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

Contents:

I. General Review

In 2006, Bank Zachodni WBK reported a record high profit-before-tax of PLN 745.2m thanks to the dynamic growth of its key business areas, specifically:

- *core-banking volumes: deposits and loans*
- *sales of mutual funds*
- *electronic and investment banking services*

Financial Performance in Brief

- **In 2006, Bank Zachodni WBK S.A. achieved record-breaking financial performance and growth rates y-o-y:**
  - profit-before-tax was PLN 745,2m, an increase of 33.1% y-o-y;
  - profit-after-tax was PLN 592.8m, an increase of 32.9% y-o-y.
- **With regard to financial performance, the most spectacular progress against 2005 was achieved in the following areas:**
  - increase in total income by 14.4%%, of which net commission income went up by 16.5%;
  - cost-to-income ratio brought down to 60,5% from 63.8%;
  - reduction of the impaired loan ratio to 5.2% from 7.2%.

Key Factors Affecting the Bank's Profit and Activity

- **Favourable external environment**, including:
  - economic growth and investment climate in Poland;
  - labour market and salary levels;
  - official interest rates levels;
  - changes in the structure of household savings;
  - trends in the credit market.
- **Steady business development:**
  - growth of strategic loan portfolios: cash loans (54.1%), mortgage loans (+26%), business loans (+24.2%);
  - high quality of the loan portfolio maintained with credit delivery processes substantially improving;
  - growth of deposit base (+16.9%);
  - rapid sales of BZ WBK Arka mutual funds (net assets higher by 122% y-o-y);
  - functional, procedural and pricing improvements in products and services.
- **Effective cost management:**
  - cost discipline maintained with business of the bank quickly expanding.

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

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

Other Key Developments

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

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

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

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

- **Agency agreement signed with BZ WBK Brokerage House.**

- **Incentive scheme for senior executives.**

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

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

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

II. Environment

1. Macroeconomic Situation in 2006

Economic Growth

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

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

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

Labour Market Conditions

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

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

Loans and Deposits

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

Inflation

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

Interest Rates

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

Budget

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

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

2. Macroeconomic Determinants of Future Financial Performance

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

Economic Growth

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

Zloty Exchange Rate

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

Interest Rates

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

Trends at the Warsaw Stock Exchange

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

3. Main Macroeconomic Indicators

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

Source: CSO, NBP, own estimates and forecasts

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

III. Basic Information

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

Bank History

Background

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

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

Key Development Stages

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

Continuous Development

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

Current Status and Scope of Activities

Universal Bank

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

Key Features of the Offering

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

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

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

Distribution Channels

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

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

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

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

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

Electronic Banking Services

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

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

Bank Zachodni WBK S.A. in the Banking Market

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

2. Lending Policy

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

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

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

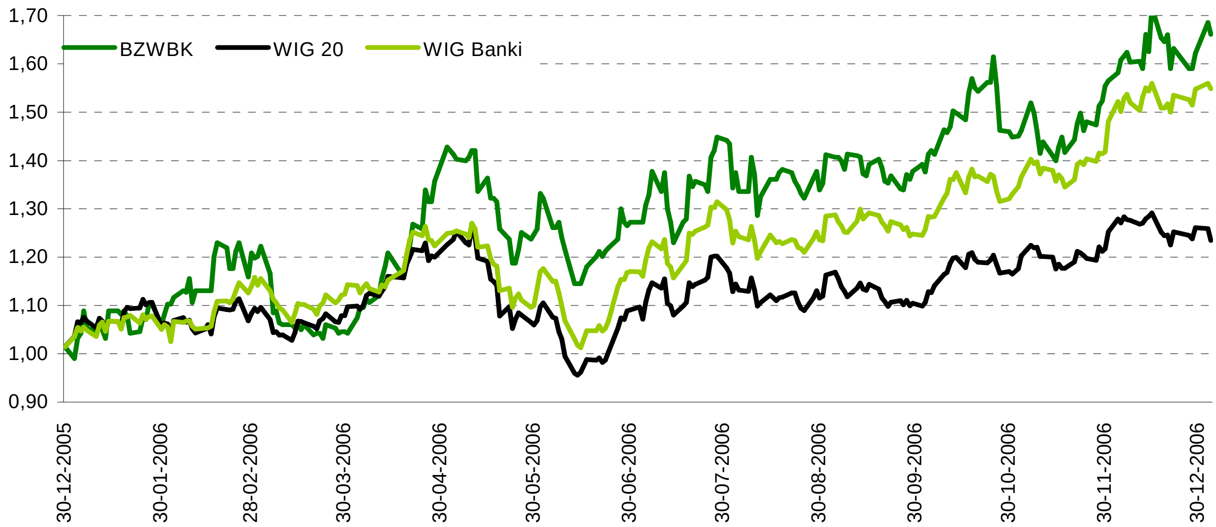
The credit discretions system is governed by Credit Discretions Guidelines. It defines credit discretions for individual positions, which vary depending on lending skills, experience and position of the individuals engaged in the credit delivery process.

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

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

3. Performance of Bank Zachodni WBK Shares

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



4. Bank Zachodni WBK Rating

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

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

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

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

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

5. Composition of Bank Zachodni WBK Group

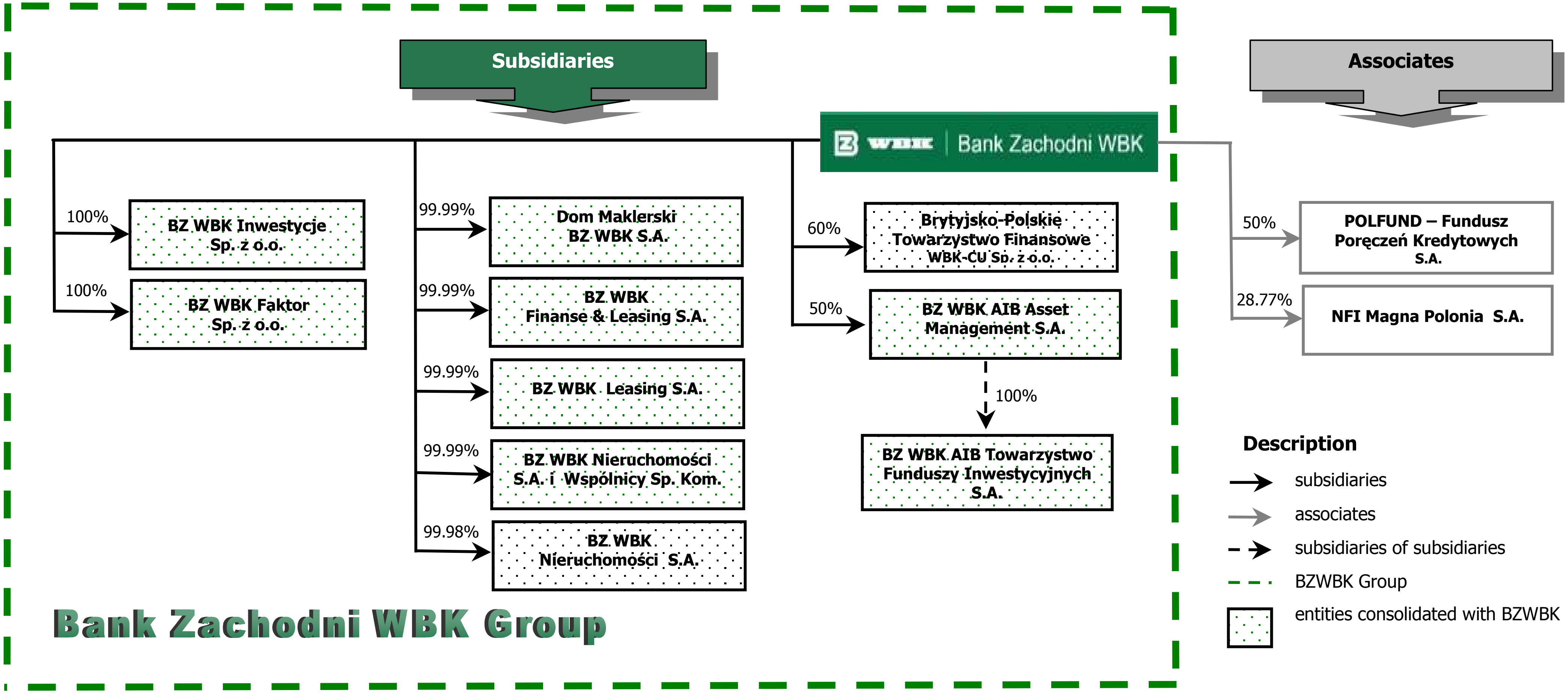
Bank Zachodni WBK S.A. forms a Group with the following ten subsidiaries consolidated on a line-by-line basis. These are:

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

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

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

Entities connected with Bank Zachodni WBK S.A.



IV. Financial Performance in 2006

1. Profit and Loss Account

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

PLN m

Key Profit & Loss Items	2006	2005	Change
Total income	1,953.3*	1,707.5	+14.4%
Total costs	(1,182.0)	(1,090.2)	+8.4%
Profit-before-tax	745.2*	559.8	+33.1%
Income tax	(152.4)	(113.6)	+34.2%
Profit-after-tax	592.8*	446.2	+32.9%

* *includes one-off gains earned in the equity market for a total of PLN 19.9m*

In 2006, Bank Zachodni WBK S.A. posted profit-before-tax of PLN 745.2m which exceeds the 2005 level by 33.1%. Profit-after-tax was PLN 592.8m and 32.9% higher y-o-y.

Income

Total income produced by the bank amounted to PLN 1,953.3m, an increase of 14.4% on the previous year. The main components of total income were as follows:

- **Net Interest Income**

Net interest income amounted to PLN 959.9m compared with PLN 829.2m disclosed a year before. Taking into account interest-related income from FX Swap and FX Basis Swap transactions (recognised in "FX profit" and "Gains from assets measured at fair value through profit and loss", respectively), which declined y-o-y by PLN 48m to PLN 24.7m, the underlying net interest income increased by 9.2%. This was achieved thanks to the growth of business and favourable changes in its structure, with credit margins at relatively stable levels and deposit margins contracting in a lower interest rate environment.

- **Net Commission Income**

Net commission income amounted to PLN 623.3m and increased by 16.5% y-o-y driven by sustained expansion of the bank's business.

Due to the fast inflow of assets to BZ WBK Arka mutual funds (managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.) via the bank's branch network, a significant increase in net income was recorded in fees for distribution of respective mutual fund units (+250.9%). There was also a noteworthy increase in net commission income generated by insurance products (+178.3%) and services rendered for customers involved in capital market projects (+19.7%).

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

The slight decrease of 3.8% in fees and commissions for account maintenance and cash transactions resulted from a price promotion and negotiable schedule of current account-related fees made available to business customers, and also their increased migration to electronic channels.

- **Dividend Income**

Dividend income of PLN 98.7m increased by 33.9% as a result of higher dividend paid out in 2006 by two subsidiaries, i.e. BZ WBK AIB Asset Management S.A. (by PLN 12.1m) and AIB WBK Fund Management Sp. z o.o. (by PLN 11.2m), as well as Commercial Union Group members (by PLN 8.9m) who are part of the bank's equity investment portfolio.

- **FX Profit**

FX profit was PLN 205.7m and 4.5% down y-o-y due to the decline in FX Swap income as a result of the shrinking gap between the PLN and FX interest rates. Excluding FX Swap impact, the line shows an increase of 12.4%, which reflects higher income from increased FX transactions with customers, mainly corporate negotiated.

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

Gains on financial transactions measured at fair value through profit and loss decreased by PLN 5.4m to PLN 7.2m due to less favourable conditions in the debt securities market in 2006 compared with 2005.

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

The combined gains on the investment portfolio and disposals of subsidiaries/associates amounted to PLN 23.4m and were higher by PLN 23.4m y-o-y due to the one-off gains in the equity market, i.e. profit earned on the disposal of two associated companies: LZPS Protektor S.A. (PLN 10m) and NFI Magna Polonia S.A. (PLN 7.4m), and the repurchase of shares by MasterCard Incorporated (PLN 5.2m).

Loan Impairment Charge

In 2006, the impairment charge to the profit and loss account amounted to PLN 26.1m compared to PLN 57.5m posted a year before. Such a low level of impairment recorded amid the increasing credit volumes confirms the very good performance of the bank's loan-book, consistent operation of the credit risk management policy and the sharp focus on ensuring portfolio quality. The effectiveness of the credit risk management framework is also evidenced by reduction of the NPL ratio. At the end of December 2006, the "impaired loans" accounted for 5.2% of the gross portfolio with a provision cover of 60.7%. A year before, the corresponding ratios were 7.2% and 63.3%, respectively.

Costs

The performance of Bank Zachodni WBK S.A. in 2006 caused reduction of its cost-to-income ratio to 60.5% from the level of 63.8% recorded the previous year.

Total operating costs of the bank amounted to PLN 1,182m and were higher by 8.4% y-o-y. Their main components were as follows.

- **Staff and Other Administrative Expenses**

Staff and other administrative expenses increased by 12.5% y-o-y to PLN 995.8m driven by dynamic business development.

The biggest element of this figure, i.e. the staff expenses amounted to PLN 597.7m and increased by 14.7% y-o-y due to higher employment, pay increases triggered by growing competition among banks for highly skilled banking experts, performance-related bonuses and once-off year-end payments for the employees in the form of pre-paid cards (PLN 20.8m).

With a strong business growth, the other administrative expenses increased by 9.3% y-o-y to PLN 398.1m. This movement results mainly from the promotional activities designed to support the sales of the strategic products and the costs related with the IT projects implemented to provide infrastructure to foster further business growth of the bank and its subsidiaries. The bank's ongoing savings initiatives curbed the administrative expenses, restraining the growth of the business-driven cost items and maintaining other costs at a level comparable to the previous year.

- **Depreciation**

Depreciation totalled PLN 153m and decreased by 15.4% y-o-y due to effective management of the bank's fixed assets.

- **Other Operating Costs**

Other operating costs increased by 38.9% to PLN 33.2m due to higher level of provisions raised in 2006 for legal risk.

2. Balance-Sheet Items

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

PLN m

Key balance-sheet items	31-12-2006	31-12-2005	Change
Balance sheet total	31,382.5	27,891.3	+12.5%
Key assets			
Loans and advances to customers*	16,159.5	12,897.4	+25.3%
Investment securities	8,028.4	6,917.0	+16.1%
Loans and advances to banks	3,149.3	3,606.1	-12.7%
Cash and balances with Central Bank	1,534.5	572.3	+168.1%
Securities at fair value through profit & loss	685.3	1,925.6	-64.4%
Key liabilities			
Deposits from customers	24,515.4	20,969.9	+16.9%
Deposits from banks	737.5	1,319.5	-44.1%
Repo transactions	1,230.7	999.5	+23.1%

** net of impairment*

As at 31 December 2006, total assets of Bank Zachodni WBK S.A. amounted to PLN 31,382.5m and were 12.5% up on the previous year.

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

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

Credit Portfolio

At the end of December 2006, net loans and advances to customers were PLN 16,159.5 m and 25.3% up y-o-y due to increasing volumes of retail and business loans. Gross loans and advances to customers amounted to PLN 16,778.2m vs. PLN 13,591.7m a year before.

Compared to the end of December 2005, the business loans increased by 24.2% to PLN 12,302.5m, reflecting the increased demand of business customers for funding towards investments and working capital requirements. The accelerated credit delivery was driven by the optimistic outlook for further development of the Polish economy and the quality of the bank's credit offer for businesses, both product proposal and services being well-adjusted to customers' needs. Property was one of the most rapidly growing sectors in 2006, which coupled with the bank's effective sales efforts contributed to the significant expansion of the property loan-book (loans for income-producing real estates).

The value of retail loans increased by 27.4% y-o-y to PLN 4,212.4m, with the strongest growth in cash loans (+54.1%) and mortgage loans (+26%).

The biggest item in the lending structure of Bank Zachodni WBK S.A. were loans to business and public sector customers, accounting for 75% of the gross portfolio. Retail loans contributed 25% to the total 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. As at the end of December 2006, the highest concentration level of 22% was recorded in the property services sector.

The quality of the loan-book continued to improve during the year, which is reflected in the declining NPL ratio, i.e. 5.2% in 2006 versus 7.2% in 2005.

Deposit Base

Deposits from customers, which represent 78.1% of the bank's liabilities, are the primary source of funding its lending business. At the end of December 2006, customer deposits totalled PLN 24,515.4m and were 16.9% higher y-o-y due to the significant growth in balances accumulated in term deposits of business and public sector customers, and in personal current accounts.

The value of funds deposited in current accounts of personal, business and public sector customers (excluding one-day deposits) was PLN 8,262.7m and 29.7% higher on the end of 2005. This growth is attributable to low interest rates which made retail customers more inclined to keep their financial resources in current and savings accounts. These facilities, as opposed to term deposits, offer their holders flexibility in managing the funds, with no financial consequences involved. The bank's current deposit base was also driven by significantly improved financial standing of households and their rising optimism about the prospects for the future.

Over the last 12 months, the bank's term deposit base (including one-day deposits) increased by 11.1% to PLN 15,744.8m, mainly due to the funds deposited by business customers who recorded an increased activity and good financial performance thanks to the favourable economic climate.

3. Basic Financial Ratios

Financial ratio	2006	2005
Total costs /Total income	60.5%	63.8%
Interest income/Total income	49.1%	48.6%
Commission fee/Total Income	31.9%	31.3%
Deposits /Total assets	78.1%	75.2%
Loans/Total assets	51.5%	46.2%
Impaired loans ratio	5.2%	7.2%
Loan loss coverage ratio	60.7%	63.3%
ROE*	19.6%	16.3%
ROA**	2.0%	1.6%
Solvency ratio	13.8%	15.1%
Basic earnings per share in PLN	8.1	6.1
Book value per share in PLN	49.5	43.7

* *equity as at the end of the given period, net of current profit, was used in the computations*

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

4. Interest Rates on Loans and Deposits

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

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

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

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

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

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

V. Business Development in 2006

1. Review of Key Business Development Directions

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

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

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

2. Development of Customer Service

Customer Relationship Management (CRM)

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

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

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

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

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

Service Quality Management

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

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

Increased Customer Satisfaction

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

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

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

Total Quality Management System

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

2006+ Standards

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

Customer Care Officer

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

Enhancement of Internal Customer Service

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

3. Development of Products and Services

Retail Loans

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

Mortgage Loans

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

Cash Loans

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

Credit Cards

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

Offer for Small and Medium-Sized Enterprises (SMEs)

Credit Process

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

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

Loans Refinanced From EU Funds

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

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

Offer for Farmers

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

Personal Accounts

Konto<30

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

Konto24 Euro

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

Konto24 Prestiz

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

Deposit and Investment Products

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

Deposit Products

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

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

Investment Funds

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

Insurance Products

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

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

FX Transactions

International Payments

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

Western Union Money Transfers

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

Trade Finance

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

Debit Cards

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

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

Provision of Services to Financial Institutions

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

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

Investment Banking

Advisory Services

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

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

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

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

Arrangement for Bond Issues

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

Equity Portfolio Management

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

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

As at 31 December 2006, the equity investment portfolio of Bank Zachodni WBK S.A. was composed of subsidiaries and associates displayed in the chart on page 13 and minority shareholdings in 23 companies, including Krajowa Izba Rozliczeniowa S.A. (11.48%), Commercial Union Polska Towarzystwo Ubezpieczeń na Życie S.A. (10%), Commercial Union Polska Towarzystwo Ubezpieczeń Ogólnych S.A. (10%), Commercial Union Powszechne Towarzystwo Emerytalne BPH CU WBK S.A.(10%), AWSA Holland II B.V. (5.44%) and Arka BZ WBK Fundusz Rynku Nieruchomości Specjalistyczny Fundusz Inwestycyjny Zamknięty (4.42%).

Treasury Services

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

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

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

4. Development of Distribution Channels

Branch Network

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

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

Corporate Business Centres

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

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

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

Cash Management Unit

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

Electronic Distribution Channels

BZWBK24

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

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

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

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

Minibank24 (pc-banking)

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

ATMs

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

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

Direct Banking

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

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

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

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

External Distribution Channels

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

Mobile Sales

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

Agency Sales

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

Franchise network of outlets

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

VI. Strategy for 2007-2010

Key Strategic Assumptions

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

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

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

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

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

Customer Relationship

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

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

Offering of Products and Services and their Distribution

Development Directions for Retail Customers

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

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

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

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

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

Development Directions for Business Customers

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

Development Directions for Distribution Channels

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

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

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

Service Quality

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

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

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

Process Enablement

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

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

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

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

VII. Risk Management

1. Capital Management

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

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

As at 31 December 2006, the bank's solvency ratio was at 13.79%, which confirms the safe position of the bank. The bank's capital resources amounted to PLN 3,613.2m and were higher y-o-y by PLN 424.3m.

The extent of increase in the capital resources in 2006 against the previous years was due to the to substantially higher profit of the current period and record-breaking dividend (PLN 6 per share) paid from the profit generated in 2005.

2. Financial Risk Management

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

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

Credit Risk Management

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

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

Credit Policy Forum

To manage the credit risk effectively, Bank Zachodni WBK S.A. established the Credit Policy Forum whose key role is to develop and approve credit and sectoral policies, industrial analyses, credit grading systems and credit risk assessment addressed for the branch network and Business Support Centre units directly responsible for business growth and support. The Credit Policy Forum is composed of senior representatives of individual Bank Zachodni WBK divisions.

Credit Policies

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

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

Credit Grading

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

Currently, the bank uses new credit risk grading models for its key credit portfolios, including corporate customers, SMEs, housing loans, cash loans, credit cards and retail overdrafts. Work is under way to develop tools compliant with Basel requirements for other portfolios, i.e. income-producing real estate and public sector.

Provisioning

In Bank Zachodni WBK S.A. and its subsidiaries provisions are raised in accordance with the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS). The provisions reflect credit impairment which is recognised if the bank presents an objective evidence that such amounts cannot be recovered in line with the signed loan agreement. The impairment is calculated on the basis of the estimated recoverable amount. Impairments are analysed using both the individual and collective approach.

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

Return on Risk

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

Credit Decision Making Process

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

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

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

Credit Reviews

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

Market Risk and Liquidity Risk Management

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

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

Market Risk Management

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

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

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

Assets & Liabilities Management Department identifies, on an on-going basis, the market risk connected with retail and commercial activities and transfers the risk to the Treasury Division. Treasury Division then executes relevant transactions (e.g. in the inter-bank market, in securities, derivatives, etc.) in order to maintain the risk at an acceptable level.

Interest rate and FX risks are monitored using the Value at Risk (VaR) methodology which is a standard industry tool for measurement of interest rate and FX risk. VaR methodology uses a statistical process to determine the Probable Maximum Loss (PML) in economic value of a transaction or a portfolio of transactions as a result of an adverse change in market parameters. The bank applies the VaR methodology both to the trading and banking portfolio. According to the bank's policy, the interest rate risk measured as PML may not exceed 8.25% of the bank's own funds, while PML connected with FX risk may not exceed 0.5% of own funds

Liquidity Risk Management

Bank Zachodni WBK S.A. manages liquidity risk in accordance with its liquidity policy.

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

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

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

Operational Risk Management

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

Operational risk management in Bank Zachodni WBK S.A. is operated at the following levels of responsibility:

- Organizational units responsible for management of the operational risk that may manifest itself in the area of their operations (identification, assessment and monitoring of the risk based on the self-assessment methodology, implementation and monitoring of risk controls, learning lessons from financial and non-financial operational incidents).

- The Operational Risk Management Department is responsible for coordination of the whole process (implementation of an effective risk management structure, development of methodology, providing support to other units, maintenance and analysis of a database with information on financial and non-financial losses, reporting, management of financial lines insurance).

- All operational risk management processes are monitored by the dedicated Operational Risk Management Committee (ORMCO).

Bank Zachodni WBK S.A. has developed and implemented operational risk management policies, standards and procedures, concerning in particular the risk management structure and model, fraud prevention, information security, reporting, learning lessons from operational losses, personal data protection, money laundering and approval of products and projects.

Furthermore, Bank Zachodni WBK S.A. monitors the ongoing implementation of a business continuity management policy, analyses the needs and develops and tests disaster recovery plans on a regular basis.

The bank co-operates closely with AIB Group in the area of development and implementation of strategies and policies of operational risk management, selection and launch of supporting instruments, and ensuring compliance with the requirements of the New Capital Accord.

VIII. Human Resources and Corporate Values

1. Human Resources Management

Human resources

As at 31 December 2006, the number of FTEs in Bank Zachodni WBK S.A. was 7,467, which was higher by 263 than a year before. The increase in the bank's headcount was due to the growing range and scale of banking operations, which involved development of new distribution channels. Personnel movements also occurred in the process of business units optimisation, e.g. through allocation of resources commensurate with the requirements and business potential of the local markets.

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

The bank pays a lot of attention to the improvement of staff knowledge and skills. Training courses are organised in response to the business needs and in keeping with the bank's strategic priorities. Compliance with the strategic and operational requirements of the organisation is ensured through planning and co-ordinating the training process bank-wide, with support from representatives of key business areas and branch banking. The integrated training plan facilitates the logistics and monitoring of training quality and costs. In 2006, the majority of training projects were addressed to the branch banking staff of whom 67% were trained through e-learning. Training for branches covered mainly the following areas: mortgage loans management, sales techniques, 2006+ standards, SME lending, lending to the agricultural sector, brokerage and treasury services. In the Business Support Centre, training was focused on improvement of expert knowledge and skills in the area of quality standards and models, advanced credit analysis and project finance. 2006 saw continuation of initiatives addressed to different employee groups, including Directors' Development Programme, Leaders of the Future, a programme for new managers and an induction programme. Also, Management Board Members participated in the training sessions devoted to their personal development as part of Leaders' Development Programme. Likewise, directors went through Development Centres and received feedback to plan and facilitate their personal development. The investments into management development were reflected in the results of the last Staff Attitude Survey, which show an increasingly growing rating for the bank's management style and its stimulating effect on work commitment.

In 2006, the total number of participants of the training and development programmes in Bank Zachodni WBK S.A. reached 44.9k.

Last year, Bank Zachodni WBK S.A. was awarded the prestigious title of Investor in People. The award programme emphasises the importance of investing in people as the most valuable asset of any organisation and disseminates best practice in professional HR management in Poland.

2. Corporate Values

Code of Business Ethics

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

According to the Code, in all the aspects of its activities the bank complies with the business ethics requirements, conforms with the law and acts in accordance with the best corporate governance and risk management models. The bank seeks to create a climate of trust in its dealings with customers, employees, shareholders and other stakeholders, promoting such values as integrity, professionalism, prudence and competence. The opinion of being a dependable organisation is perceived as a pre-requisite for further development and success, but the bank also has the ambition to be recognised for being engaging and pioneering. As a socially responsible organisation, the bank supports corporate-giving and sponsorship programmes.

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

Corporate Culture

Corporate Behaviours

The key element of the Bank Zachodni WBK brand strategy is a constant reinforcement of the desired corporate behaviours in the organisation. There are various initiatives undertaken to support development of the bank's internal culture in line with its key values: Dependable, Engaging, Pioneering. In the first half of 2006, all the bank employees were briefed on the assumptions of the "Po pierwsze Klient" corporate strategy for 2006, with cascading communication on the bank's goals and challenges directed to individual teams and staff. During the year the progress of employees on their way to individual goals attainment was monitored under the Performance Management Process. Last year, the second version of the programme for teams in Bank Zachodni WBK called "Warto być razem" was initiated. The purpose of the programme is to recognise the teams for their outstanding achievements in delivery of the "Po pierwsze klient" strategy and to promote desired values and behaviours.

Compliance Culture

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

Corporate Governance

Bank Zachodni WBK S.A. complies with all the corporate governance rules contained in the document "Best Practice in Public Companies in 2005", introduced by Resolution no. 44/1062/2004 of the Warsaw Stock Exchange Board. Compliance with best practice is also supported by the bank's internal procedures, including provisions of the Statutes, Supervisory and Management Board regulations. To facilitate access to information about Bank Zachodni WBK S.A., the bank's web site has a special section for investors with all current and periodic reports, corporate documents and other material information.

3. Bank in the Society

Corporate Citizenship

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

The bank's corporate giving is carried out under "The Bank of Children Smiles" Programme and focuses on children from poverty stricken families. The main objective is to help them develop their interests and talents. The programme is delivered both through the bank's own initiatives and through provision of financial support to the organisations which help children.

Among the bank's own initiatives, noteworthy are creative workshops "My World on Both Sides of the Camera from BZ WBK" for children of the disadvantaged communities and "Academy of the Bank of Children Smiles", a programme of funding English lessons for children from poor families. From January to April the bank ran a campaign called "Smile for 1%" designed to raise funds as part of personal income tax settlements and spend them on organisation of summer holidays for poor children and other charitable purposes. In 2006, the bank launched the second edition of the Scholarship Programme of "The Bank of Children Smiles" which supports development of children gifted in science, sports, music and arts.

IX. Major Internal Developments and Events

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

According to the information held by the bank's Management Board, as at 19 February 2007 the shareholder having a minimum 5% of the total number of votes at the Bank Zachodni WBK Annual General Meeting of Shareholders was AIB European Investments Ltd. based in Dublin.

Shareholder	Number of shares held	Share in the share capital	Number of votes at AGM	Voting power at AGM
AIB European Investments Ltd.	51,413,790	70.5%	51,413,790	70.5%
Other shareholders	21,546,494	29.5%	21,546,494	29.5%
Total	**72,960,284**	**100%**	**72,960,284**	**100%**

2. Governing Bodies

Annual General Meeting of Shareholders

The General Annual Meeting of BZ WBK Shareholders (AGM), which was held on 4 April 2006, approved the Bank's and the Group's Financial Statements and the Management Board Report on the Bank's and the Group's Performance in 2005. The AGM approved the Report on Activities of the Supervisory Board and its Committees as well as the Supervisory Board's Report on Examination of the Bank's and the Group's Annual Report along with its assessment of both entities' operations in 2005. Also the profit distribution and dividend pay-outs were approved and the Management and Supervisory Board Members were given a word of approval for performance of their duties in 2005. The AGM implemented a three-year Incentive Scheme for senior executives of the bank and its subsidiaries who significantly contribute to the growing value of Bank Zachodni WBK. The Incentive Scheme entitles its participants to acquire bonds with a pre-emptive right and to acquire, at a preferential rate, shares issued by the bank as part of a conditional increase of the share capital. In order to enable delivery of the Incentive Scheme, the AGM passed a resolution to issue bonds with pre-emptive rights and to conditionally increase the share capital by a maximum amount of PLN 2 m by issuing new ordinary bearer shares. The AGM approved changes to the bank's Statutes and adopted its consolidated text. The introduced changes resulted, inter alia, from business requirements and the need to comply with new Banking Law provisions. They were related to the bank's internal control system, division of powers among the Management Board members and expansion of the bank's operations with brokerage activities (including agency services in this area).

Supervisory Board

As at 31 December 2006, the composition of the Bank Zachodni WBK Supervisory Board was as follows.

Ref.	Name	Role in the Supervisory Board
1.	Aleksander Szwarc	Chairman of the Supervisory Board
2.	Gerry Byrne	Vice Chairman of the Supervisory Board
3.	Kieran Crowley	Member of the Supervisory Board
4.	Waldemar Frąckowiak	Member of the Supervisory Board
5.	Aleksander Galos	Member of the Supervisory Board
6.	John Power	Member of the Supervisory Board
7.	Jacek Ślotała	Member of the Supervisory Board

The persons listed above were appointed by the AGM of 14 April 2005 for a new 3-year term of office. As originally composed, the Supervisory Board also included Mr Declan McSweeney, but on 28 December 2006 he tendered his resignations, effective from 31 December 2006.

As at 31 December 2006, the following members of the Supervisory Board held the status of an independent member: Mr Aleksander Szwarc, Mr Waldemar Frąckowiak, Mr Aleksander Galos, Mr John Power and Mr Jacek Ślotała. In addition to the Supervisory Board meetings, the Board members worked in internal committees, i.e. Nominations and Remuneration Committee, Audit Committee and Social Responsibility Committee. The Audit Committee was composed exclusively of independent members of the Supervisory Board. The Report on Activities of the Supervisory Board and its Committees as well as the Supervisory Board's report on Examination of the Bank's and the Group's Annual Report along with its assessment of both subjects' operations in 2005 were published in the current report no. 27/2006 which conveyed the resolutions passed by the AGM on 4 April 2006.

Management Board

As at 31 December 2006, the composition of the Bank Zachodni WBK Management Board was as follows.

Ref	Name	Role in the Management Board
1.	Jacek Kseń	President of the Management Board
2.	Declan Flynn	Member of the Management Board
3.	Michał Gajewski	Member of the Management Board
4.	Justyn Konieczny	Member of the Management Board
5.	Janusz Krawczyk	Member of the Management Board
6.	Jacek Marcinowski	Member of the Management Board
7.	Mateusz Morawiecki	Member of the Management Board
8.	James Murphy	Member of the Management Board
9.	Marcin Prell	Member of the Management Board
10.	Feliks Szyszkowiak	Member of the Management Board

The Management Board members listed above were appointed by the Supervisory Board for a new three-year term of office on 4 April 2006. Compared to 31 December 2005, the composition of the Management Board changed as follows: Mr Aleksander Kompf stepped down from his role on the Management Board after expiry of his term of office. Mr Marcin Prell was appointed Management Board Member responsible for the Legal and Compliance Division.

In the current report no. 9/2006 dated 25 January 2006, Bank Zachodni WBK S.A. announced the decision of Mr Jacek Kseń to hold his position as President of the Management Board till the end of April 2007. That decision had been approved by the bank's Supervisory Board.

Appointment and Removal of Executives

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

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

Powers of Executives

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

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

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

3. Changes to the Management Organisation

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

In April 2006, two previously independent functions of the Business Support Centre - Legal Area and Compliance Area – were merged into one Legal and Compliance Division. The change contributed to a more effective use of skills and resources to ensure full compliance of Bank Zachodni WBK S.A. with the legal and regulatory requirements.

4. Capital Expenditure

The capital expenditure incurred by Bank Zachodni WBK S.A. amounted to PLN 81.5m, of which PLN 64.6m was spent on IT projects while the remainder was connected with properties and other fixed assets.

IT initiatives included work on preparation of the bank's systems to support external distribution channels. In order to ensure the best level of card service, the bank purchased a modern production line for personalisation and distribution of cards. This investment contributed to an increase of the quality of service, which was confirmed by award of the ISO 9001:2000 certification to the bank. In addition to the described initiatives, the bank also continued the decongestion process, extension and upgrade of the ATM network and completed subsequent stages of implementation of the new IT platform for managing HR processes. In 2006, self-service SAP HR applications (developed in prior periods) were subject to comprehensive tests and their functionality was expanded by traditional and e-learning training options. Also, a number of projects were implemented to improve the security, reliability and stability of the bank's systems and to build a platform for provision of services to the companies from the Bank Zachodni WBK Group.

There were also significant outlays on branch network development projects, including the launch of new branches and further upgrade of the branch architecture, including replacement of furnishings, security systems and IT equipment. Also, preparations were made for the planned 2007 expansion of the branch network.

5. Other Events

Incentive Scheme

Pursuant to the resolution of the Annual General Meeting of Shareholders of 4 April 2006, Bank Zachodni WBK S.A. introduced a three year Incentive Scheme for the years 2006-2009. The Scheme is addressed to the Management Board members and senior management of Bank Zachodni WBK S.A and its subsidiaries recommended by the Management Board and approved by the Supervisory Board with the maximum number of 100 participants in the programme. The Incentive Scheme entitles the participants to buy bonds with pre-emptive rights and in the next stage to take up – at a preferential price – the bank's shares issued as part of the conditional increase of the share capital. The right of participants will be exercised contingent upon the growth in consolidated earnings per share (EPS) within 3 years of the Incentive Scheme's duration. It is the Supervisory Board that will decide about the satisfaction of the defined criteria based on the financial performance of the Group as approved by the Annual General Meeting of Shareholders. The respective resolution will be adopted by 30 August 2009.

The adopted Incentive Scheme is to reinforce the bond between the bank and its key executives as well as to ensure the long-term competitiveness and effectiveness of the Bank Zachodni WBK Group, which will contribute to the growth in the bank's value and bring sustainable returns to shareholders.

Under the Scheme, the bank issued and allocated 128,223 bonds with unexpired pre-emptive rights with a nominal unit value of PLN 0.01. Each bond gives its holder the pre-emptive right to subscribe for one bank's share of PLN 10.

Agreements with AIB

On 31 January 2006, Bank Zachodni WBK S.A. signed with AIB p.l.c. the Generic Agreement and Consultancy Agreement. The Generic Agreement provides for principles of co-operation and future agreements pertaining to specific projects and services as well as provision of information and data as required by law. The latter sets out rules of mutual consultancy services in the area of economy and finance as well as additional services related to specific projects which involve sharing experience and know-how.

Agency Agreement with Dom Maklerski BZ WBK S.A.

On 2 August 2006, Bank Zachodni WBK S.A. entered into an agency agreement with Dom Maklerski BZ WBK S.A. (Brokerage House), under which it undertook to act as an intermediary in selling the products of the subsidiary. The bank is entitled to provide such service on the basis of its entry to the Agents Register on 13 June 2006. The agreement gives the bank the right to part of the brokerage fee earned on the transactions.

The co-operation between Bank Zachodni WBK S.A. and the Brokerage House will increase availability of brokerage services to the customers of Bank Zachodni WBK S.A., which should raise the overall attractiveness of the bank's offering while increasing trading volumes of the Brokerage House.

Selection of Auditor

In accordance with § 32 point 10 of the Statutes of Bank Zachodni WBK S.A., on 21 June 2006 the bank's Supervisory Board passed a resolution appointing KPMG Audyt Sp. z o.o. as an auditor of the stand-alone and consolidated financial statements of the bank for the year 2006. KPMG Audyt Sp. z o.o. audited the bank's stand-alone and consolidated financial statements for the prior four financial years and provided consulting services permitted by law and the bank's internal regulations, which ensured adequate impartiality and independence of an auditor.

X. Additional Information

Shares in Possession of the Supervisory and Management Board

The table below shows the number and nominal value of the Bank Zachodni WBK shares held by the Management and Supervisory Board Members as at 19 February 2007.

Shareholder	Number of shares	Nominal value of shares in PLN
Supervisory Board		
Waldemar Frąckowiak	278	2,780
Management Board		
Jacek Kseń	500	5,000
Marcin Prell	1	10

Remuneration of the Supervisory and Management Board Members

The Remuneration of the Bank Zachodni WBK Supervisory and Management Board Members for the years 2006 and 2005 is provided in Financial Statements of Bank Zachodni WBK for 2006 in note 52 entitled "Related party disclosures".

Remuneration of the Auditor

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

PLN k

Remuneration of KPMG Audyt Sp. z o.o.	2006	2005
Audit fees in respect of the parent bank 1)	1,425	1,409
Audit-related fees 2)	23	249
Total	**1,448**	**1,658**

1) *Professional services connected with audit of the stand-alone and consolidated financial statements of the parent (agreement of 10 October 2006) as well as review of the half-yearly stand-alone and consolidated financial statements of the parent (agreement of 8 June 2006).*

2) *Audit-related fees comprise any other amounts due or paid to KPMG Audyt Sp. z o.o. This category relates to the assurance services connected with the audit or review of financial statements of the parent and the subsidiaries not included in point 1) above.*

Geographical Structure of the Bank's Deposits

PLN k

Ref.	Province	Deposits from customers 31-12-2006	Deposits from customers 31-12-2005
	Bank Zachodni WBK S.A.		
1.	dolnośląskie	6,399,676	5,716,869
2.	kujawsko-pomorskie	782,619	665,615
3.	lubelskie	44,137	34,818
4.	lubuskie	1,256,147	1,114,212
5.	łódzkie	405,567	348,008
6.	małopolskie	507,080	269,968
7.	mazowieckie	2,759,870	2,363,603
8.	opolskie	830,377	748,865
9.	podkarpackie	34,107	34,441
10.	podlaskie	100,479	77,980
11.	pomorskie	1,400,475	1,252,646
12.	śląskie	953,638	847,977
13.	świętokrzyskie	150,552	159,787
14.	warmińsko-mazurskie	97,969	107,705
15.	wielkopolskie	7,551,645	6,215,559
16.	zachodniopomorskie	883,908	714,769
	other	357,112	297,045
	Total	**24,515,358**	**20,969,867**

Writs of Execution

The table below shows the number and value of the writs of execution issued by Bank Zachodni WBK S.A. in 2006 compared to 2005.

PLN k

Writs of Execution for:	2006		2005	
	Number	Value	Number	Value
Cash loans and overdrafts	1,498	14,179	417	10,378
Credit cards	1,752	5,567	901	3,677
Home loans	16	3,098	52	5,767
Business loans	62	83,173	128	48,702
Total	**3,328**	**106,017**	**1,498**	**68,524**

Transactions With Related Parties

In 2006 Bank Zachodni WBK S.A. did not enter into transactions with any of its executive staff for an amount in excess of EUR 500,000.

The table below displays information on inter-company transactions in excess of EUR 500,000 which were concluded by Bank Zachodni WBK S.A. with its subsidiaries in 2006. Most of these are banking transactions made as part of ordinary business activities and mainly include loans, deposits and guarantees. Inter-company transactions have been eliminated from consolidated financial statements.

PLN k

Inter-company transactions with subsidiaries		
Profit & Loss Account		
Subsidiary	**2006**	**2005**
Dom Maklerski BZ WBK S.A.	29,799	30,436
BZ WBK Finanse & Leasing S.A.	9,707	7,865
BZ WBK Leasing S.A.	5,441	4,197
BZ WBK AIB Asset Management S.A.	2,463	383
BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.	119,140	33,787
BZ WBK Faktor Sp. z o.o.	4,074	3,391
Balance-Sheet/Assets		
Subsidiary	**31-12-2006**	**31-12-2005**
BZ WBK Finanse & Leasing S.A.	223,430	170,948
BZ WBK Leasing S.A.	57,362	116,569
BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.	12,711	6,668
BZ WBK Faktor Sp. z o.o.	114,317	68,876
Balance-Sheet/Liabilities		
Subsidiary	**31-12-2006**	**31-12-2005**
Dom Maklerski BZ WBK S.A.	929,597	514,873
BZ WBK Finanse & Leasing S.A.	4,680	6,307
BZ WBK Leasing S.A.	28,556	36,297
BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa	26,947	5,924
BZ WBK Inwestycje Sp. z o.o.	20,189	3,770
BZ WBK AIB Asset Management S.A.	94,320	8,018
BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.	111,218	18,184

Guarantees Issued

As at 31 December 2006, the bank's guarantee liability amounted to PLN 748.2m compared to PLN 813.5m a year before. The most common types of guarantees were: payment guarantees, performance bonds, bid bonds, advance payment guarantees, loan repayment guarantees and customs guarantees. In accordance with the Bank Zachodni WBK Regulations on non-consumer credit services, the bank provides civil law guarantees (mainly loan and advance repayment guarantees, guarantees of payments for goods and services, advance payment guarantees, performance bonds, customs guarantees, bid bonds and others) and bill of exchange law guarantees (mainly: loan repayment guarantees and guarantees for payment for goods or services).

The guarantee issuance process and information requirements are similar to the lending process. The relevant regulations are contained in the Commercial Lending Manual and the Corporate Business Centre Lending Manual.

XI. Representations of the Management Board

Corporate Governance

According to its statement issued in the current report no. 54/2006 of 28 June 2006, Bank Zachodni WBK S.A. complies with all the corporate governance principles defined in Best Practice in Public Companies in 2005 and introduced by Resolution No. 44/1062/2004 of the Warsaw Stock Exchange Board.

True and Fair Presentation of the Financial Statements

According to the Management Board's best knowledge and belief, the financial figures and the comparable data presented in the Financial Statements of Bank Zachodni WBK for 2006 were prepared in keeping with the applicable accounting policies and give a true and fair view of the assets and profit of Bank Zachodni WBK. The Management Board's Report contained in this document shows a true picture of the bank's development, achievements and position (including the underlying risks) in 2006.

Selection of Auditor

The firm responsible for auditing the consolidated annual financial statements of Bank Zachodni WBK was selected in compliance with the applicable legislation. The auditing firm and its auditors satisfied the necessary conditions to ensure they provide an unbiased and independent opinion compliant with the Polish law.

Date	Name	Position	Signature
19-02-2007	Jacek Kseń	President	
19-02-2007	Declan Flynn	Member of the Board	
19-02-2007	Michał Gajewski	Member of the Board	
19-02-2007	Justyn Konieczny	Member of the Board	
19-02-2007	Janusz Krawczyk	Member of the Board	
19-02-2007	Jacek Marcinowski	Member of the Board	
19-02-2007	Mateusz Morawiecki	Member of the Board	
19-02-2007	James Murphy	Member of the Board	
19-02-2007	Marcin Prell	Member of the Board	
19-02-2007	Feliks Szyszkowiak	Member of the Board	