

**CONSOLIDATED FINANCIAL STATEMENTS  
OF BANK ZACHODNI WBK GROUP  
FOR QUARTER I 2009**

2009



**WBK**

| Bank Zachodni WBK

FINANCIAL HIGHLIGHTS		PLN k		EUR k	
for the period ended:		31.03.2009	31.03.2008	31.03.2009	31.03.2008

## Consolidated financial statements

Interest and similar income	855 477	688 473	185 998	193 533
Fee and commission income	362 589	406 513	78 834	114 273
Operating profit	164 564	348 584	35 779	97 988
Profit before tax	161 638	348 525	35 143	97 972
Net profit attributable to the Company's equity holders	119 004	243 101	25 874	68 337
Total net cash flow	949 004	664 723	206 332	186 856
Total assets	59 871 466	44 881 138	12 735 087	12 729 349
Deposits from banks	6 044 650	5 178 306	1 285 740	1 468 690
Deposits from customers	41 439 137	32 171 721	8 814 400	9 124 659
Total liabilities	54 664 636	40 112 888	11 627 557	11 376 961
Total equity	5 206 830	4 768 250	1 107 530	1 352 388
Minority interest	103 902	177 065	22 101	50 220
Net profit attributable to the Minority equity holders	11 227	33 420	2 441	9 395
Number of shares	72 960 284	72 960 284		
Net book value per share in PLN/EUR	71,37	65,35	15,18	18,53
Solvency ratio	10,37%	10,55%		
Profit (loss) per share in PLN/EUR	1,63	3,33	0,35	0,94
Diluted earnings (loss) per share in PLN/EUR	1,63	3,33	0,35	0,94
Declared or paid dividend per share in PLN/EUR	-	3,00	-	0,84

## Stand alone financial statements

Interest and similar income	803 573	644 002	174 713	181 032
Fee and commission income	287 166	248 416	62 436	69 831
Operating profit	317 745	327 910	69 084	92 177
Profit before tax	317 745	327 910	69 084	92 177
Profit for the period	296 890	278 466	64 550	78 278
Total net cash flow	951 190	669 970	206 807	188 331
Total assets	57 325 386	42 713 316	12 193 518	12 114 503
Deposits from banks	3 844 774	3 718 602	817 811	1 054 683
Deposits from customers	41 741 656	32 619 756	8 878 748	9 251 732
Total liabilities	52 575 696	38 575 958	11 183 225	10 941 051
Total equity	4 749 690	4 137 358	1 010 293	1 173 452
Number of shares	72 960 284	72 960 284		
Net book value per share in PLN/EUR	65,10	56,71	13,85	16,08
Solvency ratio	9,45%	9,27%		
Profit (loss) per share in PLN/EUR	4,07	3,82	0,88	1,07
Diluted earnings (loss) per share in PLN/EUR	4,06	3,81	0,88	1,07
Declared or paid dividend per share in PLN/EUR	-	3,00	-	0,84

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## 1. Consolidated income statement

	For reporting period:	01.01.2009- 31.03.2009	01.01.2008- 31.03.2008
Interest and similar income		855 477	688 473
Interest expense and similar charges		(493 969)	(312 744)
<b>Net interest income</b>		<b>361 508</b>	<b>375 729</b>
Fee and commission income		362 589	406 513
Fee and commission expense		(48 113)	(62 018)
<b>Net fee and commission income</b>		<b>314 476</b>	<b>344 495</b>
Dividend income		26	13
Net trading income and revaluation		44 026	25 584
Gains (losses) from other financial securities		5 380	(393)
Net (loss)/gain on sale of subsidiaries and associates		-	(716)
Other operating income		13 433	15 022
Impairment losses on loans and advances		(160 712)	(5 966)
Operating expenses incl.:		(413 573)	(405 184)
<i>Bank's staff, operating expenses and management costs</i>		<i>(376 830)</i>	<i>(376 456)</i>
<i>Depreciation/amortisation</i>		<i>(30 123)</i>	<i>(23 979)</i>
<i>Other operating expenses</i>		<i>(6 620)</i>	<i>(4 749)</i>
<b>Operating profit</b>		<b>164 564</b>	<b>348 584</b>
Share in net profits of entities accounted for by the equity method		(2 926)	(59)
<b>Profit before tax</b>		<b>161 638</b>	<b>348 525</b>
Corporate income tax		(31 407)	(72 004)
<b>Profit for the period</b>		<b>130 231</b>	<b>276 521</b>
Attributable to:			
the Company's equity holders		119 004	243 101
the Minority equity holders		11 227	33 420
Net earnings per share (PLN/share)			
Basic earnings per share		1,63	3,33
Diluted earnings per share		1,63	3,33

## 2. Consolidated statement of comprehensive income

	For reporting period:	01.01.2009- 31.03.2009	01.01.2008- 31.03.2008
<b>Profit for the period</b>		<b>130 231</b>	<b>276 521</b>
<b>Other comprehensive income:</b>			
Available-for sale financial assets valuation		13 850	2 005
Cash flow hedges valuation		17 110	(235)
Share scheme charge valuation		1 548	3 451
<b>Other comprehensive income for the period, net of income tax</b>		<b>32 508</b>	<b>5 221</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>162 739</b>	<b>281 742</b>
Attributable to:			
the Company's equity holders		151 356	249 703
the Minority equity holders		11 383	32 039

### 3. Consolidated statement of financial position

	as at:	31.03.2009	31.12.2008	31.03.2008
<b>ASSETS</b>				
Cash and balances with central bank		2 994 920	3 178 107	1 428 511
Loans and advances to banks		1 934 057	1 364 543	3 708 241
Financial assets held for trading		3 631 103	3 224 867	1 282 605
Hedging derivatives		5 006	347	32 239
Loans and advances to customers		36 710 743	35 137 202	26 290 488
Investment securities		12 663 124	12 916 041	10 634 906
Investments in associates and joint ventures		54 294	47 221	9 807
Intangible assets		173 553	173 934	118 763
Property, plant & equipment		628 702	637 486	554 295
Deferred tax assets		666 854	640 500	354 448
Other assets		409 110	517 826	466 835
<b>Total assets</b>		<b>59 871 466</b>	<b>57 838 074</b>	<b>44 881 138</b>
<b>LIABILITIES</b>				
Deposits from central bank		2 479 021	1 242 574	-
Deposits from banks		6 044 650	4 095 477	5 178 306
Hedging derivatives		49 330	68 562	3 596
Financial liabilities held for trading		3 159 975	3 153 932	1 078 843
Deposits from customers		41 439 137	42 810 727	32 171 721
Debt securities in issue		85 862	153 918	312 662
Current income tax liabilities		19 428	13 638	10 724
Deferred tax liabilities		411 211	425 254	199 214
Other liabilities		976 022	681 800	1 157 822
<b>Total liabilities</b>		<b>54 664 636</b>	<b>52 645 882</b>	<b>40 112 888</b>
<b>Equity</b>				
Parent company equity		5 102 928	4 952 320	4 591 185
Share capital		729 603	729 603	729 603
Other reserve funds		2 718 239	2 716 687	2 076 028
Revaluation reserve		366 311	335 507	366 114
Retained earnings		1 169 771	315 077	1 176 339
Profit of the current period		119 004	855 446	243 101
Minority interest		103 902	239 872	177 065
<b>Total equity</b>		<b>5 206 830</b>	<b>5 192 192</b>	<b>4 768 250</b>
<b>Total equity and liabilities</b>		<b>59 871 466</b>	<b>57 838 074</b>	<b>44 881 138</b>

#### 4. Movement on consolidated equity

MOVEMENTS ON CONSOLIDATED EQUITY	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Minority interest	Total
<b>Opening balance as at 31.12.2008</b>	<b>729 603</b>	<b>2 716 687</b>	<b>335 507</b>	<b>1 170 523</b>	<b>239 872</b>	<b>5 192 192</b>
Total comprehensive income for 1Q 2009	-	1 548	30 804	119 004	11 383	162 739
Dividend relating to 2008	-	-	-	-	(147 353)	(147 353)
Transfer to other reserve capital	-	4	-	(4)	-	-
Other	-	-	-	(748)	-	(748)
<b>As at 31.03.2009</b>	<b>729 603</b>	<b>2 718 239</b>	<b>366 311</b>	<b>1 288 775</b>	<b>103 902</b>	<b>5 206 830</b>

As at the end of the period revaluation reserve in the amount of PLN 366 311 k comprises of debt securities and equity shares classified as available for sale of PLN (51 283) k and PLN 425 156 k respectively and additionally cash flow hedge activities of PLN (7 562) k.

MOVEMENTS ON CONSOLIDATED EQUITY	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Minority interest	Total
<b>Opening balance as at 31.12.2007</b>	<b>729 603</b>	<b>2 061 578</b>	<b>362 963</b>	<b>1 187 383</b>	<b>235 174</b>	<b>4 576 701</b>
Total comprehensive income for 2008	-	1 734	(27 456)	855 446	95 300	925 024
Dividend relating to 2007	-	-	-	(218 881)	(90 155)	(309 036)
Transfer to other reserve capital	-	653 816	-	(653 816)	-	-
Other	-	(441)	-	391	(447)	(497)
<b>As at 31.12.2008</b>	<b>729 603</b>	<b>2 716 687</b>	<b>335 507</b>	<b>1 170 523</b>	<b>239 872</b>	<b>5 192 192</b>

As at the end of the period revaluation reserve in the amount of PLN 335 507 k comprises of debt securities and equity shares classified as available for sale of PLN (49 638) k and PLN 409 818 k respectively and additionally cash flow hedge activities of PLN (24 673) k.

MOVEMENTS ON CONSOLIDATED EQUITY	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Minority interest	Total
<b>Opening balance as at 31.12.2007</b>	<b>729 603</b>	<b>2 061 578</b>	<b>362 963</b>	<b>1 187 383</b>	<b>235 174</b>	<b>4 576 701</b>
Total comprehensive income for 1Q 2008	-	3 451	3 151	243 101	32 039	281 742
Dividend relating to 2007	-	-	-	-	(90 155)	(90 155)
Transfer to other reserve capital	-	10 999	-	(10 999)	-	-
Other	-	-	-	(45)	7	(38)
<b>As at 31.03.2008</b>	<b>729 603</b>	<b>2 076 028</b>	<b>366 114</b>	<b>1 419 440</b>	<b>177 065</b>	<b>4 768 250</b>

As at the end of the period revaluation reserve in the amount of PLN 366 114 k comprises of debt securities and equity shares classified as available for sale of PLN (80 185) k and PLN 446 534k respectively and additionally cash flow hedge activities of PLN (235) k.

## 5. Consolidated statement of cash flows

	01.01.2009 - 31.03.2009	01.01.2008 - 31.03.2008
<b>Profit before tax</b>	<b>161 638</b>	<b>348 525</b>
<b>Total adjustments:</b>	<b>(91 989)</b>	<b>613 011</b>
Share in net profits (losses) of entities accounted for by the equity method	2 926	59
Depreciation	30 123	23 979
Impairment losses	(6)	59
Gains (losses) on exchange differences	(2 523)	1 629
Interests and similar charges	(2 167)	(57 236)
Dividend income	(26)	(13)
(Profit) loss from investing activities	5 485	(1 537)
Change in provisions	(49 525)	(35 023)
Change in trading portfolio financial instruments	205 053	36 068
Change in loans and advances to banks	(883 114)	(232 918)
Change in loans and advances to customers	(1 571 018)	(1 794 222)
Change in deposits from banks	3 239 134	569 008
Change in deposits from customers	(1 371 590)	1 858 634
Change in liabilities arising from debt securities in issue	(736)	(301)
Change in assets and liabilities arising from deferred taxation	1 717	1 063
Change in other assets and liabilities	377 761	338 845
Paid income tax	(73 675)	(95 524)
Other adjustments	192	441
<b>Net cash flow from operating activities</b>	<b>69 649</b>	<b>961 536</b>
<b>Inflows</b>	<b>1 518 502</b>	<b>526 206</b>
Sale of investment securities	1 517 913	520 719
Sale of intangible and tangible fixed assets	561	5 472
Dividends received	26	13
Proceeds from other investments	2	2
<b>Outflows</b>	<b>(352 936)</b>	<b>(802 644)</b>
Purchase of subsidiaries and associates	(9 999)	-
Purchase of investment securities	(322 910)	(769 430)
Purchase of intangible and tangible fixed assets	(20 027)	(33 176)
Other investments	-	(38)
<b>Net cash flow from investing activities</b>	<b>1 165 566</b>	<b>(276 438)</b>
<b>Inflows</b>	<b>45 215</b>	<b>194 530</b>
Drawing of long-term loans	45 215	194 530
<b>Outflows</b>	<b>(331 426)</b>	<b>(214 905)</b>
Repayment of long-term loans	(98 729)	(69 539)
Debt securities buy out	(67 320)	(39 998)
Dividends and other payments to shareholders	(147 353)	(90 155)
Other financing outflows	(18 024)	(15 213)
<b>Net cash flow from financing activities</b>	<b>(286 211)</b>	<b>(20 375)</b>
<b>Total net cash flow</b>	<b>949 004</b>	<b>664 723</b>
<b>Cash at the beginning of the accounting period</b>	<b>6 133 326</b>	<b>5 023 548</b>
<b>Cash at the end of the accounting period</b>	<b>7 082 330</b>	<b>5 688 271</b>

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

	For reporting period:	01.01.2009 - 31.03.2009	01.01.2008 - 31.03.2008
Interest and similar income		803 573	644 002
Interest expense and similar charges		(477 415)	(301 313)
<b>Net interest income</b>		<b>326 158</b>	<b>342 689</b>
Fee and commission income		287 166	248 416
Fee and commission expense		(30 063)	(25 312)
<b>Net fee and commission income</b>		<b>257 103</b>	<b>223 104</b>
Dividend income		203 555	90 168
Net trading income and revaluation		43 706	24 942
Gains (losses) from other financial securities		5 371	(1 617)
Gains (losses) from investment in subsidiaries and associates		-	(756)
Other operating income		12 972	9 643
Impairment losses on loans and advances		(153 859)	(1 187)
Operating expenses incl.:		(377 261)	(359 076)
<i>Bank's staff, operating expenses and management costs</i>		<i>(344 856)</i>	<i>(334 474)</i>
<i>Depreciation/amortisation</i>		<i>(27 374)</i>	<i>(21 681)</i>
<i>Other operating expenses</i>		<i>(5 031)</i>	<i>(2 921)</i>
<b>Operating profit</b>		<b>317 745</b>	<b>327 910</b>
 <b>Profit before tax</b>		 <b>317 745</b>	 <b>327 910</b>
Corporate income tax		(20 855)	(49 444)
 <b>Profit for the period</b>		 <b>296 890</b>	 <b>278 466</b>
 Net earnings per share (PLN/share)			
Basic earnings per share		4,07	3,82
Diluted earnings per share		4,06	3,81

**7. Statement of comprehensive income of Bank Zachodni WBK S.A.**

	For reporting period:	01.01.2009 - 31.03.2009	01.01.2008 - 31.03.2008
<b>Profit for the period</b>		<b>296 890</b>	<b>278 466</b>
<b>Other comprehensive income:</b>			
Available-for sale financial assets valuation		13 585	4 907
Cash flow hedges valuation		17 110	(235)
Share scheme charge valuation		1 547	3 451
<b>Other comprehensive income for the period, net of income tax</b>		<b>32 242</b>	<b>8 123</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>329 132</b>	<b>286 589</b>



**8. Statement of financial position of Bank Zachodni WBK S.A.**

	as at:	31.03.2009	31.12.2008	31.03.2008
<b>ASSETS</b>				
Cash and balances with central bank		2 994 912	3 178 099	1 428 500
Loans and advances to banks		1 919 459	1 347 832	3 700 740
Financial assets held for trading		3 628 451	3 222 357	1 175 084
Hedging derivatives		5 006	347	32 239
Loans and advances to customers		34 333 820	32 654 263	24 374 303
Investment securities		12 641 070	12 894 385	10 613 821
Investments in associates and joint ventures		234 292	234 225	152 415
Intangible assets		155 326	155 459	105 474
Property, plant & equipment		611 038	618 705	537 762
Current income tax due		-	-	687
Deferred tax assets		582 235	567 169	296 702
Other assets		219 777	337 243	295 589
<b>Total assets</b>		<b>57 325 386</b>	<b>55 210 084</b>	<b>42 713 316</b>
<b>LIABILITIES</b>				
Deposits from central banks		2 479 021	1 242 574	-
Deposits from banks		3 844 774	1 957 609	3 718 602
Hedging derivatives		49 330	68 562	3 596
Financial liabilities held for trading		3 343 269	3 253 289	1 082 673
Deposits from customers		41 741 656	43 381 905	32 619 756
Debt securities in issue		-	-	100 741
Current income tax liabilities		22 801	10 971	-
Deferred tax liabilities		371 405	399 028	185 897
Other liabilities		723 440	475 588	864 693
<b>Total liabilities</b>		<b>52 575 696</b>	<b>50 789 526</b>	<b>38 575 958</b>
<b>Equity</b>				
Share capital		729 603	729 603	729 603
Other reserve funds		2 545 124	2 543 577	1 954 702
Revaluation reserve		368 908	338 213	365 113
Retained earnings		809 165	-	809 474
Profit of the current period		296 890	809 165	278 466
<b>Total equity</b>		<b>4 749 690</b>	<b>4 420 558</b>	<b>4 137 358</b>
<b>Total equity and liabilities</b>		<b>57 325 386</b>	<b>55 210 084</b>	<b>42 713 316</b>

**9. Movements on equity of Bank Zachodni WBK S.A.**

<b>MOVEMENTS ON EQUITY</b>	<b>Share capital</b>	<b>Other reserve funds</b>	<b>Revaluation reserve</b>	<b>Retained earnings and profit for the period</b>	<b>Total</b>
<b>Opening balance as at 31.12.2008</b>	<b>729 603</b>	<b>2 543 577</b>	<b>338 213</b>	<b>809 165</b>	<b>4 420 558</b>
Total comprehensive income	-	1 547	30 695	296 890	329 132
<b>As at 31.03.2009</b>	<b>729 603</b>	<b>2 545 124</b>	<b>368 908</b>	<b>1 106 055</b>	<b>4 749 690</b>

As at the end of the period revaluation reserve in the amount of PLN 368 908 k comprises of debt securities of PLN (39 120) k and equity shares classified as available for sale of PLN 415 590 k and additionally cash flow hedge activities PLN (7 562) k.

<b>MOVEMENTS ON EQUITY</b>	<b>Share capital</b>	<b>Other reserve funds</b>	<b>Revaluation reserve</b>	<b>Retained earnings and profit for the period</b>	<b>Total</b>
<b>Opening balance as at 31.12.2007</b>	<b>729 603</b>	<b>1 951 251</b>	<b>360 441</b>	<b>809 474</b>	<b>3 850 769</b>
Total comprehensive income	-	1 733	(22 228)	809 165	788 670
Dividend relating to 2007	-	-	-	(218 881)	(218 881)
Transfer to other reserve capital	-	590 593	-	(590 593)	-
<b>As at 31.12.2008</b>	<b>729 603</b>	<b>2 543 577</b>	<b>338 213</b>	<b>809 165</b>	<b>4 420 558</b>

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

<b>MOVEMENTS ON EQUITY</b>	<b>Share capital</b>	<b>Other reserve funds</b>	<b>Revaluation reserve</b>	<b>Retained earnings and profit for the period</b>	<b>Total</b>
<b>Opening balance as at 31.12.2007</b>	<b>729 603</b>	<b>1 951 251</b>	<b>360 441</b>	<b>809 474</b>	<b>3 850 769</b>
Total comprehensive income	-	3 451	4 672	278 466	286 589
<b>As at 31.03.2008</b>	<b>729 603</b>	<b>1 954 702</b>	<b>365 113</b>	<b>1 087 940</b>	<b>4 137 358</b>

As at the end of the period revaluation reserve in the amount of PLN 365 113 k comprises of debt securities of PLN (80 171) k and equity shares classified as available for sale of PLN 445 519 k and additionally cash flow hedge activities PLN (235) k.

**10. Statement of cash flows of Bank Zachodni WBK S.A.**

	<b>01.01.2009</b>	<b>01.01.2008</b>
<b>for the period:</b>	<b>- 31.03.2009</b>	<b>- 31.03.2008</b>
<b>Profit before tax</b>	<b>317 745</b>	<b>327 910</b>
<b>Total adjustments:</b>	<b>(739 265)</b>	<b>569 436</b>
Depreciation	27 374	21 681
Impairment losses	-	807
Interests and similar charges	(12 678)	(69 044)
Dividend income	(203 555)	(90 168)
(Profit) loss from investing activities	5 470	(545)
Change in provisions	(6 203)	(9 679)
Change in trading portfolio financial instruments	289 132	33 912
Change in loans and advances to banks	(883 041)	(233 288)
Change in loans and advances to customers	(1 679 557)	(1 676 270)
Change in deposits from banks	3 123 612	573 207
Change in deposits from customers	(1 640 249)	1 807 622
Change in liabilities arising from debt securities in issue	-	1 393
Change in other assets and liabilities	299 148	209 383
Paid income tax	(58 907)	-
Other adjustments	189	425
<b>Net cash flow from operating activities</b>	<b>(421 520)</b>	<b>897 346</b>
<b>Inflows</b>	<b>1 721 895</b>	<b>575 333</b>
Sale of investment securities	1 517 913	479 872
Sale of intangible and tangible fixed assets	425	5 291
Dividends received	203 555	90 168
Proceeds from other investments	2	2
<b>Outflows</b>	<b>(341 745)</b>	<b>(799 345)</b>
Purchase of subsidiaries and associates	(67)	-
Purchase of investment securities	(322 910)	(769 430)
Purchase of intangible and tangible fixed assets	(18 768)	(29 886)
Other investments	-	(29)
<b>Net cash flow from investing activities</b>	<b>1 380 150</b>	<b>(224 012)</b>
<b>Inflows</b>	<b>-</b>	<b>-</b>
<b>Outflows</b>	<b>(7 440)</b>	<b>(3 364)</b>
Other financing outflows	(7 440)	(3 364)
<b>Net cash flow from financing activities</b>	<b>(7 440)</b>	<b>(3 364)</b>
<b>Total net cash flow</b>	<b>951 190</b>	<b>669 970</b>
<b>Cash at the beginning of the accounting period</b>	<b>5 316 320</b>	<b>5 016 237</b>
<b>Cash at the end of the accounting period</b>	<b>6 267 510</b>	<b>5 686 207</b>

## **ADDITIONAL INFORMATION TO CONSOLIDATED QUARTERLY REPORT OF BANK ZACHODNI WBK GROUP FOR Q1 2009**

### **11. Macroeconomic Environment**

The world's biggest economies have entered into a deep recession. According to the preliminary data, the annualised US GDP fell by more than 6% in Q1 2009, while the euro zone economy contracted by over 3% y-o-y. Significant economic downturn abroad had an adverse impact on the Polish economy. Economic growth in Poland decelerated sharply, although the scale of slowdown was much smaller than in highly developed countries. According to the current estimates, the GDP growth in Poland slowed down to ca. 0.4% in Q1, the Polish economy being one of the few in Europe to have sustained growth.

Private consumption has been weakening, mainly due to negative changes in the labour market. There was a significant slowdown in the wage bill growth. On the other hand, however, March saw quite a substantial increase in social security benefits (ca. 6%). An additional support for households' disposable income growth was a reduction in PIT and VAT rates, yet most of the money from lower PIT rates go to people with higher income and thus lower propensity to consume.

It may be expected that there was a fall in fixed investments in Q1 (by ca. 4% y-o-y), although an increased inflow of funds from the EU (ca. EUR 2 bn in the entire year) should to some extent compensate for the lower inflow of foreign direct investments.

First months of 2009 saw a rapid decline in foreign trade turnover. On the basis of available data for January and February, it may be estimated that in Q1 exports (measured in EUR terms) fell by more than 23% y-o-y and imports contracted by almost 27% y-o-y. In the following months exports performance will depend on the GDP growth in the EU, although the weaker zloty may induce a positive substitution effect towards Polish goods and services. At the same time, lower domestic demand will lead to further decline in imports, resulting in positive contribution of net exports to the GDP growth.

Significant weakening of domestic demand and lower tensions in the labour market resulted in lower fundamental inflationary pressure. On the other hand, significant hikes in prices of fuel and energy at the start of the year have boosted general price level. CPI inflation - after falling to 2.8% y-o-y in January - rose again to 3.6% in March. It seems though that medium-term inflation prospects remain positive and impact of significant zloty depreciation on inflation should be offset by strong deceleration in economic growth below the potential level.

In Q1 2009, the Monetary Policy Council (MPC) has reduced the main interest rates three times, by a total of 1.25 pp. Following the MPC decisions, there was a gradual decline in money market rates – WIBOR for 1-month interbank loans fell by ca. 1.7 pp, and for 3- to 12-month loans by ca. 1.5 pp.

There was a significant zloty weakening in the first months of 2009, triggered by a surge in risk aversion in international financial markets and poor investors' opinions about markets in Central and Eastern Europe, resulting from serious problems of some countries in the region (e.g. Hungary, Ukraine). The average EUR/PLN exchange rate in Q1 was ca. 26% higher than in the corresponding period last year while USD/PLN increased by almost 45% over the same period.

## 12. Financial performance of Bank Zachodni WBK Group

### Financial highlights

In the first quarter of 2009, faced with an increasingly difficult economic environment, Bank Zachodni WBK Group focused on mitigation of risks, reduction of costs, development of product proposition and effective sales strategies. The financial results of the Group's performance in the period under review were as follows:

- Total income (PLN 738.8 m) decreased by 2.8% y-o-y;
- Total costs (PLN 413.6 m) increased by 2.1% y-o-y with stable staff and other administrative expenses (PLN 376.8 m);
- Profit-before-tax (PLN 161.6 m) was down 53.6% y-o-y;
- Profit-after-tax attributable to the shareholders of the parent (PLN 119 m) was down 51% y-o-y;
- Capital adequacy ratio at 10.37% (10.55% as at 31 March 2008);
- Cost-to-income ratio at 56% (53.3% for the first quarter of 2008);
- NPL ratio increased to 3.8% (2.7% as at 31 March 2008) while the ratio of impairment losses to the average credit volumes was at 1.72% (0.09% as at 31 March 2008);
- Impairment losses on loans and advances amounted to PLN 160.7 m compared with PLN 6 m in the first quarter of 2008;
- Loans-to-deposits ratio remained at a level which ensures adequate liquidity and access to the sources of funding (88.6% as at 31 March 2009 versus 81.7% as at 31 March 2008).

### Key factors affecting the Group's profit and activity

#### *Internal factors:*

- Strong y-o-y growth of credit volumes under the impact of rapid lending in 2008: cash loans (+62.3 y-o-y), mortgage loans (+45.8% y-o-y), business loans (+41.4% y-o-y), lease receivables (+22.8% y-o-y);
- Significant growth in deposits (+28.8% y-o-y), in particular term deposits (+78.3%), primarily due to the high acquisition of funds in 2008;
- Sales of new structured products;
- Further development of specialist business lines, including bancassurance products and services to third party institutions, consultancy and securities handling;
- Increase in the number of BZWBK24 electronic banking users (+21% y-o-y);
- Expansion of the debit and credit cards base (+17% y-o-y and +12% y-o-y, respectively) due to the broad product offer and linked services;
- Decrease in the value of assets of mutual funds and private portfolios (-55.6% y-o-y) as a result of substantial fund redemptions and downward drift of stock prices;
- Continued tightening of lending criteria since Q4 2008 and execution of risk mitigation strategies;
- Strict cost discipline reflected in the sustained level of staff and other administrative expenses on a y-o-y basis.

**External factors:**

- Strong deceleration of economic growth in Poland triggered by global financial and economic crisis;
- Decrease in production and financial performance of companies;
- Significant fall in foreign trade turnover, both exports and imports;
- Slower growth of loans for households and enterprises;
- Adverse trends in the employment market (reduced employment and lower wage bill growth);
- Stock market downturn and its impact on mutual funds;
- Strong pressure on interest margins due to the increase in the cost of funding amid aggressive price competition for customer deposits;
- Continued stagnation in the interbank market;
- High volatility in the FX market with deep depreciation of the zloty against main currencies in January and February;
- Further interest rate reductions by the Monetary Policy Council;
- Low number of transactions and decreasing prices in the property market due to weak demand and large supply of new residential properties;
- Private consumption slowdown.

**Profit and Loss Account**

PLN m

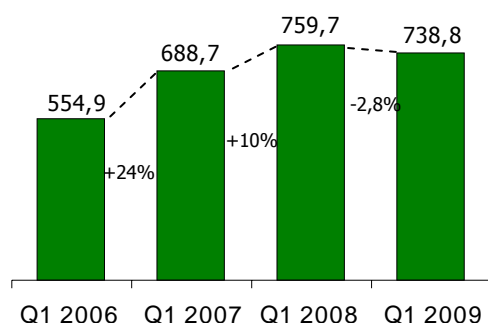
Condensed Profit and Loss Account	Q1 2009	Q1 2008	Change
Total income	738.8	759.7	-2.8%
Total costs	(413.6)	(405.2)	+2.1%
Impairment losses on loans and advances	(160.7)	(6.0)	+2,578.3%
<b>Profit-before-tax *</b>	<b>161.6</b>	<b>348.5</b>	<b>-53.6%</b>
Tax	(31.4)	(72.0)	-56.4%
<b>Net profit for the period</b>	<b>130.2</b>	<b>276.5</b>	<b>-52.9%</b>
<b>- Net profit attributable to shareholders of the parent</b>	<b>119.0</b>	<b>243.1</b>	<b>-51.0%</b>
- Net profit attributable to minority shareholders	11.2	33.4	-66.5%

\* includes share in the losses attributable to the entities accounted for using the equity method (PLN -2.9 m in Q1 2009 vs. PLN -0.06 m in Q1 2008)

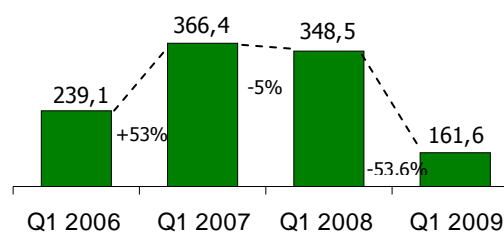
Amid the economic slowdown, the crisis of trust in the interbank market and the depressed stock markets prevailing in the first quarter of 2009, Bank Zachodni WBK Group produced the total income that was only slightly lower on a y-o-y basis (-2.8% y-o-y). Total costs were also similar (+2.1% y-o-y) despite the broader scale of operations and higher employment. The first quarter saw, however, much higher costs of risk, an effect of deteriorating financial standing of borrowers in the difficult macroeconomic environment.

As a result, after the first three months of 2009, Bank Zachodni WBK Group posted a **profit-before-tax** of PLN 161.6 m compared with PLN 348.5 m reported in the first quarter of 2008. **The profit-after-tax attributable to the shareholders of Bank Zachodni WBK** was PLN 119 m and 51% lower y-o-y.

**Total income of BZWBK Group  
for Q1 in the years 2006-2008  
(PLN m)**



**Profit-before-tax of BZWBK Group  
for Q1 in the years 2006-2008  
(PLN m)**



## Income

**Total income** generated by Bank Zachodni WBK Group in the first quarter of 2009 was PLN 738.8 m and 20.9m lower y-o-y. This performance was achieved in a much more challenging environment due to the diversification of income streams, business growth in many product lines and enhancement of the Group's sales potential in the previous years.

PLN m

Total income	Q1 2009	Q1 2008	Change
Net interest income	361.5	375.7	-3.8%
Net commission income	314.5	344.5	-8.7%
Net trading income and revaluation	44.0	25.6	+71.9%
Other non-interest income *	18.8	13.9	+35.3%
<b>Total</b>	<b>738.8</b>	<b>759.7</b>	<b>-2.8%</b>

\* Other non-interest income includes: 1) profit on the disposal of subsidiaries and associates; 2) profit on other financial instruments; 3) dividend income; 4) other operating income.

**Net interest income** amounted to PLN 361.5 m and decreased by 3.8% y-o-y despite the strong growth of the deposit and credit base, and the favourable changes in the Group's balance sheet structure. This decline is due to the strong pressure of deposits on interest margin amid the continuing competition for bank deposits in the market.

Taking into account other interest-related income from FX Swaps and Basis Swaps (PLN 50.2 m in the first quarter of 2009 and PLN 14.6 m in the corresponding period last year), which are disclosed under "Net trading income and revaluation", the underlying net interest income increased by 5.5% y-o-y.

**Net commission income** amounted to PLN 314.5 m and decreased by 8.7% y-o-y due to the downturn in the stock markets, which adversely affected the level of fees receivable for distribution of mutual funds, asset management and brokerage services. The other commission-earning business lines of Bank Zachodni WBK Group recorded increases propelled by rising volumes.

PLN m

Net commission income	Q1 2009	Q1 2008	Change
Direct banking *	65.6	53.9	+21.7%
FX fees	61.3	49.1	+24.8%
Account maintenance and cash transactions	58.0	55.7	+4.1%
Mutual fund distribution and asset management services	44.1	119.8	-63.2%
Credit fees **	36.8	23.0	+60.0%
Insurance (bancassurance) fees	26.7	16.8	+58.9%
Brokerage fees	20.0	28.2	-29.1%
Other ***	2.0	(2.0)	-
<b>Total</b>	<b>314.5</b>	<b>344.5</b>	<b>-8.7%</b>

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

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

\*\*\* other income for Q1 2009 includes fees for distribution of structured products

The drivers behind the largest y-o-y movements in components of the net commission income:

- Net fees and charges for direct banking services increased by 21.7% y-o-y to PLN 65.6 m, mainly due to the growing number of payment cards processed and ATMs managed by the bank for third party institutions, and also on account of the steady growth of debit cards held by the bank's customers (+17%) along with non-cash transactions made with these instruments.
- Fees on customer FX transactions increased by 24.8% y-o-y to PLN 61.3 m, reflecting the improved margins and higher volumes transacted at the branch banking level and via Treasury Services.
- The Group's net income from fund distribution and asset management was PLN 44.1 m and 63.2% lower y-o-y as a result of the downturn in the stock markets, deep risk aversion among investors and the wider use of price incentives in the distribution of the Arka funds.
- Credit fees increased by 60% y-o-y to PLN 36.8 m underpinned by the larger number of credit cards (+12% y-o-y), the Group's higher exposure on overdrafts and the lower credit intermediation costs.
- The bancassurance line generated an income of PLN 26.7 m which exceeded the comparable period by 58.9% y-o-y driven by strong sales of credit insurance.
- Net commission income of the BZWBK Brokerage House decreased by 29.1% y-o-y to PLN 20 m due to the slowdown in the stock market and the consequent decline in stock trading in the market place.

**Net trading income and revaluation** was up by 71.9% y-o-y and totalled PLN 44 m. The amount includes the write-down of derivative instruments (PLN 24.3 m) related to customers' risk. It also contains interest-related income from FX Swaps and Basis Swaps (PLN 50.2 m in the first quarter of 2009 vs. PLN 14.6 m in the same period last year). The movement in this line was most strongly affected by the wholesale FX Swaps transacted, among others, as part of the management of the EUR- and CHF-denominated credit portfolio.

**Other non-interest income** of PLN 18.8 m exceeded last year's figure by 35.3%, mainly due to the realised profits on the sale of treasury bonds from the bank's available-for-sale investments.



## **Impairment**

The loan impairment charge to the profit and loss account was PLN 160.7 m in the first quarter of 2009 compared with PLN 6 m in the comparable period last year.

The provisioning level disclosed in the current year has been driven primarily by the deteriorating macroeconomic environment. Slowdown has affected more and more industries in the Polish economy, resulting in the weaker financial performance and lower ability of businesses to meet their liabilities. Higher occurrences of irregular debt repayment have prompted the Group to raise additional impairment provisions.

The Group regularly reviews its exposures for evidence of impairment, which ensures timely and adequate recognition of individual and portfolio impairment provisions. Every effort is made to reduce the risks identified and pursue effective recovery of impaired debts.

## **Costs**

**Total costs** of the Bank Zachodni WBK Group amounted to PLN 413.6 m and were higher by 2.1% y-o-y.

PLN m

<b>Total costs</b>	<b>Q1 2009</b>	<b>Q1 2008</b>	<b>Change</b>
Staff and other administrative expenses, including:	(376.8)	(376.5)	+0.1%
- <i>staff expenses</i>	(228.5)	(223.0)	+2.5%
- <i>other administrative expenses</i>	(148.3)	(153.4)	-3.3%
Depreciation/amortisation	(30.1)	(24.0)	+25.4%
Other operating costs	(6.7)	(4.7)	+42.6%
<b>Total</b>	<b>(413.6)</b>	<b>(405.2)</b>	<b>+2.1%</b>

Staff and other administrative expenses of PLN 376.8 m were stable y-o-y as a result of intensified implementation of administrative, technological and procedural measures aimed to reduce the Group's costs, and development of cost-saving mindset among employees.

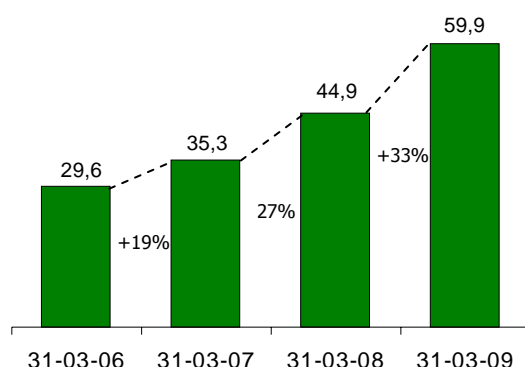
- **Staff expenses** increased by 2.5% y-o-y to PLN 228.5 m primarily due to: 1) higher employment (+490 FTEs y-o-y) as a result of the branch network expansion and delivery of centralisation projects, and 2) increased payroll following the pay rises (5% on average) linked to the annual performance review in April 2008. However, the charges connected with the incentive elements of the payroll were lower and training spend was reduced.
- **The Group's other administrative expenses** decreased by 3.3% y-o-y to PLN 148.3 m. This change was most strongly impacted by the reduced advertising and marketing spend, reflecting the smaller scale of promotional campaigns held in 2009. Consultancy costs were also a vital decelerating factor and these were significantly down with completion of projects requiring expert support. In addition, the Group increased efforts to rationalise its cost base. Following a review of the existing policies, procedures, processes and contracts, a number of cost-saving initiatives were implemented and non-cost effective processes were improved.

**Depreciation/amortisation** totalled PLN 30.1 m and rose by 25.4% y-o-y driven by fixed assets growth attributable to the expansion and upgrade of the bank's branch network.

## Financial position

As at 31 March 2009, total assets of the Bank Zachodni WBK Group amounted to PLN 59,871.5 m and were 33.4% up y-o-y. The value and structure of the Group's financial position is determined by the bank which accounts for 95.7% of the consolidated total assets.

**Total assets of the BZWBK Group as at 31 March in 2006-2009 (PLN bn)**



## Assets

PLN m

Assets	31-03-2009	Structure 31-03-2009	31-03-2008	Structure 31-03-2008	Change
Loans and advances to customers*	36,710.7	61.3%	26,290.5	58.6%	+39.6%
Investment securities	12,663.1	21.2%	10,634.9	23.7%	+19.1%
Financial assets held for trading	3,631.1	6.1%	1,282.6	2.9%	+183.1%
Cash and operations with the Central Bank	2,994.9	5.0%	1,428.5	3.2%	+109.7%
Loans and advances to banks	1,934.1	3.2%	3,708.2	8.2%	-47.8%
Other assets	1,937.6	3.2%	1,536.4	3.4%	+26.1%
<b>Total</b>	<b>59,871.5</b>	<b>100.0%</b>	<b>44,881.1</b>	<b>100.0%</b>	<b>+33.4%</b>

\* net of impairment

The main asset growth driver during past 12 months was loans and advances to customers (+39.6% y-o-y). A substantial increase was also noted in financial assets held for trading (+183.1% y-o-y), reflecting the higher volume of business transacted in the derivative market, partly due to the growth of FX property loans. Cash and operations with Central Bank increased (+109.7% y-o-y) as part of the Group's on-going liquidity management process which takes account of a number of factors, including higher obligatory reserve requirement driven by the deposit base growth. Financial assets continued to grow (+19.1% y-o-y) based on the decisions made as part of the Group's structural balance sheet risk management. The line includes the State Treasury bonds which in October 2008 were reclassified from available-for-sale securities into held-to-maturity securities at their carrying value of PLN 6,406.6 m. The change of classification resulted in adoption of valuation principles that are more consistent with the purpose of the instruments. Loans and advances to banks decreased in the same period by 47.8% y-o-y due to the stagnant inter-bank money market.

## Credit portfolio

PLN m

Gross loans and advances to customers	31-03-2009	31-03-2008	Change
Loans and advances to public sector and business customers	24,972.8	17,831.3	+40.1%
Loans and advances to personal customers	9,761.1	6,592.1	+48.1%
Finance lease receivables	3,001.8	2,443.9	+22.8%
Other	30.0	7.5	+300.0%
<b>Total</b>	<b>37,765.7</b>	<b>26 874.8</b>	<b>+40.5%</b>

At the end of March 2009, gross loans and advances to customers were PLN 37,765.7 m and 40.5% up y-o-y due to increasing volumes of the Group's key portfolios: business loans, retail loans and lease receivables.

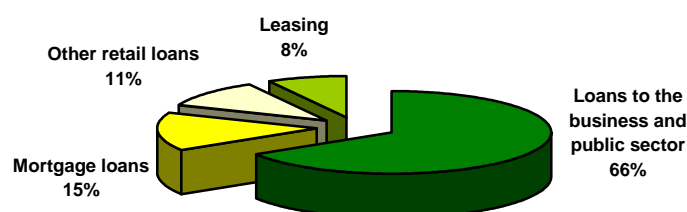
Loans and advances to business customers amounted to PLN 24,838.5 m and were 41.4% higher y-o-y. This growth reflects the continuing demand of enterprises for loans to finance their inventory and working capital, and strong credit delivery (particularly in 2008) to support long-term investment projects, mainly in the commercial property market.

The value of retail loans increased by 48.1% y-o-y to PLN 9,761.1 m due to the strong growth in cash and mortgage loans. Cash loans increased by 62.3% to PLN 2,901 m, confirming the high quality of the bank's offer and the effectiveness of its pro-active promotion and sales methods. Property loans increased by 45.8% y-o-y to PLN 5,733.9 m due to the attractive structure of the mortgages, effective customer service and flexibility in responding to market developments.

The leasing portfolio increased by 22.8% y-o-y to PLN 3,001.8 m fuelled by the sales of vehicles, plant & equipment and properties as handled by the two leasing subsidiaries.

At the end of March 2009, the impaired loans accounted for 3.8% of the gross portfolio versus 2.7% recorded 12 months before. The provision cover ratio for the impaired loans was 49% compared with 62.2% as at 31 March 2008.

**Loans and advances to customers  
of the BZWBK Group  
as at 31.03.2009**



## Equity and liabilities

PLN m

Equity and liabilities	31-03-2009	Structure 31-03-2009	31-03-2008	Structure 31-03-2008	Change
Deposits from customers	41,439.1	69.2%	32,171.7	71.7%	+28.8%
Deposits from banks	6,044.7	10.1%	5,178.3	11.5%	+16.7%
Financial liabilities held for trading	3,160.0	5.3%	1,078.8	2.4%	+192.9%
Amounts owed to the Central Bank	2,479.0	4.1%	-	-	-
Debt securities in issue	85.9	0.1%	312.7	0.7%	-72.5%
Other liabilities	1,456.0	2.5%	1,371.3	3.1%	+6.2%
Total equity	5,206.8	8.7%	4,768.3	10.6%	+9.2%
<b>Total</b>	<b>59,871.5</b>	<b>100.0%</b>	<b>44,881.1</b>	<b>100.0%</b>	<b>+33.4%</b>

On the liabilities side, the Group reported a substantial increase in deposits from customers (+28.8% y-o-y), mainly in the form of term deposits. The amounts owed to banks increased (+16.7% y-o-y) as part of the Group's on-going liquidity management process, yet the average deposit balances remained on a predominantly falling trend as a result of the situation in the interbank market. The financial liabilities held for trading (+192.9% y-o-y) continued their fast growth, driven by derivative transactions. The amounts owed to the Central Bank represent a repo transaction, an effect of increased activity of the National Bank of Poland in the local money market. At the same time, the debt securities in issue line decreased (-72.5% y-o-y) due to the redemption of the matured bonds issued by the bank and its leasing subsidiaries in a total nominal amount of PLN 205.7 m.

## Deposit base

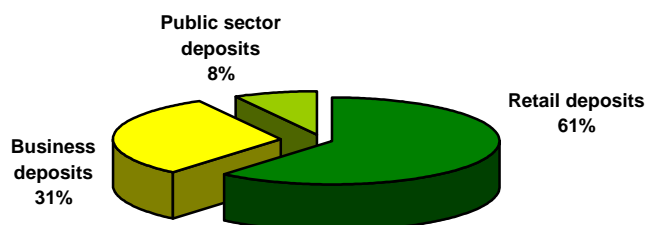
PLN m

Deposits from customers	31-03-2009	31-03-2008	Change
Deposits from retail customers	25,234.7	19,037.3	+32.6%
Deposits from business customers	12,936.6	10,790.8	+19.9%
Deposits from public sector	3,267.8	2,343.6	+39.4%
<b>Total</b>	<b>41,439.1</b>	<b>32,171.7</b>	<b>+28.8%</b>

Deposits from customers, which represent 69.2% of the Group's total equity and liabilities are the primary source of funding of the Group's lending business. At the end of March 2009, customer deposits totalled PLN 41,439.1 m and were higher by 28.8% y-o-y. This value comprises the funds deposited in current accounts (PLN 16,551.3 m), term deposits (PLN 24,217.9 m) and other liabilities.

Over the last 12 months, particularly fast growth was noted in the balances in term deposit accounts which grew by 78.3% y-o-y. This growth is attributable to the bank's attractive deposit offer, including the IMPET term deposits for retail and business customers. The balances in current accounts decreased by 8.9%, partly as funds from savings accounts were moved to term deposits.

**Deposits from customers  
of the BZWBK Group  
as at 31.03.2009**



**Key financial ratios**

Selected financial ratios	Q1 2009	Q1 2008
Total costs / Total income	56.0%	53.3%
Net interest income / Total income	48.9%	49.5%
Net commission income / Total income	42.6%	45.3%
Customer deposits / Total equity & liabilities	69.2%	71.7%
Customer loans / Total assets	61.3%	58.6%
Customer loans / Customer deposits	88.6%	81.7%
NPL ratio	3.8%	2.7%
NPL coverage ratio	49.0%	62.2%
ROE*	14.7%	21.6%
ROA**	1.4%	2.3%
Capital adequacy ratio	10.37%	10.55%
Book value per share (in PLN)	71.37	65.35
Earnings per share (PLN)	1.63	3.33

*The following were used in computations:*

\* *net profit attributable to shareholders of the parent for the 12-month period commencing on 1 April 2008 and equity as at the end of the reporting period, net of current year's profit and minority interests;*

\*\* *the net profit attributable to the shareholders of Bank Zachodni WBK for the 12-month period commencing on 1 April 2008 and average assets derived from the two comparative periods.*

## 13. Activities of Bank Zachodni WBK Group

### Retail Banking

#### *Savings and Investment Products*

- In order to improve its deposit offer, on 9 February 2009 Bank Zachodni WBK introduced a new product – Savings Account a la Deposit which included a Maestro savings card. Holders of the deposit enjoy an attractive interest rate and can use the funds without losing accrued interest. The account is available via all the sales channels: a branch, BZWBK24 Internet banking solution or by applying on-line or over phone. The account is accompanied by the Maestro savings card which has all the features of a traditional Maestro debit card added to personal accounts, including the possibility to make on-line transactions with 3D-Secure authentication as well as Cash-Back transactions at POSes.
- From 12 January to 6 February 2009, the seventh subscription of the new investment-linked policy took place. The policy is a joint proposal of Bank Zachodni WBK and BZ WBK – CU Towarzystwo Ubezpieczeń na Życie S.A. The two-year investment is based on the index BNP Paribas Platinum PLN ER and ensures 100% capital protection in addition to being tax-exempt. It is characterised by an open investment strategy, diversification and active management of assets. The investment portfolio consists of shares, commodity forwards, currencies and stock indices.
- From 23 February to 27 March 2009, Bank Zachodni WBK - together with the BZ WBK Brokerage House - was selling the new structured product: BZ WBK Platinum bonds (more details in the Brokerage House section below).

#### *Proposition for Customers Working Abroad*

- As part of efforts to promote the sale of products and services to the Poles abroad, Bank Zachodni WBK implemented the procedure of opening USD and GBP accounts through e-applications. Also, other projects were continued to improve remote availability of the bank's products and services to customers abroad. The so-called geotargeting capability was introduced whereby the customers logging on from abroad are exposed to the banner advertising the bank's offering and linking to the specialist website [www.zagranica.bzwbk.pl](http://www.zagranica.bzwbk.pl).

#### *Mortgage Loans*

- Due to the increased volatility of the FX market and the high cost of borrowing from the market, Bank Zachodni WBK stopped sanctioning mortgage loans in foreign currencies (CHF, EUR, USD, GBP). The only exception are EUR housing loans for personal customers who buy properties from the developers financed by the bank and approved by the bank's Credit Committee. The decision to withdraw FX loans is compliant with the recommendations of the Polish Financial Supervision Authority relating to currency exposures.

#### *Cards*

- The debit card offer of Bank Zachodni WBK was expanded to include the Maestro savings card coming with the Savings Account a la Deposit. The new card is a distinctive feature of the bank's deposit offering (see the Retail Banking section for more details).

- The range of pre-paid cards was enhanced with the issue of special cards for Valentine's Day, Women's Day and Easter. Also, the bank introduced a pre-paid bearer card designed solely for making online payments.

## **Business Banking**

### ***New Business Packages***

- Starting from 1 March 2009, the business customers of Bank Zachodni WBK can avail of three Business Packages (called Minimum, Optimum and Maximum) differentiated by the level of account maintenance fees and transaction charges. The bank's new proposal with its product and pricing solutions is a better fit to the needs and sizes of the individual businesses. Each package is complete with a clearing account, Visa Business Electron card and internet services. The main benefits of the packages include constant access to the funds in the account, transaction processing 24/7 and assistance of a customer advisor.
- The bank has prepared an attractive offer of term deposits for business customers. The deposits are available both in branches and in electronic channels.

### ***FX loans***

- Due to the situation in the currency and interbank markets, Bank Zachodni WBK decided not to increase its FX exposure. As a result, effective from 6 March 2009, all FX lending activity (including leasing and factoring) has been suspended, except for certain pre-defined transactions where high security of repayments is ensured.

## **Investment Banking**

- In the first quarter of 2009, the Bank Zachodni WBK Capital Markets Area provided analytical and advisory service (including preparation of pre-IPO analyses, valuations, share prospectuses, strategic advice) for customers. During that period Bank Zachodni WBK was selected:
  - a member of the consortium of advisors (Raiffeisen Investment AG, Raiffeisen Investment Polska, Lazard & Co. Limited) by Nafta Polska S.A. appointed to facilitate the restructuring and privatisation of the Great Chemical Synthesis Sector;
  - by the State Treasury to make an evaluation of Petrobaltic Group in relation to the planned contribution (in kind) of 30% of the Petrobaltic shares to Lotos S.A.
- Securities issues were arranged for 8 entities from outside the Bank Zachodni WBK Group for a total value of PLN 61.2 m. These issues were allocated to the entities indicated by the issuers. At the request of a corporate client, PLN 4 m worth of bonds were issued as part of the corporate bonds issue programme.

## **Human Resources**

- At the end of the first quarter of 2009, the employment level in the Bank Zachodni WBK Group fell by 252 FTEs to 9,969 FTEs (-2.5% q-o-q). This decline resulted from the Management Board's decision to freeze employment and not to fill the positions vacated due to natural staff movements. Such decision was motivated by the adverse economic environment in Poland and the ensuing need to adjust the Group's resources (expanded due to the rapid growth of its structures and broadly understood operational potential in the years 2006-2008) to the new operating conditions. The Group's executive team is determined to

provide maximum possible job protection to employees and avoid redundancies on a large scale. To this end, a number of tools and solutions have been implemented to be used in right proportions and with due attention to the specific roles of individual units in order to limit the staff costs. The Group also continues restructuring actions, which have been started before irrespective of the economic climate, triggered by centralisation of functions and processes as well as technology changes.

## **Distribution Channels**

- In the first quarter of 2009, 6 new branches were opened, 2 closed and 2 other relocated. In effect, as at 31 March 2009, Bank Zachodni WBK had 509 branches (including 8 external transaction points) compared with 428 at the end of the first quarter of 2008. This gives Bank Zachodni WBK the third position in Poland after PKO BP and Pekao S.A.
- The Bank completed the first stage of roll-out of its strategic programme Integrated Branch Environment (the so-called New Branch Front-End) across the Bank Zachodni WBK Branch Network. The programme aims to provide the staff at branches with an integrated IT platform that will replace several existing systems and will improve customer service. The New Front End will support CRM, sales, product service, scoring and many other processes. Stage I of the programme covers the customer information functionality and SME lending.
- As at 31 March 2009, the ATM network of Bank Zachodni WBK comprised 1,022 machines, up by 287 y-o-y (+39% y-o-y).
- At the end of March 2009, Bank Zachodni WBK had 52 agency outlets (BZ WBK Partner/Minibank) compared with 33 twelve months before.

## **Organisation Management**

Following the adoption of new rules of business customers segmentation, early in 2009 the bank commenced the process of implementing changes to its business functions.

- A new Business Banking Division was established on 1 February to take over responsibility for the relationship with larger business customers as defined by the following criteria:
  - Business Banking Customers - turnover between PLN 30 m and PLN 150 m or credit liabilities below PLN 15 m;
  - Corporate Banking Customers - turnover exceeding PLN 150 m or credit liabilities higher than PLN 15 m.

Business Banking customers are serviced through 8 Business Banking Centres established in Warsaw, Poznan, Wroclaw, Szczecin, Gdansk, Chorzow, Krakow and Lodz. Corporate Banking customers are serviced by the Corporate Business Centre in Warsaw, Poznan and Wroclaw.

The new Division also exercises oversight over the factoring company and the leasing organisations.

- As a result of establishment of the Business Banking Division, the Customer Relationship and Sales Division was transformed into the Retail Banking Division with a responsibility for managing the relationship with personal customers and micro and small SME companies (maximum turnover PLN 30 m/credit liabilities of maximum PLN 3 m).



## **Selected Subsidiaries**

### ***Dom Maklerski BZ WBK S.A. (BZ WBK Brokerage House)***

- In the first quarter of 2009, the stock market performance was significantly worse than in the same period last year. In January and February share prices suffered severe cuts followed by sudden increases in March. In this volatile environment, total stock trading of the Warsaw Stock Exchange (WSE) decreased by 36.9% y-o-y.
- During the first three months of the year, Dom Maklerski BZ WBK S.A. noted a decrease in its stock trading by 38.6% to PLN 6.7 bn, which slightly reduced the company's market share (-0.3 pp y-o-y to 10.6%) and gave it the third position in Poland.
- In the futures market, which is the second most important stock exchange market in Poland, Dom Maklerski BZ WBK S.A. acted as an agent for concluding 620.5 k transactions. Compared with the first quarter of 2008, this is 19.2% less, gives the company a market share of 10.6% (-0.4 pp y-o-y) and secures the third position in Poland.
- In the period from 23 February to 27 March 2009, Dom Maklerski BZ WBK S.A. was offering the new structured product: BZ WBK Platinum bonds. The bonds were distributed by the Customer Service Points of the brokerage house and selected Bank Zachodni WBK branches (the bank acts as an agent of Dom Maklerski BZ WBK S.A.). The bond structure was designed in co-operation with BNP Paribas Group. The product represents a 2.5-year investment offering 100% capital protection and a profit opportunity based on the index BNP Paribas Platinum PLN ER.
- Like in the corresponding period last year, in the first quarter of 2009, Dom Maklerski BZ WBK S.A. processed 95% of the retail customers trading on the spot and futures market of the WSE via remote channels, mainly the Internet and phone.

### ***BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. (BZ WBK AIB Mutual Funds Association)***

- March 2009 saw a reversal of the downward trend in the world's stock markets and brought the first, after 15 months, increase in the value of funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. However, quarter-on-quarter Arka and Lukas mutual funds noted a decrease in asset value by 11.4% to PLN 7,426.7 m (-56% y-o-y). Such a performance secured the company the third position in the Polish mutual funds market with a 10.6% share (11.3% at the end of December 2008).
- In the first quarter of 2009, Arka BZ WBK Fundusz Akcji FIO was the most popular among customers, attracting 50% of total quarterly inflows to Arka and Lukas mutual funds.

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

- As at 31 March 2009, the value of assets in the private portfolios managed by BZ WBK AIB Asset Management S.A. was PLN 1,364.7 m, a decrease of 53% y-o-y and 7.8% q-o-q.

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

- On 9 February 2009, the Management Board of Krynicki Recykling S.A., waste glass recycler, announced that the Regional Court in Olsztyn registered the increase in the company's share capital through the issue of 3,076,852 ordinary bearer shares, series D. The shares were acquired by BZ WBK Inwestycje Sp. z o.o. In effect, the subsidiary of Bank Zachodni WBK became a significant shareholder of Krynicki Recykling S.A. with a stake of 30.37%. The investment is a part of the process of building the pre-IPO equity investment portfolio, which now includes the shares of Centrum Klima S.A. (producer and distributor of air conditioning and ventilation equipment) and Metrohouse S.A. (real estate agency).

### ***BZ WBK Finanse Sp. z o.o.***

- In December 2008, the bank established a new subsidiary named BZ WBK Finanse Sp. z o.o. and acquired 100% stake in it. This is a holding company designed to centrally manage the bank's subsidiaries active in the business banking segment, namely: BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A. and BZ WBK Faktor Sp. z o.o.
- In the first quarter of 2009 Bank Zachodni WBK increased the share capital in its subsidiary BZ WBK Finanse Sp. z o.o. The new stock was paid up by contributing to the company all the bank's holdings in the shares/interests of BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A. and BZ WBK Faktor Sp. z o.o. The transfer of ownership of these shares/interests results from reorganisation of the management processes within the Group.

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

- In the first quarter of 2009, the companies revised their development plans and focused on improving sales in their existing distribution channels (150 Leasing Advisors in Regional Offices and more than 500 BZWBK branches). They also took steps to enhance the service skills of their employees.
- In the first quarter of 2009, the BZWBK leasing companies claimed fourth position in the market for the overall sales (based on the data of the Polish Leasing Association). The net value of assets leased amounted to PLN 393.5 m, a decrease by 13.5% y-o-y amid the leasing market decline by 37%. A slowdown in sales of vehicles and plant & equipment was accompanied by a substantial increase in property leasing.

## **Awards**

### ***Accuracy of economic forecasts***

- The economists of Bank Zachodni WBK came second in the ranking of accuracy of macroeconomic forecasts for 2008 prepared by the stock newspaper Parkiet (January 2009). This high position in the ranking is attributable to the most accurate projections of the balance of payments and prices.

### ***The best managed company in the financial sector***

- On 12 February 2009, the stock exchange newspaper "Parkiet" granted the Bull and Bear statuettes to the leaders of capital markets. The award for the "best managed company in the financial sector" went to Bank Zachodni WBK.

### ***"Mother Friendly Company" award***

- In February, Bank Zachodni WBK received one of the three main awards in the nation-wide competition "Mother Friendly Company". The purpose of the competition is to promote the companies and the solutions that help young women to fulfil the role of a mother and pursue their career at the same time. Maria Kaczyńska, the wife of the Polish President, became a honorary patron of the fourth edition of the competition.

### ***Service Quality***

- In the prestigious ranking of Newsweek (March 2009) Bank Zachodni WBK was bestowed with the "Service Quality" accolade for taking the third position in the "banks, finance and insurance" sector. The best Polish companies from the 20 biggest sectors were classified in the ranking. Quality assessment was based on observation and feedback from consumers.

### ***Ranking of Trust***

- On 25 March 2009, the Rzeczpospolita daily published a ranking showing the banks that customers trust most. 33% of the survey respondents stated they trust Bank Zachodni WBK as a depositor, which gave the bank the third position in the ranking after PKO BP and Pekao S.A.

### **Awards to the subsidiaries of Dom Maklerski BZ WBK S.A.**

#### ***The biggest share in the NewConnect market trading***

- At the meeting titled "2008 – investment companies and the Stock Market: success in difficult conditions" held on 19 February 2009, the Warsaw Stock Exchange awarded Dom Maklerski BZ WBK S.A. for its biggest share in the NewConnect market trading without market-making activity in 2008.

#### ***The best stockbroking website***

- Dom Maklerski BZ WBK S.A. came first in the ranking of stockbroking websites published by Gazeta Prawna on 30 January 2009. Investors recognised the company's website for its educational and informative aspects, image as well as ergonomic use, while specialists showed their appreciation for the low number of errors by the W3C standards. It is the third time that Dom Maklerski BZ WBK S.A. has topped the ranking (previous editions were run on 25 February 2008 and 25 September 2008).

## 14. Significant accounting policies applied in Bank Zachodni WBK Group

### Statement of compliance

Condensed interim consolidated financial statements of Bank Zachodni WBK S.A. for the period from 1 January 2009 to 31 March 2009 were prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union, including amendments effecting from 1 January 2009 and other applicable regulations.

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

Standard or interpretation	Character of changes	Effective from	Impact on the Group
IFRS 3 (Revised) <i>Business Combinations</i>	The scope of the revised standard has been broadened (some business combinations excluded from the previous version of the standard have not been excluded from the scope of the revised IFRS 3). A definition of a business has been altered in order to be more precise. The definition of contingent liabilities capable of being recognised in the business combination has been narrowed. Transaction costs are no longer included in the cost of the combination. Rules of recognition of contingent consideration have been modified (to fair value measurement). Non-controlling (minority) interest may be measured at fair value.	1 July 2009	Revised IFRS 3 will not have a material impact of the financial statements

Amendments to IAS 27 <i>Consolidated and Separate Financial Statements</i>	<p>In relation with the revised IFRS 3 (above), the changes introduced to IAS 27 include the following:</p> <ul style="list-style-type: none"> <li>• changed definition of non-controlling (minority) interest;</li> <li>• regulation of recognition and measurement of transactions with non-controlling interest while retaining control;</li> <li>• changed recognition and measurement of loss of control;</li> <li>• new disclosure requirements.</li> </ul>	1 July 2009	Amendments to IFRS 27 will not have a material impact of the financial statements.
Amendment to IAS 39, <i>Financial Instruments: Recognition and Measurement</i>	The amended Standard clarifies the application of existing principles that determine whether specific risks or portions of cash flows are eligible for designation in a hedging relationship. In designating a hedging relationship the risks or portions must be separately identifiable and reliably measurable; however inflation cannot be designated, except in limited circumstances.	1 July 2009	Amendments to IAS 39 will not have a material impact of the financial statements.

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

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

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

Fixed assets held for sale the Group measures at the lower of its carrying amount and fair value less cost to sell.

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

The accounting policies have been applied consistently by Group entities.

## Comparability with results of previous periods

To ensure comparability, the following substantial changes were made to the presentation of financial data compared to 1Q 2008 in:

a) consolidated income statement:

- change of presentation of income from FX forward transactions - currently in „Net trading income and revaluation” while previously the amount of PLN 4 801 k was classified as “Net fee and commission income”

b) consolidated statement of financial position:

- change of presentation of a regular way purchase or sale of financial asset and recognising it in the statement of financial position using the trade date accounting rather than the settlement date. As at 31.03.2008 the increase in “Loans and advances to customers” in the amount of PLN 122 829 k and the decrease in “Investment securities” in the amount of PLN 122 829 k. As at 31.12.2008 there was no regular way purchase or sale of financial assets.

c) consolidated statement of cash flows:

As a result of changes in the interpretation of IFRS 7, the definition of cash components was revised and applied. Since January 2009 cash components have included other liquid financial assets with maturity up to 3 months. The details of reclassification are presented in the table below.

		31.12.2008		31.03.2008		31.12.2007	
Cash components:		Before revision	After revision	Before revision	After revision	Before revision	After revision
Deposits in other banks, current account *	(1)	20 355	1 361 786	25 276	3 453 646	32 274	2 555 201
Cash and current accounts in central bank		3 179 107	3 179 107	1 428 511	1 428 511	2 206 265	2 206 265
Debt securities held for trading*	(2)	-	168 618	-	779 371	-	208 635
Debt securities available for sale*	(3)	-	615 802	-	26 743	-	53 447
<b>Total</b>		<b>3 198 462</b>	<b>5 324 313</b>	<b>1 453 787</b>	<b>5 688 271</b>	<b>2 238 539</b>	<b>5 023 548</b>

\* with maturity up to 3 months

The changes were made to appropriate items of the statement of cash flows, i.e.:

- 1) Change in loans and advances to banks,
- 2) Change in trading portfolio financial instruments,
- 3) Purchase of investment securities.

The above changes were also made to the stand-alone Statement of Cash Flows. Consolidated cash components disclosed in “Deposits in other banks, current account” are higher by the amount of PLN 7 993 k (as at 31.12.2008), PLN 7 311 k (31.12.2007), PLN 2 063 k (31.03.2008) – concerning transactions of the subsidiaries.

## Accounting estimates and judgments

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

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

## **Main estimates and judgments made by the Group**

### ***Loan impairment***

The estimation of potential loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, economic climates, conditions in various industries to which BZWBK Group is exposed and other external factors such as legal and regulatory requirements. A provision is made against problem loans when, in the judgement of management, the estimated repayment realizable from the obligor, including the value of any security available, is likely to fall short of the amount of exposure outstanding on the obligor's loan or overdraft account. The amount of provision made in BZWBK Group's consolidated financial statements is intended to cover the difference between the assets' carrying value and the present value of estimated future cash flows discounted at the assets' original effective interest rates. The management process for the identification of loans requiring provision is underpinned by independent tiers of review. Credit quality and loan loss provisioning are independently monitored by head office personnel on a regular basis. A groupwide system for grading advances according to agreed credit criteria exists with an important objective being the timely identification of vulnerable loans so that remedial action can be taken at the earliest opportunity. Credit rating is fundamental to the determination of provisioning in BZWBK Group; it triggers the process which results in the creation of provision on individual loans where there is doubt on recoverability. IBNR (Incurred But Not Reported) provisions are also maintained to cover loans, which are impaired at the end of the reporting period and, while not separately identified, are known from experience to be present in any portfolio of loans. IBNR provisions are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements, historic loan loss rates, changes in credit management, procedures, processes and policies, economic climates, portfolio sector profiles/industry conditions and current estimates of loss in the portfolio. Estimates of loss are driven by the following key factors;

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

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

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

The value of the fixed-assets of the Group is reviewed as at the end of the reporting period to specify whether there are reasons for write-down due to impairment. If there are such reasons, recoverable value of assets should be determined.



In case intangible assets not yet available for use, recoverable value is determined each time at the end of the reporting period.

Write-down due to impairment is recognized if book value of an asset exceeds its recoverable value and is presented in the profit and loss account.

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

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

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

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

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

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

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

### **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 is presumed to exist when the Bank, directly or indirectly through subsidiaries, more than half of the voting power of an entity. Control also exists when the parent owns half or less of the voting power of an entity when there is:

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

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

### ***Purchase method of accounting***

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

### ***Joint ventures***

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement.

The consolidated financial statements include the Group's share of the total recognised gains and losses of joint ventures on an equity accounted basis.

### ***Associates***

Associates are those entities in which the Group has significant influence, but are not subsidiaries, neither joint ventures.

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

### ***Transactions eliminated on consolidation***

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

## **Foreign currency**

### ***Foreign currency transactions***

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

## 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;
- available-for-sale financial assets;
- other financial liabilities.

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

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

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

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

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

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

**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**

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

**Recognition**

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

A regular way purchase or sale of a financial asset are recognised using trade date accounting. The method is applied consistently for all purchases and sales of financial assets.

Loans are recognised in the statement of financial position when cash is advanced to the borrowers. At the time of signing the loan agreement, the loans are recognised as off-balance sheet commitments.

**Derecognition**

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

A regular way purchase or sale of a financial asset are derecognised using trade date accounting. The method is applied consistently for all purchases and sales of financial assets.

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

**Measurement**

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

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

- (a) loans and receivables which shall be measured at amortised cost using the effective interest method;
- (b) held-to-maturity investments, which are measured at amortised cost using the effective interest rate;
- (c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method, except for:

- (a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value,
- (b) financial liabilities resulting from transferring a financial asset that is not to be derecognised.

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

### **Gains and losses on subsequent measurement**

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

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

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

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

### ***Offsetting financial instruments***

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when there is:

- (a) a legally enforceable right to set off the recognised amounts
- (b) and when there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### **Repo and Reverse Repo**

The Group also generates/invests funds by selling/purchasing financial instruments under repurchase/reverse repurchase agreements whereby the instruments must be repurchased/resold at the previously agreed price.

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

Securities purchased subject to resale agreements ("reverse repos") are not recognised at the statement of financial position at the end of the reporting period. The difference between purchase and resale price is treated as interest and accrued over the life of the agreements.

### ***Derivative financial instruments***

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

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) 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 repackaging) or based on a valuation technique whose variables include only data from observable markets.

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

### **Hedge accounting**

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

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

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

The Group discontinues hedge accounting when:

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

### ***Fair value hedge***

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

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

**Cash flow hedge**

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

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

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

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

**Impairment of financial assets*****Assets carried at amortised cost - loans and receivables***

The Group assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets, or off-balance sheet commitments are impaired. A financial asset or a group of financial assets, or off-balance sheet commitments are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that a financial asset or group of assets is impaired includes observable data about the following loss events:

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

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

The analysis of impairment is carried out:

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

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

If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised by the Group are not included in a collective assessment of impairment.

For the purpose of the collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of the Group's credit risk evaluation or the Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The Group reviews regularly the methodology and assumptions used for estimating future cash flows in order to reduce any differences between loss estimates and actual loss experience.

In the case of credit exposures for which no indications of impairment were identified, the Group (Bank) carries out the impairment analysis based on the concept of losses already incurred but not yet reported and connected with loan impairment (IBNR – Incurred But Not Reported), which is estimated on the basis of the historical loss experience for loans with a similar risk profile, on the basis of estimated period between the occurrence of impairment and the identification as well as evidencing loss, and on the basis of historical data adjustments, as described above.



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

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

### ***Available-for-sale financial assets***

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

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

### ***Held-to-maturity investments***

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

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

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

***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 in the statement of financial position.

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 in the statement of financial position.

**Property, plant and equipment*****Owned assets***

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

***Leased assets***

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

***Subsequent expenditure***

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

***Depreciation***

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

• buildings	40 years
• structures	22 years
• plant and equipment	3 – 14 years
• vehicles	4 years

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

***Fixed assets held for sale***

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

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

## **Intangible assets**

### ***Computer software***

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

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

### ***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 particular intangible assets. The estimated useful lives are from 3 to 5 years.

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

## **Other items of the statement of financial position**

### ***Other trade and other receivables***

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

### ***Borrowings***

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

### ***Liabilities***

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

## Equity

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

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

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

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

The result of valuation of profit sharing scheme is included in reserve capital (IFRS 2.53). Revaluation reserve is comprised of adjustments relating to the valuation of available-for-sale financial assets and adjustments relating to the valuation of effective cash flow hedges taking into account deferred tax.

Revaluation reserve is not distributable.

On the day of derecognition of all or part of financial assets available for sale the total effects of periodical change in the fair value reflected in the revaluation reserve are reversed. Total or part of the previous revaluation charge increases or decreases the value of the given financial asset available for sale. The effects of the fair value changes are removed from the revaluation reserve with a corresponding change in the profit and loss account.

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

## Dividends

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

## Employee benefits

### *Short-term service benefits*

The Group's short-term employment benefits include wages, bonuses, holiday pay and social insurance payments are recognised as an expense as incurred.

### *Long-term service benefits*

The Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The accrual for retirement bonus granted under the provisions of the Collective Labour Agreement and terms of individual employee contracts as well as the accrual for disability pension bonus were estimated using actuarial valuation method. The valuation of those accruals is updated at least once a year.

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

### ***Profit Sharing Scheme***

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

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

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

### **Provisions**

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

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

**Net interest income**

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

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

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

**Net commission income**

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

Other fees and charges, which are not settled according to effective interest rate, are taken to profit and loss account in accordance with accrual method. Net commission income from FX transactions in the branch network includes elements of revaluation.

**Net trading income and revaluation**

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

**Dividend income**

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

**Profit on disposal of subsidiaries, associates and joint ventures**

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

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

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

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

### **Operating lease payments**

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

### **Finance lease payments**

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

### **Corporate income tax**

Corporate income tax comprises current and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised directly in other comprehensive income rather than as profit or loss.

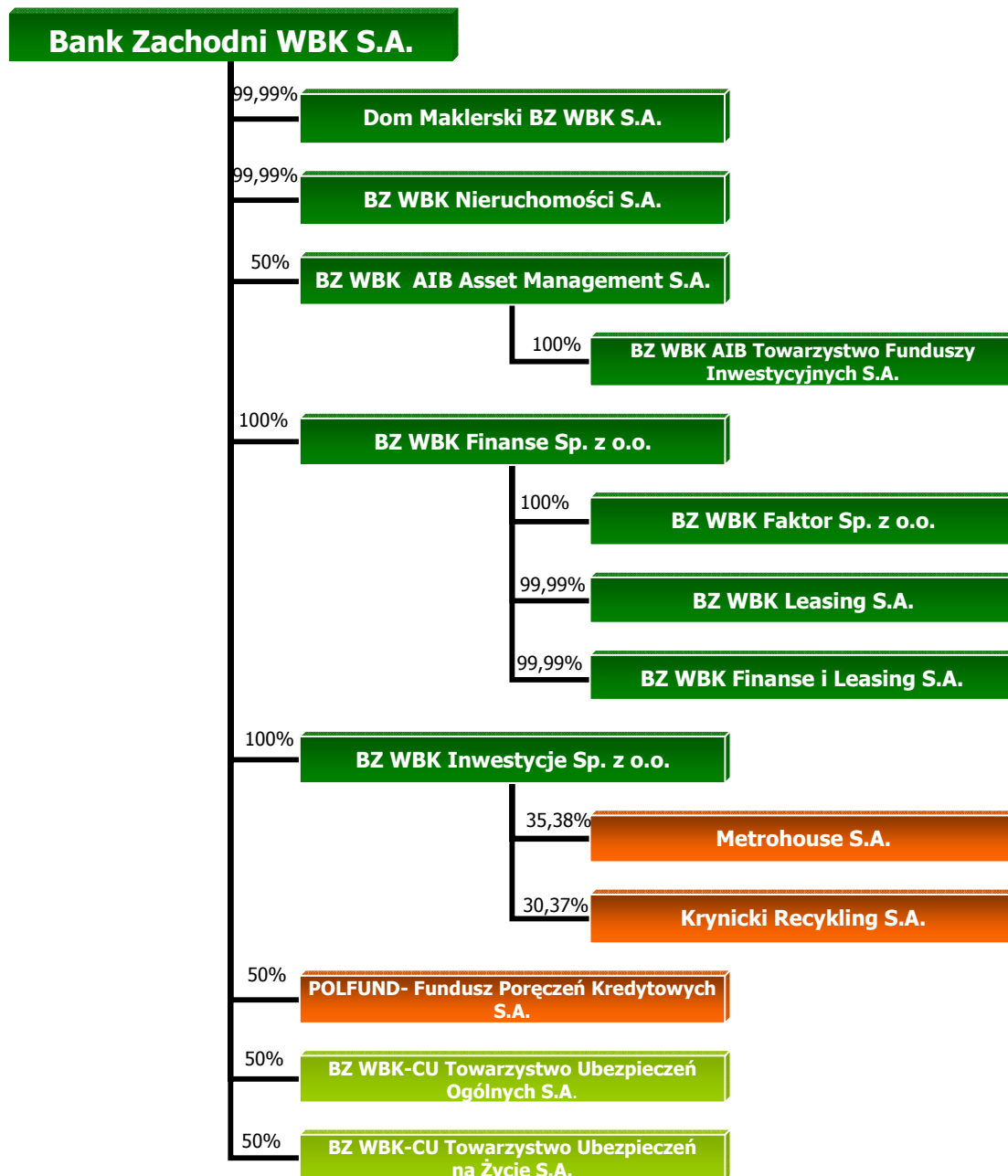
Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.

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

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

## 15. Description of organization of Bank Zachodni WBK Group

Graphical representation of the Group's organization structure and information about types of connection within the Group:



### Legend:

- % share in the voting rights at GSM
- Subsidiaries (fully consolidated with BZ WBK S.A.)
- Associates
- Joint ventures



Pursuant to IAS 27, the following subsidiary undertakings were fully consolidated in the financial statements of Bank Zachodni WBK for 1Q 2009:

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

In the 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.

Pursuant to IAS 28, as at 31 March 2009, associated undertaking POLFUND – Fundusz Poręczeń Kredytowych S.A. and two jointly controlled entities: BZ WBK - CU Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK - CU Towarzystwo Ubezpieczeń na Życie S.A. were accounted for using the equity method.

Two entities: Metrohouse S.A. and Krynicki Recycling S.A. were classified as associates of the Bank's subsidiary BZ WBK Inwestycje Sp. z o.o. They were also accounted for using the equity method.

Purchase of shares of Metrohouse SA and Krynicki Recycling S.A. was part of building a portfolio of pre-IPO type of investment.

## 16. Related party disclosures

The Group companies enter into intercompany transactions. The transactions are effected between subsidiaries, associates and parent entity. Most of the transactions are banking transactions made as part of ordinary business activities and mainly include loans, deposits and guarantees.

Intercompany transactions effected by the bank and its subsidiaries have been eliminated during the consolidation process.

The table below contains information about transactions effected by the bank and its subsidiaries with related entities at the end of the reporting period.

**Receivables and liabilities relating to transactions with connected entities****31.03.2009**

Receivables	of which from subsidiaries	of which from associates and joint ventures	of which from the parent company (AIB Group)	Total
Loans and advances to banks	884 273	-	883 042*	1 767 315
Financial assets held for trading	322	-	153 000	153 322
Hedging derivatives	183 294	-	-	183 294
Loans and advances to customers	994 373	-	-	994 373
Investment securities	-	-	147 118	147 118
Other assets	22 980	-	1 107	24 087
<b>Total</b>	<b>2 085 242</b>	<b>-</b>	<b>1 184 267</b>	<b>3 269 509</b>

Liabilities	of which from subsidiaries	of which from associates and joint ventures	of which from the parent company (AIB Group)	Total
Deposits from banks	990 326	-	1 640 797**	2 631 123
Hedging derivatives	161	-	2 686	2 847
Financial liabilities held for trading	183 294	-	738 569	921 863
Deposits from clients	860 632	144 957	-	1 005 589
Debt securities in issue	160	-	-	160
Other liabilities	50 669	-	11 618	62 287
<b>Total</b>	<b>2 085 242</b>	<b>144 957</b>	<b>2 393 670</b>	<b>4 623 869</b>

\* incl.: deposits of PLN 883 042 k.

\*\* incl.: loans granted to BZ WBK subsidiaries in the amount of PLN 940 116 k, repo transactions of PLN 681 177 k and deposits of PLN 19 504 k.

**31.12.2008**

Receivables	of which from subsidiaries	of which from associates and joint ventures	of which from the parent company (AIB Group)	Total
Loans and advances to banks	1 128 384	-	254 035*	1 382 419
Financial assets held for trading	335	-	187 878	188 213
Hedging derivatives	99 355	-	-	99 355
Loans and advances to customers	857 055	-	-	857 055
Investment securities	19	-	129 164	129 183
Other assets	16 263	-	4 068	20 331
<b>Total</b>	<b>2 101 411</b>	<b>-</b>	<b>575 145</b>	<b>2 676 556</b>

Liabilities	of which from subsidiaries	of which from associates and joint ventures	of which from the parent company (AIB Group)	Total
Deposits from banks	852 810	-	1 885 144**	2 737 954
Hedging derivatives	154	-	1 489	1 643
Financial liabilities held for trading	99 356	-	671 136	770 492
Deposits from clients	1 103 157	121 191	-	1 224 348
Debt securities in issue	180	-	-	180
Other liabilities	45 735	-	15 123	60 858
<b>Total</b>	<b>2 101 392</b>	<b>121 191</b>	<b>2 572 892</b>	<b>4 795 475</b>

\* incl.: deposits in the amount of PLN 253 549 k and current accounts of PLN 486 k.

\*\* incl.: loans granted to BZ WBK subsidiaries in the amount of PLN 834 572 k, repo transactions of PLN 588 159 k and deposits of PLN 462 413 k.

The difference on transactions with subsidiaries in the amount of PLN 19 k results from prepaid expenses which are recognised in profit and loss.

**31.03.2008**

Receivables	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Loans and advances to banks	1 386 954	-	364 893*	1 751 847
Financial assets held for trading	8 376	-	36 583	44 959
Hedging derivatives	3 168	-	668	3 836
Loans and advances to customers	841 132	-	-	841 132
Investment securities	-	-	202 068	202 068
Other assets	103 857	-	-	103 857
<b>Total</b>	<b>2 343 487</b>	<b>-</b>	<b>604 212</b>	<b>2 947 699</b>

Liabilities	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Deposits from banks	837 600	-	1 519 290**	2 356 890
Hedging derivatives	7 486	-	-	7 486
Financial liabilities held for trading	3 830	-	71 948	75 778
Deposits from clients	1 364 216	54 707	1 317	1 420 240
Debt securities in issue	228	-	-	228
Other liabilities	130 127	-	18 607	148 734
<b>Total</b>	<b>2 343 487</b>	<b>54 707</b>	<b>1 611 162</b>	<b>4 009 356</b>

\* incl.: deposits in the amount of PLN 321 999 k and current accounts of PLN 42 894 k.

\*\* incl.: loans granted to BZ WBK subsidiaries in the amount of PLN 353 098 k, repo transactions of PLN 634 269 k and deposits of PLN 531 923 k.

**Revenues and expenses relating to transactions with connected entities****01.01.2009-31.03.2009**

Income	of which from subsidiaries	of which from associates and joint ventures	of which from the parent company (AIB Group)	Total
Interest and similar income	21 932	-	2 658	24 590
Fee and commission income	21 440	15	9	21 464
Other operating income	1 705	-	621	2 326
Net trading income and revaluation	2 307	-	-	2 307
<b>Total</b>	<b>47 384</b>	<b>15</b>	<b>3 288</b>	<b>50 687</b>

Expenses	of which from subsidiaries	of which from associates and joint ventures	of which from the parent company (AIB Group)	Total
Interest expense and similar charges	23 585	1 713	12 222	37 520
Fee and commission expense	21 479	-	86	21 565
Net trading income and revaluation	-	-	101 387	101 387
Gains (losses) from other financial securities	-	-	2 363	2 363
Other operating expenses incl.: <i>Bank's operating expenses and management costs</i>	2 320	-	7 382	9 702
<i>other</i>	2 314	-	7 382	9 696
	6	-	-	6
<b>Total</b>	<b>47 384</b>	<b>1 713</b>	<b>123 440</b>	<b>172 537</b>

01.01.2008-31.03.2008

Income	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Interest and similar income	31 410	-	3 639	35 049
Fee and commission income	41 436	-	-	41 436
Other operating income	1 722	-	-	1 722
Net trading income and revaluation	965	-	2 946	3 911
<b>Total</b>	<b>75 533</b>	<b>-</b>	<b>6 585</b>	<b>82 118</b>

Expenses	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Interest expense and similar charges	31 783	710	13 254	45 747
Fee and commission expense	41 280	-	42	41 322
Net trading income and revaluation	-	-	14 161	14 161
Gains (losses) from other financial securities	-	-	702	702
Other operating expenses incl.:	2 470	-	7 332	9 802
<i>Bank's operating expenses and management costs</i>	2 453	-	7 332	9 785
<i>other</i>	17	-	-	17
<b>Total</b>	<b>75 533</b>	<b>710</b>	<b>35 491</b>	<b>111 734</b>

## Off balance sheet positions relating to transactions with connected entities

31.03.2009

Intragroup transactions - off-balance sheet liabilities and derivatives' nominal values	of which from subsidiaries	of which from the parent company (AIB Group)
<b>1. Sanctioned contingent liabilities</b>	<b>1 344 568</b>	<b>180 000</b>
- financing-related	1 287 951	180 000
- guarantees	56 617	-
<b>2. Received contingent liabilities</b>	<b>1 344 568</b>	<b>21 067</b>
- financing-related	1 287 951	21 067
- guarantees	56 617	-
<b>3. Derivatives' nominal values, including:</b>	<b>2 869 825</b>	<b>19 545 174</b>
-cross-currency interest rate swaps- purchased	1 124 026	929 580
-cross-currency interest rate swaps- sold	1 471 507	1 135 011
-single-currency interest rate swaps	265 218	4 609 519
-FX forward- purchased	4 547	-
-FX forward- sold	4 527	-
-FRA	-	150 000
-options	-	11 452
-FX swap – purchased amounts	-	5 089 790
-FX swap – sold amounts	-	5 037 679
-FX options -purchased	-	1 137 135
-FX options -sold	-	1 426 686
-spot-purchased	-	8 288
-spot-sold	-	10 034
<b>Total</b>	<b>5 558 961</b>	<b>19 746 241</b>

Amounts of intragroup off-balance sheet transactions with associates are immaterial (in all periods) therefore they are not presented. There are not any transactions with joint ventures.

**31.12.2008**

Intragroup transactions - off-balance sheet liabilities and derivatives' nominal values	of which from subsidiaries	of which from the parent company (AIB Group)
<b>1. Sanctioned contingent liabilities</b>	<b>605 784</b>	<b>165 000</b>
- financing-related	555 510	165 000
- guarantees	50 274	-
<b>2. Received contingent liabilities</b>	<b>605 784</b>	<b>23 563</b>
- financing-related	555 510	23 563
- guarantees	50 274	-
<b>3. Derivatives' nominal values, including:</b>	<b>2 674 910</b>	<b>13 161 424</b>
-cross-currency interest rate swaps- purchased	1 124 026	480 590
-cross-currency interest rate swaps- sold	1 305 961	590 082
-single-currency interest rate swaps	244 923	3 954 781
-FRA	-	150 000
-options	-	10 221
-FX swap – purchased amounts	-	2 441 470
-FX swap – sold amounts	-	2 465 307
-FX options -purchased	-	1 226 585
-FX options -sold	-	1 761 203
-spot-purchased	-	39 224
-spot-sold	-	41 961
<b>Total</b>	<b>3 886 478</b>	<b>13 349 987</b>

**31.03.2008**

Intragroup transactions - off-balance sheet liabilities and derivatives' nominal values	of which from subsidiaries	of which from the parent company (AIB Group)
<b>1. Sanctioned contingent liabilities</b>	<b>793 939</b>	<b>1 324</b>
- financing-related	680 930	1 324
- guarantees	113 009	-
<b>2. Received contingent liabilities</b>	<b>793 939</b>	<b>623 630</b>
- financing-related	680 930	623 630
- guarantees	113 009	-
<b>3. Derivatives' nominal values, including:</b>	<b>1 008 871</b>	<b>5 983 718</b>
-cross-currency interest rate swaps- purchased	508 610	115 353
-cross-currency interest rate swaps- sold	493 612	149 423
-single-currency interest rate swaps	97	2 663 299
-FX forward- purchased	3 278	-
-FX forward- sold	3 274	-
- FRA	-	373 050
-options	-	8 770
-FX swap – purchased amounts	-	257 517
-FX swap – sold amounts	-	257 827
-FX options -purchased	-	786 890
-FX options -sold	-	1 318 063
-spot-purchased	-	26 886
-spot-sold	-	26 640
<b>Total</b>	<b>2 596 749</b>	<b>6 608 672</b>

**17. Comments concerning the seasonal or cyclical character of the annual activities**

The business activity of Bank Zachodni WBK S.A. and its subsidiary undertakings has no seasonal character.

## **18. Character and amounts of items which are extraordinary due to their nature, volume or occurrence**

No extraordinary events influencing the structure of the statement of financial position and financial performance occurred in Bank Zachodni WBK Group.

## **19. Issue, redemption or repayment of debt or equity instruments**

In 1Q 2009, neither Bank Zachodni WBK or any of its subsidiaries issued bonds or other own debt securities. BZWBK Finance & Leasing S.A. made a repayment of 3-year bonds - 3Z0209 and 2-year bonds - 2S0209 of total nominal value PLN 67 320 k with the final redemption date of 02.02.2009 and 05.02.2009, respectively.

At the end of 1Q 2009, the total value of obligations with respect to the issue of own bonds by BZWBK Leasing S.A. and BZWBK Finance & Leasing S.A. amounted to PLN 82 707 k (nominal value).

In 1Q 2008, neither Bank Zachodni WBK or any of its subsidiaries issued bonds or other own debt securities. BZWBK Leasing S.A. made a repayment of 3-year bonds - 3S0108 and 3-year bonds - 3S0308 of total PLN 39 997.5 k (nominal value) with the final redemption date of 10.01.2008 and 03.03.2008 respectively.

At the end of 1Q 2008, the total value of obligations with respect to the issue of own bonds by Bank Zachodni WBK S.A., BZWBK Leasing S.A. and BZWBK Finance & Leasing S.A. amounted to PLN 288 414 k (nominal value).

## **20. Dividend information**

On 21<sup>st</sup> April 2009 the Annual General Meeting of BZ WBK Shareholders divided the net profit of 2008 to the reserve capital and to the general risk fund. Therefore, Bank Zachodni WBK S.A. will not pay a dividend out of its income generated in 2008.

The Management Board allocated to dividends 27.04% of BZWBK net profit of 2007 (i.e. 22.93% of consolidated net profit attributable to the Company's equity holders) of PLN 218 880 852 i.e. PLN 3.00 per one share. Outstanding profit of PLN 590 593 185.45 was allocated to other reserve capital.

## **21. Income and profits by business segments**

Operational activity of the BZ WBK S.A. Group has been divided into five segments: Retail Banking, Business Banking, Investment Banking, Treasury and Centre. They were identified based on customers and product types. Income and costs assigned to a given segment are generated on sale and service of products or services in the segment, according to description presented below. Such income and costs are recognized in the profit and loss account for the Group and may be assigned to a given segment either directly or based on reasonable assumptions. Settlements among business segments apply to payments for delivered services and include:

- sale and/or service of customers assigned to a given segment, via sale/service channels operated by another segment;
- sharing of income and costs on transactions in cases where a transaction is processed for a customer assigned to a different segment;
- sharing of income and cost of delivery of common projects.

Income and cost allocations are regulated by segments on a mutual basis, according to single rates for specific services or agreements concerning the breakdown of total income and/or cost.

Assets and liabilities of a given segment are used for its operational activity and may be assigned to the segment directly or based on reasonable premises.

### **Retail Banking**

Retail Banking segment includes products and services targeted at individual customers for the bank and other financial institutions as well as products and services targeted at small and micro companies.

In the offer for customers of this segment there are a wide range of savings products, consumer and mortgage loans, credit and debit cards, insurance and investment products, clearing services, GSM phones top-ups, foreign payments and Western Union and private-banking services. For small and micro companies the segment additionally provides services such as cash management, leasing, factoring, trade financing and guarantees.

### **Business Banking**

Business Banking segment covers products and activities targeted at business entities, self-government units and the public sector. Apart from traditional banking services covering lending and deposit activities, the segment provides services in the areas of cash management, leasing, factoring, trade financing and guarantees.

### **Investment Banking**

Investment Banking segment includes such activities as underwriting financing via issue of securities, financial advisory services, brokerage services provided by Brokerage House and asset management services within investment funds.

### **Treasury**

Treasury involves the management of interest rate, currency and liquidity risks. The income is generated on currency and inter-bank transactions, as well as derivative instruments and debt securities transactions.

### **Centre**

The segment covers central operations, financing of other Groups' segments activity as well as other income and/or costs that cannot be reasonably assigned to one of the defined segments.

The principles of income and cost identification, as well as assets and liabilities for segmental reporting purposes tally with accounting policy applied in Bank Zachodni WBK S.A. Thereby there are no discrepancies between the valuation of segments' profit or loss, assets or liabilities, presented to the Management Board and the valuation of these components for the Group, which figures in the consolidated financial statement.

**Consolidated income statement (by business segments)**

31.03.2009	Retail Banking	Business Banking	Investment Banking	Treasury	Centre	Total
<b>Interest and similar income</b>	<b>245 735</b>	<b>114 483</b>	<b>6 633</b>	<b>(4 666)</b>	<b>(677)</b>	<b>361 508</b>
incl. internal transactions	42 367	(53 152)	12 008	-	(1 223)	-
<b>Other income</b>	<b>209 663</b>	<b>16 042</b>	<b>58 175</b>	<b>77 659</b>	<b>15 776</b>	<b>377 315</b>
incl. internal transactions	24 451	643	(14 005)	(13 860)	2 771	-
<b>Dividend income</b>	<b>-</b>	<b>-</b>	<b>26</b>	<b>-</b>	<b>-</b>	<b>26</b>
<b>Operating costs</b>	<b>(276 001)</b>	<b>(54 550)</b>	<b>(31 324)</b>	<b>(11 392)</b>	<b>(10 183)</b>	<b>(383 450)</b>
incl. internal transactions	5 219	(13 826)	(690)	5 681	3 616	-
<b>Depreciation/Amortisation</b>	<b>(24 784)</b>	<b>(2 391)</b>	<b>(2 268)</b>	<b>(582)</b>	<b>(98)</b>	<b>(30 123)</b>
<b>Impairment losses on loans and advances</b>	<b>(74 226)</b>	<b>(86 486)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(160 712)</b>
<b>Share in net profits of entities accounted for by the equity method</b>	<b>(2 951)</b>	<b>-</b>	<b>25</b>	<b>-</b>	<b>-</b>	<b>(2 926)</b>
<b>Profit before tax</b>	<b>77 436</b>	<b>(12 902)</b>	<b>31 267</b>	<b>61 019</b>	<b>4 818</b>	<b>161 638</b>
Corporate income tax						(31 407)
Profit of the period attributable to the Minority equity holders						(11 227)
<b>Profit for the period</b>						<b>119 004</b>



## Consolidated statement of financial position (by business segments)

31.03.2009	Retail Banking	Business Banking	Investment Banking	Treasury	Centre	Total
Loans and advances to customers	14 406 759	22 229 995	73 989	-	-	36 710 743
Investments in associates and joint ventures	29 163	-	25 131	-	-	54 294
Other assets	6 335 468	1 832 746	937 363	9 678 121	4 322 731	23 106 429
<b>Total assets</b>	<b>20 771 390</b>	<b>24 062 741</b>	<b>1 036 483</b>	<b>9 678 121</b>	<b>4 322 731</b>	<b>59 871 466</b>
Deposits from customers	32 641 735	7 981 291	514 781	301 330	-	41 439 137
Other liabilities	-	2 415 979	237 847	8 825 123	6 953 380	18 432 329
<b>Total liabilities</b>	<b>32 641 735</b>	<b>10 397 270</b>	<b>752 628</b>	<b>9 126 453</b>	<b>6 953 380</b>	<b>59 871 466</b>
Capital expenditures	15 107	2 330	703	191	1 696	20 027

**Consolidated income statement (by business segments)**

<b>31.03.2008</b>	<b>Retail Banking</b>	<b>Business Banking</b>	<b>Investment Banking</b>	<b>Treasury</b>	<b>Centre</b>	<b>Total</b>
<b>Interest and similar income</b>	<b>226 868</b>	<b>118 385</b>	<b>4 455</b>	<b>26 451</b>	<b>(430)</b>	<b>375 729</b>
incl. internal transactions	-	(11 216)	19 079	-	(7 863)	-
<b>Other income</b>	<b>184 805</b>	<b>30 149</b>	<b>127 970</b>	<b>24 492</b>	<b>16 576</b>	<b>383 992</b>
incl. internal transactions	40 263	8 068	(26 983)	(21 432)	84	-
<b>Dividend income</b>	<b>-</b>	<b>-</b>	<b>13</b>	<b>-</b>	<b>-</b>	<b>13</b>
<b>Operating costs</b>	<b>(264 793)</b>	<b>(50 453)</b>	<b>(43 356)</b>	<b>(9 174)</b>	<b>(13 429)</b>	<b>(381 205)</b>
incl. internal transactions	5 226	(14 059)	(1 235)	5 642	4 426	-
<b>Depreciation/Amortisation</b>	<b>(19 367)</b>	<b>(1 895)</b>	<b>(1 898)</b>	<b>(662)</b>	<b>(157)</b>	<b>(23 979)</b>
<b>Impairment losses on loans and advances</b>	<b>(14 553)</b>	<b>6 805</b>	<b>-</b>	<b>-</b>	<b>1 782</b>	<b>(5 966)</b>
<b>Share in net profits of entities accounted for by the equity method</b>	<b>-</b>	<b>-</b>	<b>(59)</b>	<b>-</b>	<b>-</b>	<b>(59)</b>
<b>Profit before tax</b>	<b>112 960</b>	<b>102 991</b>	<b>87 125</b>	<b>41 107</b>	<b>4 342</b>	<b>348 525</b>
Corporate income tax						(72 004)
Profit of the period attributable to the Minority equity holders						(33 420)
<b>Profit for the period</b>						<b>243 101</b>

**Consolidated statement of financial position (by business segment)**

<b>31.03.2008</b>	<b>Retail Banking</b>	<b>Business Banking</b>	<b>Investment Banking</b>	<b>Treasury</b>	<b>Centre</b>	<b>Total</b>
<b>Loans and advances to customers</b>	<b>10 346 687</b>	<b>15 904 001</b>	<b>39 800</b>	<b>-</b>	<b>-</b>	<b>26 290 488</b>
<b>Investments in associates and joint ventures</b>	<b>-</b>	<b>-</b>	<b>9 807</b>	<b>-</b>	<b>-</b>	<b>9 807</b>
<b>Other assets</b>	<b>5 249 859</b>	<b>1 529 099</b>	<b>1 113 856</b>	<b>7 856 785</b>	<b>2 831 244</b>	<b>18 580 843</b>
<b>Total assets</b>	<b>15 596 546</b>	<b>17 433 100</b>	<b>1 163 463</b>	<b>7 856 785</b>	<b>2 831 244</b>	<b>44 881 138</b>
<b>Deposits from customers</b>	<b>24 928 484</b>	<b>6 348 847</b>	<b>838 596</b>	<b>55 794</b>	<b>-</b>	<b>32 171 721</b>
<b>Other liabilities</b>	<b>-</b>	<b>1 818 883</b>	<b>294 041</b>	<b>4 756 276</b>	<b>5 840 217</b>	<b>12 709 417</b>
<b>Total liabilities</b>	<b>24 928 484</b>	<b>8 167 730</b>	<b>1 132 637</b>	<b>4 812 070</b>	<b>5 840 217</b>	<b>44 881 138</b>
<b>Capital expenditures</b>	<b>24 915</b>	<b>3 644</b>	<b>2 951</b>	<b>180</b>	<b>1 486</b>	<b>33 176</b>

- The Management Accounting system does not report revenues by the type of services and products to match the information disclosed in this financial report. To generate such information for reporting purposes would give rise to costs that would be out of proportion to the information value obtained.
- The BZWBK Group does not derive any significant revenues from transactions made abroad or from assets located outside of Poland.
- The BZWBK Group does not have any customers whose individual contribution to the Group's revenues would exceed 10%.

## 22. Acquisitions and disposals of investments in 1Q 2009

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

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

The Bank took up in BZ WBK Finanse Sp. z o.o. 1 000 shares with the nominal value of PLN 50 each which accounts for 100% of the share capital and 100% of votes at the General Meeting. The Bank took up the shares for the total of PLN 50 k.

The core business of the Company will be operating financial holdings.

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

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

1. 1,216,919 shares of BZ WBK Leasing S.A. with a total nominal value of PLN 121 691 900.00 representing 99.99 % of the share capital and votes at the company's AGM, with the total value equalling the carrying value in the Bank's books of PLN 61,257,096.09. The value of shares in the BZ WBK Finanse books will total PLN 61,257,096.09;
2. 100 shares of BZ WBK Faktor Sp. z o.o. with a total nominal value of PLN 50 000.00 representing 100% of the share capital and votes at the company's AGM, with the total value equalling the carrying value in the Bank's books of PLN 6,200,073.20. The value of shares in the BZ WBK Finanse books will total PLN 6,200,073.20.
3. 504,999 shares of BZ WBK Finanse i Leasing S.A., with a total nominal value of PLN 50,499,900.00. representing 99.99% of the share capital and votes at the company's AGM, with the total value equalling the carrying value in the Bank's books of 50 512 484,00 zł. The value of shares in the BZ WBK Finanse books will total PLN 50,512,484.00;

The above shares represent the Bank's non-cash contribution to the BZWBK Finanse capital with a total value of PLN 67,457,169.29 in return for which the Bank at the registration of the share capital increase will take up 11 436 new shares in the increased share capital of BZ WBK Finanse.

### ***Purchase of shares and registration of a new subsidiary Krynicki Recykling S.A.***

BZ WBK Inwestycje Sp. z o.o. (the Bank's subsidiary) took up in Krynicki Recykling S.A. 3,076,852 shares of its new issue (representing 30.37 % of the share capital) with the nominal value of PLN 3.25 each. The company took up the shares for the total of PLN 9,999,769.00. The agreement was signed on 19<sup>th</sup> of December 2008, the registration of the share capital increase – on 2<sup>nd</sup> of February 2009.

Krynicki Recykling S.A, seated in Olsztyn, is quoted on the NewConnect market. It operates in an environmental protection industry sector.

## 23. Changes to the contingent liabilities or assets

### 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	31.03.2009	31.12.2008	Movement
<b>Liabilities sanctioned</b>	<b>9 611 109</b>	<b>10 430 471</b>	<b>(819 362)</b>
- <b>financial</b>	<b>8 732 150</b>	<b>9 528 754</b>	<b>(796 604)</b>
- import letters of credit	7 473 842	8 406 859	(933 017)
- credit lines	908 287	879 874	28 413
- credit cards debits	283 227	182 000	101 227
- term deposits with future commencement term	66 794	60 021	6 773
- <b>guarantees</b>	<b>878 959</b>	<b>901 717</b>	<b>(22 758)</b>
<b>Received liabilities</b>	<b>7 894 468</b>	<b>2 495 217</b>	<b>5 399 251</b>
<b>Total</b>	<b>17 505 577</b>	<b>12 925 688</b>	<b>4 579 889</b>

As at 31.03.2009 the Bank received/sanctioned guarantees of PLN 113 234 k (as at 31.12.2008 – PLN 100 549 k) to following subsidiary undertakings: BZ WBK Finanse & Leasing S.A., BZ WBK Leasing SA, Dom Maklerski BZWBK SA, BZWBK TFI S.A. and BZWBK Nieruchomości S.A. and credit lines of PLN 2 579 902 k (as at 31.12.2008 – PLN 1 111 020 k ) to BZ WBK Finanse & Leasing S.A., BZ WBK Leasing SA, Dom Maklerski BZWBK SA, BZWBK Faktor Sp. z o.o. and BZ WBK Inwestycje Sp. z o.o. They were eliminated as intragroup transactions.

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

These contingent liabilities carry an off-balance sheet credit risk as only the funding arrangement fees and loan loss provisions are disclosed in the statement of financial position 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.

## 24. Off-balance sheet liabilities relating to derivatives' nominal values

Off-balance sheet liabilities relating to derivatives' nominal values as at 31.03.2009, 31.12.2008 and 31.03.2008.

Off-balance sheet liabilities relating to derivatives' nominal values	31.03.2009	31.12.2008	31.03.2008
<b>1. Term derivatives (hedging)</b>	<b>2 303 341</b>	<b>2 704 674</b>	<b>1 222 290</b>
a) Single-currency interest rate swaps	1 203 341	1 854 674	1 172 290
b) Macro cash flow hedge	1 100 000	850 000	50 000
<b>2. Term derivatives (trading)</b>	<b>125 646 394</b>	<b>139 222 595</b>	<b>148 098 934</b>
a) Interest rate operations	64 859 935	91 494 888	109 222 680
- Single-currency IRS	36 498 483	47 134 667	62 440 860
- FRA	28 350 000	44 350 000	46 773 050
- Options	11 452	10 221	8 770
b) FX operations	60 786 459	47 727 707	38 876 254
- FX swap – purchased amounts	21 038 075	14 425 872	12 708 600
- FX swap – sold amounts	21 359 464	14 983 627	12 710 515
- Forward- purchased amounts	3 403 304	3 696 166	2 641 616
- Forward- sold amounts	3 138 751	3 538 979	2 671 933
- Double-currency interest rate swaps – purchased amounts	3 273 818	2 500 262	2 023 952
- Double-currency interest rate swaps – sold amounts	3 961 611	2 849 197	1 909 732
- FX options -purchased	2 305 718	2 866 802	2 104 953
- FX options -sold	2 305 718	2 866 802	2 104 953
<b>3. Currency transactions- spot</b>	<b>1 284 290</b>	<b>957 290</b>	<b>667 971</b>
- spot-purchased	642 554	478 844	334 084
- spot-sold	641 736	478 446	333 887
<b>4. Transactions on equity instruments</b>	<b>1 116</b>	<b>928</b>	<b>115 355</b>
- Futures	1 116	928	115 355
<b>Total</b>	<b>129 235 141</b>	<b>142 885 487</b>	<b>150 104 550</b>

## 25. Principles of PLN conversion into EUR

Selected financial figures for 1Q 2009 and 1Q 2008 were converted according to the following principles:

- statement of financial position items– 4.7013 as at 31.03.2009 and 3.5258 as at 31.03.2008; EUR/PLN rate current at the balance sheet date and announced by the National Bank of Poland
- items of profit and loss account - according to the exchange rate EUR/PLN announced by the National Bank of Poland and calculated as an arithmetic mean of the rates from the last day of each month of particular year– as at 31.03.2009 – 4.5994, as at 31.03.2008 – 3.5574.

## 26. Shareholders with min. voting power of 5%

According to the information held by the Bank's Management Board, the shareholder with a min. 5% of the total number of votes at the BZWBK Annual General Meeting as at the publication date of the quarterly consolidated report for 1Q 2009 /14.05.2009/ is AIB European Investments Ltd. based in Dublin.

Shareholder	No. of shares held	% shareholding	No. of votes at AGM	% share in total number of votes at AGM
<b>As at 14.05.2009</b>				
AIB European Investments Limited	51 413 790	70,5 %	51 413 790	70,5 %
<b>As at 02.03.2009</b>				
AIB European Investments Limited	51 413 790	70.5 %	51 413 790	70.5 %

## 27. Changes in shareholding of members of the Management and Supervisory Boards

	No. of Bank Zachodni WBK shares held		Change
	As at 14.05.2009	As at 02.03.2009	
Members of the Supervisory Board	278	278	-

Table below presents personal shareholding of Supervisory and Management Board Members as at 14<sup>th</sup> May 2009:

Owner	No. of shares
<b>Supervisory Board</b>	
Waldemar Frąckowiak	278

No other Supervisory or Management Board Member is in possession of BZWBK shares.

## 28. Information about the commenced court proceedings

As at 31 March 2009 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Group or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 224 365 k, which is ca 4.31% of Group's equity. This amount includes PLN 31 278 k claimed by the Bank, PLN 57 791 k in claims against the Bank and PLN 135 296 k are Bank's receivables due to bankruptcy or arrangement cases.

As at 31 March 2008 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 totalled PLN 288 622 k, which was ca. 6.05% of Group's equity. This amount includes PLN 71 650 k claimed by the Bank, PLN 57 707 k in claims against the Bank and PLN 159 265 k are Bank's receivables due to bankruptcy or arrangement cases.

## 29. Information concerning issuing loan and guarantees by an issuer or its subsidiary

By the end of March 2009 Bank Zachodni WBK S.A. and its subsidiaries had not issued any guarantees to one business unit or a subsidiary totalling a minimum of 10% of the issuer's equity.

## 30. Events which might affect financial performance over the next quarter

The most important factors which may affect financial results of the bank in future are:

- continuously high level of costs of financing banks' assets, in particular in the case of retail deposits and FX swaps (especially with possible further weakening of the zloty), which will have significant impact on the credit policy of banks and prospects for the increase in households and corporate borrowing;

- negative economic growth rate in the environment of the Polish economy, especially in the European Union, leading to the fall in Poland's exports, production, fixed investment and employment; weaker financial stance of enterprises and worse labour market conditions resulting in deterioration of the banks' credit portfolio;
- continuation of interest rate cuts by the central bank due to deterioration of economic growth prospects and still favourable inflation outlook;
- persistently high risk aversion and prolonged downward tendency in the stock markets may lead to continuation of outflow of funds from the stock market and sustained willingness of clients to keep funds in banks' deposits despite gradually falling interest rates;
- stagnant demand in the property market and further decline in apartment prices, reflecting the worsening situation in the labour market and the lower availability of loans; however, the price decreases will be limited by the large structural deficit of apartments in Poland; in the mid-term a strong reduction in the primary market supply of houses and apartments may be expected as developers put new investments on hold; this will again lead to a pressure on price increases.

### **31. Events which occurred after the balance sheet date**

#### ***Stepping down from the Supervisory Board position***

On 21 April 2009 (effective of 21 April 2009), Mr James Edward O'Leary stepped down from his position of the Supervisory Board member without disclosing the reason for so doing.

#### ***Annual General Meeting of BZ WBK Shareholders on 21<sup>st</sup> April 2009:***

1. approved the submitted by the Bank's Management Board financial statements of Bank Zachodni WBK SA and consolidated financial statements of Bank Zachodni WBK Group for the period beginning on the 1<sup>st</sup> January 2008 until the 31<sup>st</sup> December 2008
2. divided the net profit generated by Bank Zachodni WBK in the accounting year commenced on 01.01.2008 and ended on 31.12.2008 in the following way:
  - the amount of PLN 689,165,160.39 will be allocated to the reserve capital,
  - the amount of PLN 120,000,000.00 will be allocated to the general risk fund.
3. granted the word of approval to the Members of the Management Board and the Supervisory Board
4. resolved to amend the Bank's Statutes and to adopt the uniform text of the Bank's Statutes
5. approved the BZ WBK Supervisory Board's report on its activities in 2008, the BZ WBK Supervisory Board's report on the examination of: BZ WBK financial statements for 2008, consolidated financial statements of the BZ WBK Group for 2008; report on BZ WBK and BZ WBK Group operations.

#### ***New term of office of the Bank Zachodni WBK Management Board***

On 21 April 2009 the Bank's Supervisory Board appointed the Bank's Management Board for the next term of office in the following composition:

Mateusz Morawiecki	- President of Management Board
Paul Barry	- Member of the Management Board
Andrzej Burliga	- Member of the Management Board
Declan Flynn	- Member of the Management Board
Justyn Konieczny	- Member of the Management Board



Janusz M. Krawczyk	- Member of the Management Board
Jacek Marcinowski	- Member of the Management Board
Michael McCarthy	- Member of the Management Board
Marcin Prell	- Member of the Management Board
Mirosław Skiba	- Member of the Management Board
Feliks Szyszkowski	- Member of the Management Board

***AGM of BZWBK SA - list of shareholders with a block of shares in excess of 5%***

AIB European Investments Ltd. based in Dublin was the only shareholder with at least 5% of the total voting power at the Annual General Meeting of the BZ WBK Shareholders held on 21 April 2009. The shares held by AIB European Investments Limited carried 51,413,790 votes, which constituted 91,38% votes on this Meeting and 70,5% total votes.

SIGNATURES OF THE PERSONS REPRESENTING THE ENTITY			
Date	Name	Function	Signature
14-05-2009	Paul Barry	Member of the Management Board	
14-05-2009	Wojciech Skalski	Financial Accounting Area Director	