Report of the Management Board on the Bank Zachodni WBK Group Performance in 2004

Bank Zachodni WBK

TABLE OF CONTENTS

I. MACROECONOMIC ENVIRONMENT IN 2004 3

II. FINANCIAL PERFORMANCE 5

Profit & Loss Account 5
Key Balance Sheet items 7
Lending policy 8
Bank Zachodni WBK rating 8

III. BUSINESS DEVELOPMENT 9

Bank Zachodni WBK S.A. 10
Retail Banking 10
SME and Corporate Banking 14
Investment Banking 16
Electronic Banking 17
Co-operation with international financial institutions 20
Custodian services 21
Companies consolidated with Bank Zachodni WBK S.A. 21
Dom Maklerski BZ WBK S.A. 21
BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. 22
BZ WBK AIB Asset Management S.A. 23
BZ WBK Finanse & Leasing S.A. and BZ WBK Leasing S.A. 23
BZ WBK Faktor Sp. z o.o. 24
BZ WBK Inwestycyje Sp. z o.o. 24
AIB WBK Fund Management Sp. z o.o. 24
BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa 25

IV. ORGANISATION AND INFRASTRUCTURE DEVELOPMENT 26

Ownership structure of Bank Zachodni WBK 26
Governing bodies 26
Corporate governance and business ethics 28
Human Resources and training 28
Infrastructure 30
Capital expenditure 31

V. KEY RISK AREAS 32

Bank Zachodni WBK S.A. 32
Market risk management 32
Credit risk management 33
Operational risk management 35
Selected subsidiaries of Bank Zachodni WBK S.A. 36
BZ WBK Finanse & Leasing S.A. and BZ WBK Leasing S.A. 36
BZ WBK Faktor Sp. z o.o. 37

I. Macroeconomic environment in 2004

According to the preliminary data of the Central Office of Statistics, last year the GDP growth amounted to 5.4% against 3.8% rise in 2003. Acceleration was observed in all the elements of domestic demand which increased by 4.9% as compared to 2.5% in the pervious year After drops in 2001-2003, capital expenditure on fixed assets grew by 5.1%. Private consumption growth totalled 3.2% and its pace was close to that recorded in the two previous years.

It is worth noticing that the two halves of 2004 significantly differed as regards GDP growth, and in particular, in terms of private consumption growth and the impact of net exports on GDP growth. In H1 private consumption rose much faster amid high pre-accession spending and high net exports' contribution to the GDP growth. In H2, consumption dynamics decelerated slightly while the contribution of net exports to the GDP growth turned negative which might have been connected with sharp zloty appreciation. Fixed investment showed a gradual acceleration during the year to reach over 7% y-o-y in Q4. GDP growth is likely to decelerate in 2005 to around 5%, but capital expenditure should continue their upward trend (and rise to a two-digit value) which bodes well for long-term economic outlook.

A visibly higher private spending shortly before the EU accession was triggered by the consumers' fear of price hikes shortly after Poland's merger with the EU economy. The fears proved justified and the inflation hike reported in Q2 took all by surprise. It was not so much the very effect of growing prices that surprised them, as it was the pace at which they were adjusted as a result of a very big demand for Polish food products in the wealthiest EU states.

The year of 2004 was closed with CPI at 2 percentage points above the inflation target set by the central bank (i.e. 2.5%). It seems now that the chance of reaching the target in 2005 is bigger, but it is still too early to be absolutely positive about it. Higher inflation in 2004 was primarily a result of high fuel prices and the price hikes following Poland's EU accession. Demand pressure on prices remained moderate, which was surely determined by difficult, yet regularly improving, labour market. Inflation excluding food and fuel prices (the so-called net inflation) amounted to 2.4% in December 2004.

In December 2004, the unemployment rate amounted to 19.1%, confirming the acceleration of its downward trend. It was a 0.9 percentage points lower than in December 2003, which confirmed that situation on the labour market had been improving, although the progress was not very impressive. In 2005, we should see a more distinct drop in the registered unemployment rate, particularly in H2 when it may fall to below 18%. In 2004, corporate wages rose only slightly above consumer price index growth.

Money supply growth at the end of 2004 was 8.7% y-o-y. The overall deposits growth in 2004 was 8% y-o-y) was fuelled mainly by the growth in deposits held by businesses (by nearly 25% y-o-y), which refrained from launching investments on a wide scale. Firms were keeping a substantial part of their free funds in banking accounts. On the other hand, households sector showed quite a substantial growth in credit appetite (in total by over 13% y-o-y), which was driven mostly by a development of the mortgage market, while it was stagnating on the deposits side (although there was a 0.1% y-o-y growth in 2004 against the drop witnessed in 2003). We can expect money supply to accelerate in 2005, which will be consistent with a continuation of economic expansion (the nominal GDP growth should be over 8% in 2005).

Inflation, higher than expected after the EU accession, did certainly impact the central bank's interest rate policy and consequently, interest rates grew by 125 basis points between June and August. In the following months of last year, the Monetary Policy Council decided to keep the reference rate at 6.5% and it did so, among others, because the growth in salaries was moderate, while strong zloty appreciation added to the overall restrictiveness of monetary policy. In 2005, the interest rates should stay flat in order to reduce and then maintain inflation at the target level in the medium term.

The fiscal situation still remains unclear, as majority of necessary reforms (proposed among others in the so-called Hausner's Plan) were postponed. Last and this year's budget position seems to be in control in view of the high economic growth which ensures high budget income. It will be

difficult, however, to meet fiscal Maastricht criteria (general budget deficit below 3% of the GDP) without implementing changes to public finance after parliamentary elections which have been scheduled for autumn 2005 and which are expected to bring a reshuffle in the ruling coalition. Yet, the uncertainty around the shape of Polish political scene and the post-election fiscal policy is likely to contribute to higher volatility on the Polish financial market.

Main Macroeconomic Indicators		2002	2003	2004	2005F
GDP	% y-o-y	1.4	3.8	5.4	5.0
GDP	PLNbn	781.1	814.7	884.3	958.5
Total consumption	% y-o-y	2.8	2.5	2.8	3.1
- Private consumption	% y-o-y	3.3	3.1	3.2	3.6
Fixed investments	% y-o-y	-5.8	-0.9	5.1	10.7
Industrial production	% y-o-y	1.1	8.4	12.3	7.1
Retail sales (real terms)	% y-o-y	1.9	3.6	7.0	1.7
Unemployment rate *	%	20.0	20.0	19.1	17.7
Gross wages in enterprise sector (real terms)	% y-o-y	1.5	2.0	0.8	1.7
Budget deficit (cumulative) *	PLNbn	-39.4	-37.0	-41.5	-35.0
Budget deficit (cumulative) *	% GDP	-5.0	-4.5	-4.7	-3.7
CPI	% y-o-y	1.9	0.8	3.5	3.3
CPI *	% y-o-y	0.8	1.7	4.4	2.5
PPI	% y-o-y	1.0	2.6	7.0	2.6
Broad money (M3)*	% y-o-y	-2.0	5.6	8.7	8.9
Deposits *	% y-o-y	-4.1	3.7	8.0	8.3
Credits *	% y-o-y	5.2	8.1	2.9	10.1
USD/PLN	PLN	4.08	3.89	3.65	3.06
EUR/PLN	PLN	3.85	4.40	4.53	4.13
PLN Reference rate *	%	6.75	5.25	6.50	6.50
WIBOR 3M	%	9.09	5.69	6.21	6.55

Source: GUS, NBP, own calculations and projections

* at year-end, F – forecast
Forecast as at 09-02-2005

II. Financial Performance

Profit & Loss Account

The table below presents major developments in key categories of the profit and loss account of the Bank Zachodni WBK Group in 2004 compared with the previous year.

PLN m

Key profit and loss items	*2004*	*2003*	*Change*
Total income [1]	1,893.6	1,730.9	+9.4%
Total costs [2]	1,196.0	1,332.0	-10.2%
Profit before tax [3]	569.9	260.4	+118.9%
Tax	113.8	123.5	-7.9%
Profit after tax	444.5	128.9	+244.8%

[1] *includes other operating income*
[2] *includes other operating costs*
[3] *contains profits attributable to minority shareholders, excludes share in net profits (losses) of subordinated entities accounted for using the equity method*

In 2004, the Bank Zachodni WBK Group reported after-tax-profit of PLN 444.5 m, which was 244.8% up the 2003 figure. The increase was mainly due to:

- positive business development trend - increase in the savings and deposit base (+9.4%) and in the net retail credit portfolio (+9.2%) with a steady improvement of asset quality (fall in the NPL ratio from 11.9% to 8.5%),
- satisfactory increase in fee and commission income (+9.2%),
- growing net interest income (+5.0%),
- high yield on equity investments (+PLN 63.9 m),
- decrease in total costs (-10.2%),
- lower effective tax rate (20.0% versus 47.4% in 2003) as a result of the tax rate decrease from 27% to 19% effective from the beginning of 2004.

Income

In 2004, the Bank Zachodni WBK Group produced a total income of PLN 1,893.6 m which was by 9.4% higher than last year.

Net interest income amounted to PLN 870.3 m and exceeded the previous year's level by 5%. With market rates increasing, higher interest income was earned from the Group's expanding strategic portfolios, including home mortgages, lease rentals and credit cards.

Compared to 2003, non-interest income increased by 13.5% to PLN 1,023.3 m.

Commission income reached PLN 636.9 m and was higher by 9.2% y-o-y, which is attributable to the increase in both of its constituent elements: net commission income and sales profit. Net commission income of PLN 569.2 m increased by 7% year-on-year. The main contributors here were higher revenues from international settlements, electronic banking, account maintenance, distribution of ARKA funds, credit card fees, insurance, etc. The growth observed in individual business lines is attributable to the stronger banking activity of customers, expansion of the product range and the growing sales. This item was also favourably impacted by the results posted by the subsidiaries: Dom Maklerski BZ WBK S.A. and BZ WBK Faktor Sp. z o.o. Thanks to the dynamic development of their core business, they achieved a higher fee income by PLN 14.6 m and PLN 2.8 m respectively (before

consolidation adjustments). The sales profit, containing assets management fees earned by the following subsidiaries: BZ WBK AIB Asset Management S.A., BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. and WBK AIB Fund Management Sp. z o.o., amounted to PLN 67.7 m and was up by 31.7% on the previous year, which is due to the strong growth of investment fund sales (assets increased by 91.2%) and the growing popularity of portfolio management services.

The profit on financial and FX operations added up to PLN 206.3 m and fell by 5.8% driven by reduced interest rate trading (securities and swaps) offset by high FX profit. FX swap income, which in the previous accounting periods was reported as income on financial operations, began to be recognised in FX profit starting from January 2004. For comparison purposes, the FX profit for 2003 was restated upwards by PLN 60.7 m, previously included in the income on financial operations.

Income from equity investments rose by PLN 63.9 m and amounted to PLN 116.3 m. It was boosted by dividends received from the Commercial Union Group (PLN 52.8 m) and the profit on disposal of CardPoint S.A. (PLN 54.9 m). The comparative figure for 2003 includes two corresponding items: dividend from the Commercial Union Group (PLN 23.1 m) and profit earned on disposal of another subsidiary, i.e. Polsoft S.A. (PLN 17.4 m).

Other operating income amounted to PLN 63.8 m and was higher by 35.7% y-o-y.

Costs

After the 12 months of 2004 the total costs of the Bank Zachodni WBK Group amounted to PLN 1,196.0 m and were 10.2% lower than a year before.

The Group's staff and operating costs stood at PLN 943.2 m and were down by 7.6% under the impact of both constituent cost categories. The decline was driven mainly by a 12.1% reduction of operating costs (administrative expenses, services, taxes and charges, contributions to the Banking Guarantee Fund), which fell to PLN 422.7 m. In 2004, a substantial cost decrease was noted in the IT usage, telecommunication, security, building maintenance, clearing, etc. These savings were achieved as a result of improved cost effectiveness of operating processes in the Group, careful selection of suppliers, renegotiation of contracts and rates, etc. Staff costs amounted to PLN 520.5 m, decreasing by 3.7% due to the employment rationalisation conducted within the process of adjusting the Bank's outlets to the local market potential and to the organisational changes implemented under the Segmentation and CRM Programme. Throughout 2004, the employment in the Bank fell by 325 FTEs, while in the consolidated companies it increased by 42 FTEs (excluding the sold CardPoint S.A.).

Other operating costs stood at PLN 50.7 m and were down by 40.6% due to the high cost of the Branch Network and the Business Support Centre rationalisation expensed in 2003, of which PLN 33.1 m were included here. After excluding this amount, the other operating costs in both reporting periods were comparable.

Depreciation decreased by 10.3% to PLN 202.1 m due to, among others, completed depreciation of the restructured branches and the on-going process of the fixed assets base optimisation.

Provisioning charge

Provisioning charge to the profit and loss account was PLN 131 m and was 7.7% lower than in 2003. The decrease in provisioning related to the improving quality of the Group's assets was offset by a few large corporate cases. As announced earlier, in the fourth quarter of 2004 the Bank completed its review of the general risk provision and consequently released PLN 20 m there being no reasonable grounds for continuing to maintain the provision in the full previous amount.

Key Balance Sheet Items

The table below presents major developments in key categories of the balance sheet of the Bank Zachodni WBK Group as at the end of December 2004 versus the corresponding period of 2003.

PLN m

Key balance sheet items	*31.12.2004*	*31.12.2003*	*Change*
Total assets	27,587.9	24,157.6	+14.2%
Amounts due from clients [1]	13,642.5	13,713.7	-0.5%
Customer-based financial resources [2]	20,243.6	18,498.9	+9.4%

[1] *non-financial and public sector*
[2] *deposits from non-financial and public sector as well as the own bonds of the bank and its leasing subsidiaries*

As at 31 December 2004 the consolidated total assets of the Bank Zachodni WBK Group amounted to PLN 27,587.9 m and were up by 14.2% compared to the previous year. This resulted from the strong growth of customer deposits and consistent presentation of sell-buy back and repo transactions in accordance with the Ordinance of the Minister of Finance dated 23 February 2004 amending the previous ordinance on special principles of recognition, valuation, disclosure and presentation of financial instruments.

Deposit base

The main source of funding the Group's lending business were deposits from non-financial and public sectors, accounting for 69% of the balance sheet total. Deposits from both sectors totalled PLN 19,044.8 at the end of 2004, exceeding the last year's figure by 7.6%. Current account balances increased by 5.8% to PLN 6,932.1 m driven by the growing liquidity of institutional customers. Term deposits increased by 8.6% to PLN 12,112.8 m due to the inflow of funds to business accounts with a maturity of 1 month or less and the increased demand of retail customers for 12M IMPET deposits which carried a high interest rate.

The Group's debt security obligations stood at PLN 1,198.8 m at the end of December 2004, exceeding the last year's level by 51.2% due to the further issues of own bonds by BZ WBK Leasing S.A. and BZ WBK Finanse & Leasing S.A. In 2004, the two subsidiaries issued 12 series of own 3Y bonds totalling PLN 339.3 m. The Group's overall debt security obligations include PLN 639.7 m of bonds of the leasing companies while the remainder of PLN 559.1 m represents the Bank's obligation relating to the sale of own bonds which were issued before the end of 2003. In 2004 the Bank did not issue any own securities.

The Group's total savings and deposits base, including the deposits from the non-financial and the public sector and own bonds, amounted to PLN 20,243.6 m at the end of December and were up by 9.4% on the previous year.

Loan portfolio

At the end of December 2004, total lending to non-financial and public sectors reached PLN 13,642.6 m and was comparable to the last year's figure. Still, loans classified as "normal" and "watch" showed a 3.7% increase in this portfolio. Despite the general stagnation in the lending to the non-financial and the public sectors, the individual net portfolios of strategic loans showed a growing trend: cash loans (+42.5%), leasing (+20%), credit cards (+17.5%) and home mortgages (+7.5%).

Business loans accounted for the biggest portion of the Group's loanbook (non-financial and public sector), representing 70% of the gross portfolio value. 20% is attributable to retail loans and the remainder (10%) is loans to subsidiaries, mainly to the leasing companies.

The Group's loan portfolio was very well diversified. There was no single dominant sector and the biggest share of 9.7% was for the production of groceries and beverages.

The Group's loanbook quality is systematically growing, which reflects the economic recovery in Poland, enhanced lending procedures and more effective credit risk management. At the end of December 2004 the "sub-standard", "doubtful" and "lost" receivables (excluding interest) from the non-financial and public sectors accounted for 8.5% of the gross portfolio with the impaired loan coverage ratio at 51.3%. Last year, these ratios stood at 11.9% and 41.4% respectively.

Interest rates

In 2004, similarly to the previous periods, the interest rates applied by the Bank to business loans and term deposits were linked to the interbank market rates (e.g. WIBOR and WIMEAN). The interest rates for demand and term deposits as well as personal loans were determined by the Bank's Asset and Liabilities Management Committee (ALCO) based on the decisions of the Monetary Policy Council.

Lending Policy

The Bank pursues a policy of maintaining a high quality loan portfolio thanks to credit sanctioning and monitoring rules aimed at minimising credit risk. This is achieved by:

- detailed lending procedures,
- standardised credit grading,
- centralised credit decision-making process for selected groups of customers,
- credit decisions made by officers with Individual Credit Discretions or by the Credit Committee,
- exposure limits for different business lines (e.g. per industry, currency, entity),
- loan portfolio diversification,
- loans secured with marketable assets or guarantees from external institutions (e.g. Bank Gospodarstwa Krajowego, Guarantee Funds),
- consistent and effective debt restructure and recovery policy,
- provisioning adequate to the credit risk,
- monitoring of borrowers' financial and economic standing in accordance with rules and timeframes set forth by the Minister of Finance, and early identification of risk and actions aimed to eliminate the risk.

The Bank Zachodni WBK lending policy is compliant with the AIB Group policy. The Bank leverages its parent's expertise in the Irish market and implements AIB solutions designed to better manage the lending portfolio.

Bank Zachodni WBK Rating

On 5 October 2004, Fitch Ratings Ltd., an international rating agency, confirmed the following ratings for Bank Zachodni WBK S.A.:

- long-term: A
- short-term: F1
- individual: C/D
- support: 1
- long-term rating outlook: stable

III. Business development

Bank Zachodni WBK Brand Strategy

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

Mission

In accordance with the mission underpinning the "Po pierwsze: Klient" strategy, the Bank's primary objective is to develop a strong brand of an outstanding financial institution striving to enhance relations with its customers and to actively safeguard their interests. In order to create and strengthen this image, the Bank needs to focus on its brand quality, mainly on its three main pillars: Dependable, Engaging and Pioneering.

Based on these priorities, in 2004 the Bank continued to develop foundations of the brand, fostering its image as a dependable organisation. At the same time, actions were undertaken to promote partnership approach in dealings with customers. An engaging Bank is friendly, acts quickly, offers attractive financial conditions and cares about customer satisfaction. These values are incorporated in the new corporate slogan "It's worth being together" ("Warto być razem"). They are reflected in daily interaction with customers, numerous undertakings designed to ensure that customers' needs are proactively addressed (Segmentation and CRM, Business Centres, Mobile Sales Teams), the innovative product range and the observance of the stated delivery deadlines.

Service quality management

As part of the service quality enhancement strategy, the Bank implemented the programme named "Let us be distinctive through our superior customer service". The programme included: service quality survey, remedial actions in branches, implementation of service quality standards and development of a framework to support service quality throughout the organisation.

The information about customer satisfaction was obtained from two surveys conducted by specialist external companies. The results of both surveys confirmed that service quality in the Bank's branches had improved. As regards external customers, the survey showed that customer satisfaction had increased and that branches were more uniform with respect to the service quality offered. Based on the survey, all branches received their individual customer satisfaction index (CSI) along with a report on identified gaps and customers' expectations. As a follow-up, branches developed and began to deploy service quality improvement plans. Also steps were taken to eliminate service deficiencies that stemmed from imperfect internal procedures and banking processes.

Another customer satisfaction survey was conducted for the purpose of the annual ranking "Newsweek's Friendly Bank". Compared to the previous edition, the Bank moved up in the ranking from 10th to 6th position, achieving the best ratings out of the biggest domestic banks. The interviewers appreciated the organisation of the Bank's network, its customer service standards and the employees' sales skills.

In order to ensure a distinctive customer proposition, in 2004 the branches were implementing uniform customer contact standards designed to create a positive image of the Bank during the initial conversation with a customer. Also, as part of the Segmentation and CRM Programme, service standards were put in place to support the development of partnership relations with customers.

With a view to successful implementation of changes in service quality, Service Quality Managers were appointed in the branch banking structures to provide support to the management and branch employees in deploying service quality standards and remediation plans. They also seek to ensure the sharing of best practice among the Bank's units.

Bank Zachodni WBK is distinctive in the market in that it has a Customer Care Officer. The role of this person is to act as an "appeal institution" for the customers who are not happy about how their

concerns have been dealt with elsewhere in the Bank. The Customer Care Officer is also involved in development of customer service standards.

Segmentation and CRM Programme

By the end of 2004 all the Bank Zachodni WBK branches had implemented the solutions envisaged under the Segmentation & CRM Programme. The Programme involved adaptation of the branch roles and functions, enabling relationship managers to focus on customer service and build relations with customers. Thanks to the proper branch layout, there were favourable conditions created to make and foster better connections with customers. The branch capacity to pro-actively respond to customers' needs improved significantly as a result of the migration of the key banking transactions to automatic channels. All relationship managers in branches were trained in service quality standards and offering addressed to individual market segments. They were also provided with IT tools to help them manage relationship with customers. The IT infrastructure supporting the Segmentation and CRM Programme is being constantly enhanced and ultimately will allow the Bank employees to obtain a better picture of customer needs to be able to respond to them even more effectively.

The existing technical and conceptual solutions facilitate successful identification of customer requirements, development of the optimum offering and application of the most suitable sales techniques and service quality standards.

Strategic proposal

The Bank's strategic products are the fundamental tools used to attract new customers and to build long-term relations with them. The Bank makes all efforts to ensure that the customer proposition is distinctive and competitive in the marketplace. In 2004, the Bank Zachodni WBK strategic proposal for retail customers included: home mortgages, cash loans, credit cards, deposits, ARKA investment funds, 24Prestige account and electronic banking. Strategic products addressed to business customers encompassed: leasing, business loans (including Biznes Hipoteka), factoring, package for professionals, foreign payments, treasury services and electronic banking.

The ongoing and planned actions relating to the development of the strategic and other products are discussed in the sub-chapters below. The sub-chapters correspond to the main segments of the banking market where Bank Zachodni WBK operates.

Retail Banking

Key areas of activity

In 2004, the Bank's retail banking activity focused on increasing the profitability of products and pursuing a prudent risk management policy. Also, in line with the adopted strategic approach, the structure and service of selected products continued to be enhanced. Thanks to the close co-operation with the subsidiaries, the Bank included specialist and sought-after products in its offer. To optimise the Group revenues, the Bank became involved in the promotion and the sales of such products. All these actions yielded satisfactory financial results despite increased competition in the retail banking market.

Development of credit offering

With a focus on customers' expectations and the market's requirements, the Bank continued to modify its credit offering for personal customers, in particular mortgage and cash loans. The key modifications covered a review of the pricing policy, increase in credit products availability and introduction of further procedural enhancements.

Mortgage loans

In January 2004, the Bank tied the variable nominal interest rate on home mortgages to 6M WIBOR and 6M LIBOR. Also a margin matrix was introduced which calculates margins depending on the LTV ratio (loan amount to security value) and the loan amount. The promotional interest rate on PLN mortgages applied in the first year of lending was maintained, the rates range was agreed and the final price was determined using the LTV ratio. The new pricing structure, satisfies the expectations of customers, who now can be sure that the price on their loans will change in response to market rates fluctuations.

In addition to amending the pricing policy, various modifications were put in place to improve the mortgage lending parameters and procedures. In the first place, the Bank increased the mortgage loan availability for the customers by reducing the net disposable income, establishing higher levels of DSR (Debt Service Ratio – monthly principal and interest payments to the customer's monthly net income), increasing the maximum LTV ratio, expanding the list of accepted funding purposes and increasing the maximum loan amount relative to the property value. The Bank's offering was further enhanced by: extension of the maximum credit term to 30 years, an option to suspend principal repayments up to 24 months, simplified tranche clearing and relaxation of some formal requirements (e.g. life insurance requirements).

In 2004, the Bank enriched its product range to supplement the home mortgage offering. In collaboration with Commercial Union Towarzystwo Ubezpieczeń na Życie S.A. the Bank began to sell life insurance policies for the main mortgage borrower, which protects the borrower's family against the need to pay off the debt. On 22 December 2004 Bank Zachodni WBK signed the "General Agreement" with Commercial Union Polska Towarzystwo Ubezpieczeń Ogólnych on insurance of houses and apartments, including movables cover and third party liability. In 2005, in addition to the home mortgage borrowers, other customers who have a personal account with the bank will also be able to benefit from this Agreement.

The continuously improved PLN home mortgage offering of the Bank received several positive "reviews" last year. In the research conducted by CBM "Indicator" (Rzeczpospolita daily, 5 February 2004) it received the highest rating in Poland. Bank Zachodni WBK home mortgage also ranked second in a ranking published by the "Wprost" weekly on 9 September 2004. The evaluation criteria included: the amount of monthly instalments, loan accessibility and level of fees.

In line with the adopted strategy in 2004 the Bank conducted proactive sales of PLN mortgage loans (home loans in particular), pursued a conservative policy of portfolio risk management and maximised the interest revenues thanks to retaining the low level of non-performing loans. In spite of the increased competition on the mortgage loan market, in 2004 the gross portfolio of such loans increased by 6.9% and amounted to PLN 1,947.3m at the end of December. Bank Zachodni WBK mortgage loans are characterised by a good asset quality – the share of non-performing loans in this portfolio amounted to 2.8%. Due to continuation of the policy to reduce the lending in foreign currencies to the borrowers earning in PLN, the share of FX loans in the mortgage portfolio decreased from 46% to 32%.

Cash and credit card loans

In 2004, Bank Zachodni WBK placed great emphasis on development of the cash loans, primarily the loans secured with liquid assets as well as the loans to finance the purchase of shares of the privatised companies (the last ones being reported as a separate portfolio). The expansion of this portfolio was reinforced by intensive focus on the product sales in the branch network, intensive mailing and advertisement campaigns, and the support from Bank Zachodni WBK Communication Centre that conducts phone and internet sales (see the "Electronic Banking" section for more details about the Centre and the Direct Banking).

Along with the promotion and sales actions, the Bank improved its cash loan offering and took steps to centralise, enhance and automate the credit processes.

In 2004, a new pricing policy was deployed, whereby the interest rate and the arrangement fee for cash loans were tied to the Bank's exposure and the assessment of the Borrower's credit risk. For

loans below PLN 20k a uniform interest rate was applied, irrespective of the credit term. For higher loans, the interest rates remain to be linked to the lending period. The threshold of PLN 20k was also applied for the purpose of fee calculation. Moreover, loan accessibility for the customers was increased by reducing the minimum net disposable income, introducing new scoring cards and setting clear rules for unsecured lending. Modification of the credit process and the scoring card improved the ratio of automatic decisions and led to an increase in credit sanctions.

The actions taken by the Bank were reflected in the sales performance. The value of the cash loans granted in 2004 amounted to PLN 356.1m and was higher than in 2003 by 118.1%. As at the end of December 2004, the gross loan portfolio increased to PLN 343.3 m.

In October 2004 Bank Zachodni WBK, in collaboration with the BZ WBK Brokerage House, launched a cash loan for the purchase of PKO BP shares, which proved to be a market success. The demand for such loans exceeded PLN 3.5 bn, which gave the Bank a 17% market share. The Bank sanctioned a total of 2.8 bn worth of loans for this purpose.

In 2004, there was a strong focus on the development and sales of credit cards. The Bank's gross credit exposure with respect to card transactions amounted to PLN 199.6m and was 15.7% higher than in 2003 (see the "Electronic Banking" section for more details about credit cards).

Development of deposit offering and savings & investment products

In 2004, the Bank continued to expand its offering to satisfy the customers' diversified needs in terms of savings and investments. In line with its strategy, the Bank aimed to achieve a balanced growth of its savings and investment portfolio across its Group. In addition to its own deposit offering, the Bank distributed products of its subsidiaries, with active involvement in their promotion and proactive sales. In the first half of 2004, the promotion and sales actions mainly focused on ARKA funds, whereas in the second half of 2004, particular attention was paid to IMPET time deposits. The steps taken by the Bank increased the savings base Group-wide and contributed to the income outperformance on deposit and investment products.

1) Deposit offering

The core of Bank's deposit offering were 3-, 6-, 12- and 24-month IMPET deposits with threshold interest rates, opened in the branches or via BZWBK24 electronic banking, as well 1-month threshold deposits LOKATA24, available only in electronic channels. In the first half of 2004, the 3-month deposits were particularly popular whereas in the second half of the year the customers preferred 12- and 24-month deposits. The Bank maintained an attractive interest rate for the key term deposits and increased it several times during the year. Under the promotional sale of IMPET term deposits (September-November 2004) the interest rate applied for these products was raised. Particularly intensive promotion included the 12- and 24-month deposits, where the maximum interest rate amounted to 7% (regardless of the deposited amount) and a minimum threshold was reduced from PLN 10 k to PLN 5 k.

The traditional deposit offering is supplemented by the subscriptions for the Guaranteed Investment Deposits aimed at the customers seeking extraordinary profits accompanied by security of the deposited funds. In 2004 there were four issues of Guaranteed Investment Deposits, all of them for a two year term. Twice during 2004 Bank Zachodni WBK customers were presented with GLI AMER INDEX tracker deposits which bear interest dependent on the index reflecting the American stock exchange market volatility (S&P 500). Two subscriptions were also held for GLI EURO KURS tracker deposits which were offered last year for the first time in response to the growing customer interest in foreign currency investments. In addition to the guaranteed principal and interest rate, the product allows investors to make a return on movements in the EURO rate against PLN.

In line with the new Bank Zachodni WBK Group approach to savings products, on 27 September 2004 hybrid sales was introduced in branches, combining a standard deposit with a mutual fund. The products are offered as part of the Special Investment Programme "Savings Plan" in co-operation with BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A. The programme participants lodge some funds in a PLN term deposit with a fixed rate interest, and the remaining funds are invested in ARKA

BZ WBK Balanced Fund. Those who avail of the savings plans are entitled to a special discount in the distribution fee normally charged on investments in the ARKA BZ WBK Funds.

2) Sale of investment products of subsidiaries

Out of subsidiary products available in the Bank's branch network, ARKA mutual fund (managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych) accumulated the most funds. The sales of participation units in the mutual funds was reinforced by promotional campaigns and excellent fund management results. In 2004, the most popular among the Bank customers were the funds which for many months ranked among the top most profitable ones in their categories i.e. ARKA BZ WBK Balanced FIO, ARKA BZ WBK Equity and ARKA BZ WBK Stable Growth Fund FIO. The subscription for the certificates of the first fund in Poland investing in property (ARKA BZ WBK Fundusz Rynku Nieruchomości SFIZ), which took place 11 May to 9 June 2004, was also a big success. There were buyers interested in the certificates from both retail and corporate tranche (PLN 339.5m in total). Annual sales of the investment fund units in the branches amounted to PLN 1,273.2m and substantially contributed to the increase in the total assets managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A., which added up to PLN 2,836.8m at the end of 2004, which is 91.2% higher than a year ago.

In addition to the investment funds, the branch customers actively invested in 3-year bonds of BZ WBK Leasing and BZ WBK Finance & Leasing, which had an attractive interest rate and were issued under public issue programs. In 2004, these subsidiaries offered 12 series of own bonds totalling PLN 339.3m. They were available in the points of sale of BZWBK Brokerage House operating in the Bank's branch network.

Development prospects

In line with the adopted plan, in the first quarter of 2005 the Bank launched the 100% Term Guarantee initiative for home mortgages, cash loans and credit cards. This marks the Bank's commitment to meet the declared deadlines for provision of the sought products and to ensure higher quality of service.

Later on during the year the Bank plans to diversify the home loans offering, linking it to the customer's profile and the delivery channels. The development plan also assumes intensification of actions to improve attractiveness and accessibility of cash loans. Particular emphasis will be placed on better adjustment of the parameters of these products to the customer expectations. The Communication Centre and the external delivery channels will be increasingly often used for the sale personal loans (mortgage and cash loans, credit cards).

As part of its savings and deposit offering, the Bank will continue to offer the Guaranteed Investment Deposits, the bonds of its leasing companies and ARKA funds. The Bank will intensify actions aimed at recruiting new customers and retaining the existing ones, thanks to, among others, a new offer of personal accounts.

SME and Corporate Banking

Key areas of activity

Thanks to consistent implementation of the Segmentation and CRM Program (Customer Relationship Management), throughout 2004, Bank Zachodni WBK branches adjusted their product and service offer to the requirements and business potential of individual companies' segments and they did it with increasing success. Big support in active development of relationships with customers came from the IT infrastructure supporting advisors in the process of managing customer portfolios. In line with the CRM concept adopted in the Bank, Corporate Business Centers - in conjunction with branches - delivered a customized service standard, ensuring comprehensive and individually tailored service for the group of largest enterprises.

In 2004, the credit delivery process was subject to further modifications which enhanced mechanisms securing the Bank's portfolio quality and made its credit offering more attractive to customers. Moreover, the Bank displayed high activity in the EU funds market, trying to consolidate its competitive advantage in line with the objectives of the "Together in the EU" programme.

Development of credit processes and procedures

In accordance with the applicable strategy, in 2004 the Bank's credit activity was subordinated to the priority of maintaining high quality of the loan book. With that goal in mind, a number of undertakings were progressed including detailing of selected lending procedures, development of new and updating the existing credit policies, ensuring access to reliable and high quality movables and immovables valuations which provide the basis for defining the value of the securities established by the bank. What is more, in view of the distinct zloty appreciation trend and threats associated with it, the bank pursued a prudential policy of f/x risk management. Concurrently, throughout the year, it introduced changes streamlining the credit delivery process and enhancing the attractiveness of the credit offering.

Lending proposal to SMEs

The Bank's offer catered for businesses is distinctive through its wide range of credit products which meet diverse financial needs of companies. Apart from the standard credit products, such as W/C loans, investment loans, banking guarantees or B/E discount, the bank also has a suite of additional proposals which add to the quality of its proposition and boost credit activity. These are, among others, commercial mortgage loans Biznes Hipoteka, SME loans from the EBRD line and refinancing from the EU funds, credit facilities for exporters, etc.

In 2004, a high growth in Biznes Hipoteka loans sales was recorded. They are dedicated to all kinds of investments associated with properties used for business purposes. Last year, the total amount of this type of loans sanctioned was PLN 107.4m, i.e. 51% more than in the previous year. A lot of interest was also sparked by loans from the EBRD line. As at the end of December 2004, total utilization of the EBRD credit line was EUR 37.8m. Noteworthy is also the growing number of loans for the delivery of investments refinanced under the available EU funds (more information to be found in section "Together in the EU Strategy"). The Bank customers are more and more willing to avail of the guarantees offered by the Credit Guarantee Fund POLFUND S.A. which operates in the Bank Zachodni WBK Capital Group. Guarantees sanctioned by the Fund to date contributed to increasing the Bank's credit activity by over PLN 153m. In August 2004, the credit offering was extended to include a new product for exporters – credit limit for financing exports receivables.

"Together in the EU" Strategy

In 2004, the Bank continued the "Together in the EU" programme and was increasingly effective in facilitating customers' access to the EU aid funds. The Bank provided the required advice to the borrowers, ensured support in effective funds allocation and participated in funding. The Bank's branches across Poland offered professional and knowledgeable support of the European Advisors.

The Bank continued to provide loans under the Phare and Sapard programmes towards the investments financed from the pre-accession funds. In view of Poland's entering the European Union, Bank Zachodni WBK prepared a special credit offer to finance the investments supported by the structural funds. An important element of this offer is the investment loan towards investments re-financed under the Sectoral Operational Programme for Improvement of Competitiveness of Companies, Action 2.3. The Bank received authorisation from the Polish Agency for Enterprise Development to sanction loans under this Action. The funding is provided not only towards the part of the investment which is funded from the EU subsidies but also towards other expenditure related to the project, with an attractive pricing offered.

Bank Zachodni WBK has been building its competitive advantage in the EU funds market since 2003, thus earning a reputation of an EU-friendly bank. Among other things, this reputation is owed to

the cycle of nation-wide seminars named "Your Company In Europe", the activities of the Bank's European Advisors, the various promotional actions and the relationship with the key distributors of structural funds in Poland.

The growth rate of these "EU loans" depends on the availability of EU funds for the Borrowers. At the end of December 2004, the total value of the loans towards the projects refinanced from the EU pre-accession and structural funds amounted to PLN 117m.

Corporate Business Centers

The Bank's distribution infrastructure covers five Corporate Business Centers based in Warsaw, Wrocław, Poznań, Kraków and Gdańsk. Their key task is servicing corporate customers with efficient business strategy, management and adequate repayment capacity. The operational model adopted by the Centers is based on CRM principles and it assigns to the advisors the key responsibility for customer relationship management. It also assumes close cooperation with the Bank's branches which provide operational service of corporate customers. Apart from the credit decisions regarding corporate customers, the Corporate Business Centers take decisions with regard to SMEs which exceed the branches' and Credit Center's discretions.

In line with the adopted strategy, the Corporate Business Centers strive for maximizing income delivered by way of providing comprehensive services to customers. This means that customers seeking a loan receive the Bank's full offer resulting from a comprehensive diagnosis of their needs. Apart from the credit proposals, it also includes Treasury products, international trade finance transactions, investment banking services, staff packages, etc.

In 2004, despite a high GDP growth, corporate banking business in Poland was stagnant. One of the reasons for the slow down in development dynamics were cash surpluses generated by exporters which limited appetite for the banking loan. In spite of the unfavourable external conditions, the corporate loans portfolio managed by Bank Zachodni WBK Corporate Business Centres grew to reach PLN 7.1bn.

Development prospects

The Bank's 2005 strategy assumes maintaining the leader's position in the EU funds market through constant upgrades of the offering to ensure the customers' needs are satisfied to the fullest extent and the potential of the EU funds is effectively used. In its relationship with SMEs the Bank plans to use more extensively the capacity of direct banking (Bank Zachodni WBK Communication Center) and to cooperate with external delivery channels. The number of Mobile Sales Teams will be increased in view of their confirmed sales efficiency. The Bank is expecting to consolidate its position in the banking services market by introducing – as of 1 January 2005 – a new complex offer for SMEs. This is the so-called BUSINESS PACKAGE available in three options addressed to precisely defined market segments. To achieve a higher customer satisfaction level, the Bank will be adjusting its credit processes and procedures to the requirements of SMEs. In the Corporate Business Banking Area, ambitious business objectives will be delivered, which have been adopted for 2005 in view of the expected investment growth.

Investment Banking

Key areas of activity

In 2004, Bank Zachodni WBK continued to be very active in the area of investment banking. The favourable stock exchange climate promoted the growth of customers' interest in financial consultancy and capital market funding. The Bank also completed a number of major initiatives connected with ownership supervision and development of the investment portfolio in accordance with the adopted corporate policy.

Operations mandated by customers

In 2004, the Bank continued to co-operate with its leasing subsidiaries, providing them with support in acquisition of funding for their dynamically developing core business. The Bank participated in the preparation and execution of issue of 8 series of BZ WBK Leasing bonds, with a total nominal value of PLN 239.2m. The issues were conducted as part of a public bonds issue programme launched in 2003 with a view to obtaining a total funding up to PLN 1 billion. In April 2004, as a result of joint efforts of the Bank and the BZ WBK Brokerage House, the Securities & Stock Exchange Commission admitted to public trading the bonds of another leasing company - BZ WBK Finanse & Leasing – which were offered under the issue programme with the maximum value of PLN 2 billion. By the end of the year, 4 public issues of the BZ WBK Finanse & Leasing S.A. bonds, with a total nominal value of PLN 100.1m had been completed.

The Bank also arranged debt securities issues for 5 other external clients. The value of these issues added up to PLN 35.7m. The issued securities were taken up in full by the entities indicated by the issuers.

Bank Zachodni WBK also participated in 4 public share issues. The Bank acted as an advisor and an investment sub-issuer for the public offer of the C series shares of PBG S.A. with a value of PLN 96m. The Bank also acted as a service sub-issuer for D series shares of PBG S.A., which were issued as part of a management options scheme of the company. Furthermore, the Bank was an advisor in the public offer of the shares of ComArch S.A., Wielkopolska Wytwórnia Żywności PROFI S.A. and Firma Chemiczna DWORY S.A. In the case of DWORY S.A., the Bank also acted as an investment sub-issuer, with the Bank's commitment amounting to PLN 270m. The Bank did not take up any shares under its sub-issue commitment.

Own account trading

On 23 June 2004, BZ WBK acquired 154,639 series A investment certificates in a new investment fund ARKA BZ WBK Fundusz Rynku Nieruchomości SFIZ (managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.) for a total of PLN 15m. At the beginning of August, the certificates were recorded in the Bank's account with the National Depository of Securities.

Development of investment portfolio

In January 2004, an increase in the share capital of BZ WBK Nieruchomości S.A. by PLN 150k was registered. The new shares were fully acquired by Bank Zachodni WBK. The resolution to increase the share capital was also passed by the General Meeting of Shareholders of BZ WBK Finanse & Leasing and BZ WBK Leasing, which issued new shares of PLN 5 m and PLN 37m respectively. All the shares were taken up by Bank Zachodni WBK. The share capital increase was registered in March 2004. In October 2004, the Bank made a capital contribution of PLN 2m to the share capital of BZ WBK Faktor Sp. z o.o.

On 22 April 2004, the Bank sold all of its 100% shareholdings in its subsidiary CardPoint S.A. to Nova Euroconex Holdings B.V., Holland, for a total amount of PLN 68m. In the last quarter of 2004, the wind-up of WESTFUND Ltd., Dublin, Ireland, in which the Bank had a 33.67% stake, was completed. On 5 November 2004 the company was removed from the Irish register of businesses. On 29 December 2004, the Bank sold its full shareholding in Kupcy Gdyńscy SA for PLN 2m, with PLN 1.8m falling due for payment on 30 December 2004, while the remainder will be paid on 31 March 2005.

The General Meetings of the companies included in the Bank's investment portfolio declared PLN 66m worth of dividends (gross) for the Bank. The biggest share in that pool was represented by dividends paid by the Commercial Union Group.

Lending to subsidiaries

On 30 December 2004 Bank Zachodni WBK S.A. signed 4 credit agreements with its Group companies. The agreement with BZ WBK Inwestycje Sp. z o.o. provides for an investment loan of PLN 390m, maturing on 9 December 2008. The funds will be used to fund the company's statutory activities and its working capital requirements, including the purchase of 2- and 5-year bonds of Bank Zachodni WBK and investment certificates of ARKA BZ WBK Global Index. The first tranche of the loan of PLN 115k was drawn by the end of 2004. Another credit agreement was signed with BZ WBK Faktor Sp. z o.o. The agreement provides for an overdraft of PLN 412m repayable by 30 December 2014. Two subsequent agreements were signed with BZ WBK Finanse & Leasing and BZ WBK Leasing. They provided for multi-currency credit lines of PLN 370m and 270.4m, respectively. The purpose of these lines is to fund the companies' leasing activities and other working capital requirements.

Electronic Banking

Key areas of activity

In 2004, the Bank continued to operate its previously adopted electronic banking strategy. As part of the strategy, transactions were migrated to automatic channels and actions were taken to increase the number of electronic transactions. The electronic banking services were enhanced by adding solutions that complied with the highest quality and security standards. Also, the credit cards offering was expanded to include new product proposals.

Development of electronic channels

In 2004, the functionality of the Bank's electronic banking application (BZWBK24) was significantly enriched with new features.

In February 2004, Bank Zachodni WBK was the first bank in Poland to implement the smsKod service designed for the BZWBK24 users who are also mobile owners. By having transaction authorisation codes sent to their mobiles, customers can make remote transactions in the scope that so far has been exclusively available to the holders of tokens. In the opinion of the experts from the "Chip" magazine, the transactions carried out with the use of the Bank Zachodni WBK smsKod service are 100% safe. Also, the Bank's electronic banking services were ranked highest among Polish internet banks in terms of the quality of safeguards offered ("Chip", December 2004).

Since June 2004, the users of BZWBK24 have been able to independently monitor the status of their registers with ARKA funds as well as to open new registers and purchase, redeem and convert participation units. In the last quarter of the year the following innovative and technologically advanced services were implemented: Alerty24 (alerts) and Przelew24 (transfers). The alerts are a new way of communication between the Bank and the customers whereby short text messages are sent to the indicated mobile phone number or e-mail address to inform about the Bank's offering and any events relating to the customer's accounts. Przelew24 is a new method of Internet payments which allows the customer to make settlements with shops or institutions directly from his or her bank account. The solution is both convenient and safe as the beneficiary does not have any access to the customer's identification data or to the balance of their account. The new features of BZWBK24 also include: ordering international payments, making FX transfers to own accounts (in connection with foreign currency dealings), presentation of account history for the last 6 months, overview of historical FX rates, ordering paper confirmations of transactions, access to the details of individual credit accounts as well as set-up and repayment of revolving loans.

Electronic banking users

Thanks to the constant expansion of functionality, effective security features and diversified authentication methods, the Bank's electronic banking solutions have ranked among the best such products available in Poland. The growing scope, quality and security of services offered by BZWBK24 allowed the Bank to acquire new users.

In 2004, the electronic banking customers base grew by 136.9 k users to reach 578.1 k users at the end of the year. Most of these users are retail customers (83%). 419.7 k personal and business customers had access to the Internet, which is the most frequently used channel in remote banking.

In 2004, the number of Minibank24 installations (office banking) increased by 515 and the total number of Minibank24 applications at the end of December was 4.4 k with 13.5 k users. By the end of June the Bank had completed the upgrade of Minibank24 to 3.0, a process which took 6 months. The next upgrade to 4.1 is expected at the end of January 2005.

Migration of transactions and customer service to automatic channels

In 2004, the Bank made a significant progress in migrating banking transactions to electronic channels. 83% of all the transactions mandated by customers were effected through electronic channels, which allowed branches to use the free potential to service and manage relations with the customers with more sophisticated needs. The increase in this ratio is primarily attributable to the Migration Programme, which was launched in 2003 and fully rolled out across the branch network in mid-2004. The Programme encompassed a number of IT initiatives which were aimed at increasing the sales of electronic services and at intensifying user activity in the automatic channels. Particular focus was placed on interaction with customers in branches, especially with respect to individual training where demonstration terminals were used.

Direct banking

The year 2004 was the first year of converting Bank Zachodni WBK Communication Centre from a cost generating back office unit into a profit making business unit committed to direct banking sales. Operating on the basis of improved and customer friendly banking procedures, the Communication Centre launched a telephone-based distribution channel dedicated to the sale of the leading retail banking products; i.e. personal accounts, credit cards accompanied by insurance packages, cash loans and instalment loans embedded in a credit card limit. Our round-the-clock call centre (0-801-666-444) provides customers with professional advice and offers to buy banking products. There are also dedicated call centres where customers may seek professional advice on particular products, i.e. mortgage loans, credit cards, investment deposits, individual pension funds, Western Union transfers and new credit facilities. In 2004, the direct banking channels allowed us to fully perform the plan of the sale of RATIO instalments loan and travel insurance attached to credit cards. The channels also appeared an effective medium for the sale of credit cards as 7% of all credit cards were sold through this very channel (in the second half-year, an average share of the Communication Centre in the sale of credit cards amounted to 10%).

In the fourth quarter of 2004, the bank launched an electronic channel of sales of credit facilities available on the Bank Zachodni WBK portal and through the web-based transactional system. With the on-line application forms that customers can download and send over to the Communication Centre, formal requirements accompanying on-line purchase of products are limited to the necessary minimum.

In addition to transaction processing and pro-active sales, the Communication Centre also became involved in acquiring new customers and delivering sales with the use of external databases.

Development or card products

Bank Zachodni WBK offers a wide range of cards of the two biggest payment systems (Visa International and MasterCard) with options adjusted to the needs and capacity of the basic customer

segments. Apart from the standard debit and credit cards, the Bank's offering includes an FX card to a Euro account as well as affinity, partnership and gift cards.

In the second half of 2004, the Bank's credit card offering was supplemented to include several new items. In co-operation with the Gdańsk University of Technology the Bank introduced the first VISA Elektron card with a photo. In the pre-Christmas period the Bank started to sell pre-paid bearer cards, which made an elegant and modern gift that could replace cash or vouchers. At the end of 2004, the Bank also issued a regional partnership card in co-operation with Leszczyńskie Stowarzyszenie Handlowców Starówka. This is the first card of such a type in the Bank's offering which is provided as part of the new procedural solutions that allow the Bank's Regions to start relationship with their local partners to issue partnership credit cards.

The cards issued by Bank Zachodni WBK are covered by insurance protection. Throughout 2004, the credit card holders could use the insurance package "Your Security", which provides cover against, e.g. death following an accident, unemployment or inability to work due to health problems. On 1 May 2004, the Bank introduced an optional Financial Insurance Package for debit cards issued to personal accounts. The package provides cover against unauthorised use of the card, robbery of cash withdrawn from the ATM or damage to the goods purchased with the card.

Development of card services

In 2004, the Bank was successively enhancing its card issuance and service procedures, encouraging its customers to use these instruments more actively.

Besides, due to the increased usage of VISA cards in the Economic and Monetary Union, the Bank decided to change the currency used to settle VISA card transactions made abroad. As a result, on 29 April 2004, the US dollar was replaced with Euro, which decreased the cost of currency conversions and made the Bank's card offering more attractive. With the customers' convenience in mind, the Bank launched a new service called CashBack. Cashback allows customers to withdraw cash at POS terminals handled by CardPoint whilst paying with a card in a shop.

Due to the strong competition in the credit cards market, in 2004 the Bank undertook a number of actions to boost the credit card sales and decrease the number of customers opting for competitors' cards. The key initiatives undertaken in this area include a pilot run of a programme designed to prevent customers from resigning from the Bank's cards. Also, in order to increase the attractiveness of its offering and improve its sales performance, the Bank modified its credit card handling processes and shortened the turnaround time in preparation for the 100% Term Guarantee initiative, which sets the time limit of 6 days for issuing respective cards (following receipt of a complete application from customers). Throughout the year efforts continued to get the Bank ready for the mass migration of credit cards to the chip technology scheduled for 2005. A pilot was run for Bank Zachodni WBK employees, who received new chip credit cards.

Payment cards portfolio

At the end of December 2004, the number of active debit cards held by Bank Zachodni WBK customers totalled 1 million and was by 2.1% lower than at the end of 2003. The slight decrease in the portfolio is connected with the process of personal accounts database cleansing and the growing popularity of credit cards, which offer a higher functionality. In 2004, there were 55.4k new credit cards issued, which contributed to the growth in the credit cards portfolio to 165.2k. This signifies a 22.9% growth compared to the end of last year.

Card services for other banks

Bank Zachodni WBK issues cards and offers card-related services for other entities and is one of the market leaders in this area. The Bank offers its clients modern IT infrastructure and real-time access to transaction data. In 2004, the Bank handled 261k cards and 117k transactions for third parties. The Bank's clients include: Lukas Bank, Nordea Polska, Dominet Bank and co-operative

banks. Last year, Bank Zachodni WBK also began to provide services to mBank and Multibank whose customers can now use BZWBK ATM network on preferential conditions.

Outlooks for electronic banking development

For 2005 the Bank plans a further intensive growth of electronic banking.

The Bank's development strategy assumes a dynamic increase in sales via the Internet and over the phone. Telephone banking functionality will be supplemented with a possibility to make standard transactions with the assistance of an advisor, while in the field of electronic banking a wider co-operation with external financial portals is planned. The Bank also intends to rely more heavily on the external delivery channels.

2005 will see a mass card migration to the chip technology, which will align the Bank's offer with the world standards, ensure its competitiveness and minimise fraud-related losses. The Bank's card range will be gradually expanded to include new products in response to customer needs and market developments (e.g. pre-paid bearer cards with a top-up option). Efforts will also be continued to increase the use of cards in payment transactions.

Co-operation with International Financial Institutions

Bank Zachodni WBK co-operates with major banks and financial institutions of the world. The closest business relations are maintained with a network of correspondent banks, which ensures comprehensive handling of international transactions. Bank Zachodni WBK's correspondents include. Deutsche Bank AG, Dresdner Bank AG, Bank of New York plc, Royal Bank of Scotland plc, Baden-Wuerttembergische Bank AG, Banca Nazionale del Lavoro. The Poland's EU accession did not bring about any changes in the number or scope of its contracts with international banks. It also did not impede the growth of international transactions or the related revenues.

International payments

Owing to its position in the interbank market, professional service and advanced technologies, the Bank is ranked among the top Polish financial institutions in terms of cross-border turnover. In 2004, it settled 746.2k payment orders for a total of PLN 33.3 billion, i.e. 44.6% more than last year in terms of the number and 24.1% more in terms of the value. A positive trend could also be observed in the structure of international payments. Due to the concluded contracts and the quality of the service offered, the Bank's correspondents were channelling more and more payments for third banks' customers through Bank Zachodni WBK. In 2004, the number of respective transactions increased by 92%. Thanks to the availability of order-placing functionality via the internet, the share of electronic payments was growing. E-banking users and other customers had access to the Internet Calculator which computes the precise cost of the ordered and received payments in a variety of options.

Bank Zachodni WBK attaches a great importance to the high quality of its payment order services. The automation of payments and the quality of formatting outgoing messages is very high. This was recognised by Deutsche Bank AG, the Bank Zachodni WBK's partner, which once again honoured the Bank with the STP Excellent Award.

Apart from the correspondent banks, an important partner for Bank Zachodni WBK is Western Union Financial Services. On 1 January 2004, the Bank started co-operation with Western Union as a direct agent, whereby it obtained a higher share in fees with a possibility to generate income from FX conversions and to establish its own network of agents. In 2004, 264.5k WU payments were processed.

Trade Finance

In 2004 the Bank processed 17.7 k trade finance transactions totalling 663.5m, i.e. 14% more than last year. This period also saw a substantial increase in the value and number of processed cheques. The value of Export Letters of Credit handled by the Bank increased significantly as well. The biggest growth however was observed in the foreign trade instruments, especially forfeiting and discount of export receivables which attract an increasing number of customers each year.

Custodian Services

Bank Zachodni WBK offers custodian services on the basis of a licence issued by the Securities and Stock Exchange Commission on 9 August 1999. The Bank's offering is addressed both to private individuals and legal entities (including mutual funds) in Poland as well as to foreign institutional investors present in the Polish capital market. The Bank's custodian activities include: operating securities accounts, settlement of securities transactions, handling dividend and interest payments and representing customers at General Meetings of Shareholders. The Bank also acts as a depository for investment funds, such as: ARKA Obligacji FIO (Bonds Fund), ARKA GLOBAL INDEX 2007 FIZ and LUKAS Fundusz Stabilnego Wzrostu FIO (Stable Growth Fund), which is managed and represented by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych. As part of its custodian services, the Bank also maintains asset registers and calculates the net value of assets per participation unit held.

Thanks to the consistent actions aimed at consolidating its position in the custodian service market, in 2004 Bank Zachodni WBK recorded a noticeable growth in assets deposited by customers in securities accounts. At the end of 31 December 2004, the value of these assets totalled PLN 3.2 bn which represented an 18% growth against the end of 2003.

Companies consolidated with Bank Zachodni WBK S.A.

Dom Maklerski BZ WBK S.A. (BZWBK Brokerage House)

In 2004, economic conditions were good in each brokerage services segment, but it was the stock exchange equity market which grew the fastest. Under the influence of the huge growths in Q1 and Q4 the turnover on this market reached record high to exceed the 2003 level by 65.2%. The increased investor activity in early 2004 was promoted by GDP growth, improvement in performance of listed companies and Poland's approaching accession to the EU. The rapid acceleration in turnover in the last quarter is attributable to stock exchange floatation (including PKO BP) and increased activity of foreign institutional investors.

In those conditions, Dom Maklerski BZ WBK outperformed the industry growth pace on the equity market by 43.4 pp to generate turnover of PLN 11,649.6m. These results allowed the company to grow its equity market share from 8.4% at the end of 2003 to 10.6% a year later. The high level of the equity-related turnover was more than pure reflection of favourable macroeconomic factors or high demand for shares of newly floated companies. To a great extent it was a result of consistent actions taken by the Brokerage House with a view to increasing the volume of orders placed by Polish and foreign institutional customers.

On the futures market, Dom Maklerski BZ WBK acted as an agent for conclusion of 800.8k transactions which translated into a market share of 11.1%. In view of lower activity of retail investors, the turnover was 19.9% down on the previous year.

The Dom Maklerski's turnover on the equity market and the futures market, which are the primary areas of activity on the Polish Stock Exchange, gives it the third position among entities with similar profile of operations.

Following the discontinuation of Treasury bonds sales on the primary market in August 2003, the company's turnover on the bonds secondary market fluctuated much. The customers were able to spend the funds arising from the bonds purchased by the State Treasury to buy bonds issued by BZ WBK Leasing and BZ WBK Finance & Leasing. On the primary market, the bonds were available in points of sales of Dom Maklerski BZ WBK. In addition, they were traded on the secondary CeTO market.

Good stock exchange climate promoted interest in the possibility of issuing shares on the primary market among institutional customers. In H1 2004, Dom Maklerski BZ WBK acted as the offering party in public offerings of PBG, JC Auto, ComArch and Betacom. In September, it was a member of the syndicate which successfully completed the public offering of CompRzeszów. Along with other entities, it was involved in the sales of PKO BP shares to achieve a very high 17% share in the sales under the retail customers tranche. At the end of the year, Dom Maklerski carried out subsequent three offerings on the primary market (PROFI, Cinema City, DWORY), of which one (DWORY) was finalised. The two other offerings were not carried out because of an extensive number of offerings on the primary market and high issuer demands as regards the share price.

After 12 months 2004 Dom Maklerski BZ WBK retained its leading position in terms of the number of operated Internet accounts. Their number throughout the year grew by 85% and exceeded 18.7k. Both the revival on the market before and after the sales of PKO BP shares as well as the competitive proposition of the brokerage house contributed to the growth in the number of those accounts. The company achieved further successes in the process of migrating retail customers to remote delivery channels, the Internet in particular. On the equity market, over 80% of the retail customers turnover was generated based on orders placed via the Internet or over the phone, while on the futures market the share was as high as 90%. The telephone services are provided to Polish and foreign institutional investors by designated teams.

BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.

After 12 months of 2004, net assets of mutual funds operating in Poland grew by 13.5% and the growth was much slower than in the previous year (49.5%). In the better part of the year, marginal growths in the assets were recorded and only the last months saw a substantial acceleration in the growth rate. This change was triggered by the flow of funds left in the investment accounts following the reduction in the subscriptions for PKO BP shares. Last year, the structure of customer investments also changed. As a result of favourable stock exchange climate, the increased interest in equity funds was recorded.

Against the market, the assets of funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych are characterised by a very high growth rate. In 2004, their value grew by 91.2% to reach PLN 2,836.8m at the end of December. In line with the market trend, the assets of funds investing on the stock exchange equity market who offer high return at considerable risk (ARKA BZ WBK Akcji FIO, ARKA BZ WBK Zrównoważony FIO, ARKA BZ WBK Stabilnego Wzrostu FIO and Lukas Fundusz Stabilnego Wzrostu fio) grew the fastest. The total value of funds accumulated by these funds increased by 360.3% to PLN 1,603.6m. The equity fund sale campaign was supported by very good management performance. Fundusz ARKA BZ WBK Akcji FIO and Fundusz ARKA BZ WBK Zrównoważony FIO proved most effective in building up entrusted funds. The two funds were the best on the market in their categories in terms of yield for 12 months 2004. The generated rates of return were 35.8% and 23.9% respectively ("Where performance counts" – *Rzeczpospolita,* dated 27/01/2004, "Polish Securities better than Foreign" - *Gazeta Prawna,* dated 07/01/2004, "Better Return on Equities" - *Życie Warszawy* 07/01/2005).

Out of the investment funds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych, ARKA BZ WBK Ochrony Kapitału FIO, who accumulated PLN 732.6m, was traditionally the best.

Following a quick inflow of funds to ARKA BZ WBK Zrównoważony FIO and ARKA BZ WBK Akcji FIO, they were ranked 2nd and 3rd respectively with assets totalling PLN 644.4m and PLN 424.0m.

In 2004, BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych was the first institution in Poland to launch property fund called ARKA BZ WBK Fundusz Rynku Nieruchomości SFIZ. The fund invests in the highest class office, storage, commercial and residential properties. The growth in the value of fund is generated based on income from commercial properties, growth in the value of the purchased commercial properties, development and sales of residential properties. The subscription of the fund's investment certificates was held at the turn of May and June in two tranches: for retail customers and institutional investors. All certificates offered for sale were sold and their total value was PLN 339.5m.

Last year, BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych continued to collaborate with Bank Zachodni WBK to look together for more effective methods of distributing ARKA funds and growing sales. The example of the joint actions is launch of hybrid sales, carrying out the fund promotional campaign among the Bank's customers or enabling the customers to conclude ARKA funds-related transactions in electronic channels (all the products and services are outlined in section "Retail Banking" or "Electronic Banking").

Thanks to the taken actions and high sales dynamics, the market share of BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych grew from 4.5% at the end of December 2003 to 7.5% a year later.

BZ WBK AIB Asset Management S.A.

High customer interest in stock exchange investments drove sales of the equity portfolios offered by BZ WBK AIB Asset Management to promote a 47.6% growth in the total assets (entrusted by customers) on an annual basis. In terms of the management performance, the portfolios managed by the company were as distinctive as the investment funds. Equity Portfolio (Fundamental) and the Balanced Portfolio (Fundamental) were ranked high in their categories to achieve rates of return of 60.2% and 26.2%, respectively ("Parkiet" 05/02/2005).

As at the end 2004, the value of assets managed by BZ WBK AIB Asset Management, including the investment funds of BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych, totalled PLN 3,137.4m.

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

Bank Zachodni WBK Group operates on the leasing market through two leasing companies who specialise in funding two different asset categories. BZ WBK Finance & Leasing focuses on the lease of two product groups: machines and equipment ("Maszyneria" package) as well as computers and office equipment ("Biuromania" package) for businesses, while BZ WBK Leasing specialises in finding vehicles for businesses ("Autostrada" and "Autotrans") and personal customers ("Autostart" package).

The proposition of the two companies is reviewed on an ongoing basis to ensure it meets customer needs. Since September 2004, customers of the two leasing companies have been able to use the grants received under the "Sectoral Operational Programme Growth in Business Competitiveness (Activity 2.3.)" for financing investments carried out with the use of leasing. The role of the companies is to provide products and assistance on settling the grants which are disbursed after the lease term. At the end of November 2004, the two companies introduced a special leasing proposition for doctors and vets. The proposition envisages possibility to fund medical equipment, PCs or a car up to the limit of PLN 300k. The product is primarily sold by vendors (authorised dealers or producers collaborating with the leasing companies) and leasing advisors.

In 2004, the companies continued the close relationship with Bank Zachodni WBK as regards the sale of leasing facilities in the Bank's branch network. AUTOSTRADA application which facilitates the decision making process and conclusion of agreements was implemented in branches. Furthermore, both BZ WBK Finance & Leasing and BZ WBK Leasing were consistently growing sales through their own leasing advisors and external delivery channels i.e. car dealers and fixed assets suppliers. During the year, 30 new staff members joined the leasing advisors teams.

Following the dynamic growth in their core business, the companies raised funds by way of own bond issues. While continuing the public issue programme up to PLN 1bn, in 2004, BZ WBK Leasing carried our eight issues of three-year bonds with the total nominal value of PLN 239.2m. Pursuant to the approval of the SEC dated 26 April 2004 for admitting to public trading (as part of Bond Issue Programme 1) bonds of up to PLN 2bn, BZ WBK Finance & Leasing issued four series of 3-year bonds with nominal value of PLN 100.1m.

In 2004, the two companies leased net assets totalling PLN 821.4m i.e. 14.5% up on the previous year. The performance was driven by macroeconomic factors, primarily changes in the legal environment (VAT Act) and Poland's accession to the EU. They broke the seasonal trend typical of the leasing industry and fuelled the high growth in demand for leasing services in H1 2004. Vehicle lease which recorded the highest growth early in the year as a result of the expected rise in prices after the accession prevailed in the lease structure. The value of passenger cars and trucks leased in 2004 was PLN 565.7m which represented a 23.4% growth against the previous year.

BZ WBK Faktor Sp. z o.o.

Pursuant to its corporate strategy, BZ WBK Faktor fully took over factoring services provided within Bank Zachodni WBK Group. In 2004, the company provided recourse factoring, including purchase of trade receivables due to the debtor's customers, management of the portfolio of purchased receivables, financing customers' working capital requirements, monitoring of repayments and pursuit of claims. Since October, the company has been also offering non-recourse factoring. Next, the company's offering will be expanded with international factoring.

Thanks to the relationship with BZWBK branches, the company has one of the largest distribution network on the market. In 2005, it intends to achieve full sale capacity in the bank branches and to commence building an external delivery channel.

In 2004, BZ WBK Faktor's factoring turnover was PLN 354.3m and was by PLN 325.3m higher against the previous year when the company had commenced operations. The exposure arising from the provided funding increased by over 10-times and totalled PLN 43.6m. The growth in turnover and credit exposure was possible thanks to recruitment of new customers and higher activity.

BZ WBK Inwestycje Sp. z o.o.

The company's business is purchasing and selling shareholdings in commercial companies and other securities as well as seeking investors for companies and providing consultancy/advisory services.

In 2004, BZ WBK Inwestycje focused on searching for investors interested in buying the shares and interests it holds. The result of these actions was the sale of the shareholdings in the following companies: Huta Szczecin S.A., Tomtex S.A., Gildia Poznańska "GP" S.A. (former Poznań Exchange "GP" S.A.).

AIB WBK Fund Management Sp. z o.o.

In 2004, AIB WBK Fund Management continued the relationship with three funds: Narodowy Fundusz Inwestycyjny Magna Polonia S.A., Nova Polonia PEF and Prospect Poland Fund.

BZ WBK Nieruchomości S.A. i Wspólnicy Spółka Komandytowa

The company's core business is handling leasing of vehicles which were leased for 10 years pursuant to the leasing agreements concluded in 2001.

IV. Organisation and Infrastructure Development

Bank Zachodni WBK Ownership Structure

According to the data held by the Management Board of Bank Zachodni WBK, as at 31 December 2004, the shareholder with at least 5% of the voting power at the Bank's AGM was AIB European Investments Ltd., 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%

Governing Bodies

General Meeting of Shareholders

On 20 April 2004, the Annual General Meeting of Shareholders of Bank Zachodni WBK was held, which approved single and consolidated financial statements for 2003 submitted by the Management Board and the Management Board's report on the Bank's and the Group's operations in 2003. The AGM also approved distribution of profit and dividend payments, and gave discharge to the Management Board and Supervisory Board members on their duties in the past year. The AGM appointed a new member of the Supervisory Board, Mr Don Godson. The AGM also reviewed and approved the Supervisory Board's report on its operations in 2003 and the Management Board's report on implementation of EGM Resolution no. 1 of 12 June 2000 approving the sale of selected properties owned by the Bank and requiring the Management Board to submit reports on the transactions.

Extraordinary General Meeting of Shareholders

On 17 December 2004, an Extraordinary General Meeting of Shareholders of Bank Zachodni WBK S.A. was held, which decided that from 2005 onwards the Bank will be producing its financial statements in line with the International Financial Reporting Standards.

Supervisory Board

As at 31 December 2004, the composition of the Bank Zachodni WBK Supervisory Board was as follows:

Function	*Name*
Supervisory Board Chairman	Marian Górski
Supervisory Board Vice-Chairman	Gerry Byrne
Supervisory Board Members:	Waldemar Frąckowiak
	Aleksander Galos
	Don Godson
	Declan McSweeney

	John Power Aleksander Szwarc Jacek Ślotała

Compared to the end of December 2003, the following changes took place in the Supervisory Board: On 31 December 2003 Mr Dermot Gleeson completed his assignment on the Bank's Supervisory Board due to his appointment as the Chairman of the AIB p.lc. 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 the Bank's Supervisory Board Member.

On 17 December 2004, the Bank announced Mr Mariana Górski's decision not to run for another term of office.

Management Board

As at 31 December 2004, the composition of the Bank Zachodni WBK Supervisory Board was as follows:

Function	*Name*
Management Board President	Jacek Kseń
Management Board Vice-President	Cornelius O'Sullivan
Management Board Members:	Declan Flynn
	Michał Gajewski
	Justyn Konieczny
	Janusz Krawczyk
	Jacek Marcinowski
	Mateusz Morawiecki
	James Murphy
	Feliks Szyszkowiak

In 2004, the Management Board composition was reduced by one member. On 14 January 2004, Mr Maciej Węgrzyński submitted his resignation from the Board.

At the end of June 2004 another change took place in the Management Board composition. On 30 June 2004, Mr Michael Keegan resigned from the Management Board following his appointment to a new role in the Allied Irish Banks p.l.c. He was succeeded by Mr James Murphy, whom the Supervisory Board appointed to the office on 1 July 2004.

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

The table below shows the number and nominal value of the shares of Bank Zachodni WBK held by the Management and the Supervisory Board members as at 31 December 2004.

Shareholder	*Shares held*	*Nominal value of shares (in PLN)*
Supervisory Board		
Marian Górski	52	520
Waldemar Frąckowiak	278	2780
Management Board		
Jacek Kseń	450	4500

The other members of the Supervisory or the Management Board did not have any holdings in the Bank Zachodni WBK shares.

Corporate Governance and Business Ethics

Corporate governance

According to its statement issued on 30 December 2002, Bank Zachodni WBK complies with the corporate governance principles defined in "Best Practice in Public Companies in 2002" and introduced by force of Resolution No. 58/952/2002 of the Stock Exchange Board, dated 16 October 2002. The contents of the document as well as its recommended application in the Bank were approved by the Management Board and the Supervisory Board, and subsequently accepted by the General Meeting of Shareholders held on 10 April 2003.

The Bank also has additional internal procedures designed to support the monitoring of compliance with the good practices. Relevant changes were also introduced to the Statutes of Bank Zachodni WBK and to the terms of reference of the AGM, the Supervisory Board and the Management Board. As required by corporate governance principles, more than a half of the Supervisory Board directors have a status of an independent member. Also, at the Bank's web site there is a special folder named "Investor Relations", where all the current and periodic reports as well as corporate documents and other relevant information are published.

Code of Business Ethics

In January 2004, the Bank implemented the Code of Business Ethics, which applies across the AIB Group. The Code sets out the general standards of behaviour which underpin the Group's corporate culture. The application of these standards is supported by detailed regulations contained in relevant policies and procedures.

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

The introduction of the Code of Business Ethics came after a wide-ranging informational campaign. A number of meetings were held with managers and staff to brief them on the importance of ethical conduct in the banking business. To increase awareness of the Code of Business Ethics, a special e-learning course was prepared for all staff.

Human Resources and Training

Key areas of activity

In 2004, the Bank's training activity was focused on initiatives supporting the execution of the corporate strategy and the development of managers, lenders and relationship officers. An important stream of HR actions was the preparation and delivery of the Staff Opinion Survey followed by an analysis of its results. During the year the Bank continued to implement the comprehensive system for personnel management. The employment restructuring has been significantly curtailed and resulted from the current business requirements.

Human Resources

As at 31 December 2004, the number of FTEs in Bank Zachodni WBK S.A was 7,092 i.e. by 325 lower as compared to the end of the previous year. In the companies consolidated with the Bank, the employment increased by 42 FTEs up to 375 FTEs (excluding CardPoint S.A., which has been sold). The decrease in employment results from the units effectiveness optimisation process carried out in the bank through adjusting relevant resources and structures to potential local markets. It arises also from the organisational changes associated with the implementation of a new branch model in line with the CRM programme guidelines. The HR processes in the Business Support Centre were related mainly to the development of the organisational structure and the growing quality requirements in relation to staff members.

In 2004, intensive preparations were made for the implementation of an IT platform supporting comprehensive HR management - SAP e-HR. The new tool will modernise the currently applied technology and trigger a profound transformation of HR-related processes and services through introducing many elements of the self-service of managers and employees. The implementation of new IT infrastructure is carried out in stages and will be continued in 2005. Last year a central HR and payroll service model was delivered, and in 2005, the full implementation of training services and modules related to the self-service, work effectiveness and remuneration management is planned.

In 2004, a role of Staff Relations Manager was established in Bank Zachodni WBK S.A, whose main task is to create the bank's image as a trustful employer among staff. The delivery of this objective requires the development and consistent implementation of a long-term strategy for the development of staff relations based on the best practices in AIB Group and the regulations applicable in the European Union. The person performing this function is also responsible for managing the staff attitude survey.

The first staff attitude survey in the bank's history was conducted in September 2004 and covered all the staff employed in Bank Zachodni WBK S.A. The objective of this survey was to identify key factors which impact staff's commitment and motivate them to achieve the set objectives, to assess the HR management quality by their line managers and the effectiveness of mutual communication at all levels in the organisation as well as to obtain feedback on Performance Management, incentive systems, training sessions, team work, etc. The survey results were analysed and communicated to staff members. Among the good information we received, there was a confirmation that the strategy and corporate behaviours were well understood and highly assessed by the employees who additionally demonstrate high commitment to the delivery of group's objectives. The lower rated areas will be improved due to the implementation of rehabilitation programmes.

Training

In 2004, the training sessions and development programmes organised by the Bank were attended by 43.2k participants, i.e. 38% more than in the previous year. The majority (69%) was trained in the e-learning system which is becoming increasingly popular due to its speed, efficiency and low costs of information transfer. The Bank also introduced the method of mixed training sessions, which requires the staff to prepare theoretically in the e-learning mode before participation in the traditional training sessions focused on broadening the knowledge and developing practical skills. The main thematic blocks of the training sessions conducted in 2004 related to the following topics: strategic products, sales techniques oriented on the team work and service quality, financing SMEs and the security of banking operations. The training initiatives were addressed, first of all, to the branch staff. In order to increase the effectiveness of training sessions and ensure the highest service quality to customers, customer facing staff are offered comprehensive training only. It means that each training project designed for this group must cover not only an individual product but also all the related processes, procedures and sales techniques.

In 2004, the Bank also completed the annual "Successful Managers Programme". Within this initiative, a number of training sessions were held to develop leadership skills of the 55 participants of the programme. The young managers also work with experienced managers which act as their

mentors. In this manner the first group of skilled and outstanding employees were prepared to perform key functions at the low and medium managerial level.

Infrastructure

Branch network

At the end of 2004 the Bank's distribution network comprised 387 branches and was divided into three macro-regions (Wrocław, Poznań and Warsaw) and 14 regions. Compared to the end of December 2003, the number of branches decreased by 13.

The Bank continued the process of review, restructuring and rationalisation of the branch network. Throughout 2004, 14 branches were restructured, which involved transferring their business to better performing outlets, with a higher development potential.

The Bank opened another branch near Warsaw, thus consolidating its position in the Warsaw market. Consequently, at the end of December 2004 the Bank Zachodni WBK branch network in Warsaw and its surroundings comprised 41 branches.

In 2004, efforts continued to re-focus branch operations in accordance with the Segmentation and CRM Programme (for more details see Chapter III, the section on Segmentation and CRM).

Corporate Business Centres

In 2004, Bank Zachodni WBK provided services to corporate customers through five Corporate Business Centres based in Warsaw, Wrocław, Poznań, Kraków and Gdańsk They are separate from the divisional structure of the Business Support Centre and report directly to the First Vice-President of the Management Board (for more details see Chapter III, the section on Commercial and Corporate Banking).

Electronic Banking Infrastructure

In 2004, the bank searched for attractive locations for its ATMs and installed subsequent machines. As at the end of December, the network of Bank Zachodni WBK ATMs consisted of 578 machines, i.e. by 21 more than at the end of the previous year.

The functionality of Bank Zachodni WBK ATMs is very extensive and constantly developed. Apart from the withdrawals, customers can use additional services, such as checking the account balance, specification of transactions, transfer to the Bank Zachodni WBK credit card, PIN change, card activation, topping up "pre-paid" mobiles for all the operators, paying bills for the Idea subscriber's mobile, etc.

With regard to the planned mass migration of the bank's credit cards to the chip technology, in 2004, the project of adjusting Bank Zachodni WBK's ATMs to the service of EMV technology was progressed. The work will be completed in 2005.

Communication Centre

The Bank Zachodni WBK Communication Centre based in Środa Śląska was opened in 2001 to facilitate the Bank's direct banking activities. Initially, it fulfilled only operational functions. In 2004, the Centre started phone and Internet-based sales and acquisition activities, also with the use of external commercial databases (for more details see Chapter III, the section on Direct Banking).

Capital Expenditure

In 2004, the capital expenditure of Bank Zachodni WBK totalled PLN 60.6 m and was 29% lower than last year. The decrease was caused by the high expenditure incurred in 2003 due to the completion of the last stage of the B1 Programme (PLN 23.9 m). The initiative was finalised in the first quarter of 2003 after full roll-out of ICBS and its supporting projects in the Branch Network. After excluding this item from the 2003 capital expenditure, the investment figures in both periods are comparable.

In 2004, the IT spend totalled PLN 49.2 m. One of the key IT initiatives was the implementation of a uniform decision platform for a group of credit products (project commenced in 2003). The new solutions are designed to accelerate, automate and simplify the relevant credit processes. As part of implementation of the comprehensive HR management system, an HR and Payroll module was deployed in 2004. Subsequent modules will be launched in 2005. Last year also saw commencement of the process of card migration to the microchip technology in order to align the Bank's offer to the world standards and to increase transaction security. Furthermore, efforts were continued to prepare the Bank's systems to capture and process data required by Basel, IFRS and other external institutions. The remaining IT projects covered implementation of central solutions to enable reduction of the cost of system maintenance and to prepare these system to cater for the new business requirements.

The Bank's investments in properties and other fixed assets amounted to PLN 11.4m. A portion of these investments was used to adjust branches to the new customer service model compliant with the Segmentation and CRM Programme. There was also a project delivered whose purpose was to increase branch security by implementation of modern security systems.

In 2004, the subsidiaries of Bank Zachodni WBK incurred capital expenditure of PLN 5 m versus PLN 7.1 m incurred in the previous year.

V. KEY RISK AREAS

Bank Zachodni WBK S.A.

One of the key objectives of Bank Zachodni WBK is to create strong and stable value for shareholders, while safeguarding customer deposits. To this end, the Bank must employ proper mechanisms for identification, control and management of the various risks to which the Bank is exposed.

The following three risk areas may be identified in Bank Zachodni WBK S.A: market risk (including but not limited to interest rate risk, liquidity risk and FX risk), credit risk and operational risk.

Market Risk Management

Management structure

As part of the Bank's risk management policy, the Bank's Management Board designated the Assets and Liabilities Committee as a body responsible for strategic balance sheet management and for ensuring compliance with the policies covering the liquidity risk, interest rate risk and FX risk.

At the monthly meetings, ALCO monitors the Bank's exposure against its capital base and the limits defined by the external regulators (e.g. governmental or banking supervision bodies), AIB Group or the Bank's authorities.

ALCO members are senior managers from individual divisions which generate and manage the market risk.

The market risk is managed centrally in the Treasury Division. With a direct access to the financial market (including the money market and derivatives market), this unit effects relevant purchase/sale transactions in order to maintain – within the binding limits – the market risk associated with the Bank's retail, commercial or corporate operations.

The Treasury Division receives support from the Assets and Liabilities Management Department, which is responsible for ongoing identification and measurement of the market risk arising from retail, commercial and corporate operations of the Bank and for transferring this risk to the Treasury Division.

Liquidity risk

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

The policy is to counter-balance the contracted or contingent outflows with expected / contracted inflows or realisation of liquid assets (mainly debt securities) to resist any extraordinary or crisis situations triggered both by internal factors (e.g. sudden increase in the value of facilities drawn under the sanctioned credit lines) or external ones (e.g. material drop in liquidity on the FX swaps market).

The policy covers all assets and liabilities as well as off-balance sheet items (both PLN and FX – denominated) impacting the liquidity level. Contractual and behavioural maturity is also taken into account, based on the statistical analysis of stability of the deposit base and the credit portfolio.

Daily reports present the liquidity risk as liquidity gaps both in individual time periods and in a consolidated form.

There is also a contingency plan in place to cater for critical liquidity problems. A multi-pronged plan sets forth clearly defined guidelines and scope of responsibilities in the case of critical liquidity problems arising from either internal or external factors.

Interest rate risk

Bank Zachodni WBK pursues an interest rate risk management policy in order to reduce the Bank's exposure to adverse fluctuations.

The risk is measured as the Potential Maximum Loss (PML) resulting from negative interest rate changes. PML is estimated at the 99% trust level, based on the 3-year fluctuation history, while assuming a 1-month period of maintaining the FX position.

FX risk

The FX risk policy of Bank Zachodni WBK serves as the major document regulating the management of FX risk. The policy reduces the Bank's exposure to adverse fluctuations of the FX rates which might affect the value of the FX portfolio.

The FX risk is measured as the Probable Maximum Loss (PML) resulting from open FX positions and negative FX rate movements. PML is estimated at the 99% trust level, based on the 3-year fluctuation history.

In addition to the limits that curtail the Probable Maximum Loss for individual currencies, total positions and *intraday* and *overnight* positions, there are also *stop-loss* limits applied.

There is also a contingency plan in place to cater for critical FX problems

Management of structural balance sheet risk

Within the mainstream of its active balance sheets management, Bank Zachodni WBK identified balance sheet items which resist general interest rate fluctuations. The Bank's books show a surplus of liabilities over assets resistant to general interest rate fluctuations. The resultant net position generates a variable revenue stream shaped by the level of interest rates.

In order to limit the fluctuations arising from the balance sheet structure, Bank Zachodni WBK follows the policy of managing net liabilities resistant to interest rate movements. In compliance with this policy, the ALCO Committee monitors positions of transactions hedging risk posed by the structure of balance sheets.

Own funds management

In order to ensure sufficient equity to match the current and future size of the Bank Zachodni WBK operations and to eliminate the related risks, the Bank's policy will endeavour to maintain a strong capital base.

As at 31 December 2004, the Bank's own funds added up to PLN 3,011.8m with a solvency ratio at 12.46%. The respective figures for Bank Zachodni WBK Group amounted to PLN 3,021.9m and 12.92%.

The effectiveness of the Bank's funds is safeguarded through the management of the structural balance sheet risk.

Credit Risk Management

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

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

Credit Forum

To effectively manage credit risk, Bank Zachodni WBK established a decision making body known as *Credit Policy Forum* whose key role is to develop and approve credit policies, best practices, sectoral analyses, credit grading systems and credit risk assessment addressed for the Branch Network and BSC units directly responsible for business growth and support. *The Credit Policy Forum* is a platform for arrangements and communication with the use of best practices of the Poland Division and the AIB Group with regard to managing risk-weighted assets. *The Credit Policy Forum* is composed of senior representatives of individual Bank Zachodni WBK divisions.

Credit policies

Credit policies contain guidelines for identification and assessment of areas where specific types of risks manifest themselves, also providing for 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 specificity of the local credit market.

In 2004 Bank Zachodni WBK performed a periodical review of its key credit policies (e.g. policy on lending to the clients classified in the 'watch' grade), taking into consideration the assumptions of the adopted strategy and changes in the external conditions.

Credit grading

In 2004, Bank Zachodni WBK aligned its credit grading system with the new legislative developments in Poland and preserved its conservative approach to risk assessment.

Also, intensive work has been undertaken to develop internal scoring / rating systems dedicated to the biggest loan books which conform to the New Capital Accord and the Capital Requirement Directive. These efforts are accomplished in close liaison with external, internationally recognized advisors and are being coordinated by AIB Credit Risk Management.

Provisioning

Bank Zachodni WBK creates provisions in line with the applicable laws. Because of amendments to these laws (Ordinance of the Finance Minister dated 10 December 2003 regarding creation of provisions against risks associated with banking activities, Journal of Laws no. 218, section 2147), the Bank decided to review its NPL portfolio, assuming a conservative approach to the valuation of those collateral items which may reduce the provisioning basis.

At the same time, Bank Zachodni WBK was working towards adoption of the new provisioning rules compliant with IFRS 39 starting from January2005.

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

Risk return

Bank Zachodni WBK continues to implement risk based methods of grading loans, allocating capital and measuring returns.

Credit decision making process

The process of credit decision making as embedded in the risk management policy is based upon discretionary limits vested in lending officers, commensurate with their knowledge and experience relating to particular activities (corporate banking, commercial banking and retail banking). Credit exposures in excess of PLN 15,000,000 are referred to the Credit Committee composed of senior managers and top executives of Bank Zachodni WBK.

Bank Zachodni WBK continually strives to ensure best quality credit service to meet the borrowers' expectations and relevant risk policy standards. To this end, the Bank created the roles of Chief Credit Officer and Credit Directors whose job is to make credit decisions and ensure good

quality of the loan books. This approach will allow to segregate the sales process from the credit risk approval function.

In terms of retail banking products, Bank Zachodni WBK has been implementing scoring systems. The process started two years ago when decision making systems capable of assessing retail customers' requests for selected products were implemented. This year will bring harmonisation of decision platforms and implementation of application scoring for further retail banking products as well as behavioural scoring for bank accounts. Scoring will also be applied to smaller companies. This action aims at improving the quality of risk management across the retail loan book, accelerating decision making processes and ensuring compliance with the Basel requirements. There are also plans to use scoring towards calculation of provisions under IFRS 39. Scoring is being implemented with the assistance of internationally recognized consulting firms.

Credit reviews

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

In 2004, Bank Zachodni WBK aligned its credit grading system with the new changes arising from the Finance Ministry's Ordinance and preserved its conservative approach to risk assessment. The loan book was also reviewed in relation to impairment of particular credit exposures in line with IFRS 39.

Operational Risk Management

Operational risk is exposure to losses related to the failure of internal processes, human and system errors and external factors.

Operational risk management in the Bank Zachodni WBK Group is operated at the following three levels of responsibility:

- All organizational units responsible for operational risk that may manifest itself in the area of their operations (identification of risk across conducted activities and implemented changes, assessment of controls, risk ratio monitoring, loss reporting, learning lessons from operational losses so as to eradicate any imperfections which contributed to their occurrence and to rule out reoccurrence of such incidents in the future);

- The Operational Risk Management (ORM) Team is responsible for coordination of the whole process (creation of policies, systems, new tools, providing support to other units, reporting, analysis, maintenance of databases containing ORM related information, initiating the lessons-learned process);

- Internal Audit is responsible for overseeing and assessing the quality of operational risk management (independent assessment of the process, review of risk identification standards and assessment of control mechanisms).

Furthermore, there is an Operational Risk Management Committee in the Bank, which provides a forum for official discussions about operational risk issues, sets and monitors ORM objectives and prioritizes high risk issues that are presented to the Bank's Management Board.

In accordance with to the "Bank Zachodni WBK Information Security Policy" and its supporting standards, the Bank is pursuing an active risk management policy in this respect. A risk analysis is being performed across and IT systems. All projects are being reviewed for compliance with the

existing standards and any information confidentiality, integrity or availability threats are being followed up .

Bank Zachodni WBK has adopted Business Continuity Management policies and standards to analyze any needs with regard to business continuity management. There are also relevant plans in place, which are developed and updated.

Other operational risk areas the Bank focuses on include anti money laundering, fraud prevention and personal data protection.

Bank Zachodni WBK Group is also developing an ORM methodology compliant with AIB standards and reflecting NBP and Basel recommendations.

Selected subsidiaries of Bank Zachodni WBK S.A.

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

The purchase of fixed assets for leasing purposes requires access to adequate funding sources with the concurrent fulfilment of targets set out in the companies' financing policy:

Timely settlement of companies' liabilities, minimisation of settlement risk and supplier risk

The timely settlement of companies liabilities is understood first of all as making payments to lease assets suppliers at the dates allowing for the quick collection of the asset by its user. The loans raised by the companies and the bonds issued by them serve this purpose. In the view of the Management Boards of the companies, the design of the loans agreements as well as the management of the short- and long-term liquidity prevent the threat of failure to meet their liabilities.

Minimization of the liquidity risk

As at 31 December 2004, the companies had agreements concluded with three banks referring to credit lines financing the leasing business. Apart from loans, the companies had liabilities arising from the bonds issued in 2003-2004.

Minimisation of the interest rate risk

The companies actively manage their position as regards interest rate risk. Both fixed rate- based assets and liabilities are hedged by IRS transactions.

Minimisation of the fx risk

The companies minimise the fx risk by applying the principle of financing lease contracts with matched currency liabilities. Additional instruments supporting the fx position management are forward fx transactions.

Minimisation of the operational risk

In view to mitigate material operational risks associated with business operations, the companies have followed through the following actions:

- they have liaised with Bank Zachodni WBK on a on-going basis as regards implementation of best practices and policies of operational risk mitigation,
- they have implemented policies and standards re. operational risk, data protection, information security and money laundering prevention.

BZ WBK Faktor Sp. z o.o.

The Management Board of BZ WBK Faktor Sp. z o.o. who is responsible for managing the company's risk passed its powers to the following Departments: Risk Assessment Department and Operational Department. These departments are responsible for managing individual risk areas, monitoring the company's general risk on a on-going basis and for shaping the current policy within the framework set by the Management Board.

Market risk management

The Management Board of BZ WBK Faktor Sp. z o.o. is responsible for the strategic management of the balance sheet. Its main areas of activity include management of capital, funding sources and liquidity as well as market risk identification and its management. BZ WBK Faktor Sp. z o.o. manages its liquidity within the framework set out by AIB Group and the company's Supervisory Board.

Liquidity risk management

BZ WBK Faktor Sp. z o.o. monitors its liquidity position on a on-going basis. This involves the need to take account of the funds paid out by the company and client funding within the financing limit set by Bank Zachodni WBK. On a daily basis, the Operational Department monitors the pay outs to clients related to their financed invoices and repayments made by their debtors.

Factoring (credit) risk management

The factoring activity of the company focuses on the growth in the factoring turnover and the resultant growth of the factoring portfolio, ensuring at the same time top quality, good profitability and customer satisfaction.

The factoring risk is managed based on the polices defined by the Management Board, accepted factoring processes and procedures as well as based on the discretionary limits system adjusted to the knowledge and experience of the management cadre. The internal monitoring and customer grading systems applied by BZ WBK Factor Sp. z o.o. allow for early recognition of threats to the quality of the factoring book.

Operational risk management

In each of operational risk management areas (external IT providers, back-office outsourcing through Bibby Factors Polska, fraud prevention, business continuity), BZ WBK Faktor Sp. z o.o. has identified key risks, which are monitored and controlled on an on-going basis.

As part of the operational risk management, Faktor co-operates closely with Bank Zachodni WBK, in particular, in reference to counteracting money laundering, operational risk self-assessment and analysis, fraud prevention, personal data protection, etc.

Signatures of the members of Bank Zachodni WBK Management Board :

Date	***Name and surname***	***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	