INTRODUCTION TO THE CONSOLIDATED FINANCIAL STATEMENTS OF BANK ZACHODNI WBK GROUP FOR THE PERIOD FROM 1 JANUARY 2004 TO 31 DECEMBER 2004

Bank Zachodni WBK S.A. is a parent entity of Bank Zachodni WBK Group. The Bank 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.

Bank Zachodni WBK S.A. is a member of Allied Irish Banks Group. The main shareholder of the Bank is Dublin-based AIB European Investments Ltd., a subsidiary of Allied Irish Banks plc.

1. Basic information and core business of Bank Zachodni WBK S.A., key segments of the Group's operations and description of the Bank's role in the Group

Bank Zachodni WBK S.A

The District Court for Wrocław-Fabryczna, VI Economic Unit of the National Court Registry, issued a decision on entering the Bank to the register of businesses under the name "Bank Zachodni WBK Spółka Akcyjna" and number KRS 0000008723. The Bank's registered office is Wrocław, ul. Rynek 9/11.

Pursuant to the industry classification applied by the Warsaw Stock Exchange, Bank Zachodni WBK S.A. represents the national economy sector of "banks" in the section of "finance". According to the Polish Business Classification, the Bank's core business is "other banking operations" marked as 65.12 A.

In line with the Bank's Statutes, the scope of operations performed by Bank Zachodni WBK S.A. includes

1) the following banking activities:

- accepting money deposits payable on demand or at a due date as well as operating accounts for
- these deposits, including accepting and depositing cash in domestic and foreign banks,
- operating other bank accounts,
- granting loans,
- granting and confirming bank guarantees and opening letters of credit,
- issuing banking securities,
- performing financial settlements,
- issuing electronic money instrument,
- granting cash advances and consumer loans and advances as defined by a separate act,
- performing check and B/E operations,
- issuing payment cards and processing card operations,
- performing term financial transactions,
- trading in receivables,
- safekeeping of objects and securities as well as providing access to safe deposit boxes,
- agency in making money transfers by residents abroad and settlements with non-residents in
- Poland,
- granting and confirming guarantees,
- performing mandated operations related to the issue of securities,
- performing mandated operations related to the issue of securities,
- purchasing and selling fx values.

2) other operations consisting in:

- taking up or acquiring stocks and shares and rights thereto, including shares in another
- corporate entity and contributions to limited partnerships or limited joint stock partnerships or
- participation units and investment certificates in investment funds and making contributions to
- limited liability companies within the limits specified by the Banking Law,
- incurring liabilities related to the issue of securities,
- trading in securities on the bank's own accounts or at the order of third parties,
- performing swaps of debts
- acquiring and disposing of real estates and debts secured with mortgage,

- providing consultancy and advisory services in relation to financial matters,
- providing certification services in line with regulations on an electronic signature, excluding
- qualified certificates,
- providing other financial services, including:
  - operating securities accounts,
  - providing agency and co-operation in obtaining loans and advances
  - providing agency and co-operation in obtaining loans and advances,
  - concluding and effecting agreements with businesses, including foreign entities, on agency in lodgements to bank accounts,
  - financial and operational participation in international projects and undertakings,
  - performing custodian activities,
  - providing leasing, factoring, forfeiting, franchising services as well as stand-by and firm commitment underwriting,
  - trading in transferable property rights from securities and in transferable property rights, the price of which directly or indirectly depends on the price of securities (derivatives) – either on its own account or for a third party,
  - performing activities, as requested by the Minister of Treasury and set forth in the Act on commercialization and privatization of state owned enterprises dated 30.08.1996,
  - accepting the management of shares held by the State Treasury,
- providing sales-related services for pension funds,
- performing the function of a custodian as specified in regulations on organization and functioning of pension funds,
- performing the function of a custodian as specified in regulations on investment funds,
- agency in selling insurance, lease, factoring, forfeiting, franchising products, participation units and investment certificates of investment funds

3) performing upon the request of other banks, the operations referred to in Sections 1 and 2, when these operations fall within the scope of the mandating bank's activities,
4) co-operating with domestic, foreign and international banks and financial institutions,
5) providing services in the area of cash transport.

Bank Zachodni WBK Group

Entities composing Bank Zachodni WBK Group are mainly participants in the financial services market. They represent the following types of business operations:

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

A list of Bank Zachodni WBK subsidiaries and description of their operations are presented in point 9 of this "Introduction".

Bank Zachodni WBK S.A. exercises control over the companies with which it composes a Group. The Bank's role as a parent entity stems from the fact of having a prevailing number of votes in the supervisory bodies of its subsidiaries. The exceptions are BZ WBK AIB Asset Management S.A. and BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. which are recognized as subsidiaries on the basis of other factors.

In the case of BZ WBK AIB Asset Management S.A., its co-owners are Bank Zachodni WBK S.A. and AIB Capital Markets plc. Both owners of BZ WBK AIB Asset Management S.A. are members of Allied Irish Banks Group and each holds an equal stake of 50% in the company's share capital. In practice, Bank Zachodni WBK S.A. exercises control over the company and its subsidiary, BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., because through its agency the ultimate parent (Allied Irish Banks) pursues its policy in Poland. The Irish owner treats products and services of both these companies as supplementary to the Bank's offering and the entities themselves as members of Bank Zachodni WBK Group.

2. Duration of Bank Zachodni WBK S.A. and its Group members

Both Bank Zachodni WBK S.A. and its Group members were established for undefined period of time.

3. Periods covered by the consolidated statements and comparative consolidated financial data

Bank Zachodni WBK S.A as a parent entity and a significant investor - presents the consolidated financial statements for the accounting period beginning on 1 January 2004 and ending on 31 December 2004. The comparative consolidated data relate to the corresponding period of 2003.

4. Composition of the Supervisory Board and Management Board of Bank Zachodni WBK S.A.

Supervisory Board

As at 31 December 2004, the BZ WBK Supervisory Board consisted of the following persons:

Marian Górski	- Chairman of the Supervisory Board
Gerry Byrne	- Deputy Chairman of the Supervisory Board
Waldemar Frąckowiak	- Member of the Supervisory Board
Aleksander Galos	- Member of the Supervisory Board
Don Godson	- Member of the Supervisory Board
Declan Mc Sweeney	- Member of the Supervisory Board
John Power	- Member of the Supervisory Board
Aleksander Szwarc	- Member of the Supervisory Board
Jacek Ślotała	- Member of the Supervisory Board

Compared to 31 December 2003, the composition of the Supervisory Board changed as follows:

- Mr. Dermot Gleeson completed his assignment on the Bank's Supervisory Board on 31 December 2003 due to his appointment as Chairman of the AIB Board.

- On 20 April 2004, Mr. Marek Grzegorzewicz resigned from the Supervisory Board. On the same day the AGM passed a resolution appointing Mr. Don Godson as Supervisory Board Member.

On 17 December 2004, Bank Zachodni WBK S.A announced Mr. Górski's decision not to run for another term of office.

Management Board

As at 31 December 2004, the BZ WBK Management Board consisted of the following persons:

Jacek Kseń	- President of the Management Board
Cornelius O'Sullivan	- First Vice President of the Management Board
Declan Flynn	- Member of the Management Board
Michał Gajewski	- Member of the Management Board
Justyn Konieczny	- Member of the Management Board
Janusz Krawczyk	- Member of the Management Board
Jacek Marcinowski	- Member of the Management Board
Mateusz Morawiecki	- Member of the Management Board
James Murphy	- Member of the Management Board
Feliks Szyszkowiak	- Member of the Management Board

Compared to 31 December 2003, the composition of the Management Board changed as follows:

- On 14 January 2004, Mr. Maciej Węgrzyński submitted his resignation.

- On 30 June 2004, Mr. Michael Keegan resigned from the Management Board following his appointment to a new role in AIB Group. He was succeeded by Mr. James Murphy, whom the Supervisory Board appointed to the position on 1 July 2004.

On 4 March 2005, Bank Zachodni WBK announced Mr Cornelius O'Sullivan's decision to resign from the Management Board effective from 30 April 2005 due to retirement.

5. Internal organizational units of Bank Zachodni WBK Group and the organization of the Group's accounting

There are no internal organizational units in the Bank's structures which produce stand alone financial statements. All accounting activities are centralized in the Finance Division in the Bank's Business Support Centre. Subsidiaries of Bank Zachodni WBK Group do not have such units, either.

6. Mergers

In 2004, neither Bank Zachodni WBK S.A. nor its Group members merged with any entity.

7. Continuation of operations (going concern)

The consolidated financial statements of Bank Zachodni WBK Group as at 31 December 2004 were produced based on the assumption that the Bank and its Group members will continue business operations in the foreseeable future. There are no circumstances that might indicate that the ability of the parent entity or its subsidiaries to continue as a going concern is threatened in any way.

8. Graphic representation of organizational structure of companies connected with Bank Zachodni WBK and information on the type of connections between them (as at 31 December 2004)

9. List of companies subordinated to Bank Zachodni WBK S.A. subject to line-by-line consolidation or valuation under the equity method in the consolidated financial statements for the period from 1.01.2004 to 31.12.2004

No.	*Subordinated entity*	*Registered office*	*Business*	*Shareholding [%] as at 31.12.2004*	*Voting power [%] at AGM as at 31.12.2004*	*Registration details*	*Accounting method*
			I. SUBSIDIARIES				
1.	BZ WBK Faktor Sp. z o.o.	Warsaw	factoring services including comprehensive management of the acquired receivables, financing W/C requirements, monitoring of repayments and pursuing receivables	100.00	100.00	District Court for the City of Warsaw XIX Economic Unit KRS: 0000148117	Line-by-line consolidation
2.	BZ WBK Inwestycje Sp. z o.o.	Poznań	trading in equity of commercial law companies as well as in other securities on its own and third parties' account, searching for investors for companies	100.00	100.00	District Court in Poznań XXI Economic Unit KRS: 0000069070	Line-by-line consolidation
3.	CardPoint S.A.*	Poznań	lease of equipment for inputting and processing data about cards and transactions details, processing data from merchants, settling transactions through Bank Zachodni WBK S.A.	100.00	100.00	District Court in Poznań XXI Economic Unit KRS: 0000161171	Line-by-line consolidation
4.	Dom Maklerski BZ WBK S.A. (Brokerage House)	Poznań	offering securities in primary trading, buying or selling securities on behalf of customers, trading in securities on its own account in order to progress tasks related to the organization of the regulated market, operating securities accounts and securities clearing accounts	99.99	99.99	District Court in Poznań XXI Economic Unit KRS: 0000006408	Line-by-line consolidation

5.	BZ WBK Finanse & Leasing S.A.	Poznań	operating and finance lease of machines and equipment excluding vehicles	99.99	99.99	District Court in Poznań XXI Economic Unit KRS: 0000008924	Line-by-line consolidation
6.	BZ WBK Leasing S.A.	Poznań	operating and finance lease of vehicles excluding machines and equipment	99.99	99.99	District Court in Poznań XXI Economic Unit KRS: 0000026084	Line-by-line consolidation
8.	BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa	Poznań	lease operations	99.99	99.99	District Court in Poznań XXI Economic Unit KRS: 0000024728	Line-by-line consolidation
7.	BZ WBK Nieruchomości S.A.	Poznań	organization and provision of catering and hotel services, agency in providing tourist services	99.96	99.96	District Court in Poznań XXI Economic Unit KRS: 0000081788	Equity method
9.	Brytyjsko-Polskie Towarzystwo Finansowe WBK –CU Sp. z o.o.	Poznań	distribution of insurance products	60.00	60.00	District Court in Poznań XXI Economic Unit KRS: 0000056938	Equity method
10.	AIB WBK Fund Management Sp.	Warsaw	management of VI NIF Magna Polonia S.A., management of other funds in Poland	54.00	54.00	District Court in Warsaw XIX Economic Unit KRS: 0000033694	Line-by-line consolidation
11.	BZ WBK AIB Asset Management S.A.	Poznań	brokerage operations – management of securities admitted or non-admitted to public trading at a request of third party	50.00	50.00	District Court in Poznań XXI Economic Unit KRS: 0000000920	Line-by-line consolidation

12.	BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.	Poznań	establishment of investment funds, their management and representation to third parties	wholly owned by BZ WBK AIB Asset Management S.A.	100% of votes held by BZ WBK AIB Asset Management S.A.	District Court in Poznań XXI Economic Unit KRS: 0000001132	Line-by-line consolidation

II. ASSOCIATES

1.	POLFUND - Fundusz Poręczeń Kredytowych S.A.	Szczecin	sanctioning loan guarantees, depositing entrusted monies and their management	50.00	50.00	District Court in Szczecin XVII Economic Unit KRS: 0000045150	Equity method
2.	Lubelskie Zakłady Przemysłu Skórzanego Protektor S.A.	Lublin	production of military, working and protection footwear	36.07	36.07	District Court in Lublin XI Economic Unit KRS: 0000033534	Equity method
3.	NFI Magna Polonia S.A.	Warsaw	purchase of securities issued by the State Treasury, buying or taking up interests or shares in entities registered and operational in Poland, purchase of other securities issued by those entities, sanctioning advances to companies and other entities registered and operational in Poland, raising advances and loans for the Fund's purposes	21.57**	21.57**	District Court in Warsaw XIX Economic Unit KRS: 0000019740	Equity method

*On 22 April 2004, all the CardPoint shares held by BZ WBK (100% of share capital) were sold to Nova Euroconex Holdings B.V., Holland. Consolidated financial statements of Bank Zachodni WBK Group for 2004 factor in the Company's financials until the moment of sale.

** Bank Zachodni WBK direct shareholding in the associated undertaking and its voting power at the AGM. The total shareholding of the parent entity amounts to 30.09%.

Presentation of subordinated entities covered by the consolidated financial statements

Consolidated financial data for 2004

Pursuant to art. 55 sec. of the Accounting Act, dated 29 September 1994 (Journal of Laws No. 76, item 694 with subsequent amendments), the following subsidiaries were fully consolidated in the financial statements of Bank Zachodni WBK Group in 2004:

1) AIB WBK Fund Management 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. i Wspólnicy Spółka Komandytowa
9) CardPoint S.A. consolidated financial statements for 2004 factors in financials until the moment of sales
10) Dom Maklerski BZ WBK S.A. (Brokerage House)

Two of Bank Zachodni WBK subsidiaries were excluded from consolidation:

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

The basis underlying the elimination of the above mentioned companies is art. 57 and art. 58 section 1 of the Accounting Act. These regulations provide for exclusion from consolidation of the entities with a different type of operations and the entities whose financials are immaterial for the purposes of true and fair presentation of the Group's financial standing. In accordance with art. 59 sec. 2 of the Accounting Act, both entities were accounted for using the equity method.

Pursuant to art. 59 section 3 of the Accounting Act, in the consolidated financial statements for 2004 associated undertakings were accounted for using the equity method. This applies to the following companies:

1) POLFUND – Fundusz Poręczeń Kredytowych S.A.
2) Lubelskie Zakłady Przemysłu Skórzanego Protektor S.A.
3) NFI Magna Polonia S.A.

Consolidated comparative data for 2003

Consolidated comparative data for 2003 were prepared using the line-by-line consolidation method for the same subsidiaries which were presented in this way in the consolidated financial statements for the period from 1 January 2004 to 31 December 2004.

Taking into account the list of subsidiary and associated undertakings valued under the equity method in 2004, the consolidated comparative data cover one more company. This additional entity is International Westfund Holdings Ltd (dormant entity), Ireland, which was liquidated and deleted from the register of Irish businesses in November 2004.

10. Modifications in the financial statements ensuring comparability of data

The comparative data for 2003 included in the consolidated financial statements as at 31 December 2004 were prepared based on the same accounting principles which were used for presenting financial data for 2004.

Information on the changes in the composition of units accounted for using the equity method in the periods covered by consolidated financial statements and comparative financial data are presented in point 9. The changes in the presentation of data which were made to ensure comparability of the financials are specified in point 32 of Additional Notes.

11. The auditor's opinion on the examination of financial statements for the previous periods

The consolidated financial statements of Bank Zachodni WBK Group for the period ended 31 December 2003 were audited by KPMG Polska Audyt Sp. z o.o. The auditor issued an unqualified opinion. Accordingly, consolidated financial statements of the Bank Zachodni WBK Group for the period ended 31 December 2004 do not contain any adjustments from the previous reporting periods.

12. Accounting principles applied in Bank Zachodni WBK Group

1) Legal grounds

Consolidated financial statements for 2004 were produced in line with the following legal acts:

- Accounting Act, dated 29 September 1994 (Journal of Laws No. 76, item 694 with subsequent amendments),
- Banking Law Act, dated 29 August 1997 (Journal of Laws No. 72, item 665 with subsequent amendments),
- Corporate Tax Act, dated 15 February 1992 (Journal of Laws dated 2002 No. 54, item 654 with subsequent amendments),
- Law on Public Trading in Securities Act, dated 21 August 1997 (Journal of Laws No. 49, item 447 with subsequent amendments),
- Ordinance of the Cabinet, dated 16 October 2001 with regard to current and periodic information submitted by issuers of securities (Journal of Laws No. 139, item 1569 with subsequent amendments),
- Ordinance of the Cabinet, dated 11 August 2004 with regard to detailed conditions, a prospectus and abbreviated prospectus should meet (Journal of Laws No. 186, item 1921),
- Ordinance of the Minister of Finance, dated 10 December 2001, on special accounting principles for banks (Journal of Laws 149, item 1673 with subsequent amendments),
- Ordinance of the Minister of Finance, dated 10 December 2003, on creating provisions for risk related to banking operations (Journal of Laws No. 218, item 2147),
- Ordinance of the Minister of Finance, dated 12 December 2001, on special principles of recognition, valuation methods, disclosure scope and manner of presenting financial instruments (Journal of Laws No. 149, item 1674 with subsequent amendments),
- Ordinance of the Minister of Finance, dated 12 December 2001, on principles of producing consolidated financial statements by banks and consolidated financial statements by a financial holding (Journal of Laws No. 152, item1728),
- Ordinance of the Minister of Finance, dated 18 December 2001, on special accounting principles for brokerage houses and banks' organizational units running brokerage operations (Journal of Laws No. 153, item 1753 with subsequent amendments),
- Ordinance of the Minister of Finance, dated 10 December 2001, on special accounting principles for investment funds (Journal of Laws No. 149, item 1670).

2) Consolidation methods

Consolidated financial statements of Bank Zachodni WBK Group are produced on the basis of financial statements of the parent entity and subordinated entities using line-by-line consolidation or equity method. Subsidiaries acquired by the Bank with a view to exercising control and conducting similar operations on the financial services market are consolidated on line-by-line basis. Subsidiaries with a different business profile or whose financial data are immaterial as well as associated undertakings are accounted for using the equity method.

Accounting principles applied by the units consolidated using the line by line or equity methods materially conform to the principles followed by the parent entity.

<u>Line-by-line consolidation</u>

Line-by-line consolidation of subsidiaries consists in summing up individual items in the companies' and the Bank's financial statements in their full amounts as well as making relevant adjustments and consolidation exclusions. Line-by-line consolidation of balance sheet consists in summing up all assets and liabilities of the parent entity and its subsidiaries, up to their full value, regardless of the size of the parent entity's shareholding.

Afterwards, adjustments and consolidation exclusions are made. The net result is adjusted for profit/loss attributable to minority shareholders of subsidiaries.

Exclusion applies to the value of the Bank's interest in subsidiaries carried at cost with the part of the net assets of subsidiaries, carried at fair value, which corresponds to the Bank's share in subsidiaries as at the date of commencement of exercising the control over them. If the value of interests held and the part of net assets in subsidiaries carried at fair value differ, then:

- goodwill is disclosed under assets of the consolidated balance sheet in a separate item of fixed assets as "goodwill of subordinated entities",
- negative goodwill is disclosed under liabilities of the consolidated balance sheet in a separate item as a "negative goodwill of subordinated entities".

The following are also fully excluded:

- mutual receivables and liabilities as well as other similar settlements of consolidated entities,
- revenues and costs arising from business operations conducted among the consolidated entities,
- profits or losses originated as a result of business operations conducted among the consolidated entities and included in the value of assets subject to consolidation,
- dividends accrued or paid by subsidiaries to the bank and other consolidated entities.

Equity method

When applying the equity method, there is a separate item "Interests in subordinated entities accounted for using the equity method" included in the financial fixed assets of the consolidated balance sheet. The interests are disclosed at cost adjusted for the difference between the purchase price of interests and the value of interests in the equity of these entities. This difference is established and disclosed under a separate line of the consolidated balance sheet and is reflected in the consolidated profit and loss account.

The adjusted purchase price established as at the date of acquiring a significant influence or as at the date of commencing the control or joint control is increased or decreased by increases or decreases in equity of the subordinated entities allocated to a parent entity or another consolidated entity where those increases or decreases took place as from the date of obtaining a significant influence or the date of commencing the control or joint control by the balance sheet date (including decreases arising from settlements with the owners).

When applying the equity method, the Bank's share in the financial result of a subordinated entity is disclosed in the consolidated profit and loss account. Profits or losses arising from transactions concluded between entities subject to consolidation and a subordinated entity are excluded from the results of this subordinated entity.

3) Principles of asset and liability valuation and financial result calculation

Based on the a.m regulations, Bank Zachodni WBK Group applies the following principles for asset and liability valuation, calculation of the financial result and presentation of data in the financial statements:

Credit receivables

As at the balance sheet date, credit receivables are stated at the amount due, which is the nominal debt along with any interest payable at the day of measurement.

In line with the prudence principle, the receivables are restated taking account of the likelihood of repayment of those receivables by creating specific provisions.

The Group raises specific provisions in line with the principles outlined in the Ordinance of the Ministry of Finance dated 10 December 2003 on raising provisions for risk related to bank operations.

The Group makes write-offs, write-downs or central write-downs of receivables in compliance with the binding law, including Ordinance of the Minister of Finance, dated 10 December 2001 on detailed accounting principles for banks (with subsequent amendments).

The write-offs or write-downs apply when:

- the principal debt intended for the write-off or write-down is fully provided for,
- the debt collection process is ineffective.

The write-off consists in reversing the debt against provision following the debtor's release from the debt.

The write-down means reversing the debt against its provision immediately followed by posting the receivable in an off-balance sheet account.

The write-offs and write-downs have their respective tax implications.

Central write-downs may apply to the debts that meet the two following conditions:

- they have been classified as "doubtful" or "lost" for at least a year;
- the existing specific provision is equal to the outstanding principal (net value of the debt is nil).

Central write-down entails transfer of the debt and the relevant specific provision to an off-balance sheet account.

The central write-down does not release the debtor from the obligation nor has it any tax implications.

Other receivables

Other receivables are disclosed at the amount due. The receivables are restated taking account of the likelihood of repayment of those receivables by making a revaluation charge. The amounts of revaluation charges are taken to other operating costs.

Receivables and claims which meet the criteria of a finance lease are presented in the balance sheet as receivables arising from finance lease, however, for tax purposes, pursuant to the Corporate Income Tax Act, they are treated as receivables from operating lease.

Securities

Securities are accounted for as at the day of concluding the contract, at the purchase price, i.e. the fair value of the incurred expenses or assets transferred in return for other assets, taking account of the incurred costs of the transaction.

Debt securities

Bank Zachodni WBK Group classifies securities on the day of their purchase or origination to one of the following categories:

- *securities held for trading* – securities purchased with a view to obtaining economic benefits arising from short term movements in prices and fluctuations in other market factors. They are stated at their market value, and securities for which there is no active market, at their fair value established in some other way. The difference in the market or fair value is taken to income or costs of financial operations, respectively.

- *securities held to maturity* – securities with specified or possible to specify payments or with a set maturity which the Group intends to hold to their maturity. They are stated at the purchase price adjusted by accrued interest, discount and premium and taking account of impairment charges. The valuation effects are taken to income or costs of financial operations, respectively.

- *securities available for sale* – other securities which do not fall under any of the above categories. They are stated at their fair value, while the results of the change in the fair value have an impact on the revaluation reserve. Any impairment charges are recognized in costs of financial operations.

- commercial bills, commercial bonds and other debt securities issued pursuant to the Civil Code are registered and disclosed as *other receivables*. They are stated at the amount due which also includes the interest on the receivables taken to interest income and any accrued discounts or premiums. Impairment charges are taken to costs of financial operations.

Debt securities for which the fair value cannot be reliably established are stated at amortized cost. The valuation effects are taken to income or costs of financial operations, respectively.

Interest on securities including coupon interest, discount and premium are presented as interest income and expense and taken to the profit and loss account. An exception is interest on impaired securities. This interest is presented as suspended interest. This principle does not apply to securities disclosed as receivables.

Shares and interests

Shares in subordinated entities (except entities consolidated line-by-line) are accounted for using the equity method and the revaluation effects triggering increase or decrease in their value are taken to the profit and loss account.

In line with the equity method, interests in a subordinated unit's net assets are valued taking account of the company's goodwill or negative goodwill, as at the day of assuming control, joint control or significant influence over the entity. The initial value of the interest is updated on the balance sheet day for which a financial

statement is produced by way of taking into account the changes in the value of a subordinated unit's net assets which took place in the reporting period, resulting from the financial result adjusted for goodwill charges or negative goodwill charges falling on a given accounting period as well as any other changes.

Dividend payment is not reflected in the Group's profit and loss account, it impacts only the carrying value of interests in the units valued under equity method.

Minority shareholdings representing long term investments can be classified as follows, depending on the purchase intention:

- *Shares available for sale* – stated at fair value whereby changes in the fair vale are taken to the revaluation reserve. Impairment charges are taken to profit and loss account.
- *Shares held for trading* - are stated at fair value or purchase price adjusted for any impairment charges which are taken to the profit and loss account.

Repo/reverse repo transactions

A repo/reverse repo contract covers both sell-buy back transactions and repo transactions.

Securities traded under such transactions remain on the Group's balance sheet and are measured in accordance with the rules adopted for, as applicable:

- *securities held for trading,*
- *securities available for sale.*

At the same time, in the repo transaction accounts there is a liability recognized, which has a nature of a deposit on which interest is accrued.

Derivatives

Derivatives are classified as held for trading and stated at fair value. Embedded derivatives are recognized and stated separately from the underlying instrument.

The Group deals in the following derivatives: interest rate SWAPs, FX SWAPs, FX Forwards, dual currency interest rate SWAPs and Forward Rate Agreements, stock exchange index options and FX options.

- *FX transactions (FX SWAP, FX Forward)*

Currency inflows and outflows arising from FX transactions, calculated based on an average NBP exchange rate as at the balance sheet day, are presented in off-balance sheet items as "liabilities related to sell/buy transactions."

FX transactions are marked to market based on discounted future cash flows and the results of this measurement are posted in the balance sheet under "other assets/other liabilities arising from financial instruments" and in the profit and loss account under "Foreign exchange profit".

The rates are taken from the Reuters' web sites and from the fixing sites of NBPQ.

- *Interest rate transactions*

Interest rate derivatives include SWAP transactions, hereinafter referred to as IRS (includingm multi-currency ones) and FRAs. IRSs and FRAs are marked to market based on future discounted cash flows (NPV). Fair value adjustments are recognised in the balance sheet as "other financial assets/other liabilities arising from financial instruments" in correspondence with the "profit/loss on financial operations".

The rates applied to generate the zero-coupon yield curve are taken from Reuters' web site.

- *Options*

Fair value is determined using the market quotations and the options valuation models as appropriate. The effects of the measurements are reflected in the balance sheet. Any fair value changes are recognised in the profit and loss account.

Hedge accounting

The Group applies hedge accounting to hedge the fair value of own bonds, third party bonds from available-for-sale portfolio and loans. For the purpose of fair value hedging IRS transactions are used.

In the case of fair value hedges, the effects of the hedge's fair value measurement are recognised in the profit and loss account as "profit/loss on financial operations".

Tangible fixed assets

Fixed assets are stated at the historical cost (purchase price or production cost or revaluation) reduced by write-off charges and impairment charges. Impairment occurs if there is high possibility that in the future an asset controlled by an entity will not bring any or a substantial part of the anticipated economic benefits. As at the balance sheet date, the Group reviews its assets to look for any identification that an asset may be impaired.

Fixed assets under construction are valued at the total of costs related directly to their purchase or production, reduced by impairment charges.

The initial value of fixed assets is reduced by the depreciation write offs, reflecting the loss in their value, as a result of the wear-and-tear or lapse of time. The net book value of a fixed asset calculated as a result of a revaluation should not exceed its fair value, the write-off of which in the period of anticipated life is economically warranted.

The depreciation charges for a fixed asset are made by spreading its initial value over a defined period of time in a systematic and planned manner.

The period, rate and method of depreciation are set on the day when the asset is put into use. The applied depreciation period and rate are reviewed periodically, resulting in relevant adjustments to the depreciation charges in subsequent years. Tangible fixed assets also include perpetual leasehold of land. It is subject to depreciation as well.

Land and fixed assets under construction are not depreciated.

Profits or losses from the sale of tangible fixed assets are set based on their book value and recognised in the profit/loss on operations. The costs of upgrade and repair are taken to the profit and loss account on an "as-incurred" basis.

Assets which meet all the criteria to be classified as tangibles but whose initial value (purchase price or production cost) is low, i.e. below PLN 3,500 (except PC sets) are classified as low value fixed assets. They are recorded off-balance sheet. In the case of such assets, the Group makes one-off write-offs against the profit and loss account.

Intangible fixed assets

Intangible fixed assets are stated at their purchase price and are amortized over their useful life so as to reflect their reduced value.

Intangible assets also include the company's goodwill as well as the costs of completed development work.

The development cost related to the development and implementation of IT systems (developed internally or delivered by external providers) are taken to the profit and loss account unless all of the criteria listed below are met:

- there is a clearly defined project,
- the costs related to the project can be identified separately,
- the project deliverable is firm in terms of its technological feasibility and commercial usefulness in view of the existing market conditions,
- it is expected that the future economic benefits arising from the project will exceed the aggregated or spread- over-time costs of the system's development.

In such a case the costs are capitalized in the balance sheet and depreciated for no longer than 5 years.

Fixed assets under construction are valued at the total of costs related directly to their purchase or production, reduced by impairment charges.

Tangible and intangible fixed assets subject to finance lease contracts

In case the lease contract meets at least one of the conditions specified below:

- the contract stipulates the transfer of the ownership of the leased asset onto the user after the end of the contractual period,

- it includes a right of the user to purchase the leased asset, after the end of the contractual period, at the price lower than the market price as at the date of its purchase,
- the period for which it was concluded matches, to a major extent, the expected period of economic useful life of the fixed asset or a property right, however, it cannot be shorter than ¾ of that period; the proprietary right of the leased asset can be, after the expiry of the contractual period, transferred onto the user,
- discounted value of the lease rentals exceeds 90% of the market value of the fixed asset as at the day of entering into the contract,
- the contract includes a promise of the financing party to enter into a subsequent contract with the user or to extend the existing contract based on more favourable terms and conditions,
- the contract assumes a possibility of its termination, provided, however, that all costs and losses incurred by the financing party and arising from this termination are covered by the user,
- the leased asset was tailored to the user's individual needs; it can be used exclusively by the user and no material changes can be introduced to it,

the value of the leased asset is recognized as tangible or intangible asset by the lessor and as liability by the lessee. The value of the leased asset set upon initiation of the lease is equal to its purchase price. The leasing payments comprise the underlying liability and the financial costs. Depreciation and amortisation are measured and recognised using the approach adopted for tangible and intangible fixed assets respectively.

Assets taken over for debts

Assets taken over for debts are stated at fair value. A specific provision is raised for the difference between the amount of the debt and the fair value of the repossessed assets or else a relevant revaluation charge is made. If the fair value of the taken over assets is higher than the debt, the difference constitutes an obligation towards the borrower.

Liabilities

Liabilities are disclosed in the amount of the due payment. Financial liabilities, which in line with an agreement are settled by way of releasing other financial assets than cash or exchanging into financial instruments are stated at fair value.

Negative goodwill

Negative goodwill, up to the fair value of the purchased fixed assets, except for long-term investments quoted on regulated markets, is recognized as an accrued income for the period calculated as weighted average economic life of the purchased assets subject to amortization. Negative goodwill in excess of the fair value of fixed assets, except for long-term investments quoted on the regulated markets, is taken to revenue as at the consolidation date.

Equity

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

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

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

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

Revaluation reserve comprises:

- differences from the valuation of financial assets available for sale,
- differences from the valuation of fixed assets,
- impairment charges for fixed assets subject to the revaluation pursuant to separate regulations up to the amount of a valuation stated earlier.

Revaluation reserve is not distributable.

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

General risk reserve is created from after tax profit to cover unidentified banking risks.

Net financial result for the accounting year is the profit disclosed in the income statement. Net profit reflects the corporate tax charge.

FX assets and liabilities

FX assets and liabilities are carried at the average NBP rate applicable at the balance sheet date. Transactions in foreign currencies are posted at the rate applicable on the transaction day. The FX revaluation differences are reflected in the foreign exchange profit.

Net interest income

Interest income and expense are recognized in the income statement on an accrual basis.
Interest income includes:

- not received income over the accounting period in respect of:
  - interest receivable, including discount and capitalized interest on receivables categorized as "normal" and "watch",
  - interest income received in previous periods, including discount, which falls in the current accounting period,
- interest income received in the current period, which falls due in the current accounting period,
- expenses in respect of interest accrued and of interest due but not paid on the Group's liabilities for the accounting period,
- interest income received from securities

Net interest income does not include interest accrued and interest due but not paid, including capitalized interest, on "impaired" receivables and debt securities being subject to impairment charges, which by the time of its receipt or write down is recorded in the balance sheet as suspended income. Nor does it include discount or interest received in advance, which falls due for future accounting periods.

Net commission income

Commissions comprising, among others, amounts received in connection with the granting of loans, advances and banking guarantees are recognized in the P&L account at the moment of granting a loan or a guarantee. This does not apply to loans and off-balance sheet items which simultaneously meet the following three conditions: the minimum loan amount is PLN 1 million and the repayment period is longer than 12 months and the fee is in excess of PLN 10,000. The related fees are settled in a straight-line manner over the life of the loan.

FX profit and profit on financial operations

Result on SPOT transactions taken to the FX profit is calculated by way of comparing the transaction exchange rate with the average NBP rate as at the balance sheet date.

Result on and valuation of FX Swap and Forward transactions is disclosed in "Foreign exchange profit".

The effects of valuation of the FX off balance sheet items are recognized in the balance sheet and the profit and loss account at the transaction date.

Profit on financial operations includes the fair valuation of securities held for trading and the valuation of derivative transactions. It also comprises profit on securities and derivatives trading. It also comprises profit on securities and derivatives trading.

Dividends and income from shares

Dividends are recognized in the profit and loss account upon the bank obtaining the right to them except for the dividend from shares in subsidiaries (they are described in "Shares and interests representing financial fixed assets"). Profit on the sale of minority interests is set as a difference between the carrying value of the securities and their sale price. In the case of subordinated entities, the profit is disclosed according to the equity method.

Other operating income and costs

Other operating income and costs include operating income and costs which are not related directly to the core business of the Group. These are primarily incomes and costs arising on sale and liquidation of fixed assets, income from the sale of other services, paid and received damages, penalties and fines.

Provisions

Specific provisions for exposures are raised in accordance with the Finance Minister's Ordinance of 10 December 2003 on providing for risks related to the banking operations as amended.

Pursuant to art. 130 of the Banking Law, dated 29 August 1997, provision for general risk is charged to costs of the current year in order to cover risks related to the banking operations.

The Bank raises provisions for one-off retirement payments for employees. When raising the provision, the amount of current liabilities resulting from services rendered and the related present employee costs are determined based on the actuarial valuation method (projected individual entitlements).

Income tax

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

Accordingly, in 2004, Bank Zachodni WBK S.A. was a payer of CIT for the tax group established with with BZ WBK Inwestycje Sp. z o.o while the other entities of the BZ WBK Group paid CIT separately.

Corporate income tax consists of current and deferred tax.

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

The Group creates deferred corporate tax provisions which arise from the timing difference in recognition of income as earned and costs as incurred under the tax and accounting regulations. The amount of deferred tax is set on the basis of assets and liabilities which are due to be settled in the future, using the tax rate prevailing in the year when the tax becomes payable. Deferred tax is calculated taking into account unrealized interest income and expense, unrealized liabilities related to derivatives, non-tax deductible provisions for loans as well as tax-driven losses which are tax deductible and determined in compliance with the prudence principle.

In compliance with art. 38a of the CIT Act, in the consolidated financial statements of the Bank Zachodni WBK Group for 2004, the parent company disclosed in deferred assets an additional discounted amount representing 8% of specific provisions raised to cover loans classified as doubtful or lost, which as of 31 December 2002 were not recognised as tax deductible costs and will reduce the Bank's tax charge in the years 2007-2009.

13. EUR rates in the period covered by the consolidated financial statements and the comparative consolidated financial data

The average EUR rate expressed in the zloty set by the National Bank of Poland and applicable on the last day of individual months in 2004 and 2003 was as follows:

Month	*EUR/PLN*	
	2004	*2003*
January	4.7614	4.1286
February	4.8746	4.2083
March	4.7455	4.4052
April	4.8122	4.2755
May	4.6509	4.3915
June	4.5422	4.4570
July	4.3759	4.3879
August	4.4465	4.3588
September	4.3832	4.6435

October	4.3316	4.6826
November	4.2150	4.7127
December	4.0790	4.7170

The average EUR rate in 2004 and 2003 calculated as the arithmetic mean of the average National Bank of Poland exchange rates from the last day of each month of the given year, was as follows:

Period	***EUR/PLN***
2004	4.5182
2003	4.4474

The highest and lowest EUR rates quoted by NBP in 2004 and 2003 are as follows:

EUR/PLN	***2004***	***2003***
Min. exchange rate	4.0518	3.9773
Max. exchange rate	4.9149	4.7170

The rates quoted above come from the average exchange rates archive of the National Bank of Poland available on the Internet at: http://www.nbp.pl/kursy/archiwum/2004.xls and http://www.nbp.pl/kursy/archiwum/2003.xls

14. Key items of the 2004 consolidated financial statements expressed in EUR

Principles of converting the selected items of the financial statements from PLN into EUR

Selected financial data for 2004 and the corresponding period of 2003 presented in the consolidated financial statements of the Bank Zachodni WBK Group for the period ended 31 December 2004 were translated into EUR according to the following principles:

- the balance sheet items and the book value per share - according to the EUR average rate translated into the zloty and announced by the National Bank of Poland as at the balance sheet date.
- profit and loss account and cash flow items - according to the exchange rate calculated as the arithmetic mean of average EUR exchange rates announced by the National Bank of Poland and applicable on the last day of each month in the accounting year.

Selected items of the balance sheet, profit and loss account and cash flow from the consolidated financial statement

Selected items of the consolidated financial statement of Bank Zachodni WBK Group for the year ended 31 December 2004:

Selected financial highlights	***PLNk***		***EURk****	
	2004	***2003***	***2004***	***2003***
I Interest income	1 495 033	1 422 099	330 891	319 760
II Commission income	694 816	641 686	153 782	144 283
III Profit on banking operations	1 829 805	1 683 803	404 985	378 604
IV Profit on operations	566 611	256 699	125 406	57 719
V Gross profit (loss)	569 936	260 370	126 142	58 544
VI Gross profit (loss)	444 452	128 873	98 369	28 977
VII Net cash flows from operations	(740 996)	(406 941)	(164 002)	(91 501)
VIII Net cash flows from investments	126 350	(198 973)	27 965	(44 739)
IX Net cash flows from financial operations	463 100	156 555	102 497	35 201
X Net cash flows	(151 546)	(449 359)	(33 541)	(101 039)
XI Total assets	27 587 874	24 157 567	6 763 392	5 121 384
XII Amounts due to the Central Bank	-	-	-	-
XIII Amounts due to the financial sector	1 514 168	1 507 420	371 211	319 572

XIV	Amounts due to the non-financial sector and public sector	19 044 876	17 706 309	4 669 006	3 753 722
XV	Equity	3 021 948	2 542 712	740 855	539 053
XVI	Share capital	729 603	729 603	178 868	154 675
XVII	Number of shares (items)	72 960 284	72 960 284		
XVIII	Book value per share (in PLN and EUR)	41.42	34.85	10.15	7.39
XIX	Solvency ratio (in %)	12.92	12.01		
XX	Profit (loss) per ordinary share (in PLN and EUR)	6.09	1.77	1.35	0.40
XXI	Declared or paid dividend per share (in PLN and EUR)	2.43	0.32	0.54	0.07

* The principles of calculating selected financial data have been described above.

15. Key differences in the value of financial data disclosed and differences between Polish Accounting Principles and International Financial Reporting Standards (IAS/IFRS)

In accordance with §18, section 2 point 5 of the Council of Ministers' Ordinance of 11 August 2004 on detailed requirements of the share prospectus and the short share prospectus (Journal of Laws no. 186 item 1921), the Bank Zachodni WBK Group did not indicate any differences in the value of the disclosed data which would arise should the consolidated financial statements for 2004 be prepared in line with IAS/IFRS. Despite best efforts, the Bank Zachodni WBK Group has not completed the business validation of the solutions to allow presentation of the required data. Below are the key areas where there are differences between the measurement and presentation methods applied by the Bank Zachodni WBK Group and those envisaged by IAS/IFRS.

- *Amortised cost measurement of originated credit receivables using the effective interest rate*

  Due to the wide range of the credit facilities subject to such measurement, by the time the consolidated financial statements for 2004 were prepared, the Bank Zachodni WBK Group had not yet finished the last stage of the business validation of the solutions supporting the updated principles of measuring the Group's credit exposure. For this reason, the Bank Zachodni WBK Group did not determine the impact of this difference, in terms of value, on the consolidated financial statements for 2004. The Management Board of the parent entity envisages that the process of adjusting the existing methods of measurement and presentation to the IAS/IFRS requirements described above will be completed at the date of the first interim financial report for 2005.

- *Identification of impairment of credit receivables (provisions) by comparing the receivable's balance sheet value with the current value of the expected future cash flows discounted at the effective interest rate*

  As explained above, by the time the consolidated financial statements for 2004 were prepared, the BZ WBK Group had not yet finished the last stage of the business validation of the solutions supporting the new requirements. For this reason, also in this area the Group did not determine the impact of this difference, in terms of value, on the consolidated financial statements for 2004. The Management Board of the parent entity expects that the change process will be completed at the date stated above.

- *Recognition of interest income for impaired credit receivables in the profit and loss account using the effective interest rate and discontinuation to recognise interest accrued on these receivables at the nominal rate as suspended income*

  This difference is a methodological consequence of introduction of the changes described above. The Bank Zachodni WBK Group is going to change its accounting policy in this respect on implementation of these changes.

- *Recognition of general risk provision in liabilities of the consolidated balance sheet*

  Due to the lack of corresponding IAS/IFRS standards relating to the general risk provision, the Bank will release the existing provision. At the same time the Bank will create a provision against the credit risk connected with the time shift between the impairment trigger and the recognition of impairment. The provision will be presented as a reduction of the balance sheet value of the

originated loans. Determination of the level of this provision is a part of the process of credit receivables impairment assessment (described above), which at the date of the 2004 consolidated financial statements was not complete yet.

- *Change of classification of financial instruments*

  In accordance with the interim provisions of IFRS 1, paragraph 25A, the Bank Zachodni WBK Group will reclassify the selected financial instruments. The change will apply to the debt securities classified as "held to maturity", which will be reclassified as instruments "available for sale". In addition, the selected equity instruments previously classified as "held for trading" will now be classified as "available for sale". These changes will require adjustments to the revaluation reserve and, with regard to the instruments previously classified as "held for trading", also adjustments to the retained profit / uncovered loss from previous years.

- *Change in goodwill accounting*

  In accordance with the IAS 38 requirements, the Bank Zachodni WBK Group will change the method of accounting for goodwill. The change consists in discontinuation to amortise goodwill on a systematic basis as goodwill will be periodically tested for impairment in accordance with IAS 36. As a result of the analysis performed, the goodwill recognised in the Bank Zachodni WBK Group was subject to 100% impairment.

- *Recognition of costs of the option programme for executives*

  As required by IFRS 2 Share-based Payment, the Bank will recognise the costs of the share option programme arranged by the parent entity. The executives of the Bank Zachodni WBK Group participate in this programme as part of the incentive scheme. The cost of this programme will not have any significant impact on the consolidated profit and loss account (remuneration costs).

At the date of preparation of the consolidated financial statements of the Bank Zachodni WBK Group, no significant differences were identified between the present accounting policies and IAS/IFRS that would impact on the Group's equity or net profit.

The impact of all the significant changes in the measurement and presentation methods connected with adoption of IAS/IFRS will be reflected in the first interim financial report in 2005.

Where permitted by IFRS 1, paragraph 36A, the Bank Zachodni WBK Group will implement the changes described above without adjusting the comparable data.

Signatures of the members of Bank Zachodni WBK Management Board:

Date	*Full name*	*Position*	*Signature*
04-03-2005	Jacek Kseń	President of the Management Board	
04-03-2005	Cornelius O'Sullivan	First Vice President of the Management Board	
04-03-2005	Declan Flynn	Member of the Management Board	
04-03-2005	Michał Gajewski	Member of the Management Board	
04-03-2005	Justyn Konieczny	Member of the Management Board	
04-03-2005	Janusz Krawczyk	Member of the Management Board	
04-03-2005	Jacek Marcinowski	Member of the Management Board	
04-03-2005	Mateusz Morawiecki	Member of the Management Board	
04-03-2005	James Murphy	Member of the Management Board	
04-03-2005	Feliks Szyszkowiak	Member of the Management Board	