Consolidated financial statements of Bank Zachodni WBK S.A. Group for 2006

Ladies and Gentlemen,

last year was a record one for the Group of Bank Zachodni WBK. In that period our PBT totalled PLN 1 065,5 m, and PAT was PLN 758,2 m. Against 2005 this represents a growth by 54,5 % and 46,9 % respectively.

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

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

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

In 2006, companies from BZWBK Group achieved excellent results. Thanks to the excellent management performance, BZWBK AIB Towarzystwo Funduszy Inwestycyjnych got very close to the market leader's position in terms of funds under management. Last year was also very good for BZWBK Brokerage House who considerably grew its market share. Our leasing companies has a very good year, too.

Undoubtedly, the Group's last year's success was also driven by objective factors, i.e. economic conditions in Poland. In 2006, inflation was kept at a low level and the GDP growth rate amounted to 5.8% and was higher than expected by majority of analysts.

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

The 2006 success and strong foundations that ensure success in the years to come mobilise us to face new business challenges but also make us sensitive to social issues. Our charity activity addressed to disadvantaged children is spreading wider and wider. In 2006, the number of our scholarship holders increased and so did the number of children learning English and number of children who went on summer and winter camps organised by us. In 2006 we spent PLN 2.4m on charity. Our intention is to increase this amount as we are of the opinion that our obligation is to share the success with those who deserve support.

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

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in thousands of PLN

1. Consolidated income statement

For reporting periods ending on:		01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Interest and similar income		1 659 797	1 670 339
Interest expense and similar charges		(625 589)	(761 064)
Net interest income	Note 9	**1 034 208**	**909 275**
Fee and commission income		1 173 330	859 241
Fee and commission expense		(170 304)	(165 103)
Net fee and commission income	Note 10	**1 003 026**	**694 138**
Dividend income	Note 11	57 276	47 698
Foreign exchange profit	Note 12	208 172	218 292
Gains (losses) on hedge accounting activities	Note 13	2 987	(656)
Gains (losses) from financial instruments measured at fair value through profit and loss	Note 14	21 088	18 624
Gains (losses) from investment in securities	Note 15	28 975	5 649
Gains (losses) on sale of subsidiaries and associates	Note 16	9 500	-
Other operating income	Note 17	49 771	50 174
Impairment losses on loans and advances	Note 18	(28 336)	(61 595)
Operating expenses		(1 330 895)	(1 192 613)
Bank's staff, operating expenses and management costs	Note 19, 20	(1 130 860)	(977 574)
Depreciation/amortisation		(158 817)	(186 481)
Other operating expenses	Note 21	(41 218)	(28 558)
Operating profit		**1 055 772**	**688 986**
Share in net profits (losses) of associates accounted for by the equity method		9 726	470
Profit before tax		**1 065 498**	**689 456**
Corporate income tax	Note 22	(221 252)	(143 549)
Profit for the period		**844 246**	**545 907**
of which:			
attributable to the Company's equity holders		758 222	516 315
attributable to the Minority equity holders		86 024	29 592
Net earnings per share	Note 23		
Basic earnings per share (PLN)		10,39	7,08
Diluted earnings per share (PLN)		10,38	7,08

in thousands of PLN

2. Consolidated balance sheet

		31.12.2006	31.12.2005
ASSETS			
Cash and balances with central bank	Note 24	1 534 480	572 342
Loans and advances to banks	Note 25	3 154 546	3 608 333
Financial instruments at fair value through profit or loss	Note 26	741 929	1 925 909
Derivative financial instruments	Note 27	395 650	443 615
Loans and advances to customers	Note 28	17 607 251	14 194 484
Reverse repo transactions	Note 29	15 629	15 199
Investment securities	Note 30	8 055 911	6 990 336
Investments in associates	Note 31	36 201	73 237
Intangible assets	Note 32	135 032	174 194
Property, plant & equipment	Note 33	493 657	518 643
Current income tax due		-	20 146
Deferred tax assets	Note 34	392 467	435 232
Other assets	Note 35	478 892	339 007
Total assets		33 041 645	29 310 677
LIABILITIES			
Deposits from banks	Note 36	1 472 192	1 692 595
Derivative financial instruments	Note 27	249 340	285 487
Deposits from customers	Note 37	24 169 003	20 838 980
Repo transactions	Note 38	1 230 682	999 541
Debt securities in issue	Note 39	646 342	840 383
Current income tax liabilities		7 643	-
Deferred tax liabilities	Note 40	293 529	315 232
Other liabilities	Note 41	896 172	901 998
Total liabilities		28 964 903	25 874 216
Equity			
Capital and reserves attributable to the Company's equity holders		3 960 001	3 381 518
Share capital	Note 42	729 603	729 603
Other reserve funds	Note 43	1 857 147	2 028 706
Revaluation reserve	Note 44	508 548	250 088
Retained earnings		106 481	(143 194)
Profit of the current period		758 222	516 315
Minority interest		116 741	54 943
Total equity		4 076 742	3 436 461
Total equity and liabilities		33 041 645	29 310 677

in thousands of PLN

3. Movements on consolidated equity

MOVEMENTS ON CONSOLIDATED EQUITY	Equity: Share capital	Other reserve funds	Revaluation reserve	Retained earnings	Minority interest	Total
Opening balance at 31.12.2005	**729 603**	**2 028 706**	**250 088**	**373 121**	**54 943**	**3 436 461**
Net change in available for sale investments	-	-	258 695	-	25	258 720
Share scheme charge	-	3 674	-	-	-	3 674
Net gains not recognised in income statement	-	3 674	258 695	-	25	262 394
Net profit	-	-	-	758 222	86 024	844 246
Total recognised increase in equity in 2006	**-**	**3 674**	**258 695**	**758 222**	**86 049**	**1 106 640**
Dividend relating to 2005	-	-	-	(437 762)	(27 044)	(464 806)
Transfer to other reserve capitals	-	6 589	-	(6 589)	-	-
Transfer from other reserve capitals		(168 326)		168 326		-
Other	-	(13 496)	(235)	9 385	2 793	(1 553)
As at 31.12.2006	**729 603**	**1 857 147**	**508 548**	**864 703**	**116 741**	**4 076 742**

MOVEMENTS ON CONSOLIDATED EQUITY	Equity: Share capital	Other reserve funds	Revaluation reserve	Retained earnings	Minority interest	Total
Opening balance at 31.12.2004	**729 603**	**1 701 632**	**156 012**	**432 153**	**30 807**	**3 050 207**
changes in accounting principles resulting from adoption of IFRS	-	-	29 197	(72 102)	-	(42 905)
Adjusted balance at 1.01.2005	**729 603**	**1 701 632**	**185 209**	**360 051**	**30 807**	**3 007 302**
Net change in available for sale investments	-	-	66 001	-	-	66 001
Net gains not recognised in income statement	-	-	66 001	-	-	66 001
Net profit	-	-	-	516 315	29 592	545 907
Total recognised increase in equity in 2005	**-**	**-**	**66 001**	**516 315**	**29 592**	**611 908**
Dividend relating to 2004	-	-	-	(177 293)	(5 459)	(182 752)
Transfer to general banking risk fund	-	30 000	-	(30 000)	-	-
Transfer to supplementary capital	-	275 682	-	(275 682)	-	-
Other	-	21 392	(1 122)	(20 270)	3	3
As at 31.12.2005	**729 603**	**2 028 706**	**250 088**	**373 121**	**54 943**	**3 436 461**

in thousands of PLN

4. Consolidated cash flow statement

	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
Profit (loss) before tax	**1 065 498**	**689 456**
Total adjustments:	**913 442**	**205 025**
Share in net profits (losses) of associates accounted for by the equity method	(9 726)	(470)
Amortization	158 817	186 481
Impairment losses	(1 360)	(4 311)
Gains (losses) on exchange differences	1 738	(3 965)
Interests and similar charges	113 838	(6 063)
Dividend income	(57 276)	(47 698)
(Profit) loss from investing activities	(37 297)	(2 536)
Change in provisions	40 381	26 214
Change in financial instruments at fair value through profit and loss	1 195 798	(663 523)
Change in loans and advances from banks	445 567	(819 259)
Change in loans and advances from customers	(3 408 766)	(211 268)
Change in receivables arising from securities purchased under reverse repo agreements	(430)	10 498
Change in deposits from banks	(707 372)	510 425
Change in deposits from customers	3 380 003	1 606 954
Change in liabilities arising from securities sold under repurchase agreements	231 141	266 851
Change in liabilities arising from debt securities in issue	(1 037)	(457 625)
Change in assets and liabilities arising from deferred taxation	(9 042)	(17 475)
Change in other assets and liabilities	(218 019)	(72 071)
Paid income tax	(204 619)	(96 373)
Other adjustments	1 103	239
Net cash flow from operating activities - indirect method	**1 978 940**	**894 481**
Inflows	**1 786 353**	**1 665 502**
Sale of shares or interests in subsidiaries and associates	58 033	13 955
Sale of investment securities	1 666 791	1 592 823
Sale of intangible and tangible fixed assets	4 110	9 595
Dividends received	57 276	47 698
Proceeds from other investments	143	1 431
Outflows	**(2 526 277)**	**(2 842 735)**
Purchase of investment securities	(2 434 882)	(2 769 527)
Purchase of intangible and tangible fixed assets	(89 056)	(71 603)
Other investments	(2 339)	(1 605)
Net cash flow from investing activities	**(739 924)**	**(1 177 233)**
Inflows	**672 419**	**99 548**
Drawing of long-term loans	579 075	-
Issue of debt securities	93 344	99 548
Outflows	**(957 517)**	**(455 852)**
Repayment of long-term loans	(147 825)	(199 737)
Debt securities buy out	(286 348)	-
Dividends and other payments to shareholders	(464 806)	(182 752)
Other financing outflows	(58 538)	(73 363)
Net cash flow from financing activities	**(285 098)**	**(356 304)**
Total net cash flow	**953 918**	**(639 056)**
Cash at the beginning of the accounting period	**593 686**	**1 232 742**
Cash at the end of the accounting period	**1 547 604**	**593 686**

in thousands of PLN

Additional notes to consolidated financial statements

5. General information about issuer

Bank Zachodni WBK S.A. is a bank seated in Poland, registered in the District Court for Wrocław-Fabryczna, VI Economic Unit of the National Court Registry. The bank's ultimate parent company is Allied Irish Bank plc.
Group of Bank Zachodni WBK consists of the following subsidiaries and associates entities:

	Subsidiaries	Registered office	% of votes on AGM 31.12.2006	% of votes on AGM 31.12.2005
1.	BZ WBK Faktor Sp. z o.o.	Warszawa	100,00	100,00
2.	BZ WBK Inwestycje Sp. z o.o.	Poznań	100,00	100,00
3.	Dom Maklerski BZ WBK S.A.	Poznań	99,99	99,99
4.	BZ WBK Finanse & Leasing S.A.	Poznań	99,99	99,99
5.	BZ WBK Leasing S.A.	Poznań	99,99	99,99
6.	BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa	Poznań	99,99	99,99
7.	BZ WBK Nieruchomości S.A.	Poznań	99,98	99,96
8.	Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp. z o.o.	Poznań	60,00	60,00
9	AIB WBK Fund Management Sp. z o. o.*	Warszawa	-	54,00
10.	BZ WBK AIB Asset Management S.A.**	Poznań	50,00	50,00
11.	BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.	Poznań	100% of votes is held by BZ WBK and AIB Asset Management S.A	100% of votes is held by BZ WBK and AIB Asset Management S.A

* The Company AIB WBK Fund Managment S.A was sold on 10 May 2006.
* *In case of BZ WBK AIB Asset Management S.A., the Bank is a co-owner of the company together with AIB Capital Markets plc. Both owners of BZ WBK AIB Asset Management S.A. are members of Allied Irish Banks Group and each holds an equal stake of 50% in the company's share capital. In practice, Bank Zachodni WBK S.A. exercises control over the company and its subsidiary, BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., because through its agency the ultimate parent (Allied Irish Banks) pursues its policy in Poland. Therefore the company is treated as a subsidiary undertaking.

in thousands of PLN

	Associates	Registered office	% of votes on AGM 31.12.2006	% of votes on AGM 31.12.2005
1.	POLFUND - Fundusz Poręczeń Kredytowych S.A.	Szczecin	50,00	50,00
2.	Lubelskie Zakłady Przemysłu Skórzanego Protektor S.A.*	Lublin	-	36,07
3.	NFI Magna Polonia S.A.	Warszawa	28,77	29,67

* The company Lubelskie Zakłady Przemysłu Skórzanego Protektor S.A. was sold on 27 January 2006.

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

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

Financial highlights of BZWBK Group

		PLN '000		EUR '000	
	FINANCIAL HIGHLIGHTS	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005	01.01.2006 - 31.12.2006	01.01.2005 - 31.12.2005
I	Interest and similar income	1 659 797	1 670 339	425 687	415 166
II	Fee and commission income	1 173 330	859 241	300 923	213 566
III	Operating profit	1 055 772	688 986	270 773	171 249
IV	Gross profit	1 065 498	689 456	273 268	171 366
V	Net profit attributable to the Company's equity holders	758 222	516 315	194 461	128 331
VI	Total net cash flow	953 918	(639 056)	244 651	(158 839)
VII	Total assets	33 041 645	29 310 677	8 624 359	7 593 833
VIII	Deposits from banks	1 472 192	1 692 595	384 264	438 519
IX	Deposits from customers	24 169 003	20 838 980	6 308 468	5 398 979
X	Total liabilities	28 964 903	25 874 216	7 560 269	6 703 512
XI	Total equity	4 076 742	3 436 461	1 064 090	890 321
XII	Minority interest	116 741	54 943	30 471	14 235
XIII	Net profit attributable to the Minority	86 024	29 592	22 454	7 355
XIV	Number of shares	72 960 284	72 960 284		
XV	Net book value per share in PLN/EURO	55,88	47,10	14,59	12,20
XVI	Solvency ratio	15,47%	16,05%		
XVII	Profit (loss) per share in PLN/ EURO	10,39	7,08	2,66	1,76
XVIII	Diluted earnings (loss) per share in PLN/EUR	10,38	7,08	2,66	1,76
XIX	Declared or paid dividend per share in PLN/EURO	6,00	6,00	1,57	1,55

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

- for balance sheet items – 3,8312, EUR rate to PLN as at 31.12.2006 in National Bank of Poland (NBP), 3,8598 EUR rate to PLN as at 31.12.2005 in NBP

- For profit and loss items -as at 31.12.2006- 3,8991 (an average EUR rate to PLN in NBP on the last day of each month in 2006), as at 31.12.2005- 4,0233 (an average EUR rate to PLN in NBP on the last day of each month in 2005)

6. Significant accounting policies

Statement of compliance

The consolidated financial statements of the BZWBK Group as at 31 December 2006 has been prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with respect to matters not regulated by the above standards, in accordance with the Accounting Act dated 29 September 1994 (Official Journal from 2002, No. 76, item 694 with amendments) and the respective laws and in accordance with the Decree of the Ministry of Finance dated 19 October 2005 on current and periodical information provided by issuers of securities (Official Journal from 2005, No. 209, item 1744).

Standards that are issued and not yet effective

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

Basis of preparation

The financial statements are presented in PLN, rounded to the nearest thousand.
The financial statements are prepared on a fair value basis for derivative financial instruments, financial instruments at fair value through profit and loss account, and available-for-sale financial assets, except those for which a reliable measure of fair value is not available. Other financial assets and financial liabilities (including loans and advances) are recognized at amortised cost using the effective interest rate less impairment or purchase price less impairment.
The preparation of financial statements in conformity with IFRSs requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.
The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.
The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.
The accounting policies have been applied consistently by Group entities.

Comparability with results of previous periods

To ensure comparability, the following substantial changes were made to the presentation of financial data compared with 2005:

a) in the consolidated income statement:

- change in recognition of brokerage fees of PLN 6 063 k under item "Fee and commission income", which were previously presented under item "Other operating income",
- presenting income from third person's assets management in "other operating income" instead of in "fee and commission income" , in the amount of PLN 8 838 k.

b) in the consolidated balance sheet:

- change in presentation of derivative financial instruments in comparable period in the amount of PLN 291 599 k, currently presented as net value of "derivative financial instruments" item.
- Change in presentation of current income tax liabilities in the amount of PLN 20 146k- presenting as a separate item, not in "other assets" item.

Basis of consolidation

Subsidiaries

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

(a) power over more than half of the voting rights by virtue of an agreement with other investors;

(b) power to govern the financial and operating policies of the entity under a statute or an agreement;

(c) power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or

(d) power to cast the majority of votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

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

Purchase method of accounting

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

Associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.
Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency

Foreign currency transactions

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

Hedge accounting and derivative financial instruments

Derivative financial instruments are initially recognised at fair value. After their initial recognition, derivatives are measured at their fair values without any deduction for transactions costs to be incurred on sale or disposal.
The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification) or based on a valuation technique whose variables include only data from observable markets.
The Group uses derivative financial instruments to hedge its exposure to interest rate risks arising from operational, financing and investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments and recognised at fair value.
Hedge accounting recognises the offsetting effects on profit or loss of changes in the fair values of the hedging instrument and the hedged item.
At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Group's risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged. The Group also documents, at inception and on going basis, an assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value.

Fair value hedge

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

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

Financial assets and financial liabilities

Classification

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

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

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

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

(2) Upon initial recognition it is designated by the Group as at fair value through profit or loss. As at the balance sheet date the Group doesn’t hold the category of financial instrument.

Loans and receivables

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

Available-for-sale financial assets

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

Financial liabilities measured at amortised cost

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

Recognition

A regular way purchase or sale of a financial asset classified at fair value through profit or loss, held to maturity (at present, in our portfolio we haven't such assets) and available for sale are recognised using settlement date accounting. The method is applied consistently for all purchases and sales of financial assets. Loans are recognised when cash is advanced to the borrowers.

Derecognition

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

Measurement

When a financial asset or financial liability is recognised initially, it is measured at fair value plus (in the case of a financial asset or financial liability not at fair value through profit or loss) transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.
After initial recognition, the Group measures financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for (a) loans and receivables which shall be measured at amortised cost using the effective interest method; (b) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.
After initial recognition, financial liabilities are measured at amortised cost using the effective interest method, except for: (a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value,
(b) financial liabilities resulting from transferring a financial asset that is not to be derecognised.
Financial assets and financial liabilities that are designated as hedged items are subject to measurement under hedge accounting requirements.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship is recognised, as follows:
A gain or loss on a financial asset or financial liability classified as at fair value through profit or loss is recognised in profit or loss.
A gain or loss on an available-for-sale financial asset, except for impairment losses and foreign exchange gains and losses, is recognised directly in equity, through the statement of changes in equity until the financial asset is

derecognised, at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instrument are recognised in profit or loss when the entity's right to receive payment is established.

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

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

Offsetting financial instruments

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

Sale and repurchase agreements

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

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

Impairment of financial assets

Assets carried at amortised cost

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

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

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

(c) the Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group would not otherwise consider;

(d) it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;

(e) the disappearance of an active market for that financial asset because of financial difficulties; or

(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

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

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

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

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

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

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

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group.

Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The Group reviews regularly the methodology and assumptions used for estimating future cash flows in order to reduce any differences between loss estimates and actual loss experience.
In the case of credit exposures for which no indications of impairment were identified, the impairment analysis is carried out based on the concept of losses already incurred but not yet reported and connected with loan impairment (IBNR), which is estimated on the basis of the historical loss experience for loans with a similar risk profile.

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

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

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

Available-for-sale financial assets

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

Off balance sheet liabilities

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

Finance lease receivables

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

Property, plant and equipment

Owned assets

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

Leased assets

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

Subsequent costs

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

Depreciation

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

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

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

Goodwill

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

Computer software

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

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

Other intangible assets

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

Subsequent expenditure

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

Amortisation

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

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

Other items

Other trade and other receivables

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

Borrowings

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

Liabilities

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

Impairment of assets other than financial assets

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

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

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

An impairment loss in respect of goodwill is not reversed.

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

Calculation of recoverable amount

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

Equity

Equity comprises capital and funds created in accordance with applicable law, acts and the Statutes. Equity also includes retained earnings and prior year losses carried forward.
Share capital is stated at its nominal value in accordance with the Statutes and the entry in the court register.
Supplementary capital is created from profit allocations and share issue premiums.
Reserve capital is created from profit allocations and is earmarked for covering balance sheet losses.

Revaluation reserve comprises differences from the valuation of financial assets available for sale taking into account the deferred income tax.
Revaluation reserve is not distributable.
On the day of derecognition of all or part of financial assets available for sale the total effects of periodical change in the fair value reflected in the revaluation reserve are reversed. Total or part of the previous revaluation charge increases or decreases the value of the given financial asset available for sale.
Net financial result for the accounting year is the profit disclosed in the profit and loss account of the current year adjusted by the corporate income tax charge.

Repurchase of share capital

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

Dividends

Dividends on redeemable preference shares are recognised as a liability and expressed on an accrual basis. Dividends for particular year, which have been declared but not paid at the balance sheet date are recognised as dividend liabilities in "other liabilities" item.

Employee benefits

Short-term service benefits

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

Long-term service benefits

The Group's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The accrual for retirement bonus granted under the provisions of the Collective Labour Agreement and terms of individual employee contracts as well as the accrual for disability pension bonus were estimated on the basis of an actuarial valuation. The actuarial valuation of those accruals is updated on an annual basis.
The identifiable actuarial gains and losses include: retrospective adjustments to the actuarial assumptions being the difference between the previous actuarial assumptions and the actual occurrences and the effects of changes in the actuarial assumptions.

Profit sharing scheme

BZWB K Group has recognized in the consolidated financial statements a liability resulting from a profit sharing scheme granted to employees of selected subsidiaries in accordance with other long term employee benefits as described in IAS 19. The scheme, formally based on issue of shares that are purchased by entitled employees of subsidiaries, has characteristics of a long term profit sharing scheme (not share based payments), as all shares issued under the scheme are subjected to conditional obligation to dispose shares at a price different from the fair value of shares. Resulting from the classification of the scheme BZWBK Group recognized a liability in its financial statements in an amount of estimated present value of expected future pay-outs considering a relevant service period in correspondence with employee related expenses. Concerning the above any 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 carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses. The calculation includes all fees (e.g. arrangement, drawdown, renewal, restructure fees and fees for annexes which modify payments) and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Net commission income

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

Dividend income

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

FX profit

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

Profit on disposal of subsidiaries and associates

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

Other operating income and costs

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

Operating lease payments

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

Finance lease payments

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

Corporate income tax

Corporate income tax consists of current and deferred tax.

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

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

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

Deferred tax assets and liabilities are not discounted.

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

7. Segmental reporting

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

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

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

The segment's assets and liabilities are operational assets and liabilities used by that segment in its operating activities. They can be, based on rational premises, allocated to a particular business segment.

Allocations of internal income and expenses were taken into account in determining the profitability of individual segments. Sale prices between the segments are close to market prices. Operating costs and income are appropriately allocated to a relevant segment. Costs and income, which cannot be rationally assigned, are stated in "unallocated costs" and "unallocated income".

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

in thousands of PLN

Consolidated income statement (by business segments)

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

in thousands of PLN

Additional information

31.12.2006	Branch operations	Treasury operations	Investment banking	Leasing operations	Total
1. Segments assets	14 881 649	13 097 466	984 211	1 801 542	**30 764 868**
2. Segments investments in associates			36 201		**36 201**
3. Unallocated assets					**2 240 576**
Total assets	14 881 649	13 097 466	1 020 412	1 801 542	**33 041 645**
1. Segments liabilities	21 913 489	3 716 943	1 046 501	1 366 020	**28 042 953**
2. Unallocated liabilities					**921 950**
3. Equity					**4 076 742**
Total liabilities	21 913 489	3 716 943	1 046 501	1 366 020	**33 041 645**
1. Amortisation	138 819	1 478	3 484	1 784	**145 565**
2. Capital expenditures	74 506	1 379	4 548	3 051	**83 484**

in thousands of PLN

Consolidated income statement (by business segments)

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

in thousands of PLN

Additional information

31.12.2005	Branch operations	Treasury operations	Investment banking	Leasing operations	Total
1. Segments assets	13 164 884	12 734 213	537 187	1 641 354	**28 077 638**
2. Segments investments in associates			73 237		**73 237**
3. Unallocated assets					**1 159 802**
Total assets	13 164 884	12 734 213	610 424	1 641 354	**29 310 677**
1. Segments liabilities	19 994 330	3 076 229	588 333	1 207 997	**24 866 889**
2. Unallocated liabilities					**1 007 327**
3. Equity					**3 436 461**
Total liabilities	19 994 330	3 076 229	588 333	1 207 997	**29 310 677**
1. Amortisation	167 235	1 540	3 425	1 673	**173 873**
2. Capital expenditures	57 171	493	3 908	2 096	**63 668**

8. Risk management

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

Key risk areas in BZWBK Group business include mostly:

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

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

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

Credit risk

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

- PLN 685 398 k (20% of bank's own funds pursuant to the Banking Law art. 127 and Banking Supervisory Resolution no. 5 & 6) in the case of exposures to subsidiary or dominant entities or to subsidiary entities of the entity dominant for the bank,

- PLN 856 747 k (25% of bank's own funds pursuant to the Banking Law art. 127 and Banking Supervisory Resolution no. 5 & 6) in other cases.

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

The analysis of the bank's exposures in terms of sectoral concentrations, carried out at the end of 2006, proved that the bank does not have any exposures in excess of the limits imposed by the regulator. At the end of 2006, the bank had credit exposures (balance sheet and off-balance sheet) exceeding 10% of its own funds attributable to 6 entities (three of which were members of the BZWBK Group) and which accounted for 61% of own funds (vis-à-vis the permissible norm of 800%).

in thousands of PLN

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

No.	Industry code (PKD)	Total credit exposure	Balance	Committed credit line	Guarantees
1	70	584 643	419 359	165 283	-
2	16	360 000	210 000	150 000	-
3	70	291 067	152 823	118 244	20 000
4	70	208 807	67 425	141 382	-
5	70	185 530	118 262	67 268	-
6	55	178 015	178 015	-	-
7	20	174 155	19 140	125 957	29 058
8	24	155 000	155 000	-	-
9	70	151 977	151 977	-	-
10	45	142 347	76 954	56 066	9 327
11	65	140 204	140 204	-	-
12	52	138 348	5 663	132 662	23
13	29	137 456	133 678	3 778	-
14	25	135 463	36 653	98 347	463
15	70	132 339	132 339	-	-
16	65	125 000	-	125 000	-
17	100	125 000	-	125 000	-
18	92	119 298	119 21	83	-
19	65	118 279	50 517	65 204	2 559
20	45	116 520	12 529	50 693	53 297
		3 719 448	**2 179 754**	**1 424 967**	**114 727**

data in PLN k

Industry concentration

The credit policy of Bank Zachodni WBK S.A. envisages lending to low risk industries and reduction of exposures to medium and high risk industries. In order to ensure adequate portfolio diversification and eliminate the risk of overexposure to a single industry, the bank provides funding to sectors and groups or capital units representing a variety of industries. As at the end of 2006, the highest concentration level was recorded in the "property service" (22% of the Bank's credit exposure and 20% of the BZ WBK Group exposure). Such a concentration level is compliant with the bank's lending policies and the related risk is fully acceptable.

Groups of PKD by industries:

PLN m	Industry sector	31.12.2006	31.12.2005
	Property service	3 641	1 725
	Manufacturing	2 756	2 670
	Distribution	1 933	1 754
	Financial sector	664	663
	Agriculture	637	566
	Energy	612	779
	Construction	593	294
	Transport	393	256
	Other services	1 251	1 500
A	**Total Business Loans**	**12 480**	**10 207**
B	**Personal (including mortgage loans)**	**4 196**	**3 293**
A+B	**BZWBK PORTFOLIO**	**16 676**	**13 500**
C	**Subsidiaries**	**1 881**	**1 702**
D	**consolidation adjustment**	**(411)**	**(371)**
A+B+C+D	**TOTAL BZWBK GROUP PORTFOLIO**	**18 146**	**14 831**

Portfolio includes IAS adjustments

in thousands of PLN

Geographical concentration

Bank Zachodni WBK S.A. is concentrated on running credit activities in the territory of the Republic of Poland – exposure toward non-residents represents a marginal part of the bank's portfolio. In Poland, the credit activities focus on the marketplace of western provinces and large cities (Warszawa, Poznań, Wrocław, Gdańsk, Kraków, Łódź), which stems from the location of the bank's business units – branches and Corporate Business Centres.

The bank's operational structure is based on three macroregions: Poznań (provinces: Wielkopolskie, Zachodniopomorskie, Kujawsko-Pomorskie and Lubuskie), Warsaw (provinces: Mazowieckie, Warmińsko-Mazurskie, Podlaskie, Lubelskie, Pomorskie and Łódzkie) and Wrocław (provinces: Dolnośląskie, Śląskie, Opolskie, Świętokrzyskie, Małopolskie and Podkarpackie). Credit portfolio breakdown into macroregions is very well balanced. Concentration in macroregion Warsaw accounts for 36% of the bank's total exposure, in macroregion Poznań 35% and Wrocław 28%. The macroregions are divided into regions. Warsaw Region shows the biggest credit exposure which represents 27% of the bank's total exposure.

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

* Nominal value of credit porfolio

** Unallocated to regions

Market risk

Market risk management focuses on liquidity and pricing risk.

Liquidity risk is the risk that the Group will not be able to meet its contractual or contingent obligations when due. Pricing risk is defined as an adverse earnings impact of changes in interest rates, FX rates, share quotations, stock exchange indices, etc. The main entity that manages pricing risk of interest and FX rates (presented below as interest rate and FX risk respectively) is the Bank. The market risk generated by equity instruments (shares, stock exchange indices) is marginal in the Bank, however is actively managed by the BZ WBK Brokerage House.

General principles of market risk management

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

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

Upon the recommendation from the Assets and Liabilities Management Committee (ALCO) the Management Board approves the Strategies and Policies for market risk management along with the limits that define the maximum acceptable exposure to individual risk types. Market risk is managed by qualified personnel using the appropriate systems and controls. Management of interest rate, FX and liquidity risks is centralised in the BZ WBK Treasury Division, while the market risk generated by equity instruments (shares, stock exchange indices) is managed by the BZ WBK Brokerage House.
Market risk is measured and its compliance with the stated risk limits is monitored by qualified personnel segregated from the unit which manages and generates the risk. Exposure to market risk is regularly reviewed by ALCO.
Risk limits are periodically reviewed to align them with the Group's strategy and the current objectives of the Group. In order to reduce the structural balance sheet risk and ensure a stable income stream for the Group a special portfolio was established with debt securities funded by net liabilities that are not sensitive to interest rate fluctuations.

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

Interest rate risk

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

in thousands of PLN

Division. Then the bank's dealers are responsible for investing surplus funds in relevant instruments in order to ensure a risk and reward balance for the interest rates affecting the bank's balance sheet and instruments portfolio.
The bank perceives margins as the main source of revenues, hence limits for the open interest rate positions and stop-loss limits for trading positions can be viewed as prudent.
The bank's subsidiaries also try to mitigate their interest rate risk – if there is a mismatch between the revalued assets and liabilities the companies enter into derivative transactions with the bank, which – from the transaction date – manages this risk under a limit approved by the Management Board.

Interest rate risk is measured as Probable Maximum Loss (PML), a method based on an industry standard value at risk. PML is determined as a difference between the market value of the interest rate position calculated using the current profitability curve and the worst-case profitability curve, which is based on a volatility of interest rates at a 99% confidence interval for a three-year interest rate history. Volatility is based on a one-month position maintenance period. PML is set both for the trading portfolio and the banking portfolio. The measurement excludes the securities portfolio managed by ALCO and used to hedge against the structural balance sheet risk.

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

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

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

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

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

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

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

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

in thousands of PLN

31.12.2006	up to 1 month	from 1 to 3 months	from 3 to 12 months	from1 to 2 years	from to 2 to 5 years	over 5 years	rate insensitive	Total
Loans and receivables to banks	2 608 117	196 004	310 000	23 684	-	-	16 741	3 154 546
Financial instruments at fair value through profit or loss	533 202	30 224	21 298	65 906	30 321	-	60 978	741 929
Loans and receivables to customers	12 747 277	2 872 886	1 681 012	305 819	611 868	481	(612 092)	17 607 251
Investment securities	199 817	788 067	1 628 438	1 086 286	2 597 499	937 883	817 921	8 055 911
Other assets								3 482 008
Long position	**16 088 413**	**3 887 181**	**3 640 748**	**1 481 695**	**3 239 688**	**938 364**	**283 548**	**33 041 645**
Deposits from banks	1 229 482	105 780	101 071	-	-	-	35 859	1 472 192
Deposits from customers	19 257 373	2 311 881	2 017 291	120 551	17 497	-	444 410	24 169 003
Repo transactions	1 223 968	6 305	-	-	-	-	409	1 230 682
Debt securities in issue	35 000	104 007	235 288	193 263	58 344	-	20 440	646 342
Other liabilities								5 523 426
Short position	**21 745 823**	**2 527 973**	**2 353 650**	**313 814**	**75 841**	**-**	**501 118**	**33 041 645**
Gap	**(5 657 410)**	**1 359 208**	**1 287 098**	**1 167 881**	**3 163 847**	**938 364**	**(217 570)**	

in thousands of PLN

31.12.2005	up to 1 month	from 1 to 3 months	from 3 to 12 months	from1 to 2 years	from to 2 to 5 years	over 5 years	rate insensitive	Total
Loans and receivables to banks	1 986 636	277 211	1 267 922	36 413	-	-	40 151	3 608 333
Financial instruments at fair value through profit or loss	1 675 154	9 153	108 989	62 517	67 150	-	2 946	1 925 909
Loans and receivables to customers	11 086 932	1 593 136	1 147 166	564 594	452 733	40 482	(690 559)	14 194 484
Investment securities	19 098	300 456	1 210 817	1 097 978	2 807 669	1 099 775	454 543	6 990 336
Other assets								2 591 615
Long position	**14 767 820**	**2 179 956**	**3 734 894**	**1 761 502**	**3 327 552**	**1 140 257**	**(192 919)**	**29 310 677**
Deposits from banks	1 100 669	-	559 764	-	-	-	32 162	1 692 595
Deposits from customers	14 982 234	2 947 483	2 232 528	277 197	34 765	296	364 477	20 838 980
Repo transactions	997 592	1 503	-	-	-	-	446	999 541
Debt securities in issue	-	88 000	244 960	-	477 902	-	29 521	840 383
Other liabilities								4 939 178
Short position	**17 080 495**	**3 036 986**	**3 037 252**	**277 197**	**512 667**	**296**	**426 606**	**29 310 677**
Gap	**(2 312 675)**	**(857 030)**	**697 642**	**1 484 305**	**2 814 885**	**1 139 961**	**(619 525)**	

in thousands of PLN

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

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

31.12.2006	PLN	EUR	USD	GBP	JPY	CHF
Loans and receivables to banks	4,1425%	3,6455%	5,3462%	-	-	2,0452%
Financial instruments at fair value through profit or loss (debt instruments)	4,2000%	3,9700%	-	-	-	-
Loans and receivables to customers	7,6633%	5,2965%	7,5909%	7,6546%	-	4,0374%
Investment securities (debt instruments)	5,4228%	3,2200%	5,0800%	-	-	-
Deposits from banks	5,0542%	3,5765%	5,3648%	-	-	1,8600%
Deposits from customers	2,2428%	1,4709%	2,8210%	2,0078%	-	0,3798%
Debt securities in issue	6,0353%					
Repo	3,4082%	-	-	-	-	-

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

FX risk

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

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

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

in thousands of PLN

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

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

PLN m	31.12.05	Average in 2006
PML	0,3	0,3

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

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

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

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

in thousands of PLN

31.12.2006	EUR	USD	CHF	GBP	other	PLN	Total
Cash and balances with central bank	107 824	25 605	2 840	24 833	12 328	1 361 050	1 534 480
Loans and receivables to banks	282 804	1 789 132	77 644	458	3 785	1 000 723	3 154 546
Financial instruments at fair value through profit or loss	49 492	-	-	-	-	692 437	741 929
Loans and receivables to customers	3 938 549	629 871	637 298	6 414	39 204	12 355 915	17 607 251
Investment securities	504 291	455 425	-	-	-	7 096 195	8 055 911
Other assets	140 790	8 107	692	23 599	9 971	1 764 369	1 947 528
Long position	**5 023 750**	**2 908 140**	**718 474**	**55 304**	**65 288**	**24 270 689**	**33 041 645**
Deposits from banks	568 329	4 644	68 997	45	8 228	821 949	1 472 192
Repo transactions	-	-	-	-	-	1 230 682	1 230 682
Deposits from customers	2 692 741	1 209 878	38 462	201 110	12 916	20 013 896	24 169 003
Debt securities in issue	-	-	-	-	-	646 342	646 342
Other liabilities	29 880	4 464	195	80	-	5 488 807	5 523 426
Short position	**3 290 950**	**1 218 986**	**107 654**	**201 235**	**21 144**	**28 201 676**	**33 041 645**
Gap	**1 732 800**	**1 689 154**	**610 820**	**(145 931)**	**44 144**	**(3 930 987)**	

in thousands of PLN

31.12.2005	EUR	USD	CHF	GBP	other	PLN	Total
Cash and balances with central bank	69 654	33 691	2 458	16 300	5 607	444 632	572 342
Loans and receivables to banks	134 187	2 534 425	-	136 380	7 121	796 220	3 608 333
Financial instruments at fair value through profit or loss	-	-	-	-	-	1 925 909	1 925 909
Loans and receivables to customers	2 438 417	816 086	600 996	4 025	95 208	10 239 752	14 194 484
Investment securities	324 874	95 915	-	-	-	6 569 547	6 990 336
Other assets	57 300	4 674	-	8 279	2 400	1 946 620	2 019 273
Long position	**3 024 432**	**3 484 789**	**603 456**	**164 984**	**110 336**	**21 922 680**	**29 310 677**
Deposits from banks	322 188	279 695	30 692	-	-	1 060 020	1 692 595
Repo transactions	-	-	-	-	-	999 541	999 541
Deposits from customers	2 135 807	1 177 686	32 055	153 666	8 864	17 330 902	20 838 980
Debt securities in issue	-	-	-	-	-	840 383	840 383
Other liabilities	15 020	2 609	37	27	7	4 921 478	4 939 178
Short position	**2 473 015**	**1 459 990**	**62 784**	**153 693**	**8 871**	**25 152 324**	**29 310 677**
Gap	**551 417**	**2 024 799**	**540 672**	**11 291**	**101 465**	**(3 229 644)**	

in thousands of PLN

Equity risk

The entity responsible for equity risk management is BZWBK Brokerage House (BH). The source of this risk are transactions conducted on BH own account via stock exchanges and MS CTO (shares, futures).

This risk is measured as Probable Maximum Loss (PML), a method based on industry standard value at risk. PML is determined as a difference between the market value of BH transactions calculated using current market prices and worst-case prices that are based on volatility of equity instruments prices at a 99% confidence interval for a three-year price history. Volatility is based on a one-month position maintenance period. PML measures also correlation between portfolio instrument's prices and hedging impact of Future contracts.

The table below shows the average PML values in 2006 and as at 31 December 2006:

PLN m	31.12.06	Average in 2006
PML	1,2	0,6

In comparable period PML value for equity risk was marginal.
BH operates within operational limit that amounted to PLN 1.2 m as at the end of December.

Liquidity risk

The Group's policy sets a limit on outflow of funds to a level where the outflow is covered by expected inflows and/or liquid assets (mainly securities), which can be sold or pledged in repo transactions or through a Lombard loan with the Central Bank.
The bank is obliged to maintain necessary funds to allow for all withdrawals of term deposits, demand deposits, loan payments, guarantee payments and settlements.

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

The tables below show the gap arising from contractual maturity terms as at 31 December 2006 and in the comparable period. During the year there was an increase in customer deposits, which are characterised by a shorter maturity term. However the behaviour of the deposit base indicates that a significant part of these funds will remain with the Group. At the same time the Group maintains a significant value of securities used to hedge the liquidity position (sale, deposit under repo transactions or Lombard loan).

in thousands of PLN

31.12.2006	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from to 2 to 5 years	over 5 years	rate insensitive	Total
Loans and receivables to banks	2 430 857	342 410	363 784	23 779	-	-	(6 284)	3 154 546
Financial instruments at fair value through profit or loss	485 494	198	13 718	124 181	61 664	-	56 674	741 929
Loans and receivables to customers	1 050 748	914 665	4 536 016	4 736 703	2 130 831	4 884 586	(646 298)	17 607 251
Investment securities	205 383	9 894	1 482 659	2 142 975	2 036 527	1 552 251	626 222	8 055 911
Other assets								3 482 008
Long position	**4 172 482**	**1 267 167**	**6 396 177**	**7 027 638**	**4 229 022**	**6 436 837**	**30 314**	**33 041 645**
Deposits from banks	481 997	250 074	170 221	466 900	103 000	-	-	1 472 192
Deposits from customers	20 595 316	1 181 392	2 137 913	154 405	99 977	-	-	24 169 003
Repo transactions	1 223 968	6 305	-	-	-	-	409	1 230 682
Debt securities in issue	-	63 834	275 461	251 607	35 000		20 440	646 342
Other liabilities								5 523 426
Short position	**22 301 281**	**1 501 605**	**2 583 595**	**872 912**	**237 977**	**-**	**20 849**	**33 041 645**
Gap	**(18 128 799)**	**(234 438)**	**3 812 582**	**6 154 726**	**3 991 045**	**6 436 837**	**9 465**	

31.12.2005	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from to 2 to 5 years	over 5 years	rate insensitive	Total
Loans and receivables to banks	2 034 332	277 231	1 267 922	-	36 414	-	(7 566)	3 608 333
Financial instruments at fair value through profit or loss	1 675 154	9 153	109 016	67 783	64 224	-	579	1 925 909
Loans and receivables to customers	1 187 332	976 148	3 769 640	3 758 058	1 836 238	3 393 916	(726 848)	14 194 484
Investment securities	-	321 682	1 100 561	2 211 283	1 954 659	1 138 704	263 447	6 990 336
Other assets								2 591 615
Long position	**4 896 818**	**1 584 214**	**6 247 139**	**6 037 124**	**3 891 535**	**4 532 620**	**(470 388)**	**29 310 677**
Deposits from banks	765 659	15 103	610 634	146 567	75 847	78 785	-	1 692 595
Deposits from customers	15 535 796	2 420 589	2 449 697	319 841	36	113 021	-	20 838 980
Repo transactions	998 592	503	-	-	-	-	446	999 541
Debt securities in issue	83 002	-	198 261	517 479		-	41 641	840 383
Other liabilities								4 939 178
Short position	**17 383 049**	**2 436 195**	**3 258 592**	**983 887**	**75 883**	**191 806**	**42 087**	**29 310 677**
Gap	**(12 486 231)**	**(851 981)**	**2 988 547**	**5 053 237**	**3 815 652**	**4 340 814**	**(512 475)**	

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

The Liquidity Policy adopted by the Management Board obliges the bank to maintain funds to cover 100% of the outflows expected to be received in the one-month time horizon and not less than 10% in a period longer than a month. At the end of December 2006, the Bank complied with the foregoing requirements. The policy is designed to ensure a cover for short and medium term liabilities. However liquidity position in a longer time horizon is also monitored.
Also, for the limits indicated above there is a number of observation ratios set daily, which support the liquidity management process (e.g. loans to deposits ratio, ratio of dependence on wholesale market financing).

Liquidity risk management is centralised in the Treasury Division while control and measurement functions for liquidity risk are performed independent of the source of the liquidity risk.
The bank has a scenario-based contingency plan approved by the Management Board to cater for unexpected liquidity problems, whether caused by external or internal factors.

Derivative transactions connected with market risks

The Group enters into derivative transactions for trading purposes and to mitigate / hedge against market risks. These transactions predominantly bear interest rate and FX risk, albeit the bank also enters into derivative transactions to fund FX assets, thus mitigating liquidity risk.
Individual types of transactions are characterised below:

FX transactions

FX forwards are agreements to buy or sell one currency for another at a specified price for delivery at a future date.
For such a pair of currencies, the making of a current buy/sell transaction and a forward repurchase/resell transaction represents a swap deal.

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

FX options are agreements to sell or buy a right to convert currencies in the future at a predetermined rate and settlement date. There are call and put options. A call option gives the holder the right to purchase a certain amount of a currency for a certain amount of another currency, while a put option gives the holder the right to sell a certain amount of a currency for a certain amount of another currency. It should be noted that the buyer of the option has the right but not obligation to enter into the transaction, while the writer of the option is obliged to enter into the transaction if the buyer chooses to exercise his right.

Acquisition of the buy/sell rights entails a premium to be paid to the writer of the option.

The bank concludes option contracts with customers and at the same time it closes the contracts in the interbank market thus avoiding open option positions exposed to market risk.

Interest rate transactions

The Group enters into the following interest rate transactions:

- Interest Rate Swaps – IRS
- Cross-currency Interest Rate Swaps – CIRS
- Forward Rate Agreements – FRA

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

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

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

Equity instruments

The Group enters into the following equity transactions:

- Index options
- Futures

An index option entitles its holder make a profit from the difference between the value of the stock exchange index and the underlying value determined in the option agreement (the difference is also referred to the notional principal amount specified in the agreement). In the bank such options (also FX) are embedded in deposit products which in addition to guaranteed interest allow their holders to earn from favourable changes in stock exchange indices. In this product area, the bank sold call options to customers. Also, the bank closed its exposure to risk by purchasing options in the interbank market, so its open option positions are not exposed to market risk.

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

Operational Risk

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

Operational risk management in the Group is operated at the following levels of responsibility:

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

Operational risk management in the Group includes in particular:

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

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

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

Capital adequacy

Capital requirements due to different risk types are determined in the Group in compliance with principles set forth in Resolution no. 4/2004 of the Commission for Banking Supervision and Resolution no

in thousands of PLN

57/2005 of the Management Board. The Group runs significant trade business and is subject to complete calculation of capital requirements due to different risks. The entire capital requirement as at Y/E 2006 totaled PLN 1 771 722 k including:

- PLN 1 735 763 k i.e. 97.76 % from credit risk
- PLN 28 615 k i.e. 1.62 % from market risk
- PLN 7 344 k i.e. 0.41 % from settlement and counterparty risk

The table below shows the calculations.

	31.12.2006		31.12.2005	
	Exposure amount in PLN k	Capital requirement amount	Exposure amount in PLN k	Capital requirement amount
Credit risk	**21 697 038**	**1 735 763**	**16 775 442**	**1 342 035**
Market risk	**-**	**28 615**	**-**	**17 512**
Settlement/delivery and counter party risk	**-**	**7 344**	**-**	**7 874**
Total		**1 771 722**		**1 367 421**

	31.12.2006	31.12.2005
Equity and short-term capital	**3 426 989**	**2 743 190**
Capital adequacy ratio	**15,47%**	**16,05%**

	31.12.2006			31.12.2005		
	Amount	Credit equivalent	RWA	Amount	Credit equivalent	RWA
STRUCTURE OF ASSETS BY RISK WEIGHT	**31 994 863**	**18 896 978**	**18 896 978**	**27 657 604**	**14 960 276**	**14 960 276**
Assets of the risk weight of 0%	9 110 540	-	-	8 693 447	-	-
Assets of the risk weight of 20%	3 860 026	772 005	772 005	4 046 274	809 255	809 255
Assets of the risk weight of 50%	1 798 646	899 322	899 322	1 533 724	766 862	766 862
Assets of the risk weight of 100%	17 225 651	17 225 651	17 225 651	13 384 159	13 384 159	13 384 159
Assets of the risk weight of 1250%	-	-	-	-	-	-
OFF BALANCE SHEET LIABILITIES	**7 118 087**	**2 984 995**	**2 800 060**	**4 966 273**	**1 873 893**	**1 815 166**
- Counterparty risk weight of 0%	**29 941**	**29 264**	**-**	**1 639**	**1 599**	**-**
Product risk weight of 0%	50	-	-	40	-	-
Product risk weight of 20%	-	-	-	-	-	-
Product risk weight of 50%	1 254	627	-	-	-	-
Product risk weight of 100%	-	-	-	-	-	-
Product risk weights for forward and option transactions	28 637	28 637	-	1 599	1 599	-
- Counterparty risk weight of 20%	**332 634**	**194 590**	**38 918**	**225 712**	**71 411**	**14 282**
Product risk weight of 0%	135 930	-	-	125 182	-	-
Product risk weight of 20%	-	-	-	-	-	-
Product risk weight of 50%	4 229	2 115	423	58 239	29 120	5 824
Product risk weight of 100%	164 444	164 444	32 889	4 500	4 500	900
Product risk weights for forward and option transactions	28 031	28 031	5 606	37 791	37 791	7 558
- Counterparty risk weight of 100%	**6 755 512**	**2 761 142**	**2 761 142**	**4 738 922**	**1 800 884**	**1 800 884**
Product risk weight of 0%	1 326 280	-	-	1 285 731	-	-
Product risk weight of 20%	-	-	-	-	-	-
Product risk weight of 50%	5 336 181	2 668 091	2 668 091	3 304 615	1 652 308	1 652 308
Product risk weight of 100%	93 051	93 051	93 051	148 576	148 576	148 576

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

in thousands of PLN

9. Net interest income

Interest and similar income	01.01-31.12.2006	01.01-31.12.2005
Loans and advances to enterprises	599 147	565 465
Debt securities	419 710	515 269
Loans and advances to individuals of which:	328 903	291 420
Mortgage loans	*129 476*	*127 222*
Loans and advances to banks	152 849	118 278
Leasing agreements	125 797	129 064
Reverse repo transactions	*3 019*	1 758
Public sector	30 372	49 085
Total	**1 659 797**	**1 670 339**

Loans and advances to banks exclude income on repo transactions.

Interest expense and similar charges	01.01-31.12.2006	01.01-31.12.2005
Deposits from individuals	(239 626)	(327 682)
Deposits from enterprises	(188 238)	(189 890)
Repo transactions	(52 073)	(47 880)
Deposits from banks	(59 580)	(84 464)
Debt securities in issue	(43 519)	(66 887)
Public sector	(42 553)	(44 261)
Total	**(625 589)**	**(761 064)**
Net interest income	**1 034 208**	**909 275**

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

10. Net fee and commission income

Fee and commission income	01.01-31.12.2006	01.01-31.12.2005
Asset management fees	375 785	120 111
Current accounts and money transmission	225 769	234 496
eBusiness & payments	223 443	271 758
Brokerage commissions	136 988	81 156
Distribution fees	82 144	34 631
Credit commissions (including factoring)	47 697	49 115
Credit cards	32 629	32 592
Insurance commissions	26 231	12 529
Off-balance sheet guarantee commissions	12 673	14 282
Issue arrangement	7 314	6 063
Finance lease commissions	549	471
Other commissions	2 108	2 037
Total	**1 173 330**	**859 241**

Fee and commission expense	01.01-31.12.2006	01.01-31.12.2005
eBusiness & payments	(43 040)	(95 871)
Distribution fees	(40 027)	(8 196)
Brokerage commissions	(30 891)	(21 035)
Asset management fees and other costs	(26 604)	(13 970)
Finance lease commissions	(5 821)	(6 023)
Insurance commissions	(5 528)	(4 729)
Credit cards	(2 485)	(2 026)
Commissions paid to credit agents	(2 863)	(978)
Commissions paid to other banks	(5 572)	(5 885)
Other incl.:	(7 473)	(6 390)
intermediary commissions	*(1 948)*	*(2 376)*
agency costs	*(180)*	*(126)*
others	*(5 345)*	*(3 888)*
Total	**(170 304)**	**(165 103)**

Net commission income	**1 003 026**	**694 138**

in thousands of PLN

11. Dividend income

Dividend income	01.01-31.12.2006	01.01-31.12.2005
Dividends from investment portfolio entities	56 689	47 615
Dividends from entities measured at fair value through profit and loss	587	83
Total	**57 276**	**47 698**

12. Foreign exchange profit

F/X income	01.01-31.12.2006	01.01-31.12.2005
Corporate negotiated transactions	106 607	93 965
Branch operations	60 050	50 529
Not-negotiated transactions	21 676	18 608
Trading activities	7 764	10 595
Other	12 075	44 595
Total	**208 172**	**218 292**

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

13. Gains (losses) on hedge accounting activities

Gains less losses on hedge accounting activities	01.01-31.12.2006	01.01-31.12.2005
Change in fair value of hedging instruments	7 986	3 653
Change in fair value of underlying hedged positions	(4 999)	(4 309)
Total	**2 987**	**(656)**

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

Gains less losses from financial instruments measured at fair value through profit and loss	01.01-31.12.2006	01.01-31.12.2005
Profit/(loss) on derivative instruments	18 861	9 341
Profit/(loss) on debt instruments	3 209	9 293
Profit/(loss) on equity instruments	(982)	(10)
Total	**21 088**	**18 624**

15. Gains (losses) from investment in securities

Gains less losses from investment in securities	01.01-31.12.2006	01.01-31.12.2005
Sales of available-for-sale financial instruments	28 592	6 006
Costs of sales of available-for-sale financial instruments	(977)	(4 668)
Reversal (charge) due to impairment losses on investment securities	1 360	4 311
Total	**28 975**	**5 649**

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

Gains less losses on sale of subsidiaries and associates	01.01-31.12.2006	01.01-31.12.2005
Sale of subsidiaries	(1 568)	-
Sale of associates	11 068	-
Total	**9 500**	**-**

Information about acquisitions and disposals of investments is available in additional note 55.

in thousands of PLN

17. Other operating income

Other operating income	01.01-31.12.2006	01.01-31.12.2005
Release of provision for future commitments and other assets	15 407	12 535
Sundry income	10 556	8 317
Recovery of non-credit receivables	2 491	1 582
Received compensations, penalties and fines	1 781	280
Sales or liquidation of fixed assets, intangible assets and assets for disposal	746	2 949
Donation received	145	1 431
Other incl.:	18 645	23 080
Financing Premium from EBRD	*2 747*	*2 641*
Costs of bailiff reimbursement	*1 233*	*1 163*
Sale of rights to perpetuity of land	*1 181*	-
Insurance indemnity received	*800*	*521*
Settlements of market dealings	*737*	*1 289*
Reimbursements of BFG charges	*674*	*364*
Expertise services in the field of financial consulting	*897*	*6 756*
Other	*10 358*	*10 346*
Total	**49 771**	**50 174**

18. Impairment losses on loans and advances

Impairment losses on loans and advances	01.01-31.12.2006	01.01-31.12.2005
Impairment charge	(14 761)	(54 829)
Incurred but not reported losses charge	(22 155)	(2 784)
Off balance sheet credit related items	8 580	(3 982)
Total	**(28 336)**	**(61 595)**

As at 31.12.2006 amount PLN "impairment charge" includes recoveries from receivables of PLN 23 093 k (as at 31.12.2005 - PLN 3 379 k)

19. Employee costs

Employee costs	01.01-31.12.2006	01.01-31.12.2005
Salaries	(534 789)	(463 770)
Salary related costs	(88 952)	(81 763)
Staff benefits costs	(35 966)	(13 843)
Professional trainings	(16 374)	(11 831)
Retirement fund and holiday provisions	(7 626)	(3 257)
Total	**(683 707)**	**(574 464)**

20. General and administrative expenses

General and administrative expenses	01.01-31.12.2006	01.01-31.12.2005
Maintenance and rentals of premises	(105 276)	(103 376)
Marketing and public relations	(68 899)	(47 841)
IT systems costs	(65 925)	(53 352)
Postal and telecommunication costs	(44 627)	(42 448)
Consulting fees	(31 991)	(30 892)
Car, transport expenses, carriage of cash	(19 821)	(19 480)
Data transmission	(16 753)	(15 123)
Taxes	(15 355)	(15 666)
External services	(13 899)	(17 988)
Business trips	(11 954)	(8 400)
Security costs	(9 369)	(11 417)
Costs of repairs	(8 138)	(4 882)
BFG costs	(4 736)	(5 127)
Other incl.:	(30 410)	(27 118)
KIR, SWIFT etc. settlements	*(9 359)*	*(10 434)*
Stationery	*(9 599)*	*(9 646)*
Printing of cheque books, plastic cards	*(6 979)*	*(6 508)*
Other	*(4 473)*	*(530)*
Total	**(447 153)**	**(403 110)**

in thousands of PLN

21. Other operating expenses

Other operating costs	01.01-31.12.2006	01.01-31.12.2005
Provisions for legal risk and other assets	(26 354)	(13 879)
Debt recovery costs	(2 985)	(3 036)
Donations paid	(2 401)	(1 641)
Paid compensations, penalties and fines	(700)	(488)
Others incl.:	(8 778)	(9 514)
Losses from incorrectly conducted stock exchange transactions	*(2 572)*	*(2 709)*
Provision for non-credit receivables	*(837)*	*(1 329)*
Costs of representation paid to counsellors	*(513)*	*(445)*
Voluntary membership fees	*(651)*	*(601)*
Cost of legal proceedings	*(315)*	*(80)*
Other	*(3 890)*	*(4 350)*
Total	**(41 218)**	**(28 558)**

22. Income tax charge

Income tax charge	01.01-31.12.2006	01.01-31.12.2005
Current tax charge	253 438	97 007
Deferred tax charge	(32 186)	46 542
Total	**221 252**	**143 549**

Corporate total tax charge information	01.01-31.12.2006	01.01-31.12.2005
Profit/loss before tax	1 065 498	689 456
Tax rate	19%	19%
Tax calculated at the tax rate	202 445	130 997
Non taxable expenses	23 103	11 509
Non taxable incomes	(13 943)	(9 409)
Other:		
- provision costs which will not be taxable	5 704	581
- write-offs	1 657	9 520
- other	2 286	351
Total income tax expense	**221 252**	**143 549**

Deferred tax recognised directly in equity	31.12.2006	31.12.2005
As at 31 December the amount of deferred tax recognised directly in equity totaled:		
Relating to equity securities available-for-sale	102 139	34 044
Relating to debt securities available-for-sale	17 151	24 575
	119 290	**58 619**

23. Earnings per share

Earning per share	01.01-31.12.2006	01.01-31.12.2005
Profit attributable to ordinary shares	758 222	516 315
Weighted average number of ordinary shares	72 960 284	72 960 284
Basic earnings per share (PLN)	**10,39**	**7,08**
Profit attributable to ordinary shares	758 222	516 315
Weighted average number of ordinary shares	72 960 284	72 960 284
Weighted average number of potential ordinary shares	61 957	-
Diluted earnings per share (PLN)	**10,38**	**7,08**

in thousands of PLN

24. Cash and balances with central bank

Cash and balances with central bank	31.12.2006	31.12.2005
Cash	602 340	503 352
Current account in central bank	931 546	67 783
Other cash equivalents	594	1 207
Total	**1 534 480**	**572 342**

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

25. Loans and advances to bank

Loans and advances to banks	31.12.2006	31.12.2005
Loans and advances	1 462 967	3 333 392
Current accounts	1 697 863	282 507
Gross receivables	**3 160 830**	**3 615 899**
Impairment write down	(6 284)	(7 566)
Total	**3 154 546**	**3 608 333**

Fair value of loans and advances to bank is presented in additional note 47.

Movements on impairment losses on receivables from banks	31.12.2006	31.12.2005
Balance at 1 January	(7 566)	(7 566)
Write off	1 282	-
Balance at the end of the period	**(6 284)**	**(7 566)**

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

Financial instruments at fair value through profit & loss account	31.12.2006	31.12.2005
Debt securities	685 277	1 925 406
Government securities:	685 255	1 925 330
- bills	497 460	1 792 789
- bonds	187 795	132 541
Other securities:	22	76
- bonds	22	76
Equity securities:	56 652	503
- listed	56 652	503
Total	**741 929**	**1 925 909**

Interest income from debt instruments and other fixed rate instruments is disclosed under "interest income".
Profit and loss from fair value changes of instruments measured at fair value through profit and loss are disclosed in gains (losses) from financial instruments measured at fair value through profit and loss .
All financial assets measured at fair value through profit and loss are assigned to this category due to trading character of transactions. Financial assets were not designated to this category at 31 December 2006 and in comparable periods.

in thousands of PLN

27. Derivative financial instruments

Trading derivatives	31.12.2006 Assets	31.12.2006 Liabilities	31.12.2005 Assets	31.12.2005 Liabilities
Interest rate transactions	162 870	100 471	201 701	142 815
IRS	146 440	78 830	188 970	130 179
FRA	16 430	21 641	12 731	12 636
Equity derivatives	15 409	13 019	22 589	14 972
Options long	15 409	13 019	22 589	14 972
Currency derivatives	214 363	125 962	216 839	104 038
FX Swap	119 008	76 183	137 155	70 965
CIRS	70 424	13 735	43 295	2 892
Forward	15 609	25 943	23 589	15 929
Spot	1 302	2 081	580	2 032
Options	8 020	8 020	12 220	12 220
Total trading derivatives	**392 642**	**239 452**	**441 129**	**261 825**

Hedging derivatives	31.12.2006 Assets	31.12.2006 Liabilities	31.12.2005 Assets	31.12.2005 Liabilities
Fair value hedge	3 008	9 888	2 486	23 662
IRS	3 008	9 888	2 486	23 662
Total hedging derivatives	**3 008**	**9 888**	**2 486**	**23 662**
Total derivatives	**395 650**	**249 340**	**443 615**	**285 487**

Detailed information about each group of hedging is available in additional note 45.

28. Loans and advances to customers

Loans and advances to customers	31.12.2006	31.12.2005
Loans and advances to enterprises	12 046 296	9 622 419
Loans and advances to individuals, of which:	4 238 855	3 315 120
Real estate financing	*2 562 786*	*2 028 770*
Finance lease receivables	1 704 988	1 607 336
Loans and advances to public sector	222 029	342 450
Other	41 381	34 008
Gross receivables	**18 253 549**	**14 921 333**
Impairment losses in loans and advances to customers	(646 298)	(726 849)
Total	**17 607 251**	**14 194 484**

As at 31.12.2006 fair value adjustment due to hedged risk on corporate loans totalled PLN 6 949 k (as at 31.12.2005 - PLN 18 283 k). Finance lease receivables are presented in additional note 51.
Fair value of loans and advances to customers is presented in additional note 47.

Movements on impairment recognised on loans and advances to customers	31.12.2006	31.12.2005
Balance at 31st December of previous reporting period	(726 849)	(627 329)
IFRS impact	-	(101 075)
Balance at 1st January of current reporting period	(726 849)	(728 404)
Charge of current period	(326 981)	(166 973)
Write back of current period	290 065	109 360
Write downs and write off's	115 566	57 198
Currency movements	1 901	1 970
Balance at the end of the period	**(646 298)**	**(726 849)**

in thousands of PLN

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

Provision for incurred but not reported losses	107 276	86 001
Impairment charge	539 022	640 848
Total	**646 298**	**726 849**

29. Reverse repo transactions

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

30. Investment securities

Investment securities	31.12.2006	31.12.2005
Available for sale investments - measured at fair value	8 055 911	6 990 336
Debt securities:	7 429 688	6 726 890
Government securities:	6 264 890	6 023 557
- bills	206 627	531 230
- bonds	6 058 263	5 492 327
Central Bank securities:	593 104	604 113
- bonds	593 104	604 113
Other securities:	571 694	99 220
- bonds	537 072	68 049
- other	34 622	31 171
Equity securities - measured at fair value:	599 410	247 581
- listed	8 186	21 180
- unlisted	591 224	226 401
Other	26 813	15 865
Total	**8 055 911**	**6 990 336**

As at 31.12.2006 fixed interest rate debt securities measured at fair value amount to PLN 6 342 844 k, variable interest rate securities amount to PLN 1 086 844 k.

As at 31.12.2005 fixed interest rate debt securities measured at fair value amount to PLN 5 812 978 k, variable interest rate securities amount to PLN 913 912 k.

As at 31.12.2006 fair value adjustments resulting from fair value hedge on available for sale debt securities totalled PLN 1 305 k (as at 31.12.2005 - PLN 3 665 k).

As at 31 December 2006 BZWBK has revised the valuation of its investments in Polish entities of the Commercial Union Group classified as available for sale. Resulting from the revision a positive adjustment to the carrying value of these investments in the amount of PLN 354 292 k has been recognised with corresponding increase (net of deferred tax) in the revaluation reserve. The revised fair values have been determined by valuation techniques using: (a) recent prospective arm's length transactions between knowledgeable and willing parties and (b) by reference to the current fair value of shares issued by similar entities. For the latter the following parameters have been used in the model: average P/E and P/BV ratios for similar entities, profit and equity figures based on 2005 data, risk adjustments related to expected variance of share prices and profits as well as liquidity discount.

in thousands of PLN

Movement on investment securities	Debt securities	Equity securities	Total
As at 1 January 2006	**6 726 890**	**263 446**	**6 990 336**
Additions	2 426 483	14 299	2 440 782
Disposals (sale and redemption)	(1 631 471)	(23 824)	(1 655 295)
Fair value adjustment (AFS)	(39 511)	370 942	331 431
Movements on interest accrued	(40 128)	-	(40 128)
Provision for impairment	-	1 360	1 360
F/X differences	(12 575)	-	(12 575)
As at 31 December 2006	**7 429 688**	**626 223**	**8 055 911**

Movement on investment securities	Available for sale	Held to maturity	Debt securities-total	Equity securities	Investment securities-total
As at 31 December 2004	**2 656 622**	**2 684 848**	**5 341 470**	-	**5 341 470**
IFRS impact	**2 684 848**	**(2 684 848)**	**-**	-	-
Fair value adjustment (AFS)	20 621	-	20 621	-	20 621
As at 1 January 2005	**5 362 091**	**-**	**5 362 091**	**280 731**	**5 642 822**
Additions	2 769 328	-	2 769 328	676	2 770 004
Disposals (sale and redemption)	(1 568 420)	-	(1 568 420)	(23 309)	(1 591 729)
Fair value adjustment (AFS)	163 780	-	163 780	1 148	164 928
Provision for impairment	111	-	111	4 200	4 311
As at 31 December 2005	**6 726 890**	**-**	**6 726 890**	**263 446**	**6 990 336**

31. Investments in associates

Investments in associates	31.12.2006	31.12.2005
As at 1 January	**73 237**	**76 943**
Share of profits	9 726	470
Dividend received	(335)	(1 982)
Sale/acquisition	(46 427)	(2 194)
As at the end of the period	**36 201**	**73 237**

in thousands of PLN

Investments in associates as at 31.12.2006

No.	a	b	c	d	e	f							g			h	i
	name of entity (and its legal status)	business	registered office	Balance sheet value	total assets	own funds of entity, of which:	share capital	due contributions to share capital (negative value)	other own funds, of which:	from previous years	net profit (loss)	minority interest	liabilities of entity, of which:	short-term	long-term	Revenues	% of holding *
1	POLFUND - Fundusz Poręczeń Kredytowych S.A. As at 30 November 2006	providing lending guarantees, investing and managing funds invested in companies, management	Szczecin	8 965	62 571	17 929	16 000	-	1 929	632	997	-	43 187	73	43 114	2 854	50,00
2	NFI Magna Polonia S.A.Group As at 30 September 2006	buying securities issued by State Treasury, buying or taking up interests or shares in entities registered and operating in Poland, buying other securities issued by these entities	Warszawa	27 236	242 521	94 677	3 554	-	91 123	(38 235)	23 084	64 069	83 325	51 488	31 837	40 787	28,77
	Total			36 201	305 092	112 606	19 554	-	93 052	(37 603)	24 081	64 069	126 512	51 561	74 951	43 641	

* states percentage share of associates profits

in thousands of PLN

Investments in associates as at 31.12.2005

No.	a	b	c	d	e	f							g			h	i
	name of entity (and its legal status)	business	registered office	Balance sheet value	total assets	own funds of entity, of which:	share capital	due contributions to share capital (negative value)	other own funds, of which:	from previous years	net profit (loss)	Minority interest	liabilities of entity, of which:	short-term	long-term and contingent	Revenues	% of holding **
1	POLFUND - Fundusz Poręczeń Kredytowych S.A.- As at 30 November 2005	providing lending guarantees, investing and managing funds invested in companies, management	Szczecin	8 596	67 991	17 192	16 000	-	1 192	-	761	-	50 043	43	50 000	1 300	50,00
2	LZPS PROTEKTOR S.A. *	production of protective, military and ordinary footwear	Lublin	5 142	27 614	14 253	4 744	-	9 509	-	(1 153)	-	11 619	11 619	-	14 693	36,07
3	NFI Magna Polonia S.A.Group *	buying securities issued by State Treasury, buying or taking up interests or shares in entities registered and operating in Poland, buying other securities issued by these entities	Warszawa	59 499	297 265	207 169	3 554	-	203 615	(39 212)	1 731	31 789	50 954	20 917	30 037	17 490	29,67
	Total			73 237	392 870	238 614	24 298	-	214 316	(39 212)	1 339	31 789	112 616	32 579	80 037	33 483	

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

in thousands of PLN

32. Intangible assets

Intangible assets	Licences, patents etc.	Other	Capital expenditures	Total
Year 2006				
Gross value at the beginning of the period	**481 160**	**8 233**	**22 411**	**511 804**
Additions from:				
-purchases	-	-	39 644	**39 644**
-intangible assets taken for use	21 458	43	-	**21 501**
-transfers	(9)	9	-	**-**
Disposals from:				
-liquidation	(980)	-	(39)	**(1 019)**
-intangible assets taken for use	-	-	(21 501)	**(21 501)**
-transfers	-	-	(85)	**(85)**
-excluding from consolidation (sale of subsidiary)	-	(256)	-	**(256)**
Gross value at the end of the period	**501 629**	**8 029**	**40 430**	**550 088**
Accumulated depreciation at the beginning of the period	**(329 901)**	**(7 709)**	**-**	**(337 610)**
Depreciation:				
- current year	(78 549)	(129)	-	**(78 678)**
-liquidation	980	-	-	**980**
-excluding from consolidation (sale of subsidiary)	-	256	-	**256**
-transfers	11	(9)	-	**2**
Write down/Reversal of impairment write down	(6)	-	-	**(6)**
Accumulated depreciation at the end of the period	**(407 465)**	**(7 591)**	**-**	**(415 056)**
Book Value				
Purchase value	501 629	8 029	40 430	**550 088**
Accumulated depreciation	(407 465)	(7 591)	-	**(415 056)**
As at 31 December 2006	**94 164**	**438**	**40 430**	**135 032**

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

in thousands of PLN

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

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

in thousands of PLN

33. Property, plant and equipment

Property, plant & equipment	Land and Buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Year 2006						
Gross value at the beginning of the period	**549 579**	**347 951**	**29 048**	**238 315**	**8 173**	**1 173 066**
Additions from:						
-purchases	-	-	-	-	49 410	**49 410**
-leasing	-	-	5 239	-	-	**5 239**
-fixed assets taken for us	4 717	12 725	874	12 556	-	**30 872**
-transfers	21	-	-	-	85	**106**
Disposals from:						
- sale, liquidation and donation	(6 123)	(4 106)	(4 460)	(3 044)	-	**(17 733)**
-fixed assets taken for us	-	-	-	-	(30 872)	**(30 872)**
-transfers	-	90	(161)	(70)	-	**(141)**
-excluding from consolidation (sale of subsidiary)	(213)	(446)	(325)	(306)	-	**(1 290)**
Gross value at the end of the period	**547 981**	**356 214**	**30 215**	**247 451**	**26 796**	**1 208 657**
Accumulated depreciation at the beginning of the period	**(184 173)**	**(304 780)**	**(13 070)**	**(152 400)**	**-**	**(654 423)**
Depreciation:						
- current year	(21 500)	(30 939)	(5 704)	(21 996)	-	**(80 139)**
- sale, liquidation and donation	3 635	4 083	4 266	2 855	-	**14 839**
-transfers	(98)	(38)	(389)	186	-	**(339)**
-excluding from consolidation (sale of subsidiary)	213	342	203	278	-	**1 036**
Reversal of impairment write down	-	-	-	4 026	-	**4 026**
Accumulated depreciation at the end of the period	**(201 923)**	**(331 332)**	**(14 694)**	**(167 051)**	**-**	**(715 000)**
Book Value						
Purchase value	547 981	356 214	30 215	247 451	26 796	**1 208 657**
Accumulated depreciation	(201 923)	(331 332)	(14 694)	(167 051)	-	**(715 000)**
As at 31 December 2006	**346 058**	**24 882**	**15 521**	**80 400**	**26 796**	**493 657**

Expenditures made in 2006 are included in "capital expenditure" .Expenditures are calculated successively and capitalised in appropriate group of fixed assets. The main items are: purchase and modernization of ATM's, electronic equipment as well as modernization of existing units.
The main item of "sale" is a disposal one piece of properties of the bank. Gains on this sale amounted to PLN 132 k. Sale revenue from other real estate -especially flats- amounted to PLN 261 k.

in thousands of PLN

Property, plant & equipment	Land and Buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Year 2005						
Gross value at the beginning of the period	**547 182**	**337 574**	**30 161**	**239 911**	**15 699**	**1 170 527**
Additions from:						
-purchases	-	-	-	-	45 782	**45 782**
-leasing	-	-	5 868	10	-	**5 878**
-fixed assets taken for us	2 123	29 234	-	20 606	-	**51 962**
-transfers	-	-	73	-	-	**73**
Disposals from:						
- sale, liquidation and donation	(4 134)	(18 775)	(7 054)	(22 520)	(207)	**(52 690)**
-fixed assets taken for us	-	-	-	-	(51 962)	**(51 962)**
-transfers	4 408	(82)		308	(1 139)	**3 495**
Gross value at the end of the period	**549 579**	**347 951**	**29 048**	**238 315**	**8 173**	**1 173 066**
Accumulated depreciation at the beginning of the period	**(162 055)**	**(273 093)**	**(13 521)**	**(151 673)**	**-**	**(600 342)**
Depreciation:						
- current year	(21 965)	(50 481)	(5 470)	(22 815)	-	**(100 731)**
- sale, liquidation and donation	1 202	18 776	5 968	16 251	-	**42 197**
-transfers	(1 355)	17	(47)	5 301	-	**3 916**
Impairment write down	-	-	-	(951)	-	**(951)**
Reversal of impairment write down	-	-	-	1 488	-	**1 488**
Accumulated depreciation at the end of the period	**(184 173)**	**(304 781)**	**(13 070)**	**(152 399)**	**-**	**(654 423)**
Book Value						
Purchase value	549 579	347 951	29 048	238 315	8 173	1 173 066
Accumulated depreciation	(184 173)	(304 781)	(13 070)	(152 399)	-	(654 423)
As at 31 December 2005	**365 406**	**43 170**	**15 978**	**85 916**	**8 173**	**518 643**

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

in thousands of PLN

34. Deferred tax asset

Deferred tax asset	31.12.2005	Increase	Decrease	31.12.2006
Unrealized securities interest	18 115	-	(6 844)	11 271
Unrealized deposit interest	26 964	-	(7 736)	19 228
Unrealized liabilities due to derivatives	138 208	-	(18 943)	119 265
Provisions for loans	134 608	-	(30 099)	104 509
Other provisions which are not yet taxable costs	50 394	19 025	(8 223)	61 196
Difference between balance sheet and taxable value of leasing portfolio	17 831	10 512	(172)	28 171
Additional deferred tax assets resulting from art. 38 a of Corporate Tax Act	15 293	-	(1 098)	14 195
Tax Loss	330	-	(330)	-
Other	33 489	1 857	(714)	34 632
Total	**435 232**	**31 394**	**(74 159)**	**392 467**

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

Deferred tax asset	31.12.2004	Increase	Decrease	31.12.2005
Unrealized securities interest	26 664	-	(8 549)	18 115
Unrealized deposit interest	13 188	13 776	-	26 964
Unrealized liabilities due to derivatives	163 168	-	(24 960)	138 208
Provisions for loans	165 656	-	(31 048)	134 608
Other provisions which are not yet taxable costs	55 338	2 927	(7 871)	50 394
Difference between balance sheet and taxable value of leasing portfolio	15 807	2 865	(841)	17 831
Additional deferred tax assets resulting from art. 38 a of Corporate Tax Act	14 808	485	-	15 293
Tax Loss	658	-	(328)	330
Other	17 616	16 734	(861)	33 489
Total	**472 903**	**36 787**	**(74 458)**	**435 232**

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

35. Other assets

Sundry debtors	286 496	234 474
Interbank and interbranch settlements	152 056	61 779
Prepayments	23 029	24 768
Assets held for sale	17 053	17 420
Other	258	566
Total	**478 892**	**339 007**

Assets held for sale - BZ WBK Group

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

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

in thousands of PLN

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

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

36. Deposits from banks

Deposits from banks	31.12.2006	31.12.2005
Current accounts	270 526	683 013
Deposits	371 635	651 602
Loans from other banks	830 031	357 722
Other	-	258
Total	**1 472 192**	**1 692 595**

As at 31.12.2006 fair value adjustment for hedged deposit totaled PLN nil (as at 31.12.2005 - PLN 85 k)
Fair value of deposits from banks is presented in additional note 47.

37. Deposits from customers

Deposits from customers	31.12.2006	31.12.2005
Deposits from individuals	12 461 759	11 277 972
- term deposits	7 742 829	8 130 803
- current accounts	4 666 843	3 112 285
- other	52 087	34 884
Deposits from enterprises	10 087 466	8 096 595
- current accounts	5 918 089	5 142 465
- term deposits	3 714 815	2 555 233
- credits	19 381	69 235
- other	435 181	329 662
Deposits from public sector	1 619 778	1 464 413
- current accounts	1 265 568	1 172 527
- term deposits	353 237	291 244
- other	973	642
Total	**24 169 003**	**20 838 980**

As at 31.12.2006 deposits held as collateral totalled PLN 175 871 k.
As at 31.12.2005 deposits held as collateral totalled PLN 167 869 k.
Fair value of deposits from customers is presented in additional note 47.

38. Repo transactions

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

The transactions relate to State Treasury securities (bonds and bills).

in thousands of PLN

39. Debt security in issue

Debt security in issue	Average coupon		Nominal value	
	31.12.2006	31.12.2005	31.12.2006	31.12.2005
Bond 3 Y A1	-	W3M + 1%	-	83 002
Bond 3 Y-3SO806	-	fixed; 5,25%	-	149 525
Bond 3 Y-3ZO806	-	WIBOR 6M + 0,25%	-	48 736
Bond 5-Y 5S1008	fixed; 5,25%	fixed; 5,25%	7 092	7 092
Bond 5-Y 5S1108	fixed; 5,75%	fixed; 5,75%	9 953	9 953
Bond 5-Y 5S1208	fixed; 6,00%	fixed; 6,00%	61 874	61 874
Bond 3 Y-3S0707	fixed; 7%	fixed; 7%	49 833	49 832
Bond 3 Y-3S1007	fixed; 7,25%	fixed; 7,25%	10 235	10 235
Bond 3 Y-3S1107	fixed; 7%	fixed; 7%	29 975	29 978
Bond 3 Y-3S11A07	fixed; 7%	fixed; 7%	10 000	10 000
Bond 3 Y-3SO608	fixed; 4,4%	fixed; 4,4%	3 054	3 059
Bond 3 Y-3SO207	fixed; 6,5%	fixed; 6,5%	45 095	45 187
Bond 3 Y-3S0307	fixed; 6,5%	fixed; 6,5%	18 589	18 591
Bond 3 Y-3S0407	fixed; 6,5%	fixed; 6,5%	9 423	9 422
Bond 3 Y-3S0507	fixed; 6,75%	fixed; 6,75%	19 358	19 368
Bond 3 Y-3ZO507	WIBOR 6M + 0,10%	WIBOR 6M + 0,10%	6 404	6 415
Bond 3 Y-3SO807	fixed; 7,3%	fixed; 7,3%	49 984	49 989
Bond 3 Y-3SO907	fixed; 7,3%	fixed; 7,3%	49 925	49 925
Bond 3 Y-3ZO807	WIBOR 6M + 0,20%	WIBOR 6M + 0,20%	40 143	40 152
Bond 3 Y-3S0108	fixed; 6,25%	fixed; 6,25%	24 978	24 976
Bond 3 Y-3S0308	fixed; 5,55%	fixed; 5,55%	14 985	14 995
Bond 3 Y-3S0508	fixed; 5,25%	fixed; 5,25%	22 031	22 045
Bond 3 Y-3S0608	fixed; 5,15%	fixed; 5,15%	7 283	7 295
Bond 3 Y-3S1008	fixed; 4,2%	fixed; 4,2%	12 787	12 791
Bond 3 Y-3S1108	fixed; 4,6%	fixed; 4,6%	14 292	14 305
Bond 3 Y-3Z0209	WIBOR 1M + 0,44%	-	35 000	-
Bond 3 Y-3S0809	fixed; 4,9%	-	46 404	
Bond 3 Y-3S0809	fixed; 4,9%	-	11 914	-
Total nominal value			**610 611**	**798 742**
Total carrying value			**646 342**	**840 383**

As at 31.12.2006 the nominal value was increased by interest of PLN 29 570 k, bond valuation of PLN 6 161 k related to hedging activities.
As at 31.12.2005 the nominal value was increased by interest of PLN 26 796 k, bond valuation of PLN 14 845 k related to hedging activities.

40. Deferred tax liabilities

Deferred tax liability	31.12.2005	Increase	Decrease	31.12.2006
Unrealised interests from securities and interbank deposits	47 201	528	(29 565)	18 164
Unrealised loans interests	12 920	-	(2 353)	10 567
Unrealised receivables on derivatives	140 871	-	(17 358)	123 513
Provision due to application of investment relief	5 023	-	(2 140)	2 883
Valuation of assets available for sale	58 619	63 929	(3 258)	119 290
Other	50 598	2 622	(34 108)	19 112
Total	**315 232**	**67 079**	**(88 782)**	**293 529**

in thousands of PLN

Deferred tax liability	31.12.2004	Increase	Decrease	31.12.2005
Unrealised interests from securities and interbank deposits	59 777	129	(12 705)	47 201
Unrealised loans interests	8 952	4 541	(573)	12 920
Unrealised receivables on derivatives	149 700	-	(8 829)	140 871
Provision due to application of investment relief	6 467	-	(1 444)	5 023
Deferred tax liability due to f/x differences	3 200	-	(3 200)	-
Valuation of assets available for sale	38 755	20 787	(923)	58 619
Other	37 043	15 822	(2 267)	50 598
Total	**303 894**	**41 279**	**(29 941)**	**315 232**

41. Other liabilities

Other liabilities	31.12.2006	31.12.2005
Interbank and interbranch settlements	307 792	408 439
Sundry creditors	272 269	186 302
Provisions:	158 310	117 929
Employee provisions	*129 553*	*96 060*
Provisions for legal claims	*25 519*	*10 051*
Provisions for off balance sheet credit facilities	*3 238*	*11 818*
Financial lease related settlements	21 195	53 320
Accrued liabilities	82 230	67 921
Other deferred and suspended income	53 253	67 809
Other liabilities	1 123	278
Total	**896 172**	**901 998**

Movements on provisions	31.12.2006	31.12.2005
As at 31 December	**117 929**	**164 035**
Provisions for off balance sheet credit facilities	11 818	7 539
General risk provision	-	73 279
Employee provisions and accruals	96 060	75 507
Provisions for legal claims	10 051	7 710
IFRS impact	**-**	**(72 989)**
Provisions for off balance sheet credit facilities	-	290
General risk provision	-	(73 279)
As at 1 January	**117 929**	**91 046**
Provisions for off balance sheet credit facilities	11 818	7 829
Employee provisions and accruals	96 060	75 507
Provisions for legal claims	10 051	7 710
Provision charge	**134 017**	**121 726**
Provisions for off balance sheet credit facilities	2 323	14 551
Employee provisions and accruals	115 296	98 171
Provisions for legal claims	16 398	9 004
Utilisation	**(77 155)**	**(77 315)**
Provisions for off balance sheet credit facilities	-	7
Employee provisions and accruals	(77 155)	(77 179)
Provisions for legal claims	-	(143)

in thousands of PLN

Write back	**(16 481)**	**(17 528)**
Provisions for off balance sheet credit facilities	(10 903)	(10 569)
Employee provisions and accruals	(4 648)	(439)
Provisions for legal claims	(930)	(6 520)
As at the end of the period	**158 310**	**117 929**
Provisions for off balance sheet credit facilities	**3 238**	**11 818**
Employee provisions and accruals	**129 553**	**96 060**
Provisions for legal claims	**25 519**	**10 051**

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

Employee related provisions and accruals consists of those mentioned in note 58.

42. Share capital

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

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

According to the information available to the Bank's Management Board, as at 31.12.2006 the only shareholder who had at least 5% votes at the General Meeting of BZ WBK Shareholders was AIB European Investments Ltd seated in Dublin

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

43. Other reserve funds

Other reserve funds	31.12.2006	31.12.2005
General banking risk fund	529 810	529 810
Share premium	261 699	261 699
Other reserve capitals	1 065 638	1 237 197
Total	**1 857 147**	**2 028 706**

Other reserve funds:

Statutory reserve (supplementary) capital is created from profit allocations in line with the prevailing banking legislation and the Bank's statute. The capital is not subject to split and is earmarked for covering balance sheet losses. Allocations from profit of the current year to reserve capital should amount to at least 8 % of profit after tax and are made until supplementary capital equals at least one third of the Bank's share capital. The amount of allocations is adopted by the General Meeting of Shareholders.

in thousands of PLN

Share (issue) premium is created from surplus over the nominal value of shares sold less costs of share issuance and constitutes the Bank's supplementary capital. Other reserve (supplementary) capital include a part of revaluation fund that refers to fixed assets disposed, sold or transferred that were subject to revaluation reserve by increasing revaluation fund. Reserve capital is created from profit allocations in the amount adopted by the General Meeting of Shareholders. The decision on reserve capital use is taken by the General Meeting of Shareholders.

44. Revaluation reserve

Revaluation reserve	31.12.2006
As at 1 January 2006	250 088
Net change in available for sale investments, of which:	342 789
- related to debt investments purchased before current reporting period	(37 546)
- related to equity investments purchased before current reporting period	373 578
- related to investments purchased/assigned during the period	6 757
Net change in available for sale investments matured during the period	(10 020)
Decrease in revaluation reserve related to sale of investments	(16 015)
Decrease in revaluation reserve related to hedge accounting	2 377
Deferred tax adjustment	(60 671)
As at 31.12.2006	**508 548**

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

Revaluation reserve	31.12.2005
As at 31 December 2004	156 012
Impact of IFRS	29 197
As at 1 January 2005	185 209
Net change in available for sale investments, of which:	96 336
- related to debt investments purchased before current reporting period	46 734
- related to equity investments purchased before current reporting period	1 387
- related to investments purchased/assigned during the period	48 215
Net change in available for sale investments matured during the period	(8 179)
Decrease in revaluation reserve related to sale of investments	(6 005)
Change in revaluation reserve related to hedge accounting	2 591
Deferred tax adjustment	(19 864)
As at 31.12.2005	**250 088**

Revaluation reserve comprises equity from the valuation of financial assets available for sale and from the valuation of tangible fixed assets. Revaluation reserve is not distributable. On the day of derecognising of all or part of financial assets available for sale the total effects of periodical change in the fair value reflected in the revaluation reserve are reversed. Total or part of the previous revaluation charge increases or decreases the value of the given financial asset available for sale.

45. Hedge accounting

The Group applies hedge accounting in line with the risk management assumptions described note 8 of annual consolidated financial statements. Hedging transactions are constructed using interest rate swaps. Their purpose is to eliminate risk of fair value in hedged instruments stemming from changes in market interest rates. These transactions are not designed to hedge against the effects of fair value changes due to credit risk. Bank Zachodni WBK applies fair value hedge accounting in relation to the following classes of financial instruments:

- Own fixed-rate bonds denominated in PLN, which form a group of financial liabilities. Each element in this group carries a risk of changes in the interbank interest rates,

in thousands of PLN

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

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

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

	IRS hedging own bonds	IRS hedging corporate loans	IRS hedging Treasury and NBP bonds
Nominal value of hedged position	PLN 78 918 k	PLN 289 009 k	PLN 375 000 k
Fair value adjustment of hedging instrument asset/(liability)	PLN 1436 k	PLN (7 078) k	PLN (1 238) k
Fair value adjustment of hedged instrument asset/(liability)	PLN (1 439) k	PLN 6 949 k	PLN 1305 k
Period over which the instruments have an impact on the bank's results	2006 – 2008	2006 – 2011	2006 – 2011

In addition, BZ WBK subsidiaries - BZ WBK Finanse & Leasing S.A. and BZ WBK Leasing S.A. - concluded IRS transactions with the bank with a view to hedging the fair value of their bonds and lease contracts. Details about these transactions as at 31.12.2006 are presented in the table below:

Subsidiary	BZ WBKL Leasing S.A.	BZ WBK Finanse & Leasing S.A.
Nominal value of the hedged position	PLN 482 244 k	PLN 115 238 k
Fair value adjustment related to hedging activities	PLN 2 908 k	PLN 1 635 k
Hedged risk	Movements in the fair value of the bond issue arising from changes in market interest rates	Movements in the fair value of the bond issue arising from changes in market interest rates
Period over which the instruments have an impact on the companies' results	2007 – 2009	2007 – 2009

46. Sell-buy-back transactions

The Group raises funds by selling financial instruments under agreements to repay the funds by repurchasing the instruments at future dates at the same price plus interest at a predetermined rate. As at 31 December 2006, the consolidated balance sheet contains treasury bills and bonds traded under sell-buy-back transactions in the amount of PLN 1 225 264 k (PLN 964 730 k as at 31 December 2005). At the same time, on the liabilities side, in the item representing obligations in respect repo transactions there were deposits recognised, corresponding to the securities traded in the amount of PLN 1 230 682 k (PLN – 999 541 k as at 31 December 2005).

in thousands of PLN

47. Fair value

Fair value of financial assets and liabilities

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction other than a forced sale or liquidation and is best reflected by a quoted market price, if available.

The following is a summary of the carrying amounts and fair values of each class of assets and liabilities that are not presented on the Group's balance sheet at their fair value. For financial assets and liabilities, it is assumed that their carrying amount is approximately equal to their fair value.

	2006		2005	
	Carrying amount	Fair value	Carrying amount	Fair value
Assets				
Loans and advances to banks	3 154 546	3 156 077	3 608 333	3 613 191
Loans and advances to customers	17 607 251	17 614 590	14 194 484	14 243 322
Investments in associate undertakings	36 201	36 201	73 237	73 237
Liabilities				
Deposits from banks	1 472 192	1 472 278	1 692 595	1 693 467
Deposits from customers	24 169 003	24 154 961	20 838 980	20 809 922

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

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

Loans and advances to customers: These are net of any impairment provisions. Fair value is calculated based on the discounted expected future principal and interest cash flows. Loan repayments are assumed to occur at contractual repayment dates, where applicable. For loans that do not have fixed repayment dates or that are subject to prepayment risk, repayments are estimated based on experience in previous periods when interest rates were at levels similar to current levels, adjusted for any differences in interest rate outlook. Expected future cash flows are estimated considering credit risk and any indication of impairment. Expected future cash flows for homogeneous categories of loans, such as residential mortgage loans, are estimated on a portfolio basis and discounted at current rates offered for similar loans to new borrowers with similar credit profiles. The estimated fair values of loans reflect changes in credit status since the loans were made and changes in interest rates in the case of fixed rate loans.

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

Investments in associates entities: Financial assets representing interests in associated entities were accounted for using the equity method. In the opinion of the Management Board of the parent company, this is the best estimate of the fair value of these instruments.

in thousands of PLN

Bank and customer deposits: For demand deposits and deposits with no defined maturities, fair value is taken to be the amount payable on demand at the balance sheet date. The estimated fair value of fixed-maturity deposits, including certificates of deposit, is based on discounted cash flows using rates currently offered for deposits of similar remaining maturities. For deposits maturing within one year it's assumed that their fair value is not significantly different from carrying value. The value of long-term relationships with depositors is not taken into account in estimating fair values.

48. Contingent liabilities

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

As at 31 December 2006, no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Group or its subsidiaries amounting to a minimum of 10% of the Group's equity.
The value of all litigations totals PLN 301 287 k, which is ca. 7.61% of Group's equity. This amount includes PLN 62 888 k claimed by the Bank, PLN 38 283 k in claims against the Bank and PLN 200 116 k are Bank's receivables due to bankruptcy or arrangement cases.

As at 31 December 2005, no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Group or its subsidiaries amounting to a minimum of 10% of the Group's equity.
The value of all litigations totals PLN 290 300 k, which is ca. 8.58% of Group's equity. This amount includes PLN 70 148 k claimed by the Bank, PLN 46 243 k in claims against the Bank and PLN 173 909 k are Bank's receivables due to bankruptcy or arrangement cases.

Off balance sheet liabilities

The Group has commitments to deliver loans. These commitments include loans sanctioned, credit card limits and overdrafts. The Group issue guarantees and letters of credit which collateralise customers' liabilities to third parties.

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

Contingent liabilities, sanctioned and received	31.12.2006	31.12.2005
Liabilities sanctioned	**7 061 422**	**4 926 882**
- financing-related	**6 438 314**	**4 173 174**
including: import letters of credit	94 447	54 032
including: credit lines	5 742 419	3 760 736
including: credit cards debits	439 255	358 406
including: term deposits with future commencement term	162 193	-
- guarantees	**623 108**	**753 708**
including: confirmed export letters of credit	1 880	2 630
Received liabilities	**149 928**	**268 153**
Total	**7 211 350**	**5 195 035**

in thousands of PLN

As at 31.12.2006 , the Bank issued guarantees of PLN 125 045 k (as at 31.12.2005 – PLN 59 838 k) to following subsidiary undertakings: BZ WBK S.A. Finanse & Leasing, BZ WBK Leasing, BZWBK Dom Maklerski SA, BZWBK TFI and Nieruchomości SA.

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

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

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

	Derivatives' nominal values	31.12.2006	31.12.2005
1.	**Derivatives (hedging)**	**1 486 018**	**1 144 942**
a)	Single-currency interest rate swaps – purchased amounts	743 009	572 471
b)	Single-currency interest rate swaps – sold amounts	743 009	572 471
c)	FRA		
2.	**Term derivatives (trading)**	**135 555 909**	**96 513 628**
a)	Interest rate operations	118 158 636	77 522 418
-	Single-currency interest rate swaps – purchased amounts	38 204 318	16 211 209
-	Single-currency interest rate swaps – sold amounts	38 204 318	16 211 209
-	FRA-purchased amounts	19 650 000	24 600 000
-	FRA-sold amounts	22 100 000	20 500 000
b)	FX operations	17 397 273	18 991 210
-	FX swap – purchased amounts	7 193 754	8 478 482
-	FX swap – sold amounts	7 157 445	8 405 063
-	Double-currency interest rate swaps – purchased amounts	1 550 962	1 072 912
-	Double-currency interest rate swaps – sold amounts	1 495 112	1 034 753
3.	**Currency transactions- spot**	**3 850 694**	**2 359 361**
-	spot-purchased	1 924 957	1 178 956
-	spot-sold	1 925 737	1 180 405
4.	**Derivatives – OTC options**	**918 168**	**939 250**
-	Options purchased	543 528	616 502
-	Options sold	374 640	322 748
Total		**141 810 789**	**100 957 181**

49. Assets pledged as collateral

Bank is obliged to set up a guaranteed funds protection fund.

For the purpose as at 31 December 2006 Bank Zachodni WBK S.A. pledged as collateral PLN 58 249 k of debt securities (PLN 39 896 k in 2005).

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

in thousands of PLN

50. Trust activities

BZ WBK Group provides custodian services in accordance with Stock Exchange Commission license of 09 August 1999. The Bank's custodian services are addressed to residents - private individuals and legal enterprises (incl. investment funds) - and to foreign institutional investors present on the Polish capital market. They involve, inter alia, maintaining securities accounts, settling transactions, handling dividend and interest payments and representing clients at the General Annual Meetings of public companies. Group also acts as a depository for investment funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.
As at the end of 2006 assets held by clients at the Group securities accounts totalled PLN 7 531 764 k and increased 39% according to comparable period.
As at the end of 2005 assets held by clients at the Group securities accounts totalled PLN 5 420 114 k.

51. Financial and operating leases

Financial leases

Lease agreements where the Group acts as the lessor

Bank Zachodni WBK Group operates on the leasing market through two leasing companies who specialise in funding two different asset categories. BZ WBK Finance & Leasing focuses on lease of machines and equipment as well as computers and office equipment for businesses, while BZ WBK Leasing specialises in financing vehicles for businesses and personal customers. The activities of BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa is to manage the lease of vehicles provided to customers under ten-year lease contracts. The items „receivables from customers" contains the following amounts relating to the finance lease obligations:

Finance leases gross receivables maturity	31.12.2006	31.12.2005
less then 1 year	748 494	676 311
between 1 and 5 years	1 203 032	1 091 389
over 5 years	10 146	106 236
Total	**1 961 672**	**1 873 936**

Present value of minimum lease payments maturity	31.12.2006	31.12.2005
less then 1 year	635 167	558 141
between 1 and 5 years	1 061 227	945 229
over 5 years	8 594	103 966
Total	**1 704 988**	**1 607 336**

Reconciliation between the gross investment and the present value of minimum lease payments	31.12.2006	31.12.2005
Finance leases gross receivables	1 961 672	1 873 936
Unearned finance income	(256 684)	(266 600)
Bad debts provisions	(27 064)	(31 900)
Net present value of minimum lease payments	**1 677 924**	**1 575 436**

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

in thousands of PLN

In the financial year the Group ceased financing specialized assets under long term leasing contracts realised through special purpose entity BZ WBK Nieruchomości i Wspólnicy Spółka Komandytowa, as a result of exercising early purchase option for leased assets by the counterparty. Resulting from the early purchase of the leased assets the leasing receivable portfolio of the Group has decreased by the amount of PLN 142 373 k.

Lease agreements where the Group acts as a lessee

The BZ WBK Group companies also avail of lease arrangements as lessees, however as the leases are between related entities they were eliminated from the consolidated balance sheet and profit and loss account.

Operating leases

The BZWBK Group leases offices in compliance with operational leasing agreements. Most significant agreements relate to the buildings in Poznań and Warszawa. As a standard, agreements are concluded for 5-10 years. Leasing payments are indexed on an annual basis so that the price reflects market values. A small part of the offices is subleased outside the Bank. In 2005 and 2006 rentals related to mentioned real estates totalled PLN 17 357 k and PLN 17 815 k respectively. These payments are presented in the profit and loss account under "administrative costs".

Total payments due to non cancelable operating leases (including land perpetual usufruct)

Payments (maturity)	31.12.2006	31.12.2005
Less than 1 year	20 583	21 985
1-5 years	56 696	77 903
over 5 years	63 285	72 121
Total	**140 564**	**172 009**

52. Consolidated Cash Flow Statement- additional information

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

Cash components	31.12.2006	31.12.2005
Cash on hand	602 340	503 352
Current account in a central bank	931 546	67 783
Other cash equivalents	594	1 207
Current accounts in other banks	13 124	21 344
Total	**1 547 604**	**593 686**

53. Related party disclosures

The Bank enters into intercompany transactions related parties. Most of the transactions are banking transactions made as part of ordinary business activities and mainly include loans, deposits and guarantees. Intragroup transactions have been eliminated form consolidated financial statements.

The table below contains information about transactions effected by the bank and its subsidiaries with related entities at the end of the reporting period, along with revenues and expenses for the current period:

in thousands of PLN

Receivables and liabilities relating to transactions with connected entities

31.12.2006

Receivables	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Loans and advances to banks	1 197 229	-	284 272	1 481 501
Securities at fair value through profit or loss	501	-	-	501
Derivative financial instruments	18 540	-	58 465	77 005
Deposits from clients	398 520	-	-	398 520
Investment securities	-	-	371 218	371 218
Other assets	26 066	-	-	26 066
Total	**1 640 856**	**-**	**713 955**	**2 354 811**

Liabilities	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Deposits from banks	395 466		5 155	400 621
Derivative financial instruments	18 540		54 019	72 559
Deposits from clients	1 185 335	88 061	-	1 273 396
Debt securities in issue	501	-	-	501
Other liabilities	41 242	-	19 619	60 861
Total	**1 641 084**	**88 061**	**78 793**	**1 807 938**

The difference on transaction with subsidiaries in the amount of PLN 228 k results from prepaid expenses which are recognized in profit and loss account.

31.12.2005

Receivables	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Loans and advances to banks	594 045	-	408 889	1 002 934
Securities at fair value through profit or loss	5 373	-	-	5 373
Derivative financial instruments	27 825	-	55 958	83 783
Loans and advances to customers	362 001	-	-	362 001
Other assets	8 258	6	728	8 992
Total	**997 502**	**6**	**465 575**	**1 463 083**

Liabilities	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Deposits from banks	359 876	-	2 732	362 608
Derivative financial instruments	27 825	-	55 264	83 089
Deposits from clients	581 126	118 132	-	699 258
Debt securities in issue	5 373	-	-	5 373
Other liabilities	25 556		14 799	40 355
Total	**999 756**	**118 132**	**72 795**	**1 190 683**

The difference on transaction with subsidiaries in the amount of PLN 2 254 k results from prepaid expenses which are recognized in profit and loss account.

in thousands of PLN

Revenues and expenses relating to transactions with connected entities

1.01.2006 - 31.12.2006

Income	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Interest and similar income	50 059	-	29 669	79 728
Fee and commission income	181 763	4	-	181 767
Other operating income	4 494	-	897	5 391
Gains on hedge accounting activities	-	-	1 023	1 023
Gains from financial instruments measured at fair value through profit and loss	-	-	12 781	12 781
Total	**236 316**	**4**	**44 370**	**280 690**

Expenses	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Interest expense and similar charges	49 193	3 775	87	53 055
Fee and commission expense	181 404	-	-	181 404
Gains less losses from investment in securities	77		-	77
Other operating expenses incl.:	5 870	-	430	6 300
Bank's operating expenses and management costs	5 870	-	430	6 300
Total	**236 544**	**3 775**	**517**	**240 836**

1.01.2005 - 31.12.2005

Income	of which from subsidiaries	of which from associates	of which from the parent company (AIB Group)	Total
Interest and similar income	41 990	-	22 801	64 791
Fee and commission income	57 639	-		57 639
Other operating income	5 613	15	-	5 628
Gains from financial instruments measured at fair value through profit and loss	-	-	12 680	12 680
Total	**105 242**	**15**	**35 481**	**140 738**

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

in thousands of PLN

Off balance sheet positions relating to transactions with connected entities

31.12.2006

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

Intragroup transactions- derivatives' nominal values	of which from subsidiaries	of which from associates	Total
2. Derivatives' nominal values, including:	**1 206 034**	**-**	**1 206 034**
		-	-
-Financial instruments operations-single-currency interest rate hedging swaps	1 206 034	-	1 206 034

31.12.2005

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

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

TRANSACTIONS WITH EXECUTIVES

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

31.12.2006

Remuneration paid to the members of Bank Zachodni WBK Supervisory Board

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

in thousands of PLN

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

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

Remuneration paid to the members of Bank Zachodni WBK Management Board

First and last name	*Position*	*Period*	*Remuneration and awards*	*Benefits*	*Total (PLN'000)*
Jacek Kseń	President of the Management Board	01.01.2006-31.12.2006	1,813.9	112.7	1,926.6
Declan Flynn	Member of the Management Board	01.01.2006-31.12.2006	1,834.9	1 117.0	2,951.9
Michał Gajewski	Member of the Management Board	01.01.2006-31.12.2006	1,069.5	42.8	1,112.3
Aleksander Kompf	Member of the Management Board	01.01.2006-04.04.2006	269.9	10.7	280.6
Justyn Konieczny	Member of the Management Board	01.01.2006-31.12.2006	999.5	57.2	1,056.7
Janusz Krawczyk	Member of the Management Board	01.01.2006-31.12.2006	889.0	41.5	930.5
Jacek Marcinowski	Member of the Management Board	01.01.2006-31.12.2006	853.9	30.5	884.4
Mateusz Morawiecki	Member of the Management Board	01.01.2006-31.12.2006	1,053.5	38.1	1,091.6
James Murphy	Member of the Management Board	01.01.2006-31.12.2006	1,081.2	628.0	1,709.2
Marcin Prell	Member of the Management Board	04.04.2006-31.12.2006	410.9	29.4	440.3
Feliks Szyszkowiak	Member of the Management Board	01.01.2006-31.12.2006	857.4	15.6	873.0
Total					**13,257.1**

The amount of remuneration and awards paid to the Management Board Members of Bank Zachodni WBK S.A. includes: basic salary for 2006, awards for 2005. Benefits include: annual leave equivalent, costs of insurance, costs of accommodation, costs of health care etc. Awards for results of 2006, to be paid in April 2007, have not been included as they have not yet been determined and approved by the Supervisory Board. Provision from the awards totalled PLN 3,747 k. Provision raised on the occasion in 2005 and utilised in 2006 totalled PLN 3,050 k.

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

in thousands of PLN

Members of the Management Board participate in performance-related Incentive Scheme. These conditional awards are subject to performance targets in terms of EPS growth. Detailed information on the Scheme including policy of granting and vesting periods, is given in note 59 of consolidated financial statements.

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

No. of awards	2006
Outstanding at 1 January	**-**
Granted	23 494
Forfeited	-
Exercised	-
Expired	-
Outstanding at 31 December	**23 494**
Exercisable at 31 December 2006	**-**

No. of awards

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

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

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

in thousands of PLN

31.12.2005

Remuneration paid to the members of Bank Zachodni WBK Supervisory Board

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

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

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

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

in thousands of PLN

Remuneration paid to the members of Bank Zachodni WBK Management Board

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

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

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

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

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

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

In 2006 selected subsidiaries of BZWBK Group introduced a motivation scheme for their key management in a form of a long term profit sharing scheme classified as other long-term benefits in accordance with IAS 19. The formal framework of the scheme is based on an issue of shares that are purchased by entitled individuals. Considering underlying characteristics of the scheme it has been classified as a long term profit sharing scheme and recognized as a liability in the consolidated financial statements. Shares issued under the scheme are deprived of voting rights, have significant limitations on disposal and are subject to conditional obligation to dispose shares at a price different from the fair value of shares.
Considering the above BZWBK Group has estimated a present value of the future obligations to pay-outs resulting from rights granted under the scheme respectively to the service period of the entitled individuals participating in the scheme. The value of the liability resulting from the scheme as at 31 December 2006 amounts to PLN 9 218 k and was equal to the amount of employee related expenses recognized as the scheme related expense in the profit and loss account for the period.

31 December 2006

As of 31.12.2006, the total of loans, advances and guarantees provided to members of the Management Board of BZ WBK S.A. by the subsidiaries and associates amounted to PLN 2 k.
Social Fund loans and advances provided to Board Members totalled nil.

Loans and advances made by the Bank to the executives of BZ WBK S.A. totalled PLN 4 225 k and CHF 21k.
These facilities have been sanctioned on regular terms and conditions.

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

31 December 2005

As of 31.12.2005, the total of loans, advances and guarantees provided to members of the Management Board of BZ WBK S.A. by the subsidiaries and associates amounted to PLN 9 k.

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

Loans and advances made by the Bank to the executives of BZ WBK S.A. totalled PLN 2 791 k and CHF 23k.
These facilities have been sanctioned on regular terms and conditions.

TRANSACTIONS WITH EMPLOYEES

31 December 2006

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

in thousands of PLN

In the same period, the total of loans and advances drawn by BZWBK S.A. employees from the Social Fund was PLN 17 387 k.

These facilities have been sanctioned on regular terms and conditions.

On current accounts and term deposits employees of the bank held balances of PLN 104 220 k, (of which joined current accounts - PLN 25 630 k). Amount relating to employees of subsidiaries and associates totalled PLN 8 497 k.

31 December 2005

As of 31.12.2005, the total of loans and advances drawn by BZWBK S.A. employees was PLN 135 776 k (including the debt of PLN 12 370 k shown in joint accounts) and PLN 12 962 k in the case of employees of BZWBK subsidiaries and associates.

In the same period, the total of loans and advances drawn by BZWBK S.A. employees from the Social Fund was PLN 18 267 k.

These facilities have been sanctioned on regular terms and conditions.

On current accounts and term deposits employees of the bank held balances of PLN 96 301 k, (of which joined current accounts - PLN 25 605 k). Amount relating to employees of subsidiaries and associates totalled PLN 7 684 k.

54. Information of number and value of banking writs of executions

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

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

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

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

55. Acquisitions and disposals of investments

Disposals in 2006	Net assets	Revenue	Gains/loss on sale
Year 2006			
AIB WBK Fund Management Sp. z o.o.	1 838	270	(1 568)
Lubelskie Zakłady Przemysłu Skórzanego Protektor S.A.	5 434	13 245	7 811
NFI Magna Polonia S.A.	41 261	44 518	3 257
Total	**48 533**	**58 033**	**9 500**

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

On 10 May 2006 Bank Zachodni WBK S.A. sold 13 331 shares of AIB WBK Fund Management Sp. z o.o., with the total nominal value of PLN 1 333 100.00 representing 54% of the share capital and 54% of votes at the AGM of AIB WBK Fund Management Sp. z o.o.
The shares sale price was set at PLN 270 000 PLN. The first price installment of PLN 135 000 was paid on the day of signing an agreement on transferring ownership of the said shares, the second installment of PLN 135 000 was paid in 29 November 2006. Total amount of loss on sale was PLN 1 568 k.

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

On 27 January 2006 BZ WBK S.A. sold, in package transactions on the Warsaw Stock Exchange, 586 416 shares of the Company with the nominal value of PLN 3 each which represent 36.07% of the Company's share capital and the total number of votes at the AGM. Total amount of the transaction was PLN 13 245 k and total amount of profit was PLN 7 811 k. Currently BZWBK doesn't have any shares of the company.

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

On 5 July 2006, ownership right was transferred outside the regulated market with regard to 5 570 261 NFI Magna Polonia S.A. shares from BZ WBK S.A. securities account to NFI Magna Polonia S.A. securities account.
The shares were purchased by NFI for redemption to deliver the Act 8/2006 of NFI Magna Polonia S.A. Extraordinary General Meeting of Shareholders of 13 April 2006 in which the Management Board was authorized to purchase NFI Magna Polonia S.A. shares for redemption.

56. Investments in joint ventures

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

57. After balance sheet date

Authorization for issue of financial statements

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

Convening the Annual General Meeting of Shareholders

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

in thousands of PLN

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

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

58. Staff benefits

Staff benefits include the following categories:

- Short-term benefits (remuneration, social security contributions, paid leaves, profit distributions and bonuses and non-cash benefits),
- Post-employment benefits (retirement benefits and similar payments, life insurance or medical care provided during the term of employment),
- Other long-term employee benefits (jubilee bonuses, disability pensions, training or scholarship leaves – if these are paid leaves longer than 12 months from the balance sheet date).

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

Provisions for accrued holiday leaves

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

Provisions for employee bonuses

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

Provisions for retirement allowances

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

Other staff-related provisions

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

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

Provisions	31.12.2006	31.12.2005
Provisions for accrued holiday leaves	18 633	14 577
Provisions for employee bonuses	86 259	60 170
Provisions for retirement allowances	21 992	18 969
Other staff-related provisions	2 669	2 344
Total	**129 553**	**96 060**

Detailed information about movements on staff-relating provisions is available in additional note 41.

in thousands of PLN

59. Share based payments

During 2006 BZWBK Group has introduced the Incentive Scheme ("the Scheme") on terms approved by the shareholders. The scheme is designed to provide market-competitive incentives for senior executives, in the context of the Bank's long-term performance against stretching growth targets over the three financial years period 2006 – 2008. Conditional awards of shares are made to employees with vesting to take place on the date of the AGM approving financial statements for the last year of the scheme and will be realised by distribution of shares only.

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

During 2006 conditional awards of 132 476 shares were granted to no more the 100 individuals.

The Black Scholes model has been used to value awards granted at the grant date. The expected volatility is based on an analysis of historical volatility based on 160 sessions preceding the grant date. The following table details the assumptions used, and the resulting fair value.

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

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

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

For the share based payments outstanding as at 31 December 2006 the exercise price equal 10 PLN and remaining contractual life is approximately 2.25 years. The total expense recognized for year 2006 amounts to PLN 3 675 k.

in thousands of PLN

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

31 December 2006

As at 31 December 2006 the Bank employed 7 512 persons, i.e. 7 467 FTE's.
As at this date, in subsidiaries there were 598 persons employed, i.e. 488 FTE's.
In 2006, the average staffing level in Bank Zachodni WBK was 7 336 FTE's whereas an average staffing level in subsidiaries was 473 FTE's.

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

Education	No. of staffs	Structure %
University/college degree	5 025	62,0
High school degree	2 922	36,0
Vocational	30	0,4
Other	133	1,6
Total	**8 110**	**100,0**

31.12.2005

As at 31 December 2005 the Bank employed 7 252 persons, i.e. 7 204 FTE's.
As at this date, in subsidiaries there were 522 persons employed, i.e. 450 FTE's.
In 2005, the average staffing level in Bank Zachodni WBK was 7 127 FTE's whereas an average staffing level in subsidiaries was 408 FTE's.

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

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

61. Dividend per share

As at 31.12.2006 Bank Zachodni WBK will propose an allocation to dividends 73,9 % of net profit (i.e. 57,7% of net profit attributable to the Company's equity holders) of PLN 437 761 704 i.e. PLN 6,00 per one share (PLN 6,00 in 2005). Outstanding profit of PLN 155 033 626,97 will be allocated to other reserve capital. Number of shares totaled 72 960 284.

62. Accounting estimates and judgements

Impairment of financial assets

The Group assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets. It is not necessary to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. The Group makes judgements whether there is indications of objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset.
If there is objective evidence that an impairment loss on loans and receivables or held-to-maturity investments carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The calculation of the present value of the estimated future cash flows requires judgement by management. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly and updated where appropriate. In addition back testing is performed to compare actual and estimates of loan losses.

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

Write-down due to impairment of non-financial assets

Balance sheet values assets other than deferred tax assets are reviewed as at a balance sheet day to specify whether there are reasons for write-down due to impairment. If there are such reasons, recoverable value of assets should be determined.
In case intangible assets not yet available for use, recoverable value is determined as at every balance sheet day.
Write-down due to impairment is recognized if book value of an asset exceeds its recoverable value and is presented in the profit and loss account.
For other receivables impairment amount has been recognised considering the expected recoverable amounts, and for long term other receivables discounting has been applied.

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

Fair value of derivatives

The fair value of derivatives not quoted on active markets is determined using valuation techniques. If valuation techniques are used to determine the fair values, these methods are periodically assessed and verified. All the models are approved before application. As far as possible, only observable data are used in the models, although in some areas, the entity's management must use estimates. Changes in the assumptions relating to the estimated factors may affect the fair values of derivatives disclosed.

Other accounting estimates and judgements

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

in thousands of PLN

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

TRANSLATION

Capital Group of Bank Zachodni WBK S.A.

Opinion and Report of the Independent Auditor

Financial Year ended

31 December 2006

KPMG Audyt Sp. z o.o.
The opinion contains 2 pages
The report supplementing the auditor's opinion contains 15 pages
Opinion of the independent auditor
and report supplementing the auditor's opinion
on the consolidated financial statements
for the financial year ended
31 December 2006

OPINION OF THE INDEPENDENT AUDITOR

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

We have audited the accompanying consolidated financial statements of the Capital Group of Bank Zachodni WBK S.A. seated in Wrocław, ul. Rynek 9/11, 50-950 Wrocław ("Group"), which comprise the consolidated balance sheet as at 31 December 2006, with total assets and total liabilities and equity of PLN 33,041,645 thousand, the consolidated profit and loss account for the year then ended with a profit for the period of PLN 844,246 thousand (including profit attributable to ordinary shareholders of PLN 758,222 thousand), the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 640,281 thousand, the consolidated cash flow statement for the year then with an increase in cash amounting to PLN 953,918 thousand and notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

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

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

In our opinion, the accompanying consolidated financial statements of Bank Zachodni WBK S.A. Capital Group have been prepared, in all material respects, and give a true and fair view of the financial position of the Group as at 31 December 2006 and of its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the Group.

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

Signed on the Polish original

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Certified Auditor No 9941/7390
Bożena Graczyk

Signed on the Polish original

....

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

Signed on the Polish original

....

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

Warsaw, 19 February 2007

KPMG

TRANSLATION

Capital Group of Bank Zachodni WBK S.A.

Report supplementing the auditor's opinion on the consolidated financial statements

Financial Year ended 31 December 2006

KPMG Audyt Sp. z o.o.
The report supplementing the auditor's opinion contains 15 pages
Report supplementing the auditor's opinion on the consolidated financial statements for the financial year ended 31 December 2006

Contents

1 General

1.1 Identification of the Group

1.1.1 Name of the Group

Capital Group of Bank Zachodni WBK S.A.

1.1.2 Registered office of the Parent Company of the Group

ul. Rynek 9/11
50-950 Wrocław

1.1.3 Registration of the Parent Company in the National Court Register

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

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

NIP: 896-000-56-73
REGON: 930041341

1.2 Information about companies comprising the Group

1.2.1 Companies included in the consolidated financial statements

As at 31 December 2006 the following companies belonging to the Capital Group were subject to consolidation:

Parent Company:

- Bank Zachodni WBK S.A.

Subsidiaries consolidated on the "full consolidation" basis:

- Dom Maklerski BZ WBK S.A.
- BZ WBK Finanse & Leasing S.A.
- BZ WBK Leasing S.A.
- BZ WBK AIB Asset Management S.A.
- BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. – jednostka zależna BZ WBK Asset Management S.A.
- BZ WBK Inwestycje Sp. z o.o.
- BZ WBK Faktor Sp. z o.o.
- BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa
- Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp. z o.o.

- BZ WBK Nieruchomości S.A.

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

1.3 Auditor information

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

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

1.4 Legal status

1.4.1 Share capital

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

The share capital of the Parent Company amounted to PLN 729,602,840 as at 31 December 2006 divided into 72,960,284 ordinary shares with a nominal value of PLN 10 each.

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

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

1.4.2 Management of the Parent Company

The Management Board is responsible for management of the Parent Company.

At 31 December 2006, the Management Board of the Parent Company was comprised of the following members:

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

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

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

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

1.4.3 Scope of activities

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

- receiving and maintaining current and term deposits, including accepting and placing cash deposits in domestic and foreign banks,
- maintaining other bank accounts,
- granting loans,
- granting and confirming guarantees and letters of credit,
- issuing banking securities,
- performing cash settlements,
- issue of electronic money instrument,
- granting cash advances,
- performing cheque and bill of exchange operations,
- issuing payment cards and processing card operations,
- performing term financial operations,
- trading in receivables,
- safekeeping of goods and securities as well as providing access to safe deposit-boxes,
- agency services in making money transfers and settlements in foreign currency payments,
- granting civil law guarantees,
- performing operations related to the issue of securities,

- acting as the representative of bond holders,
- purchase and sale of foreign exchange values.

Additionally the Parent Company is illegible to perform the following activities:

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

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

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

- intermediation in trading in securities,
- leasing,
- asset/fund management,
- distribution of insurance services,
- trading in shares and interests of the commercial law companies,
- factoring services.

1.5 Prior period consolidated financial statements

The consolidated financial statements for the financial year ended 31 December 2005 were audited by KPMG Audyt Sp. z o.o. and received an unqualified opinion,

The consolidated financial statements were approved at the General Shareholder Meeting on 4 April 2006.

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

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

1.6 Audit scope and responsibilities

This report was prepared for the General Shareholder Meeting of Bank Zachodni WBK S.A seated in Wrocław, ul. Rynek 9/11, 50-950 Wrocław, and relates to the consolidated financial statements comprising: the consolidated balance sheet as at 31 December 2006, with total assets and total liabilities and equity of PLN 33,041,645 thousand, the consolidated profit and loss account for the year then ended a profit for the period of PLN 844,246 thousand (including profit attributable to ordinary shareholders of PLN 758,222 thousand), the consolidated statement of changes in equity for the year then ended with an increase in equity of PLN 640,281 thousand, the consolidated cash flow statement for the year then ended with an increase in cash amounting to PLN 953,918 thousand, and the notes to the consolidated financial statements, comprising of a summary of significant accounting policies and other explanatory notes.

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

The consolidated financial statements have been audited in accordance with the contract dated 10 October 2006, concluded on the basis of the resolution of the Supervisory Board dated 21 June 2006 on the appointment of the auditor.

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

We audited the consolidated financial statements in the Parent Company's head office and branches during the period from 2 October 2006 to 16 February 2007.

Management of the Parent Company is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

Our responsibility is to express an opinion, and to prepare a supplementing report, on the financial statements.

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

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

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

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

1.7.1 Parent Company

The financial statements of the Parent Company for the year ended 31 December 2006 were audited by KPMG Audyt Sp. z o.o., certified auditor number 458, and received an unqualified opinion.

1.7.2 Other consolidated entities

Financial statements of the following subsidiaries:

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

prepared for the year ended at 31 December 2005, were audited by KPMG Audyt Sp. z o.o., the company authorized to audit financial statement (number 458) and received an unqualified opinion.

Financial statement of BZ WBK Nieruchomości S.A. prepared for the year ended at 31 December 2006 is audited by KPMG Audyt Sp. z o.o., the company authorized to audit financial statement (number 458).

The financial statements of two subsidiaries included in the consolidated financial statements, have been audited by certified auditors other than KPMG Audyt Sp. z o.o. Total assets presented in the financial statements of these entities on 31 December 2006 amounts to 0.1% of the total consolidated assets of the Group before consolidation eliminations and net income of these entities for the financial year ended 31 December 2006 amounts to 2.1% of the consolidated net income of the Group, before eliminations of intercompany transactions.

Financial statement of BZ WBK Inwestycje Sp. z o.o. prepared for the year ended at 31 December 2006 is audited by Sarnowski & Wiśniewski Spółka Audytorska spółka z o.o., the company authorized to audit financial statement (number 2917).

Financial statement of Brytyjsko-Polskiego Towarzystwa Inwestycyjnego WBK-CU Sp. z o.o. prepared for the year ended at 31 December 2006 is audited by Audyt i Rachunkowość „UZR-CBR", the company authorized to audit financial statement (number 934).

The financial statement of BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa was exempt from the obligation to audit for the financial year ended 31 December 2006.

2 Financial analysis of the Group

2.1 Summary of the consolidated financial statements

2.1.1 Consolidated balance sheet

ASSETS	31.12.2006 PLN '000	% of total	31.12.2005 PLN '000	% of total
Cash and balances with central bank	1 534 480	4.6	572 342	2.0
Loans and advances to banks	3 154 546	9.6	3 608 333	12.3
Financial instruments at fair value through profit or loss	741 929	2.3	1 925 909	6.6
Derivative financial instruments	395 650	1.2	443 615	1.5
Loans and advances to customers	17 607 251	53.1	14 194 484	48.1
Reverse repo transactions	15 629	0.1	15 199	0.1
Investment securities	8 055 911	24.4	6 990 336	23.9
Investments in associates	36 201	0.1	73 237	0.3
Intangible assets	135 032	0.4	174 194	0.6
Property,plant and equipment	493 657	1.5	518 643	1.8
Current income tax due	-	-	20 146	0.1
Deferred tax assets	392 467	1.2	435 232	1.5
Other assets	478 892	1.5	339 007	1.2
TOTAL ASSETS	33 041 645	100.0	29 310 677	100.0

LIABILITIES	31.12.2006 PLN '000	% of total	31.12.2005 PLN '000	% of total
Liabilities				
Deposits from banks	1 472 192	5.1	1 692 595	6.5
Derivative financial instruments	249 340	0.9	285 487	1.1
Deposits from customers	24 169 003	83.3	20 838 980	80.5
Repo transactions	1 230 682	4.3	999 541	3.9
Debt securities in issue	646 342	2.2	840 383	3.3
Current income tax liabilities	7 643	0.1	-	-
Deferred tax liabilities	293 529	1.0	315 232	1.2
Other liabilities	896 172	3.1	901 998	3.5
Total liabilities	28 964 903	100.0	25 874 216	100.0
Equity				
Share capital	729 603	17.9	729 603	21.2
Other reserve funds	1 857 147	45.5	2 028 706	59.1
Revaluation reserve	508 548	12.5	250 088	7.3
Retained earnings	106 481	2.6	(143 194)	(4.2)
Profit of the current period	758 222	18.6	516 315	15.0
Total equity attributable to the Bank's equity holders	3 960 001	97.1	3 381 518	98.4
Minority interest	116 741	2.9	54 943	1.6
Total equity	4 076 742	100.0	3 436 461	100.0
TOTAL EQUITY AND LIABILITIES	33 041 645	100.0	29 310 677	100.0

2.1.2 Consolidated profit and loss account

	1.01.2006 - 31.12.2006 zl '000	1.01.2005 - 31.12.2005 zl '000
Interest and similar income	1 659 797	1 670 339
Interest expense and similar charges	(625 589)	(761 064)
Net interest income	**1 034 208**	**909 275**
Fee and commission income	1 173 330	859 241
Fee and commission expense	(170 304)	(165 103)
Net fee and commission income	**1 003 026**	**694 138**
Dividend income	57 276	47 698
Foreign exchange profit	208 172	218 292
Gains (losses) on hedge accounting activities	2 987	(656)
Gains (losses) from financial instruments measured at fair value through profit and loss	21 088	18 624
Gains (losses) from investment in securities	28 975	5 649
Gains (losses) on sale of subsidiaries and associates	9 500	-
Other operating income	49 771	50 174
Impairment losses on loans and advances	(28 336)	(61 595)
Bank's staff, operating expenses and management costs	(1 130 860)	(977 574)
Depreciation/amortization	(158 817)	(186 481)
Other operating expenses	(41 218)	(28 558)
Operating profit	**1 055 772**	**688 986**
Share in profits (losses) for the period of associates accounted for by the equity method	9 726	470
Profit before tax	**1 065 498**	**689 456**
Corporate income tax	(221 252)	(143 549)
Profit for the period	**844 246**	**545 907**
of which:		
attributable to the Company's equity holders	758 222	516 315
attributable to the Minority equity holders	86 024	29 592
Net earnings per ordinary share	10.39	7.08
Diluted earnings per ordinary share	10.38	7.08

2.2 Selected financial ratios

	2006	2005	2004
Total assets	33 041 645	29 310 677	27 545 770
Profit before tax	1 065 498	689 456	570 151
Profit for the period	844 246	545 907	455 599
Shareholders' equity *	3 318 520	2 920 146	2 612 424
Return on equity	25.4%	18.7%	17.4%
Capital adequacy ratio	15.5%	16.1%	12.9%
Receivables to total assets	62.8%	60.7%	61.2%
Income generating assets to total assets	90.7%	92.7%	89.8%
Interest bearing liabilities to total liabilities	84.0%	84.1%	84.8%

* *excluding current-year profit for the period*

2.3 Interpretation of selected financial ratios

In comparison to previous year, total assets grew by 12.7%. On the liabilities side, the largest increase was in the amounts due to clients. The largest increases within assets were in: loans and advances to customers and investment securities.

The Capital Group profit before tax for the year 2006 increased by 54.5% compared to previous year. The following items had an impact on the current year financial result: a decrease in other operating expenses, a decrease of impairment losses on loans and advances and an increase of gains from investment in securities.

3 Detailed report

3.1 Accounting principles

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

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

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

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

3.2 Basis of preparation of the consolidated financial statements

The consolidated financial statements of the Capital Group of Bank Zachodni WBK S.A. were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and with other applicable regulations.

The consolidated financial statements were prepared on the basis of the consolidation documentation prepared in accordance with the requirements of the Decree of the Ministry of Finance dated 12 December 2001 regarding the consolidated financial statements of banks and consolidated financial statements of financial holding companies.

3.3 Method of consolidation

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

3.4 Consolidation of equity and calculation of minority interest

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

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

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

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

3.5 Consolidation eliminations

Intercompany balances within the Group were eliminated on consolidation.

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

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

3.6 Compliance with banking regulations

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

3.7 Audit materiality

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

3.8 Notes to the consolidated financial statements

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

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

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

3.10 Information on the opinion of the independent auditor

Based on our audit of the consolidated financial statements of the Group as at and for the year ended 31 December 2006, we have issued an unqualified opinion.

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

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

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

Warsaw, 19 February 2007

2006

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

Contents

I. General Review

In 2006, Bank Zachodni WBK Group reported a record high profit-before-tax of PLN 1,065.5m thanks to the dynamic growth of its key business areas, specifically:

- ***core-banking volumes***
- ***mutual funds***
- ***brokerage business***

Financial Performance in Brief

- **In 2006, the Bank Zachodni WBK Group achieved record-breaking financial performance and growth rates y-o-y:**
  - profit-before-tax was PLN 1,065.5m, an increase of 54.5% y-o-y;
  - profit-after-tax was PLN 758.2m, an increase of 46.9% y-o-y.
- **With regard to financial performance, the most spectacular progress against 2005 was achieved in the following areas:**
  - higher contribution of subsidiaries to consolidated profit driven by expanding business;
  - increase in total income by 24.3%, of which net commission income went up by 44.5%;
  - cost-to-income ratio brought down to 55.1% from 61.4%;
  - reduction of the impaired loan ratio to 4.9% from 6.9%.

Key Factors Affecting the Group's Profit and Activity

- **Favourable external environment**, including:
  - economic growth and investment climate in Poland;
  - labour market and salary levels;
  - official interest rates levels;
  - changes in the structure of household savings;
  - trends in the credit market.
- **Steady business development:**
  - growth of strategic loan portfolios: cash loans (54.1%), mortgage loans (+26%), business loans (+25.2%);
  - high quality of the loan portfolio maintained with credit delivery processes substantially improving;
  - growth of deposit base (+16%);
  - rapid sales of mutual funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. (net assets higher by 123% y-o-y);
  - functional, procedural and pricing improvements in products and services.

- **Effective cost management:**
    - cost discipline maintained with business of the bank and subsidiaries quickly expanding.

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

- **Better use of remote distribution channels:**
    - increase in the sale of retail products through Direct Banking;
    - expansion of functionality of the BZWBK24 and Minibank24 electronic banking solutions.

Other Key Developments

- **ISO 9001:2000 certification for:**
    - international payment orders;
    - personalization of payment cards.

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

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

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

- **Change in the composition of Bank Zachodni WBK Group.**
    - disposal of AIB WBK Fund Management Sp. z o.o., a subsidiary of the bank.

- **Agency agreement signed with Dom Maklerski BZ WBK S.A. (Brokerage House).**

- **Incentive scheme for senior executives.**

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

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

II. Environment

1. Macroeconomic Situation in 2006

Economic Growth

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

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

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

Labour Market Conditions

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

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

Loans and Deposits

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

Inflation

Amid much higher rate of economic growth and significant improvement in the labour market, which was caused to a large extent by domestic demand, inflation rate remained at a lower than expected level. In December the pace of growth in consumer prices reached merely 1.4% y-o-y, which was not only below 2.5% inflation target but also below the lower end of acceptable fluctuations band around target (1.5%). During the year fluctuations of inflation resulted mainly from changes in prices of fuel and food, while behaviour of other prices, reflecting fundamental inflationary pressure and remaining under the influence of monetary policy, was still very favourable for medium-term inflation perspectives. Core net inflation remained low as well, staying much below 2% throughout the year.

Interest Rates

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

Budget

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

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

2. Macroeconomic Determinants of Future Financial Performance

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

Economic Growth

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

Zloty Exchange Rate

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

Interest Rates

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

Trends at the Warsaw Stock Exchange

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

3. Main Macroeconomic Indicators

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

Source: CSO, NBP, own estimates and forecasts

** - end of period*
F - forecast as at 12.02.2007

III. Basic Information

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

Bank History

Background

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

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

Key Development Stages

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

Continuous Development

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

Current Status and Scope of Activities

Universal Bank

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

Key Features of the Offering

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

The customers' demand for funding can be satisfied through a variety of loans. The list of credit facilities for business customers includes overdrafts, working capital, revolving, payment and preferential loans, leasing and the multi-purpose Business Express facility. The bank also provides funding as part of the EU programmes, enjoying a very good position in the market of EU funds. The credit offer addressed to personal customers is likewise comprehensive, its core feature being attractively structured home and cash loans.

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

Distribution Channels

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

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

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

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

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

Electronic Banking Services

Bank Zachodni WBK S.A. offers a modern package of electronic banking services called BZWBK24 which gives retail and business customers a convenient and safe access to the accounts via phone, mobile or the Internet, thus facilitating financial management. Business customers can choose between the standard BZWBK24 package and the "Moja firma Plus" package with a number of additional functionalities and increased transaction limit. The bank ensures the highest security of electronic services through the authorisation methods based on the smsKod service or alternative logging onto BZWBK24 Internet using text messages (smsKod) or a token.

In addition to the BZWBK24 solution, corporate customers can avail of Minibank24, a pc-banking system whose functionality covers a broad range of safe banking transactions.

Bank Zachodni WBK S.A. in the Banking Market

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

2. Lending Policy

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

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

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

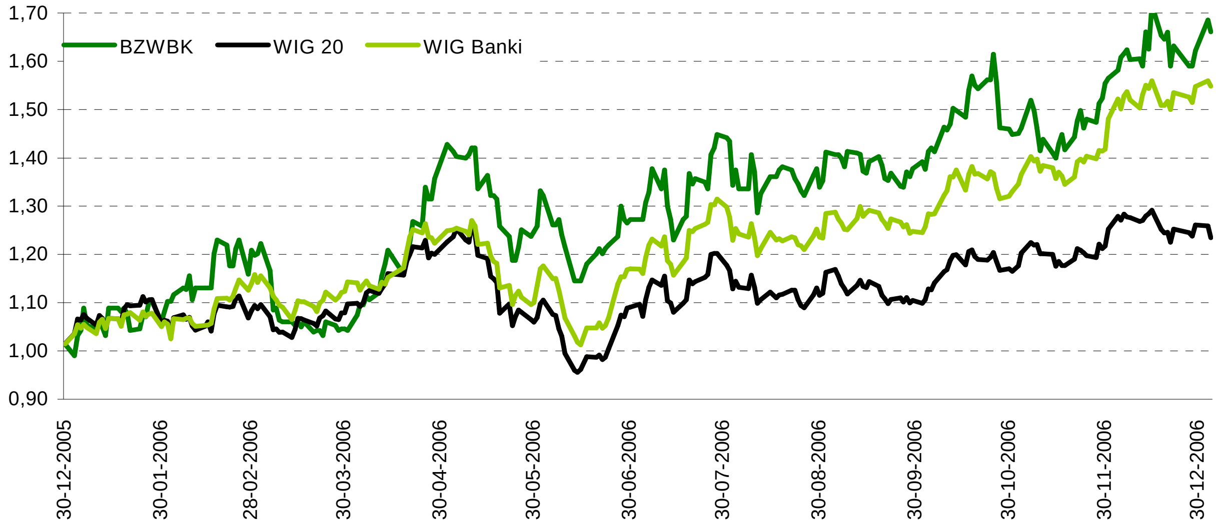
The credit discretions system is governed by Credit Discretions Guidelines. It defines credit discretions for individual positions, which vary depending on lending skills, experience and position of the individuals engaged in the credit delivery process.

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

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

3. Performance of Bank Zachodni WBK Shares

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



4. Bank Zachodni WBK Rating

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

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

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

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

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

5. Composition of Bank Zachodni WBK Group

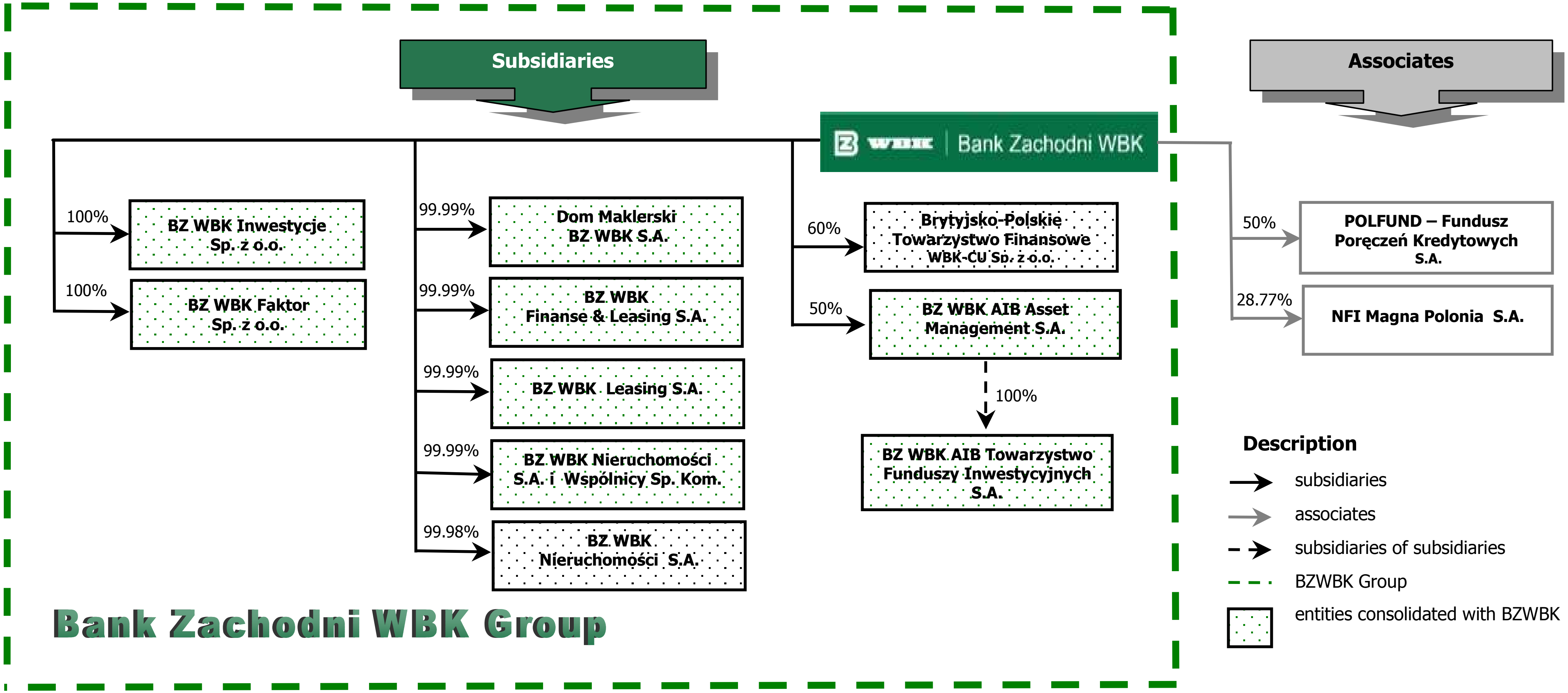
Bank Zachodni WBK S.A. forms a Group with the following ten subsidiaries consolidated on a line-by-line basis. These are:

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

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

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

Entities connected with Bank Zachodni WBK S.A.



IV. Financial Performance in 2006

1. Profit and Loss Account

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

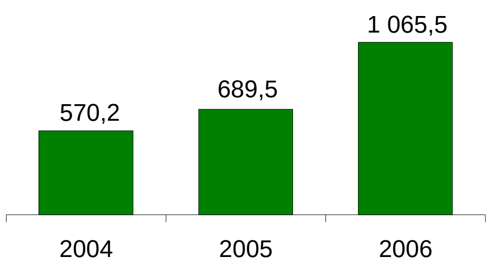
PLN m

Key Profit & Loss Items	2006	2005	Change
Total income	2,415.0*	1,943.2	+24.3%
Total costs	(1,330.9)	(1,192.6)	+11.6%
Profit-before-tax	1,065.5*	689.5	+54.5%
Income tax	(221.3)	(143.5)	+54.2%
Profit-after-tax**	758.2*	516.3	+46.9%

* *includes one-off gains earned in the equity market for a total of PLN 37.3m*
** *excludes profit attributable to minority shareholders (2006 – PLN 86m; 2005 – PLN 29.6m)*

In 2006, the Bank Zachodni WBK Group posted profit-before-tax of PLN 1,065.5m which exceeds the 2005 level by 54.5%. Profit-after-tax attributable to BZ WBK shareholders was PLN 758.2m and 46.9% higher y-o-y. The increase in consolidated profits was driven by a very good performance of the bank and excellent results of subsidiaries, mainly BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., BZ WBK AIB Asset Management S.A., Dom Maklerski BZ WBK S.A., BZ WBK Leasing S.A. and BZ WBK Finanse & Leasing S.A.

Profit-before-tax in the years 2004-2006 (in PLN m)



Income

In 2006, the Bank Zachodni WBK Group produced total income of PLN 2,415m, an increase of 24.3% on the previous year. The main components of the total income were as follows:

- **Net Interest Income**

Net interest income amounted to PLN 1,034.2m compared with PLN 909.3m posted a year before. Taking into account interest-related income from FX Swap and FX Basis Swap transactions (recognised in "FX profit" and "Gains from assets measured at fair value through profit and loss", respectively), which declined y-o-y from PLN 72.7m to PLN 24.7m, the underlying net interest income increased by 7.8%. This was achieved thanks to the growth of business and favourable changes in its structure, with credit margins at relatively stable levels and deposit margins contracting in a lower interest rate environment.

- **Net Commission Income**

Net commission income amounted to PLN 1,003m and increased by 44.5% y-o-y driven by sustained expansion of the bank's and subsidiaries' business.

Due to the fast flow of assets to the mutual funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. and private portfolios of BZ WBK AIB Asset Management S.A., a significant increase in net income was recorded in asset management fees (+229.1%) and fees for distribution of mutual fund units (+59.5%). A strong growth was also witnessed in net brokerage fees of Dom Maklerski BZ WBK S.A. (+76.5) parallel with the rising business volumes amid increasingly higher trading at the Warsaw Stock Exchange. There was also a noteworthy increase in net commission income generated by insurance products (+165.4%) and services rendered for customers involved in capital market projects (+19.7%).

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

The slight decrease of 3.7% in fees and commissions for account maintenance and cash transactions resulted from a price promotion and negotiable schedule of current account-related fees made available to business customers, and also their increased migration to electronic channels.

- **Dividend Income**

Dividend income of PLN 57.3m increased by 20.1% as a result of higher dividend paid out by the Commercial Union Group members included in the bank' s equity investment portfolio. In 2006, these entities disbursed PLN 53m in dividends to the bank as compared to PLN 44.1m in the previous year.

- **FX Profit**

FX profit was PLN 208.2m and 4.6% down y-o-y due to the decline in FX Swap income as a result of the shrinking gap between the PLN and FX interest rates. Excluding FX Swap impact, the line shows an increase of 11.9%, which reflects higher income from increased FX transactions with customers, mainly corporate negotiated.

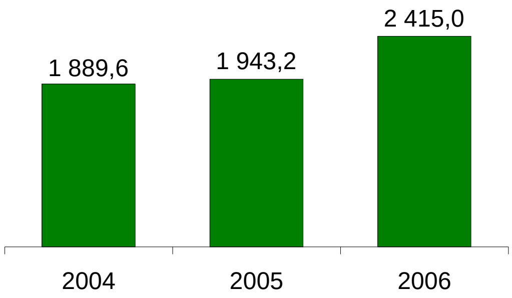
- **Gains on Assets Measured at Fair Value Through Profit and Loss**

Gains on financial transactions measured at fair value through profit and loss increased by 13.4% to PLN 21.1m thanks to higher income from derivative transactions, resulting largely from the stronger market-making activity of the brokerage house.

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

The combined gains on the investment portfolio and disposals of subsidiaries/associates amounted to PLN 38.5m and were higher y-o-y by PLN 32.8m due to the one-off gains in the equity market, i.e. profit earned on the disposal of two associated companies: LZPS Protektor S.A. (PLN 7.8m) and NFI Magna Polonia S.A. (PLN 3.3m), the disposal of TIM S.A. shares from the investment portfolio of the bank's subsidiary BZ WBK Inwestycje Sp. z o.o. (PLN 22.6m) and the repurchase of shares by MasterCard Incorporated (PLN 5.2m).

Total income in the years 2004-2006 (in PLNm)



Loan Impairment Charge

In 2006, the impairment charge to the profit and loss account amounted to PLN 28.3m compared to PLN 61.6m posted a year before. Such a low level of impairment recorded amid the increasing credit volumes confirms the very good performance of the Group's loan-book, consistent operation of the credit risk management policy and the sharp focus on ensuring portfolio quality. The effectiveness of the credit risk management framework is also evidenced by reduction of the NPL ratio. At the end of December 2006, the "impaired loans" accounted for 4.9% of the gross portfolio with a provision cover of 60.7%. A year before, the corresponding ratios were 6.9% and 62.4%, respectively.

Costs

The performance of the Bank Zachodni WBK Group in 2006 caused reduction of its cost-to-income ratio to 55.1% from the level of 61.4% recorded the previous year.

Total operating costs of the Bank Zachodni WBK Group amounted to PLN 1,330.9m and were higher by 11.6% y-o-y. Their main components were as follows.

- **Staff and Other Administrative Expenses**

Staff and other administrative expenses increased by 15.7% y-o-y to PLN 1,130.9m driven by dynamic business development of the bank and its subsidiaries.

The biggest element of this figure, i.e. the Group's staff expenses, amounted to PLN 683.7m and increased by 19% y-o-y due to higher employment, pay increases triggered by growing competition among banks for highly skilled banking experts, performance-related bonuses and once-off year-end payments in the form of pre-paid cards (PLN 21.9m) for the employees of the bank and subsidiaries.

With a strong business growth, the Group's other administrative expenses increased by 10.9% y-o-y to PLN 447.2m. This movement results mainly from the Group's promotional activities designed to support the sales of its strategic products, e.g. BZ WBK Arka mutual funds and cash loans, and the costs related with IT projects implemented to provide the infrastructure to foster further business growth of the bank and its subsidiaries. The Group's ongoing savings initiatives curbed the administrative expenses, restraining the growth of the business-driven cost items and maintaining other costs at a level comparable to the previous year.

- **Depreciation**

Depreciation totalled PLN 158.8m and decreased by 14.9% y-o-y due to effective management of the Group's fixed assets.

- **Other Operating Costs**

Other operating costs increased by 44.1% to PLN 41.2m due to higher level of provisions raised in 2006 for legal risk.

2. Balance-Sheet Items

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

PLN m

Key balance-sheet items	31-12-2006	31-12-2005	Change
Balance sheet total	33,041.6	29,310.7	+12.7%
Key assets			
Loans and advances to customers*	17,607.3	14,194.5	+24.0%
Investment securities	8,055.9	6,990.3	+15.2%
Loans and advances to banks	3,154.5	3,608.3	-12.6%
Cash and balances with Central Bank	1,534.5	572.3	+168.1%
Securities at fair value through profit & loss	741.9	1,925.9	-61.5%
Key liabilities			
Deposits from customers	24,169.0	20,839.0	+16.0%
Deposits from banks	1,472.2	1,692.6	-13.0%
Repo transactions	1,230.7	999.5	+23.1%
Debt securities in issue	646.3	840.4	-23.1%

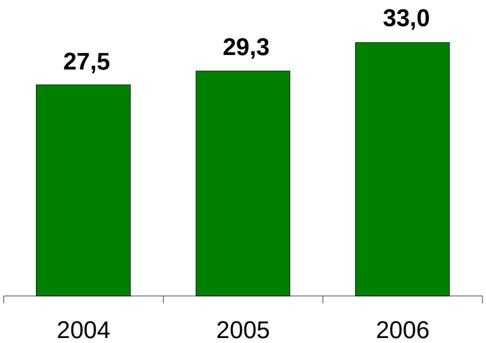
** net of impairment*

As at 31 December 2006, total assets of the Bank Zachodni WBK Group amounted to PLN 33,041.6m and were 12.7% up on the previous year. The value and structure of the Group's balance sheet was determined by the bank's balance sheet which accounted for 95% of the consolidated total assets.

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

On the liabilities side, the Group posted a substantial increase in deposits from customers and repo transactions. The latter grew in importance in 2006 as a source of Treasury funding due to more favourable pricing conditions compared with the money market.

Total assets in the years 2004-2006 (in PLN bn)



Credit Portfolio

At the end of December 2006, net loans and advances to customers were PLN 17,607.3m and 24% up y-o-y due to increasing volumes of the Group's key loan-books: business loans, retail loans and lease rentals. Gross loans and advances to customers amounted to PLN 18,253.5m vs. PLN 14,921.3m a year before.

Compared to the end of December 2005, the business loans increased by 25.2% to PLN 12,046.3m, reflecting higher demand of business customers for funding towards investments and working capital requirements. The credit delivery accelerated driven by the optimistic outlook for further development of the Polish economy and the quality of the Group's credit offer for businesses, both product proposal and services being well-adjusted to the customers' needs. Property was one of the most rapidly growing sectors in 2006 and this, along with effective sales efforts, contributed to the significant expansion of the Group's property loan-book (loans for income-producing real estates).

The value of retail loans increased by 27.9% y-o-y to PLN 4,238.9m, with the strongest growth in cash loans (+54.1%) and mortgage loans (+26%).

Consolidated loans and advances to customers include lease rentals which grew over the last year by 6.1% to PLN 1,705m. Excluding the impact of prematurely terminated leases of BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa (PLN 143.5m as at end-2005) in 3Q 2006, the Group's leasing portfolio increased by 16.5% y-o-y owing to stronger sales of vehicles, plant and equipment by both leasing subsidiaries, i.e. BZ WBK Leasing S.A. and BZ WBK Finanse & Leasing S.A.

The biggest item in the lending structure of the Bank Zachodni WBK Group were loans to business and public sector customers, accounting for 67% of the gross portfolio. Retail loans represented 23% of the total loan-book, while leasing and other receivables made up 10%.

The Bank Zachodni WBK Group maintains an adequate diversification of the credit portfolio in accordance with its policy of exposure to industries and financial groups. As at the end of December 2006, the highest concentration level of 20% was recorded in the property services sector.

The quality of the Group's loan-book continued to improve during the year, which is reflected in the declining NPL ratio, i.e. 4.9% in 2006 versus 6.9% in 2005.

Deposit Base

Deposits from customers, which represent 73.1% of the Group's liabilities, are the primary source of funding its lending business. At the end of December 2006, customer deposits totalled PLN 24,169m and were higher by 16% y-o-y due to the significant growth in balances accumulated in term deposits of business and public sector customers, and in personal current accounts.

The value of funds deposited in current accounts of personal, business and public sector customers (excluding one-day deposits) was PLN 8,120.6m and 19.8% higher on the end of 2005. This growth is attributable to low interest rates which made retail customers more inclined to keep their financial resources in current and savings accounts. These facilities, as opposed to term deposits, offer their holders flexibility in managing the funds, with no financial consequences involved. The Group's current deposit base was also driven by significantly improved financial standing of households and their rising optimism about the prospects for the future.

Over the last 12 months the Group's term deposit base (including one-day deposits) increased by 14.1% to PLN 15,540.8m, mainly due to the funds deposited by business customers who recorded an increased activity and good financial performance thanks to the favourable economic climate.

Debt Securities in Issue

As at 31 December 2006, the Group's liability arising from debt securities in issue amounted to PLN 646.3m which represents a 23.1% decrease y-o-y. Reduction in the own bonds portfolio is an effect of redemption of PLN 281.3m worth of bonds by the leasing companies (Finanse & Leasing S.A. and Leasing S.A.) in 2006. As part of the public bonds issue programmes of the two companies, three new issues were placed in the market last year, with a total nominal value of PLN 93.3m.

3. Basic Financial Ratios

Financial Ratio	2006	2005
Total costs /Total income	55.1%	61.4%
Interest income /Total income	42.8%	46.8%
Commission fee /Total income	41.5%	35.7%
Deposits / Total assets	73.1%	71.1%
Loans / Total assets	53.3%	48.4%
Impaired loans ratio	4.9%	6.9%
Impaired loan coverage ratio	60.7%	62.4%
ROE*	23.7%	18.0%
ROA**	2.4%	1.8%
Solvency ratio	15.5%	16.1%
Basic earnings per share in PLN	10.4	7.1
Book value per share in PLN	55.9	47.1

* *equity as at the end the given period, net of current profit and minority interest, was used in the computations,; adjusting for the impact of revaluation of the bank's equity investment in Commercial Union entities, 2006 ROE was 26%.*

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

4. Interest Rates on Loans and Deposits

In 2006, like in the previous years, the interest rates offered to customers were tied to the market rates and the base NBP rates.

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

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

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

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

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

V. Business Development in 2006

1. Review of Key Business Development Directions

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

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

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

2. Development of Customer Service

Customer Relationship Management (CRM)

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

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

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

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

In parallel, steps are taken to reduce the attrition rate. The bank continuously tracks the number of customers who leave or reduce their activity, which helps identify the motives behind such behaviour, eliminate its causes or actively prevent it through direct contacts and sales campaigns. In 2006, the number of sales campaigns conducted by the bank almost tripled compared with the previous year, with most campaigns being targeted at personal customers. In order to achieve the highest quality of customer service, the bank improves its sales standards, trains its employees and monitors their sales skills.

Service Quality Management

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

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

Increased Customer Satisfaction

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

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

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

Total Quality Management System

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

2006+ Standards

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

Customer Care Officer

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

Enhancement of Internal Customer Service

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

3. Development of Products and Services

Retail Loans

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

Mortgage Loans

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

Cash Loans

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

Credit Cards

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

Offer for Small and Medium-Sized Enterprises (SMEs)

Credit Process

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

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

Loans Refinanced From EU Funds

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

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

Offer for Farmers

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

Personal Accounts

Konto<30

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

Konto24 Euro

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

Konto24 Prestiz

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

Deposit and Investment Products

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

Deposit Products

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

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

Investment Funds

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

Insurance Products

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

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

FX Transactions

International Payments

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

Western Union Money Transfers

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

Trade Finance

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

Debit Cards

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

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

Provision of Services to Financial Institutions

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

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

Investment Banking

Advisory Services

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

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

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

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

Arrangement for Bond Issues

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

Equity Portfolio Management

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

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

As at 31 December 2006, the equity investment portfolio of Bank Zachodni WBK S.A. was composed of subsidiaries and associates displayed in the chart on page 14 and minority shareholdings in 23 companies, including Krajowa Izba Rozliczeniowa S.A. (11.48%), Commercial Union Polska Towarzystwo Ubezpieczeń na Życie S.A. (10%), Commercial Union Polska Towarzystwo Ubezpieczeń Ogólnych S.A. (10%), Commercial Union Powszechne Towarzystwo Emerytalne BPH CU WBK S.A. (10%), AWSA Holland II B.V. (5.44%) and Arka BZ WBK Fundusz Rynku Nieruchomości Specjalistyczny Fundusz Inwestycyjny Zamknięty (4.42%).

Treasury Services

2006 saw continued growth in Treasury activity, in both wholesale and corporate markets.

Treasury Services operations have continued to develop in close cooperation with Corporate and Commercial Banking activities, while maintaining focus on the retail branch client network. The Treasury services centres in Gdańsk, Kraków, Poznań, Warsaw and Wrocław all experienced strong growth. The business continues to grow, driven by strong International Trading (both imports and exports) and Treasury have continued to develop their product range to meet customer demand.

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

4. Development of Distribution Channels

Branch Network

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

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

Corporate Business Centres

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

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

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

Cash Management Unit

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

Electronic Distribution Channels

BZWBK24

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

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

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

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

Minibank24 (pc-banking)

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

ATMs

As at 31 December 2006, the ATM network of Bank Zachodni WBK S.A. comprised 608 machines, i.e. 21 more than a year before. To enhance effectiveness of ATMs, the network location optimization process was continued, driven by customer needs and business potential of the locality. Also, seasonal installations were put in place with application of mobile solutions in many prime tourist locations (at the seaside in summer and in the mountains in winter). In order to provide customers with top class technical infrastructure, the bank continued to upgrade its ATM network and replaced older ATMs with the latest generation machines. Thanks to these efforts, the BZWBK ATMs are characterised by a high functionality and over 70% of the machines comply with the EMV standard (i.e. support chip cards).

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

Direct Banking

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

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

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

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

External Distribution Channels

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

Mobile Sales

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

Agency Sales

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

Franchise network of outlets

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

5. Development of Subsidiaries

BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.

In 2006, customer savings flowed rapidly to mutual funds in expectation of above-average returns due to the favourable stock exchange climate. The mutual funds market recorded a 61% growth rate, which is slightly below the last year's record performance.

The mutual funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. developed twice as fast as the market. Their assets increased in value by 123% to PLN 17,190.2m at the year-end. The strong asset growth is attributable to the superior performance of individual BZ WBK Arka funds and the promotional campaign emphasising these excellent results. Amidst the favourable trends at the Warsaw Stock Exchange, the strongest growing BZ WBK Arka fund was Arka BZ WBK Akcji FIO (+265% y-o-y). In terms of growth rate, the second was Arka BZ WBK Zrównoważony FIO (+178% y-o-y), which acquired the most assets and at the end of 2006 was the biggest fund managed by the company (with an asset base of PLN 5,571.1m). Arka BZ WBK Stabilnego Wzrostu FIO was ranked third with a growth rate of 84% y-o-y. As a result of the significant business growth, the company's share in the mutual funds market increased from 12.6% at the end of 2005 to 17.4% a year later. This strengthened its position as the second largest investment fund company in Poland in terms of assets under management.

In May 2006, a new mutual fund was established: Arka BZ WBK Funduszy Akcji Zagranicznych FIO. The fund invests in selected mutual funds operating in the world's equity markets, which ensures potential significant returns, and due to the geographical and sectoral diversification of investments, mitigates the risk of dependence on the ups and downs of a single market. The company also created two sub-funds of the LUKAS FIO fund, i.e. Subfundusz Lukas Lokacyjny and Subfundusz Lukas Akcyjny, which began to be distributed through Lukas Bank outlets in November 2005.

In 2006, the sales network of BZ WBK Arka mutual funds has been expanded to include outlets of three other distributors: BRE BANK S.A. Private Banking, Bankowy Dom Maklerski PKO BP S.A. and Bank Millenium S.A.

In February 2006, BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. was awarded a "Bull and Bear" statuette by *Gazeta Giełdy Parkiet*, a Polish stock-exchange newspaper, for attainment of the highest annual returns in the three categories: equity fund, balanced fund and stable growth fund.

On 6 February 2007, *Parkiet* again awarded the "Bull and Bear" statuette to the company for the best investment funds association in 2006. The following six funds managed by the company shared the award: Lukas Dynamiczny Polski, Arka BZ WBK Zrównoważony FIO, Lukas Stabilnego Wzrostu, Arka BZ WBK Stabilnego Wzrostu FIO, Arka BZ WBK Obligacji FIO and Arka BZ WBK Obligacji Europejskich FIO. *Parkiet* recognised not only BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., but also its experts who managed the best performing funds in their individual categories. Two of them were awarded with "golden portfolios" for the highest rates of return achieved by the funds they managed.

Also, in the annual ranking published by *Rzeczpospolita* BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. for the third consecutive year was ranked best financial institution in the category of mutual funds ("BZWBK AIB: on top for the third time running" of 14.06.2006). The assessment panel members, who are financial and capital market practitioners and theoreticians, thoroughly screened the mutual funds operating in Poland, looking at such aspects as: asset growth, financial position, investment results as well as quality and distinctiveness of the offer.

BZ WBK AIB Asset Management S.A.

The strong interest in stock investments had a positive impact on the sale of individual portfolios of BZ WBK AIB Asset Management S.A., leading to their increase by 75% in terms of number and 207% in terms of asset value y-o-y. The most rapid growth was recorded in the shares and balanced portfolios (+317% and +229%, respectively).

As at the end of December 2006, the value of assets managed by BZ WBK AIB Asset Management S.A., including investment funds of BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., increased by 130% y-o-y to PLN 19,496.9m.

Dom Maklerski BZ WBK S.A.

In 2006, the dynamic market continued at the Warsaw Stock Exchange, with sharp increases in stock exchange indices and a record-high volume of trading in the equity market.

In this environment, Dom Maklerski BZ WBK S.A. (the Brokerage House) recorded its historically highest stock trading, which outpaced the market by 4.2 p.p. The volume of trading was PLN 37.9bn and 84% higher than in the previous year. The Warsaw Stock Exchange awarded the Brokerage House for the highest, 12% share in the equity market in 2006, excluding the market-making activity of all the participants. Together with the market-making transactions, the Brokerage House ranked second in terms of trading volumes. The increase in turnover and market share is an effect of the growing base of Polish corporate customers, stronger activity of foreign corporate customers as well as a bigger number of transactions with personal investors.

In the futures market, which is the second most important WSE market, the brokerage house acted as an agent for concluding 1,512.4k transactions. This represents a 7% increase y-o-y and accounts for a market share of 11.9% (vs. 13.2% in 2005). The company recorded a notably higher share in the options market (12.9% as compared to 9.8% a year before). In both the above-mentioned markets, Dom Maklerski BZ WBK S.A. was ranked third in Poland.

In 2006, Dom Maklerski BZ WBK S.A. organised a number of share sale transactions in the primary market. In terms of funds acquired in the process, the biggest transactions included: RUCH S.A. (PLN 143m), PBG S.A. (PLN 138m), Barlinek S.A. (PLN 103m), Hydrobudowa Śląsk S.A. (PLN 76m).

Dom Maklerski BZ WBK S.A. maintained its leading position among brokerage companies in Poland in terms of Internet accounts it operates. Their number increased by 64% y-o-y to 35.5k at the end of December 2006. The company also improved its rate of migration of retail transactions to the electronic distribution channels (90%).

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

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

The leasing companies of Bank Zachodni WBK S.A. offer products which finance a wide range of fixed assets. Thanks to the capital support from the bank, the companies can also successfully provide project finance.

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

Both companies strive to gain competitive edge through enhancements and modifications of their product range, optimisation of sales processes and development of delivery channels.

At the beginning of 2006, BZ WBK Leasing S.A. launched a car loan in the branch network of Bank Zachodni WBK S.A. country-wide. The new product was an important addition to the bank's offer of car financing for retail customers. With a view to meeting business customers' expectations and increasing their convenience, in the course of the year the entity modified its simplified procedure for financing vehicles for companies.

At the same time, BZ WBK Finanse & Leasing S.A. implemented - in co-operation with its suppliers - an attractive offer of financing selected machines. It also upgraded its range of project finance products by introducing property leasing.

In 2006, the two companies leased net assets totalling PLN 1,194.7m, i.e. 29% up y-o-y. In line with the market trends, a fast increase was recorded in the sales of machines and equipment (+31%), which – apart from the favourable external factors (e.g. good market, higher investments) – is attributable to the attractiveness of the leasing offer (e.g. project finance using the structural funds). The vehicles lease business also developed at a good rate (+28%).

In 2006, BZ WBK Finanse & Leasing S.A. placed two series of bonds with a total nominal value of PLN 46.9m as a continuation of the public issuance programme. As part of a separate issuance programme, BZ WBK Leasing S.A. sold one series of bonds for PLN 46.4m. The issued bonds were coupon bearer papers of PLN 100 each with a 3-year maturity. The raised funds were used to finance the expanding business operations of the leasing companies. In February 2006, the Bank Zachodni WBK Group was awarded by the President of the Board of MTS-CeTO "for being the most innovative in the CeTO market in 2005" in recognition, among other things, for the issue of bonds of the Group's leasing subsidiaries.

BZ WBK Faktor Sp. z o.o.

BZ WBK Faktor Sp. z o.o. provides recourse and non-recourse factoring services, including: purchase of trade receivables from customers, debtors management, working capital funding, monitoring of repayments and debt collection, takeover of debtors' insolvency/default risk. Last year, the product range was expanded to include export factoring and work was undertaken to implement international factoring in a two-factor system. Also, the company intensified its co-operation with the Bank Zachodni WBK branch network, continued a training programme for the branch advisors and conducted two sales campaigns in liaison with the bank.

In 2006, the value of purchased receivables was PLN 785.4m and was 20% higher than in the corresponding period of the previous year. In terms of factoring turnover, the company was ranked fifth in Poland, with a market share of 5.7%. The increase in turnover and exposure was achieved thanks to the acquisition of new customers and a stronger activity of the existing ones.

BZ WBK Inwestycje Sp. z o.o.

In 2006, BZ WBK Inwestycje Sp. z o.o. continued its activities in the area of managing equity investments. In April 2006, the company disposed of TIM S.A. shares through the Warsaw Stock Exchange. The transaction, which involved the sale of 2m of shares for PLN 12.3 each, yielded the income of PLN 24.6m.

VI. Strategy for 2007-2010

Key Strategic Assumptions

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

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

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

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

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

Customer Relationship

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

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

Offering of Products and Services and their Distribution

Development Directions for Retail Customers

The bank's strategy indicates two key sources of acquiring retail business, i.e. from the "start-up" and the "mass affluent" customer segment. It also foresees numerous initiatives with a view to increasing attractiveness of retail products and services.

The bank will be focused on ensuring a balanced growth of the savings and investment products portfolio across the Bank Zachodni WBK Group. To this end, the bank will keep on following the same development directions as before. It will provide its customers with a full range of services (including those offered by the subsidiaries) for portfolio diversification, improve effectiveness and quality of sales and promotional activities, ensure the required training for employees and implement a distribution model based on professional advice. Also, in co-operation with BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., a new investment offer based on closed-end funds will be developed for high net worth individuals. Retail customers will obtain access to attractive markets and industries through open BZ WBK Arka funds investing in the Central and Eastern Europe. The range of alternative products, including property funds, will also be expanded. The array of savings and investment products will be complemented with income-generating investment insurance schemes.

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

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

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

Development Directions for Business Customers

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

Development Directions for Distribution Channels

The "Po pierwsze Klient" strategy envisages an organic growth of the bank based on integrated development of all distribution channels. In the next years the bank's branch network will be intensively developed, mainly in the locations with significant business potential, where so far the bank has not established its presence. In parallel to the geographical expansion the bank will introduce a new service model in its branches and will provide a new proposition for customers with most sophisticated needs (Private Banking and Personal Banking).

To meet the requirements of customers who mostly use traditional products and services, the bank will launch a network of outlets offering simple financial operations such as bill payments, personal account transactions or cash loans.

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

Service Quality

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

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

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

Process Enablement

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

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

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

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

VII. Risk Management

1. Capital Management

The policy of Bank Zachodni WBK S.A. is to maintain a strong capital base (above the minimum level required on account of various types of risk related to the activities conducted) and to use it effectively in order to add value for shareholders.

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

As at 31 December 2006, the bank's solvency ratio was at 13.79%, and for the Group at 15.47%, which confirms the safe position of both the parent company and the entire Group.

At the end of 2006, the bank's capital resources amounted to PLN 3,613.2m and were higher y-o-y by PLN 424.3m. For the Group, these increased by PLN 640.3m to PLN 4,076.7m as at the end of 2006.

The extent of growth in the consolidated capital resources in 2006 against the previous years was due to substantially higher profit of the current period, increase in revaluation reserve driven by revised revaluation of the bank's investment in entities of the Commercial Union Group, and finally the level of record-breaking dividend (PLN 6 per share) paid from the profit generated in 2005.

2. Financial Risk Management

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

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

Credit Risk Management

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

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

Credit Policy Forum

To manage the credit risk effectively, Bank Zachodni WBK S.A. established the Credit Policy Forum whose key role is to develop and approve credit and sectoral policies, industrial analyses, credit grading systems and credit risk assessment addressed for the branch network and Business Support Centre units directly responsible for business growth and support. The Credit Policy Forum is composed of senior representatives of individual Bank Zachodni WBK divisions.

Credit Policies

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

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

Credit Grading

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

Currently the bank uses new credit risk grading models for its key credit portfolios, including corporate customers, SMEs, housing loans, cash loans, credit cards and retail overdrafts. Work is under way to develop tools compliant with Basel requirements for other portfolios, i.e. income-producing real estate and public sector.

Provisioning

In Bank Zachodni WBK S.A. and its subsidiaries provisions are raised in accordance with the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS). The provisions reflect credit impairment which is recognised if the bank presents an objective evidence that such amounts cannot be recovered in line with the signed loan agreement. The impairment is calculated on the basis of the estimated recoverable amount. Impairments are analysed using both the individual and collective approach.

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

Return on Risk

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

Credit Decision Making Process

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

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

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

Credit Reviews

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

Market Risk and Liquidity Risk Management

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

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

Market Risk Management

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

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

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

- Market risk is managed by qualified personnel using the appropriate systems and controls. Management of interest rate, FX and liquidity risks is centralised in the Bank Zachodni WBK Treasury Division.

- Market risk is measured and its compliance with the stated risk limits is monitored by qualified personnel separated from the unit which manages and generates the risk. Exposure to market risk is regularly reviewed by ALCO.

- Risk limits are periodically reviewed to align them with the bank's strategy and the current objectives of the bank.

- A special portfolio of highly rated debt securities generates a stable income flow, mitigating the structural balance-sheet risk connected with liabilities that are not sensitive to interest rate changes. According to the Policy approved by the Management Board, any decisions relating to the value or structure of this portfolio are taken by ALCO.

Assets & Liabilities Management Department identifies, on an on-going basis, the market risk connected with retail and commercial activities and transfers the risk to the Treasury Division. Treasury Division then executes relevant transactions (e.g. in the inter-bank market, in securities, derivatives, etc.) in order to maintain the risk at an acceptable level.

Interest rate and FX risks are monitored using the Value at Risk (VaR) methodology which is a standard industry tool for measurement of interest rate and FX risk. VaR methodology uses a statistical process to determine the Probable Maximum Loss (PML) in economic value of a transaction or a portfolio of transactions as a result of an adverse change in market parameters. The bank applies the VaR methodology both to the trading and banking portfolio. According to the bank's policy, the interest rate risk measured as PML may not exceed 8.25% of the bank's own funds, while PML connected with FX risk may not exceed 0.5% of own funds

Liquidity Risk Management

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

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

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

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

Operational Risk Management

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

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

- Organizational units responsible for management of the operational risk that may manifest itself in the area of their operations (identification, assessment and monitoring of the risk based on the self-assessment methodology, implementation and monitoring of risk controls, learning lessons from financial and non-financial operational incidents).

- The Operational Risk Management Department is responsible for coordination of the whole process (implementation of an effective risk management structure, development of methodology, providing support to other units, maintenance and analysis of a database with information on financial and non-financial losses, reporting, management of financial lines insurance).

- All operational risk management processes are monitored by the dedicated Operational Risk Management Committee (ORMCO).

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

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

The bank co-operates closely with AIB Group in the area of development and implementation of strategies and policies of operational risk management, selection and launch of supporting instruments, and ensuring compliance with the requirements of the New Capital Accord.

VIII. Human Resources and Corporate Values

1. Human Resources Management

Human resources

As at 31 December 2006, the number of FTEs in the Bank Zachodni WBK Group was 7,955, which was higher by 301 than a year before. The increase in the bank's headcount (by 263 FTEs) was due to the growing range and scale of banking operations, which involved development of new distribution channels. Personnel movements also occurred in the process of business units optimisation, e.g. through allocation of resources commensurate with the requirements and business potential of the local markets. The subsidiaries increased their number of FTEs (by 38) in consequence of the rapid growth of business and the increase in workload.

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

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

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

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

2. Corporate Values

Code of Business Ethics

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

According to the Code, in all the aspects of its activities the bank complies with the business ethics requirements, conforms with the law and acts in accordance with the best corporate governance and risk management models. The bank seeks to create a climate of trust in its dealings with customers, employees, shareholders and other stakeholders, promoting such values as integrity, professionalism, prudence and competence. The opinion of being a dependable organisation is perceived as a pre-requisite for further development and success, but the bank also has the ambition to be recognised for being engaging and pioneering. As a socially responsible organisation, the bank supports corporate-giving and sponsorship programmes.

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

Corporate Culture

Corporate Behaviours

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

Compliance culture

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

Corporate Governance

Bank Zachodni WBK S.A. complies with all the corporate governance rules contained in the document "Best Practice in Public Companies in 2005", introduced by Resolution no. 44/1062/2004 of the Warsaw Stock Exchange Board. Compliance with best practice is also supported by the bank's internal procedures, including provisions of the Statutes, Supervisory and Management Board regulations. To facilitate access to information about Bank Zachodni WBK S.A., the bank's web site has a special section for investors with all current and periodic reports, corporate documents and other material information.

3. Bank in the Society

Corporate Citizenship

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

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

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

Scholarship Programme of "The Bank of Children Smiles" which supports development of children gifted in science, sports, music and arts.

IX. Major Internal Developments and Events

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

According to the information held by the bank's Management Board, as at 19 February 2007 the shareholder having a minimum 5% of the total number of votes at the Bank Zachodni WBK Annual General Meeting of Shareholders was AIB European Investments Ltd. based in Dublin.

Shareholder	Number of shares held	Share in the share capital	Number of votes at AGM	Voting power at AGM
AIB European Investments Ltd.	51,413,790	70.5%	51,413,790	70.5%
Other shareholders	21,546,494	29.5%	21,546,494	29.5%
Total	**72,960,284**	**100%**	**72,960,284**	**100%**

2. Governing Bodies

Annual General Meeting of Shareholders

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

Supervisory Board

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

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

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

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

Management Board

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

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

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

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

Appointment and Removal of Executives

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

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

Powers of Executives

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

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

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

3. Changes to the Management Organisation

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

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

4. Capital Expenditure

The capital expenditure incurred by the Bank Zachodni WBK Group in 2006 totalled PLN 89.1m and was 28% higher than a year before. Bank Zachodni WBK S.A. outlay amounted to PLN 81.5m, of which PLN 64.6m was spent on IT projects while the remainder was connected with properties and other fixed assets.

IT initiatives included work on preparation of the bank's systems to support external distribution channels. In order to ensure the best level of card service, the bank purchased a modern production line for personalisation and distribution of cards. This investment contributed to an increase of the quality of service, which was confirmed by award of the ISO 9001:2000 certification to the bank. In addition to the described initiatives, the bank also continued the decongestion process, extension and upgrade of the ATM network and completed subsequent stages of implementation of the new IT platform for managing HR processes. In 2006, self-service SAP HR applications (developed in prior periods) were subject to comprehensive tests and their functionality was expanded by traditional and e-learning training options. Also, a number of projects were implemented to improve the security, reliability and stability of the bank's systems and to build a platform for provision of services to the companies from the Bank Zachodni WBK Group.

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

5. Other Events

Incentive Scheme

Pursuant to the resolution of the Annual General Meeting of Shareholders of 4 April 2006, Bank Zachodni WBK S.A. introduced a three year Incentive Scheme for the years 2006-2009. The Scheme is addressed to the Management Board members and senior management of Bank Zachodni WBK S.A and its subsidiaries recommended by the Management Board and approved by the Supervisory Board with the maximum number of 100 participants in the programme. The Incentive Scheme entitles the participants to buy bonds with pre-emptive rights and in the next stage to take up – at a preferential price – the bank's shares issued as part of the conditional increase of the share capital. The right of participants will be exercised contingent upon the growth in consolidated earnings per share (EPS) within 3 years of the Incentive Scheme's duration. It is the Supervisory Board that will decide about the satisfaction of the defined criteria based on the financial performance of the Group as approved by the Annual General Meeting of Shareholders. The respective resolution will be adopted by 30 August 2009.

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

Under the Scheme, the bank issued and allocated 128,223 bonds with unexpired pre-emptive rights with a nominal unit value of PLN 0.01. Each bond gives its holder the pre-emptive right to subscribe for one bank's share of PLN 10.

Agreements with AIB

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

Agency Agreement with Dom Maklerski BZ WBK S.A.

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

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

Selection of Auditor

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

X. Additional Information

Shares in Possession of the Supervisory and Management Board

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

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

Remuneration of the Supervisory and Management Board Members

The Remuneration of the Bank Zachodni WBK Supervisory and Management Board Members for the years 2006 and 2005 is provided in "Consolidated Financial Statements of Bank Zachodni WBK Group for 2006" in note 53 entitled "Related party disclosures".

Remuneration of the Auditor

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

PLN k

Remuneration of KPMG Audyt Sp. z o.o.	2006	2005
Audit fees in respect of the parent bank [1)]	1,425	1,409
Audit fees in respect of the subsidiaries [2)]	814	795
Audit-related fees [3)]	23	249
Total	**2,262**	**2,453**

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

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

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

Geographical Structure of the Bank's Deposits

PLN k

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

Writs of Execution

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

PLN k

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

Transactions With Related Parties

In 2006, Bank Zachodni WBK S.A. did not enter into transactions with any of its executive staff for an amount in excess of EUR 500,000.

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

PLN k

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

Guarantees Issued

As at 31 December 2006, the Bank Zachodni WBK Group's guarantee liability amounted to PLN 623.1m compared to PLN 753.7m a year before. The most common types of guarantees were: payment guarantees, performance bonds, bid bonds, advance payment guarantees, loan repayment guarantees and customs guarantees. In accordance with the Bank Zachodni WBK Regulations on non-consumer credit services, the bank provides civil law guarantees (mainly loan and advance repayment guarantees, guarantees of payments for goods and services, advance payment guarantees, performance bonds, customs guarantees, bid bonds and others) and bill of exchange law guarantees (mainly: loan repayment guarantees and guarantees for payment for goods or services).

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

Off-balance Sheet Items by Customer Sectors and Transactions

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

PLN k

Contingent liabilities, sanctioned and received	31-12-2006	31-12-2005
Liabilities sanctioned	**7,061,422**	**4,926,882**
- financing–related, including:	**6,438,314**	**4,173,174**
- credit lines	**6,181,673**	**4,119,142**
financial institutions	913,170	912,753
non-financial institutions	5,128,705	3,024,923
budget sector	139,798	181,466
- others	**256,641**	**54,032**
Financial institutions	163,995	1,570
non-financial institutions	92,646	52,462
budget sector	-	-
- guarantees	**623,108**	**753,708**
financial institutions	127,205	62,781
non-financial institutions	492,649	686,077
budget sector	3,254	4,850
Received liabilities	**149,928**	**268,153**
financial institutions	149,928	268,153
non-financial institutions	-	**-**
budget sector	-	**-**
Total	**7,211,350**	**5,195,035**

Derivatives' nominal values	31-12-2006	31-12-2005
1. Term derivatives (hedging)	**1,486,018**	**1,144,942**
financial institutions	1,486,018	1,144,942
non-financial institutions	-	-
budget sector	-	-
2. Term derivatives (trading)	**135,555,909**	**96,513,628**
financial institutions	130,147,596	93,489,545
non-financial institutions	5,104,080	2,701,125
budget sector	304,233	322,958
3. Currency transactions – spot	**3,850,694**	**2,359,361**
financial institutions	3,813,533	2,305,717
non-financial institutions	32,323	51,710
budget sector	4,838	1,934
4. Derivatives – non-stock market options	**918,168**	**939,250**
financial institutions	543,528	616,502
non-financial institutions	374,640	322,748
budget sector	-	-
Total	**141,810,789**	**100,957,181**

XI. Representations of the Management Board

Corporate Governance

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

True and Fair Presentation of the Financial Statements

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

Selection of Auditor

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

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