



# **INTERIM REPORT 2014** **OF BANK ZACHODNI WBK GROUP**

2014



Bank Zachodni WBK

 Grupa Santander

FINANCIAL HIGHLIGHTS		PLN k		EUR k		
		for reporting period ended:		30.06.2014	30.06.2013	30.06.2014
Consolidated financial statements of Bank Zachodni WBK Group						
I	Net interest income		1 773 020	1 550 398	424 330	367 916
II	Net fee and commission income		893 095	874 889	213 741	207 615
III	Operating profit		1 205 160	990 253	288 426	234 991
IV	Profit before tax		1 205 249	997 130	288 447	236 623
V	Net profit attributable to owners of BZ WBK S.A.		953 580	793 103	228 217	188 207
VI	Total net cash flow		(3 861 641)	(3 552 491)	(924 191)	(843 021)
VII	Total assets		107 590 333	101 348 904	25 857 467	23 410 539
VIII	Deposits from banks		7 423 986	8 016 541	1 784 226	1 851 737
IX	Deposits from customers		77 777 112	74 596 252	18 692 377	17 230 955
X	Total liabilities		92 973 204	88 099 628	22 344 494	20 350 094
XI	Total equity		14 617 129	13 249 276	3 512 973	3 060 444
XII	Non-controlling interests in equity		565 566	67 458	135 924	15 582
XIII	Profit of the period attributable to non-controlling interests		21 362	14 539	5 112	3 450
XIV	Number of shares		93 545 089	93 545 089		
XV	Net book value per share in PLN/EUR		156,26	141,64	37,55	32,72
XVI	Solvency ratio *		13,33%	14,33%		
XVII	Profit per share in PLN/EUR		10,19	8,52	2,44	2,02
XVIII	Diluted earnings per share in PLN/EUR		10,18	8,50	2,44	2,02
XIX	Declared or paid dividend per share in PLN/EUR		10,70	7,60	2,57	1,76
Stand alone financial statements of Bank Zachodni WBK S.A.						
I	Net interest income		1 689 245	1 472 718	404 280	349 482
II	Net fee and commission income		818 719	765 706	195 941	181 705
III	Operating profit		1 194 891	974 277	285 969	231 200
IV	Profit before tax		1 194 891	974 277	285 969	231 200
V	Profit for the period		979 088	805 462	234 321	191 140
VI	Total net cash flow		(3 845 949)	(3 552 613)	(920 436)	(843 050)
VII	Total assets		104 666 024	100 754 112	25 154 660	23 273 148
VIII	Deposits from banks		7 125 403	8 016 533	1 712 467	1 851 735
IX	Deposits from customers		78 143 925	74 864 829	18 780 534	17 292 994
X	Total liabilities		90 878 295	88 161 546	21 841 019	20 364 397
XI	Total equity		13 787 729	12 592 566	3 313 641	2 908 751
XII	Number of shares		93 545 089	93 545 089		
XIII	Net book value per share in PLN/EUR		147,39	134,61	35,42	31,09
XIV	Solvency ratio *		13,73%	14,43%		
XV	Profit per share in PLN/EUR		10,47	8,65	2,51	2,05
XVI	Diluted earnings per share in PLN/EUR		10,45	8,63	2,50	2,05
XVII	Declared or paid dividend per share in PLN/EUR		10,70	7,60	2,57	1,76

FINANCIAL HIGHLIGHTS for the period ended 31.12.2013		Consolidated statement of financial position		Statement of financial position	
		PLN k	EUR k	PLN k	EUR k
I	Total assets	106 059 967	25 573 873	103 367 046	24 924 538
II	Deposits from banks	6 278 797	1 513 985	6 278 784	1 513 981
III	Deposits from customers	78 542 982	18 938 798	78 735 663	18 985 258
IV	Total liabilities	91 577 024	22 081 651	89 782 614	21 648 971
V	Total equity	14 482 943	3 492 222	13 584 432	3 275 567
VI	Non-controlling interests in equity	610 855	147 293	-	-

\* In the capital adequacy area, starting from January 1st, 2014, by the decision of the European Parliament and of the EBA the new regulations of the so-called CRD IV/CRR package come into force. The CRD IV/CRR package consists of two parts, the Directive of CRD IV and the Regulation of CRR. As at June 30th, 2014 the capital ratio is calculated on the basis of own funds and total capital requirement, estimated by applying standard method for particular risks in accordance with the aforementioned recommendations.

The following rates were applied to determine the key EUR amounts for selected financials:

- for balance sheet items – 4.1609 PLN rate to EUR as at 30.06.2014 stated by National Bank of Poland (NBP), 4.1472 PLN rate to EUR as at 31.12.2013 and 4.3292 PLN rate to EUR as at 28.06.2013
- for profit and loss items – as at 30.06.2014: 4.1784 (an average PLN mid-rate to EUR in NBP on the last day of each month in H1 2014), as at 30.06.2013: 4.2140 (an average PLN mid-rate to EUR in NBP on the last day of each month in H1 2013)

As at 30.06.2014, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 124/A/NBP/2014 dd. 30.06.2014.



**CONDENSED INTERIM CONSOLIDATED  
FINANCIAL STATEMENTS OF  
BANK ZACHODNI WBK GROUP  
FOR THE 6-MONTH PERIOD  
ENDED 30 JUNE 2014**

2014



Bank Zachodni WBK

 Grupa Santander

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In thousands of PLN

## Consolidated income statement

for reporting period:		01.04.2014 30.06.2014	01.01.2014 30.06.2014	01.04.2013 30.06.2013	01.01.2013 30.06.2013
Interest income		1 264 648	2 502 093	1 329 375	2 717 937
Interest expense		( 359 379)	( 729 073)	( 529 368)	( 1 167 539)
<b>Net interest income</b>	Note 6	<b>905 269</b>	<b>1 773 020</b>	<b>800 007</b>	<b>1 550 398</b>
Fee and commission income		524 621	1 047 058	518 411	1 018 256
Fee and commission expense		( 73 456)	( 153 963)	( 75 210)	( 143 367)
<b>Net fee and commission income</b>	Note 7	<b>451 165</b>	<b>893 095</b>	<b>443 201</b>	<b>874 889</b>
Dividend income		79 759	79 871	57 520	57 520
Net trading income and revaluation	Note 8	792	( 6 048)	28 770	83 115
Gains (losses) from other financial securities	Note 9	16 184	55 233	90 996	180 732
Other operating income	Note 10	86 953	187 381	24 294	47 300
Impairment losses on loans and advances	Note 11	( 173 882)	( 335 889)	( 196 872)	( 392 910)
Operating expenses incl.:		( 732 259)	( 1 441 503)	( 733 795)	( 1 410 791)
<i>Bank's staff, operating expenses and management costs</i>	Notes 12, 13	( 645 076)	( 1 272 960)	( 674 246)	( 1 284 554)
<i>Depreciation/amortisation</i>		( 70 480)	( 141 135)	( 57 420)	( 114 409)
<i>Other operating expenses</i>	Note 14	( 16 703)	( 27 408)	( 2 129)	( 11 828)
<b>Operating profit</b>		<b>633 981</b>	<b>1 205 160</b>	<b>514 121</b>	<b>990 253</b>
Share in net profits (loss) of entities accounted for by the equity method		189	89	6 533	6 877
<b>Profit before tax</b>		<b>634 170</b>	<b>1 205 249</b>	<b>520 654</b>	<b>997 130</b>
Corporate income tax	Note 15	( 119 570)	( 230 307)	( 94 075)	( 189 488)
<b>Consolidated profit for the period</b>		<b>514 600</b>	<b>974 942</b>	<b>426 579</b>	<b>807 642</b>
of which:				-	-
<i>attributable to owners of BZ WBK S.A.</i>		504 088	953 580	419 487	793 103
<i>attributable to non-controlling interests</i>		10 512	21 362	7 092	14 539
<b>Net earnings per share (PLN/share)</b>				-	-
Basic earnings per share		5,39	10,19	4,50	8,52
Diluted earnings per share		5,38	10,18	4,50	8,50

## Consolidated statement of comprehensive income

for reporting period:		01.04.2014 30.06.2014	01.01.2014 30.06.2014	01.04.2013 30.06.2013	01.01.2013 30.06.2013
<b>Consolidated profit for the period</b>		<b>514 600</b>	<b>974 942</b>	<b>426 579</b>	<b>807 642</b>
<b>Other comprehensive income which can be transferred to the profit and loss account:</b>		<b>245 009</b>	<b>233 949</b>	<b>(249 039)</b>	<b>(338 677)</b>
Available-for sale financial assets valuation		292 374	310 831	(238 430)	(319 835)
<i>including deferred tax</i>		(55 551)	(59 058)	45 301	60 768
Cash flow hedges valuation		10 106	(22 005)	(69 026)	(98 285)
<i>including deferred tax</i>		(1 920)	4 181	13 116	18 675
<b>Other comprehensive income which can't be transferred to the profit and loss account</b>		<b>(7 162)</b>	<b>(7 162)</b>	-	-
Provision for retirement allowances – actuarial gains/losses		(8 842)	(8 842)	-	-
<i>including deferred tax</i>		1 680	1 680	-	-
<b>Other comprehensive income for the period, net of income tax</b>		<b>237 847</b>	<b>226 787</b>	<b>(249 039)</b>	<b>(338 677)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>752 447</b>	<b>1 201 729</b>	<b>177 540</b>	<b>468 965</b>
Attributable to:					
<i>owners of BZ WBK S.A.</i>		741 905	1 180 407	170 474	454 433
<i>non-controlling interests</i>		10 542	21 322	7 066	14 532

In thousands of PLN

## Consolidated statement of financial position

	as at:	30.06.2014	31.12.2013	30.06.2013
<b>Assets</b>				
Cash and balances with central banks	Note 16	7 039 578	5 149 686	2 498 203
Loans and advances to banks	Note 17	2 092 155	2 212 704	1 583 215
Financial assets held for trading	Note 18	3 451 867	2 344 901	2 978 470
Hedging derivatives	Note 19	205 000	321 956	229 515
Loans and advances to customers	Note 20	71 496 622	68 132 143	69 810 428
Investment securities	Notes 21,22	17 517 195	22 090 764	19 936 248
Investments in associates and joint ventures	Note 23	63 533	63 444	117 512
Intangible assets		450 784	506 792	342 941
Goodwill		2 542 325	2 542 325	1 688 516
Property, plant and equipment		591 132	632 642	610 003
Net deferred tax assets	Note 24	566 055	476 430	765 499
Assets classified as held for sale	Note 25	3 503	3 503	2 644
Investment property		14 102	14 166	15 855
Other assets	Note 26	1 556 482	1 568 511	769 855
<b>Total assets</b>		<b>107 590 333</b>	<b>106 059 967</b>	<b>101 348 904</b>
<b>Liabilities</b>				
Deposits from banks	Note 27	7 423 986	6 278 797	8 016 541
Hedging derivatives	Note 19	616 141	367 524	863 849
Financial liabilities held for trading	Note 18	1 609 054	1 277 162	1 308 437
Deposits from customers	Note 28	77 777 112	78 542 982	74 596 252
Subordinated liabilities	Note 29	1 397 795	1 384 719	1 436 145
Debt securities in issue	Note 30	500 543	500 645	-
Current income tax liabilities		177 839	100 983	150 495
Other liabilities	Note 31	3 470 734	3 124 212	1 727 909
<b>Total liabilities</b>		<b>92 973 204</b>	<b>91 577 024</b>	<b>88 099 628</b>
<b>Equity</b>				
<b>Equity attributable to owners of BZ WBK S.A.</b>		<b>14 051 563</b>	<b>13 872 088</b>	<b>13 181 818</b>
Share capital		935 451	935 451	935 451
Other reserve funds		10 866 660	10 115 745	10 789 877
Revaluation reserve		935 734	708 907	533 730
Retained earnings		360 138	129 657	129 657
Profit of the current period		953 580	1 982 328	793 103
<b>Non-controlling interests in equity</b>		<b>565 566</b>	<b>610 855</b>	<b>67 458</b>
<b>Total equity</b>		<b>14 617 129</b>	<b>14 482 943</b>	<b>13 249 276</b>
<b>Total equity and liabilities</b>		<b>107 590 333</b>	<b>106 059 967</b>	<b>101 348 904</b>

In thousands of PLN

## Movements in consolidated equity

Consolidated statement of changes in equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Non-controlling interests in equity	Total
<b>Opening balance at at 31.12.2013</b>	<b>935 451</b>	<b>10 115 745</b>	<b>708 907</b>	<b>2 111 985</b>	<b>610 855</b>	<b>14 482 943</b>
Other comprehensive income which can be transferred to the profit and loss account	-	-	233 989	953 580	21 322	1 208 891
Other comprehensive income which can't be transferred to the profit and loss account	-	-	(7 162)	-	-	(7 162)
Transfer to other capital	-	750 915	-	(750 915)	-	-
Dividends	-	-	-	(1 000 932)	(66 611)	(1 067 543)
<b>As at 30.06.2014</b>	<b>935 451</b>	<b>10 866 660</b>	<b>935 734</b>	<b>1 313 718</b>	<b>565 566</b>	<b>14 617 129</b>

As at the end of the period revaluation reserve in the amount of PLN 935 734 k comprises of debt securities and equity shares classified as available for sale of PLN 356 584 k and PLN 565 956 k respectively and additionally cash flow hedge activities of PLN 14 141 k and accumulated actuarial losses - provision for retirement allowances of PLN (947) k.

Consolidated statement of changes in equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Non-controlling interests in equity	Total
<b>Opening balance as at 31.12.2012</b>	<b>746 376</b>	<b>5 704 680</b>	<b>872 400</b>	<b>1 560 911</b>	<b>93 347</b>	<b>8 977 714</b>
Other comprehensive income which can be transferred to the profit and loss account	-	-	(169 708)	1 982 328	32 289	1 844 909
Other comprehensive income which can't be transferred to the profit and loss account	-	-	6 215	-	-	6 215
Issue of shares	189 075	4 354 766	-	-	-	4 543 841
Transfer to other capital	-	720 311	-	(720 311)	-	-
Dividend relating to 2012	-	-	-	(710 943)	(40 421)	(751 364)
Share purchase mandate adjustment	-	(684 289)	-	-	-	(684 289)
Share scheme charge	-	20 287	-	-	-	20 287
Minority interest recognized on acquisition	-	-	-	-	525 640	525 640
Other	-	(10)	-	-	-	(10)
<b>As at 31.12.2013</b>	<b>935 451</b>	<b>10 115 745</b>	<b>708 907</b>	<b>2 111 985</b>	<b>610 855</b>	<b>14 482 943</b>

As at the end of the period revaluation reserve in the amount of PLN 708 907 k comprises of debt securities and equity shares classified as available for sale of PLN 102 744 k and PLN 567 982 k respectively and additionally cash flow hedge activities of PLN 31 966 k and actuarial gains - provision for retirement allowances of PLN 6 215 k.

Consolidated statement of changes in equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Non-controlling interests in equity	Total
<b>Opening balance as at 31.12.2012</b>	<b>746 376</b>	<b>5 704 680</b>	<b>872 400</b>	<b>1 560 911</b>	<b>93 347</b>	<b>8 977 714</b>
Total comprehensive income	-	-	(338 670)	793 103	14 532	468 965
Issue of shares	189 075	4 354 765	-	-	-	4 543 840
Transfer to other capital	-	720 311	-	(720 311)	-	-
Dividend relating to 2012	-	-	-	(710 943)	(40 421)	(751 364)
Share scheme charge	-	10 131	-	-	-	10 131
Other	-	(10)	-	-	-	(10)
<b>As at 30.06.2013</b>	<b>935 451</b>	<b>10 789 877</b>	<b>533 730</b>	<b>922 760</b>	<b>67 458</b>	<b>13 249 276</b>

As at the end of the period revaluation reserve in the amount of PLN 533 730 k comprises of debt securities and equity shares classified as available for sale of PLN 141 368 k and PLN 404 682 k respectively and additionally cash flow hedge activities of PLN (12 320) k.



In thousands of PLN

## Consolidated statement of cash flows

	for the period	01.01.2014- 30.06.2014	01.01.2013- 30.06.2013
<b>Profit before tax</b>		<b>1 205 249</b>	<b>997 130</b>
<b>Total adjustments:</b>			
Share in net profits (losses) of entities accounted for by the equity method		( 89)	( 6 877)
Depreciation/amortisation		141 135	114 409
Impairment losses		1 425	( 669)
Gains (losses) on exchange differences		( 589)	15 525
(Profit) loss from investing activities		( 61 559)	( 176 355)
		<b>1 285 572</b>	<b>943 163</b>
<b>Changes:</b>			
Provisions		( 130 153)	( 31 421)
Trading portfolio financial instruments		( 609 145)	( 975 379)
Loans and advances to banks		168 209	100 394
Loans and advances to customers		(3 364 479)	(2 341 630)
Deposits from banks		849 222	1 461 949
Deposits from customers		( 688 603)	(3 486 897)
Other assets and liabilities		370 955	41 824
		<b>(3 403 994)</b>	<b>(5 231 160)</b>
Interests and similar charges		( 32 061)	( 8 109)
Dividend received		( 73 758)	( 55 837)
Paid income tax		( 296 100)	( 286 769)
<b>Net cash flow from operating activities</b>		<b>(2 520 341)</b>	<b>(4 638 712)</b>
<b>Inflows</b>		<b>113 072 920</b>	<b>116 691 758</b>
Sale/maturity of investment securities		112 983 935	116 634 701
Sale of intangible assets and property, plant and equipment		15 227	1 220
Dividend received		73 758	55 837
<b>Outflows</b>		<b>(113 450 298)</b>	<b>(114 597 226)</b>
Purchase of investment securities		(113 401 641)	(114 558 017)
Purchase of intangible assets and property, plant and equipment		( 48 657)	( 39 209)
<b>Net cash flow from investing activities</b>		<b>( 377 378)</b>	<b>2 094 532</b>
<b>Inflows</b>		<b>324 000</b>	<b>22 034</b>
Drawing of long-term loans		324 000	22 034
<b>Outflows</b>		<b>(1 287 922)</b>	<b>(1 030 345)</b>
Repayment of long-term loans		( 105 038)	( 193 823)
Dividends and other payments to shareholders		(1 067 544)	( 751 364)
Other financing outflows		( 115 340)	( 85 158)
<b>Net cash flow from financing activities</b>		<b>( 963 922)</b>	<b>(1 008 311)</b>
<b>Total net cash flow</b>		<b>(3 861 641)</b>	<b>(3 552 491)</b>
<b>Cash at the beginning of the accounting period</b>		<b>12 300 487</b>	<b>7 704 551</b>
<b>Cash acquired in a business combination</b>		-	<b>1 834 726</b>
<b>Cash at the end of the accounting period</b>		<b>8 438 846</b>	<b>5 986 786</b>

In thousands of PLN

# Additional notes to consolidated financial statements

## 1. General information about issuer

Bank Zachodni WBK is a bank seated in Poland, 50-950 Wrocław, Rynek 9/11, TIN 896-000-56-73, National Official Business Register number (REGON) 930041341, registered in the District Court for Wrocław-Fabryczna, VI Economic Unit of the National Court Registry under 0000008723 number.

Consolidated financial statements of Bank Zachodni WBK Group includes bank's stand alone financial information as well as information from its subsidiaries (all together called Group) and share of net assets of associated entities.

The direct parent of Bank Zachodni WBK is Banco Santander S.A. seated in Santander, Spain.

BZ WBK Group offers a wide range of banking services for individual and business customers and operates in domestic and interbank foreign markets. Additionally, it offers also the following services:

- intermediation in trading securities,
- leasing,
- factoring,
- asset/ fund management,
- insurance services,
- trading in stock and shares of commercial companies
- brokerage activity.

Group of Bank Zachodni WBK consists of the following entities:

### Subsidiaries:

Subsidiaries	Registered office	% of votes on AGM 30.06.2014	% of votes on AGM 30.06.2013
1. BZ WBK Finanse Sp. z o.o.	Poznań	100	100
2. BZ WBK Faktor Sp. z o.o.	Warszawa	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
3. BZ WBK Inwestycje Sp. z o.o.	Poznań	100	100
4. Dom Maklerski BZ WBK S.A. ****	Poznań	100	99.99
5. BZ WBK Lease S.A. *	Warszawa	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
6. Lizar Sp. z o.o. **	Warszawa	100% of AGM votes are held by BZ WBK Lease S.A.	100% of AGM votes are held by Kredyt Lease S.A.
7. BZ WBK Leasing S.A.	Poznań	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
8. BFI Serwis Sp. z o.o. in liquidation	Warszawa	100	100
9. BZ WBK Nieruchomości S.A.	Poznań	99.99	99.99
10. BZ WBK Asset Management S.A. **	Poznań	50	50
11. BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. ***	Poznań	66	-
12. BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A. ***	Poznań	66	-
13. BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.	Poznań	100% of AGM votes are held by BZ WBK Asset Management S.A.	100% of AGM votes are held by BZ WBK Asset Management S.A.

In thousands of PLN

Financial statements of the subsidiaries are fully consolidated with financial statements of Bank Zachodni WBK, excluding Lizar Sp. z o.o., whose financial statements are not consolidated because its business activities and operating results are irrelevant.

\* As at 31 January 2014, Kredyt Lease S.A., a subsidiary of Bank Zachodni WBK, was renamed as BZ WBK Lease S.A. All the other identification details of the company, including its registered office address, NIP, REGON and KRS numbers remained unchanged.

\*\* As at 30 June 2014, Bank Zachodni WBK was a co-owner of BZ WBK Asset Management S.A., together with Banco Santander S.A. Both owners are members of Santander Group and each holds an equal stake of 50% in the company's share capital. In practice, Bank Zachodni WBK exercises control over the company and its subsidiary, BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., because through it Banco Santander pursues its policy in Poland. Consequently, the company is treated as a subsidiary.

\*\*\* Detailed information on the controlling stake at the companies BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. (General Insurance Company) and BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. (Life Insurance Company) are described in Note 39.

\*\*\*\* On 12 June 2014, an agreement was signed, whereby BZ WBK purchased one share of Dom Maklerski BZ WBK SA. from BZ WBK Finanse. As a result of the transaction, the Bank holds 100% of the Brokerage House's share capital and 100% voting rights in the Brokerage House. The share purchase price is equal to the par value of the share, i.e. PLN 100.

#### Associates:

Associates	Registered office	% of votes on AGM 30.06.2014	% of votes on AGM 30.06.2013
POLFUND - Fundusz Poręczeń			
1. Kredytowych S.A.	Szczecin	50	50
2. Metrohouse S.A.*	Warszawa	21,23	21,23
3. Krynicki Recykling S.A.*	Warszawa	21,87	22,32

\* These are the associates of BZ WBK Inwestycje Sp. z o.o. - bank's subsidiary. They are accounted for using the equity method. Purchase of shares was a part of building a portfolio of pre-IPO type own investment.

#### Joint ventures:

Joint ventures	Registered office	% of votes on AGM 30.06.2014	% of votes on AGM 30.06.2013
BZ WBK-Aviva Towarzystwo Ubezpieczeń			
1. Ogólnych S.A. *	Poznań	-	50
BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. *			
2. Życie S.A. *	Poznań	-	50

\* Detailed information on the controlling stake at the companies BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. (General Insurance Company) and BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. (Life Insurance Company) are described in Note 39.

Joint ventures were accounted for using the equity method.

## 2. Basis of preparation of interim financial statements

In comparison with annual financial statements content of an interim financial report is condensed, therefore it should be read in conjunction with the financial statements of Bank Zachodni WBK Group for the year 2013.

The consolidated financial statements of the Group for the year 2013 are available at the Bank's official website: [www.bzwbk.pl](http://www.bzwbk.pl).

### Statement of compliance

Condensed interim consolidated financial statements of Bank Zachodni WBK Group for the period from 1 January 2014 to 30 June 2014 were prepared in accordance with the International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union and other applicable regulations.

In accordance with Decree of the Ministry of Finance dated 19 February 2009 on current and periodic information provided by issuers of securities and the conditions for recognition as equivalent information required by the law of a non-Member State (Official Journal from 2009, No 33, item 259 as amended), the Bank is required to publish the financial results for the six months ended 30 June 2014 which is deemed to be the current interim financial reporting period.

In thousands of PLN

## Accounting policies

The condensed interim consolidated financial statements are presented in PLN, rounded to the nearest thousand.

The financial statements are prepared on a fair value basis for derivative financial instruments, financial instruments measured at fair value through profit and loss account, and available-for-sale financial assets, except those for which a reliable measure of fair value is not available. Other financial assets and financial liabilities (including loans and advances) are recognized at amortised cost using the effective interest rate less impairment or purchase price less impairment.

The accounting policies have been applied consistently by Group entities.

The accounting policies applied by the Group in these condensed interim consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2013.

## Comparability with results of previous periods

No major changes were introduced in respect of presentation of financial data for comparable periods of time.

As a result of adoption of the amendments to IAS 19 starting from 2013, the Group changed its approach to the recognition of actuarial gains/losses arising on the revaluation of the provisions for employee benefits. In these financial statements, such changes are reflected in "Other comprehensive income". In the comparable period, the related valuations were recognised in the profit and loss account in "Staff costs" and the actuarial gains on this account was PLN 163k, while the related deferred tax was PLN 31k.

## Changes in judgments and estimates

Compared with the consolidated financial statements for 2013, in H1 2014 there were no material changes in Bank Zachodni WBK Group's accounting estimates or judgments.

In thousands of PLN

## New standards and interpretations or changes to existing standards or interpretations which can be applicable to BZ WBK Group and are not yet effective or have neither been implemented earlier

IFRS	Description of changes	Effective in the European Union from	Impact on the Group
IFRS 9 Financial Instruments, Amendments to IFRS 9	Changes in classification and measurement - the existing categories of financial instruments to be replaced by two measurement categories, i.e. amortised cost and fair value. Changes in hedge accounting.	Date of entry postponed indefinitely	The Group has not completed its analysis of changes.
IAS 19 Employee Benefits - amendments	The amendments apply contributions from employees or third parties to defined benefit plans. The objective of amendments is to simplify the accounting for contributions that are independent of the number of years of employee service.	1 January 2015	The Group has not completed its analysis of changes.
Annual Improvements to IFRSs cycle 2010-2012	The issues included: <ul style="list-style-type: none"> <li>- IFRS 2 Definition of 'vesting condition';</li> <li>- IFRS 3 Accounting for contingent consideration in a business combination;</li> <li>- IFRS 8 Aggregation of operating segments and Reconciliation of the total of the reportable segments' assets to the entity's assets;</li> <li>- IFRS 13 Short-term receivables and payables;</li> <li>- IAS 7 Interest paid that is capitalised;</li> <li>- IAS 16 / IAS 38 Revaluation method - proportionate;</li> <li>- IAS 24 Key management personnel.</li> </ul>	1 January 2015	The Group has not completed its analysis of changes.
Annual Improvements to IFRSs cycle 2011-2013	The issues included: <ul style="list-style-type: none"> <li>- IFRS 3: scope exceptions for joint ventures;</li> <li>- MSSF 13: scope of paragraph 52 (portfolio exception);</li> <li>- IAS 40 Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property when classifying property as investment property or owner occupied property.</li> </ul>	1 January 2015	The Group has not completed its analysis of changes.
Amendments to IFRS 11 Joint Arrangements	Introduction of new additional guidance on accounting for the acquisition of an interest in a joint operation. The amendments define accounting for such acquisitions.	1 January 2016	The Group has not completed its analysis of changes.
Amendments to IAS 16 and IAS 38	The amendments to IAS 16 and IAS 38 establish the principle relating to consumption of the future economic benefits of an asset in respect of depreciation and amortisation. IASB clarified that revenue-based methods are not appropriate to calculate depreciation.	1 January 2016	The Group has not completed its analysis of changes.

In thousands of PLN

## Standards and interpretations or changes to existing standards or interpretations which were applied for the first time in 2014

IFRS	Description of changes	Effective in the European Union from	Impact on the Group
IAS 32 Financial Instruments: Presentation	IAS clarifies its requirements for offsetting financial instruments.	1 January 2014	Amendments did not have material impact on the financial statements.
Transition Guidance (Amendments to IFRS 10)	The amendments clarify transition guidance in IFRS 10 and also provide additional transition relief in IFRS 10, IFRS11, IFRS12.	1 January 2014	Amendments did not have material impact on the financial statements.
Investment entities (amendments to IFRS 10, IFRS 12 and IAS 27)	The amendment exempts from consolidation "investment entities" such as mutual funds.	1 January 2014	Amendments did not have material impact on the financial statements.
Amendments to IAS 36 „Impairment of assets”	Amendments IAS 36 modified the disclosure requirement regarding measurement of the recoverable amount of impaired non-financial assets as a consequential amendment to IFRS 13.	1 January 2014	Amendments did not have material impact on the financial statements.
IFRIC interpretation 21 Levies	The interpretation clarifies how an entity should account for liabilities to pay levies imposed by governments, other than income taxes.	1 January 2014	Amendments did not have material impact on the financial statements.
IAS 39 "Financial Instruments: Recognition and Measurement" - amendments	The amendments allow hedge accounting to continue in a situation if a hedging derivative was novated.	1 January 2014	Amendments did not have material impact on the financial statements.

In thousands of PLN

### 3. Segment reporting

Operational activity of Bank Zachodni WBK Group has been divided into four segments: Retail Banking, Business & Corporate Banking, Global Banking & Markets, and ALM (Assets and Liabilities Management) and Centre. They were identified based on customers and product types.

Income and costs assigned to a given segment are generated on the sale and service of products or services in the segment, according to description presented below. Such income and costs are recognized in the profit and loss account for the Group and may be assigned to a given segment either directly or based on reasonable assumptions.

Settlements among business segments relate to delivered services and include:

- sale and/or service of customers assigned to a given segment, via sale/service channels operated by another segment;
- sharing of income and costs on transactions in cases where a transaction is processed for a customer assigned to a different segment;
- sharing of income and cost of delivery of common projects.

Income and cost allocations are regulated by agreements between segments, which are based on single rates for specific services or breakdown of total income and/or cost.

Assets and liabilities of a given segment are used for the operational activity and may be assigned to the segment directly or on a reasonable basis.

In 2014, there was a change in the methodology for capital and related income allocation between business segments. Comparable data are adjusted accordingly. The principles of income and cost identification, as well as assets and liabilities for segmental reporting purposes are consistent with the accounting policy applied in Bank Zachodni WBK Group.

#### Retail Banking

In the offer for customers of this segment there are a wide range of savings products, consumer and mortgage loans, credit and debit cards, insurance and investment products, clearing services, GSM phones top-ups, foreign payments and Western Union and private-banking services. For small and micro companies, the segment provides, among others, lending and deposit taking services, cash management services, leasing, factoring, letters of credit and guarantees. Furthermore, the Retail Banking segment generates income through offering asset management services within investment funds and private portfolios. It also covers insourcing services provided to retail customers based on mutual agreements with other banks and financial institutions.

#### Business & Corporate Banking

Business & Corporate Banking segment covers products and activities targeted at business entities, local governments and the public sector. In addition to banking services covering lending and deposit activities, the segment provides services in the areas of cash management, leasing, factoring, trade financing and guarantees.

#### Global Banking & Markets

In the Global Banking & Markets segment, the Group derives income from the sale of products and services to the largest international and local corporations, including:

- transactional banking with such products as cash management, deposits, leasing, factoring, letters of credit, guarantees, bilateral lending and trade finance;
- lending, including project finance, syndicated facilities and bond issues;

In thousands of PLN

- FX and interest rate risk management products;
- underwriting and financing of securities issues, financial advice and brokerage services related to the activities of the Brokerage House.

Through its presence in the wholesale market, Global Banking & Markets also generates revenues from interest rate and FX risk positioning activity.

## **ALM and Centre**

The segment covers central operations such as financing of other Group's segments, including liquidity, interest rate risk and FX risk management. It also includes managing the Bank's strategic investments and transactions generating income and/or costs that cannot be directly or reasonably assigned to a given segment.



In thousands of PLN

**Consolidated income statement (by business segments)**

<b>01.01.2014-30.06.2014</b>	<b>Retail Banking</b>	<b>Business &amp; Corporate Banking</b>	<b>Global Banking &amp; Markets</b>	<b>ALM and Centre</b>	<b>Total</b>
<b>Net interest income</b>	<b>1 108 990</b>	<b>300 261</b>	<b>77 993</b>	<b>285 776</b>	<b>1 773 020</b>
incl. internal transactions	1 478	( 59 892)	13 365	45 049	-
<b>Other income</b>	<b>762 808</b>	<b>140 534</b>	<b>163 406</b>	<b>62 913</b>	<b>1 129 661</b>
incl. internal transactions	33 250	31 115	( 65 426)	1 061	-
<b>Dividend income</b>	-	-	<b>689</b>	<b>79 182</b>	<b>79 871</b>
<b>Operating costs</b>	<b>( 922 540)</b>	<b>( 132 806)</b>	<b>( 105 456)</b>	<b>( 139 566)</b>	<b>( 1 300 368)</b>
incl. internal transactions	( 535)	( 3 310)	( 2 049)	5 894	-
<b>Depreciation/amortisation</b>	<b>( 56 386)</b>	<b>( 7 789)</b>	<b>( 5 986)</b>	<b>( 70 974)</b>	<b>( 141 135)</b>
<b>Impairment losses on loans and advances</b>	<b>( 197 300)</b>	<b>( 127 566)</b>	<b>( 20 511)</b>	<b>9 488</b>	<b>( 335 889)</b>
<b>Share in net profits (loss) of entities accounted for by the equity method</b>	-	-	<b>479</b>	<b>( 390)</b>	<b>89</b>
<b>Profit before tax</b>	<b>695 572</b>	<b>172 634</b>	<b>110 614</b>	<b>226 429</b>	<b>1 205 249</b>
Corporate income tax					( 230 307)
Non-controlling interests					( 21 362)
<b>Profit for the period</b>					<b>953 580</b>
<b>01.04.2014-30.06.2014</b>	<b>Retail Banking</b>	<b>Business &amp; Corporate Banking</b>	<b>Global Banking &amp; Markets</b>	<b>ALM and Centre</b>	<b>Total</b>
<b>Net interest income</b>	<b>570 428</b>	<b>153 613</b>	<b>42 207</b>	<b>139 021</b>	<b>905 269</b>
incl. internal transactions	551	( 30 132)	6 980	22 601	-
<b>Other income</b>	<b>384 544</b>	<b>61 874</b>	<b>73 627</b>	<b>35 049</b>	<b>555 094</b>
incl. internal transactions	17 041	15 109	( 30 906)	( 1 244)	-
<b>Dividend income</b>	-	-	<b>577</b>	<b>79 182</b>	<b>79 759</b>
<b>Operating costs</b>	<b>( 461 922)</b>	<b>( 66 052)</b>	<b>( 52 533)</b>	<b>( 81 272)</b>	<b>( 661 779)</b>
incl. internal transactions	( 173)	( 2 189)	( 1 104)	3 466	-
<b>Depreciation/amortisation</b>	<b>( 27 465)</b>	<b>( 3 905)</b>	<b>( 3 247)</b>	<b>( 35 863)</b>	<b>( 70 480)</b>
<b>Impairment losses on loans and advances</b>	<b>( 105 267)</b>	<b>( 53 351)</b>	<b>( 19 894)</b>	<b>4 630</b>	<b>( 173 882)</b>
<b>Share in net profits (loss) of entities accounted for by the equity method</b>	-	-	<b>479</b>	<b>( 290)</b>	<b>189</b>
<b>Profit before tax</b>	<b>360 318</b>	<b>92 179</b>	<b>41 216</b>	<b>140 457</b>	<b>634 170</b>
Corporate income tax					( 119 570)
Non-controlling interests					( 10 512)
<b>Profit for the period</b>					<b>504 088</b>

In thousands of PLN

**Consolidated statement of financial position (by business segment)**

<b>30.06.2014</b>	<b>Retail Banking</b>	<b>Business &amp; Corporate Banking</b>	<b>Global Banking &amp; Markets</b>	<b>ALM and Centre</b>	<b>Total</b>
Loans and advances to customers	43 272 633	21 762 015	6 459 945	2 029	71 496 622
Investments in associates and joint ventures	14 129	-	21 321	28 083	63 533
Other assets	5 464 636	719 917	5 197 750	24 647 875	36 030 178
<b>Total assets</b>	<b>48 751 398</b>	<b>22 481 932</b>	<b>11 679 016</b>	<b>24 677 987</b>	<b>107 590 333</b>
Deposits from customers	56 981 623	13 089 985	5 646 844	2 058 660	77 777 112
Other liabilities and equity	3 779 909	1 809 595	3 305 512	20 918 205	29 813 221
<b>Total equity and liabilities</b>	<b>60 761 532</b>	<b>14 899 580</b>	<b>8 952 356</b>	<b>22 976 865</b>	<b>107 590 333</b>

In thousands of PLN

**Consolidated income statement (by business segments)**

01.01.2013-30.06.2013	Retail Banking	Business & Corporate Banking	Global Banking & Markets	ALM and Centre	Total
<b>Net interest income</b>	<b>940 880</b>	<b>312 775</b>	<b>55 983</b>	<b>240 760</b>	<b>1 550 398</b>
incl. internal transactions	4 399	(63 317)	13 282	45 636	-
<b>Other income</b>	<b>676 297</b>	<b>128 079</b>	<b>162 781</b>	<b>218 879</b>	<b>1 186 036</b>
incl. internal transactions	26 298	24 553	(47 327)	(3 524)	-
<b>Dividend income</b>	-	-	<b>1 037</b>	<b>56 483</b>	<b>57 520</b>
<b>Operating costs</b>	<b>(934 343)</b>	<b>(150 181)</b>	<b>(94 823)</b>	<b>(117 035)</b>	<b>(1 296 382)</b>
incl. internal transactions	(891)	(2 168)	(2 030)	5 089	-
<b>Depreciation/amortisation</b>	<b>(74 722)</b>	<b>(11 756)</b>	<b>(6 095)</b>	<b>(21 836)</b>	<b>(114 409)</b>
<b>Impairment losses on loans and advances</b>	<b>(245 076)</b>	<b>(155 049)</b>	<b>1 132</b>	<b>6 083</b>	<b>(392 910)</b>
<b>Share in net profits (loss) of entities accounted for by the equity method</b>	<b>6 516</b>	-	<b>146</b>	<b>215</b>	<b>6 877</b>
<b>Profit before tax</b>	<b>369 552</b>	<b>123 868</b>	<b>120 161</b>	<b>383 549</b>	<b>997 130</b>
Corporate income tax					(189 488)
Non-controlling interests					(14 539)
<b>Profit for the period</b>					<b>793 103</b>

  

01.04.2013-30.06.2013	Retail Banking	Business & Corporate Banking	Global Banking & Markets	ALM and Centre	Total
<b>Net interest income</b>	<b>467 094</b>	<b>161 101</b>	<b>30 101</b>	<b>141 711</b>	<b>800 007</b>
incl. internal transactions	2 182	(30 411)	5 651	22 578	-
<b>Other income</b>	<b>340 338</b>	<b>59 017</b>	<b>85 638</b>	<b>102 268</b>	<b>587 261</b>
incl. internal transactions	12 760	15 291	(25 904)	(2 147)	-
<b>Dividend income</b>	-	-	<b>1 037</b>	<b>56 483</b>	<b>57 520</b>
<b>Operating costs</b>	<b>(471 935)</b>	<b>(71 253)</b>	<b>(48 791)</b>	<b>(84 396)</b>	<b>(676 375)</b>
incl. internal transactions	(405)	(1 136)	(1 069)	2 610	-
<b>Depreciation/amortisation</b>	<b>(35 411)</b>	<b>(5 762)</b>	<b>(2 957)</b>	<b>(13 290)</b>	<b>(57 420)</b>
<b>Impairment losses on loans and advances</b>	<b>(107 800)</b>	<b>(94 470)</b>	<b>1 590</b>	<b>3 808</b>	<b>(196 872)</b>
<b>Share in net profits (loss) of entities accounted for by the equity method</b>	<b>6 060</b>	-	<b>280</b>	<b>193</b>	<b>6 533</b>
<b>Profit before tax</b>	<b>198 346</b>	<b>48 633</b>	<b>66 898</b>	<b>206 777</b>	<b>520 654</b>
Corporate income tax					(94 075)
Non-controlling interests					(7 092)
<b>Profit for the period</b>					<b>419 487</b>

In thousands of PLN

**Consolidated statement of financial position (by business segment)**

30.06.2013	Retail Banking	Business & Corporate Banking	Global Banking & Markets	ALM and Centre	Total
Loans and advances to customers	42 251 029	23 027 665	4 508 226	23 508	69 810 428
Investments in associates and joint ventures	69 633	-	20 060	27 819	117 512
Other assets	3 056 655	710 918	4 029 530	23 623 861	31 420 964
<b>Total assets</b>	<b>45 377 317</b>	<b>23 738 583</b>	<b>8 557 816</b>	<b>23 675 188</b>	<b>101 348 904</b>
Deposits from customers	54 431 972	12 870 537	4 846 370	2 447 373	74 596 252
Other liabilities and equity	2 814 609	2 018 546	2 387 924	19 531 573	26 752 652
<b>Total equity and liabilities</b>	<b>57 246 581</b>	<b>14 889 083</b>	<b>7 234 294</b>	<b>21 978 946</b>	<b>101 348 904</b>

In 2014, there was a change in the methodology for capital and related income allocation between business segments. Comparable data are adjusted accordingly.

In thousands of PLN

## 4. Risk management

In the first half of 2014, BZ WBK Group managed its risks in accordance with the principles laid down in the consolidated financial statements for 2013. Except as indicated below, no other material changes took place in the risk management process of BZ WBK Group.

### Credit risk

In the reporting period, the credit risk management of BZ WBK Group did not undergo any material changes.

The Group's credit risk management depends among others on internal ratings that, for presentational purposes, are grouped in provision cover differentiated classes.

The table below presents a breakdown of BZ WBK Group's financial instruments into classes which correspond to different levels of impairment. There are separate percentage levels for unimpaired portfolio (both for the past-due and non-past due) and for impaired portfolio (identical for individually and collectively impaired).

30.06.2014	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
<b>Impaired portfolio</b>					
<b>Individually impaired</b>					
	up to 50%	1 616 310	-	-	-
	50% - 70%	443 530	-	-	-
	70% - 85%	339 078	-	-	-
	over 85%	791 894	-	-	-
<b>Gross amount</b>		<b>3 190 812</b>	-	-	-
Charge due to impairment losses		(1 583 513)	-	-	-
<b>Net amount</b>		<b>1 607 299</b>	-	-	-
<b>Collectively impaired</b>					
	up to 50%	469 041	-	-	-
	50% - 70%	831 659	-	-	-
	70% - 85%	665 418	-	-	-
	over 85%	485 541	-	-	-
<b>Gross amount</b>		<b>2 451 659</b>	-	-	-
Charge due to impairment losses		(1 672 214)	-	-	-
<b>Net amount</b>		<b>779 445</b>	-	-	-
<b>IBNR portfolio</b>					
	up to 0,10%	42 343 222	2 092 155	17 517 195	3 451 867
	0,10% - 0,30%	10 810 913	-	-	-
	0,30% - 0,65%	7 857 010	-	-	-
	over 0,65%	8 333 650	-	-	-
<b>Gross amount</b>		<b>69 344 795</b>	<b>2 092 155</b>	<b>17 517 195</b>	<b>3 451 867</b>
IBNR		( 440 160)	-	-	-
<b>Net amount</b>		<b>68 904 635</b>	<b>2 092 155</b>	<b>17 517 195</b>	<b>3 451 867</b>
<b>Other receivables</b>					
		<b>205 243</b>	-	-	-
<b>Off-balance sheet exposures</b>					
Financing granted		17 398 296	-	-	-
Guarantees		4 105 910	-	-	-
Nominal value of derivatives - purchased		-	-	-	109 130 413
Allowance for impairment		( 74 141)	-	-	-
<b>Off-balance sheet exposures - total</b>		<b>21 430 065</b>	-	-	<b>109 130 413</b>

\*the value of financial assets held for trading includes adjustment of the fair value as described in Note 18

In thousands of PLN

31.12.2013	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
<b>Impaired portfolio</b>					
<b>Individually impaired</b>					
	up to 50%	1 895 531	-	-	-
	50% - 70%	528 071	-	-	-
	70% - 85%	532 593	-	-	-
	over 85%	369 007	-	-	-
<b>Gross amount</b>		<b>3 325 202</b>	-	-	-
Charge due to impairment losses		(1 525 523)	-	-	-
<b>Net amount</b>		<b>1 799 679</b>	-	-	-
<b>Collectively impaired</b>					
	up to 50%	548 929	-	-	-
	50% - 70%	866 345	-	-	-
	70% - 85%	521 770	-	-	-
	over 85%	378 363	-	-	-
<b>Gross amount</b>		<b>2 315 407</b>	-	-	-
Charge due to impairment losses		(1 511 024)	-	-	-
<b>Net amount</b>		<b>804 383</b>	-	-	-
<b>IBNR portfolio</b>					
	up to 0,10%	28 102 384	2 212 704	22 090 764	2 344 901
	0,10% - 0,30%	16 796 042	-	-	-
	0,30% - 0,65%	12 535 446	-	-	-
	over 0,65%	8 336 599	-	-	-
<b>Gross amount</b>		<b>65 770 471</b>	<b>2 212 704</b>	<b>22 090 764</b>	<b>2 344 901</b>
IBNR		( 453 178)	-	-	-
<b>Net amount</b>		<b>65 317 293</b>	<b>2 212 704</b>	<b>22 090 764</b>	<b>2 344 901</b>
<b>Other receivables</b>		<b>210 788</b>	-	-	-
<b>Off-balance sheet exposures</b>					
Financing granted		17 636 205	-	-	-
Guarantees		3 874 743	-	-	-
Nominal value of derivatives - purchased		-	-	-	106 021 969
Allowance for impairment		( 95 934)	-	-	-
<b>Off-balance sheet exposures - total</b>		<b>21 415 014</b>	-	-	<b>106 021 969</b>

\*the value of financial assets held for trading includes adjustment of the fair value as described in Note 18

In thousands of PLN

30.06.2013	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
<b>Impaired portfolio</b>					
<b>Individually impaired</b>					
	up to 50%	1 238 774	-	-	-
	50% - 70%	502 524	-	-	-
	70% - 85%	415 564	-	-	-
	over 85%	1 422 408	-	-	-
<b>Gross amount</b>		<b>3 579 270</b>	-	-	-
Charge due to impairment losses		(1 476 257)	-	-	-
<b>Net amount</b>		<b>2 103 013</b>	-	-	-
<b>Collectively impaired</b>					
	up to 50%	592 136	-	-	-
	50% - 70%	747 936	-	-	-
	70% - 85%	655 705	-	-	-
	over 85%	449 493	-	-	-
<b>Gross amount</b>		<b>2 445 270</b>	-	-	-
Charge due to impairment losses		(1 615 331)	-	-	-
<b>Net amount</b>		<b>829 939</b>	-	-	-
<b>IBNR portfolio</b>					
	up to 0,10%	24 832 622	1 583 215	19 936 248	2 978 470
	0,10% - 0,30%	20 967 258	-	-	-
	0,30% - 0,65%	7 919 157	-	-	-
	over 0,65%	13 320 340	-	-	-
<b>Gross amount</b>		<b>67 039 377</b>	<b>1 583 215</b>	<b>19 936 248</b>	<b>2 978 470</b>
IBNR		( 456 496)	-	-	-
<b>Net amount</b>		<b>66 582 881</b>	<b>1 583 215</b>	<b>19 936 248</b>	<b>2 978 470</b>
<b>Other receivables</b>		<b>294 595</b>	-	-	-
<b>Off-balance sheet exposures</b>					
Financing granted		15 732 552	-	-	-
Guarantees		3 805 566	-	-	-
Nominal value of derivatives - purchased		-	-	-	117 116 329
Allowance for impairment		( 85 624)	-	-	-
<b>Off-balance sheet exposures - total</b>		<b>19 452 494</b>	-	-	<b>117 116 329</b>

\*the value of financial assets held for trading includes adjustment of the fair value as described in Note 18

## IBNR portfolio

	Loans and advances to customers		
	30.06.2014	31.12.2013	30.06.2013
<b>Non-past due</b>	<b>65 276 249</b>	<b>62 015 572</b>	<b>62 862 532</b>
<b>Past-due</b>	<b>4 068 546</b>	<b>3 754 899</b>	<b>4 176 845</b>
1-30 days	3 219 630	3 007 185	3 402 945
31-60 days	545 950	488 475	486 155
61-90 days	288 987	242 852	275 488
> 90 days	13 979	16 387	12 257
<b>Gross amount</b>	<b>69 344 795</b>	<b>65 770 471</b>	<b>67 039 377</b>

In thousands of PLN

## Allowances for impairment by classes

Provision cover	Loans and advances to customers			Loans and advances to banks		
	30.06.2014	31.12.2013	30.06.2013	30.06.2014	31.12.2013	30.06.2013
<b>Individual allowance for impairment</b>						
up to 50%	( 330 649)	( 403 020)	( 197 698)	-	-	-
50% - 70%	( 261 321)	( 329 906)	( 319 368)	-	-	-
70% - 85%	( 258 629)	( 427 568)	( 309 266)	-	-	-
over 85%	( 732 914)	( 365 029)	( 649 925)	-	-	-
<b>Total individual allowance for impairment</b>	<b>(1 583 513)</b>	<b>(1 525 523)</b>	<b>(1 476 257)</b>	-	-	-
<b>Collective allowance for impairment</b>						
up to 50%	( 158 128)	( 176 947)	( 195 322)	-	-	-
50% - 70%	( 523 147)	( 558 338)	( 461 051)	-	-	-
70% - 85%	( 511 702)	( 402 763)	( 513 716)	-	-	-
over 85%	( 479 237)	( 372 976)	( 445 242)	-	-	-
<b>Total collective allowances for impairment</b>	<b>(1 672 214)</b>	<b>(1 511 024)</b>	<b>(1 615 331)</b>	-	-	-
<b>IBNR</b>						
up to 0,10%	( 17 502)	( 12 688)	( 10 133)	-	-	-
0,10%-0,30%	( 19 512)	( 25 835)	( 37 117)	-	-	-
0,30%-0,65%	( 37 850)	( 54 152)	( 34 800)	-	-	-
over 0,65%	( 365 296)	( 360 503)	( 374 446)	-	-	-
<b>Total IBNR</b>	<b>( 440 160)</b>	<b>( 453 178)</b>	<b>( 456 496)</b>	-	-	-
<b>Total allowance for impairment</b>	<b>(3 695 887)</b>	<b>(3 489 725)</b>	<b>(3 548 084)</b>	-	-	-

## Market risk

In the reporting period, the market risk management of BZ WBK Group did not undergo any material changes.

To manage banking book risk BZ WBK implemented following maximum limits in 2014 for:

- sensitivity of Net Interest Income (NII – sensitivity to 100 b.p. parallel movement in the interest rate curve) at PLN 150 m level,
- sensitivity of Market Value of Equity (MVE - sensitivity to 100 b.p. parallel movement in the interest rate curve) at PLN 240 m level.

The Trading Book management has been conducted under the following limits since the beginning of 2014:

- daily Value at Risk (VAR) calculated for IR and FX exposures,
- limit for positions sensitivity to change of market rates by 1 basis point (PV01), is set for each currency and dates of transaction repricing time buckets,
- limit of total Fx position as well as individual currencies open position limit,
- stop loss mechanism.

Annual process of determining the banking book and trading book limits as well as market risk appetite update is co-ordinated by the Financial Risk Department and approved by the internal committees of the bank.

The responsibility for independent monitoring, exposure measurement and market risk control rests with Risk Management Division (supervised by Chief Risk Officer) which incorporates Financial Risk Department.



In thousands of PLN

The table below summarizes the utilization of sensitivity limits for the banking book as at the end of June 2014 and in the comparative periods.

1 day holding period	Net Interest Income Sensitivity (NII)			Market Value of Equity Sensitivity (MVE)		
	30.06.2014	31.12.2013	30.06.2013	30.06.2014	31.12.2013	30.06.2013
Maximum	109	114	114	93	94	94
Average	101	76	87	55	45	47
Value as at end of the period	99	84	52	93	92	94
Limit value	150	130	130	240	200	200

Between January and June 2014, the sensitivity limits applicable to the ALM were not exceeded.

The tables below present Group's key currency positions as at 30 June 2014 and in the comparative periods.

30.06.2014	PLN	EUR	CHF	Other	Total
<b>ASSETS</b>					
Cash and balances with central banks	6 637 723	270 905	14 744	116 206	7 039 578
Loans and advances to banks	665 626	583 897	722 454	120 178	2 092 155
Loans and advances to customers	45 770 537	13 776 704	10 506 582	1 442 799	71 496 622
Investment securities	16 015 995	1 147 954	-	353 246	17 517 195
<b>Selected assets</b>	<b>69 089 881</b>	<b>15 779 460</b>	<b>11 243 780</b>	<b>2 032 429</b>	<b>98 145 550</b>
<b>LIABILITIES</b>					
Deposits from banks	4 500 733	495 136	2 400 503	27 614	7 423 986
Deposits from customers	66 829 335	7 631 652	979 244	2 336 881	77 777 112
Subordinated liabilities	74 924	416 125	906 746	-	1 397 795
<b>Selected liabilities</b>	<b>71 404 992</b>	<b>8 542 913</b>	<b>4 286 493</b>	<b>2 364 495</b>	<b>86 598 893</b>

31.12.2013	PLN	EUR	CHF	Other	Total
<b>ASSETS</b>					
Cash and balances with central banks	4 802 069	220 124	14 266	113 227	5 149 686
Loans and advances to banks	555 353	801 483	692 408	163 460	2 212 704
Loans and advances to customers	43 102 575	13 301 418	10 729 128	999 022	68 132 143
Investment securities	20 922 127	1 168 637	-	-	22 090 764
<b>Selected assets</b>	<b>69 382 124</b>	<b>15 491 662</b>	<b>11 435 802</b>	<b>1 275 709</b>	<b>97 585 297</b>
<b>LIABILITIES</b>					
Deposits from banks	3 712 098	164 651	2 360 989	41 059	6 278 797
Deposits from customers	68 051 679	7 152 046	972 603	2 366 654	78 542 982
Subordinated liabilities	74 914	414 525	895 280	-	1 384 719
<b>Selected liabilities</b>	<b>71 838 691</b>	<b>7 731 222</b>	<b>4 228 872</b>	<b>2 407 713</b>	<b>86 206 498</b>

30.06.2013	PLN	EUR	CHF	Other	Total
<b>ASSETS</b>					
Cash and balances with central banks	2 042 984	297 899	12 432	144 888	2 498 203
Loans and advances to banks	224 398	1 101 070	24 501	233 246	1 583 215
Loans and advances to customers	43 120 336	13 999 722	11 460 360	1 230 010	69 810 428
Investment securities	18 714 997	1 221 251	-	-	19 936 248
<b>Selected assets</b>	<b>64 102 715</b>	<b>16 619 942</b>	<b>11 497 293</b>	<b>1 608 144</b>	<b>93 828 094</b>
<b>LIABILITIES</b>					
Deposits from banks	3 068 161	698 189	4 210 954	39 237	8 016 541
Deposits from customers	64 821 246	6 536 322	1 107 528	2 131 156	74 596 252
Subordinated liabilities	74 945	432 533	928 667	-	1 436 145
<b>Selected liabilities</b>	<b>67 964 352</b>	<b>7 667 044</b>	<b>6 247 149</b>	<b>2 170 393</b>	<b>84 048 938</b>

In thousands of PLN

The tables below show key risk measures applicable to the trading book as at 30.06.2014 and in the comparative periods.

<b>Interest rate risk</b>	<b>VAR</b>		
<b>1 day holding period</b>	<b>30.06.2014</b>	<b>31.12.2013</b>	<b>30.06.2013</b>
Average	1 559	1 958	1 901
Maximum	4 045	4 369	4 115
Minimum	248	547	602
as at the end of the period	860	3 741	2 170
<b>Limit</b>	<b>4 571</b>	<b>7 530</b>	<b>8 293</b>

<b>FX risk</b>	<b>VAR</b>			<b>VAR Brokerage House</b>		
<b>1 day holding period</b>	<b>30.06.2014</b>	<b>31.12.2013</b>	<b>30.06.2013</b>	<b>30.06.2014</b>	<b>31.12.2013</b>	<b>30.06.2013</b>
Average	637	534	533	9	6	6
Maximum	2 325	1 647	1 815	72	18	12
Minimum	203	65	72	1	1	3
as at the end of the period	614	428	694	10	9	4
<b>Limit</b>	<b>1 524</b>	<b>1 506</b>	<b>1 658</b>	<b>40</b>	<b>104</b>	<b>105</b>

<b>Equity risk</b>	<b>VAR Brokerage House</b>		
<b>1 day holding period</b>	<b>30.06.2014</b>	<b>31.12.2013</b>	<b>30.06.2013</b>
Average	200	664	719
Maximum	585	2 135	2 135
Minimum	79	53	53
as at end of the period	174	312	170
<b>Limit</b>	<b>3 169</b>	<b>4 111</b>	<b>4 144</b>

In 2014, the VAR limit has been exceeded twice – in the Bank and in Brokerage House. Exceeding the limit of the Bank was due to an increase in EUR currency position. Next day open position (EUR) has been limited and VAR exposure was in the prescribed limit. Exceeding the limit in Brokerage House resulted from an error transaction concluded on the foreign securities market. The next day an error was corrected, and the value of VAR returned to an acceptable level.

Both cases of exceeding the VaR limit have been reported to the appropriate committees appointed by the Management Board and the Supervisory Board.

## Liquidity risk

In the reporting period, the liquidity risk management of BZ WBK Group did not undergo any material changes. In terms of monitoring and reporting of risk, successfully implemented the requirements set out in the Regulation of the European Parliament and of the Council of the European Union on prudential requirements for credit institutions and investment firms for the measurement and reporting of new liquidity measures.

## Insurance risk

Bank Zachodni WBK Group became exposed to insurance risk after it acquired control over the two insurance companies: BZ WBK AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. (BZ WBK AVIVA TUO) and BZ WBK AVIVA Towarzystwo Ubezpieczeń na Życie S.A. (BZ WBK AVIVA TUŻ) on 20 December 2013.

In the reporting period, the insurance risk management of BZ WBK Group did not undergo any material changes.

## Operating Risk

In the reporting period, the operational risk management of BZ WBK Group did not undergo any material changes.

## Legal & compliance risk

In the reporting period, the legal and compliance risk management of BZ WBK Group did not undergo any material changes.

In thousands of PLN

## 5. Capital management

In the first half of 2014, BZ WBK Group managed its risks in accordance with the principles laid down in the consolidated financial statements for 2013. No other material changes took place in the capital management process of BZ WBK Group.

In the capital adequacy area, starting from January 1st, 2014, by the decision of the European Parliament and of the EBA the new regulations of the so-called CRD IV/CRR package come into force. The CRD IV/CRR package consists of two parts, the Directive of CRD IV and the Regulation of CRR no 575/2013. As at June 30th, 2014 the capital ratio is calculated on the basis of own funds and total capital requirement, estimated by applying standard method for particular risks in accordance with the aforementioned recommendations.

On 16 April 2014, the Annual General Meeting of Bank Zachodni WBK Shareholders has divided the net profit generated by the Bank in the accounting year commenced on 01.01.2013 and ended on 31.12.2013 in the following way:

- the amount allocated to shareholders dividend PLN 1 000 932 453,30,
- the amount allocated to the reserve capital PLN 610 538 047,99.

The impact on the level of solvency ratio at the end of June 2014 in relation to the solvency ratio at the end of December 2013 was predominantly driven by the following factors:

- derecognition of unrealized gains on debt and equity instruments classified as available for sale in the calculation of Tier 2 capital
- application of the provisions of Part X of the CRR Regulation for the three subordinated loans from the former Kredyt Bank.

The Group solvency ratio after applying the CRR rules remained well above the minimum regulatory requirements.

## 6. Net interest income

	01.04.2014- 30.06.2014	01.04.2013- 30.06.2013	01.04.2013- 30.06.2013	01.01.2013- 30.06.2013
<b>Interest income</b>				
Loans and advances to enterprises	431 939	838 594	425 763	882 443
Loans and advances to individuals, of which:	506 015	1 002 584	533 820	1 064 325
<i>Home mortgage loans</i>	202 298	400 659	231 132	441 376
Debt securities incl.:	179 716	372 397	206 862	431 446
<i>Investment portfolio available for sale</i>	167 765	346 608	196 174	409 220
<i>Trading portfolio</i>	11 951	25 789	10 688	22 226
Leasing agreements	38 472	76 095	41 014	87 473
Loans and advances to banks	25 125	51 031	26 424	59 031
Public sector	3 670	7 940	5 815	12 333
Reverse repo transactions	6 749	11 311	5 741	10 790
Interest recorded on hedging IRS	72 962	142 141	83 936	170 096
<b>Total</b>	<b>1 264 648</b>	<b>2 502 093</b>	<b>1 329 375</b>	<b>2 717 937</b>
<b>Interest expenses</b>				
Deposits from individuals	(199 441)	(408 350)	(321 722)	(707 726)
Deposits from enterprises	(97 985)	(197 031)	(130 156)	(302 699)
Repo transactions	(15 314)	(34 800)	(30 416)	(53 662)
Deposits from public sector	(21 993)	(41 818)	(28 025)	(61 642)
Deposits from banks	(5 588)	(9 251)	(5 409)	(15 839)
Subordinated liabilities and issue of securities	(19 043)	(37 808)	(13 640)	(25 971)
Interest recorded on hedging IRS	(15)	(15)	-	-
<b>Total</b>	<b>(359 379)</b>	<b>(729 073)</b>	<b>(529 368)</b>	<b>(1 167 539)</b>
<b>Net interest income</b>	<b>905 269</b>	<b>1 773 020</b>	<b>800 007</b>	<b>1 550 398</b>

In thousands of PLN

## 7. Net fee and commission income

	01.04.2014- 30.06.2014	01.01.2014- 30.06.2014	01.04.2013- 30.06.2013	01.01.2013- 30.06.2013
<b>Fee and commission income</b>				
eBusiness & payments	155 653	307 005	148 898	294 918
Current accounts and money transfer	76 120	152 506	76 286	153 207
Asset management fees	65 051	127 904	65 589	128 710
Foreign exchange commissions	81 287	157 518	74 949	138 001
Credit commissions	62 276	132 107	60 333	116 213
Insurance commissions	15 747	31 680	25 959	52 323
Brokerage commissions	18 904	41 883	26 096	55 435
Credit cards	30 295	61 088	21 447	42 238
Off-balance sheet guarantee commissions	11 397	21 276	8 604	16 648
Finance lease commissions	1 840	3 363	1 478	2 988
Issue arrangement fees	521	1 101	2 982	3 704
Distribution fees	2 704	5 716	3 880	9 362
Other commissions	2 826	3 911	1 910	4 509
<b>Total</b>	<b>524 621</b>	<b>1 047 058</b>	<b>518 411</b>	<b>1 018 256</b>
<b>Fee and commission expenses</b>				
eBusiness & payments	(30 791)	(71 409)	(36 610)	(74 004)
Distribution fees	(7 292)	(15 044)	(8 326)	(16 287)
Brokerage commissions	(3 365)	(7 730)	(4 041)	(8 235)
Credit cards	(7 329)	(13 300)	(3 578)	(6 903)
Asset management fees and other costs	(2 239)	(4 491)	(2 051)	(4 026)
Finance lease commissions	(3 807)	(7 150)	(2 772)	(5 363)
Credit commissions paid	(2 993)	(3 411)	(3 996)	(4 828)
Other	(15 640)	(31 428)	(13 836)	(23 721)
<b>Total</b>	<b>(73 456)</b>	<b>(153 963)</b>	<b>(75 210)</b>	<b>(143 367)</b>
<b>Net fee and commission income</b>	<b>451 165</b>	<b>893 095</b>	<b>443 201</b>	<b>874 889</b>

The line item Insurance commissions presents insurance fees realised on insurance products linked to the loan products. They cover insurance fees related to cash loans, where approximately 30% of the realised income represents agency fees for the sale of insurance products and the remaining portion of realised income is amortised over time according to the effective interest rate method and recognised in interest income. Moreover, this line item presents insurance fees recognized on a cash basis for insurance products that are realised cyclically during the term of loan agreement (mortgage loans). For the remaining loan products insurance fees are recognised on a cash basis including an allowance for estimated future reimbursements.

## 8. Net trading income and revaluation

	01.04.2014- 30.06.2014	01.01.2014- 30.06.2014	01.04.2013- 30.06.2013	01.01.2013- 30.06.2013
<b>Net trading income and revaluation</b>				
Derivative instruments and interbank fx transactions	(9 409)	(57 636)	18 895	72 550
Other FX related income	4 311	49 071	10 355	3 609
Profit on market maker activity	566	1 064	83	1 408
Profit on equity instruments	-	-	2 530	6 128
Profit on debt instruments	5 324	1 453	(3 093)	(580)
<b>Total</b>	<b>792</b>	<b>(6 048)</b>	<b>28 770</b>	<b>83 115</b>

Net trading income and revaluation includes value of adjustments of derivatives resulting from counterparty risk in the amount of PLN (10 570) k for H1 2014, PLN (10 310) k for 2Q 2014 and the write-back of adjustments of derivatives resulting from counterparty risk in the amount of PLN 2 289 k for H1 2013, value of adjustments PLN (130) k for 2Q 2013.

Net trading income and revaluation includes depreciation of adjustment to the valuation of day 1 profit or loss for start forward CIRS transactions in the amount of PLN (404) k disclosed in statement of financial position in line of Hedging derivatives and depreciation of adjustment to the valuation of day 1 profit or loss for capital option related to subsidiary entities in the amount of PLN (15 321) k disclosed in statement of financial position in line of Financial assets and liabilities held for trading.

The initial valuation will be subject to linear depreciation for maturity.

In thousands of PLN

## 9. Gains (losses) from other financial securities

	01.04.2014- 30.06.2014	01.01.2014- 30.06.2014	01.04.2013- 30.06.2013	01.01.2013- 30.06.2013
<b>Gains (losses) from other financial securities</b>				
Profit on sale of equity shares	-	14 093	1 371	874
Profit on sale of debt securities	15 012	41 086	87 366	176 750
Charge due to impairment losses	(1 425)	(1 425)	-	-
<b>Total profit (losses) on financial instruments</b>	<b>13 587</b>	<b>53 754</b>	<b>88 737</b>	<b>177 624</b>
Change in fair value of hedging instruments	(78 713)	(102 868)	65 135	66 937
Change in fair value of underlying hedged positions	81 310	104 347	(62 876)	(63 829)
<b>Total profit (losses) on hedging and hedged instruments</b>	<b>2 597</b>	<b>1 479</b>	<b>2 259</b>	<b>3 108</b>
<b>Total</b>	<b>16 184</b>	<b>55 233</b>	<b>90 996</b>	<b>180 732</b>

## 10. Other operating income

	01.04.2014- 30.06.2014	01.01.2014- 30.06.2014	01.04.2013- 30.06.2013	01.01.2013- 30.06.2013
<b>Other operating income</b>				
Income on sale of services	4 264	9 529	4 753	6 673
Insurance indemnity received	141	244	72	1 775
Reimbursements of BGF charges	4 777	14 355	3 364	13 446
Release of provision for legal cases and other assets	17 397	19 009	1 718	4 600
Settlements of leasing agreements	330	524	991	1 866
Recovery of other receivables	6 489	6 695	825	1 254
Income on sales or liquidation of fixed assets, intangible assets and assets for disposal	(512)	6 318	8 185	8 185
Income from net insurance activities	48 728	108 464	-	-
Received compensations, penalties and fines	209	1 203	(246)	363
Other	5 130	21 040	4 632	9 138
<b>Total</b>	<b>86 953</b>	<b>187 381</b>	<b>24 294</b>	<b>47 300</b>

As a result of the controlling stake at over the companies BZ WBK AVIVA TUO S.A. and BZ WBK AVIVA TUŻ S.A. the Group recognized net income from insurance activities.

	01.04.2014- 30.06.2014	01.01.2014- 30.06.2014
<b>Income from net insurance activities</b>		
Written premiums	94 730	246 954
Reinsurers' share in written premium	(851)	(1 537)
<b>Total premiums written and reinsurers' share in written premium</b>	<b>93 879</b>	<b>245 417</b>
Indemnity payments and insurance benefits paid	(43 700)	(163 389)
Reinsurers' share in indemnity payments and insurance benefits paid	105	338
Change in the balance of premium provisions and unexpired risks provisions	7 589	19 371
Change in the balance of provisions for life insurance in respect of deductible	(3 117)	126 463
Change in the balance of provisions for life insurance in respect of deductible – reinsurers' share	(451)	1 427
Change in the balance of provisions for life insurance in respect of policyholder's risk	(5 602)	(123 457)
<b>Net insurance benefits and indemnity payments</b>	<b>(45 176)</b>	<b>(139 247)</b>
<b>Other net insurance income</b>	<b>25</b>	<b>2 294</b>
<b>Net income from insurance operations</b>	<b>48 728</b>	<b>108 464</b>

In thousands of PLN

## 11. Impairment losses on loans and advances

	01.04.2014- 30.06.2014	01.01.2014- 30.06.2014	01.04.2013- 30.06.2013	01.01.2013- 30.06.2013
<b>Impairment losses on loans and advances</b>				
Collective and individual impairment charge	(226 986)	(393 101)	(284 413)	(511 092)
Incurred but not reported losses charge	47 896	30 228	70 680	119 832
Recoveries of loans previously written off	4 593	5 000	1 453	2 791
Off-balance sheet credit related facilities	615	21 984	15 408	(4 441)
<b>Total</b>	<b>(173 882)</b>	<b>(335 889)</b>	<b>(196 872)</b>	<b>(392 910)</b>

## 12. Employee costs

	01.04.2014- 30.06.2014	01.01.2014- 30.06.2014	01.04.2013- 30.06.2013	01.01.2013- 30.06.2013
<b>Employee costs</b>				
Salaries and bonuses	(274 173)	(547 224)	(290 492)	(569 828)
Salary related costs	(46 835)	(98 507)	(45 638)	(100 880)
Staff benefits costs	(7 711)	(15 039)	(7 892)	(15 235)
Professional trainings	(3 896)	(6 483)	(3 453)	(5 470)
Retirement fund, holiday provisions and other employee costs	(521)	(1 346)	(410)	(1 649)
<b>Total</b>	<b>(333 136)</b>	<b>(668 599)</b>	<b>(347 885)</b>	<b>(693 062)</b>

## 13. General and administrative expenses

	01.04.2014- 30.06.2014	01.01.2014- 30.06.2014	01.04.2013- 30.06.2013	01.01.2013- 30.06.2013
<b>General and administrative expenses</b>				
Maintenance and rentals of premises	(88 126)	(178 236)	(94 608)	(184 761)
Marketing and representation	(38 471)	(62 719)	(23 652)	(44 565)
IT systems costs	(43 224)	(85 751)	(36 796)	(71 468)
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities	(32 271)	(64 223)	(24 910)	(49 415)
Postal and telecommunication costs	(11 026)	(24 129)	(16 277)	(28 562)
Consulting fees	(24 445)	(40 768)	(59 775)	(72 588)
Cars, transport expenses, carriage of cash	(18 561)	(37 099)	(17 730)	(34 191)
Other external services	(18 138)	(37 531)	(16 216)	(33 786)
Stationery, cards, cheques etc.	(7 436)	(14 580)	(6 253)	(12 320)
Sundry taxes	(5 765)	(12 975)	(6 741)	(13 252)
Data transmission	(5 009)	(10 281)	(5 102)	(11 376)
KIR, SWIFT settlements	(5 116)	(10 609)	(5 353)	(10 870)
Security costs	(5 270)	(9 966)	(5 221)	(9 746)
Costs of repairs	(3 179)	(4 471)	(1 760)	(3 070)
Other	(5 903)	(11 023)	(5 967)	(11 522)
<b>Total</b>	<b>(311 940)</b>	<b>(604 361)</b>	<b>(326 361)</b>	<b>(591 492)</b>

In thousands of PLN

## 14. Other operating expenses

	01.04.2014- 30.06.2014	01.01.2014- 30.06.2014	01.04.2013- 30.06.2013	01.01.2013- 30.06.2013
<b>Other operating expenses</b>				
Charge of provisions for legal cases and other assets	( 8 406)	( 11 431)	2 461	( 3 674)
Costs of purchased services	( 657)	( 1 591)	( 383)	( 538)
Other membership fees	( 327)	( 601)	( 298)	( 487)
Paid compensations, penalties and fines	( 3 014)	( 3 340)	( 57)	( 847)
Donation paid	-	( 590)	( 1)	( 7)
Other	( 4 299)	( 9 855)	( 3 851)	( 6 275)
<b>Total</b>	<b>( 16 703)</b>	<b>( 27 408)</b>	<b>( 2 129)</b>	<b>( 11 828)</b>

## 15. Corporate income tax

	01.04.2014- 30.06.2014	01.01.2014- 30.06.2014	01.04.2013- 30.06.2013	01.01.2013- 30.06.2013
<b>Corporate income tax</b>				
Current tax charge	( 205 864)	( 372 955)	( 149 841)	( 275 511)
Deferred tax	86 294	142 648	55 766	86 023
<b>Total</b>	<b>( 119 570)</b>	<b>( 230 307)</b>	<b>( 94 075)</b>	<b>( 189 488)</b>

	01.04.2014- 30.06.2014	01.01.2014- 30.06.2014	01.04.2013- 30.06.2013	01.01.2013- 30.06.2013
<b>Corporate total tax charge information</b>				
Profit before tax	634 170	1 205 249	520 654	997 130
Tax rate	19%	19%	19%	19%
Tax calculated at the tax rate	( 120 492)	( 228 997)	( 98 924)	( 189 455)
Non-deductible expenses	( 2 327)	853	( 567)	( 3 895)
Sale of receivables	( 4 373)	( 8 542)	( 14 374)	( 15 690)
Non-tax income	15 044	15 044	10 550	10 550
Non-tax deductible bad debt provisions	( 4 412)	( 5 806)	650	985
Adjustment of prior year tax	( 3 048)	( 10 216)	4 242	4 242
Consolidation adjustments	( 1 075)	7 155	1 150	640
Other	1 113	202	3 198	3 135
<b>Total income tax expense</b>	<b>( 119 570)</b>	<b>( 230 307)</b>	<b>( 94 075)</b>	<b>( 189 488)</b>

	30.06.2014	31.12.2013	30.06.2013
<b>Deferred tax recognised directly in equity</b>			
Relating to equity securities available-for-sale	( 132 709)	( 133 282)	( 94 902)
Relating to debt securities available-for-sale	( 83 573)	( 24 114)	( 33 160)
Relating to cash flow hedging activity	( 3 317)	( 8 956)	2 890
Relating to valuation of defined benefit plans	222	-	-
<b>Total</b>	<b>( 219 377)</b>	<b>( 166 352)</b>	<b>( 125 172)</b>

In thousands of PLN

## 16. Cash and balances with central banks

Cash and balances with central banks	30.06.2014	31.12.2013	30.06.2013
Cash	1 626 775	1 766 257	1 621 499
Current accounts in central banks	5 412 803	3 383 429	481 663
Term deposits	-	-	395 041
<b>Total</b>	<b>7 039 578</b>	<b>5 149 686</b>	<b>2 498 203</b>

Bank Zachodni WBK holds an obligatory reserve on a current account in the National Bank of Poland. The figure is calculated at a fixed percentage of the monthly average balance of the customers' deposits, which in all the covered periods was 3.5%. In accordance with the applicable regulations, the amount of the calculated provision is reduced by the equivalent of EUR 500 k.

## 17. Loans and advances to banks

Loans and advances to banks	30.06.2014	31.12.2013	30.06.2013
Loans and advances	802 049	1 237 751	309 260
Current accounts	728 355	798 153	1 262 325
Buy-sell-back transactions	562 046	176 987	11 662
<b>Gross receivables</b>	<b>2 092 450</b>	<b>2 212 891</b>	<b>1 583 247</b>
Impairment write down	( 295)	( 187)	( 32)
<b>Total</b>	<b>2 092 155</b>	<b>2 212 704</b>	<b>1 583 215</b>



In thousands of PLN

## 18. Financial assets and liabilities held for trading

Financial assets and liabilities held for trading	30.06.2014		31.12.2013		30.06.2013	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
<b>Trading derivatives</b>	<b>1 108 710</b>	<b>1 118 354</b>	<b>1 021 659</b>	<b>1 022 029</b>	<b>1 125 093</b>	<b>1 258 955</b>
<b>Interest rate operations</b>	<b>828 302</b>	<b>873 067</b>	<b>632 187</b>	<b>632 007</b>	<b>841 351</b>	<b>863 435</b>
Forward	-	-	-	-	33	-
Options	1 527	1 527	4 323	4 328	5 346	5 346
IRS	815 149	861 692	614 204	617 986	810 471	828 493
FRA	11 626	9 848	13 660	9 693	25 501	29 596
<b>Transactions on equity instruments</b>	<b>9 847</b>	<b>25 104</b>	<b>2 819</b>	<b>717</b>	-	-
Options	9 847	25 104	2 819	717	-	-
<b>FX operations</b>	<b>270 485</b>	<b>220 111</b>	<b>386 653</b>	<b>389 305</b>	<b>282 964</b>	<b>394 944</b>
CIRS	84 088	83 107	95 304	147 521	88 099	173 243
Forward	11 198	30 894	28 994	49 144	58 527	22 213
FX Swap	112 859	47 618	202 087	130 025	93 932	154 898
Spot	536	649	792	1 037	910	686
Options	57 753	57 724	59 476	61 578	41 496	43 904
Other	4 051	119	-	-	-	-
<b>Transactions concerning precious metals and commodities</b>	<b>76</b>	<b>72</b>	-	-	<b>778</b>	<b>576</b>
<b>Debt and equity securities</b>	<b>2 343 157</b>	-	<b>1 323 242</b>	-	<b>1 853 377</b>	-
<b>Debt securities</b>	<b>2 311 899</b>	-	<b>1 281 038</b>	-	<b>1 839 065</b>	-
Government securities:	2 307 140	-	1 076 229	-	1 838 270	-
- bills	-	-	-	-	24 900	-
- bonds	2 307 140	-	1 076 229	-	1 813 370	-
Central Bank securities:	-	-	199 972	-	-	-
- bills	-	-	199 972	-	-	-
Commercial securities:	4 759	-	4 837	-	795	-
- bonds	4 759	-	4 837	-	795	-
<b>Equity securities:</b>	<b>31 258</b>	-	<b>42 204</b>	-	<b>14 312</b>	-
- listed	31 258	-	42 204	-	14 312	-
<b>Short sale</b>	-	<b>490 700</b>	-	<b>255 133</b>	-	<b>49 482</b>
<b>Total financial assets/liabilities</b>	<b>3 451 867</b>	<b>1 609 054</b>	<b>2 344 901</b>	<b>1 277 162</b>	<b>2 978 470</b>	<b>1 308 437</b>

Financial assets and liabilities held for trading - trading derivatives include value adjustments resulting from counterparty risk in the amount of PLN (12 893) k as at 30.06.2014, PLN (1 668) k as at 31.12.2013, PLN (3 139) k as at 30.06.2013.

## 19. Hedging derivatives

Hedging derivatives	30.06.2014		31.12.2013		30.06.2013	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
IRS hedging fair value	224	141 508	21 566	25 079	21 267	40 401
IRS hedging cash flow	204 776	474 633	300 390	342 445	208 248	823 448
<b>Total hedging derivatives</b>	<b>205 000</b>	<b>616 141</b>	<b>321 956</b>	<b>367 524</b>	<b>229 515</b>	<b>863 849</b>

As at 30.06.2014 Hedging derivatives - IRS hedging cash flow include value adjustments day first profit or loss for start forward CIRS transactions in the amount of PLN (12 095) k., PLN (10 082) k as at 31.12.2013, PLN (10 477) k as at 30.06.2013

For the valuation of hedging transactions, Bank uses a valuation model, in which not all essential data used for valuation are based on observable market parameters, therefore, differences arise in the initial valuation. Bank treats it as the Day 1 profit or loss and amortises it in time and indicates the valuation effect in the profit and loss account.

In thousands of PLN

## 20. Loans and advances to customers

Loans and advances to customers	30.06.2014	31.12.2013	30.06.2013
Loans and advances to enterprises	37 095 344	34 252 562	35 492 279
Loans and advances to individuals, of which:	34 548 807	34 041 366	34 551 567
<i>Home mortgage loans</i>	25 661 962	25 294 769	25 736 171
Finance lease receivables	3 214 673	3 052 093	2 946 013
Loans and advances to public sector	218 750	225 766	294 326
Buy-sell-back transactions	102 937	40 718	66 116
Other	11 998	9 363	8 211
<b>Gross receivables</b>	<b>75 192 509</b>	<b>71 621 868</b>	<b>73 358 512</b>
Impairment write down	(3 695 887)	(3 489 725)	(3 548 084)
<b>Total</b>	<b>71 496 622</b>	<b>68 132 143</b>	<b>69 810 428</b>
<b>Movements on impairment losses on loans and advances to customers</b>	<b>30.06.2014</b>	<b>31.12.2013</b>	<b>30.06.2013</b>
<b>Individual and collective impairment</b>			
As at the beginning of the period	(3 036 549)	(1 207 321)	(1 207 321)
Individual and collective impairment acquired in a business combination	-	(1 667 026)	(1 667 026)
Charge/write back of current period	(393 101)	(890 806)	(511 092)
Write off/Sale of receivables	148 298	708 113	356 636
Transfer	27 158	14 194	(56 276)
F/X differences	(1 535)	6 297	(6 509)
<b>Balance at the end of the period</b>	<b>(3 255 729)</b>	<b>(3 036 549)</b>	<b>(3 091 588)</b>
<b>IBNR</b>			
As at the beginning of the period	(453 176)	(336 886)	(336 886)
IBNR acquired in a business combination	-	(198 306)	(198 306)
Charge/write back of current period	30 335	174 754	119 864
Transfer	(16 360)	(89 862)	(34 771)
F/X differences	(957)	(2 876)	(6 397)
<b>Balance at the end of the period</b>	<b>(440 158)</b>	<b>(453 176)</b>	<b>(456 496)</b>
<b>Allowance for impairment</b>	<b>(3 695 887)</b>	<b>(3 489 725)</b>	<b>(3 548 084)</b>

## 21. Investment securities available for sale

Investment securities available for sale	30.06.2014	31.12.2013	30.06.2013
<b>Available for sale investments - measured at fair value</b>			
<b>Debt securities</b>	<b>16 648 415</b>	<b>21 217 376</b>	<b>19 259 059</b>
Government securities:	13 765 716	13 245 914	14 720 794
- bonds	13 765 716	13 245 914	14 720 794
Central Bank securities:	-	5 599 222	2 089 847
- bills	-	5 599 222	2 089 847
Commercial securities:	2 882 699	2 372 240	2 448 418
-bonds	2 882 699	2 372 240	2 448 418
<b>Equity securities</b>	<b>848 520</b>	<b>851 603</b>	<b>650 550</b>
- listed	33 732	36 852	35 664
- unlisted	814 788	814 751	614 886
<b>Investment certificates</b>	<b>20 260</b>	<b>21 785</b>	<b>26 639</b>
<b>Total</b>	<b>17 517 195</b>	<b>22 090 764</b>	<b>19 936 248</b>

In thousands of PLN

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
<b>As at 1 January 2014</b>	<b>21 217 376</b>	<b>873 388</b>	<b>22 090 764</b>
Additions	113 401 607	35	113 401 642
Disposals (sale and maturity)	(118 527 778)	(14 293)	(118 542 071)
Fair value adjustment	407 202	11 073	418 275
Movements on interest accrued	147 401	-	147 401
Allowances for impairment	-	(1 425)	(1 425)
F/X differences	2 607	2	2 609
<b>As at 30 June 2014</b>	<b>16 648 415</b>	<b>868 780</b>	<b>17 517 195</b>

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
<b>As at 1 January 2013</b>	<b>11 048 024</b>	<b>668 109</b>	<b>11 716 133</b>
Investment securities available for sale acquired in a business combination	7 701 195	3 426	7 704 621
Additions	219 046 087	1 000	219 047 087
Disposals (sale and maturity)	(216 231 933)	(17 246)	(216 249 179)
Fair value adjustment	(442 321)	206 015	(236 306)
Movements on interest accrued	(65 202)	-	(65 202)
Allowances for impairment	-	(2 468)	(2 468)
F/X differences	13 509	-	13 509
Transfer	148 017	14 552	162 569
<b>As at 31 December 2013</b>	<b>21 217 376</b>	<b>873 388</b>	<b>22 090 764</b>

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
<b>As at 1 January 2013</b>	<b>11 048 024</b>	<b>668 109</b>	<b>11 716 133</b>
Investment securities available for sale acquired in a business combination	7 701 195	3 426	7 704 621
Additions	117 077 114	-	117 077 114
Disposals (sale and maturity)	(116 258 338)	(15 825)	(116 274 163)
Fair value adjustment	(473 315)	3 772	(469 543)
Movements on interest accrued	98 376	-	98 376
F/X differences	66 003	(9)	65 994
Transfer	-	17 716	17 716
<b>As at 30 June 2013</b>	<b>19 259 059</b>	<b>677 189</b>	<b>19 936 248</b>

## 22. Financial assets held to maturity

Movements on financial assets held to maturity	30.06.2014	31.12.2013	30.06.2013
<b>Balance as at 1 January</b>	-	-	-
Financial asset held to maturity acquired in a business combination	-	2 518 251	2 518 251
Maturity	-	(2 467 838)	(2 467 838)
Fair value amortisation	-	379	379
Movements on interest accrued	-	(51 318)	(51 318)
F/X differences	-	526	526
<b>Balance at the end of the period</b>	-	-	-

In thousands of PLN

## 23. Investments in associates and joint ventures

Movements on investments in associates and joint ventures	30.06.2014	31.12.2013	30.06.2013
<b>Balance as at 1 January</b>	<b>63 444</b>	<b>115 685</b>	<b>115 685</b>
Share of profits/(losses)	89	16 297	6 877
Dividends	-	( 5 050)	( 5 050)
Reclassification*	-	( 63 488)	-
<b>Balance at the end of the period</b>	<b>63 533</b>	<b>63 444</b>	<b>117 512</b>

Balance sheet value of associates and joint ventures	30.06.2014	31.12.2013	30.06.2013
Polfund - Fundusz Poręczeń Kredytowych S.A.	42 212	42 602	41 948
BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. *	-	-	30 303
BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A. *	-	-	25 202
Krynicki Recykling S.A.	17 190	16 675	15 859
Metrohouse S.A.	4 131	4 167	4 200
<b>Total</b>	<b>63 533</b>	<b>63 444</b>	<b>117 512</b>

\* As at 30.06.2013 BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A. were joint ventures.

## 24. Net deferred tax assets

Deferred tax assets	30.06.2014	31.12.2013	30.06.2013
Provisions for loans	519 519	492 703	488 669
Unrealized liabilities due to derivatives	334 980	271 334	417 569
Other provisions which are not taxable costs	91 397	101 921	93 221
Deferred income	164 802	154 024	102 759
Difference between balance sheet and taxable value of leasing portfolio	98 084	90 818	94 545
Unrealised interest expense on loans, deposits and securities	74 397	46 043	118 070
Revaluation of financial instruments available for sale-cash flow hedges	34	152	2 890
Other	7 337	6 240	6 206
<b>Total</b>	<b>1 290 550</b>	<b>1 163 235</b>	<b>1 323 929</b>

Deferred tax liabilities	30.06.2014	31.12.2013	30.06.2013
Revaluation of financial instruments available for sale*	( 216 094)	( 158 831)	( 145 808)
Unrealised receivables on derivatives	( 247 533)	( 242 969)	( 250 309)
Unrealised interest income on loans, securities and interbank deposits	( 143 662)	( 148 992)	( 134 532)
Provision due to application of investment relief	( 3 325)	( 3 402)	( 3 478)
Unrealised FX translation differences from b/s valuation of receivables and liabilities	( 4 085)	( 3 163)	( 2 883)
Difference between balance sheet and taxable value of unfinancial value assets	2 468	( 1 627)	( 2 284)
Cash flow hedges valuation*	( 3 317)	( 7 498)	384
Valuation of investments in subsidiaries	( 89 279)	( 106 961)	-
Other	( 19 668)	( 13 362)	( 19 520)
<b>Total</b>	<b>( 724 495)</b>	<b>( 686 805)</b>	<b>( 558 430)</b>

Net deferred tax assets	566 055	476 430	765 499
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\*Changes in deferred tax liabilities were recognised in the consolidated statement of comprehensive income.

As at 30 June 2014 the calculation of deferred tax assets did not include purchased receivables of PLN 14 249 k and loans that will not be realised of PLN 124 182 k.

As at 30 June 2013 the calculation of deferred tax assets did not include purchased receivables of PLN 14 334 k and loans that will not be realised of PLN 53 469 k.

In thousands of PLN

## 25. Assets classified as held for sale

Assets classified as held for sale	30.06.2014	31.12.2013	30.06.2013
Land and buildings	3 503	3 503	2 644
<b>Total</b>	<b>3 503</b>	<b>3 503</b>	<b>2 644</b>

## 26. Other assets

Other assets	30.06.2014	31.12.2013	30.06.2013
Receivables arising from insurance contracts*	752 658	770 048	-
Interbank and interbranch settlements	207 625	260 445	125 772
Sundry debtors	374 319	372 226	385 706
Prepayments	126 635	71 446	113 989
Repossessed assets	46 923	60 965	73 199
Settlements of stock exchange transactions	44 856	30 989	70 925
Other	3 466	2 392	264
<b>Total</b>	<b>1 556 482</b>	<b>1 568 511</b>	<b>769 855</b>

\* As a result of the acquisition of control over the companies BZ WBK-AVIVA TUO S.A. and BZ WBK-AVIVA TUŻ S.A. the Group recognized receivables arising from insurance contracts.

## 27. Deposits from banks

Deposits from banks	30.06.2014	31.12.2013	30.06.2013
Repo/sell-buy-back transactions	6 480 133	4 438 563	7 085 719
Term deposits, other	214 529	1 379 631	472 413
Loans from other banks	295 827	-	-
Current accounts	433 497	460 603	458 409
<b>Total</b>	<b>7 423 986</b>	<b>6 278 797</b>	<b>8 016 541</b>

## 28. Deposits from customers

Deposits from customers	30.06.2014	31.12.2013	30.06.2013
<b>Deposits from individuals</b>	<b>47 523 975</b>	<b>47 999 116</b>	<b>45 092 449</b>
Term deposits	21 193 171	22 345 562	18 190 376
Current accounts	26 277 800	25 590 954	26 841 089
Other	53 004	62 600	60 984
<b>Deposits from enterprises</b>	<b>26 198 872</b>	<b>27 045 417</b>	<b>25 338 838</b>
Term deposits	12 840 732	13 344 322	12 990 034
Current accounts	10 550 928	10 813 018	9 227 399
Sell-buy-back transactions	91 868	166 973	100 213
Loans	2 196 674	2 256 907	2 431 103
Other	518 670	464 197	590 089
<b>Deposits from public sector</b>	<b>4 054 265</b>	<b>3 498 449</b>	<b>4 164 965</b>
Term deposits	1 580 404	1 152 427	2 055 099
Current accounts	2 464 090	2 333 530	2 106 939
Other	9 771	12 492	2 927
<b>Total</b>	<b>77 777 112</b>	<b>78 542 982</b>	<b>74 596 252</b>

In thousands of PLN

## 29. Subordinated liabilities

Subordinated liabilities	Redemption date	Currency	Nominal value
Tranche 1	05.08.2020	EUR	100 000
Tranche 2	16.06.2018	CHF	100 000
Tranche 3	29.06.2019	CHF	165 000
Tranche 4	31.01.2019	PLN	75 000

Movements in subordinated liabilities	30.06.2014	31.12.2013	30.06.2013
<b>As at the beginning of the period</b>	<b>1 384 719</b>	<b>409 110</b>	<b>409 110</b>
<b>Subordinated liabilities acquired in a business combination</b>	<b>-</b>	<b>978 237</b>	<b>978 237</b>
<b>Increase (due to):</b>	<b>40 823</b>	<b>54 896</b>	<b>75 717</b>
- interest on subordinated loan	28 059	54 896	25 964
- FX differences	12 764	-	49 753
<b>Decrease (due to):</b>	<b>(27 747)</b>	<b>(57 524)</b>	<b>(26 919)</b>
- interest repayment	(27 747)	(54 481)	(26 919)
- FX differences	-	(3 043)	-
<b>Subordinated liabilities - as at the end of the period</b>	<b>1 397 795</b>	<b>1 384 719</b>	<b>1 436 145</b>
Short-term	4 611	4 352	4 458
Long-term (over 1 year)	1 393 184	1 380 367	1 431 687

## 30. Debt securities in issue

Debt securities in issue	Nominal value	Currency	Redemption date	30.06.2014
Tranche 1	500 000	PLN	19.12.2016	
<b>Debt securities in issue - as at the end of the period</b>				<b>500 543</b>

Detailed information on the Debt securities in issue are presented in Note 46.

## 31. Other liabilities

Other liabilities	30.06.2014	31.12.2013	30.06.2013
Settlements of stock exchange transactions	32 210	32 381	56 860
Interbank and interbranch settlements	427 082	250 941	739 925
Provisions:	1 425 218	1 555 371	356 456
Employee provisions	239 849	293 962	222 201
Provisions for legal claims	29 669	45 104	45 331
Provisions for off-balance sheet credit facilities	74 141	95 934	85 624
Technical insurance provisions *	1 078 259	1 117 071	-
Other	3 300	3 300	3 300
Sundry creditors	504 379	248 564	192 947
Other deferred and suspended income	114 096	109 395	118 235
Public and law settlements	51 609	43 081	69 489
Accrued liabilities	173 244	161 646	168 791
Finance lease related settlements	33 048	37 158	24 171
Liabilities from insurance contracts and other*	10 776	1 387	1 035
Share purchase mandate adjustment *	699 072	684 288	-
<b>Total</b>	<b>3 470 734</b>	<b>3 124 212</b>	<b>1 727 909</b>

\* As a result of the controlling stake at the companies BZ WBK-AVIVA TUO S.A. and BZ WBK-AVIVA TUŹ S.A. the Group recognized share purchase mandate adjustment, technical insurance provisions and liabilities from insurance contracts.

In thousands of PLN

<b>Change in provisions</b>	<b>30.06.2014</b>	<b>31.12.2013</b>	<b>30.06.2013</b>
<b>As at the beginning of the period</b>	<b>1 555 371</b>	<b>226 696</b>	<b>226 696</b>
Employee provisions	293 962	190 865	190 865
Provisions for legal claims	45 104	15 912	15 912
Provisions for off-balance sheet credit facilities	95 934	16 619	16 619
Technical insurance provisions	1 117 071	-	-
Other	3 300	3 300	3 300
<b>Provision acquired in a business combination</b>	<b>-</b>	<b>1 304 489</b>	<b>186 902</b>
Employee provisions	-	95 282	94 766
Provisions for legal claims	-	28 961	28 961
Provisions for off-balance sheet credit facilities	-	63 175	63 175
Technical insurance provisions	-	1 117 071	-
Other	-	-	-
<b>Provision charge</b>	<b>225 138</b>	<b>545 803</b>	<b>261 568</b>
Employee provisions	137 978	280 953	125 586
Provisions for legal claims	769	2 449	1 503
Provisions for off-balance sheet credit facilities	86 391	262 401	134 479
Technical insurance provisions	-	-	-
Other	-	-	-
<b>Utilization</b>	<b>( 191 352)</b>	<b>( 255 718)</b>	<b>( 188 294)</b>
Employee provisions	( 190 818)	( 255 042)	( 188 184)
Provisions for legal claims	( 726)	( 460)	( 134)
Provisions for off-balance sheet credit facilities	192	( 216)	24
Technical insurance provisions	-	-	-
Other	-	-	-
<b>Write back</b>	<b>( 163 939)</b>	<b>( 258 745)</b>	<b>( 131 780)</b>
Employee provisions	( 1 273)	( 10 942)	( 832)
Provisions for legal claims	( 15 478)	( 1 758)	( 911)
Provisions for off-balance sheet credit facilities	( 108 376)	( 246 045)	( 130 037)
Technical insurance provisions	( 38 812)	-	-
Other	-	-	-
<b>Other changes</b>	<b>-</b>	<b>( 7 154)</b>	<b>1 364</b>
Employee provisions	-	( 7 154)	-
Provisions for legal claims	-	-	-
Provisions for off-balance sheet credit facilities	-	-	1 364
Other	-	-	-
<b>Balance at the end of the period</b>	<b>1 425 218</b>	<b>1 555 371</b>	<b>356 456</b>
<b>Employee provisions</b>	<b>239 849</b>	<b>293 962</b>	<b>222 201</b>
<b>Provisions for legal claims</b>	<b>29 669</b>	<b>45 104</b>	<b>45 331</b>
<b>Provisions for off-balance sheet credit facilities</b>	<b>74 141</b>	<b>95 934</b>	<b>85 624</b>
<b>Technical insurance provisions</b>	<b>1 078 259</b>	<b>1 117 071</b>	<b>-</b>
<b>Other</b>	<b>3 300</b>	<b>3 300</b>	<b>3 300</b>

In thousands of PLN

## 32. Fair value

A fair value measurement assumes that the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions.

Below is a summary of the book values and fair values of the individual groups of assets and liabilities.

Assets	30.06.2014		31.12.2013		30.06.2013	
	Book Value	Fair Value	Book Value	Fair Value	Book Value	Fair Value
Cash and balances with central banks	7 039 578	7 039 578	5 149 686	5 149 686	2 498 203	2 498 203
Loans and advances to banks	2 092 155	2 092 155	2 212 704	2 212 704	1 583 215	1 583 215
Financial assets held for trading	3 451 867	3 451 867	2 344 901	2 344 901	2 978 470	2 978 470
Hedging derivatives	205 000	205 000	321 956	321 956	229 515	229 515
Loans and advances to customers	71 496 622	72 134 583	68 132 143	68 703 474	69 810 428	69 932 557
Investment securities	17 517 195	17 517 195	22 090 764	22 090 764	19 936 248	19 936 248
Investments in associates and joint ventures	63 533	63 533	63 444	63 444	117 512	117 512
<b>Liabilities</b>						
Deposits from banks	7 423 986	7 423 986	6 278 797	6 278 797	8 016 541	8 016 541
Hedging derivatives	616 141	616 141	367 524	367 524	863 849	863 849
Financial liabilities held for trading	1 609 054	1 609 054	1 277 162	1 277 162	1 308 437	1 308 437
Subordinated liabilities	1 397 795	1 397 795	1 384 719	1 623 024	1 436 145	1 436 145
Deposits from customers	77 777 112	77 773 037	78 542 982	78 518 847	74 596 252	74 602 015

Below is a summary of the key methods and assumptions used in the estimation of fair values of the financial instruments shown in the table above.

### Financial assets and liabilities not carried at fair value in the statement of financial position

The Group has financial instruments which in accordance with the IFRS are not carried at fair value in the consolidated financial statements. The fair value of such instruments is measured using the following methods and assumptions.

**Loans and advances to banks:** The fair value of deposits and placements is measured using discounted cash flows at the current money market interest rates for receivables of similar credit risk, maturity and currency.

**Loans and advances to customers:** Carried at net value after impairment charges. Fair value is calculated as the discounted value of the expected future cash flows in respect of principal and interest payments. It is assumed that loans and advances will be repaid at their contractual maturity date. The estimated fair value of the loans and advances reflects changes in the credit risk from the moment of sanction (margins) and changes in interest rates.

As the reporting date no estimates were made with regard to the fair value of the portfolio of mortgage loans denominated in CHF due to the lack of an active market for similar products, however in the case of part of the portfolio of mortgage loans denominated in CHF acquired from Kredyt Bank, the carrying amount includes the fair value component established as at the merger date.

**Financial assets not carried at fair value:** The Group does not use fair valuation for equity securities of unlisted companies for which the fair value cannot be reliably established. In the statement of financial position, equity instruments are presented at cost less impairment. Debt instruments are measured at amortised cost.

**Investments in associates and joint ventures:** The financial assets representing investments in associates and joint ventures are measured using the equity method. The Management Board of the parent company believes that this is the most accurate estimation of fair value of these instruments.

**Deposits from banks and deposits from customers:** Fair value of the deposits with maturity exceeding 6 months was estimated based on the cash flows discounted by the current market rates for the deposits with similar maturity dates. In the case of demand deposits without a fixed maturity date or with maturity up to 6 months, it is assumed that their fair value is not significantly different than their book value. The process of fair value estimation for these instruments is not affected by the long-term nature of the business with depositors.



In thousands of PLN

**Debt securities in issue and subordinated liabilities:** The securities and subordinated liabilities are measured at amortised cost. The fair value of these instruments is not significantly different from their balance sheet value.

## Financial assets and liabilities carried at fair value in the statement of financial position

As at 30.06.2014 and in the comparable periods the Group made the following classification of its financial instruments measured at fair value in the statement of financial position:

**Level I (active market quotations):** debt, equity and derivative financial instruments which at the balance sheet date were measured using the prices quoted in the active market. The Group allocates to this level fixed-rate State Treasury bonds, treasury bills, Eurobonds of the German government, Eurobonds of the American government, shares of listed companies and WIG 20 futures.

**Level II (the measurement methods based on market-derived parameters):** This level includes derivative instruments. Level II also classifies variable-rate State Treasury bonds. These bonds were measured using discounted cash flow models based on the discount curve derived from the market of fixed-rate treasury bonds. Derivative instruments are measured using discounted cash flow models based on the discount curve derived from the inter-bank market.

**Level III (measurement methods using material non-market parameters):** This level includes equity securities that are not quoted in the active market, measured using the expert valuation model; investment certificates measured at the balance sheet date at the price announced by the mutual fund and debt securities (commercial and municipal bonds).

As at 30.06.2014 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

30.06.2014	Level I	Level II	Level III	Total
<b>Financial assets</b>				
Financial assets held for trading	2 048 735	1 403 132	-	3 451 867
Hedging derivatives	-	205 000	-	205 000
Financial investment assets - debt securities	13 934 814	2 713 602	-	16 648 416
Financial investment assets - equity securities	33 732	-	835 047	868 779
<b>Total</b>	<b>16 017 281</b>	<b>4 321 734</b>	<b>835 047</b>	<b>21 174 062</b>
<b>Financial liabilities</b>				
Financial liabilities held for trading	490 700	1 118 354	-	1 609 054
Hedging derivatives	-	616 141	-	616 141
<b>Total</b>	<b>490 700</b>	<b>1 734 495</b>	-	<b>2 225 195</b>
31.12.2013	Level I	Level II	Level III	Total
<b>Financial assets</b>				
Financial assets held for trading	900 016	1 444 885	-	2 344 901
Hedging derivatives	-	321 956	-	321 956
Financial investment assets - debt securities	10 995 044	10 222 332	-	21 217 376
Financial investment assets - equity securities	35 980	-	837 408	873 388
<b>Total</b>	<b>11 931 040</b>	<b>11 989 173</b>	<b>837 408</b>	<b>24 757 621</b>
<b>Financial liabilities</b>				
Financial liabilities held for trading	255 133	1 022 029	-	1 277 162
Hedging derivatives	-	367 524	-	367 524
<b>Total</b>	<b>255 133</b>	<b>1 389 553</b>	-	<b>1 644 686</b>
30.06.2013	Level I	Level II	Level III	Total
<b>Financial assets</b>				
Financial assets held for trading	1 783 579	1 027 794	167 097	2 978 470
Hedging derivatives	-	229 515	-	229 515
Financial investment assets - debt securities	12 962 394	3 848 248	2 448 418	19 259 060
Financial investment assets - equity securities	35 664	-	641 524	677 188
<b>Total</b>	<b>14 781 637</b>	<b>5 105 557</b>	<b>3 257 039</b>	<b>23 144 233</b>
<b>Financial liabilities</b>				
Financial liabilities held for trading	49 482	1 170 208	88 747	1 308 437
Hedging derivatives	-	863 849	-	863 849
<b>Total</b>	<b>49 482</b>	<b>2 034 057</b>	<b>88 747</b>	<b>2 172 286</b>

In thousands of PLN

The tables below show reconciliation of changes in the balance of financial instruments whose fair value is established by means of the valuation methods using material non-market parameters.

Level III	Financial assets			Financial liabilities
	Financial assets held for trading	Financial investment assets - debt securities	Financial investment assets - equity securities	Financial liabilities held for trading
<b>30.06.2014</b>				
<b>Beginning of the period</b>	-	-	<b>837 408</b>	-
Profits or losses	-	-	(2 361)	-
<i>recognised in income statement</i>	-	-	-	-
<i>recognised in equity</i>	-	-	(2 361)	-
Purchase	-	-	-	-
Sale	-	-	-	-
Matured	-	-	-	-
Impairment	-	-	-	-
Transfer	-	-	-	-
<b>At the period end</b>	-	-	<b>835 047</b>	-

Level III	Financial assets			Financial liabilities
	Financial assets held for trading	Financial investment assets - debt securities	Financial investment assets - equity securities	Financial liabilities held for trading
<b>31.12.2013</b>				
<b>Beginning of the period</b>	<b>178 107</b>	<b>1 237 344</b>	<b>654 395</b>	<b>(74 182)</b>
Profits or losses	-	-	197 235	-
<i>recognised in income statement</i>	-	-	-	-
<i>recognised in equity</i>	-	-	197 235	-
Purchase	-	-	1 000	-
Sale	-	-	(14 302)	-
Matured	-	-	-	-
Impairment	-	-	(2 081)	-
Transfer	(178 107)	(1 237 344)	1 161	74 182
<b>At the period end</b>	-	-	<b>837 408</b>	-

Level III	Financial assets			Financial liabilities
	Financial assets held for trading	Financial investment assets - debt securities	Financial investment assets - equity securities	Financial liabilities held for trading
<b>30.06.2013</b>				
<b>Beginning of the period</b>	<b>178 107</b>	<b>1 237 344</b>	<b>654 667</b>	<b>(74 182)</b>
Profits or losses	5 858	6 033	(765)	3 111
<i>recognised in income statement</i>	5 858	-	-	3 111
<i>recognised in equity</i>	-	6 033	(765)	-
Purchase	-	1 205 041	1 000	-
Sale	-	-	(14 469)	-
Matured	(16 868)	-	-	(17 676)
Impairment	-	-	-	-
Transfer	-	-	1 091	-
<b>At the period end</b>	<b>167 097</b>	<b>2 448 418</b>	<b>641 524</b>	<b>(88 747)</b>

In thousands of PLN

### 33. Contingent liabilities

#### Significant court proceedings

As at 30.06.2014 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 283 692 k, which is ca 1.94% of the Group's equity. This amount includes PLN 100 233 k claimed by the Group, PLN 167 053 k in claims against the Group and PLN 16 406 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 30.06.2014 the amount of significant court proceedings which had been completed amounted to PLN 134 004 k.

As at 30.06.2013 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounted to PLN 320 467 k, which is ca 2.42% of the Group's equity. This amount includes PLN 110 066 k claimed by the Group, PLN 149 809 k in claims against the Group and PLN 60 592 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 30.06.2013 the amount of significant court proceedings which had been completed amounted to PLN 53 618 k.

#### Off-balance sheet liabilities

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

Contingent liabilities - sanctioned	30.06.2014	31.12.2013	30.06.2013
<b>Liabilities sanctioned</b>			
<b>- financial</b>	<b>17 360 739</b>	<b>17 592 801</b>	<b>15 685 753</b>
- credit lines	15 115 981	15 229 084	13 386 408
- credit cards debits	1 931 860	1 875 786	1 799 762
- import letters of credit	312 898	441 505	260 669
- term deposits with future commencement term	-	46 426	238 914
<b>- guarantees</b>	<b>4 069 326</b>	<b>3 822 213</b>	<b>3 766 741</b>
<b>Total</b>	<b>21 430 065</b>	<b>21 415 014</b>	<b>19 452 494</b>

In thousands of PLN

### 34. Off-balance sheet liabilities relating to derivatives' nominal values

The table below presents off-balance sheet liabilities relating to derivatives' nominal values.

Derivatives' nominal values	30.06.2014	31.12.2013	30.06.2013
<b>1. Term derivatives (hedging)</b>	<b>31 370 973</b>	<b>29 792 094</b>	<b>29 168 868</b>
a) Single-currency interest rate swap	2 665 000	2 665 000	1 515 000
b) Macro cash flow hedge -purchased (IRS)	2 781 153	3 229 513	3 269 470
c) Macro cash flow hedge -purchased (CIRS)	12 798 315	11 847 013	11 847 620
d) Macro cash flow hedge -sold (CIRS)	13 126 505	12 050 568	12 536 778
<b>2. Term derivatives (trading)</b>	<b>133 988 652</b>	<b>128 271 971</b>	<b>143 317 566</b>
a) Interest rate operations	82 102 529	81 693 883	91 605 322
Single-currency interest rate swap	67 087 678	57 441 526	63 636 676
FRA - purchased amounts	13 600 000	23 350 000	27 100 000
Options	1 274 651	902 357	857 746
Forward- sold amounts	140 200	-	10 900
b) FX operations	51 881 225	46 578 088	51 686 580
FX swap – purchased amounts	11 219 690	10 710 489	14 916 332
FX swap – sold amounts	11 137 163	10 623 485	14 962 740
Forward- purchased amounts	2 523 220	2 546 613	3 139 425
Forward- sold amounts	2 561 089	2 585 261	3 124 438
Cross-currency interest rate swap – purchased amounts	6 274 711	5 412 520	4 439 359
Cross-currency interest rate swap – sold amounts	6 284 386	5 482 036	4 527 774
FX options -purchased CALL	2 938 978	2 272 212	1 609 189
FX options -purchased PUT	3 001 505	2 336 630	1 679 067
FX options -sold CALL	2 938 978	2 272 212	1 609 189
FX options -sold PUT	3 001 505	2 336 630	1 679 067
c) Transactions concerning precious metals and commodities	4 898	-	25 664
Commodity swap - purchased amounts	2 449	-	12 933
Commodity swap - sold amounts	2 449	-	12 731
<b>3. Currency transactions- spot</b>	<b>1 977 769</b>	<b>2 076 924</b>	<b>1 763 439</b>
Spot-purchased	988 834	1 038 347	881 878
Spot-sold	988 935	1 038 577	881 561
<b>4. Transactions on equity financial instruments</b>	<b>457 418</b>	<b>53 526</b>	<b>11 452</b>
Derivatives contract - purchased	221 146	11 275	11 452
Derivatives contract - sold	236 272	42 251	-
<b>5. Capital options related to subsidiary entities</b>	<b>249 654</b>	<b>248 832</b>	<b>-</b>
<b>Total</b>	<b>168 044 466</b>	<b>160 443 347</b>	<b>174 261 325</b>

In the case of single-currency transactions (IRS, FRA, non-FX options) only purchased amounts are presented.

### 35. Basis of FX conversion

As at 30.06.2014, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 124/A/NBP/2014 dd. 30.06.2014.

### 36. Shareholders with min. 5% voting power

According to the information held by the Bank's Management Board, the shareholder with a min. 5% of the total number of votes at the Bank Zachodni WBK General Meeting as at the publication date of the condensed interim consolidated report for H1 2014 /31.07.2014/ are Banco Santander S.A. and Santander Consumer Finance S.A. („SCF S.A.” Banco Santander's subsidiary).

In thousands of PLN

Shareholder	Number of shares held		% in the share capital		Number of votes at AGM		Voting power at AGM	
	31.07.2014	29.04.2014	31.07.2014	29.04.2014	31.07.2014	29.04.2014	31.07.2014	29.04.2014
Banco Santander S.A.	65 481 563	65 481 563	65,99%	70,00%	65 481 563	65 481 563	65,99%	70,00%
SCF S.A.	5 383 902	-	5,42%	-	5 383 902	-	5,42%	-
Other	28 369 069	28 063 526	28,59%	30,00%	28 369 069	28 063 526	28,59%	30,00%
<b>Total</b>	<b>99 234 534</b>	<b>93 545 089</b>	<b>100,00%</b>	<b>100,00%</b>	<b>99 234 534</b>	<b>93 545 089</b>	<b>100,00%</b>	<b>100,00%</b>

### 37. Related party disclosures

Transactions with associates and joint ventures	30.06.2014	31.12.2013	30.06.2013
<b>Assets</b>	-	-	<b>1 294</b>
Other assets	-	-	1 294
<b>Liabilities</b>	<b>2 479</b>	<b>7 168</b>	<b>194 590</b>
Deposits from customers	2 479	7 168	194 320
Other liabilities	-	-	270
<b>Income</b>	<b>2</b>	<b>130 894</b>	<b>61 458</b>
Interest income	-	42 033	19 076
Fee and commission income	2	88 703	42 334
Other operating income	-	158	48
<b>Expenses</b>	<b>91</b>	<b>11 645</b>	<b>6 384</b>
Interest expense	91	6 033	3 885
Fee and commission expense	-	3 641	1 487
Operating expenses incl.:	-	1 971	1 012
<i>General and administrative expenses</i>	-	<i>1 971</i>	<i>1 012</i>

In thousands of PLN

Transactions with Santander Group	30.06.2014	31.12.2013	30.06.2013
<b>Assets</b>	<b>835 212</b>	<b>802 305</b>	<b>219 106</b>
Loans and advances to banks, incl:	723 240	706 166	110 846
<i>loans and advances</i>	718 169	674 579	100 354
<i>current accounts</i>	5 071	31 587	10 492
Financial assets held for trading	110 418	93 723	103 466
Hedging derivatives	1 222	1 081	1 452
Loans and advances to customers	-	4	-
Other assets	332	1 331	3 342
<b>Liabilities</b>	<b>232 108</b>	<b>216 668</b>	<b>395 159</b>
Deposits from banks incl.:	64 071	71 485	235 407
<i>current accounts</i>	64 071	71 485	235 407
Hedging derivatives	8 359	6 235	25 647
Financial liabilities held for trading	92 281	85 784	77 807
Deposits from customers	63 191	48 970	13 000
Other liabilities	4 206	4 194	43 298
<b>Income</b>	<b>( 36 675)</b>	<b>( 46 459)</b>	<b>( 35 802)</b>
Interest income	9 454	13 528	6 547
Fee and commission income	690	5 345	3 584
Other operating income	313	814	478
Net trading income and revaluation	( 47 132)	( 66 146)	( 46 411)
<b>Expenses</b>	<b>6 320</b>	<b>23 137</b>	<b>15 707</b>
Interest expense	646	404	212
Fee and commission expense	1 102	14 927	12 071
Operating expenses incl.:	4 572	7 806	3 424
<i>Bank's staff, operating expenses and management costs</i>	4 572	7 806	3 424
<b>Contingent liabilities</b>	<b>73</b>	<b>117</b>	<b>117</b>
Received:	73	117	117
- <i>guarantees</i>	73	117	117
<b>Derivatives' nominal values</b>	<b>23 352 176</b>	<b>17 687 584</b>	<b>19 644 126</b>
Cross-currency interest rate swap – purchased amounts	2 927 833	2 733 296	2 534 338
Cross-currency interest rate swap – sold amounts	2 936 828	2 764 571	2 559 372
Single-currency interest rate swap	5 150 786	4 360 662	3 663 074
Options	1 193 320	822 678	786 254
FX swap – purchased amounts	2 493 575	1 592 208	3 749 870
FX swap – sold amounts	2 480 977	1 599 563	3 759 254
FX options -purchased CALL	1 524 942	1 044 075	669 694
FX options -purchased PUT	1 540 246	1 076 295	683 061
FX options -sold CALL	1 306 778	682 163	495 793
FX options -sold PUT	1 353 752	717 682	552 086
Spot-purchased	12 236	44 475	93 919
Spot-sold	12 141	44 563	93 903
Forward- purchased amounts	94 036	93 727	-
Forward- sold amounts	101 136	100 936	-
Commodity swap - sold amounts	1 222	-	-
Commodity swap - purchased amounts	1 222	-	3 508
Capital derivatives contract - purchased	221 146	10 690	-

In thousands of PLN

## Transactions with Members of the Management and Supervisory Boards

### *Remuneration, Loans and advances of Bank Zachodni WBK Management and Supervisory Board Members*

As at 30.06.2014 and 30.06.2013 members of the Management Board were bound by the non-compete agreements which remain in force after they step down from their function. If a Member of the Management Board is removed from their function or not appointed for another term, he/she is entitled to a once-off severance pay. The severance pay does not apply if the person accepts another function in the Bank.

Loans and advances have been sanctioned on regular terms and conditions.

#### **30.06.2014**

In H1 2014 the amount of remuneration paid to the Management Board Members of Bank Zachodni WBK totalled PLN 5 812 k, whereas additional benefits totalled PLN 561 k. In 2014, a total bonus of PLN 4 246 k was paid for 2013, including a deferred part for 2012.

In H1 2014, the total amount of remuneration paid to the Supervisory Board Members of Bank Zachodni WBK totalled PLN 1 930 k.

Loans and advances made by the Bank to the Members of the Management Board of BZ WBK and to their relatives totalled PLN 10 685 k.

The Members of the Management Board of Bank Zachodni WBK did not use any assets that would be provided by the subsidiaries or the associates under lease

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

#### **30.06.2013**

In H1 2013 the amount of remuneration paid to the Management Board Members of Bank Zachodni WBK totalled PLN 8 161 k, whereas additional benefits totalled PLN 593 k. In 2013, a total bonus of PLN 4 429 k was paid for 2012, including a deferred part for 2011.

In H1 2013, the total amount of remuneration paid to the Supervisory Board Members of Bank Zachodni WBK totalled PLN 2 323 k.

Loans and advances made by the Bank to the Members of the Management Board of BZ WBK and to their relatives totalled PLN 10 179 k.

The Members of the Management Board of Bank Zachodni WBK did not use any assets that would be provided by the subsidiaries or the associates under lease.

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

## **38. Acquisitions and disposals of investments in subsidiaries, associates and joint ventures**

### **Acquisitions and disposals of investments in subsidiaries, associates and joint ventures in 1H 2014 and in 1H 2013.**

In 1H 2014 and 1H 2013, BZ WBK Group did not engage in any transactions impacting its equity investment in the subsidiary, joint venture or associated undertakings.

#### ***Merger of Bank Zachodni WBK and Kredyt Bank***

On 4 January 2013 (date of merger) the Bank registered the business combination of Bank Zachodni WBK and Kredyt Bank. The transaction was settled through the issue of merger shares. As a result, eligible shareholders of Kredyt Bank S.A. were entitled to acquire shares in accordance with the agreed exchange ratio of 6.96 Merger Shares for every 100 shares of the Kredyt Bank. This represents a total of 18 907 458 ordinary shares with a nominal value of PLN 10 each, with a total nominal value of PLN 189 074 580. For the purposes of the settlement, the price of the new shares was determined in the amount of PLN 240.32.

In thousands of PLN

This price was calculated on the basis of the average Bank Zachodni WBK share price over the thirty trading days between 21 November 2012 and 8 January 2013, excluding trading days without required turnover.

As at the date of publication of the consolidated report of Bank Zachodni WBK Group for H1 2014, the acquisition of Kredyt Bank was accounted for.

Merger of Bank Zachodni WBK and Kredyt Bank has been described in detail in Report of Bank Zachodni WBK Group for 2013 in Note 55.

#### **Controlling stake at the companies BZ WBK AVIVA**

Controlling stake at the companies BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. has been described in detail in Note 39.

#### **Merger of BZ WBK leasing companies**

On 29 March 2013, the BZ WBK leasing companies merged in accordance with Article 492 (1) (1) of the Code of Companies and Partnerships. The merger was effected by acquisition of BZ WBK Finanse & Leasing S.A. by BZ WBK Leasing S.A., being the acquiring entity, and by transfer of the whole of the assets of BZ WBK Finanse & Leasing S.A. to BZ WBK Leasing S.A. in exchange for shares to be issued by BZ WBK Leasing S.A. to the existing partner in BZ WBK Finanse & Leasing S.A. The merger did not have any impact on the structure of the consolidated balance sheet or the financial results, as presented in this report.

## **39. Controlling stake at the companies BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A.**

#### **Transaction description**

On 1 August 2013, Bank Zachodni WBK entered into agreements with Aviva International Insurance Limited (Aviva), BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. (BZ WBK Aviva TUŻ S.A.) and BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. (BZ WBK Aviva TUO S.A.) in order to change and extend the strategic bancassurance co-operation in Poland to 31 December 2033. These agreements also provided for a re-calculation of the parties' contribution to the extended bancassurance co-operation model. In effect, on 20 December 2013 (the control acquisition date), on receipt of the regulatory consents, Bank Zachodni WBK received from Aviva International Insurance Limited 16% stake in BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. As a result of the transaction, as at 31 December 2013, the Bank had 66% shareholding and 66% voting power in the two insurance companies, while the remaining 34% voting power is held by Aviva.

#### **Assets and liabilities recognised at the acquisition date**

On 31 December 2013 the Bank made a preliminary, provisional settlement of the acquisition of control over BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. Furthermore, the Bank has not yet completed the process of estimation of the fair value of the selected assets and liabilities of the insurance companies, as at the acquisition date, in particular the receivables and liabilities under insurance agreements. The estimation of the fair value of the intangible assets recognised in relation to the acquisition has not been completed either. Consequently, the value of deferred tax assets and liabilities was also calculated using the best estimates of the Management Board.



In thousands of PLN

as at 31.12.2013	BZ WBK-Aviva TUO S.A.	BZ WBK-Aviva TUŹ S.A.
<b>ASSETS</b>		
Loans and advances to banks	7 015	61 972
Financial assets held for trading	97 921	25 258
Investment securities	81 508	66 509
Intangible assets	128 306	24 974
Property, plant and equipment	671	571
Net deferred tax assets	( 2 694)	( 4 994)
Other assets	27 330	793 886
<b>Total assets</b>	<b>340 057</b>	<b>968 176</b>
<b>LIABILITIES</b>		
Current income tax liabilities	( 2 189)	( 1 206)
Other liabilities	( 260 995)	( 889 512)
<b>Total liabilities</b>	<b>( 263 184)</b>	<b>( 890 718)</b>
<b>Fair value of identifiable net assets</b>	<b>76 873</b>	<b>77 458</b>

The item "Intangible assets", with a fair value of:

- PLN 128,289k for BZ WBK-Aviva TUO S.A. and
- PLN 24,974k for BZ WBK-Aviva TUŹ S.A.

includes additional assets that meet the criteria of being recognised as intangible fixed assets. The assets originate from revaluation of the insurance agreements existing in the two companies. At the date of preparation of these financial statements, the Bank has not yet completed the process of identification of other potentially acquired intangible fixed assets that might need to be carried in accordance with IFRS 3.

#### **Non-controlling interests**

As at controlling stake, non-controlling interests were recognised, representing 34% of the share capital and the total number of votes in either insurance company, which remain under control of Aviva International Insurance Limited. The book value of these shares estimated using the fair value method is PLN 525,640k.

#### **Preliminary goodwill calculation**

as at	31.12.2013
<b>Goodwill</b>	
Total consideration	-
Balance sheet value a previously owned block of sl	63 489
Revaluation of shares held	419 011
Non-controlling interests	525 640
Less: fair value of identifiable net assets	( 154 331)
<b>Total</b>	<b>853 809</b>

The goodwill arising on acquisition represents a control premium, and arises from the possibility to generate additional benefits from the expected synergies, increase in revenues and the achieved market share. These benefits were not recognised separately from the goodwill as they did not meet the conditions for being treated as intangible assets.

The goodwill arising on acquisition is not expected to be deducted for tax purposes.

#### **Contingent liabilities**

In accordance with Current Report no. 37/2013 of 2 August 2013, Aviva was granted a call option that authorises it or another Aviva Group entity that it might indicate to acquire from the bank 17% stake in the registered capital of each of the insurance entities, on the terms and conditions specified in the transaction documents.

The terms of the Aviva agreement gave rise to the following contingent liabilities.

In thousands of PLN

Bank Zachodni WBK granted Aviva a put option for the 34% stake (i.e. all the remaining shares held by Aviva) in the event of the bank's negligence in the course of the transaction. Strike price of the option is PLN 1,036,800k. As Bank Zachodni WBK is going to make all necessary efforts to finalise in accordance with the applicable laws and in a professional manner, the management of Bank Zachodni WBK is of the opinion that the likelihood of the put option being exercised is close to zero. Accordingly, the option does not need to be recognised in the consolidated financial statements.

Bank Zachodni WBK also gave Aviva an additional put option for a 34% shareholding, triggered if no regulatory consent is obtained for the call option referred to above. The potential obligation on this account is PLN 684,288k. Although both parties agree they are determined to make every effort to obtain the regulatory consents, the obligation was recognised in the consolidated statement of financial position as the option triggers are beyond the Bank's control and are contingent upon regulatory actions.

#### **40. Changes in the business or economic circumstances that affect the fair value of the entity's financial assets and financial liabilities, whether those assets or liabilities are recognized at fair value or amortised costs**

There were no changes in the business or economic circumstances that would affect the fair value of the entity's financial assets or financial liabilities, whether these assets or liabilities were recognised at fair value or amortised cost.

#### **41. Any loan default or breach of a loan agreement that has not been remedied on or before the end of the reporting period**

No such events took place in the reporting period and the comparable period.

#### **42. Transfers between levels of the fair value hierarchy used in measuring the fair value of financial instruments**

No transfers were made in the reporting period and the comparable period.

#### **43. Changes in the classification of financial assets as a result of a change in the purpose or use of those assets**

In the reporting period no such changes were made.

#### **44. Comments concerning the seasonal or cyclical character of the interim activity**

The business activity of Bank Zachodni WBK has no material seasonal character.

#### **45. Character and amounts of items which are extraordinary due to their nature, volume or occurrence**

Detailed information on the merger of Bank Zachodni WBK and Kredyt Bank and merger of BZ WBK leasing companies is presented in Note 38, while controlling stake at the companies BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. are presented in Note 39.

In thousands of PLN

## 46. Issues, repurchases and repayments of debt and equity securities

### *Registration and admission of new shares to trading on the stock exchange, issue of bonds in 4Q 2013*

- Acquisition of the bonds issued by Bank Zachodni WBK under the Programme of Own Debt Securities Issue up to PLN 500 000 k. The book-building for the bonds was finalised and all the bonds issued by the Bank for the total amount of PLN 500 000 k were acquired by bondholders.

The bonds were issued in a non-public offer, in one series, as unsecured bearer bonds denominated in PLN, with a 3-year maturity following their issuance (i.e. 19 December 2016), with a variable interest rate (based on 6M WIBOR plus 1.2% margin p.a.) and a half-year interest period. The first interest payment took place on the 20 June 2014. The bonds issued have a Fitch rating of A+ (pol).

On 28 January 2014, the bearer bonds with a nominal value of PLN 1,000 (one thousand PLN) each, issued by Bank Zachodni WBK, started to be traded in the Catalyst system.

### **30.06.2013**

#### *Registration and admission of new shares to trading on the stock exchange*

- The Management Board of Bank Zachodni WBK announced that on 8 January 2013 it became aware that the management board of the KDPW adopted resolution No. 24/13 on the registration of 18,907,458 series J shares in the Bank, i.e. the shares in the Bank issued in connection with its merger with Kredyt Bank. Pursuant to the KDPW resolution, the registration of the series J shares under code PLBZ00000044 was conditional on the decision of the company operating the regulated market to introduce these shares to trading on the regulated market.

Furthermore, based on this resolution of the KDPW, the reference date was set at 9 January 2013. The information memorandum prepared by the Bank in connection with the merger defines the reference date as the date at which the number of shares in Kredyt Bank held by shareholders of Kredyt Bank will be determined in exchange for which the series J shares in the Bank will be allotted to such shareholders in accordance with an agreed exchange ratio.

- On 25 January 2013, 18,907,458 series J merger shares (issued by the Bank in connection with its merger with Kredyt Bank) with a nominal value of PLN 10 each were registered in the National Depository for Securities (KDPW) and admitted to trading on the primary market.

Detailed information on the merger of Bank Zachodni WBK and Kredyt Bank is presented in Note 38.

## 47. Dividend per share

On 16 April 2014, The Annual General Meeting of Bank Zachodni WBK adopted a Resolution allocating PLN 1 000 932 k to dividend for shareholders, from the net profit for 2013, which meant that the dividend is PLN 10.70 per share.

On 17 April 2013, The Annual General Meeting of Bank Zachodni WBK adopted a Resolution allocating PLN 710 943 k to dividend for shareholders, from the net profit for 2012, which meant that the dividend is PLN 7.6 per share.

## 48. Information concerning issuing loan and guarantees by an issuer or its subsidiary

As at 30.06.2014 Bank Zachodni WBK and its subsidiaries had not issued any guarantees to one business unit or a subsidiary totalling a minimum of 10% of the issuer's equity.

In thousands of PLN

## 49. Creation and reversal of impairment charges for financial assets, tangible fixed assets, intangible fixed assets and other assets

As at 30.06.2014 and as at 30.06.2013, either Bank Zachodni WBK or its subsidiaries did not create or reverse any material impairment charges for financial assets, tangible fixed assets, intangible fixed assets or other assets.

## 50. Material purchases or sales of tangible fixed assets and material obligations arising from the purchase of tangible fixed assets

From 1 January 2014 to 30 June 2014, Bank Zachodni WBK sold properties located in Wrocław, Nowa Ruda, Poznań, Krosno Odrzańskie, Warszawa and Głogów.

The sales proceeds amounted to PLN 8 212 k. No significant fixed assets were sold or bought by the subsidiaries. There were no significant liabilities arising from purchase of fixed assets either.

## 51. Share based payments

On the 20th of April 2011, Annual General Meeting of the Shareholders of Bank Zachodni WBK implemented three-year Incentive Scheme no. IV which initially addressed 496 key employees of the Bank Zachodni WBK Group, including Members of the Management Board.

The fourth edition of the BZWBK incentive scheme closed as at 31/12/2013. It has been assumed that the incentive scheme vested at the maximum level. Realization through issuance of new shares and their allocation to entitled individuals has been processed in first half of 2014, provided all the formal requirements would be fulfilled.

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

Share based payments granted in 2011:

	2011
Number of share based payments	312 755
Number of share based payments allocated after initial grant date	6 312
Share price (PLN)	227,90
Exercise price (PLN)	10
Vesting period	2,75 years
Expected volatility	9,98%
Award life	3 years
Risk free rate	5,19%
Fair value per award	PLN 195,08
Dividend yield	3,51%

In thousands of PLN

The following table summarizes the share based payments activity:

	6 months of 2014	6 months of 2013
	Number of share based payments	Number of share based payments
Outstanding at 1 January	311 989	315 917
Granted	-	-
Exercised	( 305 543)	-
Forfeited	( 6 446)	( 1 244)
Expired	-	-
Outstanding at 31 December	-	314 673
<b>Exercisable at 31 December</b>	-	-

Exercise price for all share based payments amounts to PLN 10.

For the share based payments outstanding as at 30 June 2014 and as at 30 June 2013 the average remaining contractual life is approximately 0.0 year and 0.5 year, respectively.

The total expense recognized with corresponding increase in equity (other reserve capital) for 6 months of 2014 and 2013 amounts to PLN 0.00 k and PLN 10 131 k, respectively.

## 52. Events which occurred subsequently to the end of the interim period

### ***National Depository of Securities resolution on conditional registration of the BZWBK's shares***

Bank Zachodni WBK S.A. informed that on 25 July 2014 it received Resolution of the Management Board of the National Depository of Securities, whereby the latter decides to accept for deposit 305 543 ordinary bearer shares of Bank Zachodni WBK S.A., series K, with a nominal value of PLN 10 each, with the code number PLBZ00000044, provided that the Company floats these shares on the same regulated market where BZWBK's shares coded PLBZ00000044 are traded.

The above-mentioned shares will be registered within three days from the date when National Depository of Securities receives a written confirmation that the entity which manages the regulated market has made the decision to float these shares on the same regulated market where the BZWBK's shares coded PLBZ00000044 are traded, but not earlier than on the date indicated in that decision as the day of floating these shares on this market.

### ***Notification from Banco Santander S.A.***

Bank Zachodni WBK S.A. disclosed as public information, the notification received from Banco Santander S.A. on 24 July 2014, regarding the decrease of the share in the total number of votes at the general meeting of the shareholders of the Bank to 65.99% related to the registration on 18 July 2014 by the relevant court of the increase of the Bank's share capital which was conducted by way of the issuance of 5 383 902 ordinary series L bearer shares and the exclusion of the pre-emptive rights of the Bank's existing shareholders with respect to all the Series L Shares, which were only taken up by Santander Consumer Finance S.A., with its registered office in Madrid, and the dilution of Santander's current stake in the share capital of BZ WBK related therewith.

### ***First notification of the proposed division of Dom Maklerski BZ WBK S.A. with Bank Zachodni WBK S.A. as the acquiring company***

On 24 July 2014, the Management Board of Bank Zachodni WBK S.A. made its first notification of the proposed division of Dom Maklerski BZ WBK S.A.

The division will be effected by:

- transferring to Bank Zachodni WBK S.A. a part of the assets and liabilities of of Dom Maklerski S.A. in the form of an organised part of the enterprise connected with the provision of brokerage services and other services currently being rendered by Dom Maklerski WBK S.A., which are not part of the advertising business; and
- transferring to Gieldokracja Sp. z o.o. (a company in the process of formation) a part of the assets and liabilities of Dom Maklerski BZ WBK S.A. in the form of an organised part of the enterprise connected with the following business: providing

In thousands of PLN

educational activities with respect to the operation of the equity market; operating online portals, including [www.gieldokracja.pl](http://www.gieldokracja.pl); providing advertising services and providing communication services.

Dom Maklerski WBK S.A. shall be wound up without going into liquidation on the date on which it is struck from the register, which will occur immediately upon the registration of Gieldokracja Sp. z o.o.

***Registration of the amendments to the statute of Bank Zachodni WBK and the increase of the Bank's share capital in the National Court Register, as adopted by the Extraordinary General Meeting of the Shareholders of Bank Zachodni WBK***

Bank Zachodni WBK stated that on 18 July 2014, it was informed that on 18 July 2014, the District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register, entered into the National Court Register the changes to the Bank's statute adopted by the extraordinary general meeting of the shareholders of the Bank held on 30 June 2014.

Given the above, the Bank's share capital was increased from PLN 938 506 320 to PLN 992 345 340, i.e. by PLN 53 839 020. The shares acquired in the increased share capital were paid up in full.

The share capital increase was implemented by way of a private placement with the exclusion of the pre-emptive rights of the existing shareholders in respect of the ordinary series L bearer shares which were taken up by Santander Consumer Finance S.A., with its registered office in Madrid.

Since 18 July 2014 (i.e. since the registration of the amendments to the Bank's statute in the National Court Register), the share capital of the Bank has amounted to PLN 992 345 340 and is divided into 99 234 534 bearer shares with a nominal value of PLN 10 each.

As of 18 July 2014, the overall number of votes at the general meeting of the shareholders of the Bank amounts to 99 234 534.

***Issue of own bonds of Bank Zachodni WBK***

The Management Board of Bank Zachodni WBK informed that on the 17th of July 2014 the Bank Zachodni WBK S.A. issued 475 000 bearer bonds, with nominal value of PLN 1,000 each. The bonds were issued in a private placement with the variable interest rate, based on WIBOR 6M plus 1.0 % margin p.a. and have a 3-year maturity falling due on the 17th of July 2017.

All the bonds in the total amount of PLN 475 000 000 were taken up by the Bondholders.

***Registration of amendments to the Bank Zachodni WBK Statutes and increase Bank's share capital, as adopted by the Annual General Meeting of Bank Zachodni WBK, in National Court Register***

Bank Zachodni WBK advised that on 11 July 2014 it was informed that on 11 July 2014 the District Court for Wrocław-Fabryczna, VI Commercial Section of the National Court Register entered into the National Court Register the change in the Bank's Statutes approved by the Annual General Meeting on 16th April 2014.

Bank Zachodni WBK informed that on 11 July 2014 its share capital was increased from PLN 935 450 890 to PLN 938 506 320, i.e. by PLN 3 055 430. The increased share capital has been paid in full.

This increase of the share capital took place as part of the private placement with the exclusion of the pre-emptive rights of the present shareholders in respect of the shares of the K series ordinary bearer shares covered by Incentive Scheme IV participants.

***Acquisition of controlling interest in Santander Consumer Bank***

***Transaction details***

On 1 July 2014, Bank Zachodni WBK completed the acquisition of the controlling stake in Santander Consumer Bank S.A. ("Group SCB") following the execution of the Investment Agreement ("Purchase Agreement") of 27 November 2013 by Bank Zachodni WBK, Santander Consumer Finance S.A. (SCF) and Banco Santander S.A. (Santander) pursuant to which Bank Zachodni WBK SA agreed to acquire 3 120 000 shares (i.e. 1 040 001 preferred shares and 2 079 999 ordinary shares) with a nominal value of PLN 100 each in Santander Consumer Bank S.A. (SCB) with its registered office in Wrocław, constituting 60% of the share capital of SCB and ca. 67% of the votes at the General Meeting of SCB SA. The shares were acquired by way of a private placement and an in-kind contribution.

In thousands of PLN

Under the Purchase Agreement, the bank issued 5 383 902 (five million three hundred and eighty-three thousand nine hundred and two) ordinary registered series L shares in the Bank with a nominal value of PLN 10 (ten) each, which were offered to and subscribed for solely by Santander Consumer Finance as consideration for an in-kind contribution of the SCB shares.

The value of SCB shares as indicated in the Purchase Agreement is PLN 2 156 414 268,06, which is the purchase price for the SCB Group shares. The issuance of the new shares by way of private placement is addressed exclusively to SCF for the purpose of acquisition of the SCB shares by the bank.

In addition, pursuant to the Purchase Agreement, no later than three months following the completion of the transaction, the parties shall use their best endeavours to waive the current privileges with respect to the shares in SCB to cause that the bank will hold 60% of the share capital of SCB and 60% of the votes at its General Meeting.

#### **Assets and liabilities as at the acquisition date**

The acquisition of SCB Group was tentatively recognised as at the publication date of the interim consolidated financial statements of Bank Zachodni WBK Group.

Since the transaction represents reorganisation of Santander Group under a joint control of Banco Santander, net assets of SCB will be recognised in the consolidated financial statements of Bank Zachodni WBK Group at their carrying value.

Below is a pre-estimate of the carrying value of the acquired assets and liabilities.

	as at:	01.07.2014
<b>ASSETS</b>		
Cash and balances with central banks		283 627
Loans and advances to banks		629 910
Hedging derivatives		6 423
Loans and advances to customers		11 879 394
Investment securities		1 794 312
Intangible assets		42 921
Property, plant and equipment		65 426
Net deferred tax assets		276 361
Other assets		108 449
<b>Total assets</b>		<b>15 086 823</b>
<b>LIABILITIES</b>		
Deposits from banks		(2 936 751)
Hedging derivatives		( 6 027)
Deposits from customers		(7 122 868)
Subordinated liabilities		( 100 144)
Debt securities in issue		(1 983 357)
Current income tax liabilities		( 11 488)
Other liabilities		( 438 540)
<b>Total liabilities</b>		<b>(12 599 175)</b>
<b>Book value of identifiable net assets</b>		<b>2 487 648</b>

#### **Non-controlling interest**

As at the acquisition, non-controlling interests represented 40% of the share capital and 33% of the votes at the general meeting of shareholders of SCB S.A. Their value estimated using the book value method was PLN 995 059 k.

#### **Preliminary estimate of the excess of the price paid over the net assets**

	as at	01.07.2014
<b>Surplus of total consideration over book value of identifiable net asset</b>		
Total consideration		2 156 414
Non-controlling interests		995 059
Less: book value of identifiable net assets		(2 487 648)
<b>Total</b>		<b>663 825</b>

The excess between the purchase price and carrying value of the acquired net assets represents the control premium and, at the same time, the adjustment to the share capital of the Group, reflecting the settlements between shareholders of SCB as part of the reorganisation of the Group under joint control.

**Signatures of Members of the Management Board**

Date	Name	Function	Signature
25.07.2014	Mateusz Morawiecki	President	
25.07.2014	Andrzej Burliga	Member	
25.07.2014	Eamonn Crowley	Member	
25.07.2014	Michael McCarthy	Member	
25.07.2014	Piotr Partyga	Member	
25.07.2014	Juan de Porras Aguirre	Member	
25.07.2014	Marcin Prell	Member	
25.07.2014	Marco Antonio Silva Rojas	Member	
25.07.2014	Mirosław Skiba	Member	
25.07.2014	Feliks Szyszkowiak	Member	

**Signature of a person who is responsible for maintaining the book of account**

Date	Name	Function	Signature
25.07.2014	Wojciech Skalski	Financial Accounting Area Director	