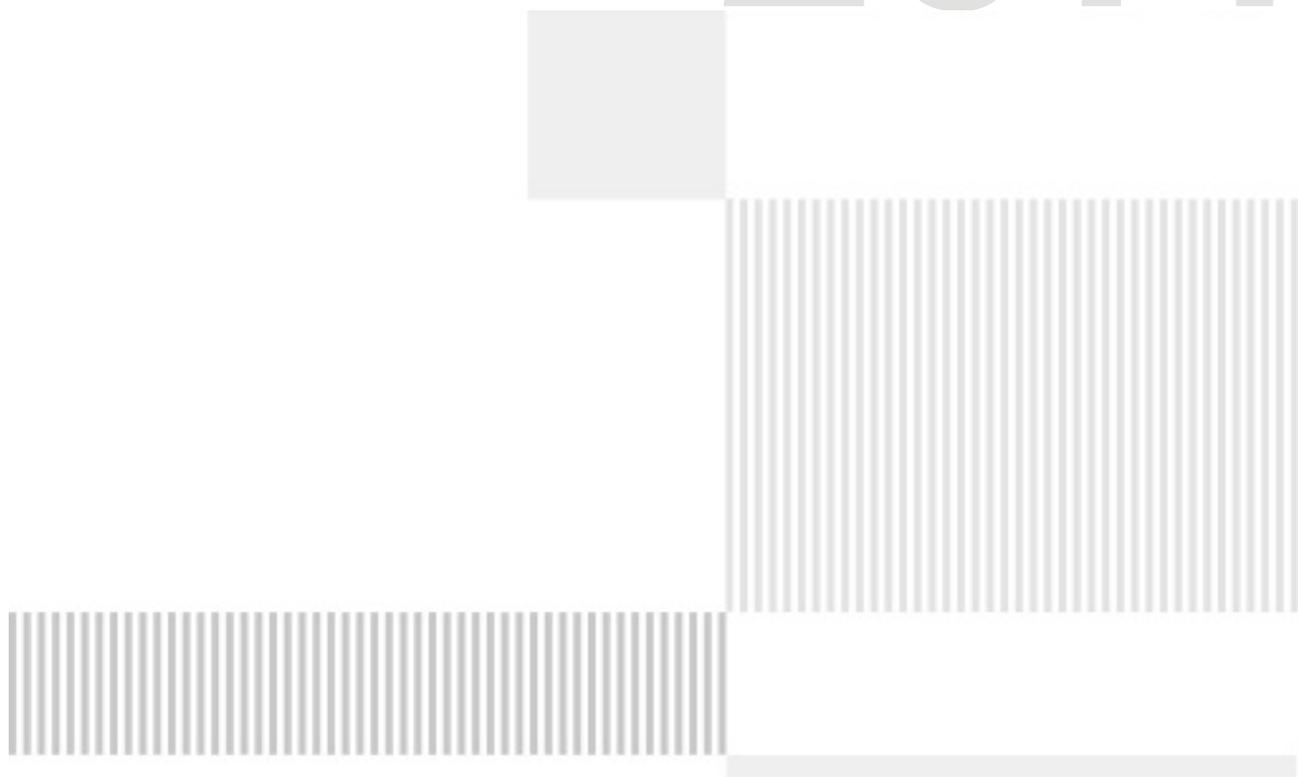


**MANAGEMENT BOARD REPORT
ON BANK ZACHODNI WBK GROUP
PERFORMANCE
IN THE FIRST HALF OF 2014**

2014



Bank Zachodni WBK

 Grupa Santander

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I. Overview of Bank Zachodni WBK Group Performance in H1 2014

This section provides an overview of the activity of Bank Zachodni WBK Group (BZ WBK Group) in H1 2014. It outlines the financial and business performance compared with the previous year, presents corporate events and shows internal and external factors affecting all the developments.

Financial and Business Highlights

- Total income of Bank Zachodni WBK Group increased by 6.7% YoY to PLN 2,982.5m.
- Total costs grew by 2.2% YoY to PLN 1,441.5m.
- Net impairment losses on loans and advances amounted to PLN 335.9m compared with PLN 392.9m in H1 2013.
- Profit-before-tax was PLN 1,205.2m and up 20.9% YoY.
- Profit attributable to the shareholders of Bank Zachodni WBK was PLN 953.6m and 20.2% higher YoY.
- Basic Earnings per Share for H1 2014 were PLN 10.19 and PLN 10.18 when diluted with the conditional rights to shares under the Incentive Programme IV. With the same number of Bank Zachodni WBK shares (from 4 January 2013), Basic EPS ratio for H1 2013 was PLN 8.52 while Diluted EPS ratio was PLN 8.50.
- Capital Adequacy Ratio stood at 13.3% for the Group (13.9% as at 31 December 2013) and 13.7% for the bank (15.2% as at 31 December 2013). Starting from 30 June 2014, the Group/Bank applies a new CAD ratio calculation methodology compliant with CRD IV/CRR approach.
- Return on Equity increased to 17.2% (16.6% as at 31 December 2013), and 18.8% excluding the cost of integration with Kredyt Bank.
- Cost to income ratio was 48.3% (50.5% in H1 2013), and 44.6% after exclusion of the cost of integration with Kredyt Bank (46.4% in H1 2013).
- NPL ratio was 7.5% (7.9% as at 31 December 2013), while the ratio of impairment losses to the average gross credit volumes was 0.9% (1.0% as at 31 December 2013).
- Loans to deposits ratio was 91.9% as at 30 June 2014 compared with 86.7% as at 31 December 2013.
- Gross loans to customers went up by 5% on a year-to-date basis to PLN 75,192.5m due to an increase in loans & advances to enterprises & the public sector by 8.2% Ytd (to PLN 37,314.1m) and personal loans by 1.5% Ytd (to PLN 34,548.8m). On a year-on-year basis, the gross value of the credit portfolio grew by 2.5% along with a 4.3% rise in loans & advances to enterprises & public sector customers.
- Deposits from customers grew by 4.3% YoY to PLN 77,777.1m on the back of an increase in the value of deposits from personal customers and from enterprises & the public sector by 5.4% YoY (to PLN 47,524.0m) and 2.5% YoY (to PLN 30,253.1m), respectively. Deposits from customers declined by 1% on a year-to-date basis due to a 1% drop in the value of deposits from both personal customers and enterprises & the public sector.
- Net value of assets in mutual funds and private portfolios reached PLN 12.2bn, and was up 4.7% Ytd and 6.2% YoY.
- The number of customers using BZWBK24 and KB24 electronic banking services amounted to nearly 3m (+5.9% YoY), the number of customers with access to mobile banking services reached over 0.3m (+85.5% YoY), while the payment card base included 4.0m debit cards (+18.7% YoY) and 0.7m credit cards (4.4% YoY).
- The number of personal and business current accounts was 4.4m as at 30 June 2014.

Key Developments and Achievements

Major corporate events in the seven months of 2014 preceding the release of H1 2014 Report of BZ WBK Group	
January	<ul style="list-style-type: none"> On 28 January 2014, PLN 500m worth of series A bearer bonds issued by BZ WBK on 19 December 2013 were admitted to the Catalyst trading system.
February	<ul style="list-style-type: none"> On 27 February 2014, the bank's Management Board proposed to pay out a dividend of PLN 10.70 per share to BZ WBK shareholders.
March	<ul style="list-style-type: none"> On 17 March 2014, BZ WBK Management Board announced that the AGM of BZ WBK would be convened on 16 April 2014.
April	<ul style="list-style-type: none"> In pursuit of the Investment Agreement of 27 November 2013 between Bank Zachodni WBK, Santander Consumer Finance (SCF) and Banco Santander re. acquisition by BZ WBK of ordinary and privileged shares in Santander Consumer Bank (SCB), representing 60% of the share capital and approx. 67% of the votes at the General Meeting of SCB, two conditions precedent to the transaction closure were satisfied, namely: <ul style="list-style-type: none"> ✓ On 8 April 2014, the bank received clearance from the Polish Financial Supervisory Authority (KNF) in respect of the acquisition by the bank of SCB shares representing more than 50% of the registered capital and votes in SCB. ✓ On 10 April 2014, the bank obtained and published a fairness opinion issued by Citigroup Global Markets Limited regarding the exchange ratio between the in-kind contribution of SCF and the planned issue of series L shares by BZ WBK. The BZ WBK Annual General Meeting of Shareholders convened on 16 April 2014 approved the proposed dividend pay-out from the 2013 profit, resolved on an increase in the bank's share capital by way of issue of series K ordinary bearer shares (under the 4th Incentive Scheme) and appointed the Supervisory Board for the next term of office.
May	<ul style="list-style-type: none"> On 16 May 2014, the dividend was paid to BZ WBK shareholders pursuant to GM Resolution of 16 April 2014. The amendments to the bank's Statutes adopted by BZ WBK AGM (re. extension of the scope of the bank's business) were entered in the National Court Register. On 26 May 2014, another condition precedent to the acquisition of SCB shares under the Investment Agreement of 27 November 2013 was met, namely: <ul style="list-style-type: none"> ✓ An opinion was issued by an auditor confirming the validity and accuracy of BZ WBK Management Board report on in-kind contributions made to cover the bank's increased capital. On 29 May 2014, the bank completed the subscription for K series shares under the 4th Incentive Scheme pursuant to the resolution of BZ WBK AGM of 16 April 2014 re. an increase in the bank's share capital.
June	<ul style="list-style-type: none"> On 2 June 2014, Fitch Ratings upgraded the ratings of BZ WBK i.e.: <ul style="list-style-type: none"> ✓ Long-term foreign currency IDR: from "BBB" to "BBB+", outlook stable; ✓ Short-term foreign currency IDR: from "F3" to "F2"; ✓ National long-term rating: from "A+(pol)" to "AA-(pol)"; outlook stable. On 10 June 2014, KNF gave an approval for the bank to conduct brokerage business. On 25 June 2014, another condition precedent to the acquisition of SCB shares was satisfied, namely: <ul style="list-style-type: none"> ✓ KNF gave its consent to changes in the bank's Statutes with respect to the share capital increase by way of issue of series L shares. An Extraordinary General Meeting of BZ WBK was convened on 30 June 2014 to, inter alia, approve the increase in the bank's share capital through the issue of series L ordinary bearer shares, and to adopt the 5th Incentive Scheme.
July	<ul style="list-style-type: none"> Upon satisfaction of the last condition precedent stipulated in the Investment Agreement of 27 November 2013, i.e. delivery by SCF of a disclosure letter with regard to the reduction in specific assets of SCB and SCB Group in the period between 30 September 2013 and 1 July 2014, on 1 July 2014 the SCB shares were acquired by the bank. Registration of the amendments to the Statutes of BZ WBK (11 July 2014 and 18 July 2014) with regard to the increases in the bank's share capital: <ul style="list-style-type: none"> ✓ by PLN 3 055 430 to PLN 938 506 320 – series K share issue, ✓ by PLN 53 839 020 to PLN 992 345 340 – series L share issue. <p>Both increases were effected by way of private placements with the exclusion of the pre-emptive rights of the existing shareholders. The increases have been fully paid up.</p> On 17 July 2014, 475k three-year variable rate bearer bonds were issued in private placement, with a nominal value of PLN 1k each (PLN 475m in total).

External Factors Impacting the Group's Activity and Results

- Acceleration of economic growth and its structure change led by an increase in domestic demand with a positive contribution of net exports.
- Deceleration of industrial output growth in Q2 2014 as compared to Q1 2014. Improvement of construction and assembly output growth.
- Acceleration of retail sales growth suggesting a recovery of private consumption.
- Revival in the labour market – gradual increase of the employment in the enterprise sector, declining unemployment and wage growth.
- Low inflationary pressure - CPI inflation rate remaining well below the NBP's official target (2.5%).
- Stabilization of Polish interest rates - the Monetary Policy Council's announcement of keeping the rates unchanged at least until end of Q3 2014.
- Changes of the sentiment in international financial markets driven by expectations related to the future policy approach of the main central banks (Fed, ECB), global macroeconomic data and worries about military conflicts (Ukraine, Iraq).
- Changes of the zloty exchange rate against the main currencies; drop in the yields of Polish bonds;
- Weak loan growth in the banking sector, although some recovery is visible in the case of loans for companies. Relatively slow deposit growth amid low interest rates.

II. Basic Information on Bank Zachodni WBK Group

1. History, Ownership Structure and Profile

History and Profile

Background

Bank Zachodni WBK S.A. (Bank Zachodni WBK, BZ WBK) was established following the merger of Bank Zachodni with Wielkopolski Bank Kredytowy. The new Wrocław-based entity was entered into the National Court Register on 13 June 2001 and on 25 June 2001 it debuted on the Warsaw Stock Exchange.

Both predecessors of Bank Zachodni WBK were spun off the National Bank of Poland in 1989. Subsequently, they were privatised and became members of AIB Group under control of the same investor, i.e. AIB European Investments Ltd. from Dublin, a fully-owned subsidiary of Allied Irish Banks, p.l.c. (AIB). After the merger, AIB Group became the owner of a 70.47% stake in Bank Zachodni WBK. The shareholding decreased to 70.36% following an increase in the share capital on 10 July 2009.

On 10 September 2010, the Board of Allied Irish Banks decided to sell the entire stake in Bank Zachodni WBK and a 50% stake in BZ WBK AIB Asset Management to Banco Santander.

Banco Santander as the Majority Shareholder

On 1 April 2011, Banco Santander finalised the purchase of Bank Zachodni WBK in the tender for the bank's shares. As a result, Banco Santander acquired a 95.67% stake in the bank. On exceeding a 90% share in the total voting power at the General Meeting of Shareholders of Bank Zachodni WBK, the new majority shareholder was bound to acquire a block of shares at the request of non-controlling shareholders, which increased its shareholding and voting power in Bank Zachodni WBK to 96.25%. On 30 August 2012, this shareholding decreased to 94.23% following an increase in the share capital of Bank Zachodni WBK through the issue of series I ordinary shares taken up by EBRD in private placement.

Merger of Bank Zachodni WBK and Kredyt Bank

On 27 February 2012, the majority shareholders of Bank Zachodni WBK and Kredyt Bank, i.e. Banco Santander and KBC Bank NV entered into an investment agreement whereby they expressed an intention to merge the two banks under their respective control. On 11 May 2012, both banks signed a merger plan laying down the rules and method of delivery of the transaction. Upon the receipt of the legally required authorisations and consents, on 4 January 2013, the merger was recorded in the court register.

The merger was effected by way of a transfer of all assets of Kredyt Bank to Bank Zachodni WBK (a merger through acquisition) in exchange for newly issued series J shares allotted to all of the existing shareholders of Kredyt Bank at the agreed exchange ratio. On 25 January 2013, 18,907,458 merger shares were floated on the Warsaw Stock Exchange.

Secondary Offering of Bank Zachodni WBK Shares

On 22 March 2013, KBC Bank NV and Banco Santander announced a secondary offering of shares in Bank Zachodni WBK. The offering was for 19,978,913 shares, with 15,125,964 shares owned by KBC Bank NV (16.17% of the share capital) and 4,852,949 owned by Banco Santander (5.19% of the share capital). The stock with the total value of PLN 4.9bn was placed with selected institutional investors in Poland and abroad. As a result, on 28 March 2013, KBC Bank IV ceased to be a shareholder of Bank Zachodni WBK and the stake of Banco Santander was reduced to 70%. The total number of BZ WBK shares in free float on GPW increased to 30% and consequently the bank was re-admitted to the stock indices.¹⁾

¹⁾ From April 2011 to June 2013 Bank Zachodni WBK was excluded from Stock Exchange indices due to insufficient free float.

Increases in Bank Zachodni WBK Capital in 2014

Issue of K Series Shares

Under a private placement subscription held as part of the 4th Incentive Scheme for 2011-2013, Bank Zachodni WBK Group employees were allotted 305,543 series K ordinary bearer shares with a nominal value of PLN 10.00. The bank's share capital was consequently increased by PLN 3,055,430 to PLN 938,506,320, which took effect on 11 July 2014 when appropriate amendments in the National Register Court were registered.

Issue of L Series Shares

Pursuant to the Investment Agreement of 27 November 2013 between Bank Zachodni WBK, Santander Consumer Finance (SCF) and Banco Santander, and the agreement of 1 July 2014 between Bank Zachodni WBK and SCF on the acquisition of shares in Santander Consumer Bank (SCB) by way of private placement and in-kind contribution, Bank Zachodni WBK issued 5,383,902 series L ordinary shares totalling PLN 2,156,414,268 which were placed with SCF in exchange for an in-kind contribution of 3,120,000 ordinary and privileged shares in SCB with a nominal value of PLN 100 each, representing 60% of SCB share capital and approx. 67% of votes at the SCB General Meeting.

Following the registration of series L shares in the National Court Register, the Bank Zachodni WBK share capital was increased by PLN 53,839,020 to PLN 992,345,340.

Structure of Share Capital of Bank Zachodni WBK

The table below presents changes in the structure of the share capital of Bank Zachodni WBK over the 12 month period until the release of Bank Zachodni WBK Group half-yearly 2014 report. It is based on data registered at the release dates of consecutive interim reports starting from 30 July 2013 (date of release of H1 2013 Report).

Shareholders Holding over 5% of Voting Rights at AGM	Number of Shares and Votes at AGM as at the Release Dates of Consecutive Periodic Reports			% in the Share Capital & Voting Power at AGM as at the Release Dates of Consecutive Periodic Reports		
	24.10.2013			24.10.2013		
	31.07.2014	29.04.2014	30.07.2013	31.07.2014	29.04.2014	30.07.2013
Banco Santander	65 481 563	65 481 563	65 481 563	65,99%	70,00%	70,00%
ING OFE			4 966 506			5,31%
SCF	5 383 902			5,42%		
Others	28 369 069	28 063 526	23 097 020	28,59%	30,00%	24,69%
Total	99 234 534	93 545 089	93 545 089	100,0%	100,0%	100,0%

As at the date of approval of Interim 2014 Report of Bank Zachodni WBK Group (25 July 2014), the shareholders having minimum 5% of the total number of votes at the BZ WBK General Meeting of Shareholders were Banco Santander with a stake of 65.99% and SCF (subsidiary of Banco Santander) with a stake of 5.42%.

Scope of Activities of Bank Zachodni WBK Group

Bank Zachodni WBK is a universal bank which provides a full range of services for personal customers, SMEs, large enterprises and corporations. The bank's offering is modern, comprehensive and satisfies diverse customer needs with regard to current/personal accounts, credit, savings, investment, settlement, insurance and card products. The financial services of Bank Zachodni WBK also include cash management, trade finance and transactions in the capital, FX and money markets, derivative transactions, as well as underwriting and custody services.

The bank's own product range is complemented by specialist products offered by the subsidiary undertakings: Dom Maklerski BZ WBK, BZ WBK Towarzystwo Funduszy Inwestycyjnych, BZ WBK Asset Management, BZ WBK Leasing, BZ WBK Lease, BZ WBK Faktor, BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych and BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie. In co-operation with all these companies, the bank offers its customers access to brokerage services, mutual funds, insurance, leasing and factoring products.

As at 30 June 2014, the customer base of Bank Zachodni WBK Group comprised 4.4m customers, including 4.1m personal and 0.3m business customers.

Business Model of Bank Zachodni WBK Group

Bank Zachodni WBK provides services to customers through the Retail Banking Division, Business & Corporate Banking Division and Global Banking & Markets Division. The above units, together with the co-operating subsidiaries, form separate business segments subject to the segment reporting framework.

The operating segments of BZ WBK Group also include the ALM and Central Operations segment which covers funding for other segments, unallocated transactions and management of the Group's strategic investments.

Retail Banking offers services and solutions to personal customers and small and micro companies. The responsibility for relationships with retail customers rests mainly with branches. As at 30 June 2014, Bank Zachodni WBK operated country-wide through 817 outlets (876 as at 30 June 2013). The bank's distribution network also included 113 partner outlets (105 as at 30 June 2013) and 1,388 ATMs (1,429 as at 30 June 2013). The Wealth Management Department in the Retail Banking Division provides services to high net worth customers through dedicated advisers operating from 14 offices located Poland-wide.

Services to large business customers, local government and public sector units are supervised by the Business & Corporate Banking Division and are provided through 12 Corporate Business Centres covering the entire country, as well as the centralised Large Corporate Team and Corporate Property Department operating nationwide.

The Global Banking & Markets Division is responsible for maintaining relations with the largest institutional clients. The clients are offered investment, credit, transactional and treasury products and services as part of the global Customer Relationship Management (CRM) Model of the Santander Group.

Bank Zachodni WBK offers a modern platform of electronic banking services called BZWBK24, which provides retail and business customers with a convenient and safe access to their accounts and products via the Internet, phone or mobile. Mobile banking is provided via mobile web and dedicated applications for key operating systems. The bank also offers a specialised iBiznes24 electronic banking platform for businesses and corporations, a tool that can be used to carry out a wide range of transactions and safely manage the company's finances.

Through its Telephone Banking Centre, equipped with advanced Information & Communication Technology infrastructure, the bank provides customers with information on its products and services, sells selected products and renders after-sales service.

The pillars of the strategy and business model of Bank Zachodni WBK Group are attractive and competitive products and services, multichannel delivery, superior customer experience, development of customer relationships and staff engagement. The Group focuses on diversification of income, expansion in high-margin market segments, maintenance of solid capital position and effective risk management. This translates into a balanced growth in loans and deposits, an increasing presence in the most profitable market segments and strong and stable financial performance.

2. Market Position, Rating and Share Price

Position of BZ WBK Group in the Polish Banking Sector

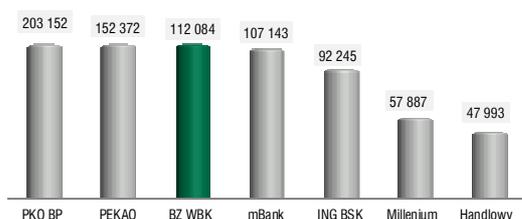
Bank Zachodni WBK Group has stable sources of funding and solid capital and liquidity position. The strong position has been supported by a clear, coherent and consistent strategic vision, efficient and straightforward business model, critical mass gained by integration with Kredyt Bank, as well as benefits and synergies achieved by the bank as a member of Santander Group. The wide array of complementary services for respective customer segments and large Poland-wide branch network increase the potential for further market penetration. With the extended scale of business, the Group may effectively compete with the largest players on the Polish banking market and enhance efficiency based on the achieved synergies.

According to the financial statements for Q1 2014, which at the date of approval of this report (25 July 2014) were the most up-to-date source of comparable data on the performance of WSE-listed banks, Bank Zachodni WBK Group – along with its subsidiaries and associates - was the third banking group in Poland by total assets, equity, deposits and PBT and the market leader in terms of consolidated ROE (16.6% as at 31 March 2014).

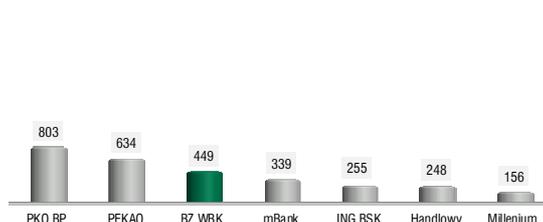
According to the NBP statistics, as at the end of March 2014 the Group's share in the market was 7.3% for loans and 8.3% for deposits.

The Group continued to strengthen its presence in the factoring and leasing markets via its subsidiaries, which resulted in a market share of 13% and 7.4%, respectively (as per end-of-March 2014 data published by the Polish Factors Association and the Polish Leasing Association). At the same time, the Group's share in the mutual fund market was 10.7% (according to Analityz Online) while in the equity and futures markets it held 6.4% and 9.6%, respectively (according to the Warsaw Stock Exchange).

Total Assets of BZ WBK Group (PLN m) vs. Peers as at 31 March 2014



Profit Attributable to BZ WBK Shareholders for Q1 2014 vs. Peers (PLN m)



Position of Banco Santander

Banco Santander - a parent entity of Bank Zachodni WBK - is a commercial bank with a history of over 150 years, having its registered office in Santander and operational headquarters in Madrid (Spain). While it specialises in retail banking services, the bank is also active on the corporate, asset management and insurance market. Banco Santander, which is characterised by geographic diversification of its business, currently focuses on its 10 core markets - both developed and emerging ones. According to the data as at the end of March 2014, it was the 1st bank in Europe and the 11th bank worldwide in terms of capitalisation. On a consolidated basis, the bank managed EUR 966.7bn worth of customer assets, provided services to over 100 million customers via a distribution network of 13,735 branches, and employed 185 thousand people. In Q1 2014, the net profit attributable to Banco Santander's shareholders came in at EUR 1,303m, a YoY increase of 8.1%. Santander is the leading group in Spain and South America. It also enjoys a strong market position in selected segments in the UK, north-eastern coast of the US as well as in Germany and Poland.

Rating of Bank Zachodni WBK

Bank Zachodni WBK has a bilateral credit rating agreement with Fitch Ratings Ltd.

On 2 June 2014, Fitch Ratings upgraded the following ratings of Bank Zachodni WBK:

- long-term foreign currency IDR: from "BBB" to "BBB+", outlook stable;
- short-term foreign currency IDR: from "F3" to "F2";
- national long-term rating: from "A+(pol)" to "AA-(pol)", outlook stable.

The support and viability ratings were reaffirmed.

The above rating actions follow Fitch's upgrade of Banco Santander's long-term IDR (A-/Stable) and are based on Fitch's view of a high probability that Bank Zachodni WBK would be supported, if required, by Banco Santander. Fitch believes that Poland is a strategically important market for Banco Santander and Bank Zachodni WBK is a strategically important subsidiary for its parent.

Previously, the IDRs and national rating of Bank Zachodni WBK were driven by the bank's intrinsic strength as reflected by its viability rating (VR) of "bbb".

The ratings assigned to Bank Zachodni WBK as at 30 June 2014, 31 December 2013 and 30 June 2013 are summarised below.

Fitch Rating	Ratings raised/affirmed in the announcement of 2.06.2014 ¹⁾	Ratings affirmed/assigned in the announcement of 4.12.2013 ²⁾	Ratings as of 14.06.2012 affirmed in the announcement of 10.01.2013 ³⁾
	International Ratings		
Long-term IDR	BBB+	BBB	BBB
Outlook for the long-term IDR rating	stable	stable	stable
Short-term IDR	F2	F3	F3
Viability rating	bbb	bbb	bbb
Support rating	2	2	2
National Ratings			
National long-term rating	AA-(pol)	A+(pol)	
Senior unsecured debt national long-term rating	AA-(pol)	A+(pol)	
Outlook for the national long-term rating	stable	stable	

1) BZ WBK ratings valid as at 30.06.2014

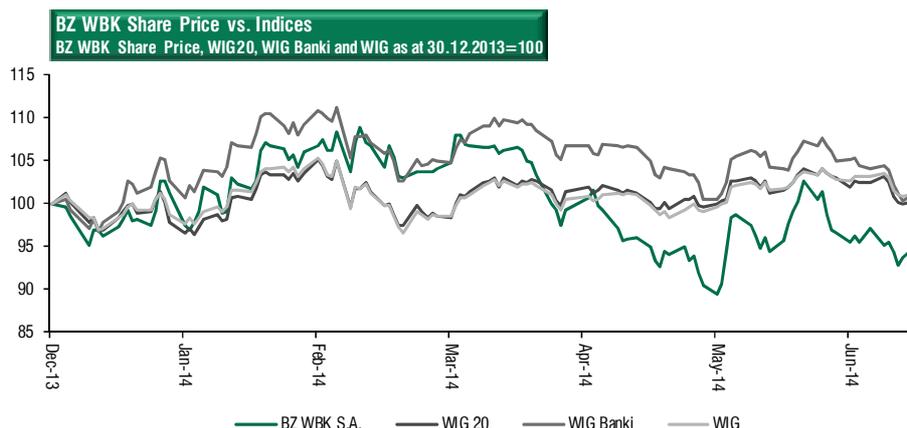
2) BZ WBK ratings valid as at 31.12.2013

3) BZ WBK ratings valid as at 30.06.2013

Share Price of Bank Zachodni WBK vs. Indices

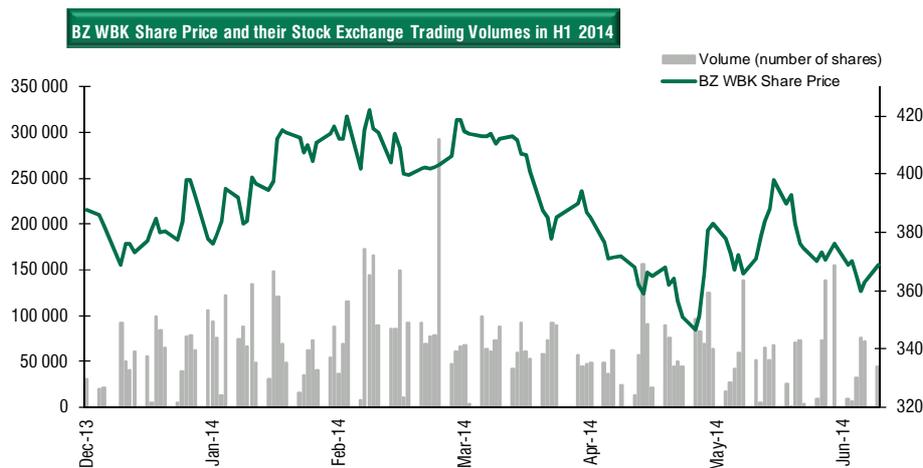
The first half of 2014 was not favourable for the Warsaw Stock Exchange. The Polish stock indices were generally flat amid negative developments which impeded any potential growth. Political tensions in Poland, crisis in Ukraine and significant changes to open-end pension funds deterred new investors. The stock market stabilised, with a visible decline in trading volumes across all segments.

Mid-cap companies performed relatively best in the analysed period, with mWIG40 lodging a 3% gain. WIG and WIG20, the main stock market gauges, added 1.3% and 0.3%, respectively. WIG Banks finished the first 6 months of the year up 1.4%. WIG250, a new index tracked since late March, performed worst, slipping by 4%.



The share price of Bank Zachodni WBK and other players in the banking industry was impacted by the negative environmental factors which deterred new investments, particularly in Q2. In effect, the bank's stock price lost 4.8% in H1 (from PLN 387.60 as at 30 December 2013 to PLN 369.00 as at 30 June 2014). The overall yield on Bank Zachodni WBK shares was increased by a PLN 10.70 worth of dividend from 2013 profit paid out in May 2014.

The share price of Bank Zachodni WBK trended upwards in the year to March, reaching its maximum of PLN 422 on 5 March 2014. A minimum price was recorded on 19 May 2014 at PLN 346.55.



As at 30 June 2014, capitalisation of Bank Zachodni WBK was PLN 34,518.1m compared to PLN 36,258.1m as at 31 December 2013.

3. Entities Related with Bank Zachodni WBK

Subsidiaries

As at 30 June 2014, Bank Zachodni WBK formed a Group with the following subsidiaries:

1. BZ WBK Asset Management
2. BZ WBK Towarzystwo Funduszy Inwestycyjnych - subsidiary of BZ WBK Asset Management
3. Dom Maklerski BZ WBK
4. BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych

5. BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie
6. BZ WBK Finanse
7. BZ WBK Faktor - subsidiary of BZ WBK Finanse
8. BZ WBK Leasing - subsidiary of BZ WBK Finanse
9. BZ WBK Lease - subsidiary of BZ WBK Finanse
10. Lizar - subsidiary of BZ WBK Lease
11. BZ WBK Inwestycje
12. BZ WBK Nieruchomości
13. BFI Serwis in liquidation

Compared with 30 June 2013, the list of subsidiaries was extended by one as a result of the following changes:

- On 22 August 2013, Kredyt Trade in liquidation was removed from the National Court Register by way of resolution of the company's Extraordinary General Meeting of 29 June 2012.
- BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych (BZ WBK-Aviva TUO) and BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie (BZ WBK-Aviva TUnŻ) changed their status from joint-ventures to subsidiaries under the agreement of 20 December 2013 between Bank Zachodni WBK and Aviva International Insurance Limited (Aviva), whereby ownership of a 16% stake in BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ was transferred to the bank. As a consequence, the bank has 66% shareholding and 66% voting power in each company, while the remaining 34% voting power is held by Aviva.

On 12 June 2014, an agreement was signed, whereby Bank Zachodni WBK purchased one share of Dom Maklerski BZ WBK (BZ WBK Brokerage House) from BZ WBK Finanse. As a result of the transaction, the bank holds 100% of share capital and voting rights in the Brokerage House.

Except one company, all the entities within Bank Zachodni WBK Group are consolidated with the bank in accordance with IAS 27. Lizar has been excluded from the consolidation given its small business size and the immaterial financial performance.

Associates

In the consolidated financial statements of Bank Zachodni WBK for H1 2014, the following companies are accounted for using the equity method in accordance with IAS 28:

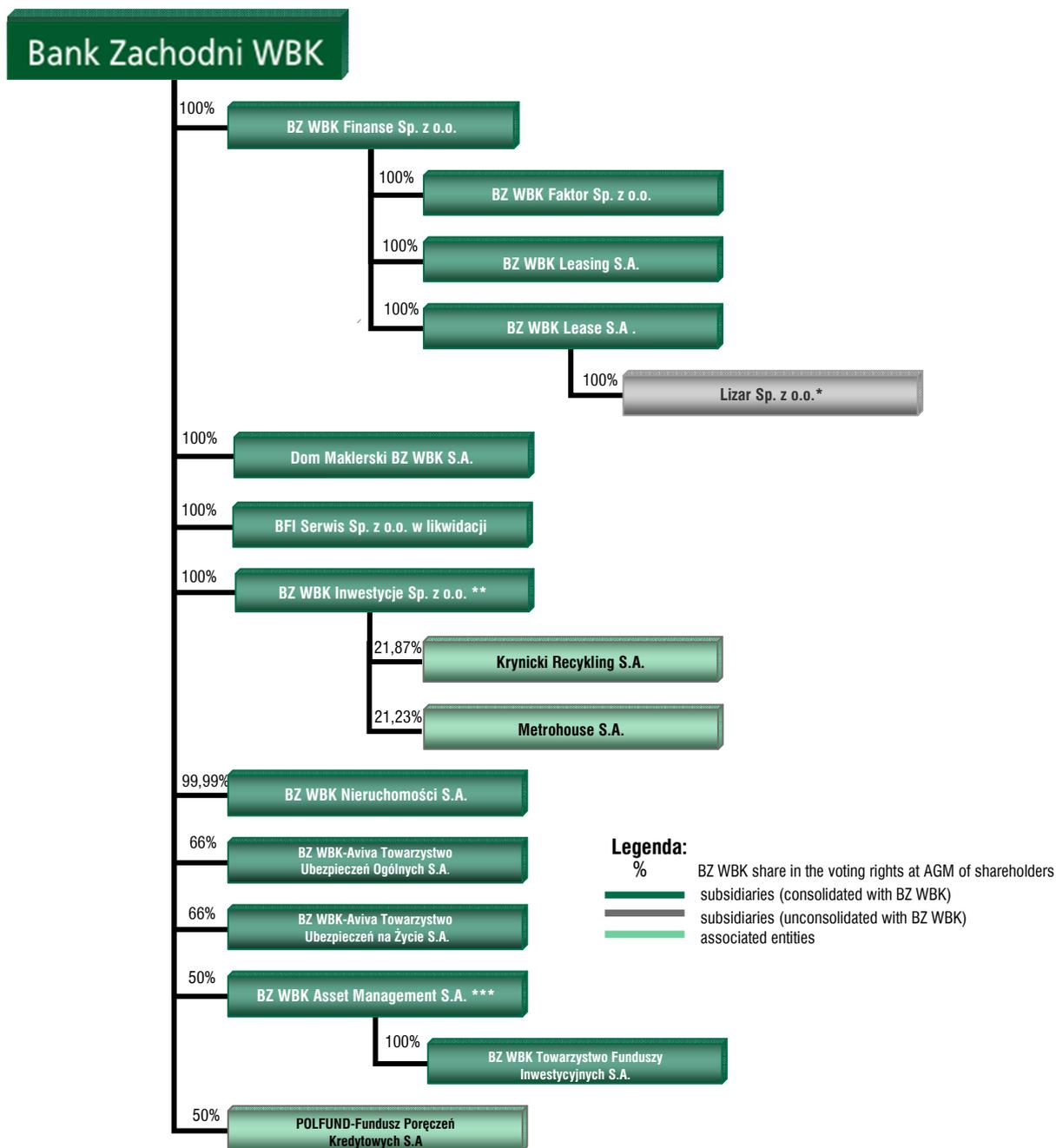
1. Krynicki Recykling - associated undertaking of BZ WBK Inwestycje
2. Metrohouse - associated undertaking of BZ WBK Inwestycje
3. POLFUND - Fundusz Poręczeń Kredytowych

Compared with 30 June 2013, no changes took place in the portfolio of associated undertakings.

As a result of an increase in the share capital of Krynicki Recykling under the share-based incentive scheme, the number of votes held by BZ WBK Inwestycje at the company's General Meeting decreased from 22.32% to 21.87% over the last 12 months.

Until December 2013, BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ operated as joint ventures, and in accordance with IAS 31 were accounted for using the equity method. When the bank took control over the two entities, their status changed into subsidiaries and they became subject to consolidation.

Organisational Chart of Entities Related with BZ WBK as at 30.06.2014



* Lizar is not consolidated with Bank Zachodni WBK given the immaterial nature of its business and financial performance.

** The subsidiaries of BZ WBK Inwestycje, i.e. Metrohouse and Krynicki Recykling were classified as associates since the bank has a significant influence on their operations. The respective shareholdings were acquired as part of the bank's strategy to build a portfolio of pre-IPO investments.

*** As at 30.06.2014, Bank Zachodni WBK was a co-owner of BZ WBK Asset Management together with Banco Santander. Both owners are members of Santander Group and each holds a 50% stake in the company's share capital. In practice, Bank Zachodni WBK exercises control over the company and its subsidiary, BZ WBK Towarzystwo Funduszy Inwestycyjnych because through it Banco Santander pursues its strategy in Poland. Consequently, the company is treated as a subsidiary.

Development of Bank Zachodni WBK Group Structure

Acquisition of 60% Share Capital in Santander Consumer Bank

Pursuant to the Investment Agreement of 27 November 2013 between Bank Zachodni WBK, Santander Consumer Finance (SCF) and Banco Santander, on 1 July 2014 Bank Zachodni WBK acquired 3,120,000 ordinary and privileged shares in SCB with its registered office in Wrocław with a nominal value of PLN 100 each, representing 60% of the share capital of SCB and approximately 67% of votes at the General Meeting of SCB.

In exchange for SCB shares contributed in kind, the bank issued 5,383,902 series L shares with a nominal value of PLN 10 each, for the total price of PLN 2,156,414,268. The share issue price was set at PLN 400.53.

The parties to the transaction undertook that, no later than three months following the transaction closing date, they shall use their best endeavours to waive the current privileges with respect to the shares in SCB to cause the bank to hold a 60% interest in the share capital and 60% of votes at the General Meeting of SCB.

The transaction was closed following the fulfilment of the conditions precedent stipulated in the Agreement, namely:

- On 8 April 2014, the bank received clearance from the Polish Financial Supervisory Authority (KNF) in respect of the planned acquisition of shares in SCB representing more than 50% of the share capital and votes in SCB.
- On 10 April 2014, BZ WBK Management Board published a report on in-kind contributions (SCB shares) made to cover the increased share capital.
- The bank received and published opinions related to the above-mentioned report: a) fairness opinion of 9 April 2014 issued by Citigroup Global Markets Limited regarding the exchange ratio between the in-kind contribution of SCF and the planned increase in the capital of Bank Zachodni WBK through the issue of series L shares; b) auditor's opinion of 23 May 2014 confirming the validity and accuracy of the report.
- On 30 June 2014, the bank's General Meeting adopted a resolution on the capital increase by 5,383,902 series L ordinary bearer shares and respective changes to the bank's Statutes under the KNF Clearance issued on 24 June 2014.
- On 1 July 2014, SCF submitted a disclosure letter indicating the reduction of specific assets in SCB and SCB Group in the period between 30 September 2013 and 1 July 2014.

The transaction was executed to fulfil the commitment made by Banco Santander towards KNF (as reported by the bank in the current report no. 38/2012 of 4 December 2012) under which Banco Santander committed to use all endeavours to cause SCB to become a subsidiary of the bank.

The acquisition of SCB shares is a long-term investment of the bank which will strengthen the position of the bank as the third largest bank in Poland and the provider of high-quality solutions for diverse segments of the banking market in Poland.

Planned Incorporation of Dom Maklerski BZ WBK into Bank Zachodni WBK

On 10 June 2014, KNF gave an approval for the bank to conduct a brokerage business in its broad scope, which enables the bank to incorporate an organised part of Dom Maklerski BZ WBK into the structures of Bank Zachodni WBK Group. A project was commenced to develop competitive brokerage products and services for retail, corporate and business customers. The establishment of a brokerage product line within Bank Zachodni WBK structures will strengthen its position in the Polish financial services market as well as its role as a local service centre for Santander Group customers.

III. Macroeconomic Environment in H1 2014

Economic Growth

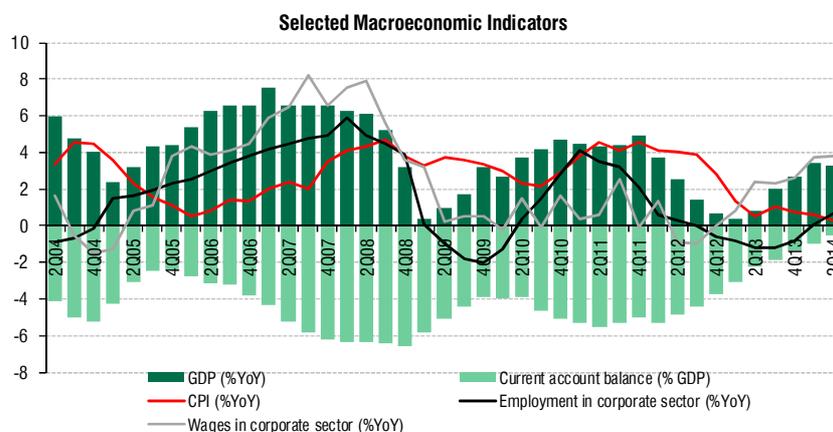
In H1 2014, the Polish economy continued its recovery started in 2013. In Q1 2014, the Gross Domestic Product (GDP) expanded by 3.4% YoY while the economic growth acceleration in 2013 was generated primarily by net exports, with weak domestic demand. This year private consumption and private investment have become more significant and have taken over as the main growth drivers (rising by 2.6% YoY and 10.7% YoY in Q1, respectively). The consumption growth was supported by improvement of the labour market situation and better consumer sentiments. The strong expansion of investment in Q1 was due to more optimistic expectations of the economic outlook, but was also supported by good weather conditions and the effect of expiring tax allowances for transport car purchases. Net exports still remain a positive contributor to economic growth, despite falling trade volumes with Russia and Ukraine due to the conflict between these two countries. However, in the first months of the year the lower demand for Polish products from the East was more than offset by rising exports to the euro zone. Good results of exports caused a further improvement of foreign trade balance, so at the end of H1 the current account deficit declined to ca. 0.6% of the GDP (the lowest level since 1995). Available macroeconomic data are suggesting that in Q2 2014 the Polish economy might have slowed down somewhat, as indicated by some leading indicators and slower growth of industrial output. However, it is expected that the GDP growth will probably remain above 3.0% YoY.

Labour Market

Labour market situation improved in H1 2014. Average employment in the corporate sector increased gradually, while the higher demand for employees was generated mainly in the industrial manufacturing and retail sales sectors. Employment growth in other sectors remained weak. Registered unemployment rate reached ca. 12.1% at the end of June 2014, i.e. 1.1 p.p. less than a year earlier. Pace of improvement on the market decelerated somewhat in Q2 but it still remained positive. Wages in corporate sector increased on average by 4% YoY in H1, which significantly supported the households' purchasing power.

Inflation

Inflationary pressure was low throughout H1 2014: CPI reached 0.4% YoY on average, core inflation excluding food and energy prices was at 0.8% YoY and PPI inflation -1.2% YoY. In May, CPI inflation reached 0.2% YoY, i.e. the lowest level in history (equaling the record from July 2013). The low upward pressure on prices was primarily driven by the consumer demand and deflationary tendencies from outside Poland (including global energy and food prices).



Monetary Policy

The main interest rates in Poland did not change throughout H1 2014, with the reference rate continuing at a record-low level of 2.50%. In March, the MPC declared that interest rates should remain unchanged at least until the end of Q3 2014, given expectations for further economic recovery amid low inflation. However, in June, the MPC signaled that inflation may be below expectations and recovery may be waning, so interest rate cuts cannot be ruled out. At the same time it was noted that interest rate cuts were not a baseline scenario and that they seem unlikely.

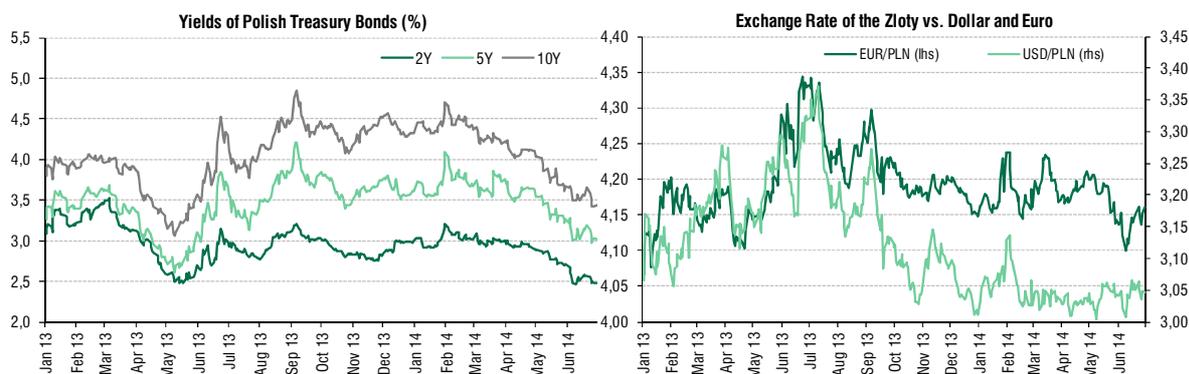
Credit and Deposit Markets

In H1 2014, a further gradual recovery on the credit market could be observed, primarily in loans for companies. Growth rate of companies' investment loans accelerated to over 10% YoY. Improvement was also noted in companies' working capital loans – these were showing a negative growth rate at the beginning of the year, but were advancing at ca. 5% YoY at the end of H1 2014. Growth of households' loans accelerated to ca. 4.5-5.0% YoY and was oscillating in this range throughout the first half of the year. Total growth rate of loans in the banking sector accelerated to ca. 6% YoY. Low interest rates were undermining the deposit market and caused that savings were shifted to assets yielding higher profits. Thus, growth rate of total deposits fell to 5% YoY.

Financial Market

Financial market situation was quite volatile in H1 2014. The Fed's decision in December 2014 to limit its quantitative easing programme (QE3) triggered concerns about emerging markets which are dependent on external financing. This caused a sell-off of assets from these markets, including Poland. Both the Polish zloty and bonds were impacted by these events. Later the market was concerned about the possible conflict between Ukraine and Russia and this also undermined Polish assets. At the end of H1 2014 there were more worries about tensions in Iraq, yet the expectations for further ECB action were of the highest significance. The ECB decision to ease its monetary policy positively affected the markets.

The domestic debt and money markets were supported by dovish rhetoric of the MPC and by low inflation, especially at the end of the period, when the MPC suggested that cuts cannot be ruled out and the market began to expect that inflation will reach sub-zero levels. At the start of the year, the domestic debt market was also worried that the transfer of OFE portfolios to ZUS would lower liquidity of Polish papers and would weigh on their prices, which however did not materialize. At the end of June, the zloty was slightly weaker against the main currencies than at the end of 2013 (EUR/PLN reached 4.16 at the end of June 2014 versus 4.15 at the end of December 2013, USD/PLN reached 3.05 at the end of June 2014 versus 3.01 at the end of December 2013). Polish bonds strengthened significantly as yields fell by 50-90 basis points, mostly at the longer end of the yield curve.

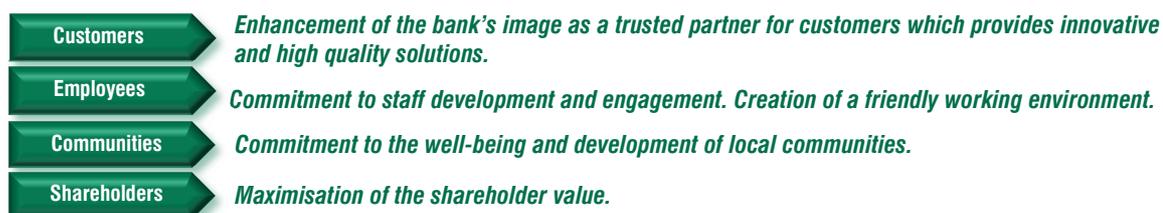


IV. Development Strategy for 2014-2015

Vision and Mission

In line with its strategic vision, Bank Zachodni WBK takes co-ordinated actions at multiple levels to become the **Bank of satisfied customers and people working with passion**.

With respect to the key stakeholder groups, the bank's mission is formulated as follows:



Pursuing its strategy, Bank Zachodni WBK Group seeks to reinforce its profile as a universal financial institution with the leading retail and commercial footprint. These endeavors are endorsed, among others, by the Mobile Banking Development Programme which aims to advance the Group to the leadership position in the Polish mobile banking market. A variety of actions have been designed under the Programme to enable the Group to gain the competitive advantage both in terms of the mobile banking functionality and the choice of attractive mobile banking products and services. The outcome of these efforts in H1 2014 have been set forth in Chap. V "Business Development", section 4 "Selected Distribution Channels".

Next Generation Bank Programme



In October 2013, Bank Zachodni WBK launched the Next Generation Bank Programme to strengthen its position as the first-choice bank. To that end, greater than ever focus must be placed on expectations and needs of the bank's customers and more intensive efforts must be taken to transform the Group towards a customer-centric organisation and a satisfactory workplace for well-motivated, engaged employees focused on collaboration.

The Next Generation Bank Programme is delivered across all units of Bank Zachodni WBK. It is broken down into three streams: Retail Banking, Business & Corporate Banking and Global Banking & Markets, and six modules: HR, Marketing/Quality/Communication, Risk, IT/Operations, Controlling and Legal Area.

Initiatives Delivered in the Key Streams of the Next Generation Bank Programme

Retail Banking

In H1 2014, the Retail Banking Division implemented a number of initiatives developed in Q4 2013.

- Modification of retail customer segmentation criteria, enhancement of the product proposition and the customer service model for VIP and SME customers (set-up of Affluent Clients Service Centre; specialist branch services for individual segments; access to SantanderTrade.com portal for business customers).
- Increased effectiveness of service quality improvement techniques and tools, e.g. through more diversified forms of service quality assessment and implementation of new service quality standards and training tools.

- Introduction of changes to the branch work schedule to focus on the development of long-term customer relationships, customer excellence and multi-channelling, and to increase the accountability of advisors for co-operation with customers (customer portfolio building in line with the Advisor-Entrepreneur model).
- Implementation of changes recommended by branch employees during focus meetings, including centralisation of selected branch processes, optimisation of credit delivery for business customers, and new support tools for advisors.

Business & Corporate Banking

- The Business & Corporate Banking Division adopted a new work schedule for the network of Corporate Banking Centres, which includes regular internal meetings of employees, product specialists and experts from the Risk Management Division. This approach has a direct effect on the process and quality of customer portfolio management and the strategy of relationship building, acquisition and cross-selling.
- The processes delivered by the Business Service Centre were streamlined, i.e. customer activation and service quality assessment procedures were simplified (regular and more comprehensive customer surveys).
- Faster credit delivery and changes facilitating customer portfolio management are among the key achievements as these are expected to enhance efficiency and customer focus in a longer term.
- The streamlining initiatives developed as part of the Next Generation Bank Programme were implemented in Q2 2014 across the distribution network of the Business & Corporate Banking Division (for more details see section 2 “Business & Corporate Banking”, Chap. V “Business Development”).

Global Banking & Markets

- The Global Banking & Markets Division focused on expansion of the collaboration with Retail Banking and Business & Corporate Banking. The divisions agreed on the model of co-operation and launched the agenda of sales teams meetings. As part of the collaboration with the Business & Corporate Banking Division, a series of meetings were held with customers, which ended up in joint deals.
- A number of initiatives were completed with a view to streamlining the processes in the Global Banking & Markets Division.
- The Division's strategic plans are delivered on schedule, while certain areas are expected to perform better than projected (e.g. factoring).

V. Business Development

1. Retail Banking

Personal Customers

New Segmentation of Personal Customers

In H1 2014, Bank Zachodni WBK modified the segmentation criteria for personal customers in line with the assumptions of the Next Generation Bank Programme. Apart from the existing Private Banking segment handled by the Wealth Management Department, a VIP segment was created to provide tailored products and services to affluent customers on the basis of a dedicated customer service model. Proactive portfolio management supported by a suite of relevant tools is expected to enhance customer loyalty and brand awareness in this segment.

Initiatives Addressed to All Personal Customers

Personal Accounts

In the first half of 2014, the Account Worth Recommending (Konto Godne Polecenia) continued to be the most popular account among personal customers, including young people. The account bundled with a student credit card and BZWBK24 mobile services is the core element of the Student Starter package rolled out at the Polish universities.

Account 1|2|3 package continues to be a unique selling proposition in the Polish market with its attractive interest rate and a money back mechanism for bills settled with funds accumulated in the account.

As a result of marketing campaigns of both flagship products: Account 1|2|3 (January–February 2014) and Account Worth Recommending (March–May 2014), in the first six months of 2014 the bank opened 202.6k accounts, including 180k Accounts Worth Recommending. This way, the bank maintained its top position in the banking sector in terms of the number of newly opened accounts.

Savings and Investment Products

The initiatives addressed to standard personal customers focused on stabilisation of deposit volumes and their optimisation in terms of the product structure, tenor and price. Measures were taken to enhance the deposit base from loyal customers (including current account balances). To that end, the bank implemented the negotiated deposit model taking account of the strength of customer relationship. The bank also continued its efforts to increase the average tenors of term deposits by adjusting interest rates and the product proposition in line with the market trends and liquidity management objectives. The array of long-term deposit products was expanded to include, inter alia, an attractively priced 12-month BZWBK24 Deposit launched in February 2014 via BZWBK24 mobile application for the amounts ranging between PLN 1k and PLN 10k. The bank also launched a 12-month Term Deposit with Card, which is designed to stimulate the sales of credit cards and reinforce the customer relationship with the bank.

In H1 2014, Bank Zachodni WBK continued to sell structured deposits with a wide variety of tenors (from 6 to 24 months) and underlying instruments to suit the customers' needs. All deposits provided 100% capital protection at maturity. Until the end of June 2014, the bank offered 45 products under a total of 23 subscriptions. Total half-yearly sales to standard customers came in at PLN 1bn. In 11 subscriptions, the bank offered deposits with interest rate linked to the EUR/PLN or USD/PLN rate, available in three options dependent on the investment strategy pursued: appreciation, depreciation or stabilisation of currency. In the remaining 12 subscriptions, the yield was linked to stock indices: FTSE100, S&P500 and SX5E.

Consumer Loans

In the first half of 2014, the bank was seeking to optimise the sales of its cash loan which was ranked 2nd in the Best Cash Loan category of the Golden Banker Awards 2013 (March 2014) competition held by Bankier.pl and PayU. In February 2014, the bank's product proposition was expanded to include a DUET loan, a seasonal cash loan bearing a dual interest rate (12% p.a. and 6% p.a.) depending on whether it is granted to a one borrower or two co-borrowers. The Dual Loan attracted a lot of interest from customers owing to a low interest rate and a multi-media campaign. The advertising campaign that followed in May and June 2014 was run under the slogan "Cash at High Tide in Summer", emphasised short turnaround times (10 min) and promoted cash loans available "by click" in BZWBK24 electronic banking ("0% fee by click loan"). Due to a wider awareness of the internet banking functionalities, CRM campaigns and modified process for the construction of pre-approved offers, which made consumer loans more accessible to the existing customers, in H1 2014 the "buy by click" sales of cash loans increased by 50% YoY.

Mortgage Loans

Pursuant to the revised lending policy of Bank Zachodni WBK, which is compliant with the amended KNF Recommendation S on best practice in management of mortgage-backed credit exposures (effective as of 1 January 2014), a mortgage loan can now be taken out exclusively in the currency of the customer's income. In effect, the bank's mortgage lending proposition includes mainly loans in PLN and EUR.

In March 2014, the bank launched a home loan subsidised by the National Fund for Environmental Protection and Water Management (NFOŚiGW) to promote and support energy-saving developments.

In early June 2014, Mortgage Sales and Service Team was set up in the Telephone Banking Centre as a contact point for existing and prospective customers inquiring about Bank Zachodni WBK mortgage loans or applying for a preliminary credit decision. Thus the range of distribution channels in which customers may get a credit decision without leaving home was expanded.

In H1 2014, mortgage sales grew by 24.2% YoY due to the competitive edge of the Bank's lending proposition (attractive offer, short turnaround times) and favourable macroeconomic environment (low interest rates, relatively low home prices).

Initiatives Addressed to VIP Customers

In the first half of 2014, the processes related to development of products and services for the newly-created VIP segment focused on personal accounts, savings products and credit facilities.

Personal Accounts

In March 2014, the bank's proposition was expanded to include a new VIP Account which is offered free of charge to customers with minimum monthly inflows of PLN 10k. Likewise, no fees are charged for the associated products and services, including: Visa Electron VIP with the Safe Money Financial Insurance Package, cash withdrawals in any ATMs in Poland and abroad, transfers to accounts with Bank Zachodni WBK or other banks, and standing orders. VIP Account holders may also avail of other free-of-charge facilities, such as brokerage account, Gold credit card or a card and ATM withdrawals world-wide available for children.

Savings and Investment Products

In order to reinforce the relationships with deposit customers, the negotiated deposit model was modified to take account of the strength of the customer relationship. As in the case of other personal customer segments, the Bank sought to extend the average maturity of term deposits by adequately managing the interest rates schedule and product proposition. In March 2014, Rentier Deposit was launched for customers who wish to deposit amounts in excess of PLN 100,000 for 18 or 30 months and earn a regular interest income from the quarterly compounding. In June 2014, the bank introduced a Term Deposit with Card which pays attractive interest to customers who deposit new funds from PLN 50,000 to PLN 200,000 for a 12-month period, buy a credit card and actively use it for the first 10 months.

In addition, VIP customers were offered 12- and 18-month structured deposits linked to USD/PLN rate, stock indices (FTSE100, S&P500) or interest rates (WIBOR 6M). In H1 2014, the bank made 11 subscriptions for 18 structured deposits targeted at VIP segment.

To foster long-term relationships with affluent individuals, the bank made available to them "My Future" Regular Savings Plan for any purpose, charging reduced distribution fees, provided the monthly contributions are declared at an adequate level. The investment proposition also includes standard products designed for all customer segments such as mutual funds, In Plus BZ WBK Programme and capital investments handled by Dom Maklerski BZ WBK.

Consumer Loans

The bank standardised its cash loan offer for affluent customers in terms of an interest rate (now 10.99%). In addition, a fast track credit delivery procedure was introduced for customers with the minimum income of PLN 10k. Currently, works are underway to develop a uniform application procedure for all VIP customers.

New Distribution Channel

In April 2014, the bank launched the Affluent Clients Service Centre, a telephone banking unit with a dedicated telephone number, which provides sales and after-sales support to VIP customers.

Initiatives Addressed to Private Banking Customers

Bank Zachodni WBK renders wealth management services to high net worth customers based on relevant agreements. The Wealth Management Department operates from 14 offices located across Poland and offers comprehensive products and services, including brokerage, mutual funds, asset management, custodian services and a wide array of term deposits. In the first half of 2014, the investment proposition was expanded to include over-the-counter traded corporate bonds that meet specific criteria. Corporate bonds, along with mutual funds and term deposits, were most popular among the Private Banking customers in the past six months. In the analysed period, the bank carried out four issues of structured deposits for this customer segment, with yield linked to interest rates (6M WIBOR), FTSE100 index or JPMorgan US Select Equity quote.

As at the end of June 2014, Wealth Management Department provided services to more than 3 thousand customers whose investments totalled PLN 7.7bn. In the structure of assets managed by the Group on behalf of Private Banking customers, equities represented the biggest portion of 77%, followed by mutual funds and term deposits, accounting for 9% and 8%, respectively.

In H1 2014, Wealth Management Department also continued to strengthen cooperation with Bank Zachodni WBK Group members and increase customer awareness about the Wealth Management offer.

Small and Medium Enterprises

The segment of small and medium companies includes business customers with an annual turnover of less than PLN 40m and a maximum bank debt of PLN 5m.

In H1 2014, a number of initiatives were implemented in relation to the SME segment, which helped to improve internal lending procedures, increase access to finance (lending and leasing) and enhance the attractiveness of the bank's products and services. In addition, from early March to mid-April, the bank ran a TV campaign to promote credit facilities for SMEs under the banner "We'll advise you on the best ways to finance your company". The commercials presented a wide array of financing solutions for SME customers, including business loans, lease and factoring. In effect, the combined credit and lease portfolio of the SME segment grew by 10% over the first six months of 2014.

In early 2014, small and medium-sized enterprises were provided with access to iBiznes24 - a high-tech electronic banking platform. The bank also expanded the range of current accounts dedicated to this customer segment:

- Since 20 January 2014, business customers may apply for the Business Package with Terminal, which includes a PLN account and a merchant services agreement with Elavon, indicating Bank Zachodni WBK as a settlement bank. It also offers bundled products and services such as payment cards and electronic banking services.
- On 2 May 2014, the bank launched MOBI Business Package for new customers - sole traders, which includes a current account on special offer for 18 months. The account comes with additional products and services: access to electronic banking platform and Visa Business Electron BZ WBK payment card.

In May 2014, BZ WBK provided business customers with access to SantanderTrade.com, a global platform of Santander Group which offers comprehensive information about foreign markets, applicable trade and customs regulations, prospective trade partners, market analyses and business environment. In addition, BZ WBK customers were granted free access to a six-module training course of the International Chamber of Commerce and regular on-line sessions on markets and sectors. The platform facilitates contacts with Santander Group customers from around the world.

In the first half of 2014, the bank improved the processes and modified internal discretionary limits related to foreign trade customer settlements. This helped to significantly increase the volume of transactions and the number of customers availing of the bank's trade finance and FX services on a regular basis.

The bank organised a series of 50 conferences Poland-wide as part of the Entrepreneur Academy: Strategy of Success on the Business Battlefield. The meetings attracted a lot of interest from customers – the total number of participants reached 6 thousand.

Financial Institutions

Bank Zachodni WBK is a major outsourcing service provider for banks and financial institutions with regard to domestic and international payments, cash services, card personalisation, issuance and handling, ATM network management and financial fraud prevention. Using own experience, the bank enhances its products and functionalities to suit the requirements of its customers and gradually expands its offering.

In H1 2014, Bank Zachodni WBK started co-operation with a new bank and expanded the scope of relationship with the existing partners with regard to the issue/sale of FX and pre-paid cards and contactless stickers. As at 30 June 2014, Bank Zachodni WBK co-operated with more than 20 banks, managed a network of over 753 third-party ATMs and handled 3.1m Visa/MasterCard cards for third party institutions. The bank continued to extend the network of POS terminals in co-operation with its partner merchant (Elavon) to foster the growth of the Polish card payment market.

The bank focuses on expanding its card and ATM related operations which represent the key business line in the area of outsourcing services provision to financial institutions. New products are being prepared to be offered to partner banks.

Other Elements of Retail Banking Offer

Investment funds

Net Sales and Assets

In H1 2014, the customers of BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI) were particularly interested in corporate bond sub-funds and money market sub-funds. As a result, Arka Prestiż Obligacji Korporacyjnych and Arka BZ WBK Obligacji Korporacyjnych (corporate bonds sub-funds) emerged as one of the most popular mutual funds on the Polish market.

As at 30 June 2014, the total net assets managed by BZ WBK TFI were PLN 11.8bn and increased by 5.3% Ytd and 6.9% YoY.

Liquidation of Arka BZ BWK Fundusz Rynku Nieruchomości FIZ

On 29 June 2014, the representation and management of assets of Arka BZ BWK Fundusz Rynku Nieruchomości FIZ, a closed-end property market fund in liquidation, was taken over by the fund's liquidator. Consequently, the respective assets, totalling PLN 219.6m as per the last valuation of 30 April 2014, are excluded from the portfolio of mutual funds managed by BZ WBK TFI.

Payment Cards

In H1 2014, Bank Zachodni WBK incentivised customers to make payments with debit, credit and pre-paid cards, mainly through the promotion of non-cash payments among the selected customer groups as well as total population.

The range of solutions available to debit and credit card holders was expanded as follows:

- In April 2014, the bank offered an option to disable contactless payments on credit cards and implemented other recommendations of the Payment System Council pertaining to the security of contactless cards. In addition, the credit card functionality was extended to include new services such as transfer of part of the credit card limit to any bank account and top-up of the available credit card limit by the Telephone Banking Centre.
- Since 16 June 2014, debit card holders may set daily and monthly limits for cash, non-cash and online transactions.

The bank's initiatives with regard to pre-paid cards included, e.g. streamlining the branch sales process, execution of deliveries related to issuing and handling electronic urban cards (PEKA) and issue of Orange Warsaw Festival payment cards.

Bancassurance

In H1 2014, Bank Zachodni WBK focused on selling insurance products from the bancassurance offer and on enhancing retention of insurance policies bundled with banking products.

The sales grew in both lines of business, namely insurance covers for banking products (e.g. loans or cards) and non-bundled insurance products, such as the "Family Care" ("Opiekun Rodziny") life insurance and "Locum" property insurance.

The commercial activities in the bancassurance area were supported by two marketing campaigns run under the banner "Insurance – conveniently with the bank" which promoted the bank as a convenient place to purchase insurance.

BZ WBK-Aviva companies, which maintain a close co-operation relationship with the bank, introduced a simplified loss adjustment procedure for home insurance. The changes were aimed to increase the number of incidents eligible for fast-track loss adjustment, while ensuring an appropriate level of safety and adequate indemnities.

In addition, the Recommendation on best information practices regarding unit-linked insurance policies was implemented.

In H2 2014, the focus will shift to the development of insurance policies which are not associated with banking products (life insurance, home insurance) as well as unit-linked insurance policies.

2. Business & Corporate Banking

Development of Business and Banking Offer

The Business & Corporate Banking Division provides services to business customers with a turnover of more than PLN 40m and a credit exposure exceeding PLN 5m. The customer base was divided into three basic segments by the volume of turnover:

- ✓ Corporate segment with turnover of PLN 40m-PLN 500m;
- ✓ Large corporate segment with turnover over PLN 500m (except for customers fitting in the GBM segment definition);
- ✓ Property finance segment.

In H1 2014, Business & Corporate Banking Division strengthened its market position on the back of strong business growth and an enhanced service quality proposition in line with the customer-centric strategy of the bank. The reinforced distribution network comprising 12 Corporate Banking Centres (CBCs), the Large Corporate Team and the central Corporate Property Department was supported by the Product Development and Operations Department and the newly established Products and Sales Strategy Area which is responsible for the development of cross-selling and acquisition of new customers.

Optimisation Projects

As part of the Next Generation Bank Programme, the Business & Corporate Banking Division delivered a number of initiatives aimed at transforming its services and processes so that they better suit customers' needs. This transformation programme was delivered via four streams: Sales Force Efficiency, Cross-Selling Tools, Service Quality and Incentive Schemes. The first roll-out phase included, inter alia, changes to the work schedule of Corporate Banking Centres, process streamlining, development of cross-selling tools and staff selling skills as well as modification of the incentive schemes to further support business growth and customer acquisition. The second phase focused on process simplification and efficiency based on an end-to-end approach and included, among other things, facilitation of customer contact with the Business Service Centre, streamlining and harmonising the credit delivery process on the basis of the best practice developed by individual Corporate Banking Centres, simplification of key operational processes (e.g. central management of cash processes, central monitoring of deposits, services to key deposit customers) and launching processes to lay the foundations for the self-learning organisation model (service standard assessment, collection of customer and employee feedback, knowledge database, information management).

In all, over 300 initiatives were delivered as part of the Next Generation Bank Programme. In the longer run, they are expected to increase service quality, enhance customer experience, support continued process improvement and development of staff competences, and boost efficiency of sales management.

Further Improvement of Products and Services

As part of its business as usual operations, the Division also implemented a number of solutions designed to support the continuous improvement of products and services as well as the functionality of systems dedicated to corporate customers. The key initiatives are summarised below:

- Implementation of a credit line with capped pricing - an innovative solution that mitigates the risk of higher interest rates through a relevant clause in the credit agreement.
- Increase in the BGK (Bank Gospodarstwa Krajowego) limit for de minimis guarantees (from PLN 1.2bn to PLN 2.2bn) that can be utilised by the bank in the corporate and SME segments. De minimis guarantees provide a security cover for working capital and investment loans under the BGK Portfolio Guarantee Line.
- Simplified credit delivery process for existing customers applying for up to PLN 3m, resulting in reduction of the decision time to one day.
- Expansion of the range of products and services to include a payroll account to handle salary payments for the company's employees in a fast, timely and confidential manner.
- Implementation of "autowypłata" money order service for entities which make frequent cash payments to beneficiaries that do not hold a bank account or opt for cash as a form of payment.
- Upgrade of iBiznes24 mainly in relation to the authorisation processes and transaction batch management.

Enhanced Importer/Exporter Proposition

In H1 2014, the trade finance offer was extended in liaison with Banco Santander to include access to a specialist portal - SantanderTrade.com - which is designed to facilitate growth and trading expansion of customers. In addition, importers and exporters can get expert advice from the bank's Trade Finance Team, apply for multi-purpose and multi-currency credit lines or make operations related to cash collections, letters of credit or guarantees in a fully automated mode via iBiznes24. The enhanced offer, along with Treasury and International Desk services, ensures comprehensive support for companies involved in international trade.

As part of International Desk services, the bank delivered a number of initiatives (some of them in co-operation with Banco Santander) aimed to help companies which already operate or seek to invest/find trading partners in Spain or other markets (particularly those where Santander Group is present).

- In March 2014, a meeting was organised between the representatives of Polish corporate entities and the Undersecretary of State in the Spanish Ministry of Foreign Affairs. The purpose of the meeting was to discuss the current situation and the outlook for companies investing in Spain, and to offer guidance to entities entering the Spanish market.
- In May 2014, the bank hosted the first virtual trade mission, i.e. video call for Spanish producers of fruits and vegetables and Polish importers and distributors of these products. The next mission of June 2014 was addressed to Polish companies looking to export and expand to the African markets. The participants of both events had an opportunity to get to know the bank's products and services for importers and exporters, learn about the potential of the new markets, and establish direct trade relations.
- In the first half of 2014, the bank held a series of marketing meetings with customers in 12 locations. These included breakfasts with importers and exporters organised to discuss the products and services of the bank and the potential support from Santander Group for international business of customers, and lunches with the bank's Chief Economist who gave an overview of the macroeconomic situation and discussed the opportunities and threats related with the economic trends and tendencies.

Business Development

In the year to 30 June 2014 credit delivery of Business & Corporate Banking Division (including factoring and leasing) developed at a very good rate. Total credit volumes in three corporate regions increased by 7% for the half-year. There was also a clear growth in deposit balances (+5% Ytd) and deposit profitability considerably enhanced. Foreign trade business - particularly letters of credit - was very strong as well.

In H1 2014, the Business & Corporate Banking Division closed a number of deals, including the merger of one of its large corporate customers with another international corporation, share buyback by one of its corporate customers, co-arrangement of euro bond issue programme for a large corporate customer and sanction of a high-value syndicated facility with Bank Zachodni WBK acting as an agent and a security agent.

Factoring Business

In H1 2014, the turnover of BZ WBK Faktor came in at PLN 6,760.6m and increased 43.3% YoY, exceeding again the market growth rate of 17.3% YoY. This gave the company a market share of 13% and the third position in the ranking of the members of the Polish Association of Factoring Companies. At the end of June 2014, the company's credit exposure was PLN 1,940m and higher by 40.4% YoY.

In view of a dynamic growth of Polish exports, in H1 2014 BZ WBK Faktor expanded its product proposition by two-factor export factoring which requires involvement of a correspondent factor abroad. In order to facilitate co-operation on the international factoring market, the company joined Factor Chain International (FCI), a global organisation of factoring companies from 75 countries. In addition, BZ WBK Faktor became a member of International Factors Group (IFG).

Leasing Business

In the first half of 2014, BZ WBK Leasing and BZ WBK Lease continued to grow their sales on the back of a stronger sales potential resulting from the merger, favourable external conditions (economic upturn and legal environment) and strengthened relations with fixed asset providers. The business lines such as financing of automobiles, commercial vehicles and agriculture reported a particularly good performance, which impacted the growth rate in the vehicle segment (+48.7% YoY to PLN 666.8m) as well as the machinery and equipment segment (+32.1% to PLN 695.5m). In total, both companies financed PLN 1,372.4m worth of net assets, which is 39.0% higher YoY and exceeds the market growth rate.

3. Global Banking & Markets

Global Banking & Markets Division (GBM) provides an end-to-end support to the largest businesses allocated to that segment based on the turnover. It also renders services to corporate customers handled under the global framework of GBM. As at the end of June 2014, the active GBM customer base included nearly 150 companies and groups from energy, financial, FMCG, pharmaceutical, retail, mining, chemical and household appliance sectors.

In addition, GBM is solely responsible for the bank's activities on the financial markets and provides specialist financial products (including brokerage ones) to retail and corporate customers.

In January 2014, changes were introduced to the organisational structure of GBM and the key business lines. The main organisational structures of the Division include:

- Global Transactional Banking Department;
- Financing Solutions and Advisory which comprises GBM Credit Markets and Corporate Finance, including Capital Markets Area and BZ WBK Inwestycje;
- Financial Markets which comprises the Treasury Services, the Structured Products Bureau and Dom Maklerski BZ WBK.

The profile and performance of the respective lines are presented below.

Global Transactional Banking

Global Transactional Banking provides support to GBM customers in respect of cash management in current accounts and deposits, and financing of working capital needs. The offer also includes trade finance, guarantees, factoring, leasing and custodian services.

In H1 2014, Transactional Banking closed a number of financing, guarantee and trade finance deals with companies from the mining, chemical, fuel, energy, construction and financial sectors.

As at 30 June 2014, the loan-book, defined as a sum of open credit lines, totalled almost PLN 3bn (up by 54% YoY). Furthermore, a YoY increase was noted in the factoring business volumes, which added up to PLN 0.8bn as at the end of June 2014. A large portion of factoring business volumes come from the customer operating in the retails sector.

The value of balances in customer deposits and current accounts went up by 16% YoY, reaching PLN 4.8bn at the end of June 2014.

Financial Solutions and Advisory

Capital Markets Area

In H1 2014, Capital Markets successfully sold the total stake in Kuźnia Polska from Bank Zachodni WBK equity investment portfolio. It also provided analytical and advisory services to customers and was engaged as a financial/transactional advisor for companies from the chemical, financial and construction sectors.

Under the agreement entered into with the European Investment Bank, the bank managed the Urban Regeneration Fund for Greater Szczecin (JESSICA Programme).

GBM Credit Markets

GBM Credit Markets provide funding towards medium- and long-term investments delivered by GBM customers in the form of loans or debt issue.

In H1 2014, the Department closed the financing deal for the acquisition of a company from the chemical sector. This multi-department transaction involved different business lines from the GBM Division. As a result, the value of the credit portfolio increased by PLN 417m, totalling PLN 3.8bn as at 30 June 2014 (up 25% YoY and 18% QoQ).

The Department worked closely with the Business & Corporate Banking Division as regards financing for business customers (including telecom sector).

As at 30 June 2014, the value of the loan-book, defined as a sum of open credit lines, climbed to nearly PLN 6.5bn.

Financial Markets

In H1 2014, the performance of Financial Markets was largely impacted by changes in the open-end pension fund scheme as well as political tensions in Ukraine.

Treasury

In H1 2014, the Treasury continued the income diversification strategy based on development of interest rate hedges, and actively traded on the currency market amid substantial volatility of exchange rates. The range of interest rate hedging instruments offered by the bank was extended to include new solutions for corporate and SME customers.

In the first half of 2014, Treasury closed a number of interest rate and currency hedge deals in relation to mid- and long-term financing agreements concluded by GBM customers. Treasury performance was also largely affected by income from currency transactions with corporate customers in a highly volatile currency market.

Dom Maklerski BZ WBK

The performance of Dom Maklerski BZ WBK (DM BZ WBK) in H1 2014, as measured by the stock trading volumes in the main WSE markets, was as follows:

- The share in the equity market totalled 6.4% in H1 2014 and declined by 1.4 p.p. YoY. Higher share in trading in the first half of 2013 was attributed to the brokerage services related to the sale of the stake in Bank Zachodni WBK held by Banco Santander and KBC NV as well as tender offers for shares of other companies. With its H1 2014 performance, DM BZ WBK held the 4th position on the equity market.
- The share in the futures market was 9.0% and down 3.6 p.p. YoY. The derivative market is driven by institutional investors who are not strongly represented in the customer portfolio of DM BZ WBK. At the end of June 2014, DM BZ WBK was ranked the 4th on the futures market.
- The share in the options markets went up by 6.8 p.p. YoY to 18.9% in the wake of an increased activity of retail customers of DM BZ WBK. In the first six months of 2014, the company secured the 2nd position on the options market.

In H1 2014, DM BZ WBK won a number of awards and accolades which are described in detail in the table in Chapter X “Additional Information” along with the achievements of the bank and other Group companies.

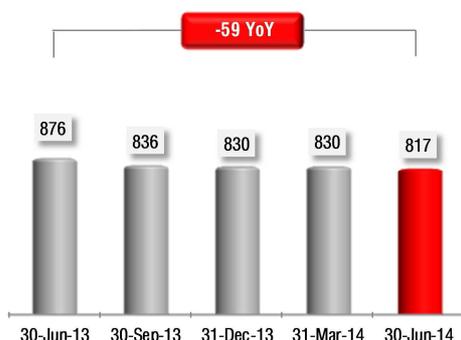
4. Selected Distribution Channels

Branch Network and Complementary Channels

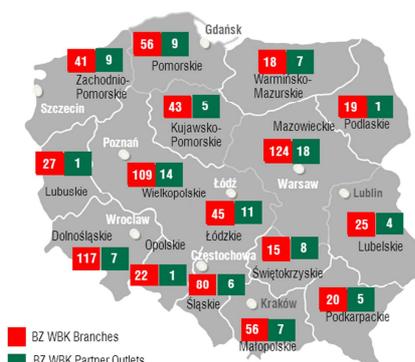
As at 30 June 2014, Bank Zachodni WBK had a network of 817 branches (physical locations). The number of outlets reduced by 13 on 31 December 2013 and by 59 on 30 June 2013. The lower number of branches is the outcome of post-merger optimisation processes. The management structure of Branch Banking was broken down into 78 regions managed by 12 macroregions.

The bank’s branch network was complemented with 113 Partner outlets (113 outlets as at the end of December 2013 and 105 outlets as at the end of June 2013).

BZ WBK Branch Network as at the end of Successive Quarters from 30.06.2013 to 30.06.2014



Geographic Location of BZ WBK Branches and Partner Outlets in Poland as at 30.06.2014



Business & Corporate Banking

The Corporate Banking Area, which provides services to corporate customers, is divided into three regions (North, Central and South) which match respective provinces. It also includes a centralised team for large corporate customers. Each region has four Corporate Banking Centres.

Management of the property segment is centralised in the Corporate Property Department in Warsaw.

ATMs/Cash Deposit Machines

At the end of June 2014, the ATM network of Bank Zachodni WBK comprised 1,388 machines (1,385 as at the end of December 2013; 1,429 as at the end of June 2013). In H1 2014, the bank continued the process of modernisation and rationalisation of ATMs taken over from former Kredyt Bank. It also upgraded the ATM services for foreign customers, i.e. the number of currencies available for the Dynamic Currency Conversion was increased to nine (CZK, CAD and AUD were added).

By the end of Q1 2014, the cash deposit machines of Bank Zachodni WBK and former Kredyt Bank had been fully integrated. With new machines installed, the total network reached 103 machines on 30 June 2014.

BZWBK24

Mobile Banking

In the first half of 2014, Bank Zachodni WBK continued to deliver the strategy of mobile banking development, with a view to becoming the leader of this segment in Poland. In the analysed period a number of new functionalities were added to BZWBK24 mobile. The bank also contributed to the industry-wide efforts to develop and promote mobile banking services and define relevant standards. It also actively participated in the initiatives intended to prevent cybercrime.

A particular focus was placed on the development of distinctive products and services. To that end, the bank offered the following solutions to BZWBK24 mobile customers:

- travel insurance ("Ubezpieczenie na Podróż") which provides medical coverage as well as covers the risk of lost luggage or sports equipment when abroad;
- new functionalities which allow to change the account or deposit name, search the account history by amount and copy third party transfers;
- new solutions offered as part of the Mobile Purchase (Zakupy Mobilne) service: Sky Cash public transport tickets available in more than 30 Polish cities, MySafety free-of-charge protection for mobile devices and other commercial protection packages, fast track procedure for purchases via Przelew24 up to PLN 50 (no need to enter NIK or PIN), Sky Cash pay and display tickets;
- new simplified procedure for device registration and log-in using PIN mobile.

On 23 February 2014, users of BZWBK24 Mini Firma were granted access to BZWBK24 mobile application integrated with iOS, Android and Windows Phone. Previously, they could use the browser-based version of BZWBK24 mobile (phone with a mobile browser). In early April 2014, the bank introduced a fast track procedure for purchases up to PLN 50 and credit card transfers to own account for customers with the Mini Firma profile. Starting from 14 June 2014, customers with the Moja Firma plus profile can use the dedicated mobile application BZWBK24 Moja Firma plus mobile.

In the reporting period, BZWBK24 mobile users could take advantage of a number of special offers and competitions, including a high-paying non-renewable mobile deposit, MySafety Mobile free-of-charge protection for mobile devices, competitions rewarding active BZWBK24 mobile users and special offers for mobile purchases.

In H1 2014, BZWBK24 mobile application won a number of prestigious accolades:

- it was named the best mobile application of 2013 in the Mobile Trends Awards and took the first position in the mobile banking category;
- Mobile Purchase service – available via BZWBK24 mobile - won the Innovation 2013 award granted by the representatives of the Business Forum and the Technological Science Faculty of the Polish Academy of Sciences.

At the end of June 2014, the bank's mobile banking had 319.3 thousand users, 85.5% more than a year before.

Internet Banking

In April and June 2014, the bank implemented a set of improvements for BZWBK24 Internet customers:

- an optimised transfer procedure and an opportunity to make credit card transfers to own account;
- a uniform layout and functionality of electronic banking services for AVOCADO package users (the same as standard BZWBK24 services for all customers);
- a faster application procedure for credit facilities available "by click" and longer period (Sunday included) during which the facility is sanctioned and disbursed on the application date;
- a modified layout of transactional platforms for personal and business customers, including the new names and locations of selected menu options;
- an opportunity to set daily and monthly limits for cash, non-cash and online transactions with debit and credit cards and enable/disable withdrawals from ATMs that are not EMV-compliant (reading data from the chip in the card);
- other functional and optimisation changes, including a new account history browser and active access to Arka Prestiż registers.

Telephone Banking Centre (CBT)

In H1 2014, the Telephone Banking Centre focused on the following business areas:

- implementation and delivery of a sales campaigns for selected products based on information on customer payment behaviour patterns;
- launch of sales processes regarding credit card limit top-ups, mortgage loans and Locum insurance;
- promotion of business and corporate banking products and services as part of outbound campaigns (information about the offer added to the sales campaigns);
- co-operation with other units to improve the quality of customer contact details in IT systems.

The following initiatives were delivered in order to enhance customer service:

- credit card retention processes were centralised;
- the scope of support available to mobile banking customers was extended in view of the upgraded functionality and wider access;
- after-sales processes delivered by the helpline staff were developed in respect of cash loans, overdrafts, term deposits, savings accounts and new processes, including acceptance and cancellation of direct debits, option to disable contactless payments, change of credit card limit or repayment of consumer loan;
- expert advice and training was provided in relation to the planned implementation of an affluent customer service model;
- measures were taken with respect to the planned scope of support (training, contacts) for owners of products and customer segments in relation to the migration of customers to target BZ WBK systems; in addition, after-sales support was provided with regard to the migration of payment cards of the former Kredyt Bank;
- customer service was ensured in relation to the mass dispatch of letters informing about changes in the bank's offer;
- CPD (Call Progress Detection) technology was implemented to facilitate contacts with customers.

VI. Financial Performance in H1 2014

1. Income Statement

Profit Earned by Bank Zachodni WBK Group in H1 2014

The table below shows changes in the key items of the consolidated income statement of Bank Zachodni WBK Group in H1 2014 compared with the same period of the previous year.

PLN m

Condensed Income Statement (for analytical purposes)	H1 2014	H1 2013	YoY Change
Total income	2 982,5	2 794,0	6,7%
- Net interest income	1 773,0	1 550,4	14,4%
- Net fee & commission income	893,1	874,9	2,1%
- Other income	316,4	368,7	-14,2%
Total costs	(1 441,5)	(1 410,8)	2,2%
- Staff, general and administrative expenses	(1 273,0)	(1 284,6)	-0,9%
- Depreciation/amortisation	(141,1)	(114,4)	23,3%
- Other operating expenses	(27,4)	(11,8)	132,2%
Impairment losses on loans and advances	(335,9)	(392,9)	-14,5%
Profit/loss attributable to the entities accounted for using the equity method	0,1	6,8	-98,5%
Profit-before-tax	1 205,2	997,1	20,9%
Tax charges	(230,3)	(189,5)	21,5%
Net profit for the period	974,9	807,6	20,7%
- Net profit attributable to BZ WBK shareholders	953,6	793,1	20,2%
- Net profit attributable to non-controlling shareholders	21,3	14,5	46,9%

In H1 2014, Bank Zachodni WBK Group posted a profit-before-tax of PLN 1,205.2m, up 20.9% YoY. The net profit attributable to Bank Zachodni WBK shareholders was PLN 953.6m and higher by 20.2% YoY.

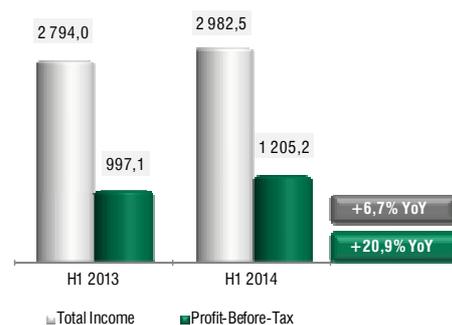
Key Factors Affecting the Profit of Bank Zachodni WBK Group

- ✓ Increase in the quarterly net interest margin from 3,26% in Q1 2013 to 3,72% in Q2 2014 in the lower interest rate environment due to the harmonisation of the post-merger deposit offer, continued optimisation of the interest rates schedule and favourable directions of business development (e.g. growth in current account balances and loan-books). As a result, the net interest income was higher by PLN 222.6m YoY.
- ✓ Post-merger unification of credit procedures and processes, and improving economic standing of business and personal customers amid gradual economic revival contributed to the reduction of the impairment losses by PLN 57m YoY.
- ✓ Effective cost management by Bank Zachodni WBK Group amid the delivery of diverse development projects and continued integration works which resulted in a charge to the income statement of PLN 110.6m for H1 2014 and PLN 115m for H1 2013. Excluding both the integration costs and the operating expenses of Aviva-BZ WBK subsidiaries, the underlying cost base of Bank Zachodni WBK Group increased by 1.6% YoY.
- ✓ Pursuit of the Group's goals in the management of financial assets portfolios under the conditions prevailing in H1 2014 on the bond, IRS and FX markets caused the net trading income and revaluation as well as gains on other financial instruments to decline by PLN 89.2m and PLN 125.5m, respectively.

Total Income and Profit-Before-Tax by Quarters in 2013 and 2014 (PLN m)



Total Income and Profit-Before-Tax in H1 2013 and H1 2014 (PLN m)



* As a result of transfer to Bank Zachodni WBK of 16% of shares in BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ, the bank's former stake in both companies (50% each) was restated to its fair value as at the date of control acquisition, which increased the Group's profit-before-tax for Q4 2013 by PLN 419m.

Structure of Bank Zachodni WBK Group Profit-Before-Tax by Contributing Entities

The table below shows the stand-alone profit contribution of respective members of Bank Zachodni WBK Group to the consolidated income statement for H1 2014 and H1 2013.

PLN m

Stand-Alone Profit-Before-Tax of Bank Zachodni WBK and Subsidiaries	H1 2014	H1 2013	YoY Change
Bank Zachodni WBK S.A.	1 194,9	974,3	22,6%
Existing subsidiary undertakings:	142,0	91,9	54,5%
BZ WBK Leasing S.A., BZ WBK Lease S.A. and Finanse Sp. z o.o. ¹⁾	48,7	22,4	117,4%
BZ WBK Asset Management S.A. and BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. ²⁾	31,9	35,8	-10,9%
BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A., BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. ³⁾	30,7	-	-
Faktor Sp. z o.o.	17,4	8,0	117,5%
Dom Maklerski BZ WBK S.A.	12,8	25,3	-49,4%
Other subsidiary undertakings ⁴⁾	0,5	0,4	25,0%
Equity method valuation	0,1	6,8	-98,5%
Elimination of intra group dividends	(109,2)	(75,5)	44,6%
Other intercompany and consolidation adjustments	(22,6)	(0,4)	-
Profit-after-tax	1 205,2	997,1	20,9%

1) Effective from 31 January 2014, Kredyt Lease changed the company name to BZ WBK Lease.

2) Combined profit-before-tax of these entities excludes dividend received by BZ WBK Asset Management from BZ WBK Towarzystwo Funduszy Inwestycyjnych in the amount of PLN 30.3m in H1 2014 and PLN 23.2m in H1 2013.

3) BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ changed their status from joint ventures to subsidiary undertakings at the end of 2013. Throughout 2013, both entities were accounted for using the equity method. As at 31 December 2013 only their statements of financial position were consolidated with Bank Zachodni WBK. The contribution of the insurance subsidiaries to the consolidated profit-before-tax (after intercompany and consolidation adjustments) for H1 2014 was PLN 8.7m.

4) BZ WBK Inwestycje, BZ WBK Nieruchomości and BFI Serwis. The line also includes after-audit profit adjustments.

The unconsolidated profit-before-tax of Bank Zachodni WBK for H1 2014 increased by 22.6% YoY on account of higher net interest income (+PLN 216.5m) and net fee & commission income (+PLN 53.0m), and reduced net impairment losses (-PLN 39.9m). YoY growth in dividend income (+PLN 56.4m), which derived from subsidiaries (BZ WBK Asset Management, Dom Maklerski BZ WBK, BZ WBK-Aviva companies) and non-controlling equity investments (Aviva Group companies), only partly compensated for the lower income earned on financial assets portfolios, including gains on other financial instruments (-PLN 122.9m) and net trading income and revaluation (-PLN 66.8m).

The profit-before-tax reported by the consolidated subsidiaries was higher by 54.5% YoY, as a result of the strong performance of leasing and factoring companies, and the control gained over BZ WBK-Aviva companies which have become subsidiaries subject to consolidation in the Group's income statements for the periods starting from 1 January 2014. Last year, in the half-yearly consolidated income statement both entities were accounted for using the equity method.

Leasing companies, with their controlling entity BZ WBK Finanse, generated a 117.4% higher pre-tax-profit on a YoY basis on account of continued satisfactory sales growth, lower impairment charges and recognition of PLN 12.4m of VAT refund related to the insurance business.

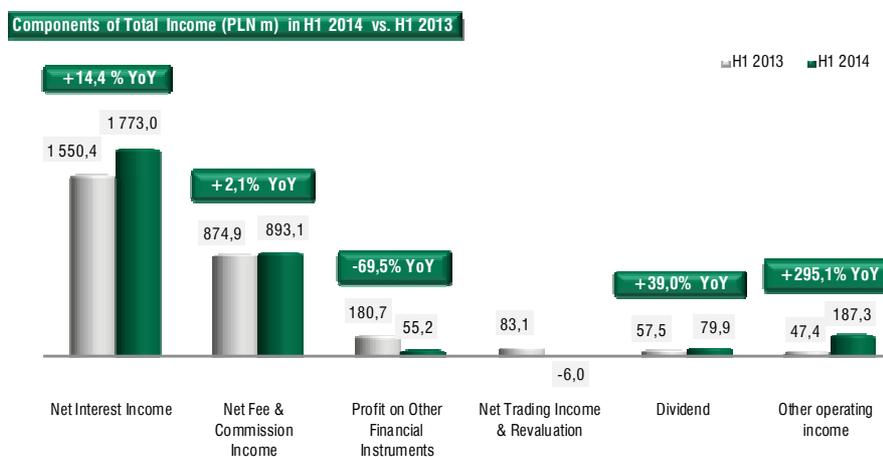
The factoring company's profit increased by 117.5% YoY on the back of the dynamic business growth, effective risk monitoring and cost management.

The total profit-before-tax of BZ WBK Asset Management and BZ WBK Towarzystwo Funduszy Inwestycyjnych declined by 10.9% YoY despite the reduction of the cost base and an increase in the average value of net assets under management. The decrease in profitability is attributed, among other things, to changes in the structure of assets towards lower-margin funds/low risk portfolios and increasing funds management costs incurred by BZ WBK TFI. In addition, the income from proprietary investments fell in parallel with interest rates and the value of funds available for placements.

The profit-before-tax of Dom Maklerski BZ WBK for H1 2013 incorporates non-recurring income from brokerage services related to the sale of the stake in Bank Zachodni WBK held by Banco Santander and KBC NV in the total amount of PLN 4.9bn. Adjusted for the above-mentioned one-off item, the gross profit posted by DM BZ WBK was down by 25.6% YoY as a result of equity market downturn, continued pressure to reduce margins across all domestic stock exchange segments and lower trading gains on the market making activity amidst the unfavourable environment.

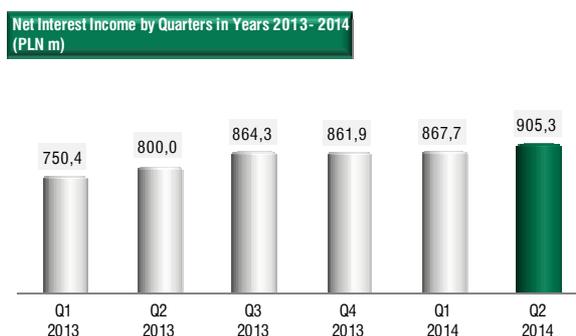
Total Income

Total income achieved by Bank Zachodni WBK Group in H1 2014 was PLN 2,982.5m and up 6.7% YoY.



Net Interest Income

In H1 2014, the net interest income reached PLN 1,773.0m and was higher by 14.4% YoY.

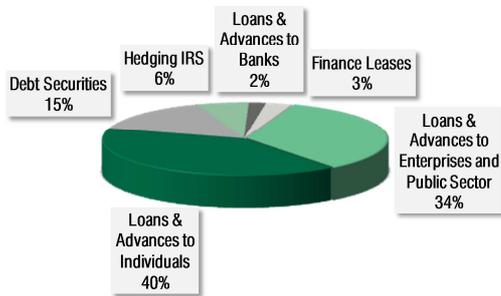


The net interest income includes interest income of PLN 115.4m in H1 2014 (PLN 142.9m in H1 2013) from CIRS transactions designated as hedging instruments under cash flow hedge accounting which is disclosed in Note 6 "Net interest income" in the line item "Interest income from IRS hedges" showing PLN 142.1m in H1 2014 vs. PLN 170.1m in H1 2013.

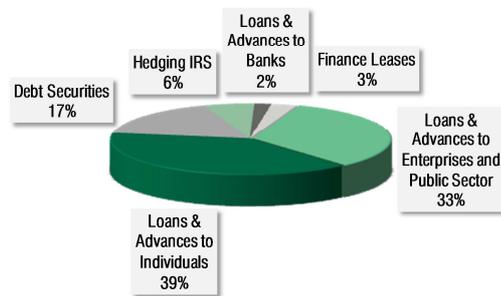
Taking into account the income from non-hedging CIRS/IRS transactions (PLN 11.8m in H1 2014 vs. PLN 5.7m in H1 2013) which are used for the purpose of liquidity management and reported under "Net trading income and revaluation", the underlying net interest income increased by 14.7% YoY.

The YoY growth in the net interest income is the outcome of diverse pace of decline in interest revenues as compared with interest expense amid the falling interest rate environment. In H1 2014, interest revenues decreased by 7.9% YoY to PLN 2,502.1m, while interest expense fell by 37.6% YoY to PLN 729.1m.

Structure of Interest Revenues in H1 2014

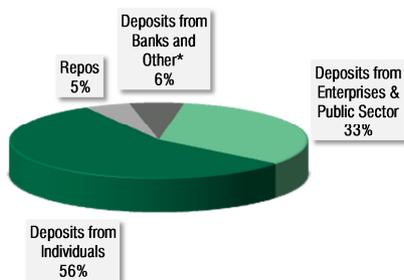


Structure of Interest Revenues in H1 2013

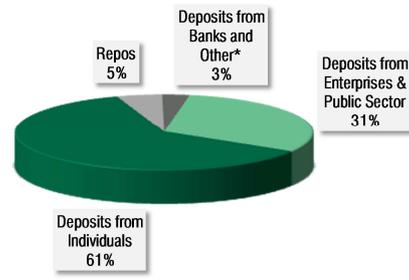


The most pronounced decreases in interest revenues (in percentage terms) were observed in loans and advances to the public sector (-35.6% YoY), IRS hedges (-16.4% YoY), available-for-sale debt securities (-15.3% YoY), loans and advances to banks (-13.6% YoY), lease receivables (-13.0% YoY), and mortgage loans (-9.2% YoY).

Structure of Interest Expense in H1 2014



Structure of Interest Expense in H1 2013

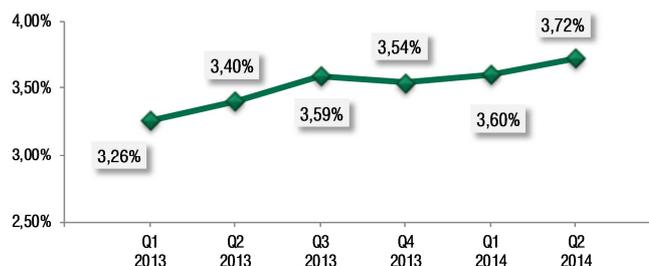


* includes deposits from banks, subordinated liabilities and issues of securities

Strong YoY reductions in interest expense were reported under deposits from individuals (-42.3% YoY), banks (-41.6% YoY), enterprises & the public sector (-34.4% YoY), and repo transactions (-35.1% YoY).

In the period spanning from January 2013 to 30 June 2014, the quarterly net interest margin of Bank Zachodni WBK Group (annualised on a quarterly basis) gradually increased (from 3.26% in Q1 2013 to 3.72% in Q2 2014) amid sharp declines in interest rates in H1 2013 and their relative stabilisation in the subsequent periods. This upward trend in the net interest margin is a combined effect of: harmonisation of the bank's offer following the merger, effective management of the schedule of interest rates (taking account of the prevailing market conditions, customer expectations, regulatory requirements and Group's objectives) and also expanding business volumes. On a year-on-year basis growth was witnessed both in loan-books (mainly exposures to enterprises and finance leases) and in deposit volumes (driven by balances in business current accounts and personal term deposits).

Net Interest Margin by Quarters in Years 2013-2014 (including SWAP points*)



* The calculation of adjusted net interest margin of Bank Zachodni WBK takes account of swap points allocation from derivative instruments used for the purpose of liquidity management. It excludes however (from Q1 2014) interest income from the debt trading portfolio

Net Fee and Commission Income

PLN m

Net Fee and Commission Income	H1 2014	H1 2013	YoY Change
E-Business and payments ¹⁾	235,6	220,9	6,7%
Account maintenance and cash transactions ²⁾	145,0	152,8	-5,1%
FX fees	157,5	138,0	14,1%
Credit fees ³⁾	124,9	109,0	14,6%
Asset management and distribution	114,1	117,8	-3,1%
Credit cards	47,8	35,3	35,4%
Brokerage fees	34,2	47,2	-27,5%
Insurance fees ⁴⁾	31,7	52,3	-39,4%
Other ⁵⁾	2,3	1,6	43,8%
Total	893,1	874,9	2,1%

1) Fees for foreign and mass payments, Western Union transfers, trade finance, debit cards, services for third party institutions as well as other electronic & telecommunications services.

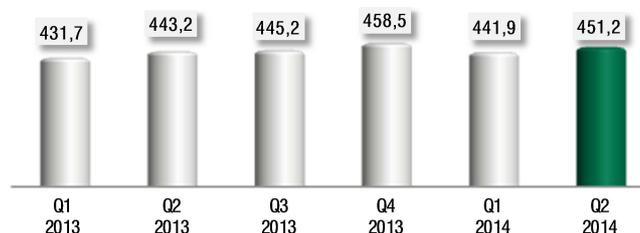
2) Fee income from account maintenance and cash transactions has been reduced by the corresponding expenses which in Note 7 "Net Fee and Commission Income" of the consolidated financial statements are included in the line item "Other".

3) Fees related to lending, leasing and factoring activities which are not amortised to interest income.

4) Following the acquisition of control over BZ WBK-Aviva companies, the presentation of insurance income has been changed. At present, the major part of income from the insurance business is disclosed in "Other operating income" instead of "Net fee and commission income". In H1 2014, the respective income contributed PLN 108.5m to the Group's "Other operating income".

5) Guarantees & sureties, issue arrangement fees and others.

Net Fee & Commission Income by Quarters in Years 2013-2014
(PLN m)



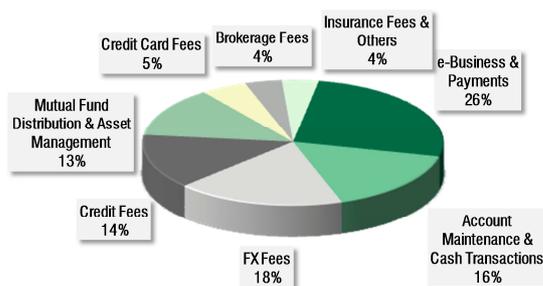
In H1 2014, the net fee and commission income was PLN 893.1m and 2.1% higher YoY.

A significant YoY growth was noted in the net credit card fee income (+35.4% YoY), which was primarily attributed to the enlarged credit card base, increase in credit card transaction volumes and revision of selected BZ WBK credit card fees and charges. The net credit fee income grew at a robust rate of 14.6% YoY, mainly on account of large financing schemes run by the Group. A substantial rise in FX fees (+14.1% YoY) stems from increased FX customer trading volumes and volatility of the currency market. The net fee and commission income disclosed under "eBusiness and payments" line item went up by 6.7% YoY on the back of an expanded debit card portfolio (+18.7% YoY) and the volume of resultant non-cash transactions, updated moneyback scheme rules and higher income on ATM services provided to third party financial institutions and their customers.

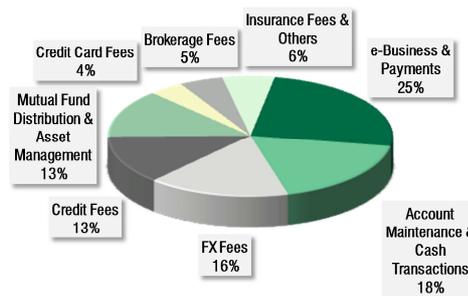
H1 2014 saw a decline in the net brokerage fees (-27.5% YoY) due to lower income earned by Dom Maklerski BZ WBK in the secondary market, mainly on account of remuneration recognised in the previous year for the sale of Bank Zachodni WBK shares held by Banco Santander and KBC Bank NV. The brokerage fee income was also adversely affected by the equity market downturn, continued pressure on the margins across all domestic stock exchange segments and lower trading gains on the market making activity amid unfavourable market conditions.

Despite a YoY increase in the average value of net assets under management, the net fee income from fund distribution and asset management went slightly down (-3.1% YoY), reflecting lower management fee income from private portfolios, slower sales of sub-funds generating distribution fee and larger contribution of low-margin products in the net assets structure. The net fee and commission income from account maintenance and cash transactions declined by 5.1% YoY due to growing sales of free-of-charge personal accounts (Account Worth Recommending, Account 1 | 2 | 3) and costs of their promotion (e.g. by means of the moneyback mechanism). The decrease in net insurance fee income (-39.4% YoY) results from the changed presentation of insurance business income in the Group's consolidated financial statements following the acquisition of control over BZ WBK-Aviva companies. The other income (net) from insurance activities totalled PLN 108.5m and was disclosed under "Other operating income". Excluding the consolidation effect, the underlying insurance fee income increased by 21.2% YoY, driven mainly by sales of cash loan and payment card insurance.

Net Commission Income Structure in H1 2014



Net Commission Income Structure in H1 2013



Gains on Other Financial Instruments

The gains on other financial instruments decreased by 69.5% YoY to PLN 55.2m as a result of a lower profit earned on the sale of treasury bonds (-PLN 135.7m YoY) as part of duration management on the available-for-sale debt securities portfolio, a process which depends on the market conditions and the Group's risk and liquidity management objectives. The gains on other financial instruments also include a realised gain on the sale of the bank's stake in Kuźnia Polska, totalling PLN 14.1m.

Net Trading Income and Revaluation ("Net Trading Income")

In H1 2014, the net trading income was represented by a loss of PLN 6.0m vs. a gain of PLN 83.1m in the same period last year.

The largest element of this item (in absolute terms), i.e. net income on interbank FX and derivative trading, was a loss of PLN 57.6m as compared to a gain of PLN 72.6m in H1 2013. The second largest contributor, i.e. net income on other FX transactions increased from PLN 3.6m in H1 2013 to PLN 49.1m in H1 2014.

This performance reflects, among others, developments on the currency and interest rate markets. In H1 2014, IRS yield curves moved downwards, which resulted in narrowing YoY spreads for instruments spanning 2-10-year horizon. The situation on the currency market was more volatile compared to the interest rate market due to a stronger impact of geopolitical factors (Ukraine, Turkey). Following the depreciation at the end of January, the value of the zloty gradually increased in the subsequent months on the back of a continued economic revival and favourable investor sentiment towards Poland. At the end of June 2014, the zloty was weaker on 2013 year-end, however, when compared to June 2013 it gained against USD, EUR and CHF and lost in relation to GBP.

The profit on interbank FX and derivative trading includes an interest-related income of PLN 11.8m on the non-hedging CIRS/IRS transactions (PLN 5.7m in H1 2013). It excludes, however, the interest income from the CIRS transactions designated as hedging instruments under the cash flow hedge accounting (PLN 115.4m in H1 2014 vs. PLN 142.9m in H1 2013), which is disclosed in Note 6 "Net interest income" under "Interest income from IRS hedges".

Other Income Items

The dividend income was PLN 79.9m and exceeded the level reported for H1 2013 by PLN 22.4m driven by dividend pay-outs from Aviva Group non-controlled entities.

Other operating income grew by 295.1% YoY to PLN 187.3m, which mostly results from acquisition of control over BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ towards the end of 2013 and their inclusion in the Group's consolidated income statements starting from 1 January 2014. Consequently, the line incorporates a net income of PLN 108.5m from the insurance activities of the above-mentioned entities, which is composed of the gross premiums written, reinsurers' share of premium written, net claims and benefits, and other net insurance income. The other operating income also comprises PLN 15.2m representing the write-down of the legal risk provision related to the appeal procedure against the decision of the Competition and Consumer Protection Office (UOKiK) in respect of interchange fees collected in the past (both by the former Kredyt Bank and Bank Zachodni WBK), PLN 12.4m of VAT refund to BZ WBK Lease and PLN 8.2m of gains on the disposal of Bank Zachodni WBK properties.

Impairment Charges

PLN m			
Impairment Losses on Loans and Advances	H1 2014	H1 2013	YoY Change
Collective and individual impairment charge	(393,1)	(511,1)	-23,1%
Impaired but not reported losses charge	30,2	119,8	-74,8%
Recoveries of loans previously written off	5,0	2,8	78,6%
Off-balance sheet credit related facilities	22,0	(4,4)	-
Total	(335,9)	(392,9)	-14,5%

In H1 2014, the loan impairment charge to the profit and loss account was PLN 335.9m, down 14.5% YoY.

The negative balance of provisions for identified losses (individual and collective) was PLN 393.1m and 23.1% lower YoY. This decrease was driven by the impairment charges on the individually significant and collective exposures to business customers as well as the impairment charges on personal exposures subject to collective impairment assessment.

The decline of 74.8% YoY in the positive balance of charges for the incurred by not reported losses (IBNR) is due to the transfer of selected credit exposures from this category to the portfolio of evidenced impairment, effected in H1 2013.

In H1 2014, Bank Zachodni WBK Group sold overdue personal and business receivables in the principal amount of PLN 128.4m vs. PLN 395.6m in the corresponding period.

The changes in the value and structure of impairment charges reflect the Group's prudential approach to credit risk management.

As at 30 June 2014, Bank Zachodni WBK Group NPL ratio was 7.5% compared with 8.2% in H1 2013. The cost of credit risk was 0.9% vs. 1.1% in the corresponding period.

Total Costs

PLN m			
Total costs	H1 2014	H1 2013	YoY Change
Staff, general and administrative expenses, of which:	(1 273,0)	(1 284,6)	-0,9%
- Staff expenses	(668,6)	(693,1)	-3,5%
- General and administrative expenses	(604,4)	(591,5)	2,2%
Depreciation/amortisation	(141,1)	(114,4)	23,3%
Other operating expenses	(27,4)	(11,8)	132,2%
Total costs	(1 441,5)	(1 410,8)	2,2%
Integration costs	(110,6)	(115,0)	-3,8%
Underlying total costs	(1 330,9)	(1 295,8)	2,7%

In H1 2014, the total costs of Bank Zachodni WBK Group amounted to PLN 1,441.5m and were 2.2% higher YoY. Excluding the integration costs of PLN 110.6m recognised in H1 2014 and PLN 115m in H1 2013, the total costs of the Group increased by 2.7% YoY. Adjusting further for the operating expenses of BZ WBK-Aviva subsidiaries consolidated from 1 January 2014, the total underlying cost base of the Group was up 1.6% YoY, of which staff, general and administrative expenses were reduced by 1.3% YoY. These movements in the underlying operating costs were observed at the time of intensive development activities designed to improve customer service and organisational culture of the Group.

In the period under review, the integration costs included consultation services (e.g. in relation to the mass data migration), IT licence support fees, marketing support aimed to strengthen the positioning of the bank, maintenance of the Murex system of the former Kredyt Bank, preparation of the call centre to handle mass data migration and the harmonisation of payroll and HR services. The integration projects had the strongest impact on the following cost lines of the Group: marketing and entertainment, IT usage, consultancy and advisory services as well as salaries as part of staff expenses.

With total costs increasing at a lower rate (+2.2% YoY) than the total income (+6.7% YoY), the Group's cost-to-income ratio improved during the year from 50.5% in H1 2013 to 48.3% in H1 2014. Excluding the integration costs, the cost-to-income ratio declined from 46.4% to 44.6%.

Staff Expenses

The Group's staff expenses decreased by 3.5% YoY to PLN 668.6m. A marked growth was noted only in the cost of training (+18.5% YoY), which is attributed to the workshops for managers as part of the New Management Style Programme and training aimed to develop the skills of advisors. Concurrently, the "salaries and bonuses", "statutory deductions from salaries" and "provision for retirement allowances, unused leaves and other benefits" line items declined as a result of the employment optimisation process.

The staff expenses of BZ WBK-Aviva TUO and BZ WBK Aviva TUnŻ contributed 0.9% to the respective expenses of the Group for H1 2014.

General and Administrative Expenses

The Group's general and administrative expenses increased by 2.2% YoY to PLN 604.4m. The share of the insurance subsidiaries in the consolidated general and administrative expenses for H1 2014 was 1.3%.

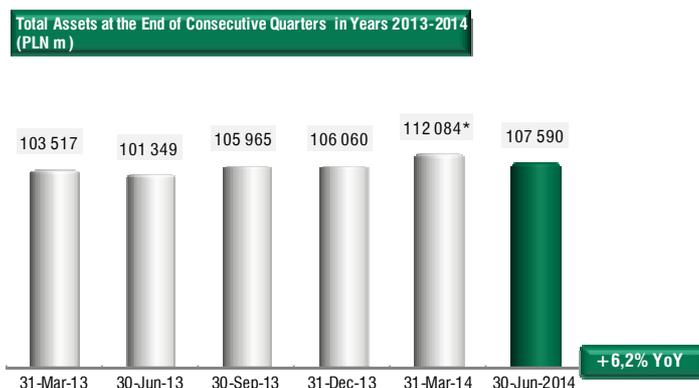
H1 2014 saw a major increase in the cost of marketing and entertainment (+40.7% YoY to PLN 62.7m) driven by a larger number of extensive advertising campaigns (e.g. 1|2|3 offer, Duet cash loan, SME lending proposition, Account Worth Recommending, seasonal cash loan). The costs paid by the Group to the market regulators went up markedly (+30.0% YoY to PLN 64.2m) following the implementation of the revised Banking Guarantee Fund Act in October 2013 which set up a stabilisation fund created from the prudential fees paid by the banks participating in the guarantee system. A considerable increase (+20.0% YoY to PLN 85.8m) was also observed in the cost of IT usage on account of the greater volume of contracted programming and testing work relating to the mass data migration process, delivery of numerous projects aimed to automate and prepare the processes for the full system integration, and the higher licence support fees, including the e-HR portal for employees of the former Kredyt Bank. Costs generated by consumables, cards and cheques accelerated (+18.3% YoY to PLN 14.6m) as a result of increased demand for plastic cards arising from higher sales of debit and credit cards, completion of debit cards replacement for customers of the former Kredyt Bank and delivery of the first stage of credit card migration.

At the same time, a decrease was noted in the cost of consultancy and advisory services (-43.8% YoY to PLN 40.8m) as a result of fewer strategic development projects that require expertise or independent expert opinions. Also noteworthy is a drop in the postal and telecommunications fees (-15.5% YoY to PLN 24.1m) on the back of integration of the communication systems used by the merged banks and the reduction in postal fees.

2. Financial Position

Assets

As at 30 June 2014, total assets of Bank Zachodni WBK Group amounted to PLN 107,590.3m, and increased by 1.4% Ytd and 6.2% YoY. The value and structure of the Group's statement of financial position is mainly affected by the parent company, which accounts for 97.3% of the consolidated total assets.



* As at 31 March 2014, the balance sheet amount of Bank Zachodni WBK Group was increased by high short-term transactions, including a deal of PLN 2,3 bn in the interbank market.

The table below presents major developments in the key categories of the consolidated assets of Bank Zachodni WBK Group as at 30 June 2014 versus 31 December 2013 and 30 June 2013.

Assets (condensed presentation for analytical purposes)	PLN m							
	30.06.2014	Structure 30.06.2014	31.12.2013	Structure 31.12.2013	30.06.2013	Structure 30.06.2013	Change Ytd	Change YoY
	1	2	3	4	5	6	1/3	1/5
Loans and advances to customers *	71 496,6	66,6%	68 132,1	64,2%	69 810,4	68,8%	4,9%	2,4%
Investment securities	17 517,2	16,3%	22 090,8	20,8%	19 936,2	19,7%	-20,7%	-12,1%
Cash and operations with Central Banks	7 039,6	6,5%	5 149,7	4,9%	2 498,2	2,5%	36,7%	181,8%
Financial assets held for trading and hedging derivatives	3 656,9	3,4%	2 666,9	2,5%	3 208,0	3,2%	37,1%	14,0%
Fixed assets, intangibles and goodwill	3 584,2	3,3%	3 681,8	3,5%	2 641,5	2,6%	-2,7%	35,7%
Loans and advances to banks	2 092,2	1,9%	2 212,7	2,1%	1 583,2	1,6%	-5,4%	32,2%
Other assets	2 203,6	2,0%	2 126,0	2,0%	1 671,4	1,6%	3,7%	31,8%
Total	107 590,3	100,0%	106 060,0	100,0%	101 348,9	100,0%	1,4%	6,2%

* Includes impairment write-down.

Ytd movements in the statement of the consolidated financial position of Bank Zachodni WBK Group reflect business development tendencies and the Group's management of its balance sheet structure and current liquidity, taking account of external and internal conditions.

Compared to the end of December 2013, the Group's consolidated assets show a clear decline in the value of investment securities (-20.7% Ytd), resulting from the reduced portfolio of available-for-sale NBP bills.

The increase in cash and operations with central banks (+36.7% Ytd) was driven by a larger balance held in the current account with the NBP as part of liquidity and obligatory reserve management. Furthermore, the trading portfolio of treasury bonds grew by PLN 1.2bn, triggering a significant increase in the aggregate line "financial assets held for trading and hedging derivatives" (+37.1% Ytd).

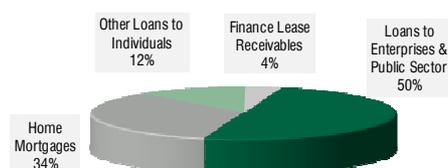
Net loans and advances to customers increased by 4.9% Ytd to reach PLN 71,496.6m at the end of June 2014, accounting for 91.9% of the deposits from non-financial entities funding them, as compared with 86.7% at the end of December 2013.

A Ytd decrease of 2.7% was also noted under "fixed assets, intangible fixed assets and goodwill", mainly as a result of the disposal of properties and the full depreciation/amortisation of certain tangible and intangible assets.

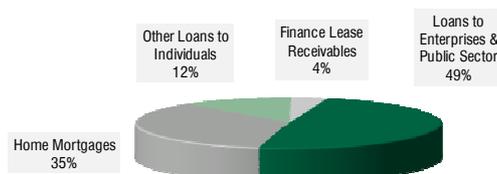
Credit Portfolio

Gross Loans and Advances to Customers	PLN m				
	30.06.2014 1	31.12.2013 2	30.06.2013 3	Ytd Change 1/2	YoY Change 1/3
Loans and advances to enterprises and public sector customers	37 314,1	34 478,3	35 786,6	8,2%	4,3%
Loans and advances to individuals	34 548,8	34 041,4	34 551,6	1,5%	0,0%
Finance lease receivables	3 214,7	3 052,1	2 946,0	5,3%	9,1%
Other	114,9	50,1	74,3	129,3%	54,6%
Total	75 192,5	71 621,9	73 358,5	5,0%	2,5%

Structure of Loans & Advances to Customers as at 30.06.2014



Structure of Loans & Advances to Customers as at 30.06.2013

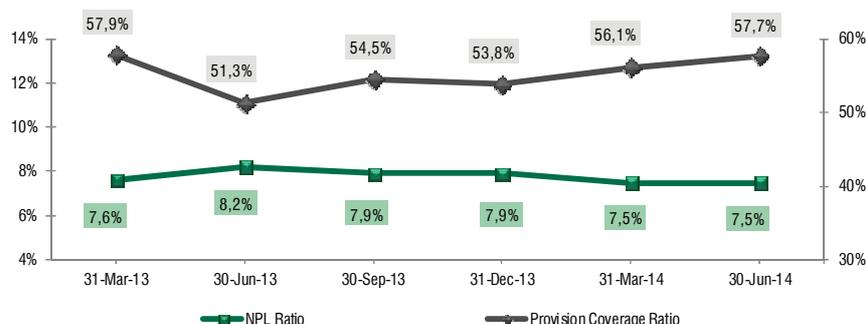


As at 30 June 2014, gross loans and advances to customers amounted to PLN 75,192.5m and were higher by 5.0% on end-December 2013. Excluding the impact of currency rate movements, the credit portfolio increased by 4.5%.

Loans and advances to enterprises and public sector companies amounted to PLN 37,314.1m, up 8.2% Ytd due to the Group's strong business lending activity, particularly in the segment of corporate and GBM customers. At the same time, loans and advances to individuals increased by 1.5% to PLN 34,548.8m at the end of June 2014. Home mortgages, which represent the major portion of loans and advances to individual customers increased by 1.5% Ytd to PLN 25,662.0m with a relatively high and stable growth on a month-to-month basis. The second significant constituent item, i.e. cash loans, increased by 5.0% to PLN 5,925.8m.

As at 30 June 2014, the finance lease receivables, including the portfolio of BZ WBK Leasing and BZ WBK Lease, totalled PLN 3,214.7m, increasing by 5.3% amid the strong sales of vehicles and machines & equipment. Loans granted by the leasing companies to finance machines and vehicles, which totalled PLN 1,040.4m as at 30 June 2014 vs. PLN 846.2m as at 31 December 2013, are disclosed as loans and advances to enterprises.

Credit Quality Ratios by Quarters in 2013 and 2014



As at 30 June 2014, non-performing (impaired) loans to customers accounted for 7.5% of the gross portfolio vs. 7.9% six months before. The provision coverage for the NPLs was 57.7% vs. 53.8% as at 31 December 2013.

Equity and Liabilities

The table below presents major developments in key categories of the consolidated liabilities and equity of Bank Zachodni WBK Group at 30 June 2014 versus 31 December 2013 and 30 June 2013.

Liabilities & Equity (condensed presentation for analytical purposes)	PLN m							
	30.06.2014	Structure 30.06.2014	31.12.2013	Structure 31.12.2013	30.06.2013	Structure 30.06.2013	Change Ytd	Change YoY
	1	2	3	4	5	6	1/3	1/5
Deposits from customers	77 777,1	72,3%	78 543,0	74,1%	74 596,3	73,6%	-1,0%	4,3%
Deposits from banks	7 424,0	6,9%	6 278,8	5,9%	8 016,5	7,9%	18,2%	-7,4%
Financial liabilities held for trading and hedging derivatives	2 225,2	2,1%	1 644,7	1,5%	2 172,3	2,1%	35,3%	2,4%
Subordinated liabilities and debt securities in issue	1 898,3	1,7%	1 885,3	1,8%	1 436,1	1,4%	0,7%	32,2%
Other liabilities	3 648,6	3,4%	3 225,3	3,0%	1 878,4	1,9%	13,1%	94,2%
Total equity	14 617,1	13,6%	14 482,9	13,7%	13 249,3	13,1%	0,9%	10,3%
Total	107 590,3	100,0%	106 060,0	100,0%	101 348,9	100,0%	1,4%	6,2%

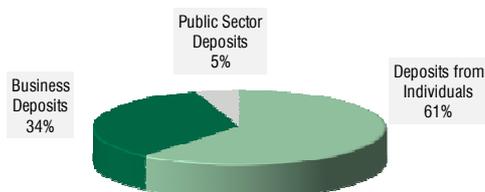
In the consolidated liabilities and equity as at 30 June 2014, the highest growth on a year-to-date basis was observed in the financial liabilities held for trading and hedging derivatives (+35.3% Ytd) driven by new hedging relationships and increased liabilities arising from short sales. The deposits from banks grew as well (+18.2% Ytd) as a combined effect of a rise in the volume of repo transactions and a decline in the interbank money market liabilities. The other liabilities increased by 13.1% Ytd due to higher interbank and branch settlements of the bank and the claims of sundry creditors including settlements of Dom Maklerski BZ WBK related to the IPO handled on behalf of a customer.

The value of deposits from customers declined in the year to 30 June 2014 by 1% under the impact of lower balances in the accounts of personal and business customers

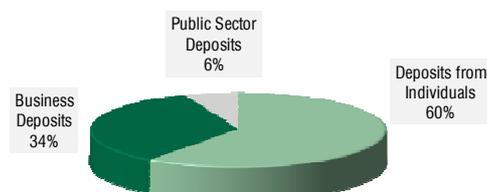
Deposit Base

Deposits from Customers	PLN m				
	30.06.2014	31.12.2013	30.06.2013	Change QoQ	Change YoY
	1	2	3	1/2	1/3
Deposits from individuals	47 524,0	47 999,1	45 092,5	-1,0%	5,4%
Deposits from enterprises and public sector customers	30 253,1	30 543,9	29 503,8	-1,0%	2,5%
Total	77 777,1	78 543,0	74 596,3	-1,0%	4,3%

Structure of Customer Deposits as at 30.06.2014



Structure of Customer Deposits as at 30.06.2013



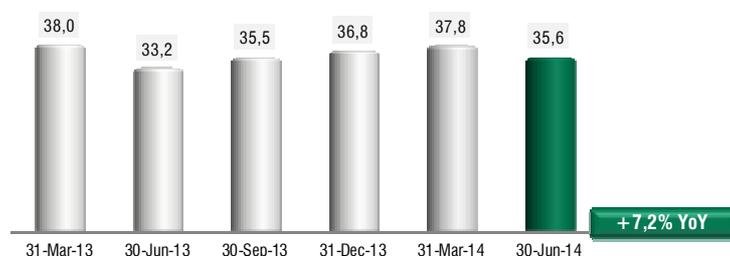
Deposits from customers, which represent 72.3% of the Group's liabilities and equity, are the primary source of funding its lending business. Customer deposits decreased by 1.0% Ytd to reach PLN 77,777.1m as at 30 June 2014.

In the total amount of deposits from customers, term deposits amounted to PLN 35,614.3m, a decrease of 3.3% Ytd; current accounts were worth PLN 39,292.8m, an increase of 1.4% Ytd; and other liabilities declined by 3.1% Ytd to PLN 2,870.0m. Other liabilities include the loans from the European Investment Bank to finance the bank's lending activity (reported as "Loans" under "Deposits from Enterprises"). Their value was relatively stable at PLN 2.1 bn as at the end of June 2014.

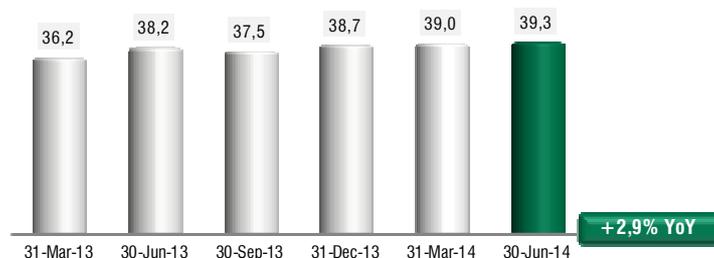
Deposits from individuals amounted to PLN 47,524.0m and decreased slightly (-1.0%) from end-December 2013. The decline in the value of term deposits from personal customers (-5.2% Ytd) was partly offset by the increase in their current account balances (+2.7% Ytd). In H1 2014, a key focus was placed on building a portfolio of stable deposit base of current and term funds from personal customers with strong linkage with the bank. At the same time, the Group continued to extend the average tenor of term deposits, with an appropriate management of the interest rate schedules and implementation of new long-term products.

Deposits from enterprises and public sector customers dropped by 1.0% to PLN 30,253.1m under the impact of depleted balances in current accounts (-1.0% Ytd) and term deposits (-0.5% Ytd). In view of the economic revival and an improving outlook, business customers were more than previously inclined to use their spare funds for fixed investments.

Term Deposits at the End of Consecutive Quarters of 2013 and 2014 (PLN bn)



Current Accounts* at the End of Consecutive Quarters of 2013 and 2014 (PLN bn)



* includes savings accounts

3. Selected Ratios

Selected Financial Ratios	H1 2014	H1 2013
Total costs/Total income ¹⁾	48,3%	50,5%
Net interest income/Total income	59,4%	55,5%
Net interest margin ²⁾	3,7%	3,4%
Net commission income/Total income	29,9%	31,3%
Customer loans/Customer deposits	91,9%	93,6%
NPL ratio	7,5%	8,2%
NPL coverage ratio	57,7%	51,3%
Credit risk ratio ³⁾	0,9%	1,1%
ROE ⁴⁾	17,2%	12,6%
ROA ⁵⁾	2,0%	1,5%
Capital adequacy ratio ⁶⁾	13,3%	14,3%
Book value per share (in PLN)	156,3	141,6
Earnings per share (in PLN) ⁷⁾	10,2	8,5

1) Excluding integration costs, the adjusted cost-to-income ratio was 44.6% for H1 2014 and 46.4% for H1 2013.

2) Net interest income annualised on a cumulative basis (excluding interest income from the debt trading portfolio) to average interest-bearing assets (excluding debt trading portfolio assets), net of impairment write-down.

3) Impairment losses on loans and advances (for 4 consecutive quarters) to average gross loans and advances to customers.

4) Net profit attributable to the BZ WBK shareholders (for 4 consecutive quarters) to average equity calculated based on total equity (as at the beginning and end of the reporting period), net of the current period profit and non-controlling interests.

Excluding the impact of integration costs, adjusted ROE was 18.8% as at 30.06.2014 and 13.6% as at 30.06.2013.

5) Net profit attributable to the BZ WBK shareholders (for 4 consecutive quarters) to average total assets.

6) The calculation of a capital adequacy ratio as at 30.06.2014 takes account of of the equity and total capital requirements for relevant risks using a standardised approach in line with CRD IV/CRR package, effective from 1 January 2014 by virtue of the decision of the European Parliament and European Banking Authority.

The calculation of a capital adequacy ratio as at 30.06.2013 takes account of the equity and total capital requirements for relevant risks, using a standardised approach in line with KNF (Polish Financial Supervision Authority) Resolution no. 76/2010 of 10 March 2010 (as amended).

7) Net profit for the period attributable to the shareholders of BZ WBK divided by the number of ordinary shares.

Capital Adequacy

The table below shows the calculation of the capital adequacy ratio for Bank Zachodni WBK Group as at 30 June 2014, 31 December 2013 and 30 June 2013.

	30.06.2014	31.12.2013	30.06.2013
Total capital requirement	6 841,2	6 693,7	6 758,4
Own funds after reductions	11 395,0	11 647,0	12 107,9
CAD [II/(I*12.5)]	13,33%	13,92%	14,33%

As at 30 June 2014, the calculation of a capital adequacy ratio takes account of the equity and total capital requirements for respective risks, using a standardised approach in line with CRD IV/CRR package (CRD IV directive and CRR regulation), which came into force on 1 January 2014 by virtue of the decision of the European Parliament and European Banking Authority.

The calculation of a capital adequacy ratio of Bank Zachodni WBK Group as at 31.12.2013 and 30.06.2013 took account of the equity and total capital requirements for credit, market and operational risk using a standardised approach in line with Appendix 4 to KNF Resolution no. 76/2010 of 10 March 2010 (as amended).

4. Additional Financial Information

Selected Transactions with Related Entities

Transactions between Bank Zachodni WBK and its related entities are banking operations carried out on an arm's length basis as part of the ordinary business and represent mainly loans, bank accounts, deposits, guarantees and leases.

As at 30 June 2014, the bank's total exposure on loans to subsidiaries (e.g. BZ WBK Faktor, BZ WBK Leasing, BZ WBK Lease) amounted to PLN 5,301.7m compared with PLN 4,947.8m as at 31 December 2013 and PLN 4,436.3m as at 30 June 2013.

As at 30 June 2014, the deposits held with the bank by the subsidiaries (e.g. Dom Maklerski BZ WBK, BZ WBK Finanse, BZ WBK Inwestycje, BZ WBK Towarzystwo Funduszy Inwestycyjnych, BZ WBK Asset Management) totalled PLN 1,164.3m vs. PLN 985.2m as at 31 December 2013 and PLN 960.1m as at 30 June 2013.

Guarantees to subsidiaries amounted to PLN 62.9m versus PLN 270.1m as at 31 December 2013 and PLN 320.1m as at 30 June 2013.

These intercompany items have been eliminated from the consolidated accounts.

The bank's receivables from the parent entity (Santander Group) amounted to PLN 723.2m compared with PLN 706.2m at 31 December 2013 and PLN 110.8m as at 30 June 2013, while liabilities totalled PLN 64.1m compared with PLN 71.5m as at 31 December 2013 and PLN 235.4m as at 30 June 2013.

A full disclosure on related party transactions, including those with senior management, is available in Note 37 of the Condensed Interim Consolidated Financial Statements of Bank Zachodni WBK Group for the 6-month period ended 30 June 2014 and in Note 35 of the Condensed Interim Unconsolidated Financial Statements of Bank Zachodni WBK for the 6-month period ended 30 June 2014.

Pending Court Proceedings

As at 30 June 2014, no case was pending before any court or state administration agencies with relation to any claims made by or against the bank or its subsidiaries that would equal or exceed 10% of the Group's equity.

	PLN m		
Court Proceedings with BZ WBK Group as a Party	30.06.2014	31.12.2013	30.06.2013
Amounts claimed by the Group	100,2	79,4	110,1
Claims against the Group	167,1	200,2	149,8
Receivables due to bankruptcy or arrangement cases	16,4	60,8	60,6
Value of all litigation	283,7	340,4	320,5
Share [%] of all litigation in equity	1,9%	2,4%	2,4%
Completed significant court proceedings	134,0	91,2	53,6

5. Factors Expected to Affect Financial Performance in H2 2014

The most important factors that may affect the financial performance of Bank Zachodni WBK Group in the next half-year are as follows:

- Continued gradual improvement of economic growth in the world economy, in particular in the euro zone, which implies improving prospects for Polish exports.
- Further acceleration of Polish economic growth with recovery in domestic demand, especially of investment and declining positive role of net exports.
- Favourable growth rate of real households' income due to low inflation, employment growth and gradual acceleration of wage growth.
- Stabilization of NBP's interest rates at all-time lows. Low financing costs for households and companies, which should be supportive for a gradual rise in demand for bank loans. At the same time, low interest on deposits should encourage banks' clients to look for alternative forms of saving/investing.
- The changes of assets' funding cost depending on the pace and scale of changes of the main interest rates and the zloty exchange rates; liquidity situation of the banking sector and intensity of price competition between banks for deposits.
- Possible increase in volatility of the financial market in case of disappointment about the pace of global economic revival or worries about overly fast pace of monetary policy tightening by the Fed.
- Risk of deteriorating economic outlook in Europe.
- Further developments on the global stock market and their impact on customer willingness to purchase investment funds units or keep savings in safe bank deposits as an alternative.

VII. Risk Management in H1 2014

1. Risk Management Principles

The main objective of risk management in Bank Zachodni WBK Group is to ensure effective operations to support development within the approved risk parameters. Risk management practice is in keeping with the industry benchmark, regulatory guidance and recommendations from supervisory authorities, and covers, among others, operational risk, credit risk, market risk and liquidity risk.

Risk management in Bank Zachodni WBK Group is consistent with the risk profile approved by the Risk Management Committee which corresponds to the general risk appetite defined by the Group. The risk appetite is expressed as quantitative limits and captured in "Risk Appetite Statement" approved by the Management Board and Supervisory Board. Limits are set using stress tests to ensure stability of the bank's position even if adverse circumstances materialise. Global limits are used to set watch limits and shape risk management policies.

The integrated risk management structure contains separate units responsible for measuring, monitoring and controlling risks in a way that ensures independence of the risk management functions from the risk-taking units. The responsibilities of the risk management units are defined by the risk management framework that governs the process of identifying, measuring and reporting the risks taken. Furthermore, limits are set on a regular basis to mitigate exposure to individual risks.

2. Risk Management Structure

The bank's Management Board is responsible for implementing an effective risk management structure compliant with the bank's regulatory obligations and internal regulations. Specifically, the bank's role in this regard is to set up an organisational structure adjusted to the size and profile of the risks taken, segregate responsibilities to make risk assessment and control functions independent from operational functions, introduce risk management policies and ensure an adequate information policy.

The Management Board fulfils its risk management role through the Risk Management Committee (RMC), which is responsible for the development of the risk management strategy across the Group, including the identification of material risk types, and definition of the risk appetite along with the methods of risk measurement, control, monitoring and reporting.

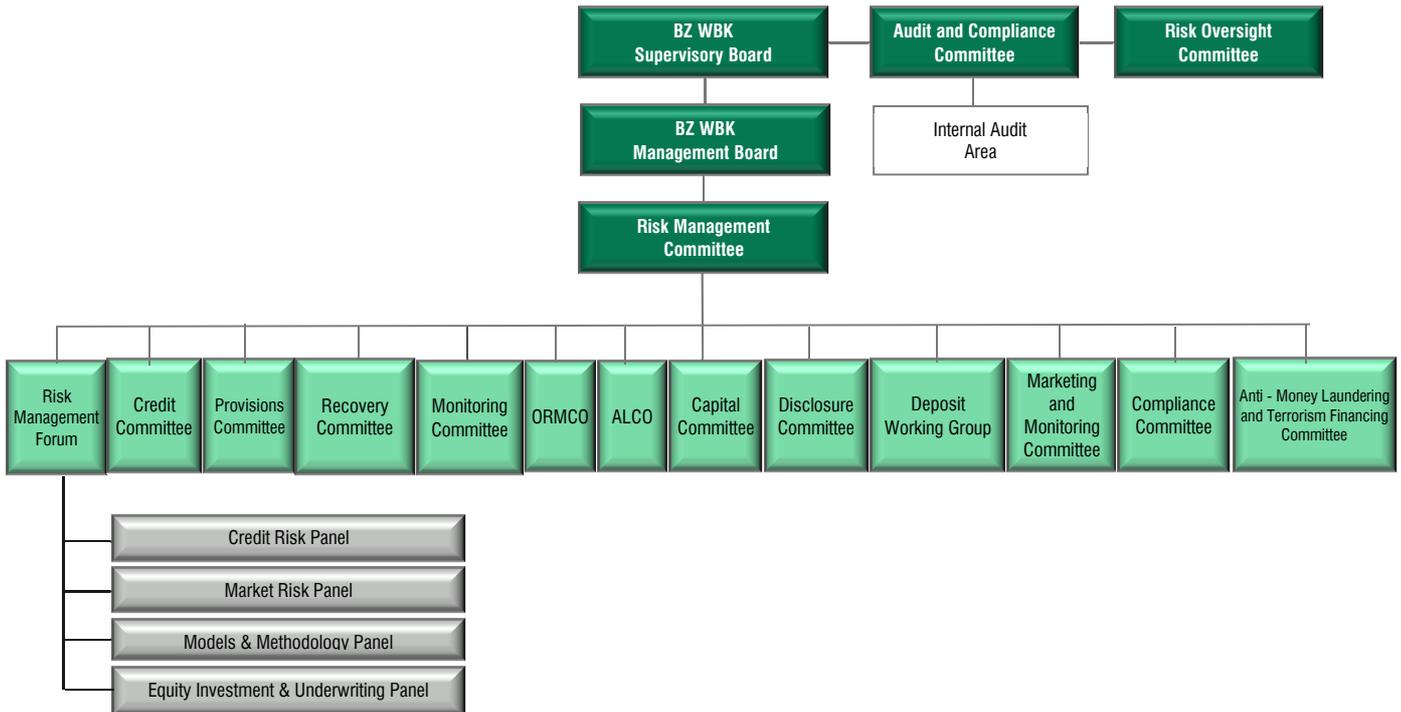
The Risk Management Committee supervises the activities of different risk management committees set up by the bank's Management Board. These committees, acting within the respective remits defined by the Management Board, are directly responsible for developing risk management methods and monitoring of risk levels in specific areas.

The RMC supervises the following risk committees:

- **Risk Management Forum** (approving and supervising the risk management policy and methodology, as well as risk monitoring with respect to credit risk, market risk and liquidity risk)
- **Credit Committee** (taking credit decisions in accordance with the applicable credit discretion levels)
- **Recovery Committee** (credit decisions relating to the non-performing portfolio in accordance with the existing credit discretions)
- **Provisions Committee** (taking decisions on creating and releasing provisions)
- **Monitoring Committee** (ensuring a continuous and effective monitoring of the credit portfolio of the business and the corporate segment)
- **Operational Risk Management Committee/ORMCO** (approving and supervising the operational risk management policy, defining the methodology of measuring the risk and its monitoring)
- **Assets and Liabilities Management Committee/ALCO** (supervising the activity on the banking book; managing liquidity and interest rate risk on the banking book; responsibility for funding, balance sheet management and pricing policy)
- **Capital Committee** (capital management, including responsibility for the ICAAP process)
- **Disclosure Committee** (verifying the published financial information of the bank in terms of its conformity with the legal and regulatory requirements)
- **Deposit Working Group** (ensuring a balanced growth of the savings and investment products portfolio)

- **Marketing and Monitoring Committee** (approving new products and services to be implemented in the market, taking into account the reputation risk analysis)
- **Compliance Committee** (setting standards in non-compliance risk management)
- **Anti-Money Laundering and Terrorism Financing Committee** (approving the bank's policy on prevention of money laundering and the financing of terrorism; accepting and monitoring the bank's activities in this area).

Corporate Governance Structure for Risk Supervision and Management



3. Priorities for Risk Management in H1 2014

In H1 2014, the macroeconomic situation improved, which stimulated credit delivery and improved the overall risk on the credit portfolio. As it is the Group's priority to maintain high quality of the portfolio, any adverse developments in the market were carefully analysed and their potential impact on customers' credit risk were estimated, particularly the conflict in Ukraine and the changing situation in the coal-mining industry.

The Group constantly develops its processes and tools for credit risk management and adjusts them to the revised regulatory requirements (e.g. Recommendation S). In the reporting period a new commercial rating was implemented which improved the application process and increased effectiveness of risk monitoring of corporate customers.

Given the declining interest rate environment, the increased sensitivity of the net interest margin was under a close watch. The Group took a number of measures relating to the structure of its assets and liabilities portfolio to keep the sensitivity of this parameter within the framework of the established limits. For example, the Group reinvested its portfolio of State Treasury bonds maturing in April 2014.

The Group's liquidity position and financial strategy was largely affected by intensive credit delivery with slightly lower deposit volumes. The liquidity risk limits were kept under strict control to ensure stability of deposit base and maintain a safe loans to deposits ratio.

As regards operational risk, one of the Group's priorities was to smoothly migrate the customer data from the former Kredyt Bank. To reduce the related operational risks, the various risk aspects were carefully analysed and controls were established, among others, with respect to integrity and availability of data or capacity of the process. As part of development of operational risk management processes and their adaptation to regulatory requirements, the Group took measures to implement the revised Recommendation D.

In the insurance risk management, the Group focused on increasing its insurance portfolio while using reinsurance to limit the volatility of its risk share.

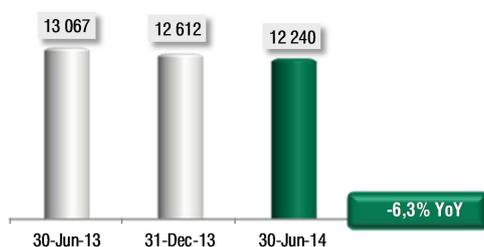
In June 2014, KNF issued Recommendation U on best practice in bancassurance, which is due to come into force by 31 March 2015 at the latest. The above regulation may have a significant impact on the relationship model and operating costs of the co-operating parties (banks and insurance companies).

VIII. Human Resources

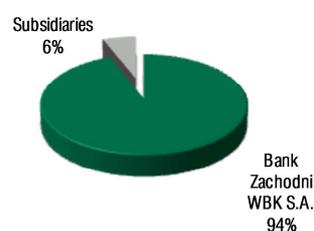
Human Resources

As at 30 June 2014, the number of FTEs in Bank Zachodni WBK Group was 12,240 (active and inactive FTEs), which is 372 FTEs less than in December 2013. The decrease is an effect of continued optimisation of organisational structures of the Business Support Centre and the Branch Banking, a process that is based on the current business needs and market conditions.

Employment in BZ WBK Group as at 30.06.2014, 31.12.2013 and 30.06.2013 (active and inactive FTEs)



Employment Structure in BZ WBK Group as at 30.06.2014



HR Initiatives under the Next Generation Bank Programme

Retail Banking Initiatives

In H1 2014, several HR initiatives were put in place in the Retail Banking stream under the Next Generation Bank Programme. They were designed to streamline the training organisation, the induction process for new staff and provision of product knowledge to Branch Banking employees.

New Management Style Programme

The purpose of the New Management Style Programme was to analyse leadership styles and corporate climate in the Bank. Managers' skills were diagnosed on the basis of the feedback provided anonymously by the employees participating in the survey. The purpose of the programme is to develop managers' leadership skills so as to enable them not only to deliver business objectives but also to encourage high commitment, co-operation and innovative ideas from employees. Managers took part in follow-up sessions where the survey results were summarised, and prepared their individual plans for development of their management skills.

Global Engagement Survey

In May 2014, an engagement survey was carried out, covering the whole Santander Group for the first time in history. All the employees of Bank Zachodni WBK with at least 6 months' service in the organisation could participate in the survey by completing an anonymous questionnaire. The results will be available in the second half of the year and will help the leaders, particularly the Management Board members and the Next Generation Bank Programme managers, to gain a better understanding of the needs of individual organisational units and to make sure that the changes introduced by the programme set the organisation on the right course.

Training and Development Programmes

Development Programmes for the Existing and Future Managers

In the first half of 2014, Bank Zachodni WBK continued its development programmes for the existing and future managers, including: Leaders of the Future (programme designed for the employees that will prospectively take on management and expert roles), Mentoring (support programme for the employees who received the top ratings in performance reviews), the program for the newly appointed managers and local development initiatives (responding to specific needs of divisions and regions).

Training to Support Changes in the Performance Management Process

During the first 6 months of 2014, workshops were organised to introduce the revitalised Performance Management Process, which includes staff performance evaluation in the following key areas: Business, Customer Service and Teamwork. The workshops were conducted locally by internal trainers and focused on the methodology of objective-setting in accordance with the values promoted by the Next Generation Bank Programme, with a particular emphasis on an increased customer-orientation, collaboration between employees, dialogue, openness and partner relations between managers and employees that foster bottom-up initiatives.

Training for Business as Usual

In the first half of 2014, a number of training and development initiatives were carried out for branches, partner units and BSC in the form of workshops and remote sessions. Branch staff was mainly trained in security matters, operation of bank applications, credit processes and procedures, and deposit/investment products. Training for Business Support Centre was focused on legal, financial, security, IT and interpersonal subjects.

Performance Share Programme

Award under the 3-year 4th Incentive Scheme

Pursuant to AGM Resolution no. 40 of 16 April 2014, confirming the achievement of the stated vesting targets under the 3-year 4th Incentive Scheme (approved by AGM of 20 April 2011), the bank's share capital was increased by PLN 3,055,430 to PLN 938,506,320 through the issue of 305,543 series K ordinary bearer shares with a nominal value of PLN 10 each. The shares were issued in a private subscription and were offered to 468 eligible participants of the 4th Incentive Scheme indicated in the Supervisory Board resolution. The subscription period was from 18 April 2014 to 19 May 2014, and the shares were allocated on 21 May 2014. The capital increase was registered in the National Court Register on 11 July 2014.

Adoption of the 5th Incentive Scheme

On 30 June 2014, the Extraordinary General Meeting of Bank Zachodni WBK introduced the 3-year 5th Incentive Scheme beginning in 2014 and addressed to the bank and subsidiary employees who make a key contribution to the value of the organisation. The Incentive Scheme covers all the Management Board members of the bank and the key employees of Bank Zachodni WBK Group, indicated by the Management Board and approved by the Supervisory Board, but not more than 500 in total. Before joining the scheme, its participants must sign an appropriate participation agreement. On fulfilment of the criteria laid down in the agreement, participants will be able to subscribe for and take up a stated number of BZ WBK shares for a nominal price of PLN 10. For the award to be granted, Bank Zachodni WBK Group must achieve a stated net profit growth rate. For the purpose of the scheme, the bank is going to issue up to 250,000 incentive shares.

IX. Supervisory and Management Bodies

General Meetings of Shareholders of Bank Zachodni WBK

Annual General Meeting

The Annual General Meeting of Shareholders of Bank Zachodni WBK held on 16 April 2014 (AGM) approved the individual and consolidated statements of Bank Zachodni WBK for 2013, the Supervisory Board's report on its activities in 2013 and the Supervisory Board's report on the assessment of the financial statements of the bank and BZ WBK Group as well as the reports on the bank's and BZ WBK Group's activities. AGM gave discharge to the members of the Management Board and Supervisory Boards of Bank Zachodni WBK and Kredyt Bank for performance of their duties in 2013, resolved on the distribution of 2013 profit and payment of a dividend of PLN 10.70 per share. Furthermore, AGM adopted a resolution on the share capital increase through the issue of series K ordinary bearer shares under the 4th Incentive Scheme. The maximum level of variable components relative to fixed components of the overall remuneration of persons holding managerial positions in Bank Zachodni WBK Group was set at 200% in case the Directive of the European Parliament and of the Council 2013/36/UE of 26 June 2013 is implemented along with relevant local laws. AGM appointed BZ WBK Supervisory Board for the next term of office (the full composition is presented below in the "Supervisory Board" section) and agreed the remuneration for Supervisory Board members. Lastly, changes were introduced to the bank's Statutes whereby the scope of the bank's activity was extended to include brokerage business, maintenance of share registers for companies pursuant to the agreements in place and payment agent services for foreign mutual funds. The above changes were entered in the National Court Register on 16 May 2014.

Extraordinary General Meeting

On 30 June 2014, Extraordinary General Meeting of Bank Zachodni WBK (EGM) was convened to adopt the resolution on an increase in the bank's share capital through the issue of 5,383,902 series L ordinary bearer shares with the nominal value of PLN 10 each, and introduction of relevant changes in the bank's Statutes. In view of the purpose and form of issue (private placement with Santander Consumer Finance in exchange for shares in Santander Consumer Bank) all the pre-emptive rights of the bank's existing shareholders with respect to the above shares were waived. EGM decided that the bank would seek the admission and introduction of the shares to trading on the regulated market operated by the Warsaw Stock Exchange. In addition, EGM approved the three-year 5th Incentive Scheme starting in 2014. It is addressed to employees of Bank Zachodni WBK and its subsidiaries who make material contribution to the growth in the bank's value.

Supervisory Board

Below is the composition of the Bank Zachodni WBK Supervisory Board as at 30 June 2014 vs. 31 December 2013 and 30 June 2013.

Role in the Supervisory Board	Ref.	Composition as at 30.06.2014	Ref.	Composition as at 31.12.2013 and 30.06.2013
Chairman of the Supervisory Board:	1.	Gerald Byrne	1.	Gerald Byrne
	2.	José Antonio Alvarez	2.	José Antonio Alvarez
	3.	Danuta Dąbrowska	3.	-
	4.	David R. Hexter	4.	David R. Hexter
	5.	Witold Jurcewicz	5.	Witold Jurcewicz
Members of the Supervisory Board:	6.	José Luis de Mora	6.	José Luis de Mora
	7.	John Power	7.	John Power
	8.	Jerzy Surma	8.	Jerzy Surma
	9.	Marynika Woroszyńska-Sapieha	9.	-
	10.	José Manuel Varela	10.	José Manuel Varela

As at 30 June 2014, the Supervisory Board was appointed for the new term of office by the Annual General Meeting of 16 April 2014. Compared to the previous composition, two new members were nominated: Ms Danuta Dąbrowska and Ms Marynika Woroszyńska-Sapieha.

The Supervisory Board members sit in the following Supervisory Board Committees:

Supervisory Board Committee	Role	Ref. Composition
Audit & Compliance Committee	Chairman:	1. John Power
	Members:	2. Danuta Dąbrowska
		3. David R. Hexter
		4. Jerzy Surma
Risk Oversight Committee	Chairman:	1. John Power
	Members:	2. David R. Hexter
		3. Witold Jurcewicz
		4. Marynika Woroszyńska-Sapieha
		5. José Manuel Varela
Nominations & Remuneration Committee	Chairman:	1. Gerald Byrne
	Members:	2. Danuta Dąbrowska
		3. Witold Jurcewicz
		4. José Luis de Mora
		5. Jerzy Surma

As at 30 June 2014, the following members of the Supervisory Board held an independent status: Danuta Dąbrowska, David R. Hexter, Witold Jurcewicz, Jerzy Surma and Marynika Woroszyńska-Sapieha.

Management Board

The table below presents the composition of Bank Zachodni WBK Management Board as at 30 June 2014 together with the roles and responsibilities of its members. No changes were made to the composition of the BZ WBK Management Board compared to 31 December 2013 and 30 June 2013.

Role in the Management Board	Ref.	Composition as at 30.06.2014	Reporting Areas
President	1.	Mateusz Morawiecki	Units reporting directly to the President: Internal Audit Area, Corporate Communications & Marketing Area, Mobile & Internet Banking Area
	2.	Andrzej Burliga	Risk Management Division
	3.	Eamonn Crowley	Financial Management Division
	4.	Michael McCarthy	Business & Corporate Banking Division
	5.	Piotr Partyga	Business Partnership Division
	6.	Juan de Porras Aguirre	Global Banking & Markets Division
	7.	Marcin Prell	Legal and Compliance Division
	8.	Marco Antonio Silva Rojas	Financial Accounting & Control Division
	9.	Mirosław Skiba	Retail Banking Division
	10.	Feliks Szyszkowiak	Business Support Division

Shares and Conditional Rights Held by the Supervisory and Management Board Members

As at the release date of H1 2014 Report , H1 2013 Report and Annual Report for 2013 of Bank Zachodni WBK Group, none of the members of the Supervisory Board held any shares of Bank Zachodni WBK.

Under the 1st edition of BZ WBK Performance Share Programme launched in 2006, members of the Management Board were allocated 23,084 out of 115,729 series H shares issued as part of the share capital increase. Under the 2nd and 3rd Incentive Scheme, which expired in 2010 and 2011, respectively, no rights were exercised. Pursuant to BZ WBK AGM Resolution no. 40 of 16 April 2014 re. satisfaction of the criteria for exercising the award under the three-year 4th Incentive Scheme, the bank allotted 38,570 out of 305,543 series K shares to the members of the Management Board. Since one of the Programme IV participants terminated his employment contract with Bank Zachodni WBK, Mr Marcin Prell acquired additional 670 shares in order to transfer them (after the issue) to the Bank Zachodni WBK Foundation based on a relevant agreement with the bank.

Shares and conditional share rights held by the Management Board members as at the release dates of financial statements for the reporting periods ended on 30.06.2014, 31.12.2013 and 30.06.2013

Management Board Members	31.07.2014		30.01.2014		30.07.2013	
	No. of BZ WBK shares	Rights	No. of BZ WBK shares	Rights	No. of BZ WBK shares	Rights
Mateusz Morawiecki	13 711	-	3 591	10 120	3 591	10 120
Andrzej Burliga	4 888	-	606	4 282	1 606	4 282
Eamonn Crowley	4 003	-	-	4 003	-	4 003
Michael McCarthy	4 875	-	-	4 875	-	4 875
Juan de Porras Aguirre	-	-	-	-	-	-
Piotr Partyga	2 855	-	-	2 855	-	2 855
Marcin Prell	4 404	-	2 530	3 704	2 530	3 704
Marco Antonio Silva Rojas	-	-	-	-	-	-
Miroslaw Skiba	5 857	-	1 575	4 282	1 575	4 282
Feliks Szyszkowski	4 704	-	1 755	4 449	1 755	4 449
Total	45 297	-	10 057	38 570	11 057	38 570

X. Additional Information

Organisational Changes

Delivery of the bank's strategic objectives entailed a number of organisational changes.

HR Management Division was renamed Business Partnership Division and took over from Business Support Division units responsible for cost management and organisational developments. Business Partnership Division now combines tasks related to professional development of staff with duties to enhance organisational effectiveness, which is consistent with the corporate culture transformation process.

After certain responsibilities of the Change Management, Process and Cost Area in the Business Support Division were taken over by the Business Partnership Division, the Procurement Department, Expense Management Office and Headcount & Organisation Office were removed from the organisational structure. Furthermore, the Change Management, Process and Cost Area was renamed the Change Management and Process Area.

Following the review of the operating model of the Business & Corporate Banking Division in terms of current needs of customers and organisation, the Product and Sales Strategy Area was set up in January 2014 to devise the sales and product strategy towards corporate customers.

Integration of Bank Zachodni WBK with Kredyt Bank

The chart below presents the respective stages of the Uno Programme launched in 2012 for the purpose of integration of Bank Zachodni WBK and Kredyt Bank.



Following successful implementation of the first three stages of the UNO Programme in 2013 (legal merger, branch network integration, brand migration), the bank has fully integrated organisational structures, offers uniform products and services, provides standardised customer service in terms of quality and procedures and operates under a single brand "Bank Zachodni WBK". The last step towards the full integration is the migration of two operating systems into one IT platform, which is expected to be completed by the end of 2014.

In H1 2014, as part of the last stage of the UNO Programme, the process of devising the Target Architecture Landscape of Bank Zachodni WBK was well underway. A significant progress was also achieved with respect to developing and testing a migration engine, i.e. a tool that is aimed to facilitate mass migration of data from the Kredyt Bank systems to the operating platform of Bank Zachodni WBK. Subsequently, the redundant production systems will be gradually withdrawn and the historical records will be transferred to a repository.

The IT-related integration processes completed in 2014 allowed for migration of the full base of treasury customers and a tranche of corporate customers, authorisation of all cards in BZ WBK systems and issue of new and renewed debit cards in line with the bank's standards.

Given the number and complexity of projects, a lot of attention is paid to the management of project and operational risks when planning, testing and implementing the changes.

Selection of Auditor

On 11 June 2014, pursuant to §32 (10) of Bank Zachodni WBK Statutes and industry standards, the bank's Supervisory Board adopted a resolution whereby Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (Deloitte Polska) was selected to review and audit the unconsolidated and consolidated financial statements of the bank and its Group for H1 2014 and the year 2014. The bank signed relevant agreements with Deloitte Polska for the terms required to carry out the specified assignments.

The bank contracted Deloitte Polska and other companies from Deloitte Group for consulting and tax advisory services. In the bank's view, the above advisory services do not affect impartiality and independence of the auditor.

Employment of the same auditor both by Bank Zachodni WBK and Banco Santander ensures a consistent approach to the audit process across Santander Group, including certification for compliance with the American Sarbanes-Oxley Act.

Diversification of Funding Sources

Agreement with European Investment Bank

On 17 June 2014, Bank Zachodni WBK signed an agreement with the European Investment Bank (EIB) for EUR 100m worth of credit line to be used for financing credit delivery in the SME sector. The facility is to be repaid in bullet within seven years. The funds will be disbursed in H2 2014.

This is the eighth agreement with EIB. As at the end of June 2014, the balance of funds from EIB amounted to PLN 2.1bn.

Issue of Own Bonds

On 17 July 2014, Bank Zachodni WBK issued 475k three-year bearer bonds in private placement, with a nominal value of PLN 1k each and a variable rate of WIBOR+1.0% p.a. All bonds in the total amount of PLN 475m were taken up by bondholders. The bank intends to introduce the above bonds to the Catalyst trading system.

Awards and Recognitions

Bank Zachodni WBK (BZ WBK)	
Company of the Year from WIG20 Index	<ul style="list-style-type: none"> BZ WBK was honoured by the stock market daily <i>Parkiet</i> as the Company of the Year from the WIG 20 Index (19 March 2014). The award was given in recognition of a 63% return on the bank's shares and a smooth merger that positioned the bank among the top three banks in Poland with a substantially increased balance sheet total.
Banking Leader	<ul style="list-style-type: none"> At the Grand Gala of Banking and Insurance Leaders accompanying the 7th edition of the annual Banking and Insurance Forum (2-3 April 2014), BZ WBK received banking world leader awards in the following categories: <ul style="list-style-type: none"> ✓ The Best Large Bank; ✓ The Fastest Growing Bank; ✓ Manager of the Year 2013 title bestowed on the Management Board President of BZ WBK - Mateusz Morawiecki.
Golden Banker – Personality of the Year 2013	<ul style="list-style-type: none"> In the "Golden Banker" competition (March 2014) organised by Bankier.pl, the web portal, and PayU, internet payment operator, Mateusz Morawiecki was hailed as the Personality of the Year 2013 for his instrumental role in the successful merger of BZ WBK and Kredyt Bank, creating the 3rd largest bank in Poland and reporting the record-high profits and the impressive increase in the bank's share price in 2013.
Eagle Award from <i>Rzeczpospolita</i> daily	<ul style="list-style-type: none"> Top position in the Financial Institutions category in a prestigious ranking of 500 largest financial institutions in Poland as an evidence of the solid and ever stronger market position and trust from investors, customers and economists.

Bank Zachodni WBK (BZ WBK) cont.	
Leopard 2014 Award	<ul style="list-style-type: none"> Leopard 2014 Award for the most impressive banking brand creation process, granted by professionals from the banking and insurance sector in recognition of successful marketing, an image of a customer friendly bank, consistent brand promotion, clear marketing message and communication with customers as well as an excellent choice of world-class actors to build a positive image.
Best in Sales Award for structured products	<ul style="list-style-type: none"> Best in Sales Award for the largest distributor of structured products in Poland in 2013 (with a 20% market share) granted at the 11th Annual European Structured Products Conference (February 2014).
Best Cash Loan	<ul style="list-style-type: none"> The cash loan offered by BZ WBK was ranked 2nd in the "Best Cash Loan" category in the 5th edition of the Golden Banker 2013 Awards organised by Bankier.pl, a web portal, and PayU, an online payment operator.
The Best Mobile Application	<ul style="list-style-type: none"> BZWBK24 mobile was named the best mobile application of 2013 in the Mobile Trends Awards and took the first position in the mobile banking category.
Innovation 2013 Award for Mobile Purchase Service	<ul style="list-style-type: none"> Mobile Purchase service – available via BZWBK24 mobile - won the Innovation 2013 award granted by the representatives of the Business Forum and the Technological Science Faculty of the Polish Academy of Sciences.
Dom Maklerski BZ WBK (DM BZ WBK)	
Accolade for Analysts	<ul style="list-style-type: none"> DM BZ WBK analysts were placed second in the overall ranking of brokerage analysts published by <i>Parkiet</i> daily, and took the 1st position in the chemical, fuel and financial sectors and 2nd position among technical analysts (8 January 2014).
Best Analyst Team in 2013	<ul style="list-style-type: none"> DM BZ WBK analyst team topped the annual ranking of <i>Parkiet</i> daily published in January 2014, with the highest score achieved in the corporate access category.
2nd Place in the Ranking of the Best Brokerage Accounts for Private Investors	<ul style="list-style-type: none"> DM BZ WBK came top in the ranking of best brokerage accounts published by <i>Puls Biznesu</i> daily in recognition of the high quality of customer service (mobile application, long business hours of the call centre, availability of customer service points and the AmiBroker program for technical analysis).
Third Top Performance in the Sector	<ul style="list-style-type: none"> 3rd position in the ranking of domestic brokerage houses reporting the highest net profit (<i>Parkiet</i>, 3 April 2014).
BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI)	
Alfa 2013	<ul style="list-style-type: none"> In 2014, Anality Online granted for the first time the Alfa Awards to honour the achievements reported in the mutual funds market in 2013: <ul style="list-style-type: none"> ✓ The manager of Arka Prestiż Obligacji Korporacyjnych (corporate bonds sub-fund) received the Alfa 2013 award for the best corporate bonds fund. ✓ Nomination was also given to Arka BZ WBK Akcji Środkowej i Wschodniej Europy (Central and Eastern Europe equity sub-fund) representing the New Europe equity category. ✓ BZ WBK TFI was nominated for Alfa 2013 award the best mutual funds corporation.
BZ WBK – AVIVA Towarzystwo Ubezpieczeń Ogólnych BZ WBK – AVIVA Towarzystwo Ubezpieczeń na Życie	
Customer Friendly Company	<ul style="list-style-type: none"> BZ WBK-Aviva companies received the Customer Friendly Company award for the fourth time in a row (June 2014) based on the results from an independent audit conducted to reward companies committed to customer satisfaction. BZ WBK-Aviva entities were recommended by customers for their services, short turnaround times and insurance products.
BZ WBK Faktor	
Gold Customer Accolade (Złoty Laur Klienta)	<ul style="list-style-type: none"> BZ WBK Faktor again received the Gold Customer Accolade in the factoring services category (April 2014), which confirms the top quality of services and popularity of the brand among customers.



XI. Representations of the Management Board

True and Fair Presentation of the Financial Statements

According to the Management Board's best knowledge, the financial figures and the comparable data presented in the financial statements incorporated in the 2014 Interim Report of Bank Zachodni WBK Group were prepared in keeping with the applicable accounting policies and give a true and fair view of the state of affairs and earnings of Bank Zachodni WBK Group. The Management Board's Report contained in this document shows a true picture of the development, achievements and position of Bank Zachodni WBK Group (including the underlying risks) in H1 2014.

Selection of Auditor

The auditing firm responsible for auditing the unconsolidated and consolidated financial statements of Bank Zachodni WBK and its Group for a six-month period ended 30 June 2014 was selected in compliance with the applicable legislation. The auditing firm and its auditors satisfied the necessary conditions to ensure they provide an unbiased and independent report compliant with the Polish law and professional standards.

Signatures of the Management Board Members			
Date	Name	Function	Signature
25.07.2014	Mateusz Morawiecki	President of the Board	
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	Miroslaw Skiba	Member	
25.07.2014	Feliks Szyszkowiak	Member	