cost

Due to the retrospective application of IAS 17, from 1 January 2004 lease receivables have been recognised at amortised costs and using the effective interest rate. In effect, the received fees on lease agreements were reclassified, which affected the following items:

1)	Decrease in loans and advances to customers	(7 420)
2)	Increase in deferred tax assets	1 410
3)	Decrease in retained earnings	(6 010)

c) Reversal of negative goodwill of subsidiary undertakings

At the date of adoption of IFRS, the Group reversed the previously recognised negative goodwill of the subsidiaries accounted for using the equity method. Additionally Group recognised deferred tax liability on equity method valuation.

1)	Decrease in negative goodwill of subsidiaries and associates	(11 196)
2)	Increase in deferred tax liability	965
2)	Increase in retained earnings	10 231

d) Costs of the option programme

At the date of adoption of IFRS, in line with IFRS 2 the Group recognised in its financial statements the costs option programme for the BZ WBK executives, as the costs were not previously reported. The change affected the following items:

1)	Increase in deferred tax assets	37
2)	Increase in other liabilities	195
3)	Decrease in retained earnings	(158)

e) Change in the scope of consolidation

As at 1 January 2004, in connection with the retrospective application of IAS 27, the Group made changes to the scope of consolidation. As a result, the following entities were included in line-by-line consolidation:

- BZ WBK Nieruchomości S.A.
- Brytyjsko-Polskie Towarzystwo Finansowe WBK –CU Sp. z o.o.

1)	Decrease in loans and advances to customers	(14)
2)	Increase in investment securities	570
3)	Decrease in investments in subsidiaries and associates	(783)
4)	Increase in property, plant and equipment	187
5)	Increase in deferred tax assets	12
6)	Increase in other assets	546
7)	Decrease in deposits from customers	(476)
8)	Increase in deferred tax liabilities	5
9)	Increase in other liabilities	725
10)	Increase in other funds	425
11)	Increase in revaluation reserve	5
12)	Decrease in retained earnings	(298)
13)	Increase in minority interests	132

f) Netting of Social Fund receivables

According to IAS 1 Group netted Social Fund receivables against other liabilities.

1)	Decrease of loans and advances from customers	(12 000)
2)	Decrease of other assets	(21 267)
3)	Decrease of other liabilities	(33 267)

g) Revaluation reserve

Transfer of fixed assets revaluation reserve, accounted for by PAS, imposed by application of IAS 1.

1)	Decrease of revaluation reserve	(62 062)
2)	Increase of other reserve capitals	62 062

The cumulated impact on the balance of deferred tax assets/liabilities and retained earnings as at 1 January 2004 is presented in the tables below:

Deferred tax assets

1)	Impact of converting rent and operating lease agreements into finance lease agreements.	26
2)	Impact of adopting an effective interest rate method in measuring lease receivables.	1 410
3)	Change in the scope of consolidation (line-by-line consolidation method applied to subsidiaries formerly excluded from consolidation).	12
4)	Impact of costs related with a share option program for BZWBK Group executives.	37
	Total impact	1 485

Deferred tax liabilities

1)	Change in the scope of consolidation (line-by-line consolidation method applied to subsidiaries formerly excluded from consolidation)	5
2)	Impact deferred tax on equity method valuation	965
	Total impact	970

Retained earnings

1)	Impact of converting rent and operating lease agreements into finance lease agreements.	(112)
2)	Impact of adopting an effective interest rate method in measuring lease receivables.	(6 010)
3)	Reversal of negative goodwill from acquisition of subsidiary undertakings	10 231
4)	Impact of costs related with a share option incentive program for BZWBK Group executives.	(158)
5)	Change in the scope of consolidation (reversal of equity method evaluation of subsidiaries).	(298)
	Total impact	3 653

Consolidated balance sheet as at 31 December 2004

Assets		PAS	Adjustment	IFRS
Cash and balances with central bank		1 200 154		1 200 154
Loans and advances to banks		2 800 318		2 800 318
Securities at fair value through profit & loss account		1 369 937		1 369 937
Derivative financial instruments		869 435		869 435
Loans and advances to customers	(a)(b)(e)(h)	14 070 254	(18 493)	14 051 761
Reverse repo transactions		25 697		25 697
Investment securities		5 607 851		5 607 851
Investments in subsidiaries and associates	(e)	77 781	(838)	76 943
Intangible assets	(f)	238 212	(1 208)	237 004
Property, plant & equipment	(a)(e)	595 851	(2 808)	593 043
Deferred income tax assets	(a)(b)(c)(d)(e)	470 699	2 204	472 903
Other assets	(e)(h)	240 305	(20 961)	240 724
Total assets		**27 587 874**	**(42 104)**	**27 545 770**
Liabilities				
Deposits from banks		1 301 638		1 301 638
Derivative financial instruments		804 501		804 501
Deposits from clients	(e)	19 317 970	(1 070)	19 316 900
Repo transactions		732 690		732 690
Debt securities in issue		1 200 326		1 200 326
Negative goodwill from acquisition of subsidiaries and associates	(c)	8 600	(8 600)	-
Deferred income tax liabilities	(a)(b)(c)(e)	301 472	2 422	303 894
Other liabilities	(a)(d)(e)(h)	868 054	(32 440)	835 614
Total liabilities		**24 535 251**	**(39 688)**	**24 495 563**
Share capital		729 603		729 603
Other reserve funds	(e)(i)	1 641 684	59 948	1 701 632
Revaluation reserve	(e)(i)	215 454	(59 442)	156 012
Retained earnings	(a)(b)(c)(d)(e)(f)	435 207	(3 054)	432 153
Minority interest	(e)	30 675	132	30 807
Total equity		**3 052 623**	**(2 416)**	**3 050 207**
Total liabilities		**27 587 874**	**(42 104)**	**27 545 770**

a) Conversion of operating leases into finance leases

In accordance with the previous accounting standards, some types of lease were classified as operating leases based on legal ownership criteria. From 1 January 2004, these leases are classified as finance leases according to IAS 17, and their related assets are excluded from the Group balance sheet and converted into finance lease receivables. As a result, adjustments were made to the following items:

1)	Increase in loans and advances to customers	2 569
2)	Decrease in property, plant and equipment	(2 937)
3)	Increase in deferred tax assets	262
4)	Increase in deferred tax liabilities	224
5)	Decrease in other liabilities	(169)
6)	Decrease in retained earnings	(161)

b) Use of effective interest rate and valuation of leases at amortised cost

Due to the retrospective application of IAS 17, from 1 January 2004 lease receivables have been recognised at amortised costs and using the effective interest rate. In effect, the received fees on lease agreements were reclassified, which affected the following items:

1)	Decrease in loans and advances to customers	(9 076)
2)	Increase in deferred tax assets	1 800
3)	Increase in deferred tax liabilities	75
4)	Decrease in retained earnings	(7 351)

c) Reversal of negative goodwill of subsidiary undertakings

At the date of adoption of IFRS, the Group reversed the previously recognised negative goodwill of the subsidiaries accounted for using the equity method. Additionally Group recognised deferred tax liability on equity method valuation.

1)	Decrease in negative goodwill of subsidiaries and associates	(8 600)
2)	Increase in deferred tax liability	2 121
3)	Increase in retained profits	6 479

d) Costs of the option programme

At the date of adoption of IFRS, in line with IFRS 2 the Group recognised in its financial statements the costs option programme for the BZ WBK executives, as the costs were not previously reported. The change affected the following items:

1)	Increase in deferred tax assets	123
2)	Increase in other liabilities	645
3)	Decrease in retained earnings	(522)

e) Change in the scope of consolidation

As at 1 January 2004, in connection with the retrospective application of IAS 27, the Group made changes to the scope of consolidation. As a result, the following entities were included in line-by-line consolidation:

- BZ WBK Nieruchomości S.A.
- Brytyjsko-Polskie Towarzystwo Finansowe WBK –CU Sp. z o.o.

1)	Increase in loans and advances to customers	14
2)	Decrease in investments in subsidiaries and associates	(838)
3)	Increase in property, plant and equipment	129
4)	Increase in deferred tax assets	19
5)	Increase in other assets	419
6)	Decrease amounts due to customers	(1070)
7)	Increase in deferred tax liabilities	2
8)	Increase in other liabilities	464
9)	Increase in other funds	501
10)	Increase in revaluation reserve	5
11)	Decrease in retained earnings	(291)
12)	Increase in minority interest	132

(f) Reversal of goodwill

At the date of adoption of IFRS, the goodwill, included in intangible fixed assets, was tested for impairment and appropriate impairment charge was recognised.

1)	Decrease in intangible fixed assets	(1 208)
2)	Decrease in retained earnings	(1 208)

The cumulated impact on the balance of deferred tax assets/liabilities and retained earnings as at 31 December 2004 is presented in the tables below:

h) Netting of Social Fund receivables

According to IAS 1 Group netted Social Fund receivables against other liabilities.

1)	Decrease of loans and advances from customers	(12 000)
2)	Decrease of other assets	(21 380)
3)	Decrease of other liabilities	(33 380)

i) Revaluation reserve

Transfer of fixed assets revaluation reserve, accounted for by PAS, imposed by application of IAS 1.

1)	Decrease of revaluation reserve	(59 402)
2)	Increase of other reserve capitals	59 402

Deferred tax assets

1)	Impact of converting rent and operating lease agreements into finance lease agreements.	262
2)	Impact of adopting an effective interest rate method in measuring lease receivables.	1 800
3)	Change in the scope of consolidation (line-by-line consolidation method applied to subsidiaries formerly excluded from consolidation).	19
4)	Impact of costs related with a share option program for BZWBK Group executives.	123
	Total impact	2 204

Deferred tax liabilities

1)	Change in the scope of consolidation (line-by-line consolidation method applied to subsidiaries formerly excluded from consolidation)	2
2)	Impact of adopting an effective interest rate method in measuring lease receivables	224
3)	Impact of the adjustment due to conversion of rent and operating lease agreements into financial lease agreements	75
4)	Impact deferred tax on equity method valuation	2 121
	Total impact	2 422

Retained earnings

1)	Impact of converting rent and operating lease agreements into finance lease agreements.	(161)
2)	Impact of adopting an effective interest rate method in measuring lease receivables.	(7 351)
3)	Reversal of negative goodwill from acquisition of subsidiary undertakings	6 479
4)	Impact of costs related with a share option incentive program for BZWBK Group executives.	(522)
5)	Change in the scope of consolidation (reversal of equity method evaluation of subsidiaries).	(291)
6)	Write-off of goodwill	(1 208)
	Total impact	(3 054)

Consolidated balance sheet as at 1 January 2005
(including among others impact of application of IAS 39)

The table below shows the impact of adjustments arising from prospective application of IFRS in the consolidated financial statements of the BZ WBK Group.

Assets		IFRS 31.12.2004	Adjustment	IFRS 01.01.2005
Cash and balances with central bank		1 200 154		1 200 154
Loans and advances to banks		2 800 318		2 800 318
Securities at fair value through profit & loss account	(g)	1 369 937	(14 357)	1 355 580
Derivative financial instruments		869 435		869 435
Loans and advances to customers	(h)(i)	14 051 761	(141 183)	13 910 578
Reverse repo transactions		25 697		25 697
Investment securities	(g)	5 607 851	39 815	5 647 666
Investments in subsidiaries and associates		76 943		76 943
Intangible assets	(k)	237 004	52	237 056
Property, plant & equipment	(j)	593 043	(22 295)	570 748
Deferred income tax assets	(g)(h)(i)	472 903	18 242	491 145
Other assets	(j)(k)(l)	240 724	18 595	259 319
Total assets		**27 545 770**	**(101 131)**	**27 444 639**
Liabilities				
Deposits from banks	(l)	1 301 638	(791)	1 300 847
Derivative financial instruments		804 501		804 501
Deposits from clients		19 316 900		19 316 900
Repo transactions		732 690		732 690
Debt securities in issue	(l)(m)	1 200 326	(5 951)	1 194 375
Deferred income tax liabilities	(g)(i)(l)(m)	303 894	8 370	312 264
Other liabilities	(i)(h)	835 614	(60 112)	775 502
Total liabilities		**24 495 563**	**(58 484)**	**24 437 079**
Share capital		729 603		729 603
Other reserve funds		1 701 632		1 701 632
Revaluation reserve	(g)	156 012	29 197	185 209
Retained earnings	(h)(i)(l)(m)	432 153	(71 844)	360 309
Minority interest		30 807		30 807
Total equity		**3 050 207**	**(42 647)**	**3 007 560**
Total liabilities		**27 545 770**	**(101 131)**	**27 444 639**

g) Reclassification of financial assets

As at 1 January 2005, the BZ WBK Group companies, using IAS 39, reclassified the following financial instruments:

- debt securities from the held-to-maturity category to the available-for-sale category (value before reclassification PLN 2,714,385 k, fair value adjustment: - PLN 25,458 k);
- equity securities from the category "measured at fair value through the profit and loss to investment securities.

1)	Decrease in financial instruments measured at fair value through profit and loss	(14 357)
2)	Increase in investment securities	39 815
3)	Increase in deferred tax assets	98
4)	Increase in deferred tax liabilities	4 837
5)	Increase in revaluation reserve	29 197
6)	Decrease in retained earnings	(8 478)

h) Impairment

As at 1 January 2005 the BZ WBK Group entities tested their loans and advances to customers for impairment calculated in accordance with IAS 39.

1)	Decrease in loans and advances to customers	(101 669)
2)	Increase in deferred tax assets	5 245
3)	Decrease in other liabilities	(72 993)
4)	Decrease in retained earnings	(23 432)

i) Use of effective interest rate and valuation of loans at amortised cost

On 1 January 2005, under IAS 39 provisions, Bank Zachodni WBK has started to measured its loan receivables at amortised cost. The impact of this change of accounting policies on individual balance sheet items is presented in the table below:

1)	Decrease in loans and advances to customers	(39 514)
2)	Increase in deferred tax assets	12 899
3)	Increase in deferred tax liabilities	2 945
4)	Increase in other liabilities	12 881
5)	Decrease in retained earnings	(42 440)

j) Separation of assets for sale

In accordance with the previous GAAP, assets for sale were recognised in property plant and equipment. On adoption of IFRS 5, Bank Zachodni WBK stopped writing off these assets and separated them as a stand-alone category of Other assets – assets for sale.

1)	Decrease in property, plant and equipment	(22 295)
2)	Increase in other assets	22 295

k) Separation of intangible fixed assets

As part of IFRS adoption, in accordance with IFRS 38 a new intangible fixed asset was separated, which previously constituted a part of other assets.

1)	Increase in intangible fixed assets	52
2)	Decrease in other assets	(52)

l) Effective interest rate on fees paid

The method of settlement of fees on amounts due to banks and debt securities issued was changed. In accordance with IAS 39, Bank Zachodni WBK started to amortise the fees and the securities using the effective interest rate.

1)	Decrease in other assets	(3 648)
2)	Decrease in amounts due to banks	(791)
3)	Decrease in liabilities arising from the issue of debt securities	(3 739)
4)	Increase in deferred tax liabilities	168
5)	Increase in retained earnings	714

m) Hedge accounting

Due to the adoption of IFRS, the Group made corrections to the valuation of its hedged instruments, adjusting them to IAS 39.

1)	Decrease in liabilities arising from the issue of debt securities	(2 212)
2)	Increase in deferred tax liabilities	420
3)	Decrease in retained earnings	1 792

The cumulated impact on the balance of deferred tax assets/liabilities and retained earnings as at 01 January 2005 is presented in the tables below:

Deferred tax assets

1)	Impact of the use of effective interest rate on loans and advances to customers	12 899
2)	Impact of the recognition of impairment of the loans and advances to customers	5 245
3)	Adjustment of deferred tax asset by the effects of valuation of financial assets	98
	Total impact	18 242

Deferred tax liabilities

1)	Impact of the use of effective interest rate	3 113
2)	Impact of the reclassification of securities from the held-to-maturity category to the available-for-sale category	4 837
3)	Impact of the adjustment of the hedged instrument valuation (own bonds issued)	420
	Total impact	8 370

Retained earnings

1)	Adjustment due to impairment of the loans and advances to customers	(23 432)
2)	Impact of the reclassification of the equity securities from the category "measured at fair value through the profit and loss to investment securities	(8 478)
3)	Impact of the use of effective interest rate on loans and advances to customers	(42 440)
4)	Impact of the use of effective interest rate on the issue of own bonds	74
5)	Impact of the use of effective interest rate on the amounts due to financial institutions	640
6)	Impact of the adjustment of the hedged instrument valuation (own bonds issued)	1 792
	Total impact	(71 844)

Consolidated profit and loss account for the period from 01 January 2004 to 31 December 2004.

		PAS	Adjustment	IFRS
Interest and similar income		1 495 033	4 177	1 499 210
Interest expense and similar charges		(624 724)	6	(624 718)
Net interest income	(a)(b)(e)	870 309	4 183	874 492
Fee and commission income		790 596	(3 382)	787 214
Fee and commission expense		(147 109)	(1 225)	(148 334)
Net fee and commission income	(b)(e)	643 487	(4 607)	638 880
Dividend income		54 345		54 345
Foreign exchange profit		197 108		197 108
Gains less losses on hedge accounting transactions		(5 284)		(5 284)
Net trading income		39 530		39 530
Gains less losses from investment in securities		(17 846)		(17 846)
Gains less losses on sale of subsidiaries and associates		55 138		55 138
Other operating income	(a)(c)(e)	53 786	(513)	53 273
Impairment losses on loans and advances		(131 425)		(131 425)
Operating expenses				
Bank's staff, operating expenses and management costs	(f)(e)	(952 071)	(1 547)	(953 618)
Depreciation/amortization	(a)(d)(e)	(202 089)	2 685	(199 404)
Other	(d)(e)	(38 377)	(2 746)	(41 123)
Operating profit		**566 611**	**(2 545)**	**564 067**
Share in net profits (losses) of associates accounted for by the equity method	(c)	9 447	(3 362)	6 085
Gross profit		**576 058**	**(5 907)**	**570 151**
Corporate income tax	(a)(b)(e)(f)	(114 946)	394	(114 552)
Minority (profits) losses		(17 816)		(17 816)
Net profit		**443 296**	**(5 513)**	**437 783**

a) Conversion of operating leases into finance leases

In accordance with the previous accounting standards, some types of lease were classified as operating leases based on legal ownership criteria. From 1 January 2004, these leases are classified as finance leases according to IAS 17, and their related assets are excluded from the Group balance sheet and converted into finance lease receivables. As a result, adjustments were made to the following items:

1)	Increase in net interest income	261
2)	Decrease in other operating income	(1 620)
3)	Decrease in depreciation	1 299
4)	Decrease in deferred tax charge	11

b) Use of effective interest rate and valuation of leases at amortised cost

Due to the retrospective application of IAS 17, from 1 January 2004 lease receivables have been recognised at amortised costs and using the effective interest rate. In effect, the received fees on lease agreements were reclassified, which affected the following items:

1)	Increase in net interest income	3 891
2)	Decrease in net commission income	(5 547)
3)	Decrease in deferred tax charge	315

c) Reversal of negative goodwill of subsidiary undertakings

At the date of adoption of IFRS, the Group reversed the previously recognised negative goodwill of the subsidiaries accounted for using the equity method.

1)	Decrease in the share in net profits (losses) of associates entities accounted for using the equity method	(3 325)
2)	Increase in other operating income	729

d) Reversal of goodwill

At the date of adoption of IFRS, the goodwill, included in intangible fixed assets, was tested for impairment and appropriate impairment charge was recognised.

1)	Decrease in goodwill amortisation	1 443
2)	Increase in other operating costs	(2 651)

e) Change in the scope of consolidation

As at 1 January 2004, in connection with the retrospective application of IFRS 3, the Group made changes to the scope of consolidation. As a result, the following entities were included in line-by-line consolidation:

- BZ WBK Nieruchomości S.A.
- Brytyjsko-Polskie Towarzystwo Finansowe WBK –CU Sp. z o.o.

1)	Increase in net interest income	31
2)	Increase in net commission income	940
3)	Increase in other operating income	378
4)	Increase in staff and operating costs	(1 097)
5)	Increase in depreciation	(57)
6)	Increase in other operating costs	(95)
7)	Decrease in share in net profits of entities accounted for by the equity method	(37)
8)	Increase in deferred tax charge	(18)

f) Costs of the option programme

At the date of adoption of IFRS, in line with IFRS 2 the Group recognised in its financial statements the costs option programme for the BZ WBK executives, as the costs were not previously reported. The change affected the following items:

1)	Increase in bank's staff, operating expenses and management costs	(450)
2)	Decrease in deferred tax charge	85

Cash flow statement

Due to the consolidation of additional entities, changes were made to the balance of cash at the beginning of the period (by PLN 476 k) and at the end of the period (by PLN 1 251 k). Other adjustments to the cash flow statement arise directly from adjustments to the relevant balance sheet and profit and loss account items.

62. Accounting estimates and judgements

Impairment of financial assets

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

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

Where there is any objective evidence that available-for-sale investments may be impaired, the Bank creates appropriate impairment charges – this applies to three bank companies.

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

Write-down due to impairment of non-financial assets

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

Other accounting estimates and judgements

Provisions for employee benefits arising from the Bank's Collective Labour Agreement and terms of individual employee contracts were estimated on the basis of an actuarial valuation. The actuarial valuation of those accruals is updated on an annual basis.
Provisions for legal claims have been estimated considering the expected probably amount to settle a case, and where applicable, including the time value of money.

SIGNATURES
Signatures of Members of the Management board

Date	Name	Function	Signature
17-02-2006	Jacek Kseń	President	
17-02-2006	Declan Flynn	Member	
17-02-2006	Michał Gajewski	Member	
17-02-2006	Aleksander Kompf	Member	
17-02-2006	Justyn Konieczny	Member	
17-02-2006	Janusz Krawczyk	Member	
17-02-2006	Jacek Marcinowski	Member	
17-02-2006	Mateusz Morawiecki	Member	
17-02-2006	James Murphy	Member	
17-02-2006	Feliks Szyszkowiak	Member	

Date	Name	Function	Signature
17-02-2006	Wanda Rogowska	Financial Accounting Area Director	