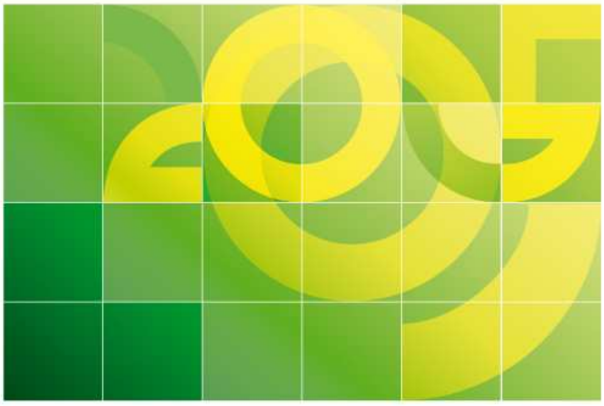
Management Board Report on Bank Zachodni WBK Performance in 2005



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I. Introduction

1. Financial Results

In 2005, Bank Zachodni WBK S.A. recorded a substantial y-o-y increase in financial profits.

Before-tax-profit was PLN 559.8m and 20.5% up
After-tax-profit was PLN 446.2m and 19.9% up

* * *

Excluding one-off gain earned in 2004 in the capital market,
Before-tax-profit was 36.6% higher
After-tax-profit was 36.2% higher

2. Key Factors Impacting BZWBK Performance and Operations

- **Economic environment**, in particular:
  - GDP growth and investment levels,
  - labour market and remuneration,
  - decisions made by the Monetary Policy Council on interest rates,
  - changes in the household savings structure,
  - mortgage market trends.

- **Further business development of BZWBK:**
  - growth of customer deposit base,
  - significant growth in Arka BZ WBK investment funds (assets held by investment funds have almost tripled in value since end-2004),
  - growth in strategic lending portfolios: cash loans, credit cards, home mortgages,
  - continued improvement in the credit portfolio quality,
  - the bank's existing products enhanced and its offering expanded to include new, attractive items: working capital and investment facility for small and medium-sized enterprises (Biznes Ekspres), new personal accounts (e.g. Konto<30), a modified offer for businesses (BIZNES PAKIET), chip credit and debit cards.

- **Effective cost management:**
  - purchase policy pursued across BZWBK,
  - ongoing efforts to contain the cost base (new initiatives implemented).

- **Strong focus on improving service quality:**
  - continued streamlining of procedures and processes,
  - new technologies for credit delivery, card issuance and service, and Customer Relationship Management,
  - implementation of the 100% Term Guarantee Programme,
  - training for branch staff and other employees on customer service standards and sales skills.

- **Dynamic development of distribution channels:**
  - expanded functionality of BZWBK24 (e-banking service) and Minibank24,
  - growth in sale of retail products through Direct Banking,
  - developing organizational basis as well as IT infrastructure necessary for building mobile sales network and external distribution channels.

II. Macroeconomic Situation

1. Macroeconomic Environment in 2005

Economic Growth

According to preliminary data from the Central Statistical Office, GDP growth in 2005 reached 3.2% against 5.3% a year earlier. Deceleration in the yearly economic growth was due to weak results of the economy in the first half of the year. This was reflected in lower growth rate of both consumption and investment. In both cases some role was played by a high base effect driven by preaccession boom in the first half of 2004, when domestic demand growth was exceptionally high (amid expectations of price increase after EU entry), and thus difficult to be continued. Fortunately, despite the long-lasting appreciation of the zloty, 2005 as a whole, and especially the first half of the year, saw a very large positive contribution of net exports to the GDP growth. The pace of economic growth in the first six months of 2005 amounted to around 2.5% due to positive tendencies in foreign trade.

The slowdown in economic growth observed in the first half of 2005 proved transitory. With every quarter of 2005 the GDP growth was higher and higher. The second half of the year was much better than the first one. The improvement was seen particularly in the final quarter of the year. According to estimates based on the full-year data for 2005, the fourth quarter alone saw domestic demand growth of 5.1% y-o-y. Fixed investment grew as much as 9.8% y-o-y while private consumption expanded by 3.3% y-o-y. The trend evident throughout 2005 should continue into 2006 and that year should see GDP growth of above 4%. Contrary to developments in 2005, the main driver of economic growth in 2006 should be primarily domestic demand. This will be stimulated by reduction in interest rates observed in 2005. Consumption demand will be additionally fuelled by continuously improving labour market conditions. In 2005, the enterprise sector saw employment increase by 2.6% as compared to a mere 0.2% rise in 2004.

Labour Market and Inflation

Throughout 2005 there was a steady improvement in households' financial standing. Nominal growth rate of salaries was quite moderate, but together with healthy employment growth and deep reduction of inflation real wage bill in the enterprise sector posted the highest growth for many years. Positive developments on the labour market seem to be persistent. Following a few years of decline, labour demand significantly rebounded in 2005. As a result, the registered unemployment rate fell below 18% in the second half of last year, to the lowest level since 2001.

Despite improvement in the welfare of households and stronger domestic demand, the inflationary pressure was subdued throughout 2005. CPI inflation was regularly declining and reached a mere 0.7% y-o-y in December 2005 against 4.4% y-o-y in December 2004. It is worth noticing that continuation of inflation decrease towards the end of 2005 was not consistent with the earlier expectations, which pointed to a gradual increase in the inflation rate. The discrepancy translated into improvement of medium-term inflation outlook. Although the odds are that inflation will stay below the inflation target in 2006 (which is 2.5%), one should remember that deep inflation reduction in late 2005 resulted to some extent from transitory factors (such as Russian ban on import of Polish foodstuff and reduction in excise tax on fuels) and their reversal may push inflation up.

Monetary Statistics

In line with expectations, along with gradual acceleration of economic growth, 2005 brought some improvement in monetary statistics. Money supply grew 10.3% y-o-y in December 2005 against 8.7% y-o-y rise at the end of 2004. At the same time total deposits increased by 9.3% y-o-y and like a year before this was mainly a consequence of an increase in corporate deposits (16.8% y-o-y), although there was also some improvement in households' deposits, which increased by 3.5% y-o-y in December 2005 against a mere 0.1% y-o-y rise a year earlier. A fast expansion of loans for households was continued. They increased by as much as 22.9% y-o-y in December 2005, which was mainly related to a rapid increase in mortgages. What is important, there was also some revival in corporate borrowing. At the end of the year, it grew by 2.8% y-o-y versus a decline of 4% y-o-y in December 2004. As a result, total credits expanded by 11.8% y-o-y in 2005. One may expect that 2006 will bring further recovery on the loans market, with a relatively larger role of corporate borrowing due to the expected stronger rebound in investment activity.

Interest Rates and Fiscal Policy

No evidence of inflationary pressure, despite gradual acceleration of economic growth, allowed the central bank to lower interest rates in 2005. Throughout the last year the reference rate dropped by 2 pp to 4.5%. Although interest rates were steadily reduced, the effective easing of the monetary policy was constrained by significant appreciation of the zloty exchange rate. The strengthening of the domestic currency was not tempered even by political turmoil related to the parliamentary and presidential elections. As inflation prospects remain favourable, the Monetary Policy Council decided to reduce interest rates again in early 2006.

Although a few months have passed since the elections, fiscal policy prospects are still highly uncertain. The declarations made by the new government suggest that Poland will not meet Maastricht criteria regarding budget deficit (below 3% of the GDP) by 2009. Due to the lack of stable parliamentary majority nothing is certain as far as public finance management is concerned. This may increase volatility on the financial market as well as hamper functioning of enterprises.

2. Main Macroeconomic Indicators

Main macroeconomic indicators		2003	2004	2005	2006F
GDP	% y-o-y	3.8	5.3	3.2	4.4
GDP	PLN bn	842.1	922.2	967.7	1,022.0
Total consumption	% y-o-y	2.5	3.9	2.4	3.3
Private consumption	% y-o-y	1.9	4.0	2.3	3.6
Fixed investment	% y-o-y	-0.1	6.3	6.2	8.2
Industrial production	% y-o-y	8.4	12.3	4.0	6.1
Retail sales (real terms)	% y-o-y	3.6	7.1	1.6	5.6
Unemployment rate *	%	20.0	19.1	17.6	16.6
Gross wages in enterprise sector (real terms)	% y-o-y	2.0	0.8	1.1	2.2
Budget deficit (cumulative) *	PLN bn	-37.0	-41.5	-28.6	-30.5
Budget deficit (cumulative) *	% of GDP	-4.4	-4.5	-3.0	-3.0
CPI	% y-o-y	0.8	3.5	2.1	1.1
CPI *	% y-o-y	1.7	4.4	0.7	1.8
PPI	% y-o-y	2.6	7.0	0.7	1.0
Broad money (M3)*	% y-o-y	5.6	8.7	10.3	11.8
Deposits *	% y-o-y	3.7	8.1	9.3	11.4
Loans *	% y-o-y	8.1	2.9	11.8	15.0
USD/PLN	PLN	3.89	3.65	3.23	3.23
EUR/PLN	PLN	4.40	4.53	4.02	3.97
PLN reference rate *	%	5.25	6.50	4.50	4.00
WIBOR 3M	%	5.69	6.21	5.29	4.23

Source: CSO, NBP, own estimates and forecasts

** - end of period*
F - forecast as at 31.01.2006

III. Financial Performance

1. Financial Performance

The table below presents major developments in key categories of the profit and loss account of Bank Zachodni WBK S.A. in 2005 compared with the previous year.

PLN m

Key Profit & Loss Items	2005	2004	Change
Total underlying income *	1,708.4	1,644.6	+3.9%
Total costs	(1,091.1)	(1,108.8)	-1.6%
Profit-before-tax*	559.8	409.7	+36.6%
Income tax	(113.6)	(92.4)	+22.9%
Profit-after-tax*	446.2	327.7	+36.2%

** excluding BZWBK profit on the disposal of Cardpoint S.A. in 2004 (PLN 54.9m)*

In 2005, Bank Zachodni WBK S.A. posted profit-before-tax of PLN 559.8m which exceeds the 2004 level by 20.5%. Adjusting for the one-off gain of PLN 54.9m earned in 2004 on the disposal of a subsidiary (Cardpoint S.A.), the underlying profit-before-tax increased by 36.6%. The key factors driving this performance were:

- business development, including: deposit base (+8%), personal lending (+13.1%), assets of Arka BZ WBK investment funds (+171.6%),
- higher net interest income (+3.7%) in the falling interest rate environment,
- good growth of net fee and commission income related to distribution of insurance products and Arka BZ WBK funds, third party card-related services, cross-border payments and credit cards,
- increased foreign exchange profit (+10.9%) due to higher fX trading and business activity,
- total operating costs contained (-1.6%) with non-staff administrative costs reduced by 7.1% as a result of strong cost discipline,
- lower loan impairment charge (-54.4%), reflecting the improved quality of the bank's assets (NPL ratio fell from 9.2% to 7.2% y-o-y).

Income

In 2005, Bank Zachodni WBK S.A. produced a total income of PLN 1,708.4m. Excluding the one-off capital gain realised in the comparable period, this aggregate showed an underlying y-o-y increase of 3.9%. The main components of total income were as follows:

- **Net interest income**

Net interest income was PLN 829.2m and higher by 3.7% on 2004. Growing personal lending, expanding deposit base and efficient liquidity management in the falling interest rate environment were the key factors impacting this performance. Included in this figure were also amortised credit fees (PLN 42.5m) which in 2004 were recognised on a cash basis as fee and commission income.

The bank's FX Swap activity generates significant positive net income which may be considered as part of the bank's overall net interest margin, yet for accounting purposes it is reported as FX profit. If recognised under this line, FX Swaps would contribute PLN 39.8m to net interest income for 2005.

- **Net commission income**

Net fee and commission income was stable y-o-y and amounted to PLN 529m. During 2005, the highest growth in banking net fee and commission income was recorded in the area of distribution of Arka BZ WBK investment funds (+208.4%) and insurance products (+116.7%), card-related services provided to external institutions (+83.2%), cross-border payments (+17.7%) and credit cards (+9.2%). This line was also impacted by settlement and disclosure of the bank's fees and commissions in compliance with IAS 39, which reduced its value by PLN 45.7m.

- **Dividend income**

In 2005, General Meetings of the companies included in the bank's equity portfolio declared PLN 73.7m worth of dividends for the bank. They increased by 13.4% on 2004 due to higher dividends disbursed, among others, by Dom Maklerski BZ WBK S.A., AIB WBK Fund Management Sp. z o.o., BZ WBK AIB Asset Management S.A. and KIR S.A.

- **FX profit**

FX profit was PLN 215.3m and 10.9% up on 2004 under the impact of steady improvements in FX trading and customer business.

- **Gains from financial instruments measured at fair value through profit and loss**

Net trading income on financial assets measured at fair value through profit and loss account fell by 55.8% to PLN 12.6m due to lower margins on Cross Currency Interest Rate Swaps as a result of lower PLN interest rates.

- **Other operating income**

Other operating income amounted to PLN 41.4m and was lower by 16.9% than in 2004 due to fewer sales of fixed assets and lower level of released accruals for future liabilities.

Loan Impairment Charge

In 2005, the impairment charge to the profit and loss account fell by 54.4% y-o-y to PLN 57.5m, reflecting the sustained improvement in quality of the bank's assets and increased paybacks. At the end of December 2005, the impaired receivables accounted for 7.2% of the gross customer portfolio with a loan loss coverage ratio at 63.3%. A year before, the respective ratios were at 9.2% and 50.4%. This was accomplished due to an ongoing commitment to the quality and strict risk management.

Costs

Total operating costs of Bank Zachodni WBK S.A. decreased by 1.6% to PLN 1,091.1m. Its main components were as follows:

- **Staff and other administrative expenses**

The costs included under this heading remained flat at PLN 886.1m (+0.3%). The bank's staff expenses increased by 6.2% to PLN 521.3m on account of salary raises, bonuses, higher employment (112 new FTEs) and larger training expenses. This increase was offset by savings on other administrative expenses which declined by 7.1% to PLN 364.8m thanks to observance of purchasing policy rules, improved cost-effectiveness of operating processes, reduced suppliers' base and renegotiation of supply contracts. Compared to 2004, the most noteworthy reductions were achieved in IT usage, maintenance and rental of premises, telecommunications and data transmission, settlements and bank security.

- **Depreciation**

Depreciation totalled PLN 180.9m and decreased by 5.8% compared to 2004 due to an ongoing process of fixed assets optimisation.

- **Other operating costs**

Other operating costs totalled PLN 24.1m and were 27.8% down on the previous year, mainly as a result of lower level of provisions.

The results achieved by the Bank Zachodni WBK S.A. brought the cost/income ratio down to 63.9% from 67.4% in 2004.

2. Balance-Sheet Items

The table below presents major developments in key categories of the balance sheet of Bank Zachodni WBK S.A. as at the end of December 2005 versus the corresponding period of 2004.

PLN m

Key balance-sheet items	31-12-2005	31-12-2004	Change
Balance sheet total	28,182.9	26,336.8	+7.0%
Key assets			
Amounts due from customers (gross)	13,591.7	13,473.6	+0.9%
Investment securities	6,917.0	5,568.0	+24.2%
Loans and advances to banks	3,606.1	2,787.3	+29.4%
Key liabilities			
Deposits from customers	20,969.9	19,416.7	+8.0%
Amounts due to banks	1,319.5	906.8	+45.5%

As at 31 December 2005, total assets of the Bank Zachodni WBK S.A. amounted to PLN 28,182.9m and were 7% up on end-2004. Compared to 31 December 2004, the bank recorded a substantial increase in amounts due to customers and banks. As regards assets, 2005 saw a strong growth of the bank's placements in the inter-bank market and of investment in financial assets, mainly Treasury bonds acquired for the portfolio designed to mitigate the balance sheet structural risk.

Deposit Base

Customer deposits, which represent 74.4% of the bank's liabilities, are the main driver of the balance sheet growth and the primary source of funding its lending business. At the end of December 2005, customer deposits totalled PLN 20,969.9m and were higher by 8% y-o-y. Excluding 1D deposits, balances in the current accounts held by individuals, companies and public sector customers totalled PLN 6,941.4m and exceeded the 2004 figure by 27%. This growth was stimulated by interest rate cuts which made customers more inclined to keep their financial resources in current accounts. Term-deposit base (including 1D deposits) were stable y-o-y and amounted to PLN 13,594.2m. Deposits held by the bank were still dominated by deposits from individuals (51.9%); though the share of institutional deposits (business and public sector customers) in the total customer-based resources was increasing (6.1pp over the year) along with growing volumes.

As at the end of December 2005, the bank's liability arising from debt securities in issue totalled 93m, a y-o-y decrease of 83.4%. The reduction of the own bonds portfolio results from the buy-back of Bank Zachodni WBK bonds worth PLN 448m which were issued in 2003 under II Investment Bonds Issue Programme (PEOL).

Credit Portfolio

At the end of December 2005, gross loans and advances to customers were PLN 13,591.7m and 0.9% up y-o-y. Personal loans kept on an upward trend throughout the whole year. Retail portfolio increased by 13.1% to PLN 3,306.3m, the main growth drivers being cash loans (+89%), mortgages (+7.1%) and credit card exposures (+4.2%). In 2005, development of the business credit portfolio was impeded by the lower than expected level of investment and repayment of short-term liabilities ahead of schedules by companies with high liquidity. Good growth, however, was recorded in the property and structured finance transactions.

The biggest item in the lending structure of Bank Zachodni WBK S.A. were loans to business and public sector customers, accounting for 76% of the gross portfolio (along with "other receivables"). Retail loans represented 24% of the overall loan-book.

Bank Zachodni WBK S.A. maintains an adequate diversification of the credit portfolio in accordance with its policy of exposure to industries and financial groups. In 2005, there was no single dominant sector and the biggest share of 12.9% was for the real estate activities.

The quality of the bank's loan-book continued to improve during the year, which is reflected in the declining NPL ratio.

Interest Rates on Loans and Deposits

In 2005, like in the previous periods, the interest rates offered to customers were tied to the rates shaped by the inter-bank market and the Monetary Policy Council (MPC).

The interest rates on business loans are, for most facilities, directly linked to the market interest rates (WIBOR, LIBOR), and the bank's margin mainly depends on the credit risk attaching to individual transactions.

Most interest rates on retail demand and term deposits are set by Bank Zachodni WBK Assets and Liabilities Management Committee (ALCO). Yet, changes in interest rates on retail products also reflect the level of interest rates prevailing in the inter-bank market and the MPC decisions. In accordance with its strategy, in 2005 the bank offered promotional rates of interest on PLN home mortgages, loans for the purchase of shares under IPOs and selected term deposits.

In the second half of 2005, the offered interest rates were reviewed in response to the changes in law adopted on 7 July 2005. The changes, which become effective in February 2006, set a cap on the interest rate that could be charged on a loan. It cannot exceed four times the Lombard rate (set at 5.75% effective from 1 February 2006) at the maximum.

3. Bank Zachodni WBK Rating

On 23 November 2005 Fitch Ratings Ltd., an international rating agency, advised that the individual rating for Bank Zachodni WBK S.A. had been increased to C from C/D. At the same time Fitch Ratings Ltd. confirmed other ratings for the bank.

- long-term: A
- short-term: F1
- support: 1
- long-term rating outlook: positive

The change reflects improved profitability of Bank Zachodni WBK S.A. following the successful completion of the restructuring programme, improved asset quality and further improvement of the bank's equity.

The long-term, short-term and support ratings are based on potential support available from the majority shareholder Allied Irish Banks plc. The long-term rating is capped by Poland's long-term country ceiling which is "A".

IV. Business Development

1. Bank Zachodni WBK Brand Strategy

In 2005, Bank Zachodni WBK S.A. continued implementation of the "Po pierwsze klient" strategy, which is defined by the following mission statement:

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

According to this statement, the bank's major objective is to be distinctive on the financial services market, to enhance its relations with customers and to proactively respond to their needs. In order to make this perception of the bank well-established in customer minds, the bank focuses on the brand quality, particularly on the following three brand values: Dependable, Engaging and Pioneering.

Implementing these values in its day-to-day activity and building its reputation on these foundations, Bank Zachodni WBK S.A. strives to be one of the top banking brands in Poland. The bank moves towards this objective by being distinctive as an "engaging bank". The idea of partnership is strongly promoted to ensure the bank is regarded as a customer-friendly institution which acts quickly, offers attractive financial conditions, cares about customer satisfaction and provides tailored solutions to meet needs of different customer groups. This approach implies ongoing changes to internal processes and service standards to make them more customer-friendly. The results are already reflected in customer satisfaction surveys evidencing continuously growing satisfaction with the bank's commitment to the quality of customers' service.

In order to earn the reputation of being dependable, Bank Zachodni WBK S.A. strives to provide its customers with the service that meets top standards in terms of security, reliability, availability, price transparency and clear and fair communication.

As a pioneering bank, Bank Zachodni WBK S.A. constantly improves its product range and offers the state-of-the-art bank technology in order to satisfy customers' requirements to the fullest possible extent.

2. Key Business Development Directions in 2005

The business projects implemented during 2005 as part of the bank's strategy supported delivery of its financial objectives by creating the conditions necessary for effective acquisition of new customers, building their loyalty and ensuring long-term retention. To gain competitive edge, the bank expanded and improved its product offering, simplified and automated banking processes, optimised the delivery time for products and services, employed advanced CRM tools in the sales process, launched successful marketing campaigns and developed delivery channels.

The Business Plan for 2005 provided for a number of initiatives to be delivered in the key product lines: housing loans, cash loans, credit cards, SME loans, leasing, factoring, personal accounts, current business accounts, retail and business term deposits, insurance products, investment products, international settlements, external delivery channels and electronic banking. The bank's objective was to optimise income from individual business lines. Still, in the areas of intense competition, the bank showed flexibility with regard to pricing and risk. This approach was reflected in attractive price promotions, pricing reviews for current and personal accounts and increased availability of retail loans.

The segment which remains of strategic importance for the bank are Premium customers (retail and business) characterised by more-than-average income and high banking activity. The bank provides them with customised and comprehensive service by properly trained and equipped (with CRM tools, IT systems) advisors in branches. The most prominent representatives of business Premium sector can enjoy a special service standard with direct relationship supervision by Corporate Banking Centres. The proposition addressed to Premium customers – with its wide range of savings, investment and credit products – makes it one of the leading offers in the market. More value was created by the solutions implemented over the last year, namely the new subscription-based version of Konto24 Prestiż or offers of pre-sanctioned credit limit for a credit card or a cash loan. The individualised relations with Premium customers, aided by specialist tools, facilitate accurate identification of their needs and cross-selling opportunities, which should bring about systematic growth of profitability of this segment.

In order to incentivise and expand Classic segment customers, the bank made them a target of many centrally-managed sales campaigns and modified its offer to better meet their needs, e.g. by increasing availability of credit products for retail customers or reducing account maintenance fees for business customers. Another strategic move was to implement initiatives – in the second half of 2005 - to attract customers below 30 years of age, such as students or young people just starting out.

3. 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 issued by the Management Board, Management Board Members and Chairman of the Credit Forum. The main lending manuals include:

- Personal Lending Manual,
- Commercial Lending Manual for Exposures up to PLN 4m,
- Corporate Lending Manual for Exposures above PLN 4m,
- Securities Manual.

Bank Zachodni WBK S.A. also operates a number of credit policies that address key lending issues and areas, including Credit Discretions Guidelines, FX Lending and Guarantees Policy, sector policies and credit scoring policies.

Individual credit products are regulated in detail in their respective procedures.

The credit discretions system is governed by relevant guidelines. Credit discretions are defined for specific positions in the Individual Discretionary Limits document. They vary depending on lending skills of the individuals engaged in the credit delivery process. Also, there are different discretionary limits set out for secured and unsecured exposures.

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

4. Development of Customer Service

Segmentation and CRM

2005 was the first year when the solutions implemented under the Segmentation & CRM Programme were fully operational. The new operating model and the advancing migration of transactions to electronic channels allowed customer advisors to proactively respond to the needs of Premium customers and focus on direct service and relationship building. Relationship management is facilitated by the specialist IT infrastructure, which is being developed to obtain a more comprehensive picture of the customer and enhance the effectiveness of the bank's actions.

By building long-standing and strong ties with its customers, Bank Zachodni WBK S.A. promotes its image as an "engaging bank" with a view to attaining a visible and sustainable competitive advantage and a long-term profit growth. Proactive contacts with customers are regularly planned and monitored. The bank undertakes a number of actions designed to intensify contacts with customers, including sales campaigns, incentive schemes for loyal customers and advanced sales techniques. Sales campaigns (bank-wide or regional) are managed centrally and their results are monitored for better efficiency. The incentive schemes effectively motivate long-standing customers to retain their relationship with the bank and to avail of a wider range of its products and services. As part of the pro-active contacts, the cross-selling potential is developed and better penetration of the customer base is ensured.

Service Quality Management

In 2005, the bank's strategy in respect of service quality improvement focused on reinforcing quality standards, enhancing the complaints handling process and fostering co-operation between internal organisational units.

- **Growing customer satisfaction**

In 2005, another external customer satisfaction survey was carried out. The analysis of the results evidenced that the main customer satisfaction index (CSI), based on 33 service criteria, was 1.8 pp up y-o-y, which confirms effectiveness of actions taken by the bank in the area of service quality. The criteria related to customer-facing service in branches were the main drivers of the customer satisfaction and included: confidentiality, good manners and friendliness of the staff, commitment, error-free account handling, easy phone access to the branch.

Steadily growing customer satisfaction (CSI has increased by 6.1 pp since 2002) has been driven by the consistently applied service enhancing policy which embraces actions aimed at improving service quality as well as internal processes and procedures.

- **100% Term Guarantee**

As part of the actions aimed to enhance service quality, the 100% Term Guarantee Programme was implemented at the beginning of February 2005. Under this programme, the bank does not only undertake to process the customers' requests within a strict timeframe but also provides them with a certificate as a confirmation of this commitment and bears financial consequences (discounts, fee exemptions, payouts) if the deadline is missed. The initiative covers the following products: home mortgages, credit cards, cash loans, AUTOSTRADA leasing, BZWBK24 Internet service, SWIFT money orders, Western Union money transfers. Delivery of the 100% Term Guarantee reflects efficiency of existing operating processes and adequacy of supervision over individual stages of the product delivery cycle, which increases the customers' confidence in the bank.

- **First contact service standards**

In order to provide distinctive service to customers, the bank monitors and reinforces the use of first contact standards which create a positive image of the bank at the onset of the contact with a customer. In 2005, Service Quality Managers regularly visited the bank's branches to assure adherence to the implemented standards by providing all necessary support and specialist training. A survey carried out in the third quarter to assess effectiveness of the implementation confirmed that the first contact service standards were applied with high consistency across the branch network.

- **Complaints handling**

Bank Zachodni WBK S.A. is distinctive in the market in that it has a Customer Care Officer. He is the contact person for customers who may be dissatisfied with the bank's service. The Customer Care Officer is also involved in development of customer service standards.

Over the past year the bank intensified actions to improve its complaints handling process. In 2005, 370 branch employees were trained in their role as support for the Customer Care Officer. In this way, the bank – in addition to having a unique Customer Care Officer – distinguishes itself by ensuring easy access to complaint handlers.

- **Internal co-operation**

The drive to optimise relations between individual units within the bank stems from the belief that high quality interactions in the organisation translate to better service for external customers. The measures taken are based on the outcome of the internal customer satisfaction survey carried out towards the end of each year. Last year, equipped with their respective customer satisfactions reports, individual departments and teams developed and launched appropriate remedial actions.

5. Development of Products and Services (by Key Product Lines)

Retail Loans

Bank Zachodni WBK S.A. builds its competitive advantage in the retail loans market through high quality products, advanced technology and service processes, effective promotions and highly competent staff. In 2005, the bank focused on revising its personal lending policy and related procedures. The new policy sanctioned changes in the methodology of repayment capacity assessment, which increased availability of credit to retail customers (mortgage loans in PLN, cash loans, credit cards and overdrafts) and allowed the high quality of individual portfolios to be maintained. Based on the revised personal lending policy, procedural changes were undertaken to streamline and standardise the documentation required from customers and to improve transparency of the bank's offering.

- **Mortgage loans**

Last year the bank developed its home mortgage proposal by implementing the new personal lending policy and by pricing reviews. A number of training, marketing and technological initiatives were undertaken to support delivery of the business objectives.

Mindful of customer expectations and market trends, in March 2005 the bank made the pricing of its lending offer more attractive by introducing competitive interest rates for mortgage loans. The bank also extended the promotional conditions for home mortgages for expats as well as home loans and consolidation loans for refinancing home mortgages with other banks.

The strongest points of Bank Zachodni WBK lending offer, namely the absence of FX risk, stable and clear pricing conditions and one-year, free of charge (for customers) property insurance cover were highlighted during a commercial campaign backing the sale of home mortgages. The campaign was launched in the first half of 2005 under a slogan "Sleep Well. You have a safe home mortgage". An additional merit is the bank's commitment to advise the client of a binding credit decision within 7 days after submission of a full set of documents under the 100% Term Guarantee Programme. The Programme could be implemented thanks to the high level of the credit delivery process automation.

Last year training sessions were held for Bank Zachodni WBK staff in a wide range of mortgage-related subjects, including insurance, changes in the bank's product offering and lending policy, and FX risk.

In the highly competitive environment, the value of the bank's mortgage loans relative to the total loan-book of Bank Zachodni WBK S.A. increased by 7% compared to 2004.

- **Cash loans**

As a result of constant enhancements, the Bank Zachodni WBK cash loan proposition is currently one of the best in the market. Modifications implemented in 2005 led to an increase in availability of cash loans and improved their competitiveness from the point of view of procedures, turnaround time and sales methods.

Last year the available range of cash loans secured with liquid assets was enhanced with loans secured with certificates of a property fund. In addition, the 100% Term Guarantee standards were implemented. They are designed to ensure that the credit decision is taken and funds are disbursed within 24 hours of receipt of full documentation from the customer. This commitment requires an advanced cash loan processing technology, which keeps on being developed and automated.

Also, implementation of professional tools for customer relationship management allowed for identification of target customer groups (i.e. potential borrowers with adequate repayment capacity) and application of direct sales/cross-selling methods in relation to sizeable customer bases. These actions combined with an increased availability of the product, strong selling skills, price promotions and sales campaigns contributed to an increase of the cash loans portfolio by 89% compared to 2004.

- **Credit Cards**

Bank Zachodni WBK S.A. offers a wide range of credit cards in Visa and MasterCard payment systems with options tailored to the needs and potential of particular customer segments. Apart from the credit cards with the classical features, customers may choose affinity and co-branded types of cards.

In 2005, the bank focused on credit cards migration to the new chip technology, a wider availability of products for customers and pricing campaigns.

After the initial stage of pilot rollouts, a mass issue of chip cards for new customers commenced. This was also accompanied by an ongoing replacement of the magnetic strip cards with chip ones. At the year-end, 86% of all Bank Zachodni WBK credit cards were equipped with chip technology, providing its holders with the highest available security in the case of attempted fraudulent use.

Changes undertaken as part of the new lending policy widened the group of customers eligible for credit cards. To facilitate acquisition of new business, the bank launched a so-called Balance Transfer service whereby customers using credit cards of other banks can transfer their debt onto BZ WBK card with the same limit as sanctioned by another bank. New customers were additionally encouraged by the high quality of service, including the bank's commitment to issue the credit card within 6 days after submission of a completed application in line with the 100% Term Guarantee Programme. The bank also encouraged customers to make non-cash payments through promotional sale of credit cards with a requirement to effect a specified number of transactions with such a card.

SME Lending

The bank's offer distinguishes itself by a wide range of credit facilities that meet varying financial requirements of the SME sector. In addition to standard products, the bank offers a number of other credit facilities which improve the attractiveness of its lending proposition and stimulate credit delivery. These include Biznes Hipoteka investment loan, Biznes Ekspress loan, SME loans refinanced by EU, loans for exporters, etc.

In 2005, the bank prepared and implemented the credit sanctioning system for SME which shortened the turn around time to 24 hours. The business loans proposition was also reviewed with a view to harmonising lending processes and procedures. In effect, the overdraft available within the BIZNES PAKIET was removed and replaced with a more competitive product named Biznes Ekspres. The main advantages of the new facility are minimum documentary requirements, no obligation to document the purpose of the loan and fast decision-making process.

Last year the bank increased the availability of financing for customers from agricultural sector. This was achieved by adjusting the banking regulations to the market needs and by providing the branches with more extensive knowledge of the industry.

Bank Zachodni WBK S.A. is among the top banks operating in the EU funds market and continues to strengthen its position in this area as envisaged by the strategy "Together in the EU". Beneficiaries of EU funding can avail of loans with attractive terms and conditions which are provided towards all capital expenditures incurred, not only the portion covered by the EU grants. The bank focuses on one of the most attractive EU financial schemes dedicated to the SME sector, i.e. Sectoral Operational Programme "Growth in Business Competitiveness, Action 2.3.". During 2005, it also offered loans under the PHARE 2003 Programme (towards investments supporting SME development) and loans to refinance investments funded under the Norwegian Financial Mechanism and the EEA Financial Mechanism. In order to increase availability of the loans for investments subsidised by the EU, 2005 witnessed a liberalisation of a collaboration agreement with Bank Gospodarstwa Krajowego relating to guarantees provided under the EU Guarantee Fund.

Thanks to the support of EU institutions, POLFUND S.A. - a Loan Guarantee Fund operating within the Bank Zachodni WBK Group - introduced more favourable rules of providing guarantees and changed the terms of the agreement with Bank Zachodni WBK S.A. Thanks to these modifications, the bank is in a position to offer more loans to SMEs, faster and on more competitive conditions (a higher value of a guarantee, reduced fees, longer guarantee period and other advantages).

Bank Zachodni WBK S.A. is acquiring new business in the SME sector thanks to good performance of business advisors across the branch banking network, including EU funding advisors and Mobile Sales Teams operating in the most promising markets. The bank fosters relations with existing and prospective clients through a number of information/training initiatives which cover the issues of business management, acquisition of EU subsidies and funding investments eligible for the EU aid. The most important of these initiatives include cyclical educational events held under BZWBK European Programme and subsequent editions of nation-wide business conferences and training sessions delivered jointly with the Polish Foundation for Entrepreneurship in accordance with the Local Entrepreneurship Programme.

Personal Accounts

2005 saw a continued development of the personal account offering, both in terms of products and procedures.

At the beginning of 2005 Bank Zachodni WBK S.A. launched a modified Konto24 Prestiż personal account. The basic change consists in introducing a subscription-based pricing whereby a monthly flat fee covers all the basic transactions (via electronic channels and branch visits) and the issue and renewal of Visa Electron Prestiż debit cards. Owing to the new pricing policy and the expansion of the target customer base, the number of Konto24 Prestiż accounts grew by 63% over the year.

In September 2005, the bank introduced a service package built around the new Konto<30 Account meant for clients between 13 and 30 years of age. The package replaced all the previously available account options for young people. The main advantages of the Konto<30 Account are no fee for account maintenance, low fee for Internet transfers and a dedicated card - Visa Electron<30 BZ WBK. The account holders have also access to the Internet portal Strefa<30. The sale of the new account was supported by a promotional campaign in the press, branches and Internet. The new proposition has enjoyed a strong popularity among customers.

Almost in parallel to Konto<30, the bank launched a personal account package developed in collaboration with Allegro.pl, the Poland's biggest Internet auction house. The package includes Konto24.pl account and Allekarta Visa debit card which enables its holder to make payments via the internet. The product is intended for registered Allegro users and is distributed only through the Allegro.pl web site.

In order to streamline documentation and banking procedures, in February 2005 Bank Zachodni WBK S.A. introduced a new template of an integrated agreement for bank account, debit card and BZWBK24 web-based services which allows personal customers to obtain access to all three products upon signing one document only. Due to the measures taken, the account opening procedure has been shortened by 36%.

As a result of modification of the process of opening personal accounts via the Internet and the phone, since September 2005 customers have been able to open personal accounts without having to visit the branch. Applications can be filed via the Internet or by calling the Communication Centre. The new process reduced the workload connected with the processing of Internet applications in branches as most activities were transferred to relevant units within the Business Support Centre.

Business Current Accounts

In January 2005, Bank Zachodni WBK S.A. implemented a new, comprehensive offer for the SME sector called BIZNES PAKIET (Business Package). It is available in three options: "Classic" for small enterprises which value inexpensive and simple offer, "Premium" for clients expecting high standards and individual approach, "Professionals" for people who work as self-employed professionals. The package offers more favourable account maintenance fees for the smallest firms and additional incentives for all users such as simplified processing of applications for business loans (Biznes Ekspres) and car or van leasing (Leasing AUTOSTRADA).

The structure of BIZNES PAKIET as well as the promotional actions which accompanied its launch were very well received by customers. In 2005, the number of business current accounts maintained by the bank increased by nearly 5% y-o-y.

Deposit and Investment Products

Bank Zachodni WBK S.A. provides its customers with a comprehensive offer of savings and investment products by placing focus on development of its deposit proposition, active distribution of investment instruments of subsidiaries and improvement of communication with customers.

The bank's deposit products are popular with customers and competitive against other banks, which is reflected in the regular growth of the deposit base (8% y-o-y). In 2005, in the falling interest rate environment, customers' preferences were evolving towards short-term deposits. There was also a good demand for IMPET deposits (6M and 12M) offering very attractive interest rate. Business customers most often deposited cash surpluses for short periods, with terms and conditions tailored to individual needs by way of negotiations with the bank.

The traditional deposit offering is supplemented by the subscriptions for the Guaranteed Investment Deposits designed for the customers seeking additional profits along with security of the deposited funds. In 2005, there were two issues of Guaranteed Investment Deposits: EURO KURS January 2007 and AMER INDEX April 2008. The former product allows investors to generate profit on the decrease of the EUR/PLN rate while the latter offers a fixed interest rate and extra profit depending on fluctuations of the S&P 500 index.

To provide customers with a comprehensive savings offer, the bank's branches distribute participation units in the main five categories of the Arka BZ WBK investment funds (money market fund, equity fund, bonds fund, stable growth fund and balanced fund) managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. Last year the funds achieved a remarkable success thanks to excellent investment results and active marketing campaigns. During the year the assets of Arka BZ WBK funds increased by PLN 4.5bn and totalled PLN 7.1bn.

In addition to investment funds, the bank's customers can invest in attractively priced bonds issued by BZ WBK Leasing S.A. and BZ WBK Finanse & Leasing S.A. under public issue programmes. In 2005, the customer service points of Dom Maklerski BZ WBK S.A. (the BZ WBK Brokerage House) operating through the bank's branch network sold seven series of leasing companies' bonds with a total nominal value of PLN 100m.

Insurance Products

2005 saw continuation of the rapid development of the bank's bancassurance business. The bank started to offer general housing insurance, increased availability of life assurance for mortgage borrowers and expanded the insurance proposal for credit cards. Product modifications implemented in response to market research allowed the insurance offering to be better aligned with the requirements of individual market segments. The completed training initiatives and briefings increased the awareness of employees about the purpose of insurance products and equipped them with the knowledge of how to provide customers with advice and assistance in a friendly and professional manner.

The bank offers its insurance products in co-operation with the leading insurance companies in Poland, such as: Commercial Union Group, AIG and TU Europa. The bank's bancassurance proposition is among the best in its class and successfully supports sale of other products. By providing the customers with the one-stop-shop solution where different long-term and good-value products are available, the bank wins customer satisfaction and loyalty.

FX Transactions

The number of cross-border payments processed by the bank in 2005 increased by 20% compared to the corresponding period of 2004. The payment order messages generated by the bank have been for many years characterised by high quality which brings measurable benefits to customers. The correct formatting of payments allows transactions to be processed automatically, thus minimising costs and shortening the settlement process. Last year, in recognition of the error-free message formatting, Bank Zachodni WBK S.A. received three awards from its foreign counterparties: Bank of New York, JP Morgan Chase Bank and Deutsche Bank.

For several years Bank Zachodni WBK S.A. has been acting as an intermediary for Western Union money transfers denominated in USD and PLN. In 2005, the number of such transactions increased by

38% compared to the previous year. In October, the bank was ranked the best in Europe for the quality of handling money transfers and was consequently granted a prestigious Western Union "Service Quality Award".

The bank also offers a full range of trade finance services. Last year, after a period of stagnation, a noticeable upward trend was observed in the documentary business, especially export Letters of Credit. Trade finance instruments, including forfaiting, discount of export receivables and pre-financing of exports show a good growth rate and the strongest business potential as entrepreneurs value their availability and favourable pricing.

Debit Cards

- **BZWBK debit cards**

Bank Zachodni WBK S.A. offers a wide range of debit cards which address the needs of all the customer segments and are available in two main payment systems: VISA and MasterCard.

The top-up card was added to the bank's offering in April 2005 and became the first product of such type in the Polish market. This is a bearer card and can be used without any formalities or costs. The available card balance can be topped up multiple times. The holder of this card can withdraw funds from ATMs, use it anywhere in the world at merchants accepting Visa Electron cards and make payments over the Internet.

In collaboration with Allegro.pl, the Poland's biggest Internet auction house, the bank introduced another Visa Classic Unembossed debit card under the name Allekarta. Each payment made with Allekarta is awarded with points under the Internet loyalty programme called PayBACK. This product, along with its free bank account (Konto24.pl), is addressed only to the registered Allegro.pl users. The package can be applied for through the Allegro web site.

Last year the bank's offering was expanded with a card for young people (Karta<30), which comes in a package that includes a personal account and access to Strefa<30, an internet site dedicated to young customers.

Another innovative initiative undertaken by the bank in 2005 was the launch of debit cards with chip technology. Following a general replacement of debit cards, all newly issued debit cards have been equipped with a chip, which has increased security of card transactions. At the end of 2005, the number of microchip debit cards totalled 450k, which positions the bank as the market leader.

Debit cards are used more and more frequently for making daily transactions. During the year the volume of such transactions increased by more than 20%.

- **Processing of other banks' cards**

Bank Zachodni WBK S.A. also issues and processes payment cards for other institutions, being a leading provider of such services in the market. The bank offers its customers a modern IT infrastructure and a real-time access transaction data. In 2005, another bank decided to use this service and obtained access to the BZ WBK ATM network. Bank Zachodni WBK S.A. also started to issue chip cards for customers of its partner banks.

Investment Banking

The bank participated in the preparation and execution of further bond issues of its leasing subsidiaries: BZ WBK Leasing S.A. and BZ WBK Finanse & Leasing S.A. In 2005, they placed bonds with a nominal value of PLN 100m as a continuation of the issue programmes of a total value of PLN 4bn. The companies did not enter into underwriting agreements for the bonds offered. The bond holders received a Letter of Comfort from Bank Zachodni WBK S.A.

The bank also arranged bond issues for five external clients, totalling PLN 45m. These issues were allocated to the entities indicated by the issuers.

In 2005, Bank Zachodni WBK S.A. acted as an advisor in the sale of 1,500,000 shares of PBG S.A. organised by the BZ WBK Brokerage House on the secondary market on behalf of the company founders. In the public sale of shares of: TELL S.A., BARLINEK S.A., PEP S.A. and JAGO S.A. Bank Zachodni WBK S.A. acted as an advisor, participated in preparation of the share prospectus and performed the role of the investment sub-issuer. All these offers were channelled through BZ WBK Brokerage House. Furthermore, the bank acted as an advisor with regard to a number of public and non-public share offers.

As a result of the purchase of 2,434.5k shares of NFI Magna Polonia S.A. from AIB WBK Fund Management Sp. z o.o. for a total amount of PLN 16.4m, Bank Zachodni WBK S.A. increased its stake in the company's share capital to 29.7%. In 2005, the bank reduced its investment in Stalexport S.A., selling 2,477.9k shares from its holdings and earning a revenue of PLN 4.1m. The bank also sold all of its shares in Wschodni Bank Cukrownictwa S.A. to Getin Holding S.A. for PLN 15.2m.

Treasury Services

2005 saw steady 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. During the year, Treasury continued to expand its national focus, and now has Treasury Services centres in Gdansk, Krakow, Poznan, Warsaw and Wrocław.

Overall, wholesale activity reported 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.

6. Distribution Channels

Branch Network

At the end of December 2005, Bank Zachodni WBK S.A. operated through 383 branches. The bank's branch network covers all provinces country-wide with the biggest concentration in the south-west of Poland. The bank's retail network is also present in the other major economic and administration centres of Poland such as Warszawa, Kraków, Łódź, Trójmiasto (Tri-city) and Szczecin.

The bank's branch network is divided into fourteen regions supervised by three macroregions in Poznań, Warsaw and Wrocław. The regional and macroregional offices provide direct business and operational support to the local branches. The biggest cities also have auxiliary structures whose objective is to develop business in branches. These include: Mobile Sales Teams tasked with acquisition of SME clients, Housing Market Specialists who are responsible for developing relations with developers and real-estate agents, as well as Investment & Savings Products Managers who support delivery of the sales plans for respective products.

Corporate Business Centres

Bank Zachodni WBK S.A. provides services to corporate customers through five Corporate Business Centres based in Warsaw, Wrocław, Poznań, Kraków and Gdańsk. Their main task is to attract and support quality corporate customers which have effective business strategy, strong management and repayment capacity. 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 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 the bank's corporate customers by satisfying their needs in a comprehensive manner. This means that customers seeking a loan receive an extensive offer after a thorough diagnosis of their requirements. Apart from lending proposals, it covers a full range of products such as Treasury products, foreign trade finance, investment banking services, employee packages, etc.

Electronic Distribution Channels

- **BZWBK24**

In 2005, Bank Zachodni WBK S.A. continued to expand functionality and improve security of its electronic banking service for business and retail customers. The implemented solutions secured a leading position in the market for the BZWBK24 package. Its high rank was confirmed by awards received last year such as: EuroProdukt award for the package of products designed for SME customers, granted under the auspices of the Ministry of Economy and Labour, and Polish Agency for Entrepreneurship Development, or the "Available Bank" award won by the bank in the competition carried out by the National Bank of Poland and the "Open Door" Association.

As part of the BZWBK24 electronic banking service, the bank's customers can use Moja Firma Plus package addressed to SME companies. The new extended functionality and upgraded services give business customers an easy access to their accounts, allow them to make funds transfers which require signatures of two persons and enable convenient and effective finance management without any need to install additional software.

Other modifications of the BZWBK24 application include: easier execution of international and foreign currency transfers, introduction of a new service standard for retail customers, launch of English version of services for foreign customers and on-line access to the Individual Pension Accounts of the Arka Investment Funds. The functionality of electronic services was also expanded with the possibility to top up mobile cards of the two new operators: Heyah and Sami Swoi.

A safe internet payment method - Przelew24 - allowed the bank to acquire new customers from key on-line shops and services. This tool enables internet banking users to make safe payments directly from their accounts.

Bank Zachodni WBK S.A. ensures the highest security level for electronic services due to its smsKod service launched in early 2004 as a pioneering solution in the Polish market. This authorisation method is the most effective safeguard against unauthorised account access. Due to promotion of this solution among the BZWBK24 users, smsKod has become the preferred authorisation method. Last year, security of the bank's electronic services was further enhanced by a proposal of alternative logging into BZWBK24 Internet. In addition to the standard mode of providing the NIK and PIN numbers, customers may avail of an additional security via smsKod or token authorisation.

During 2005, the base of BZWBK24 users increased by 119k and totalled 697k at the year-end. Over 530k people and companies had access to the Internet, which is the most frequently used remote communication tool with the bank. With a view to improving customer service quality, the BZWBK24 services were covered by a simplified and standardised account agreement and were included in the 100% Term Guarantee Programme.

- **Minibank24**

Electronic banking for corporate customers – available within the MiniBank24 system addressed to corporate customers – is a simple and safe way to handle a wide range of banking transactions. During 2005, the application was upgraded twice. The latest version contains a number of new features for making foreign transactions and transfers to Social Security Office and Tax Office.

At the end of December 2005, the network of Minibank24 consisted of 4.5k units providing office-banking services to 14.7k customers. This represents an increase of 1.2k customers on 2004.

- **ATMs**

Last year Bank Zachodni WBK S.A. increased its ATM network by 9 to reach 587 machines at the end of 2005.

To enhance effectiveness of ATMs, the network location optimization process was continued, driven by customer needs and business potential of the locality.

Also, the first seasonal installations were put in place with application of mobile solutions. In order to provide customers with top class technical infrastructure, older ATMs continued to be replaced with latest generation machines, while the remaining part of the network was subject to modernization.

The functionality of BZWBK ATMs is very extensive and constantly developed. Most of machines meet the requirements of EMV (Europay, Mastercard, Visa) chip card standard. Apart from the withdrawals, customers can use additional services, such as the account balance checks, specification of transactions, transfers to the BZWBK credit card, PIN change, card activation, "pre-paid" mobiles top-ups for all the operators, etc. The bank also avails of communication means available in the machines (screens, slips), in order to inform about its products and services, new ATM locations, etc.

Direct Banking

In 2005, Bank Zachodni WBK S.A. continued development of Direct Banking based on the restructured multi-channel Communication Centre in Środa Wielkopolska. Sales via phone were intensified and new initiatives related to Internet-based sales were implemented.

Dynamically growing phone and Internet-enabled sales are reflected in high share of Direct Banking in annual sales of the bank's selected credit products. Last year Direct Banking delivered 17.5% of the total sales with regard to credit cards and 9% with regard to unsecured cash loans. Implementation of pre-sanctioning, a new model and accompanying tools for selling credit cards and cash loans, was an important business growth driver. The pilot was managed by Direct Banking Department. The process consists in offering a ready-made credit limit for credit cards or cash loans to selected BZWBK customers based on the credit application only, without unnecessary formalities.

As part of the projects aimed to promote Internet-based sales, relations with external financial portals were initiated and new tools for client-bank communication were introduced (e-wniosek, the Internet web callback) available from bzwbk.pl and bzwbk24.pl sites. Modern tools were also used to optimise processes and to ensure quality service in other communication channels (telephone, e-mail).

Direct Banking enjoys specialist and continuously improving telecom and IT infrastructure to facilitate efficient customer service and relationship management. Direct Banking acts based on enhanced and customer-friendly procedures which guarantee product delivery within a strict timeframe and in line with the enterprise-wide standards. The Direct Banking function consistently observes the system of values and behaviours, recognising the customer's interest as the top priority. In addition, Direct Banking effectively manages 91% of contacts and electronic interactions with clients and branch staff. Thanks to the strong focus on service quality, Bank Zachodni WBK S.A. was awarded by CBM INDICATOR the first ranking position among Polish banks offering infolines and phone-enabled sales and services.

7. Changes to the Management Organisation

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

In 2005, the Bankassurance Office commenced its operations as a part of the Strategic Development Division. The unit has been tasked with co-ordination of all activities related to development and launch of insurance products for the bank's customers. Also, CRM and Sales Campaigns Department was created to build strong and long-lasting customer relations by optimising the CRM system, planning and monitoring customer interaction, acquiring and processing customer information, extending employees' knowledge and skills, developing and implementing sales support initiatives.

In the Customer Relationship and Sales Division, External Sales Area was created which is responsible for launching new delivery channels for the bank's products and services. In 2005, a separate process was developed for the sale of credit products through the bank's external partners, based on the automatic decision making system. A technological and management platform was also set up with respect to external sales structures.

As the scope of responsibilities of the Risk Management Division was expanded, a new Credit Risk Management Area was created within the Division, embracing the following units: Quality Assurance Department, Credit Review Department, Policies and Procedures Team, Analyses and Monitoring Team, Risk Measurement Team.

In order to more dynamically respond to the customers' needs, the Business Support Division was restructured and three new areas were formed, i.e. Systems Development Area, Operations and Business Support Area, and Operational Control Area. The new structure of the division is intended to better reflect realms of activity of individual areas, improve management and recognise the status of their mainstream processes.

The focus on specialist internal auditor skills and on maintaining consistently high audit quality led to transformation of the Internal Audit Department into the Internal Audit Area which is divided into: Commercial and Retail Banking Audit Department, IT Audit Department, Treasury, Investment and Corporate Banking Audit Department, and Business Support Centre Audit Department.

At end-2005, the bank commenced the transfer of wholesale operations from Poznan to Warsaw, in order to realise the benefits, both tangible and intangible, of physical location in Poland's financial, business and political capital.

8. Capital Expenditure

The capital expenditure incurred by Bank Zachodni WBK S.A. in 2005 amounted to PLN 64.7m and was 6.8% higher than in the previous year. From the total expenditure, the amount of PLN 53.4m was spent on IT projects, while PLN 11.3m was connected with properties and other fixed assets.

IT initiatives included introduction of a new chip-based technology for card issue and merchant acquiring. The process entailed the need to adjust ATMs to operate a new card handling standard. In parallel, additional ATM safeguards were put in place to increase security of transactions. In the lending area a modern system was implemented that improved the decision-making processes for retail products. During the year, efforts were continued to prepare the bank's IT systems to support external sales network. The bank also implemented a MIS module for measuring the profitability of products, customer segments and business units. As part of the IT stream, which is to ensure the bank's compliance with the New Capital Accord and the International Accounting Standards, the bank expanded functionality of its IT systems connected with the calculation of credit provisions. Also, the Corporate Data Warehouse was developed with regard to its infrastructure and data import capacity. In 2005, further stages of the new IT platform for HR management were progressed.

The main initiative in the area of investments into properties and other fixed assets was the continued implementation of modern security measures in branches. The project will ensure that the bank's branches are equipped with state-of-the-art technological solutions that will substantially improve security.

9. Outlook for 2006

In 2006, Bank Zachodni WBK S.A. intends to continue its development in line with the assumptions underpinning the "Po pierwsze Klient" corporate strategy. There will be, however, an enhanced focus on improving the customer relationship.

Striving to achieve sustainable competitive advantage and long-term profit growth, the bank will foster relations with its customers in keeping with the "engaging bank" idea. This approach will drive a major change in business lending as the stress will be on customers rather than on products.

The bank will aim to streamline its credit facilities, reduce separate procedures and processes to reengineer them into a standard process enabling multiple product solutions. A strong focus will be placed on developing credit knowledge and skills of advisors.

In order to ensure credit portfolio growth, the bank will acquire new business within selected target groups and will approach them with the upcoming product offers and sales initiatives. One of the factors expected to contribute to attracting customers from the SME sector is the new credit delivery process which is supported by statistical methods and allows for making 24-hour decisions on the back of a minimum set of documents. As regards home mortgages, the bank intends to continue its policy, offering the safest and ever less expensive PLN-denominated loans. The bank will also take advantage of the high demand for cash loans to offer a loan with an insurance option. The insurance protects borrowers from the consequences of: unemployment, temporary or permanent inability to work, or death. As regards credit cards, attention will be paid mainly to increasing customers' activity thanks to promotional campaigns supported by proactive contacts with customers.

In the retail area, acquisition of new business will continue as one of the priorities. Personal customers will be approached with leading personal account packages: Konto<30 for people below thirty years of age, Konto24 Prestiż for high net worth customers who frequently use banking services and Konto24.pl for customers who use mainly on-line banking.

New retail and business customers will be attracted to an increasing extent through the new delivery channels. Internet-based and external sales networks (e.g. agents) will be launched to supplement the existing and proven sales methods and delivery channels. In 2006, as part of the mobile sales structure, the bank's self-employed agents will commence active product distribution. The bank will also start to co-operate with credit agents and partners with regard to the sale and manufacture of credit cards.

As regards e-services, the bank will continue to upgrade its applications to meet customers' requirements. The plans envisage also further development of BZWBK24 for international payments and alignment of the Moja Firma package to meet the needs of large businesses. Ensuring top security of transactions effected via electronic channels will remain high on the agenda.

10. Bank Zachodni WBK Group and the Scope of its Activity

Bank Zachodni WBK S.A. forms a group with the following entities:

	Subsidiary	Registered office	% of votes at AGM as at 31-12-2005	% of votes at AGM as at 31-12-2004
1.	BZ WBK Faktor Sp. z o.o.	Warszawa	100.00	100.00
2.	BZ WBK Inwestycje Sp. z o.o.	Poznań	100.00	100.00
3.	Dom Maklerski BZ WBK S.A.	Poznań	99.99	99.99
4.	BZ WBK Finanse & Leasing S.A.	Poznań	99.99	99.99
5.	BZ WBK Leasing S.A.	Poznań	99.99	99.99
6.	BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa	Poznań	99.99	99.99
7.	BZ WBK Nieruchomości S.A.	Poznań	99.96	99.96
8.	Brytyjsko-Polskie Towarzystwo Finansowe WBK-CU Sp. z o.o.	Poznań	60.00	60.00
9.	AIB WBK Fund Management Sp. z o.o.	Warszawa	54.00	54.00
10.	BZ WBK AIB Asset Management S.A.	Poznań	50.00	50.00
11.	BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.	Poznań	100% of votes is held by BZ WBK AIB Asset Management S.A.	100% of votes is held by BZ WBK AIB Asset Management 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 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 considerably 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 leasing, have been incorporated into the bank's corporate strategy executed in close liaison with the respective subsidiaries.

The composition of Bank Zachodni WBK Group has not changed compared to the end of 2004.

V. Risk Management

1. Capital Management

The policy of Bank Zachodni WBK S.A. is to maintain a strong capital base and to use it effectively in order to add value for shareholders.

At the end of 2005, the bank's capital resources amounted to PLN 3.2bn, with the solvency ratio of 15.06%.

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: market risk, credit 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 Forum and Provisions Committee. These Committees are responsible for managing individual risk areas, monitoring the bank's general risk on an on-going basis and for shaping the current policy within the framework set 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 processes and 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 Forum**

To manage the credit risk effectively, Bank Zachodni WBK S.A. established the Credit 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. Credit Forum is a platform for arrangements and communication and uses the best local and AIB Group (the strategic investor) polices with regard to managing risk-weighted assets. The Credit 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.

In 2005, the bank introduced new credit grading models for key loan portfolios, including corporate, SME and mortgage loans.

- **Provisioning**

Adoption of International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) in January 2005 resulted in amendments to the financial reporting standards and provisioning policies, across the bank and its subsidiaries.

Provisions are now raised in line with IAS/IFRS to 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.

- **Credit decision making process**

The credit decision-making process as part of the risk management policy is based upon discretionary limits 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 separated from the sales function. The responsibility for credit decisions and loan portfolio quality assurance lies with the Chief Credit Officer and Managers reporting to him.

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. Scoring is being implemented primarily with in-house resources.

- **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 practices, 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 and liquidity risks are managed within the framework developed by the AIB Group and approved by the BZ 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 its market value as well as to increase income within the strictly defined risk limits and to ensure the bank's liquidity.

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

- Upon the recommendation from ALCO, the Management Board approves the Strategies and Policies for market risk management along with the limits that define the maximum acceptable exposure to individual risk types.
- Market risk is managed by qualified personnel using the appropriate systems and controls. Management of interest rate, FX and liquidity risks are centralised in the BZ WBK Treasury Division.
- Market risk is measured and its compliance with the stated risk limits is monitored by qualified personnel segregated from the unit which manages and generates the risk. Exposure to market risk is regularly reviewed by ALCO.
- Risk limits are periodically reviewed to align them with the bank's strategy and current objectives.
- A special portfolio of highly rated debt securities ensures a stable income stream for the bank, thus mitigating the structural balance sheet risk generated by non-interest rate sensitive liabilities. According to the policy approved by the Management Board, any decisions relating to the value or structure of this portfolio are taken by ALCO.

ALCO 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 buy/sale transactions (e.g. in the inter-bank market, in securities held for trading, derivatives, etc.) in order to maintain the risk at an acceptable level and achieve higher-than-average interest margins.

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 as a result of an adverse change in market parameters with a specified probability level. 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 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 contracted or contingent outflows with expected/contracted inflows 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 stability of the deposit base and the credit portfolio. Liquidity risk is measured daily using liquidity gap reports. The report contains all cash flows from on-balance sheet and off-balance sheet transactions.

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.

Liquidity risk management is centralised in the Treasury Division while control and measurement functions for liquidity risk are performed independently 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.

3. Operational Risk Management

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

Operational risk management in the Bank Zachodni WBK S.A. is operated at the following three 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 operational losses (financial and non-financial losses).

- 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).

- The Internal Audit function is responsible for overseeing and assessing the quality of operational risk management.

- 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.

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 in ensuring compliance with the requirements of the New Capital Accord.

VI. Human Resources and Corporate Values

1. Human Resources

As at 31 December 2005, the number of FTEs in Bank Zachodni WBK S.A. was 7,204 which was higher by 112 against the end of December 2004. The movement in headcounts results from organisational changes in the Business Support Centre and continued process of making business units more efficient through aligning their structure and resources to local markets potential.

Staff Attitude Survey, carried out in Bank Zachodni WBK S.A. for the second consecutive year, evidenced improvement in key HR management areas in 2005: training and development, organisation and work efficiency, remuneration policy. Thanks to the individually planned objectives followed by performance monitoring and assessment, the employees are aware of their role in delivering the "Po pierwsze Klient" strategy and get necessary support and feedback.

2005 saw increased investments in staff development and training. A vast majority of training projects was addressed to branch employees, of whom 70% were trained via e-learning. The main subject blocks supported key business initiatives and referred to the following issues: strategic products, sales techniques facilitating team work and customer service quality, SME lending, security of banking operations and risk control. Compared to the previous year, training programmes covered more Business Support Centre employees who were offered, in response to their needs, upskilling and development opportunities with regard to interpersonal skills, management, finance, law, lending, security, risk control and other specialist fields. In response to the feedback from the previous staff attitude survey, additional initiatives were instigated such as directors' programme, "Leaders of the Future", a programme for new managers, information campaign "My career, my development". Also, an induction programme was piloted and implemented. In 2005, the number of participants of all training and development programmes addressed to Bank Zachodni WBK employees totalled 38.5k.

2005 witnessed a continuation of works on implementation of the SAP e-HR solution supporting comprehensive management of human resources. This new tool will deeply remodel processes and services relating to HR by means of numerous self-service functions available to managers and staff.

2. Corporate Values

Code of Business Ethics

In 2004, 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. The application of these standards is supported by detailed regulations contained in relevant policies and procedures.

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 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 fulfils its environmental protection duties and supports corporate-giving and sponsorship programmes in such areas as: environment, education, sport and art.

In 2005, the bank set up the Business Ethics Commission to deal with business ethics issues. The key role of the Ethics Commission is to examine ethically doubtful behaviours, recommending viable solutions as well as interpretation and clarification of ethical issues which are not directly covered by the existing internal policies and procedures.

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. In 2005, a number of initiatives were undertaken to support development of the bank's internal culture in line with its key values: Dependable, Engaging, Pioneering. All the bank employees were briefed on the assumptions of the "Po pierwsze Klient" corporate strategy for 2005, with cascading communication on the bank's goals and challenges to individual teams and staff. Also, the bank continued its recognition programme which consisted in nominating and rewarding the employees whose attitude at work was considered as example to be followed. In the second half of the year, "Warto być razem" programme was launched. The programme is addressed to teams within the Bank Zachodni BZ WBK Group and aims to recognize and award teams for their outstanding successes in delivering the "Po pierwsze klient" strategy and to promote model values and behaviours. 227 teams from Branch Banking and Business Support Centre, i.e. 3k employees, applied to participate in the programme.

In order to strengthen the desired organisational culture and to create the bank's perception as a reliable employer, the Management Board of Bank Zachodni WBK S.A. adopted two new polices known as: Respect and Dignity at Work and Speak Up policies. The former one aims to counteract any symptoms of discrimination, sexual harassment and bullying through ongoing monitoring and elimination of undesired attitudes. The regulations are in line with the Polish Labour Code, EU regulations and internal AIB Group regulations. The Speak Up policy provides for reporting incidents which might jeopardise the bank's interest. The policy envisages a clear and simple reporting path for cases which may raise employees' concern and allows the management to react early enough to counteract situations that might erode the trust of customers, investors and employees.

- **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 in keeping with law and best practices 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. Existence of a good compliance culture improves the bank's image among regulators, shareholders, investors and customers.

To ensure full protection of the interests of its customers and employees, the bank remodelled its two existing policies: Staff Share Dealing Policy in BZWBK and Directorship Policy in BZWBK. The former policy regulates the treatment of price-sensitive information while the latter one specifies the conditions for participation of the bank's employees in the management of other companies. These regulations comply with the standards applicable across the AIB Group.

Corporate Governance

Bank Zachodni WBK S.A. has complied with the corporate governance rules, developed by the Best Practice Committee and recommended by the Warsaw Stock Exchange, since their introduction in 2002. In accordance with the WSE recommendation, in 2005 the Management Board and the Supervisory Board of Bank Zachodni WBK S.A. approved the contents and application of the amended "Best Practice in Public Companies in 2005", which had been introduced by Resolution no. 44/1062/2004 of the Warsaw Stock Exchange Board. The required consent in this regard was given by the General Annual Meeting of Shareholders held on 14 April 2005.

The bank also applies additional internal procedures supporting the process of best practice compliance. The terms of reference of the Supervisory Board and the Management Board as well as the bank's Statutes contain provisions which arise directly from the respective corporate governance rules. 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

Response to Social Obligations

The bank's activity is not limited to commercial operations only. According to the declaration contained in the Code of Business Ethics, the bank is actively involved in local community matters, supporting a variety of initiatives.

The bank's corporate giving is carried out under the "Bank of Children Smiles" Programme and focuses on children from poverty stricken families. Among the last year's initiatives, creative workshops "My World On Both Sides Of The Camera" organised for children of the so called, difficult background, deserve special attention. The project was awarded by the Commitment to Europe Arts & Business 2005 Foundation for combining culture and business as well as for sensitivity and commitment to aid the ones in need. 2005 saw the launch of Scholarship Programme of "the Bank of Children Smiles" designed to support development of gifted children from poor families. Scholarships are granted in four categories: science, sports, music and arts. 16 beneficiaries of the programme, who will receive the scholarship throughout the school year 2005-2006, have been selected out of 400 applicants.

The bank also provides its financial support in response to specific applications from organisations which help children from poor families.

VII. Ownership Structure and Governing Bodies

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

According to the information held by the bank's Management Board, as at 31 December 2005 the shareholder having a minimum 5% of the total number of votes at the BZWBK 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	70.50%	51,413,790	70.50%

2. Governing Bodies

Annual General Meeting of Shareholders

The General Annual Meeting of Bank Zachodni WBK Shareholders (AGM) convened on 14 April 2005 to approve the bank's and the group's financial statements and the Management Board report on the bank's and the group's operations in 2004. The AGM also approved the profit distribution and dividend pay-outs and gave the Management and Supervisory Board Members a word of approval for performance of their duties in 2004. The AGM selected and appointed Supervisory Board Members for another term of office (see the "Supervisory Board" section below for details). Also, the AGM approved disposal of the properties held in perpetual leasehold by the bank as at the date of the AGM resolution and approved the Best Practices in Public Companies in 2005, which had been introduced by Resolution no. 44/1062/2004 of the Warsaw Stock Exchange Board and accepted by the Bank Zachodni WBK Management Board and the Supervisory Board.

Extraordinary General Meeting of Shareholders

On 8 December 2005 the Bank Zachodni WBK Management Board convened an Extraordinary General Meeting of Shareholders, which approved changes to the bank's Statutes. These were introduced to assure compliance with the amended banking and commercial law, and new version of Best Practice in Public Companies in 2005. The changes reflecting the Best Practices in Public Companies in 2005 adopted in the bank provided for, among others, the number of independent Supervisory Board members and the requirement to obtain the consent of most of the independent Supervisory Board members to pass certain resolutions (Practice 20). The Extraordinary General Meeting of Shareholders also amended the General Meeting Regulations by:

- introducing a required qualified majority of votes for General Meeting resolutions on abstaining from discussing certain items put on the agenda at shareholders' request (Practice 14);
- adding a provision on the obligatory attendance of Management Board and Supervisory Board Members at the General Meeting and the requirement to excuse any absences (Practice 9).

Supervisory Board

As at 31 December 2005, the composition of the Bank Zachodni WBK Supervisory Board was as follows.

Function	Name
Chairman of the Supervisory Board:	Aleksander Szwarc
Deputy Chairman of the Supervisory Board:	Gerry Byrne
Members of the Supervisory Board:	Kieran Crowley
	Waldemar Frąckowiak
	Aleksander Galos
	Declan Mc Sweeney
	John Power
	Jacek Ślotała

The persons listed above were appointed by the General Annual Meeting of Shareholders of 14 April 2005 for a new 3-year term of office. Compared to 31 December 2004, the number of the Supervisory Board Members was reduced by one. On expiry of the previous term of office, Mr Marian Górski and Mr Don Godson completed their assignments on the Board. The new appointees, who were also members of the previous Board (except the two persons named above) were joined by Mr Kieran Crowley. The role of Supervisory Board Chairman, previously held by Mr Marian Górski, was entrusted to Mr Aleksander Szwarc.

As at 31 December 2005 the following members of the Supervisory Board held an independent status: Mr Aleksander Szwarc, Mr Aleksander Galos, Mr Waldemar Frąckowiak, Mr John Power and Mr Jacek Ślotała. Regardless of the Supervisory Board meetings, its 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. The Supervisory Board report on its activity in 2005, covering the performance of its committees, will be published in the current report announcing the resolutions of the next General Annual Shareholders' Meeting.

Management Board

As at 31 December 2005, the Bank Zachodni WBK Management Board consisted of the following persons:

Function	Name
President of the Management Board:	Jacek Kseń
Members of the Management Board:	Declan Flynn
	Michał Gajewski
	Aleksander Kompf
	Justyn Konieczny
	Janusz Krawczyk
	Jacek Marcinowski
	Mateusz Morawiecki
	James Murphy
	Feliks Szyszkowiak

Compared to 31 December 2004, the composition of the Management Board changed as follows: Mr Cornelius O'Sullivan resigned from the Management Board on 30 April 2005 due to his retirement from AIB Group. His responsibilities connected with supervision over individual bank areas were handed over to Mr Declan Flynn. On 21 June 2005 the Bank Zachodni WBK Supervisory Board appointed Mr Aleksander Kompf as Management Board Member responsible for the Compliance Area.

The Management Board's term of office runs out in April 2006.

In the current report 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. The respective 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 Supervisory 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. Permanent committees operative in the bank include: ALCO, Credit Committee, Provisions Committee, Credit 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.

Shares in Possession of the Supervisory and Management Board

The tables below provide information on the number and nominal value of Bank Zachodni WBK shares in possession of the Supervisory and Management Board Members and on the number and nominal value of their shares/interests in subsidiaries and associates of Bank Zachodni WBK S.A. as at 31 December 2005:

Shareholder	Number of shares	Nominal value of shares in PLN
Supervisory Board		
Waldemar Frąckowiak	278	2,780
Management Board		
Jacek Kseń	475	4,750
Aleksander Kompf	3,107	31,070

Shareholder	Name of company	Number of shares	Nominal value of shares in PLN
Management Board			
Jacek Kseń	NFI Magna Polonia S.A.	50	5

Remuneration of the Members of the Management & Supervisory Board

The information on remuneration of the Bank Zachodni WBK Management and Supervisory Board members and on agreements between the bank and the executive directors regarding compensation in the event of resignation, dismissal or removal is provided in Explanatory Note 51 to the Financial Statements of Bank Zachodni WBK S.A. for Year 2005.

VIII. Additional Information

Remuneration of Auditors

The table below presents remuneration paid to KPMG Audyt Sp. z o.o. for auditing/reviewing the financial statements of Bank Zachodni WBK S.A. based on relevant agreements.

in PLN

Remuneration of KPMG Audyt Sp. z o.o.	Accounting year ended 31 December 2005	Accounting year ended 31 December 2004
Audit fees in respect of the parent bank [1)]	1 408 827	1 455 387
Audit-related fees [2)]	135 093	0

1) Audit fees comprise amounts due or paid to KPMG Audyt Sp. z o.o. for professional audit of annual stand-alone and consolidated financial statement of the parent bank (agreement dated 1 October 2005) and review of half-yearly stand-alone and consolidated financial statements of the parent bank (agreement dated 20 May 2005).

2) Audit-related fees comprise any other amounts due or paid to KPMG Audyt Sp. z o.o. They apply to assurance services related to audit or review of financial statements of the parent bank not specified in point 1) above.

Other Information

Other information regarding:

- transactions with connected entities
- the number and value of the banking writs of execution
- guarantees issued
- off-balance sheet liabilities
- custodian services
- remuneration of the Supervisory and Management Board members
- sectoral and geographical credit concentration

is provided in Explanatory Notes included in the Financial Statements of Bank Zachodni WBK S.A. for Year 2005.

IX. Representations of the Management Board

Corporate Governance

According to its statement issued in the current report no. 15/2005 of 30 June 2005, BZ WBK complies with the corporate governance principles defined in Best Practices 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 their comparable data presented in the Financial Statements of Bank Zachodni WBK S.A. for Year 2005 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 S.A. The Management Board report on Bank Zachodni WBK S.A. contained herein shows a true picture of the bank's development, achievements and position (including the underlying risks) in 2005.

Selection of Auditor

The auditing firm responsible for reviewing the annual financial statements of Bank Zachodni WBK S.A. was selected in compliance with the applicable legislation. The auditing firm and its auditors who review the bank's accounts satisfied the necessary conditions to ensure they provide an unbiased and independent opinion compliant with Polish law.

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