

**MANAGEMENT BOARD REPORT  
ON BANK ZACHODNI WBK GROUP  
PERFORMANCE  
IN THE FIRST HALF OF 2015**

2015



Bank Zachodni WBK

 Grupa Santander

# CONTENTS

<b>I. Overview of Bank Zachodni WBK Group Performance in H1 2015</b>	<b>3</b>
<b>II. Basic Information about Bank Zachodni WBK Group</b>	<b>6</b>
1. History, Ownership Structure and Profile	6
2. Market Position, Rating and Share Price	9
3. Entities Related with Bank Zachodni WBK	12
<b>III. Macroeconomic Environment in H1 2015</b>	<b>15</b>
<b>IV. Development Strategy</b>	<b>17</b>
1. Strategy of Bank Zachodni WBK Group	17
2. Next Generation Bank Programme	18
<b>V. Business Development</b>	<b>20</b>
1. Retail Banking	20
2. SME Banking	24
3. Business and Corporate Banking	26
4. Global Banking & Markets	28
5. Selected Distribution Channels	30
6. Santander Consumer Bank Group	32
<b>VI. Financial Performance in H1 2015</b>	<b>34</b>
1. Income Statement	34
2. Financial Position	43
3. Additional Financial Information	49
4. Factors Likely to Affect Performance in H2 2015	50
<b>VII. Risk Management in H1 2015</b>	<b>51</b>
1. Risk Management Principles	51
2. Risk Management Structure in Bank Zachodni WBK Group	51
3. Risk Management Priorities in H1 2015	52
<b>VIII. Human Resources Management</b>	<b>54</b>
<b>IX. Supervisory and Management Bodies</b>	<b>56</b>
<b>X. Additional Information</b>	<b>59</b>
<b>XI. Representations of the Management Board</b>	<b>62</b>

# I. Overview of Bank Zachodni WBK Group Performance in H1 2015

This section provides an overview of the activity of Bank Zachodni WBK Group (BZ WBK Group) in H1 2015. It presents the financial and business performance compared with the previous year, and reports on the external factors and corporate developments.

## Financial and Business Highlights

- Total income of Bank Zachodni WBK Group for H1 2015 increased by 38.2% YoY to PLN 4,121.3m. Excluding one-off gains on subordinate entities of PLN 523m arising from partial disposal and loss of control over BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych (BZ WBK-Aviva TUO) and BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie (BZ WBK-Aviva TUnŻ), the underlying total income grew by 20.6% YoY.
- Total costs went up by 15.8% YoY to PLN 1,669.6m. Excluding the impact of costs of integration with Kredyt Bank as well as acquisition or loss of control over subordinate companies in 2015 and 2014 (i.e. Santander Consumer Bank, BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ), the underlying cost base increased by 7.3% YoY.
- Profit before tax was PLN 2,103.9m and increased by 74.6% YoY, and by 31.2% YoY excluding one-off gains.
- Profit attributable to the shareholders of Bank Zachodni WBK was PLN 1,577.4m and 65.4% higher YoY (21% excluding one-off gains).
- Capital Ratio stood at 14.28% as per the calculation methodology defined in CRD IV/CRR package (12.91% as at 31 December 2014 and 13.33% as at 30 June 2014).
- Return on Equity (ROE) was 16.7% (14.4% as at 31 December 2014 and 17.2% as at 30 June 2014), and 14.4% excluding the impact of integration costs and divestment from BZ WBK-Aviva companies.
- Cost-to-income ratio was 46.4% after exclusion of one-off gains (48.3% in H1 2014), and 45.6% if further adjusted for the cost of integration (44.6% in H1 2014).
- Net impairment losses on loans and advances amounted to PLN 353.2m compared with PLN 335.9m in H1 2014.
- NPL ratio was 8.1% (8.4% as at 31 December 2014 and 7.5% as at 30 June 2014), while the ratio of impairment losses to the average gross credit volumes was 0.9% (1% on 31 December 2014 and 0.9% on 30 June 2014).
- Loan-to-deposit ratio was 96.1% as at 30 June 2015 compared with 90.4% as at 31 December 2014 and 91.9% as at 30 June 2014. The ratio increased on 2014 year-end due to the dynamic sales of mortgage loans and depreciation of the zloty against the Swiss franc.
- Gross loans to customers increased by 26.9% YoY to PLN 95,397.4m due to the growth of personal loans by 45.9% YoY and loans to enterprises and the public sector by 9.6% YoY to PLN 50,398.6m and PLN 40,905.0m, respectively.
- Deposits from customers increased by 20.5% YoY to PLN 93,731.7m as a combined effect of the expansion of personal deposits by 17.8% YoY to PLN 55,977.1m and deposits from enterprises and the public sector by 24.8% YoY to PLN 37,754.6m.
- Net value of assets in mutual funds and private portfolios amounted to PLN 14.3bn and grew by 8.2% Ytd and 17.4% YoY.
- The number of customers using BZWBK24 electronic banking services totalled 3.1m (+3.9% YoY), the number of customers with access to mobile services stood at 0.6m (+78.5% YoY), while the BZ WBK Group payment card base included 4.1m debit cards (+2% YoY) and more than 1.1m credit cards (+69.4% YoY), including the cards of SCB customers as at 30 June 2015.

Significant YoY increases in the consolidated financial statements of Bank Zachodni WBK for the 6-month period ending on 30 June 2015 are largely attributed to the inclusion in consolidation of Santander Consumer Bank Group (SCB Group) following the acquisition of control over the controlling entity on 1 July 2014.

## Key Developments and Achievements

Major corporate events in the seven months of 2015 preceding the release of H1 2015 Report of BZ WBK Group	
January	<ul style="list-style-type: none"> <li>Launch of BLIK services for BZ WBK customers – a system of mobile payments developed by the Polish Payment Standard (Polski System Płatności), a joint venture of Polish banks (26 January 2015)</li> </ul>
February	<ul style="list-style-type: none"> <li>Resignation of Mr. José Antonio Álvarez as BZ WBK Supervisory Board member on 5 February 2015 due to his appointment as a CEO of Banco Santander S.A.</li> <li>Conclusion of an agreement between BZ WBK and Aviva International Insurance Ltd. (Aviva) (27 February 2015) on the sale of 17% of shares in BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie (BZ WBK-Aviva TUnŻ) and 17% of shares in BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych (BZ WBK-Aviva TUO) and transfer of the ownership title to these above-mentioned shares to Aviva. After the transfer, the bank holds a 49% stake in the share capital and the voting power of each of the insurance companies, with the remaining 51% of the shares and votes being held by Aviva</li> </ul>
March	<ul style="list-style-type: none"> <li>Adoption of a resolution by BZ WBK Management Board on the issuance of Certificates of Deposits as part of the Issuance Programme of up to PLN 3bn to ensure an alternative source of funding (18 March 2015)</li> <li>Declaration of Bank Zachodni WBK to pay out dividend from net profit for 2014 at PLN 9.60 per share (23 March 2015)</li> </ul>
April	<ul style="list-style-type: none"> <li>Requirement from the Polish Financial Supervision Authority (KNF) to retain the entire profit for 2014 until the regulator determines an additional capital requirement for the bank (1 April 2015)</li> <li>Change of the dividend payment declaration by BZ WBK (8 April 2015) – a motion to leave the portion of profit as dividend undistributed in line with the above-mentioned KNF requirement and recommendation of BZ WBK Management Board and Supervisory Board on distribution of 2014 net profit for the Annual General Meeting of Shareholders (AGM) convened on 23 April 2015</li> <li>Convening of AGM of Bank Zachodni WBK (23 April 2015) which, inter alia, approved the distribution of the net profit for 2014, appointed Mr. José Garcia Cantera as a new member of the Supervisory Board, determined the remuneration of the Supervisory Board members, adopted the Rules of Corporate Governance for Supervised Institutions and approved the financial statements of Dom Maklerski BZ WBK and gave discharge to members of the Management and Supervisory Boards of the above company</li> <li>Appointment of the bank's Management Board for a new term of office by the Supervisory Board (23 April 2015) – its composition is provided in Chapter IX "Supervisory and Management Bodies"</li> </ul>
May	<ul style="list-style-type: none"> <li>Upgrade of a long-term deposit rating for BZ WBK by Moody's (21 May 2015) to A3 from Baa1 due to the Advanced LGF analysis</li> <li>Selection of Deloitte Polska as an entity to review and audit the unconsolidated and consolidated financial statements of BZ WBK (25 May 2015)</li> </ul>
June	<ul style="list-style-type: none"> <li>Private placement of 485,000 bearer bonds with a nominal value of PLN 1,000 each (PLN 485m in total), a 3-year maturity and a variable interest rate (24 June 2015). The issue has been assigned a long-term national rating of AA-(pol) by Fitch Ratings</li> <li>Re-payment of subordinated loans from KBC Bank NV for a total of PLN 1,138.3m which did not qualify as Tier 2 capital under CRD IV/CRR</li> </ul>
July	<ul style="list-style-type: none"> <li>Waiver of preference rights attached to Santander Consumer Bank's shares held by BZ WBK (effective from 10 July 2015), resulting in the Bank's holding 60% of voting rights at the GM of SCB</li> <li>Introduction of the above-mentioned bonds with a nominal value of PLN 485m to the Catalyst alternative trading system (16 July 2015)</li> </ul>

## External Factors Impacting the Results

- Economic revival in the euro zone
- Acceleration of growth in domestic industrial output and construction output
- Good situation in the labour market (gradual increase in employment in the enterprise sector, declining unemployment and relatively fast wage growth) supporting the good outlook for private consumption
- Low inflationary pressure; CPI inflation rate falling to the lowest level ever (-1.6% YoY)
- Reduction in the NBP official rates to the lowest level ever and an end of the easing cycle
- Changes of moods in international financial markets amid expectations about future policy of the main central banks (Fed, ECB), incoming macroeconomic data, worries about geopolitical situation, including the Greek debt crisis
- Decision of the Swiss National Bank to stop defending the EUR/CHF floor at 1.20, strong depreciation of the zloty versus the Swiss currency and fall of CHF 3M LIBOR rate below zero
- Start of the quantitative easing programme by the European Central Bank
- Volatility of the zloty exchange rate versus the main currencies. Decline of Polish bond yields
- Moderate growth in loans in the banking sector, high growth in investment loans

## II. Basic Information about Bank Zachodni WBK Group

### 1. History, Ownership Structure and Profile

#### History and Profile

Bank Zachodni WBK S.A. (Bank Zachodni WBK, BZ WBK) was established following the merger of Bank Zachodni with Wielkopolski Bank Kredytowy. The Wrocław-based entity was entered into the business register in 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 the AIB Group under control of the same investor, i.e. AIB European Investments Ltd. from Dublin, a fully-owned subsidiary of the Allied Irish Banks, p.l.c.

On 1 April 2011, AIB European Investments Ltd. sold their entire stake in Bank Zachodni WBK (70.36% of share capital and voting power) to Banco Santander S.A. with its registered office in Santander, Spain.

On 1 April 2011, Banco Santander finalised the purchase of Bank Zachodni WBK in the tender for 100% of the bank's shares. As a result, Banco Santander acquired an interest representing 95.67% of share capital and voting power in the bank. As at 30 June 2015, the stake of Banco Santander in the share capital and voting rights at the bank's General Meeting of Shareholders totalled 69.41% and resulted from developments described in the table below.

Actions resulting in a change of the stake of Banco Santander (BS) in the share capital of Bank Zachodni WBK (BZ WBK)	Date of change	BS share
<ul style="list-style-type: none"> <li>Mandatory acquisition of additional shares from all willing shareholders by BS as a result of exceeding 90% of votes at BZ WBK General Meeting upon completion of a tender offer to purchase BZ WBK shares (1 April 2011).</li> </ul>	27.07.2011 <sup>1)</sup>	96.25%
<ul style="list-style-type: none"> <li>Increase in the bank's share capital through the issue of ordinary series I shares with a nominal value of PLN 15.6m taken up by EBRD in a private placement</li> </ul>	9.08.2012	94.23%
<ul style="list-style-type: none"> <li>Merger of BZ WBK and Kredyt Bank (pursuant to the Investment Agreement of 27 February 2012 signed by BS and KBC Bank NV) by acquisition, i.e. by way of a transfer of all assets of Kredyt Bank to Bank Zachodni WBK in exchange for newly issued series J shares with a nominal value of PLN 189.1m allotted to all of the existing shareholders of Kredyt Bank at the agreed exchange ratio</li> </ul>	4.01.2013	75.19%
<ul style="list-style-type: none"> <li>Sale of stake in BZ WBK for the total amount of PLN 4.9bn as part of a secondary offering announced by KBC Bank NV and BS on 22 March 2013. As a result, KBC Bank IV ceased to be a shareholder of Bank Zachodni WBK and BS stake was reduced to 70%. The total number of BZ WBK shares in free float on Warsaw Stock Exchange increased to 30% and consequently the bank was re-incorporated into the key stock indices <sup>2)</sup></li> </ul>	28.03.2013	70.00%
<ul style="list-style-type: none"> <li>Increase in the share capital of Bank Zachodni WBK in July 2014 by the following amounts:               <ul style="list-style-type: none"> <li>✓ PLN 3.1m through the issue of series K ordinary bearer shares under the 4th Incentive Scheme</li> <li>✓ PLN 53.8m through the issue of series L ordinary shares offered to and taken up by Santander Consumer Finance (SCF) in exchange for an in-kind contribution of ordinary and preferred shares in Santander Consumer Bank (SCB) representing 60% of share capital and 67% of votes at the General Meeting of Shareholders</li> </ul> </li> </ul>	11.07.2014 18.07.2014	69.77% 65.99%
<ul style="list-style-type: none"> <li>Acquisition by BS of the entire stake in Bank Zachodni WBK from SCF (representing 5.42% of voting power).</li> </ul>	13.08.2014	71.41%
<ul style="list-style-type: none"> <li>Sale of nearly two million shares in Bank Zachodni WBK by way of accelerated book-building in order to keep the free float of the bank's shares at a minimum level of 30%</li> </ul>	6.10.2014	69.41%

<sup>1)</sup> Date of first announcement of the change

<sup>2)</sup> From April 2011 to June 2013 Bank Zachodni WBK was excluded from Stock Exchange indices due to insufficient free float.

## Structure of Share Capital of Bank Zachodni WBK

The table below presents changes in the structure of the share capital of Bank Zachodni WBK in the period of 12 months before the release of Bank Zachodni WBK Group report for H1 2015 based on the data registered as at the dates of release of consecutive interim reports starting from 31 July 2014 (date of release of the report for H1 2014).

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	
	*30.07.2015 28.04.2015 03.02.2015 04.11.2014	**31.07.2014	*30.07.2015 28.04.2015 03.02.2015 04.11.2014	**31.07.2014
Banco Santander	68 880 774	65 481 563	69,41%	65,99%
ING OFE	5 110 586		5,15%	
SCF		5 383 902		5,42%
Others	25 243 174	28 369 069	25,44%	28,59%
<b>Total</b>	<b>99 234 534</b>	<b>99 234 534</b>	<b>100,0%</b>	<b>100,0%</b>

\* valid as at 30.06.2015

\*\* valid as at 30.06.2014

Based on information available to the Management Board of Bank Zachodni WBK S.A., as at the date of release of H1 2015 Report of Bank Zachodni WBK Group (30 July 2015), 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 69.41% and ING OFE with a stake of 5.15%.

## 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 and large companies and institutions. 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 include cash management, payments, trade finance and transactions in the capital, money, FX and derivative markets, as well as underwriting, brokerage and custody services.

The bank's own product range is complemented by specialist products offered by its group of related companies, including: 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 mutual fund units, individual asset portfolios as well as insurance, leasing and factoring products.

Santander Consumer Bank, which was incorporated into the structure of Bank Zachodni WBK Group on 1 July 2014, specialises in consumer finance and term deposit accounts for personal and corporate customers.

As at 30 June 2015, Bank Zachodni WBK Group provided services to 6.3m customers, including customers of Santander Consumer Bank.

## Business Model of Bank Zachodni WBK Group

### Operating Structure

Bank Zachodni WBK with its non-banking subsidiaries provides services to customers through Retail Banking Division, SME Banking Division, Business & Corporate Banking Division and Global Banking & Markets Division.

Retail Banking of Bank Zachodni WBK offers services to personal customers who are divided into mass, Premium or VIP customer segments, taking into account their diverse needs and expectations.

SME Banking is focused on services for small and medium enterprises which are assigned to two segments based on turnover. The relationships with personal customers and companies with lower turnover are managed by advisers in branches and partner outlets, while SMEs with higher turnover are handled by 12 specialised macroregional teams.

The Private Banking and Brokerage Support Department provides services to high net worth customers through dedicated advisers operating from 14 offices located across Poland.

Services to large business customers, local administration units and the public sector are supervised by the Business & Corporate Banking Division and are provided through 12 Corporate Business Centres operating nationwide, Large Corporate Team and the Corporate Property Department (central units operating across Poland) in accordance with customer segmentation (corporate, large corporate or property finance).

The Global Banking & Markets Division is responsible for a banking relationship with the bank's largest institutional clients who are offered investment, credit, transactional and treasury products and services as part of the global Customer Relationship Management Model of Santander Group. It also provides treasury, brokerage and securities services to customers handled by other Divisions.

Santander Consumer Bank Group which specialises in consumer finance forms a separate business segment with its own customer base, offering and distribution channels.

### Basic Distribution Channels

As at 30 June 2015, Bank Zachodni WBK operated country-wide through 769 outlets. The bank's distribution network also included 115 partner outlets and 1,320 ATMs, 274 cash deposit machines and 59 multi-function machines.

Bank Zachodni WBK gives priority to multichannel delivery and fast, convenient and secure access to products and services 24 hours per day. It offers a modern platform of electronic banking services for retail and business customers called BZWBK24, which may be used via the Internet, telephone or mobile telephone. Mobile banking is provided via mobile web and dedicated applications for key operating systems. The Telephone Banking Centre equipped with a technologically advanced specialist ITC infrastructure provides customers with information on the bank's products and services, sells products and renders after-sales service for personal and business customers. It also supervises other contact channels for customers, including the newly opened virtual branch which offers a full array of services available in a traditional branch via the Internet (text, audio or video mode of connection).

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.

### Business Model Framework

The fundamental elements of the strategy and business model of Bank Zachodni WBK Group are attractive and competitive products and services, multichannel delivery, a superior customer experience and the development of customer relationships and staff engagement. The Group focuses on diversification of income, expansion in high-margin market segments, maintenance of a solid capital position and effective risk management. This translates into 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

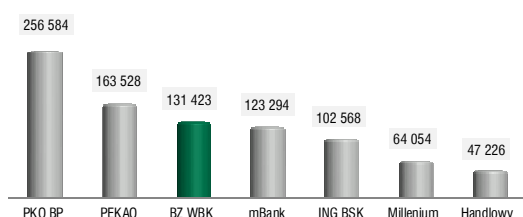
Bank Zachodni WBK Group has stable sources of funding and a solid capital and liquidity position. The strong foothold in the market has been supported by a clear, coherent and consistent strategic vision, an efficient and straightforward business model, with critical mass gained by integration with Kredyt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

According to the financial statements for Q1 2015, which at the date of approval of this Management Board report (28 July 2015) were the most up-to-date source of comparable data on the performance of banks listed on the Warsaw Stock Exchange (WSE), Bank Zachodni WBK - including its subsidiaries and associates – was Poland's third largest banking group in terms of total assets, equity, deposits, loans and PBT as well as being the market leader in terms of consolidated ROE.

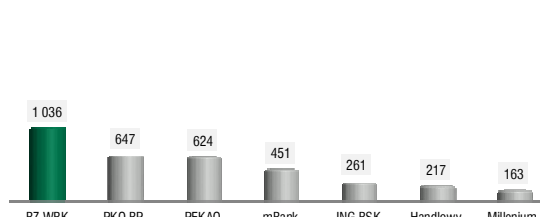
According to NBP statistics, as at the end of March 2015 the Group's share of the market was 7.4% for loans and 8.3% for deposits.

The Group continued to strengthen its presence in the factoring and leasing markets via its subsidiaries, holding a market share of 12.4% and 8.5%, respectively, as at the end of March 2015 (as per data published by the Polish Factors Association and the Polish Leasing Association). At the same time, the Group's share in the retail mutual fund market was 11.0% (according to Analizy Online) while in the equity and futures markets it held 6.5% and 10.7%, respectively (according to the Warsaw Stock Exchange).

Total Assets of BZ WBK Group (PLN m) vs. Peers as at 31 March 2015



Profit Attributable to BZ WBK Shareholders for Q1 2015 vs. Peers (PLN m)



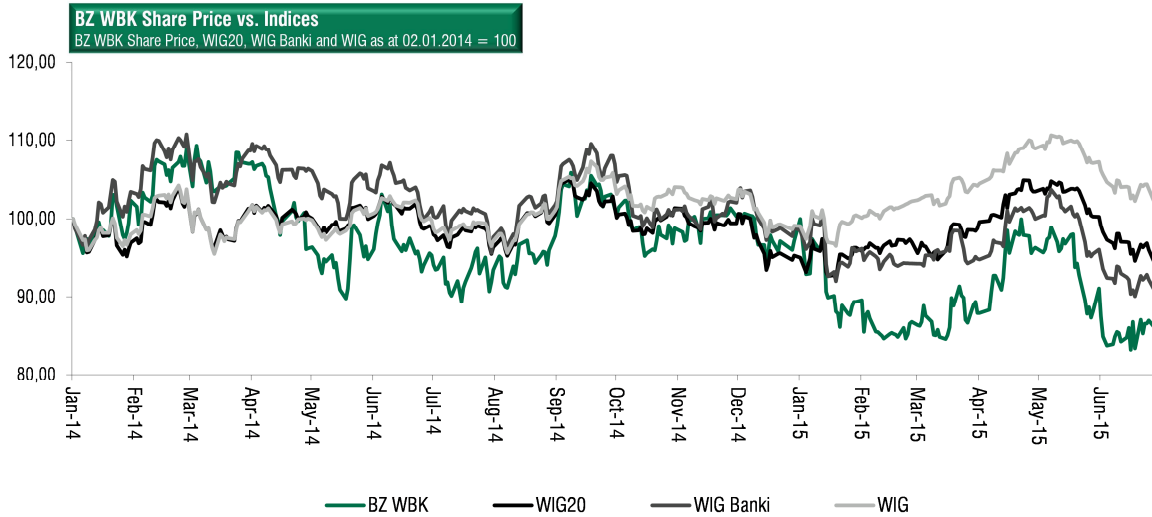
### Position of Banco Santander

Banco Santander – a parent entity of Bank Zachodni WBK – is a commercial bank with a history of more than 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 the geographic diversification of its business, currently focuses on its 10 core markets – both developed and emerging. According to data as at mid-March 2015, it is the second largest bank in Europe and the 11th bank in the world in terms of capitalisation. On a consolidated basis, at the end of Q1 2015 the bank managed EUR 1,091.2bn worth of customer funds, provided services to over 100 million customers via a distribution network of 12,920 branches, and employed 187 thousand people. In Q1 2015, the net profit attributable to Banco Santander's shareholders came in at EUR 1,717m, up 31.8% YoY. Santander is the leading financial group in Spain and South America. It also enjoys a strong market position within selected segments in the UK, the north-eastern coast of the US as well as in Germany and Poland.

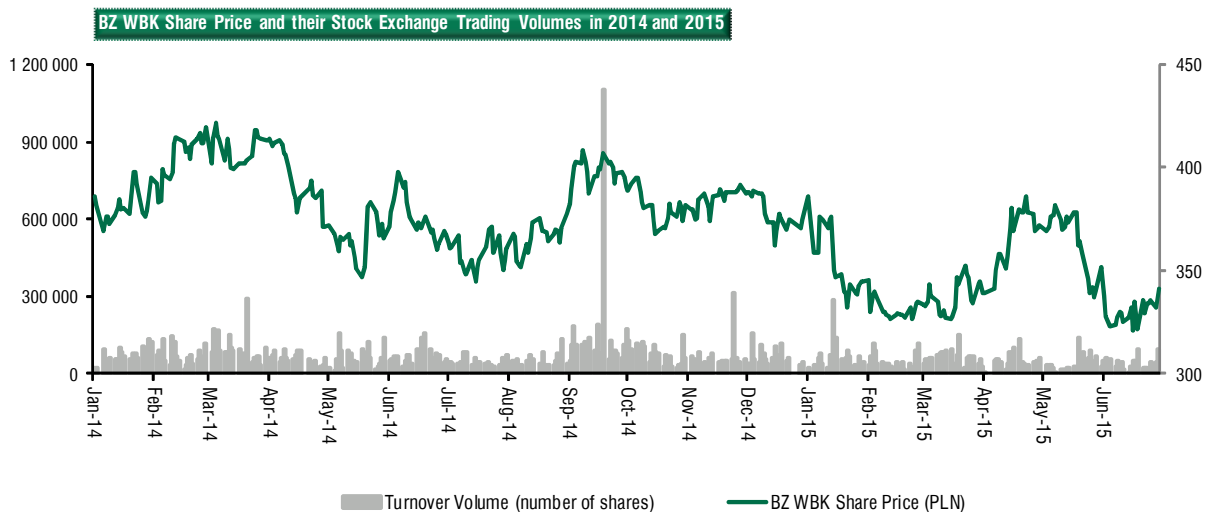
### Share Price of Bank Zachodni WBK S.A. vs. Indices

H1 2015 was characterised by swings in the sentiment of Polish and foreign investors. After a successful beginning of the year, with the key WSE indices trending upwards, the second quarter, its last weeks in particular, brought about serious adjustments. Despite the accelerating economic growth in Poland, concerns about the future economic policy and renewed worries about the possible insolvency of Greece came to the fore.

As a result, the broad market index WIG decelerated to 3.7% over the first six months of the year, and WIG20 blue chip index went up by a mere eight points. WIG Banks performed much worse and decreased by 7.1% vs. the end of 2014 as a consequence of the above-mentioned factors, especially the risk of introduction of a so-called bank tax and obligatory conversion of CHF mortgage loans.



High volatility of the share price of Bank Zachodni WBK over the last six months is attributed to global and domestic factors such as: abandonment of the Swiss franc-euro cap by the Swiss National Bank in January 2015 and the foregoing insolvency problems of Greece as well as uncertainty about the course of economic policy towards the banking sector. As a consequence, the share price of Bank Zachodni WBK was not able to sustain its upward momentum and fell by 9% (from PLN 375.00 on 30 December 2014 to PLN 341.25 on 30 June 2015). In the analysed period, the share price ranged from PLN 386.10 (2 January 2015) to PLN 321.10 (17 June 2015). In April 2015, the bank’s Management Board decided to withdraw its declaration of dividend payment for 2014 at PLN 9.60 per share following the KNF guidance to retain the total profit for 2014 until the regulator sets a capital requirement for the bank.



As at 30 June 2015, market capitalisation of Bank Zachodni WBK was PLN 33,863.8m compared to PLN 37,213.0m as at 30 December and PLN 34,518.1m as at 30 June 2014.

## Bank Zachodni WBK Rating

### Rating Actions by Fitch Ratings

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

As at 30 June 2015, the ratings assigned to Bank Zachodni WBK on 2 June 2014 and affirmed on 26 November 2014 were as follows:

International ratings:

- Long-term IDR: BBB+, outlook stable
- Short-term IDR: F2
- Viability rating: bbb
- Support rating: 2

National ratings:

- Long-term national rating: AA-(pol), outlook stable
- Senior unsecured debt national long-term rating: AA-(pol).

The rating actions on IDRs are based on Fitch's view of a high probability that Bank Zachodni WBK would be supported, if required, by its controlling entity. Fitch believes that Poland is a strategically important market for Banco Santander, which ensures a relevant position of Bank Zachodni WBK in the Group.

The agency expects that support from Banco Santander will ensure the affirmation of the bank's long-term IDRs at one notch below that of its majority shareholder.

The VR of the bank reflects its strong standalone credit risk profile, underpinned by healthy internal capital generation, solid performance, good asset quality, strong liquidity and stable funding base.

### Rating actions by Moody's Investors Service

As part of rating reviews on ten banks in Poland in accordance with the revised methodology, on 21 May 2015 Moody's Investors Service upgraded the rating of Bank Zachodni WBK. The bank's long-term deposit rating was upgraded to A3 from Baa1 due to the Advanced LGF analysis that provides two notches of uplift from the bank's adjusted BCA.

The agency believes Bank Zachodni WBK benefits from a large volume of deposits, and limited senior and subordinated debt, resulting in very low loss given failure.

However, because of the expected implementation of resolution legislation, Moody's has lowered its government support assumptions for Bank Zachodni WBK and other banks in Poland, leading to no uplift in case of other ratings of the bank.

As at 30 June 2015, the Moody's Ratings for Bank Zachodni WBK S.A. are as follows:

- Deposit ratings: A3/P-1
- Baseline Credit Assessment (BCA): baa3
- Adjusted BCA: baa2
- Outlook: stable
- Counterparty Risk (CR): A2 (cr)/ P-1 (cr)

### 3. Entities Related with Bank Zachodni WBK

#### Subsidiaries

As at 30 June 2015, Bank Zachodni WBK formed a Group with the following subsidiaries:

1. Santander Consumer Bank S.A. (SCB S.A.)
2. Santander Consumer Finance S.A. – a subsidiary of SCB S.A.
3. AKB Marketing Services Sp. z o.o. in liquidation – a subsidiary of SCB S.A.
4. Santander Consumer Multirent Sp. z o.o. – a subsidiary of SCB S.A.
5. S.C. Poland 2014-1 Limited – a subsidiary of SCB S.A.
6. BZ WBK Asset Management S.A.
7. BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. – a subsidiary of BZ WBK Asset Management S.A.
8. BZ WBK Finance Sp. z o.o.
9. BZ WBK Faktor Sp. z o.o. – a subsidiary of BZ WBK Finance Sp. z o.o.
10. BZ WBK Leasing S.A. – a subsidiary of BZ WBK Finance Sp. z o.o.
11. BZ WBK Lease S.A. – a subsidiary of BZ WBK Finance Sp. z o.o.
12. Lizar Sp. z o.o. – a subsidiary of BZ WBK Lease S.A.
13. BZ WBK Inwestycje Sp. z o.o.
14. BZ WBK Nieruchomości S.A.
15. Geldokracja Sp. z o.o.

Compared with 30 June 2014, the list of related entities of Bank Zachodni WBK was expanded to include two more companies as a result of the following ownership changes:

- **Assumption of control over Santander Consumer Bank (SCB) and its four subsidiaries**

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 SCB through private placement and in-kind contribution, on 1 July 2014 Bank Zachodni WBK acquired 3,120,000 ordinary and preference shares in SCB, with a nominal value of PLN 100 each, representing 60% of the share capital of SCB and 67% of votes at the General Meeting of SCB. The preference rights attached to SCB shares held by Bank Zachodni WBK were waived by the resolution of the SCB Extraordinary General Meeting of 24 June 2015 and was effective from the registration of the bank's Statutes in the Polish National Court Register (KRS) on 10 July 2015. As a result, the Bank has 60% of share capital and voting rights in SCB.

SCB is now the largest subsidiary in Bank Zachodni WBK Group and forms SCB Group with four subsidiaries:

- ✓ Santander Consumer Finance (investment of cash surpluses and cooperation with TUIR Warta i TUŻ Warta in terms of financial advisory services)
- ✓ AKB Marketing Services in liquidation (auxiliary banking services)
- ✓ Santander Consumer Multirent (leasing)
- ✓ S.C. Poland 2014-1 Limited (SPV set up for the purpose of the securitization transactions)

- **Division of Dom Maklerski BZ WBK (DM BZ WBK)**

On 31 October 2014, DM BZ WBK (Brokerage House) was removed from the business register (KRS) without a formal liquidation and divided in accordance with the Division Plan of 24 July 2014 through:

- ✓ the transfer to Bank Zachodni WBK of an organised part of the enterprise connected with the provision of brokerage services and other services which do not constitute the advertising business
- ✓ set-up of Geldokracja, a limited liability company, which took over a part of the enterprise connected with the provision of educational services related to the capital market, advertising and communication services, and the maintenance of Internet portals (all shares were taken up by Bank Zachodni WBK as the sole shareholder of the former Brokerage House).

As a result of the above-mentioned changes, the Brokerage House is now a unit of the bank which meets the definition of a brokerage office and conducts brokerage activity in accordance with the clearance issued by the Polish Financial Supervision Authority (KNF) on 10 June 2014.

- **Removal of BFI Serwis in liquidation from the business register (KRS) on 20 November 2014**
- **Loss of control over BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie (TUnŻ) and BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie (TUO)**

On 18 September 2014, Bank Zachodni WBK received a notification from Aviva International Insurance Ltd. (Aviva) regarding the exercise of a call option for the acquisition of 17% of the shares in BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO pursuant to the agreement of 1 August 2013 between Bank Zachodni WBK, Aviva, BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO. After fulfilling the conditions precedent, i.e. obtaining a decision of KNF confirming the absence of grounds for objecting to the direct acquisition by Aviva of the above-mentioned shares, on 27 February 2015 the bank concluded an agreement on the sale of the shares and effected a transfer of the ownership title to these shares to Aviva. After the transfer, the bank holds a 49% stake in the share capital and the voting power of each of the insurance companies, with the remaining 51% of the shares and votes being held by Aviva.

With the exception of one company, all the entities within Bank Zachodni WBK Group are consolidated with the bank in accordance with IFRS 10 as at 30 June 2015. Lizar has been excluded from the consolidation given its small business size and immaterial financial performance.

## Associates

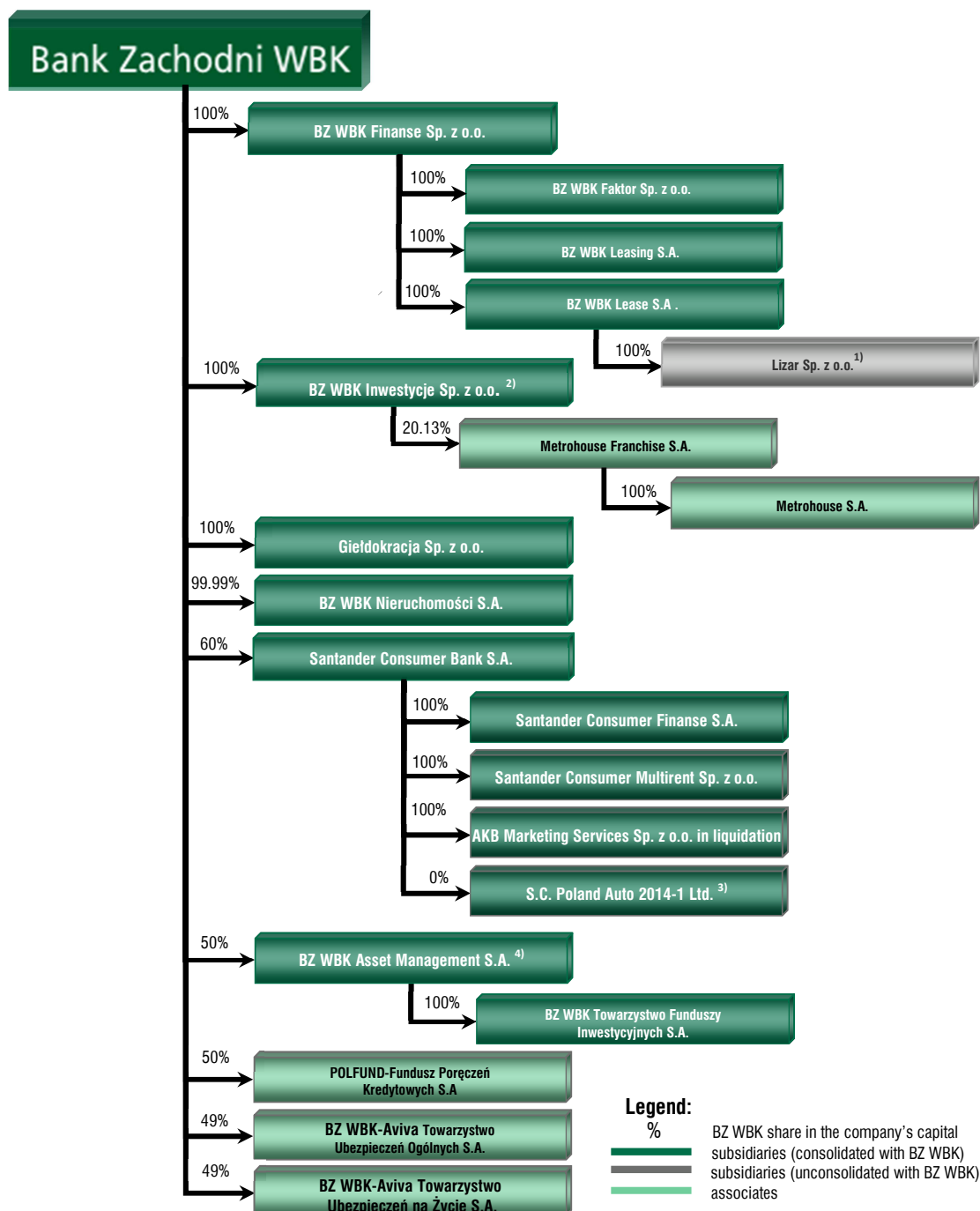
In the consolidated financial statements of Bank Zachodni WBK for the 6-month period ended 30 June 2015, the following companies are accounted for using the equity method in accordance with IAS 28:

1. Metrohouse Franchise S.A. - associated undertaking of BZ WBK Inwestycje Sp. z o.o.
2. Metrohouse S.A. – subsidiary of Metrohouse Franchise S.A.
3. POLFUND - Fundusz Poręczeń Kredytowych S.A.
4. BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. (BZ WBK-Aviva TUO)
5. BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. (BZ WBK-Aviva TUnŻ)

Compared with 30 June 2014, the list of associates changed as a result of the following:

- Loss of control over BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ by Bank Zachodni WBK on 27 February 2015 and change of the classification of the companies from subsidiaries to associates.
- Set up of Metrohouse Franchise (registered on 1 July 2014) – as part of organisational changes in Metrohouse Group – to which BZ WBK Inwestycje transferred all shares of Metrohouse in September 2014 in exchange for 41,630k shares in Metrohouse Franchise representing a stake of 20.58% in the share capital and voting power of the company. As a result of an increase in the share capital of Metrohouse Franchise, the share of BZ WBK Inwestycje in the above company was reduced to 20.13%.
- Sale of 320,000 shares in Krynicki Recycling by BZ WBK Inwestycje in December 2014, as a result of which the stake in the share capital was reduced to 19.96% and the company was removed from the list of associates accordingly.

## Organisational Chart of Entities Related with Bank Zachodni WBK Group as at 30.06.2015



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

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

3) S.C. Poland Auto 2014-1 Limited is an SPV set up for the purpose of securitization of part of SCB credit portfolio. Shares in the company are held by foreign individuals who are not connected with the Group. The company is controlled by SCB as it meets the conditions laid down in IFRS 10.7.

4) As at 30.06.2015, 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 Banco Santander pursues its policy in Poland through it. Consequently, the company is treated as a subsidiary.

## III. Macroeconomic Environment in H1 2015

### Economic Growth

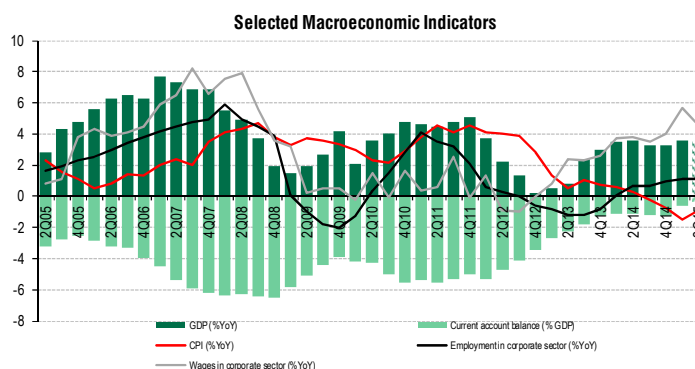
In Q1 2015, GDP growth in Poland was 3.6% YoY, showing a pace comparable, yet slightly higher than in 2014 (3.4%). Based on monthly data, we estimate that economic growth remained at a similar level in Q2. Main growth drivers at the start of 2015 were: private consumption, supported by the very positive labour market situation and favourable consumer confidence; investment, underpinned by good moods of entrepreneurs, positive demand forecasts, high level of capacity utilisation and easy access to financing; and by foreign trade, where exports noted positive results thanks to recovery in the euro zone. Imports also accelerated, supported by strong domestic demand, but also constrained by lower prices of commodities thanks to a considerable decline in global oil prices. The Polish external imbalance declined at the start of 2015. According to the bank's estimates, the current account deficit accounted for approx. 0.1% of GDP at the end of Q2 2015 vs. 1.3% of GDP at the end of 2014. However, the output gap remained negative.

### Labour Market

In H1 2015, the labour market stayed in a very good shape. Average employment in the corporate sector increased gradually, and higher demand for employees was generated mostly by industrial manufacturing, trade, transport as well as administrative and supporting activities. Tendencies in other sectors remained weaker. Unemployment rate continued to fall, both as regards registered unemployment and LFS unemployment, and is at the lowest levels since 2009. Still, the pace of decline in unemployment is slowing down, which can be a sign of drying supply of workers with adequate qualifications, which can translate into higher wage pressure. Nominal wage growth in the corporate sector was approx. 3.5% YoY, which together with negative growth in consumer prices and positive increase in employment caused a significant rise in disposable incomes in real terms. According to our estimation, real wage bill in the corporate sector increased by approx. 6.0% YoY, the fastest since 2008.

### Inflation

Inflationary pressure was really low at the start of 2015, influenced by positive supply shocks, deflationary tendencies in the Polish economic environment and still negative output gap. CPI inflation was -1.2% YoY on average, reaching an all-time low at -1.6%YoY in February and then rising slowly. Nonetheless, inflation remained negative and growth above zero is expected at the year-end. Gradual price growth should be supported by reviving consumer demand and stopping downward trends in food prices. CPI inflation excluding food and energy prices amounted to 0.4% YoY in H1, while PPI inflation was about -2.5% YoY.



### Money Policy

In March, the Monetary Policy Council (MPC) cut interest rates by 50bps, with reference rate falling to 1.50%, the lowest level ever, in reaction to an expected prolonged period of deflation. At the same time, the MPC declared that it had concluded the monetary policy easing cycle. However, the MPC did not close the door to further rate adjustments – according to minutes from its meetings,



most MPC members supported the view that unexpected strong shocks in the Polish economy or its environment should be addressed by the monetary authority. Still, most comments of the MPC members and messages of the minutes showed the Council is of the opinion that most probably there will be no need to make any changes in the monetary policy until end of the current term of the MPC (i.e. until early 2016).

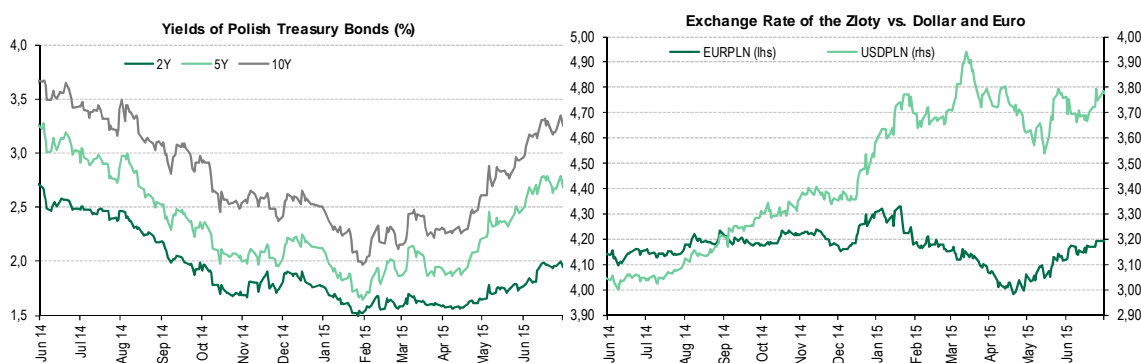
## Credit and Deposit Market

At the start of 2015 the credit market situation was relatively positive. The growth in business loans was maintained at 5% YoY (after FX adjustment), yet recorded a slight slowdown at the end of Q2. Investment loans showed a high, double-digit growth rate, while current loans increased at a slower pace and property loans were stagnant. Loans to households increased by 4% YoY. The growth in deposits of households and businesses was solid and slightly below 10% YoY, supported by their increasing incomes. Due to a considerable rise in CHF/PLN exchange rate, the quality of CHF-denominated mortgage loans decreased and for the first time since comparable data became available, the NPL rate for these loans equalled the NPL rate for PLN-denominated mortgage loans.

## Financial Market

Financial market situation was very volatile in H1 2015. Investor moods stayed under the impact of a number of factors: 1) actions of central banks, including the Swiss National Bank, which decided to abandon the EUR/CHF floor at 1.20; extended asset purchase programme started by the European Central Bank in March and interest rate cuts by the Polish MPC; 2) expectations about timing of monetary policy tightening in the US; 3) improving economic prospects in the euro zone and stronger rebound of the Polish economy; 4) prospective changes in the Poland's economic policy; 5) geopolitical factors (prolonging Russia-Ukraine conflict, situation in Greece).

The probability of changes in Poland's economic policy as well new proposals impacting the banking sector contributed to a sell-off of a wide range of Polish assets. The wave of weakening of Polish assets was also fuelled by the uncertainty about the bailout programme for Greece. Rising risk of the Greek default and chances that this country might leave the euro zone triggered a higher risk aversion, which negatively affected asset prices. After reaching all-time lows in January (yield of 10Y bond declined to 1.96% and 10Y IRS reached 1.77%), further months brought a rise in yields/IRS rates, particularly in June (yield of 10Y bond temporarily reached 3.36%, the highest level since mid-2014). Both curves steepened considerably in one year's perspective – 2-10Y spread rose to 135bps for bonds (as compared to 95bps at the end of June 2014) and to 100bps for IRS (vs. 87bps). Moreover, rising risk aversion contributed to a significant spread widening between Polish and German bonds – for 10Y sector this spread rose to 253bps, the highest level since May 2014.



The FX market was highly volatile in the first half of 2015. The domestic currency was under more considerable impact from global factors (actions of central banks, geopolitical factors) than from the domestic economic situation. The domestic currency was relatively stable versus the euro (the zloty weakened 1% versus the euro as compared to end of June 2014 but gained 2% as compared to end of 2014) but weakened versus other main currencies. Divergence in the monetary policy of the main central banks (ECB and Fed) and rising risk that Greece will exit the euro zone caused a significant weakening of EUR versus USD, which translated into a higher USD/PLN rate. After temporarily reaching 3.95, the USD/PLN rate stabilized close to 3.76 at the end of June 2015. As compared to end of June 2014, the zloty weakened by 24% versus the US dollar and by 7% as compared to end of 2014. PLN weakening versus the Swiss franc by 18% as compared to end of June 2014 and by 14% versus the end of 2014. The zloty managed to trim some losses suffered after the unexpected decision of the Swiss National Bank, which abandoned the EUR/CHF floor. However, the rise in risk aversion due to uncertainty about Greece caused an increase in the CHF/PLN rate to around 4.05 at the end of June 2015.



## IV. Development Strategy

### 1. Strategy of Bank Zachodni WBK Group

In H1 2015, Bank Zachodni WBK Group pursued the strategy for 2015-2017, which is a continuation of the previous course of action, based on the same values and assumptions. At the core of the strategy is the Next Generation Bank Programme which promotes a customer-centric culture in business management.

#### Vision and Mission

##### Cultural Framework

Purpose	TO HELP PEOPLE AND BUSINESSES PROSPER
Aim	<i>To be the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities</i>
How	Simple   Personal   Fair Driven through Next Generation Bank
Values	Customer satisfaction, Innovation, Strength, Leadership, Engagement, Ethics

In line with the adopted vision, Bank Zachodni WBK aspires to become the best retail and commercial bank in Poland that provides satisfaction to customers and other stakeholders and contributes to employee engagement and passion.

As part of its strategic vision, the Group intends to:

- provide unparalleled customer service to build customer loyalty and satisfaction, with an increased focus on affluent personal customers
- significantly diversify its income sources, while maintaining a sound capital and liquidity position
- continue the prudent management of risk and asset quality
- improve efficiency on the back of top-notch IT systems and fast-track customer service
- achieve best-in-class profitability ratios
- grow a highly profitable and top quality credit portfolio
- maintain its leadership position in the mobile banking market and continue the development of products and services available via electronic channels
- increase operational synergies within Bank Zachodni WBK Group following the incorporation of Santander Consumer Bank
- achieve the highest level of employee satisfaction on the basis of robust corporate culture and support from the strong management team.

To deliver its vision, Bank Zachodni WBK Group will pursue the following strategic goals:

- enhance its presence in the Polish banking sector and strengthen its market position as the third largest bank in Poland
- expand the range of products and services offered and improve customer service and the overall customer experience
- maintain strong profitability ratios on the back of diversified income sources, an effective cost management policy and revenue synergies
- gradually improve its total assets, ensure stable funding sources, and maintain a solid capital position, as evidenced by a comfortable capital ratio
- achieve best-in-class efficiency and productivity ratios by leveraging Santander Group's economies of scale

- build a reputation as the best employer in the Polish banking sector by continuously developing staff expertise and engagement
- maintain the loan-to-deposit ratio below 100%
- further reduce the cost-to-income ratio through the active management of revenues and expenses.

The key measures of success for the Group's 2015-2017 strategy are as follows:

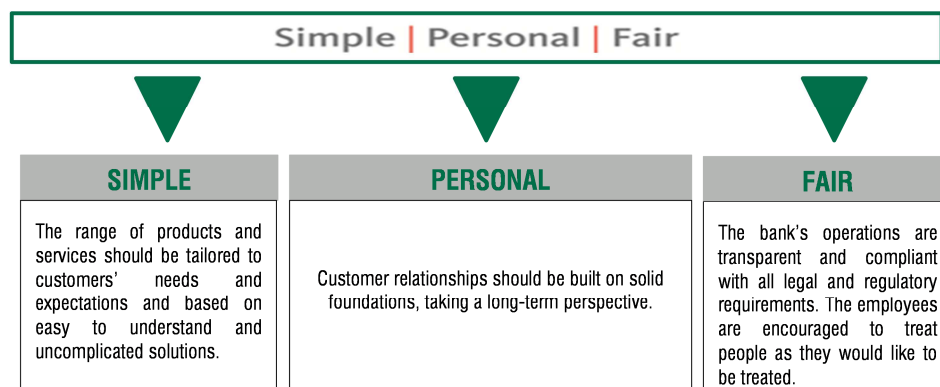
- completed transformation of the bank into a customer-centric institution focused on customer needs
- achievement of higher rates of return than the competition
- maintenance of net profit growth on a year-on-year basis from 2015 to 2017
- increase in ROE and continued rigid cost management policy
- delivery of the vision of the bank of satisfied customers and people working with passion.

## 2. Next Generation Bank Programme

### Key Assumptions

The Next Generation Bank Programme (NGB), which was launched in October 2013, delivers projects aimed at strengthening the position of Bank Zachodni WBK as the first-choice bank. To that end, measures are taken to transform the Group towards a customer-centric organisation (focused on customer needs) which employs well-motivated, engaged and collaborating people.

The Next Generation Bank implements a new corporate culture - "Simple, Personal, Fair".



The main features of the Programme are as follows:

- Dialogue with customers, centred on their needs and concerns, with messages tailored to the customer's personal circumstances; the bank perceived by the customer as a trusted partner
- Personalised and proactive offers originating from a holistic knowledge of customer needs throughout their lifetime cycle, taking account of their risk profile; commitment to exceeding expectations of customers in key moments of their lifetime cycle
- Simple-to-understand products and transparent product features
- A uniform and personalised customer experience, making it simple to interact with the bank across multiple available channels, at a time and place of the customer's preference
- A way of pricing that is fair and transparent to the customer, based on the value of the relationship; the proactive communication of alternatives
- IT solutions and internal processes designed and optimised around the needs of the customer, making critical processes fast
- Embedding customer satisfaction into incentives throughout the organisation

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

In H1 2015, the bank continued the transformation process in accordance with the assumptions of the Next Generation Bank Programme - an engine for delivering on the Group's strategy and a platform for implementing the new corporate culture: "Simple, Personal, Fair".

### Simple Bank

In the Simple Bank stream, the bank continued with the Cashless Bank project aimed to equip branches with multi-use devices. 400 devices are planned to be installed by the year-end, combining the features of an ATM and a cash deposit machine. The bank began work on the extension of self-service areas which are available 24/7, and opened pilot cashless branches.

Placed in the mainstream of the Paperless Bank Project are works towards digitalisation and automation of processes and services.

As part of comprehensive review and streamlining of processes and products are in progress, the range of products and services for segments will be optimised and the list of products on offer will be reduced by more than 360 items by the year-end. Banking processes are being verified and the last back-office functions are being removed from branches.

### Multichannel CRM

The bank continues with the project aimed to provide customers with full access to products (sale and after-sale support) and services in all remote channels without the need to visit a branch. To this end, in April 2015 the bank offered after-sale support for cash loans, mortgage loans and overdrafts over the telephone.

In Q2 2015, in the Multichannel CRM stream, a prototype of a new front-end application for branches and Telephone Banking Centre called NEOCRM+ was developed. The functional specification was prepared on the basis of the bank's experience and best practice of Santander Group in customer relationship building (the implementation is scheduled for December 2015). The bank also worked on the project aimed at implementing new analytical tools to support the multichannel CRM (in Q3 2015, first sales campaigns will be launched using the foregoing tools).

### Advanced Business Banking

The Advanced Business Banking stream focused on the optimisation of business cooperation between the divisions. The Global Banking & Markets Division worked closely with the Business & Corporate Banking Division to develop the bank's products and services, including corporate finance.

In Q2 2015, the bank completed the Banker 2.0 project designed to increase the strength of the relationship with the major Polish companies. As part of the project, a new relationship building model was implemented, a new sales strategy was devised and operational processes were modified and improved. The Business & Corporate Banking Division held a series of workshops to increase operational efficiency of sales teams.

### Employee Engagement and Development

In early June 2015, the Employee Engagement and Development stream launched a development programme called "3 Days Trial" which provides employees with an opportunity to do internships within the organisation and learn about roles and responsibilities of other teams, develop new competences and build up relationships with colleagues from other units. In order to foster the culture of collaboration between the Divisions, workshops and training sessions are organised for representatives of cooperating units.

Furthermore, the bank continues with the New Management Style Programme whose aim is to develop management styles and skills of all managers in Bank Zachodni WBK. In May 2015, over 80% employees completed the survey and assessed the leadership styles of their line managers. The analysis of findings and planning of development initiatives is currently underway.

# V. Business Development

## 1. Retail Banking

### Personal Customers

#### New Segmentation and Portfolio Assignment

In January, Bank Zachodni WBK modified the segmentation criteria for personal customers. A Private Banking segment was separated from the VIP segment, and a Premium segment was extracted from the Standard segment, which allows for more effective management of segments, adequate modification of product range and pricing, adjustment of sales and service channels, and reduction of customer fluctuation between segments.

On 1 June 2015, the bank modified the rules for assignment of customers to different portfolios with dedicated service standards and product range to foster development of long-term relationships. The portfolio assignment process covered nearly 70% of Premium customers who are provided with unique personalised services based on regular relationship building, sales and after-sales contacts.

In the second quarter of 2015, the bank launched segmentation of commercial customers. The next step will involve the review and modification of products and services dedicated to individual customer groups according to their specific needs and expectations.

#### Development of Products for Personal Customers

##### Personal Accounts and Bundled Products

###### *Personal Accounts*

In H1 2015, Bank Zachodni WBK continued to acquire new customers on the basis of its existing range of personal accounts, in particular the Account Worth Recommending (Konto Godne Polecenia) with its bundled products, which was the main focus of the bank's promotional campaigns in the reporting period.

The sale of the Account Worth Recommending was supported by the Account for Investor (Konto dla Inwestora), offering a bonus for customers who open and activate a brokerage account and a personal account under the Well-Matched Duo (Owocny Duet) offer. The Account Worth Recommending was also promoted among customers and employees of external companies based on the co-operation agreements which offer business benefits to both parties. As part of joint promotional activities, the customers of electricity supplier PGE Obrót may get back a percentage of their electricity bill payments (with a defined annual limit) if they open a personal account and pay bills, while AVON consultants are rewarded with cosmetics for active use of an account.

On 15 April 2015, the bank joined the "Big Family Card" national programme delivered by the Ministry of Labour and Social Policy, which provides large families with a range of discounts and special offers from public institutions and private entities. To this end, Bank Zachodni WBK launched a special offer called "Big Family Card" which features 1 | 2 | 3 Personal Account, 1 | 2 | 3 credit card, MasterCard Payback credit card and overdraft and mortgage loan on preferential terms. The terms granted during the period of the special offer, i.e. between 11 May 2015 and 16 April 2016, are valid throughout the life of an agreement for a specific product.

### **Debit and Prepaid Cards**

In February 2015, the bank introduced the following changes to the range of debit cards, which had been communicated to customers in November 2014:

- VISA Electron VIP card linked to the Account Worth Recommending (under a family offer) was replaced with MasterCard Omni card
- holders of MasterCard Omni card bundled with the Account Worth Recommending were offered free cash withdrawals from any ATMs in Poland in exchange for a monthly card fee
- Maestro Oszczędnościowa card was withdrawn from the offer
- MasterCard PAYBACK and MasterCard PAYBACK Multi cards are available with all personal accounts offered by the bank (except for Avocado account)
- The limit of CashBack transactions with VISA card was increased to PLN 300.

In April 2015, debit card holders were informed about new services to be implemented in July 2015 such as new Visa VIP embossed card, obligatory 3D Secure service for holders of debit and credit cards bundled with BZWBK24 electronic banking services as well as complaints management and change communication via text messages.

In H1 2015, the range of prepaid cards was extended to include the following products:

- virtual VISA card – an innovative product created in cooperation with PayUp (Eurocash) which is sold via POS terminals (card details are printed by the terminal) and can be used in the selected retail chains (Lewiatan, Groszek, Delikatesy Abc, Delikatesy Centrum, Eurosklepy)
- cards issued for bank's partners with a limited merchant network
- pilot implementation of a new product "Card with an account just like that" developed in cooperation with Żabka Polska with an ultimate goal to sell a "light account" in Żabka and Freshmarket retail chains.

Over the last six months, the bank continued to promote card payments in cooperation with Visa and launched a project aimed at streamlining the range of cards offered to customers.

As at 30 June 2015, the personal debit card portfolio of Bank Zachodni WBK comprised more than 3.9m items (including 881k prepaid cards, up 10% YoY).

Taking into account business cards, a total number of Bank Zachodni WBK debit cards (including prepaid cards) reached 4.1m items, an increase of 2% YoY.

### **Savings and Investment Products**

With regard to deposit and investment instruments, in H1 2015, the bank focused on optimisation of yields in a low interest rate environment and diversification of the portfolio to achieve the best possible proportion between traditional bank deposits and investment products such as structured deposits, mutual funds, stock exchange investments and other brokerage products.

In the reporting period, the base of savings and investment instruments grew on account of term deposits, bonus deposits, Arka mutual funds, assets in brokerage accounts and structured deposits.

### **Bank Deposits**

In the first half of 2015, Bank Zachodni WBK strengthened the relationship with deposit customers by modifying the product range and pricing in a way that rewards customers' activity and scope of their relationship with the bank. The above activities were supported by the sale of two new deposits, i.e. Bonus Deposit and Bonus Deposit for Investor, which pay relatively high interest on condition of active use of other banking products (both settlement and savings/investment instruments). The new funds were acquired on the back of a modified range of savings accounts, including á la Deposit Account (á la Lokata savings account) on special offer, and a 6-month fixed rate term deposit for new funds.

### **Brokerage Solutions**

In the reporting period, the bank was successfully building the awareness and position of products offered by the Brokerage Office among personal customers, which was reflected in a growth in the number of investment advice agreements and brokerage accounts. This was achieved on account of expansion of the distribution network of brokerage services to more than 400 outlets with over 900 trained and certified advisors as at the end of June 2015, as well as regular meetings with customers and promotion of the Account for Investor including a brokerage account bundled with the Account Worth Recommending.

### **Investment Funds**

BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI) closed H1 2015 with a positive balance of contributions and redemptions, securing the fourth position in the retail segment of the domestic mutual fund market. Positive net sales were reported each month, except for June when customers of debt sub-funds limited their purchases of new units or redeemed the existing ones due to temporarily negative investment results.

As at 30 June 2015, the total net assets managed by BZ WBK TFI were PLN 13.6bn, an increase of 15.3% YoY and 5.9% Ytd. In H1 2015, customers were particularly interested in the following corporate bond sub-funds: Arka Prestiż Obligacji Korporacyjnych and Arka BZ WBK Obligacji Korporacyjnych. According to Analizy Online, the former sub-fund reported the highest balance of inflows in the reporting period while the latter was ranked among the top five funds. Both sub-funds offer an attractive yield at a relatively low risk.

In H1 2015, a number of updates were introduced to the Prospectus of both Arka BZ WBK FIO and Arka Prestiż SFIO. Among others, two sub-funds of Arka BZ WBK FIO were renamed (Arka BZ WBK Ochrony Kapitału as Arka BZ WBK Gotówkowy and Arka BZ WBK Akcji as Arka BZ WBK Akcji Polskich) and the investment policy of Arka Platinum Stabilny and Arka Platinum Dynamiczny sub-funds was modified to allow investments of more than 35% of assets in securities issued or guaranteed by the State Treasury or the National Bank of Poland.

On 1 July 2015, two products were withdrawn from BZ WBK TFI offer: My Future Investment Programme and Flying Start Investment Programme. All agreements concluded before 30 June 2015 in relation to the above programmes will continue on the existing terms.

In the reporting period, BZ WBK TFI won accolades for the performance in 2014, which are described in detail in section "Awards and Recognitions" in Chapter X "Additional Information".

### **Structured Deposits**

In H1 2015, the bank continued to sell structured deposits with a wide variety of tenors and underlying instruments to suit customers' needs. The bank offered 6-, 9-, 12-, 15-, 18-, 24- and 36-month deposits with yields linked to exchange rates or stock indices and 100% capital protection at maturity.

The bank offered 79 products in the total of 38 subscriptions, including:

- 27 subscriptions for standard personal customers:
  - In 12 subscriptions, the bank offered deposits where the interest rate was linked to the EUR/PLN or USD/PLN rate, and was also dependent on the investment strategy adopted by the customer: appreciation, depreciation or stabilisation of currency
  - In 11 subscriptions, the yield was linked to stock indices: SX5E, SX7E, DAX, SXEE;
  - Four subscriptions of FX structured deposits paid interest depending on EUR/PLN, USD/PLN or EUR/USD rate.
- 10 subscriptions were made exclusively to VIP personal customers, with interest linked to USD/PLN or EUR/PLN exchange rate and SX5E index
- One issue was targeted at Private Banking customers, with yield depending on the performance of SPDR Gold Shares investment fund.

In all, more than PLN 1bn worth of funds were raised as a result of the aforementioned subscriptions.

## Personal Loans

### Cash Loans

In H1 2015, cash loan sales went up by 3% YoY. An increasing share of loan disbursement is delivered in the remote distribution channels such as Telephone Banking Centre and Internet banking, which is reflected in a dynamic growth of sales in these channels, reaching 72% YoY and 59% YoY, respectively.

In February and March, the bank's sales activities were supported by a multi-media campaign run in TV, press, Internet, cinemas and branch network. The campaign focused on a fast and easy lending procedure under which regular customers are granted credit decision without the need to present any additional documents. In June 2015, the bank launched a special offer of "Interest-Free Loan" valid from 22 June to 31 August 2015. Customers may apply for a 0% interest cash loan from PLN 1k up to PLN 50k which is available with an obligatory insurance cover and a commitment fee of 12%.

### Mortgage Loans

In February 2015, the range of products and services of Bank Zachodni WBK was expanded to include a Capped Loan (Kredyt nie droższy niż). Borrowers who meet certain criteria are offered a capped rate (3M WIBOR) on a home loan or an equity release in PLN for the period from 1 to 5 years (chosen by the customer). The above solution allows customers to hedge interest rate risk, especially in an environment of record low interest rates. In May, the bank introduced new fixed interest rates (applicable for 5 years) for home loans (4.35%) and equity releases (5.85%) to increase competitiveness of this type of products.

In the reporting period, a number of improvements were implemented in the area of after-sales services for mortgage loans. Customers may now contact the bank's helpline to enquire about the loan, apply for a banker's statement, place an instruction for early repayment or apply for a change of contractual terms.

Bank Zachodni WBK took a number of measures to assist CHF mortgage borrowers, in particular:

- a negative LIBOR CHF reference rate was applied, with a financial effect reflected in the current loan instalments (for agreements where the sum of margin and LIBOR CHF expressed as percentage is negative) and the repayment schedules adjusted accordingly
- a currency spread was reduced to 2% for CHF in the close period until 31 December 2015
- a fee for annexes was waived in relation to forbearance solutions connected with CHF loans.

In H1 2015, the value of new mortgage loan drawdowns totalled PLN 2bn and was higher by 50% on the same period last year. The mortgage loan-book increased by 10% YoY to PLN 29.6bn.

### Credit Cards

In the first half of 2015, Bank Zachodni WBK ran intensive campaigns, launched special offers and held competitions to encourage greater use of non-cash payments and promote additional credit card features (e.g. change of the credit card limit over telephone).

In February, the bank introduced "Starter Card" (Karta na start) – a special offer on MasterCard Silver credit card with the limit of PLN 2.5k, which was renewed in June. Customers who sign up for the above credit card for the first time or after a break do not pay an annual/monthly fee (for the first two years) and can use a number of services free of charge, including cash withdrawals at BZ WBK ATMs, conversion of FX transactions and activation of the Ratio service (payment in instalments).

As part of professional concierge services, in March the holders of Visa Platinum and Visa Platinum Porsche were covered by a programme under which they are updated on major cultural events and can have a reservation made or tickets purchased for them. In May, the features of World MasterCard credit card were improved, i.e. a foreign transaction fee was waived and the loyalty programme was expanded to offer rewards in the Travel for Points category.

As at 30 June 2015, the credit card portfolio of Bank Zachodni WBK comprised 768.8k instruments, an increase of 16% YoY.

## Private Banking

Since May 2015, Bank Zachodni WBK has been rendering Private Banking services to customers with more than PLN 3m worth of assets. Introduction of the new customer segmentation criteria resulted in the reduction of the customer base, which allows advisors to provide services in a more comprehensive and flexible way. The total value of assets under wealth management is nearly PLN 6.5bn.

The bank modified the strategy in order to earn trust and increase satisfaction of customers, which in turn should have a positive impact on financial results.

The Private Banking and Brokerage Support Department cooperates in this regard with the global Santander Private Banking structures to leverage their knowledge and experience and gain access to product solutions.

## 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. Drawing on its own experience, the bank continues to adapt its products and functionalities to suit the requirements of its customers and gradually expands its offering.

In H1 2015, Bank Zachodni WBK started co-operation with new partners and expanded the scope of relationship with the existing ones, mainly with respect to management of ATMs and issuance and handling of cards. As part of the continuous improvement process, the functionality of services was expanded to include an option to enable/disable a payment function on cards handled for other banks. As at 30 June 2015, Bank Zachodni WBK co-operated with more than 20 banks, managed a network of 576 third-party ATMs and handled nearly 3.0m Visa/MasterCard cards for third party institutions.

## Bancassurance

In H1 2015, Bank Zachodni WBK continued the implementation of Recommendation U issued by KNF. Relevant changes were introduced at the end of March 2015 and were preceded by intensive training and certification workshops aimed at preparing bank's employees (ca. 6 thousand) to sell insurance products under an agency model. In relation to the transfer from group to individual insurance plans, IT systems and processes were modified both in the bank and in the cooperating insurance companies (BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ).

The bank offers a wide range of individual insurance products and has been acting as an insurance broker of BZ WBK-Aviva companies under insurance agreements. In February, the scope of insurance products offered by the bank was extended to include a new product for SME customers called "Partner in Business", which offers a multirisk insurance coverage for business activities. In addition, Insurance Retention Team was set up in the Telephone Banking Centre to convince insurance customers to continue their relationship with the bank.

## 2. SME Banking

### Set-up of SME Banking Division

In April 2015, the SME Banking Division was set up in Bank Zachodni WBK to cater for the needs of small and medium companies and build long-term relationships with customers from this segment.

Products and services for SME customers include eight current account packages which are tailored to the size, profile and needs of individual companies as well as a wide array of credit facilities, including working capital financing from the European Investment Bank, investment loans, preferential loans subsidised by the Agency for Restructuring and Modernisation of Agriculture (ARiMR) and guarantees, leasing and factoring facilities. Long-standing relationships with customers are also supported by attractive trade finance solutions which are dynamically developed by the Business & Corporate Banking Division.



## Product Range Development

In H1 2015, Bank Zachodni WBK implemented a number of changes to increase the competitiveness of products and services for SME customers:

- SME lending process was streamlined, by increasing the maximum amount of loan in the simplified procedure from PLN 200k to PLN 300k. The product range was expanded to include a fixed margin loan and a Capped Rate, i.e. an embedded cap option which allows companies to hedge against interest rate risk. The bank also re-launched co-funding for projects delivered from EU funds for 2014-2020 as well as preferential loans for agriculture subsidised by the Agency for Restructuring and Modernisation of Agriculture as per the newly signed agreement. The diversity of lending solutions offered by the bank combined with the favourable market environment contributed to a more than 10% increase in sales of SME loans over the reporting period.
- The range of deposit and settlement products was expanded to include a special Business Account Worth Recommending package, i.e. a PLN current account, a single FX account (EUR, USD, GBP or CHF) and domestic transfers via e-banking platform, all of which are offered free of charge. Likewise, no fees are charged for international transactions for the period of one year.
- During the first half of the year, the functionality of Internet and mobile applications was gradually upgraded. In March 2015, the bank introduced new solutions for holders of business payment cards, e.g. the limit for CashBack transactions with VISA cards was increased to PLN 300 and the functionality of debit card transaction limit management was expanded to include an opportunity to set monthly limits for cash, non-cash and remote transactions.

## Educational and Information Support for Customers

Bank Zachodni WBK organises industry workshops, conferences and meetings with entrepreneurs to offer expert advice and create a communication platform to identify customers' business needs and respond with adequate products and procedures.

In H1 2015, the bank held a series of 12 conferences as part of the Entrepreneur Academy entitled "How to beat your competitors in the race to EU funds?". The conferences were attended by nearly 1.3 thousand entrepreneurs who were interested in EU subsidies as part of the new financial perspective 2014-2020, with the total pool of funds of EUR 17bn earmarked for company development. The participants were provided with a practical guidance on the rules of distribution of EU funds compared to 2007-2013 as well as the application procedures. They could also get inspiration from the presentation of successful initiatives completed in the previous years. As the initiative received positive feedback, another 38 conferences are planned to be held in H2 2015.

## Business Development

In the first half of 2015, the bank reported more-than-satisfactory performance in terms of lending to SMEs. Sales volume grew on a monthly basis, reaching 20% YoY at the end of H1 2015. This translated into a 10% YoY growth of the entire credit portfolio. An increase was also reported in the deposit portfolio whose volume rose by 6% YoY.

## Leasing Business

In H1 2015, BZ WBK Leasing and BZ WBK Lease financed PLN 1,915.5m worth of net assets, which represents a 39.6% growth YoY and strengthens the companies' position among the top players in the leasing market.

Sales of machines and equipment grew particularly dynamically, reaching PLN 991.7m for the first six months of 2015 (+42.6% YoY). With this result, the leasing companies held the leadership position in the segment of machines and equipment with a nearly 13% market share. The increase was strongly driven by the agro sector, which is targeted by the leasing companies with a comprehensive and attractive offer. In the vehicles segment, sales went up by 12.5% YoY to PLN 479.9m, due to the lease of cars and delivery vans.

Record high sales reported by the companies in H1 2015 stemmed from consistent strategy execution, development of distribution network and access to customer base of Bank Zachodni WBK. In early 2015, a land purchase loan for sole traders was introduced. As a pioneering product in Poland, the loan was recognised by the financial sector and received an award from *Gazeta Finansowa* for the best product for business in the agriculture category. Moreover, in H1 2015, dedicated solutions were implemented to speed up credit assessment in the fast-track process. The simplified procedure was offered to agro and construction sector customers along with other attractive solutions, which helped to enhance the competitive edge of the leasing companies.

### 3. Business and Corporate Banking

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 turnover volume: corporate segment, large corporate segment and property finance segment.

In H1 2015, the Business & Corporate Banking Division strengthened its market position on the back of stable business growth and an enhanced service quality proposition in line with the customer-centric strategy of the bank.

#### New Development Directions

At the end of 2014, the Business & Corporate Banking Division received the Management Board approval for the concept of transformation of BZ WBK into the first-choice bank for customers already present or seeking to expand their business to international markets. To this end, measures were taken to develop the product range for export and import companies and strengthen the market position in the foreign trade sector. The objective of the project is threefold:

- to develop products, processes and systems
- to increase market presence and ensure effective communication with customers (e.g. Export Development Programme)
- to set up product teams dedicated to the international business.

An important element of the bank's strategy to build a leadership position in the trade finance sector is a three-year Export Development Programme set up by the bank to support export sales. The programme was launched with a series of conferences taking place from May to June 2015 in 12 cities in which BZ WBK Corporate Banking Centres are located. The initiative is addressed both to first-time exporters and established exporters looking to grow their business. The purpose of the programme is to support Polish entrepreneurs in expanding into new markets and encourage effective business partnering with foreign companies. The programme is run in cooperation with corporate partners with relevant expertise. The bank also invited the representatives of public administration, local government and commercial chambers whose commitment and mutual cooperation are one of the key success factors for Poland's exports. The Export Development Programme is delivered under the auspices of the Ministry of Foreign Affairs and the Ministry of Economy.

At the end of 2014, the Management Board gave its approval to the intensification of activities in the agro sector. Measures were taken to set up a dedicated team and expand the range of products and services for personal, SME and corporate customers from the above sector.

#### Development of Customer Entrepreneurship

In H1 2015, the Business & Corporate Banking Division provided proactive advice and support to customers through a series of meetings. Apart from the conferences held under the Export Development Programme, the following measures were taken:

- The bank continued with the trade mission programme started last year to support Polish exporters in business networking and expansion into foreign markets (mainly via video conferencing):
  - ✓ UK Mission – a business meeting between Bank Zachodni WBK customers and British counterparts planning to enter the Polish market, organised in cooperation with Santander UK. The participants were presented with products and services of both banks and an overview of the current economic situation in Poland along with the business potential of the Polish market. The event also provided a good opportunity for customers to present their business profile and network with potential business partners.
  - ✓ China Mission – a meeting between Polish food manufacturers looking to grow their export sales (nearly 90 companies) and the representatives of Chinese distributors from Shanghai, Beijing and Guangdong.

- Meetings at the Corporate Banking Centres addressed to customers interested in applying for EU funds to support business growth, during which the experts from the Division joined by the partners provided customers with practical advice on how to receive and use such funds. The meetings will be continued in the second half of the year.
- Corporate Academy – a programme aimed at promoting Bank Zachodni WBK at the selected universities in order to attract students.

## Development of Products and Services

The Business & Corporate Banking Division continued to improve its products and services, striving to maintain high quality and competitiveness and deliver an unparalleled customer experience.

In terms of products and services:

- improved ergonomics and new features were added to iBiznes24 electronic banking platform, including:
  - ✓ changes and improvements regarding account statements and reports
  - ✓ new solutions related to the management of transfer batches and foreign transfer formats
  - ✓ modification of eFX and Trade Finance modules and FX transactions as per customer feedback
  - ✓ optimisation of account opening and modification instructions placed in the form of e-requests in iBiznes24 platform
- innovative solutions were implemented in response to the needs of export and import companies (e.g. letter of credit and factoring under one limit)
- a package of EU-subsidised loans was introduced including issuance of letters of commitment and co-financing of projects in the form of subsidies and loans
- the range of electronic money orders was expanded to include transactions in EUR, USD, CHF or GBP
- new terms of cooperation were introduced as part of cash pooling services in relation to customers with a sound financial standing (zero balancing based on debt swap).

In terms of process optimisation:

- the process of changing transaction limits for business cards was simplified – customers may now do it by calling the Business Support Centre (COB)
- the credit delivery process has been further reduced, both in terms of credit decision making and loan disbursement
- the sealed envelope deposits procedure was modified
- the management of guarantees, counter-guarantees, pledged deposits, forfaiting and direct debits has been improved
- the global limit for de minimis guarantees with Bank Gospodarstwa Krajowego was increased from PLN 3bn to PLN 3.9bn to allow the bank to issue new guarantees
- quality of after-sales services was enhanced by way of:
  - ✓ implementation of regular reporting, monitoring and quality improvement for internal processes
  - ✓ extension of communication channels and facilitation of customer contact with the bank
  - ✓ advice and support from Trade Finance experts in terms of structuring and securing foreign transactions at the stage of contract negotiation
  - ✓ streamlining and speeding up the sealed envelope deposits process through designation of specialist cash management points (nearly 150 points across Poland).

In H1 2015, additional service quality surveys were implemented to cover different areas of the bank's business. The results are used to develop products and services. Customers appreciated in particular the professionalism of advisors, contact with the bank, functionality and accessibility of iBiznes24 platform as well as fast and customer-friendly account opening procedure.

## Business Performance

The economic recovery in H1 2015 had a positive impact on the activity of corporate customers and the share of Bank Zachodni WBK in the credit market. The lending business grew at a satisfactory rate of 6% over the first six months of the year, exceeding the market average.

The deposit base of corporate customers was up 9% on the end of December 2014, with a visible increase in profitability.

In the reporting period, the Business & Corporate Banking Division concluded a number of corporate transactions, including acting as book-runner and co-manager of the largest IPO on the Polish market this year (PLN 504m) and participation in a syndicated facility arrangement of 5 banks which provided financing of PLN 496m.

The bank maintained the second position among the participants of the De Minimis Guarantees Programme in terms of sales (the Business & Corporate Banking Division and the Global Banking & Markets Division are the business owners of the product).

## Factoring Business

In H1 2015, the turnover of BZ WBK Faktor came in at PLN 7,881.4m, up 17% 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. As at the end of June 2015, the company's credit exposure was PLN 2,591.5m and higher by 33% YoY.

## 4. Global Banking & Markets

### Global Banking & Markets

Global Banking and Markets Division (GBM) provides an end-to-end support to the largest corporate customers of Bank Zachodni WBK, allocated to that segment based on the turnover. It also renders services to corporate customers handled under the global framework of GBM. As at 30 June 2015, the active GBM customer base included nearly 130 companies and groups of companies from fuel, energy, mining, financial, FMCG, pharmaceutical, retail, chemical and household appliance sectors.

In addition to dealing with customers from its own segment, GBM conducted the bank's activity on financial markets, providing specialist financial products (including treasury, brokerage and corporate finance ones) to retail and corporate customers.

See below for the business profiles and performance of specific GBM business lines which correspond to the key organisational structures in the Division.

### Global Transactional Banking

Global Transactional Banking provides support to GBM customers in respect of management of cash held 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 2015, the bank finalised the implementation of a global e-banking platform (Santander Global Payments) as part of Transactional Banking. The integration of BZ WBK e-banking system for corporate customers with respective systems of the Santander Group has led to the development of a platform which ensures easier access to accounts maintained in different countries, supports the processing of payments via any account and fosters efficient cash management. The new solution greatly facilitates the bank's global customers, boosts the revenues from payments processed via the system and improves the bank's position as a global financial service provider.

In the reporting period, Transactional Banking closed a number of deals in relation to financing, guarantees and trade finance with the companies from financial, transport, construction and telecommunications sectors.

As at 30 June 2015, the portfolio of open credit lines totalled nearly PLN 3bn and was at a similar level compared to 30 June 2014.

The factoring business volumes increased by 78% YoY, up to PLN 1.4bn, a large portion of factoring business volumes coming from the retail sector.

The value of balances in customer deposits and current accounts went up by 39% YoY, reaching PLN 6.9bn at the end of June 2015.

## Financial Solutions and Advisory

### Corporate Finance

In H1 2015, the Corporate Finance Department provided analytical and advisory services to customers and was engaged as a financial/transactional advisor for companies from the financial, automotive, clothing, transport or construction sectors.

Under the agreement with the European Investment Bank, the Department managed the Urban Regeneration Fund for Greater Szczecin (JESSICA Programme). Approx. 92.4% of the managed fund was drawn as at the end of June 2015.

### Credit Markets

The GBM Credit Markets Department provides funding towards medium and long-term investment projects delivered by GBM customers through loans and debt issue.

In H1 2015, the Department closed several financing deals with companies from the chemical, energy and fuel sectors.

In H1 2015, Bank Zachodni WBK signed a financing agreement with the largest Czech producer of electricity as part of a bank syndicate for a total of PLN 700m. Apart from its role as the syndicate leader agent, the bank also serves as the facility and security agent.

In the syndicate with eight banks, Bank Zachodni WBK provided financing to a company from the fuel sector, comprising an investment loan of USD 432m and a working capital loan of PLN 300m. These funds (70% of project costs) were allocated toward the construction of a modern delayed coking unit and other supporting facilities ("EFRA Programme").

Bank Zachodni WBK was also selected by one of the largest State Treasury companies to participate in a syndicate to sanction a revolving loan up to PLN 1.5bn to cover corporate financing requirements and selected investment projects.

In the analysed period, the bank also completed two operations involving management of bond issue for a total value of PLN 700m and provided financing for a company from the medical sector (jointly with the Business and Corporate Banking Division).

As at 30 June 2015, the value of the open credit lines climbed to nearly PLN 6.9bn while the total value of credit receivables amounted to PLN 4bn, an increase of 6% YoY.

## Financial Markets

### Treasury

In H1 2015, 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 period under review the Treasury concluded a number of interest rate derivative transactions, including substantial deals with a GBM strategic customer and representatives of the property finance and large corporate segments.

Foreign currency transactions remain an important source of Treasury revenues. This line of business continued to promote solutions designed to hedge the FX risk and stabilise the balance sheet positions.

H1 2015 also witnessed a marked increase in income generated by option agreements.

### Brokerage Office

In H1 2015, the Brokerage Office continued to provide brokerage services to business and retail customers and, jointly with the Corporate Finance Department, organised securities issues as well as handled public and private offers of shares.

The performance of the BZ WBK Brokerage Office in H1 2015, as measured by the stock trading volumes in the main WSE markets, was as follows:

- The share in the equity market totalled 5.7% in H1 2015 and declined by 0.6 p.p. YoY. With its performance for the first six months of 2015, the Brokerage Office ranked 6 on the stock market.
- The share in the futures market amounted to 10.4%, up 1.4 p.p. YoY. The derivative market attracts an increasing number of institutional investors that have a limited share in the customer portfolio of the Brokerage Office. At the end of June 2015, the Brokerage Office had the 3rd position on the futures market.
- The share in the future options markets went up by 1 p.p. YoY to 19.8% in the wake of an increased activity of retail customers of the BZWBK Brokerage Office. In the first six months of 2015, the Brokerage Office secured the 2nd position on the future options market.

In H1 2015, the BZWBK Brokerage Office received an award from the Warsaw Stock Exchange in recognition of the highest share in the volume of option deals excluding a market maker transaction in 2014.

## 5. Selected Distribution Channels

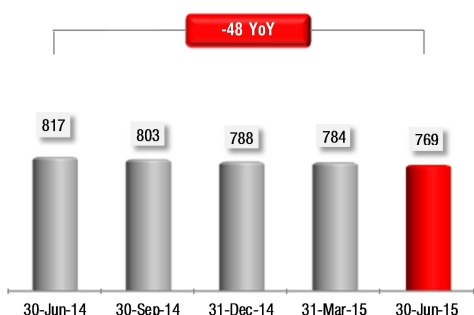
### Branch Network and Complementary Channels

As at 30 June 2015, Bank Zachodni WBK had a network of 769 branches (physical locations), down 19 vs. 31 December 2014 and down 48 YoY. The decrease is an effect of the continued optimisation process, involving the relocation or liquidation of outlets.

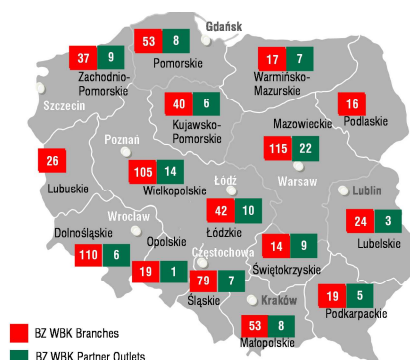
The bank's branch network was supported by 115 Partner outlets (115 outlets as at the end of December 2014 and 113 outlets as at the end of June 2014).

In H1 2015, the branch network management structure was optimised, taking account of the bank's business objectives and specific local requirements. The number of macroregions and regions was reduced from 12 to 8 and from 78 to 72, respectively.

BZ WBK Network as at the end of successive quarters from 30.06.2014 to 30.06.2015



Geographic location of BZ WBK branches in Poland as at 30.06.2015



### Business and Corporate Banking

The Corporate Banking Area, which provides services to corporate customers, is divided into three regions (North, Central and South) which correspond to respective provinces. Each region has four Corporate Banking Centres. The Corporate Banking Area also includes the centralised Large Corporate Credit Team.

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

## ATMs/Cash Deposit Machines

As part of development of self-service channels and reduction of cash services in the branches, Bank Zachodni WBK launched a process designed to ensure dual functionality of self-service devices. As a result, new devices will serve both as ATMs and cash deposit machines. The upgrade of devices was coupled with continued rationalisation of the network: the location of self-service devices was optimised to make them more accessible and thus enhance customer experience.

As at 30 June 2015, the ATM network of Bank Zachodni WBK comprised 1,320 machines (1,365 as at the end of December 2014 and 1,388 as at the end of June 2014). New cash deposit machines were installed in branches, reaching a total of 274 units (vs. 204 as at 31 December 2014 and 103 as at 30 June 2014). In addition, 59 machines combined the cash withdrawal and deposit functions.

## BZWBK24

### Internet Banking

On 9 February 2015, Bank Zachodni WBK launched an upgraded version of the BZWBK24 Internet platform. In addition to a number of improvements, the tool now allows customers to generate BLIK cheques (i.e. codes to authorise offline payments or ATM cash withdrawals).

The Online Advisor service (contact with the consultant via online chat, video conference or conference call) available in BZWBK24 internet and BZWBK24 mobile for many months now, was extended in June to include the sign language service for the hearing impaired customers. This functionality may also be used by branch advisors who operate in the tablet and BZWBK24 mobile applications area, as an efficient interpretation tool for servicing hearing impaired customers.

In April 2015, the Bank considerably streamlined the online application procedure regarding current accounts, by introducing an abridged application form and a new processing procedure for the agreement: authorisation through a single transfer for PLN 1 from any bank ("konto na przelew"). This procedure is an alternative to signing the agreement via the courier mail.

### Mobile Banking

On 9 February 2015, the bank introduced a new version of BZWBK24 internet and an upgrade of the BZWBK24 mobile application for smartphones. The major change is the access to the BLIK mobile payment system which supports ATM cash withdrawals as well as offline and online payments authorised by a BLIK code (a single code expiring after 120 seconds) or a BLIK cheque (a single code which expires after 72 hours and requires a password).

At the end of February 2015, the bank introduced an upgraded version of BZWBK24 mobile for tablets running Android OS (on 5 March 2015: for devices running iOS) with further improvements, including "Quick view" functionality to check available funds and the last transaction performed prior to logging in.

In April 2015, the personal account application procedure was simplified and the Mobile Purchase service was streamlined to ensure a faster and more user-friendly purchasing procedure in respect of public transport tickets and parking payments. Another new functionality is FX transfers between own accounts.

The ever-improving quality of the BZWBK24 mobile application of Bank Zachodni WBK is confirmed by awards, including the "best mobile banking" title in the ranking of the 20 applications evaluated by Money.pl (refer to Chap. X "Additional information", "Rewards and recognitions" section for more details).

## Telephone Banking Centre (TBC)

In H1 2015, the Telephone Banking Centre (TBC) continued its initiatives designed to improve the availability of the hotline, centralise the channels of contact with the customer as well as transform TBC into a multimedia service and competence centre for retail and business customers (Multimedia Contact Centre).

The recognition of customer segmentation as part of the TBC service ensured a consistent relationship management strategy across all channels, better customisation of the offer and a more efficient use of available resources.



Following the incorporation of the Affluent Customer Centre and the SME Customer Centre into its organisational structure (January 2015), TBC was able to centralise the services provided to mass customers, VIP and SMEs, extend the availability of the Virtual Branch and manage the written communication with customers (emails, social media) as well as improve the level of inter-channel integration. Moreover, the scope of TBC functions was extended with respect to the sale of products and post-sale services (mortgage loans, processing of loan instructions, maintenance of a personal accounts and insurance products, credit references for mortgage loans, cash loans and overdrafts) provided on a remote basis.

The strengths of TBC, such as the number of available channels, the quality of telephone and e-mail service as well as a shorter service turnaround time were reflected in the bank hotline survey conducted by Dive Poland where Bank Zachodni WBK ranked 1 and 2 among the 23 financial service providers evaluated in the two consecutive editions of Mystery Caller and Mystery Mailing surveys.

## 6. Santander Consumer Bank Group

### Profile

Santander Consumer Bank (SCB) is a financial institution with many years' experience and a strong position in the consumer finance sector, providing services to more than 2 million active customers. The bank offers products and services to households and small and medium companies, with a particular focus on consumer loans including car loans, business loans, instalment loans, consolidation loans and credit cards. Deposits and insurance products are also an important element of the bank's product range.

The bank's business is based on a tried-and-tested business model with a multi-product and multi-channel approach, addressed to a diverse customer base, as well as a continuous and regular cross-selling and up-selling. The bank's offer is supplemented with car finance through leases provided by Santander Consumer Multirent, a wholly-owned subsidiary of Santander Consumer Bank.

Other subsidiaries of Santander Consumer Bank are:

- Santander Consumer Finance (investment of cash surpluses and cooperation with TUIR Warta i TUŻ Warta in terms of financial advisory services)
- AKB Marketing Services in liquidation (auxiliary banking services)
- S.C. Poland 2014-1 Limited (SPV set up for the purpose of securitization transactions)

The bank seeks to provide its customers with innovative products, improve its service quality and increase the satisfaction of its customers. The bank operates in pursuit of the sustainable and safe growth of the business, based on transparent procedures and economic analysis. Its strength is underpinned by in-depth knowledge of the market and the optimum use of resources, including different delivery channels, as well as access to the extensive expertise and experience of Santander Group.

### Business Development in H1 2015

#### Development Directions

In H1 2015, the key focus of SCB Group was on stability and ongoing improvements in effectiveness as well as compliance with the ever-changing legal and regulatory environment. The Group maintained its strong position in the consumer finance market. While conducting a stable and secure banking activity and strengthening its market presence, the Group generated a gross profit of PLN 341m for H1 2015 and PLN 268.6m for H2 2014.

In the reporting period, the Group successfully pursued its goals set for 2015, giving priority to the following:

- Stabilisation of operating costs (excluding an increase in a Bank Guarantee Fund contribution compared to 2014)
- Optimisation of cost of funding in an environment of low interest rates and changing regulatory regime
- Maintenance of stable risk level, high provision coverage ratio and steady non-performing loans sales ratio
- Solid capital position, due to, inter alia, an increase in the bank's own funds (capital reserves) by PLN 237m in March 2015
- Maintenance of strong sales of high-margin consumer loans with a concurrent reduction in instalment loans sales as a result of an exit from the door-to-door channel and transfer of part of the hire purchase business to credit cards
- Modification of insurance products in accordance with Recommendation U.



## Loans

### *Lending Proposition*

Santander Consumer Bank Group offers mainly consumer loans.

Cash loans are offered either as a regular cash loan or a consolidation loan. Instalment loans, which are an important customer acquisition tool, are available countrywide from Santander Consumer Bank partners. Santander Consumer Bank is one of the top 10 credit card issuers in Poland and offers the following cards: Visa Comfort, Visa Comfort Plus, TurboKARTA as well as co-branded cards. In April 2015, SCB was Poland's second and Europe's tenth bank to offer V.me by Visa, a payment method that increases security and saves time when shopping online using credit cards. The Group is strengthening its position in the car finance market by liaising with car dealers and importers. Its offer includes car loans, asset-backed loans, leases and refinancing solutions. Wide range of financing solutions (purchase of new and second-hand cars of up to 12 years with a repayment period of up to 96 months) and flexible repayment schedules (equal, diminishing or balloon payments) add to the Group's competitive edge. The bank also offers business loans and guarantees for dealers and importers to foster the sale of retail car loans.

### *Credit Portfolio*

As at 30 June 2015, gross loans and advances to Santander Consumer Bank Group amounted to PLN 14,068.3m and were slightly up on 31 December 2014 driven by cash loans (+7%) and credit cards receivables (+7%). Growing cash lending is the result of an intensive marketing campaign and an attractive credit pricing coupled with record low NBP rates. Credit card receivables increased on the back of co-branded cards. The structure of credit portfolio was improved with a growing share of high-margin products.

### **Deposit Base**

The Group's main source of funding are deposits from customers, which decreased in H1 2015 by PLN 70.9m to PLN 6,790,6m, after a portion of retail deposits reached their maturity dates.

Retail deposits are the bulk of the bank's deposit base, and mainly include term deposits with a fixed capitalisation rate at the year-end. The remaining portion is made up of business deposits.

With regard to retail deposits, in H1 2015, the bank continued the process of balance stabilisation while gradually reducing the cost of this source of funding. The bank focused on the sale of deposits for tenors exceeding 1 year, by offering attractive pricing, particularly on 24M and 36M deposits.

### **Distribution Network of Santander Consumer Bank**

As at 30 June 2015, Santander Consumer Bank sold its products through the following distribution channels:

- own network of 172 branches and 110 franchise outlets
- a structure for mobile sales of car loans
- a structure for mobile sales of corporate deposits
- remote channels, including call centre and the Internet
- a network of 549 partners selling the bank's car loans and 13,269 active partners selling the bank's instalment loans and credit cards.

## VI. Financial Performance in H1 2015

### 1. Income Statement

#### Profit of Bank Zachodni WBK Group for H1 2015

The table below illustrates changes in the key items of the Group's consolidated income statement in H1 2015 compared with the same period last year.

PLN m

Condensed Income Statement (for analytical purposes)	H1 2015	H1 2014	YoY Change
<b>Total income</b>	<b>4 121,3</b>	<b>2 982,5</b>	<b>38,2%</b>
- Net interest income	2 082,7	1 773,0	17,5%
- Net fee & commission income	961,2	893,1	7,6%
- Other income <sup>1)</sup>	1 077,4	316,4	240,5%
<b>Total costs</b>	<b>(1 669,6)</b>	<b>(1 441,5)</b>	<b>15,8%</b>
- Staff, general and administrative expenses	(1 488,9)	(1 273,0)	17,0%
- Depreciation/amortisation	(128,8)	(141,1)	-8,7%
- Other operating expenses	(51,9)	(27,4)	89,4%
<b>Impairment losses on loans and advances</b>	<b>(353,2)</b>	<b>(335,9)</b>	<b>5,2%</b>
Profit/loss attributable to the entities accounted for using the equity method	5,4	0,1	-
<b>Profit before tax <sup>1)</sup></b>	<b>2 103,9</b>	<b>1 205,2</b>	<b>74,6%</b>
Tax charges	(403,5)	(230,3)	75,2%
<b>Net profit for the period <sup>2)</sup></b>	<b>1 700,4</b>	<b>974,9</b>	<b>74,4%</b>
- <b>Net profit attributable to BZ WBK shareholders</b>	<b>1 577,4</b>	<b>953,6</b>	<b>65,4%</b>
- Net profit attributable to non-controlling shareholders	123,0	21,3	477,5%

1) Other income and profit before tax include one-off gains on subordinate entities of PLN 523m arising from partial disposal and loss of control over BZ WBK-Aviva TuŃz and BZ WBK-Aviva TUO.

2) The above-mentioned one-off gains after tax totalled PLN 423.1m.

In H1 2015, Bank Zachodni WBK Group posted a profit before tax of PLN 2,103.9m, up 74.6% YoY. Profit attributable to the shareholders of Bank Zachodni WBK was PLN 1,577.4m and increased by 65.4% YoY. Excluding one-off gains on subordinate entities (on account of partial disposal and loss of control over BZ WBK-Aviva companies), the underlying profit before tax grew by 31.2% YoY and profit attributable to the shareholders of the parent entity went up by 21.0% YoY.

#### Impact of Changes in the Group Structure on Comparability of the Periods Covered by the Income Statement

- **Expansion of Bank Zachodni WBK Group structure to include SCB Group**

- ✓ On 1 July 2014, Bank Zachodni WBK acquired control over Santander Consumer Bank and its subsidiaries (SCB Group), which resulted in a significant YoY increase in relevant income and cost items of the consolidated income statement of Bank Zachodni WBK Group.
- ✓ Adjusted for intercompany transactions and consolidation adjustments, SCB Group contributed most to the net interest income (PLN 500.1m) and net fee and commission income (PLN 102.8m) of the consolidated income of Bank Zachodni WBK Group for H1 2015. The share of SCB Group in the total costs and impairment losses amounted to PLN 262.7m and PLN 13.4m, respectively. Its contribution to Bank Zachodni WBK Group's profit before tax totalled PLN 341.0m.

- **Loss of control over BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO**

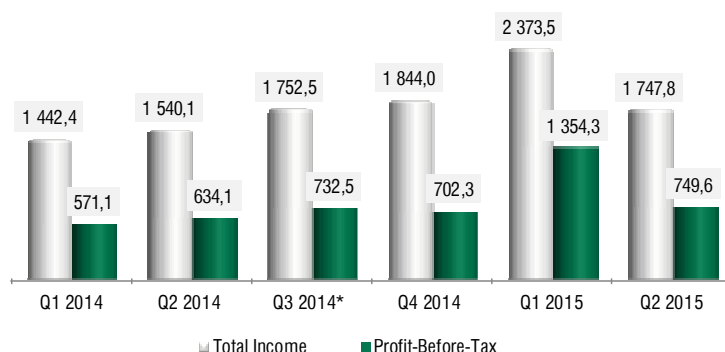
- ✓ On 27 February 2015, Bank Zachodni WBK sold part of the stake in BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO (17% of shares in each insurance company), which resulted in a loss of control over the above entities. In effect, gains on the sale (PLN 234.4m) and adjustments resulting from the loss of control (PLN 288.6m) were recognised. The loss of control resulted in reclassification of the above-mentioned companies from subsidiaries to associated undertakings along with the change of their accounting treatment from full consolidation to equity method. The above changes affected the value and structure of the consolidated income statement, however the most significant impact in terms of comparability was observed in the insurance fee and other operating income lines.

- **Incorporation of Dom Maklerski BZ WBK by Bank Zachodni WBK**

- ✓ On 31 October 2014, Dom Maklerski BZ WBK was divided (and removed from the National Court Register) through the transfer to Bank Zachodni WBK of an organised part of the enterprise specialising in the provision of brokerage services and set-up of Gieldokracja, a limited liability company, which took over a part of the enterprise connected with the provision of educational, advertising and communication services. The brokerage activity is now an integral part of the operations of Bank Zachodni WBK.

### Key Factors Affecting the Profit of Bank Zachodni WBK Group in H1 2015

- Changes in the structure of Bank Zachodni WBK Group (see above), in particular partial disposal and loss of control over BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ insurance companies, contributed PLN 523.0m in total to the Group's consolidated profit before tax. In the condensed income statement, the above amount is included in other income line item, whereas in the complete financial statements, it is disclosed in a separate line item "gains on subordinate entities".
- YoY increase in net interest income (+PLN 309.7m) combined with a slight decrease in net interest margin (from 3.69% in H1 2014 to 3.53% in H1 2015 as per year-to-date cumulative annualisation) reflects a faster growth of interest earning assets than interest income generated on that portfolio. This performance was achieved due to the inclusion of SCB Group in the consolidation scope and business volume growth amid economic recovery and low interest rate environment. Excluding the contribution of SCB Group, the underlying net interest margin narrowed more strongly under the impact of a decline in interest income on loans, in particular the retail portfolio.
- An increase in net fee and commission income (+PLN 68.1m YoY) driven by the development of the Polish economy and financial markets, regulatory changes, competitive pressures and changes in the scope of consolidation of Bank Zachodni WBK Group's financial statements. A dynamic growth in the fee income from insurance products, distribution and asset management as well as account maintenance and cash transactions observed in H1 2015 was largely offset by lower fees from foreign exchange and brokerage services as well as e-Business and payments.
- An increase of PLN 238m in the Group's other income (excluding PLN 523m resulting from the settlement of the partial disposal and loss of control over BZ WBK-Aviva companies) due to a YoY growth in gains on the trading portfolio and other financial instruments (+PLN 134.7m and PLN 173.0m, respectively) realised in the management of the Group's financial assets structure in accordance with the pursued strategic objectives and in view of the conditions prevailing in the bond, IRS and FX markets. Concurrently, there was a decline in net insurance income (-PLN 82.2m) generated by BZ WBK-Aviva TUO and BZ WBK TUnŻ and disclosed under other operating income, which was attributable to the deconsolidation of the companies and the Group's return to the former presentation of the entire insurance income as fee and commission income (starting from March 2015), without any of it being taken to other operating income.
- An increase of PLN 17.3m YoY in loan impairment losses, mainly due to the contribution of PLN 13.4m from consolidation of SCB Group and the impairment charge posted by leasing companies and the factoring company as a result of validation of parameters of the risk assessment model. Continued monitoring of the credit risk attached to individual credit portfolios of Bank Zachodni WBK Group and proactive credit risk management policy.
- Effective cost management by Bank Zachodni WBK Group based on a strict budget policy. Excluding the integration costs, operating expenses of SCB Group and BZ WBK-Aviva companies along with the amortisation arising from allocation of the purchase price of the insurance entities and relevant adjustments after control loss, the underlying cost base of Bank Zachodni WBK Group increased by 7.3% YoY on account of regulatory charges which exceeded savings in respective cost lines.

**Total Income and Profit-Before-Tax by Quarters  
in 2014 and 2015 (PLN m)**


\* On 1 July 2014, Santander Consumer Bank became a subsidiary and together with its related entities became a part of Bank Zachodni WBK Group

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

The table below illustrates the profit contribution of respective members of Bank Zachodni WBK Group to the consolidated profit before tax in H1 2015 compared with the corresponding period of 2014.

PLN m

Components of Bank Zachodni WBK Group Profit-Before-Tax by contributing entities	H1 2015	H1 2014	YoY Change
<b>Bank Zachodni WBK S.A.</b>	<b>1 416,6</b>	<b>1 194,9</b>	<b>18,6%</b>
<b>Existing subsidiary undertakings:</b>	<b>424,2</b>	<b>120,0</b>	<b>253,5%</b>
Santander Consumer Bank and its subsidiaries <sup>1)</sup>	341,0	-	-
BZ WBK Asset Management S.A. and BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. <sup>2)</sup>	35,6	31,9	11,6%
BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A., BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. <sup>3)</sup>	12,1	8,7	-
BZ WBK Leasing S.A., BZ WBK Lease S.A. and BZ WBK Finanse Sp. z o.o. <sup>4)</sup>	27,7	48,7	-43,1%
Dom Maklerski BZ WBK S.A. <sup>5)</sup>	-	12,8	-
Faktor Sp. z o.o.	9,2	17,4	-47,1%
Other subsidiary undertakings <sup>6)</sup>	(1,4)	0,5	-380,0%
<b>Elimination of dividends received by BZ WBK <sup>7)</sup></b>	<b>(46,0)</b>	<b>(109,2)</b>	<b>-57,9%</b>
<b>Other intercompany and consolidation adjustments <sup>8)</sup></b>	<b>303,7</b>	<b>(0,6)</b>	<b>-</b>
<b>Equity method valuation</b>	<b>5,4</b>	<b>0,1</b>	<b>-</b>
<b>Profit before tax</b>	<b>2 103,9</b>	<b>1 205,2</b>	<b>74,6%</b>

1) On 1 July 2014, Bank Zachodni WBK acquired ordinary and preference shares in Santander Consumer Bank (SCB), representing 60% of the share capital of SCB and 67% of votes at the SCB General Meeting. The following SCB subsidiaries are also subject to consolidation: AKB Marketing Services in liquidation, Santander Consumer Multirent, Santander Consumer Finanse and S.C. Poland Auto 2014-1 Limited. The amounts provided above represent profit before tax of SCB Group for respective periods after intercompany and consolidation adjustments.

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 41.6m in 2015 and PLN 30.3m in 2014.

3) BZ WBK-Aviva TUO and BZ WBK-Aviva TUnż changed their status from subsidiaries to associated undertakings as of 27 February 2015. Since then, both entities have been accounted for using the equity method. The amounts provided above represent profit before tax of both companies for two months of 2015 after consolidation adjustments and post-audit profit adjustments.

4) Combined profit before tax of these entities for 2015 excludes dividend received by BZ WBK Finanse from BZ WBK Leasing in the amount of PLN 32.4m.

5) Dom Maklerski BZ WBK (BZ WBK Brokerage House) was removed from the National Court Register on 31 October 2014. Part of the company which had been involved in brokerage activities was incorporated into the structure of BZ WBK, and the remaining part was transferred to the newly created company Gioldokracja which is responsible for advertising and information services.

6) The amount for H1 2014 includes profit before tax of BZ WBK Inwestycje, BZ WBK Nieruchomości and BFI Serwis in liquidation (deregistered on 20 November 2014). H1 2015 also includes Gioldokracja (registered on 31 October 2014).

7) Dividend received by Bank Zachodni WBK from subsidiaries and associated undertakings.

8) Consolidation adjustments (other than dividends) for H1 2015 mainly include the impact of the loss of control over BZ WBK-Aviva companies (PLN 288.6m).

## Parent Entity of Bank Zachodni WBK Group

In H1 2015, the unconsolidated Profit before tax of Bank Zachodni WBK increased by 18.6% YoY on account of the gains recognised on the partial disposal of the bank's shares in BZ WBK-Aviva companies of PLN 234.4m, higher income on other financial instruments (+PLN 170.0m YoY) attributed mainly to the sale of treasury bonds and significantly improved net trading income (+PLN 86.4m YoY). At the same time, the bank noted a decrease in net interest income (-PLN 176.8m YoY) due to the falling interest rates, a drop in net fee and commission income (-PLN 22.7m YoY) and a lower dividend from BZ WBK Asset Management (-PLN 40.1m YoY) and other subsidiaries or equity investments (-PLN 12.4m).

## Subsidiaries Consolidated in Both Analysed Periods

The subsidiaries consolidated by Bank Zachodni WBK reported an increase of 253.5% YoY in their total profit before tax mainly as a result of acquisition and consolidation of SCB Group. Excluding the profit of SCB Group from the current period, the profit of BZ WBK Brokerage House from the comparable period and the profit of BZ WBK-Aviva companies from both analysed periods, the underlying total profit before tax of the subsidiaries decreased by 27.8% YoY. It is largely attributed to higher YoY impairment charge of the leasing and factoring companies, resulting among others from the validation of parameters of the risk assessment model as part of uniform approach to prudent risk management across the Group. The YoY drop in profitability of BZ WBK Leasing, BZ WBK Lease and BZ WBK Finanse is also due to a high base effect caused by a public liabilities refund of PLN 12.4m recognised in H1 2014. Over the first six months of 2015, the leasing business of Bank Zachodni WBK Group grew dynamically (22% YoY increase in the value of the performing leasing portfolio), as did the factoring business of BZ WBK Faktor (increase in factoring turnover and credit portfolio by 17% and 33% YoY, respectively). In the same period, BZ WBK Towarzystwo Funduszy Inwestycyjnych and BZ WBK Asset Management posted a 11.6% higher profit before tax (excluding intercompany dividends) on account of larger fee and commission income from asset management driven by strong sales, yielding a 17% YoY rise in net assets of investment funds and private portfolios.

## Other Subsidiaries

Higher share of BZ WBK-Aviva companies as reported in the profit before tax of Bank Zachodni WBK Group for H1 2015 is due to the previous year's recognition of amortisation arising on allocation of the purchase price of BZ WBK-Aviva companies (PLN 42.2m).

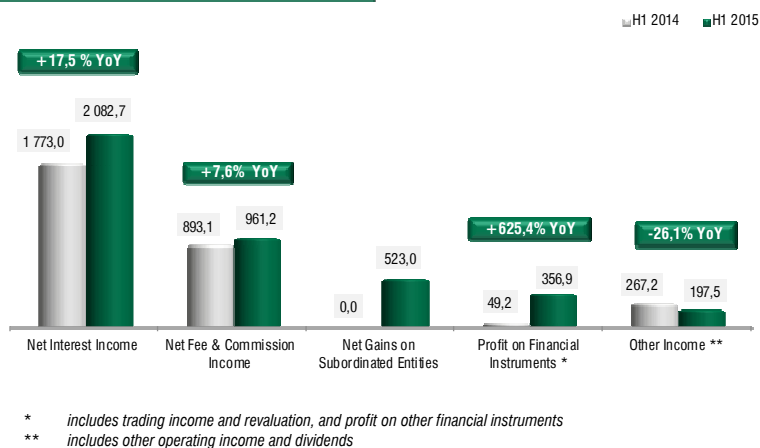
Profit before tax of SCB Group reached PLN 341m and grew by 26.9% compared to H2 2014. This performance was particularly impacted by the following factors:

- stable net interest margin in a falling interest rate environment attributed to the growth of the credit portfolio and improvement of its structure (increased share of high-margin facilities)
- increase in net fee and commission income in H1 2015 (+34.9%) on account of lower agency costs related with the sales network development and higher share in the profit generated by the insurance company
- 2.3% increase in the bank's general and administrative expenses as a result of reversal of cost accruals in the corresponding period which was partly offset by a decrease in costs associated with marketing, BIK (credit reference agency), agreements and sales bonuses in H1 2015
- 83% decrease in impairment losses on financial assets as a consequence of, *inter alia*, improvement of the quality of the cash loan portfolio and a partial sale of written-off credit card, cash loan and instalment loan portfolio.

## Total Income

The total income achieved by Bank Zachodni WBK Group in H1 2015 was PLN 4,121.3m and up 38.2% YoY. Adjusting for one-off gains on subordinate entities of PLN 523m, the respective income went up by 20.6% YoY.

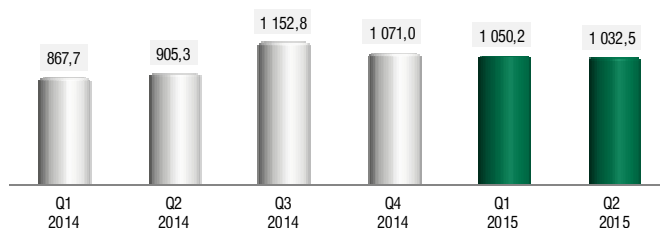
Components of Total Income (PLN m) in H1 2015 vs. H1 2014



### Net Interest Income

In H1 2015, net interest income amounted to PLN 2,082.7m and increased by 17.5% YoY.

Net Interest Income by Quarters in Years 2014- 2015 (PLN m)

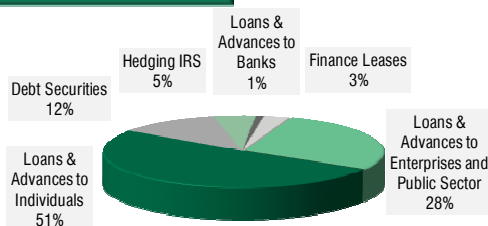


The net interest income of Bank Zachodni WBK Group includes the net interest income from CIRS transactions designated as hedging instruments under cash flow hedge accounting, totalling PLN 119.6m in H1 2015 vs. PLN 115.4m in H1 2014. The above income is disclosed in the line item “Interest income from IRS hedges” (Note 6 “Net interest income”), showing PLN 139.9m in H1 2015 vs. PLN 142.1m in H1 2014.

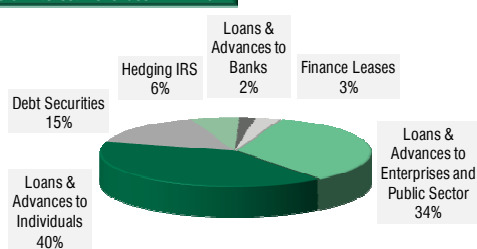
Taking into account the net income from non-hedging CIRS/IRS transactions (PLN 10.4m for H1 2015 vs. PLN 11.8m for H1 2014), which are used for the purpose of liquidity management and reported under “Net trading income and revaluation”, the underlying net interest income increased by 17.3% YoY.

The net interest income growth is due to a larger scope of consolidation on account of SCB Group whose contribution fuelled the growth of consolidated interest revenues by 13.4% YoY to PLN 2,837.4m and interest expense by 3.5% YoY to PLN 754.7m. The growth in interest revenues was driven by loans and advances to individuals, while the increase in interest expenses was attributed to subordinated loans and issue of securities as part of diversification of funding sources by both banks.

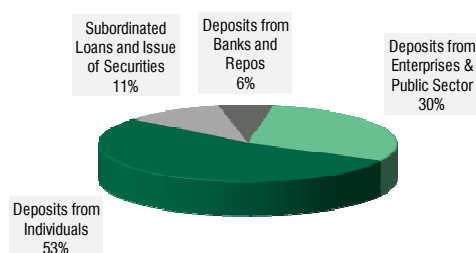
Structure of Interest Revenues in H1 2015



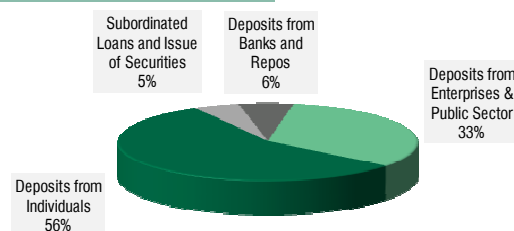
Structure of Interest Revenues in H1 2014



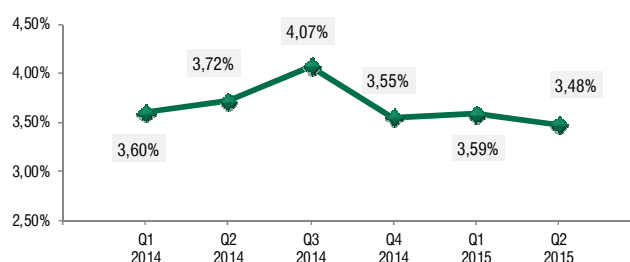
Structure of Interest Expense in H1 2015



Structure of Interest Expense in H1 2014



Net Interest Margin by Quarters in Years 2014-2015 (including SWAP points\*)



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

The downward movement exhibited by quarterly net interest margins of Bank Zachodni WBK Group in H1 2015 against the corresponding period last year (3.60% and 3.72% in Q1 and Q2 2014, respectively, vs. 3.59% and 3.48% in Q1 and Q2 2015) was slight due to the incorporation of net interest income, loans and advances and other interest-bearing assets of SCB Group into the consolidated financial statements of Bank Zachodni WBK Group. Excluding the contribution of SCB Group, the underlying net interest margin of Bank Zachodni WBK Group narrowed more strongly, reflecting falling interest rates (two NBP rate cuts in October 2014 and March 2015 by 100 bps in total) and their adverse impact on interest income from credit portfolios as well as measures designed to build a stable deposit base on the back of the strength of customer relationship and increase in diversification of funding sources for the Group.

## Net Fee and Commission Income

PLN m

Net Fee and Commission Income	H1 2015	H1 2014	YoY Change
E-Business and payments <sup>1)</sup>	179,8	235,6	-23,7%
Account maintenance and cash transactions <sup>2)</sup>	172,1	145,0	18,7%
FX fees	150,2	157,5	-4,6%
Insurance fees <sup>3)</sup>	139,8	31,7	341,0%
Asset management and distribution	127,0	114,1	11,3%
Credit fees <sup>4)</sup>	111,5	125,0	-10,8%
Credit cards	51,2	47,8	7,1%
Brokerage fees	27,6	34,2	-19,3%
Other <sup>5)</sup>	2,0	2,2	-9,1%
<b>Total</b>	<b>961,2</b>	<b>893,1</b>	<b>7,6%</b>

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

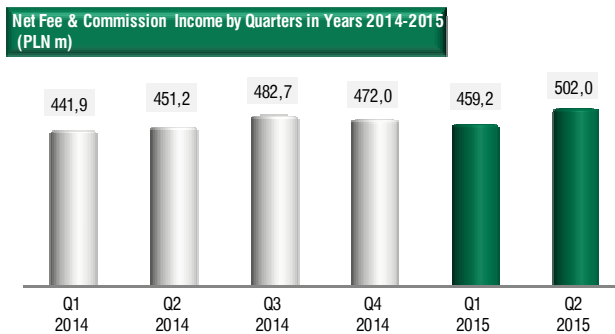
2) Fee income from account maintenance and cash transactions has been reduced by the corresponding expenses which in Note 7 "Net fee and commission income" of the consolidated financial statements are included in the line item "Other" (PLN 1.7m in H1 2015 vs. PLN 7.5m in H1 2014).

3) During the period of control over BZ WBK-Aviva companies (from 20 December 2013 to 27 February 2015), the bank disclosed the major part of income from insurance business in "Other operating income" instead of "Net fee and commission income". In H1 2015, PLN 26.3m worth of insurance income was taken to the Group's other operating income (PLN 108.5m in H1 2014). As a result of loss of control over the entities, the whole insurance fee income is disclosed under net fee and commission income.

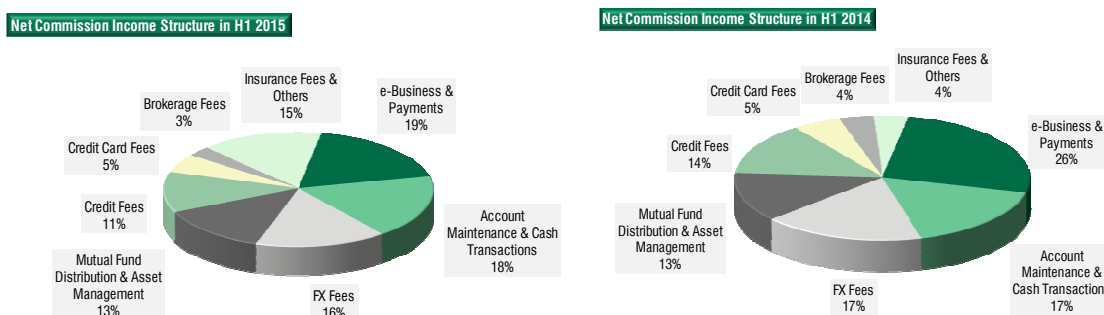
4) Fees related to lending, factoring and leasing activities which are not amortised to interest income. This line item includes inter alia cost of credit agency.



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



In H1 2015, net fee and commission income was PLN 961.2m and increased by 7.6% YoY.



In H1 2015, a significant growth was noted in insurance fee income (+341.0% YoY), which is attributable to SCB Group and its contribution of PLN 78.1m in insurance revenues. Excluding this amount, insurance fees increased by 94.6% YoY on account of the growth of bancassurance business of Bank Zachodni WBK and BZ WBK-Aviva companies as well as changes in the presentation of the Group’s insurance income following the loss of control over BZ WBK-Aviva companies. In the period from 1 January 2014 to 27 February 2015, the major part of such income was disclosed under other operating income (PLN 26.3m in H1 2015 and PLN 108.5m in H1 2014), whereas starting from March 2015, the total income is taken to insurance fees. Viewed on a stand-alone basis, the underlying insurance fee income of Bank Zachodni WBK rose by 12.5% YoY, driven mainly by the sale of cash loans and card insurance.

Net fee income from account maintenance and cash transactions increased by 18.7% YoY on the back of updated schedule of the bank’s fees and charges as well as higher volume of customer transactions.

Net fee income from fund distribution and asset management increased by 11.3% YoY as a result of higher average value of assets managed by BZ WBK TFI and BZ WBK AM driven by the growing sale of sub-funds and private portfolios, supported by attractive product offer given current deposit market pricing, favourable sentiments in the stock exchange market (corrected in May and June) and continued demand for corporate bonds.

In H1 2015, net credit card fee income grew by 7.1% YoY, mainly due to the contribution of Santander Consumer Bank. Excluding the impact of SCB Group, the underlying net credit card fee income decreased as a consequence of statutory reduction of an interchange fee rate (from 1 July 2014 and 29 January 2015) and revision of the bank’s fees and charges related to credit cards. The first half-year of 2015 witnessed steady business growth, including the number of valid credit cards of Bank Zachodni WBK and effected transactions.

Despite an increase in the number of debit cards and the associated transaction volumes, the net fee and commission income aggregated under the “eBusiness and payments” line item declined markedly (-23.7% YoY) driven by the reduction of an interchange fee rate.

Lower net credit fee income (-10.8 YoY) is attributed to increasing cost base, i.e. larger credit agency cost related to the distribution model of Santander Consumer Bank and higher commission cost driven by growing sales of leases.



The decline in the net brokerage fees (-19.3% YoY) was due to lower income earned by BZ WBK Brokerage Office in the secondary market as a result of a decrease in equity market trading in H1 2015 in line with developments on the main WSE floor and also due to lower distribution of non-core products.

### **Gains on Interest in Subordinated Entities**

In H1 2015, Bank Zachodni WBK Group sold a part of its stake in BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ (17% interest in each). Accordingly, the Group lost control over the entities in favour of Aviva Ltd. and reclassified them from subsidiaries to associates. The transaction generated a profit of PLN 523m reported under gains on interest in subordinate entities.

### **Gains on Financial Instruments**

#### ***Gains on Other Financial Instruments***

In H1 2015, the gains on other financial instruments increased YoY by PLN 173.0m to PLN 228.2m. Gains on the sale of treasury bonds were PLN 228.7m, up PLN 187.6m on the same period last year. The measures taken as part of duration management on the available-for-sale debt securities portfolio were kept in line with the market conditions and took into account the Group's objectives with regard to risk and liquidity management. In H1, the decisions regarding the structure of the portfolio and balance sheet were determined by expectations of an end to the interest rate cutting cycle and volatility of yield curves caused by geopolitical factors and decisions of central banks.

#### ***Net Trading Income and Revaluation ("Net trading income")***

After H1 2015, net trading income and revaluation reported by Bank Zachodni WBK Group was PLN 128.6m versus a loss of PLN 6.0m posted in the corresponding period last year. The net trading income largely reflects the conditions prevailing in the financial markets in H1 2015 where the IRS rates were on a rise and the FX market was highly volatile.

The Group's activity in the market of financial derivatives and interbank currency transactions generated a profit of PLN 142.5m versus a loss of PLN 57.3m reported in the previous year. This heading includes the net interest-related income on non-hedging CIRS/IRS transactions totalling PLN 10.4m in H1 2015 vs. PLN 11.8m in H1 2014. It excludes, however, the net interest income from the CIRS transactions designated as hedging instruments under the cash flow hedge accounting (PLN 119.6m for H1 2015 vs. PLN 115.4m for H1 2014), which is disclosed in Note 6 "Net interest income" under "Interest income from IRS hedges". The gains on financial derivatives and interbank money market transactions are also aided by the reversal of the first-day valuation adjustment of call options (PLN 23.4m) arising on the settlement of the disposal of a stake in BZ WBK-Aviva entities.

Other FX related income was PLN 4.8m and lower by PLN 44.3m on a YoY basis.

In H1 2015, debt and equity securities trading brought in a total loss of PLN 18.7m compared with a profit of PLN 2.2m in the corresponding period.

### **Other Income**

#### ***Other Operating Income***

During the first six months of 2015, other operating income was PLN 107.6m, down 42.6%. This includes the net income of PLN 26.3m from insurance business (for the first two months of 2015 preceding the loss of control) vs. PLN 108.5m reported in the corresponding period, both composed of the gross premiums written, reinsurers' share of premium written, net claims and benefits, and other net insurance income. This presentation-induced decline in insurance income was partly offset by the returned Banking Guarantee Fund fees which increased YoY by PLN 23.1m to PLN 37.4m.

#### ***Dividends***

Dividend income from the equity investment portfolio of Bank Zachodni WBK came in at PLN 89.9m, up PLN 10m YoY driven primarily by pay-outs from Aviva Group members.

## Impairment Charges

PLN m

Impairment Losses on Loans and Advances	H1 2015	H1 2014	YoY Change
Collective and individual impairment charge	(380,1)	(393,1)	-3,3%
Impaired but not reported losses charge	(52,4)	30,2	-
Recoveries of loans previously written off	71,0	5,0	1320,0%
Off-balance sheet credit related facilities	8,4	22,0	-61,8%
<b>Total</b>	<b>(353,1)</b>	<b>(335,9)</b>	<b>5,1%</b>

In H1 2015, loan impairment charges to the income statement of Bank Zachodni WBK Group were PLN 353.1m, up 5.1% YoY. The contribution of SCB Group to that figure was PLN 13.4m as a result of the sale of a written-off portfolio of consumer loans.

In H1 2015, the negative balance of provisions for incurred and reported losses (on individual and collective exposures) was PLN 380.1m and down 3.3% YoY as a result of a decrease in impairment charges on business exposures evaluated on an individual basis and decline in impairment charges on collectively assessed personal and business customers.

The negative IBNR provisioning balance of PLN 52.4m arose as part of periodic revision of parameters used in the credit assessment process under IBNR calculation model.

Over the first six months of 2015, Bank Zachodni WBK Group sold the nonperforming personal and business receivables in the principal amount of PLN 100.5m vs. PLN 128.4m in the corresponding period. The gross result on this transaction was PLN 10,5m. At the same time, Santander Consumer Bank sold the written-off credit card portfolio of PLN 108.5m as well as cash and instalment loan portfolio of PLN 317.0m, which increased recoveries of loans previously written off by PLN 60.5m.

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

As at 30 June 2015, the Bank Zachodni WBK Group's NPL ratio was 8.1% compared with 7.5% as at 30 June 2014. The cost of credit kept flat YoY at 0.9%.

## Total Costs

PLN m

Total costs	H1 2015	H1 2014	YoY Change
Staff, general and administrative expenses, of which:	(1 488,9)	(1 273,0)	17,0%
- Staff expenses	(769,8)	(668,6)	15,1%
- General and administrative expenses	(719,1)	(604,4)	19,0%
Depreciation/amortisation	(128,8)	(141,1)	-8,7%
Other operating expenses	(51,9)	(27,4)	89,4%
<b>Total costs</b>	<b>(1 669,6)</b>	<b>(1 441,5)</b>	<b>15,8%</b>
Integration costs <sup>1)</sup>	(27,4)	(110,5)	-75,2%
Total costs of SCB Group and BZ WBK-Aviva companies <sup>2)</sup>	(274,7)	(56,3)	-
<b>Underlying total costs</b>	<b>(1 367,5)</b>	<b>(1 274,7)</b>	<b>7,3%</b>

1) Integration costs are composed of staff, general & administrative expenses (PLN 13.3m in H1 2015 and PLN 104.3m in H1 2014) and amortisation/depreciation (PLN 14.1m in H1 2015 and PLN 6.3m in H1 2014).

2) Costs of BZ WBK-Aviva TUnZ and BZ WBK-Aviva TUO (including amortisation from purchase price allocation and after intercompany adjustments) and SCB with subsidiaries (after intercompany adjustments).

In H1 2015, the total expenses of the Group amounted to PLN 1,669.6m, and were 15.8% higher YoY. Excluding the integration costs (PLN 27.4m in H1 2015 and PLN 110.5m in the corresponding period), the operating costs of SCB Group, BZ WBK-Aviva TUO and BZ WBK-Aviva TUnZ, amortisation arising from allocation of the purchase price of the two insurance companies (PLN 42.2m in H1 2014) and the relevant adjustment after control loss (PLN 6.2m in H1 2015), the total underlying costs increased by 7.3% YoY, mainly on account of fees payable to market regulators.

As the growth rate of the Group's recurring income (excluding one-off gains of PLN 523m) was higher than that of costs (20.6% YoY and 15.8% YoY, respectively), the Group's cost-to-income ratio improved slightly from 48.3% in H1 2014 to 46.4% in H1 2015. Adjusted further for integration costs, the ratio was 45.6% vs. 44.6% in the corresponding period.

### Staff Expenses

In H1 2015, the Group's staff expenses increased by 15.1% YoY to PLN 769.8m. The significant growth under "salaries and bonuses", "statutory deductions from salaries" and "training costs" (23.8% YoY, 18.8% YoY and 27.4% YoY) results from consolidation of SCB Group, whose employment at the end of June 2015 was 2,681 FTEs and whose staff expenses were PLN 112m.

Excluding the contribution of SCB Group and BZ WBK-Aviva companies, and the integration costs, the underlying staff expenses increased by 5.6% YoY.

### General and Administrative Expenses

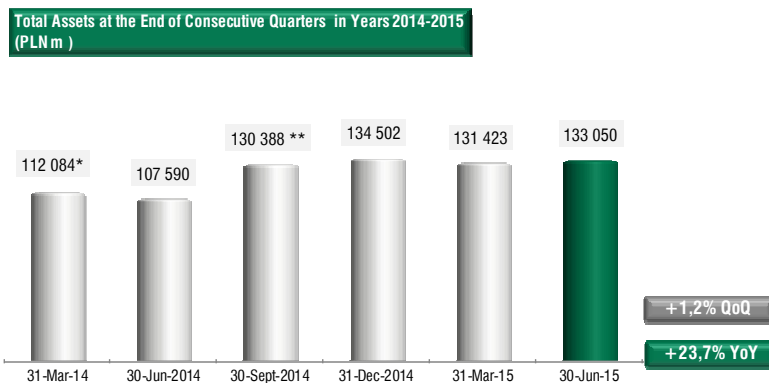
In H1 2015, general and administrative expenses of the enlarged Bank Zachodni WBK Group increased by 19.0% YoY to PLN 719.1m. The contribution of the new members of the Group (PLN 118.9m in total) particularly influenced the scope, and sometimes also direction, of the change in the following consolidated cost lines: cost of maintenance and rental of premises (+5.6% YoY), cost of marketing and entertainment (+36.5% YoY), IT usage (+27.5% YoY), postal fees and telecommunication fees (+38.2% YoY) and consumables, prints, cards and cheques (+26.4% YoY). Growth was also strongly driven by the charges imposed by market regulators (+103.4% YoY) as a consequence of an increase in their calculation base, an effect of business growth and an increase in the annual and prudential fee payable to the Banking Guarantee Fund (BFG) as part of the Polish deposit guarantee scheme. In H1 2015, the respective charge to the income statement was PLN 115.5m (of which PLN 100.4m is attributable to Bank Zachodni WBK) as compared to PLN 52.2m posted in the corresponding period of 2014. The full year amount due to BFG in 2015 is PLN 230.9m (of which Bank Zachodni WBK owes PLN 200.9m) vs. PLN 104.4m in 2014.

Excluding the contribution of SCB Group, BZ WBK-Aviva companies and integration costs, underlying general and administrative expenses increased by 9.3% YoY driven by higher fees payable to market regulators, which outweighed cost reductions achieved under a number of cost lines by kind.

## 2. Financial Position

### Assets

As at 30 June 2015, total assets of Bank Zachodni WBK Group were PLN 133,050.3m, a decrease of 1.1% on 31 December 2014 and an increase of 23.7% on 30 June 2014. The value and structure of the Group's statement of financial position is mainly affected by the parent company, which accounts for 90.3% of the consolidated total assets vs. 90.4% as at the end of December 2014 and 97.3% as at the end of June 2014. The major increase in assets and the decrease in the share of Bank Zachodni WBK in the total assets of the Group vs. June 2014 mainly reflects the assumption of control over and consolidation of Santander Consumer Bank, effective from 1 July 2014.



\* As at 31 March 2014, the balance sheet total of Bank Zachodni WBK Group takes into account high short-term transactions, including a deal of PLN 2.3bn in the interbank market.

\*\* As at 30 September 2014, the balance sheet total includes for the first time the total assets of SCB Group controlled by Bank Zachodni WBK since 1 July 2014.

Tabulated below are the major developments in the key categories of the consolidated assets of Bank Zachodni WBK Group as at 30 June 2015 vs. 30 June 2014 and 31 December 2014.

PLN m

Assets (condensed presentation for analytical purposes)	30.06.2015	Structure 30.06.2015	31.12.2014	Structure 31.12.2014	30.06.2014	Structure 30.06.2014	Change	Change
	1	2	3	4	5	6	1/3	1/5
Loans and advances to customers *	90 078,0	67,6%	85 820,6	63,8%	71 496,6	66,5%	5,0%	26,0%
Investment securities	25 649,2	19,3%	27 057,1	20,1%	17 517,2	16,3%	-5,2%	46,4%
Financial assets held for trading and hedging derivatives	5 139,4	3,9%	5 477,6	4,1%	3 656,9	3,4%	-6,2%	40,5%
Cash and operations with Central Banks	3 031,1	2,3%	6 806,5	5,1%	7 039,6	6,5%	-55,5%	-56,9%
Fixed assets, intangibles and goodwill	2 840,2	2,1%	3 804,7	2,8%	3 584,2	3,3%	-25,4%	-20,8%
Loans and advances to banks	3 304,5	2,5%	2 523,1	1,9%	2 092,2	2,0%	31,0%	57,9%
Other assets	3 007,9	2,3%	3 012,3	2,2%	2 203,6	2,0%	-0,1%	36,5%
<b>Total</b>	<b>133 050,3</b>	<b>100,0%</b>	<b>134 501,9</b>	<b>100,0%</b>	<b>107 590,3</b>	<b>100,0%</b>	<b>-1,1%</b>	<b>23,7%</b>

\* Includes impairment write-down.

The movements in the consolidated statement of financial position of Bank Zachodni WBK Group in H1 2015 reflect the business development tendencies, the Group's management of its balance sheet structure and current liquidity, and divestments (sale of 17% stake in BZ WBK-Aviva companies). On a year-on-year basis, the changes also arise from acquisition of 60% stake in Santander Consumer Bank and consolidation of the entity (with its subsidiaries) starting from 1 July 2014.

Compared with the end of December 2014, the fastest decline was observed in the balance of "cash and operations with Central Banks" (-55.5% Ytd) caused by ongoing liquidity management. Due to the partial disposal and loss of control over BZ WBK-Aviva companies, the goodwill arising on acquisition of these companies (PLN 853.8m) was derecognised, reducing the line aggregating fixed assets, intangibles and goodwill by 25.4%.

A decrease was also observed in "investment securities" (-5.2% Ytd) as a result of higher sales and redemptions of treasury bonds and NBP bills compared with the purchases of these securities. The contribution of SCB in the consolidated investment portfolio amounted to PLN 1,980.9m at the end of June 2015.

The fast growth was observed in loans and advances to banks (+31.0% Ytd), reflecting higher volume of current account balances.

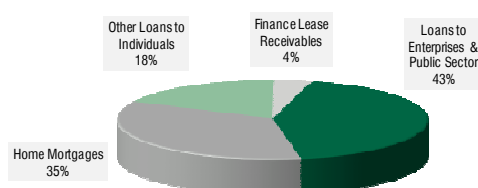
Net loans and advances to customers were PLN 90,078.0m, increasing by 5.0% on the end of December 2014. SCB Group contributed PLN 12,524.7m to this line (after intercompany and consolidation adjustments), similarly as in December 2014.

## Credit Portfolio

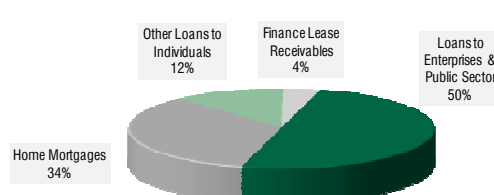
PLN m

Gross Loans and Advances to Customers	30.06.2015	31.12.2014	30.06.2014	Change	Change
	1	2	3	1/2	1/3
Loans and advances to individuals	50 398,6	47 784,1	34 548,8	5,5%	45,9%
Loans and advances to enterprises and public sector customers	40 905,0	39 340,7	37 314,1	4,0%	9,6%
Finance lease receivables	4 080,6	3 815,8	3 214,7	6,9%	26,9%
Other	13,2	6,5	114,9	103,1%	-88,5%
<b>Total</b>	<b>95 397,4</b>	<b>90 947,1</b>	<b>75 192,5</b>	<b>4,9%</b>	<b>26,9%</b>

Structure of Loans & Advances to Customers as at 30.06.2015

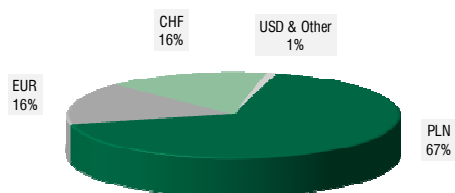


Structure of Loans & Advances to Customers as at 30.06.2014

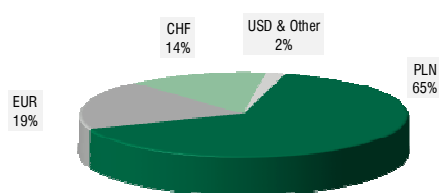


As at 30 June 2015, gross loans and advances to customers were PLN 95,397.4m, increasing by 4.9% on the end of December 2014 and by 26.9% on the end of June 2014. On a constant currency basis, the respective increases were 3.0% Ytd and 23.3% YoY.

FX Structure of Loans & Advances to Customers as at 30.06.2015



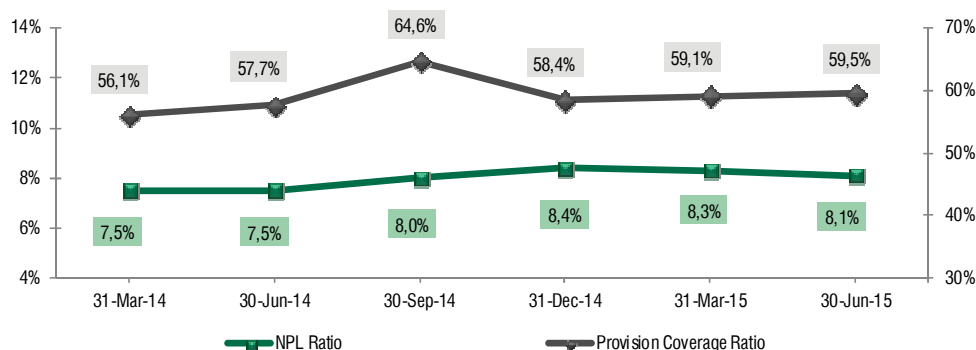
FX Structure of Loans & Advances to Customers as at 30.06.2014



Compared with the end of 2014, loans and advances to individuals increased by 5.5% to PLN 50,398.6m. Housing loans, which represent the major portion of loans and advances to individuals, increased by 7.4% Ytd to PLN 33,159.7m in H1 2015. The second significant constituent item, i.e. cash loans, grew by 5.2% Ytd to PLN 10,252.9m.

Loans and advances to enterprises and public sector companies amounted to PLN 40,905.0m, up 4.0% Ytd, while finance leases, which include *inter alia* the portfolio of BZ WBK Leasing and BZ WBK Lease were PLN 4,080.6m and up 6.9% Ytd driven by sales of machinery&equipment and vehicles. Loans granted by the leasing companies to finance machines and vehicles for business customers, which totalled PLN 1,457.6m as at 30 June 2015 (vs. PLN 1,203.9m as at 31 December 2014), are disclosed outside the leasing portfolio, primarily as loans and advances to enterprises.

Credit Quality Ratios by Quarters in 2014 and 2015



As at 30 June 2015, non-performing (impaired) loans to customers accounted for 8.1% of the gross portfolio vs. 8.4% six months before. The provision coverage for the NPLs was 59.5% vs. 58.4% as at 31 December 2014.

Excluding the impact of SCB Group, non-performing loans to customers represented 7.8% of the gross portfolio, while the provision coverage for NPLs was 53.1%.

## Equity and Liabilities

The table below presents major developments in the key categories of the consolidated liabilities and equity of Bank Zachodni WBK Group as at 30 June 2015 vs. 31 December 2014 and 30 June 2014.

Liabilities & Equity (condensed presentation for analytical purposes)	PLN m							
	30.06.2015	Structure 30.06.2015	31.12.2014	Structure 31.12.2014	30.06.2014	Structure 30.06.2014	Change	Change
	1	2	3	4	5	6	1/3	1/5
Deposits from customers	93 731,7	70,5%	94 981,8	70,6%	77 777,1	72,3%	-1,3%	20,5%
Deposits from banks	9 071,6	6,8%	8 359,9	6,2%	7 424,0	6,9%	8,5%	22,2%
Financial liabilities held for trading and hedging derivatives	4 981,5	3,7%	4 039,9	3,0%	2 225,2	2,1%	23,3%	123,9%
Subordinated liabilities and debt securities in issue	3 745,5	2,8%	4 913,3	3,7%	1 898,3	1,7%	-23,8%	97,3%
Other liabilities	2 028,3	1,5%	4 155,3	3,1%	3 648,6	3,4%	-51,2%	-44,4%
Total equity	19 491,7	14,7%	18 051,7	13,4%	14 617,1	13,6%	8,0%	33,3%
<b>Total</b>	<b>133 050,3</b>	<b>100,0%</b>	<b>134 501,9</b>	<b>100,0%</b>	<b>107 590,3</b>	<b>100,0%</b>	<b>-1,1%</b>	<b>23,7%</b>

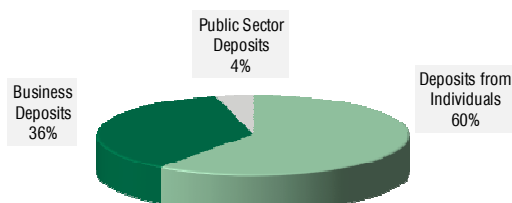
In the consolidated liabilities and equity as at 30 June 2015, the highest growth over the last six months was observed in financial liabilities held for trading and hedging derivatives (+23.3% Ytd), mainly under the impact of CIRS-based cash flow hedging relationships. Deposits from banks grew by 8.5% Ytd along with an increase in the value of repo securities sold and volume of transactions in the interbank money market.

Subordinated liabilities and debt securities in issue fell by 23.8% Ytd as a combined effect of the following actions: repayment of three subordinated loans (CHF 100m, CHF 165m and PLN 75m) from KBC Bank NV not eligible for being qualified as Tier 2 capital, the redemption by SCB of part of the bonds issued under the asset securitisation programme and six series of bonds from an issue programme, as well as the issue of another series of 3-year bonds with a nominal value of PLN 485m by Bank Zachodni WBK and bonds with a total nominal value of PLN 185m by SCB (both as part of issue programmes). A negative change in other liabilities (-51.2% Ytd) was reported as a result of disposal of 17% stake in the two BZ WBK-Aviva companies, which led to derecognition of technical insurance provisions (PLN 1,074.4m as at 31 December 2014) and PLN 699.1m representing an expired obligation of the bank to repurchase other shares held by Aviva Ltd. in accordance with contractual arrangements.

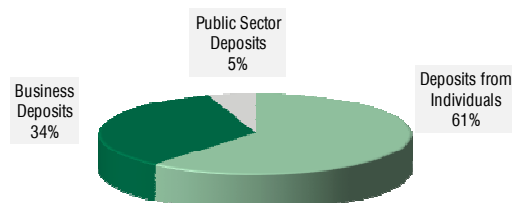
## Deposit Base

Deposits from Customers	PLN m				
	30.06.2015	31.12.2014	30.06.2014	Change	Change
	1	2	3	1/2	1/3
Deposits from individuals	55 977,1	58 257,0	47 524,0	-3,9%	17,8%
Deposits from enterprises and public sector customers	37 754,6	36 724,8	30 253,1	2,8%	24,8%
<b>Total</b>	<b>93 731,7</b>	<b>94 981,8</b>	<b>77 777,1</b>	<b>-1,3%</b>	<b>20,5%</b>

Structure of Customer Deposits as at 30.06.2015



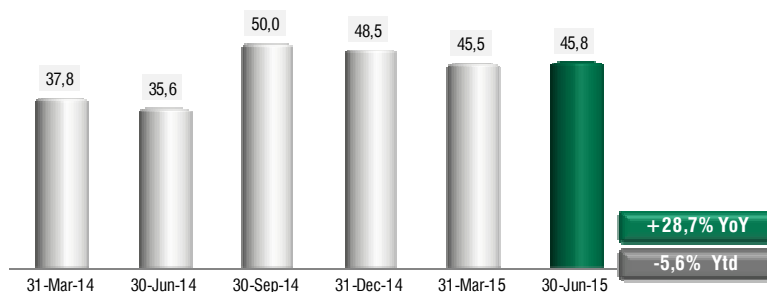
Structure of Customer Deposits as at 30.06.2014



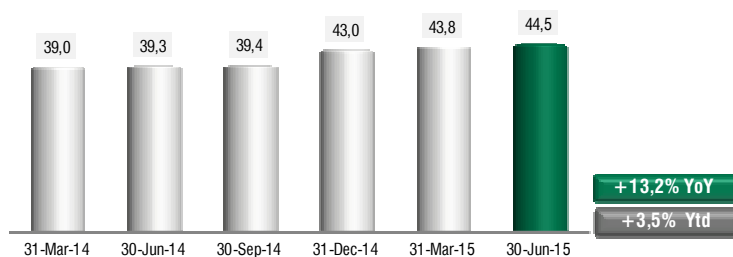
Deposits from customers, which represent 70.4% of the Group's equity and liabilities, are the primary source of funding its lending business. These deposits decreased by 1.3% Ytd and increased by 20.5% YoY to PLN 93,731.7m at the end of June 2015, including a contribution of PLN 6,790.6m by SCB Group.

Term deposits from Group customers were PLN 45,785.9m, decreasing by 5.5% Ytd, current account balances increased by 3.3% Ytd to PLN 44,478.3m, and the Group's other liabilities were PLN 3,467.4m, up 0.2% Ytd. The latter item includes loans from the European Investment Bank (EUR 350m, CHF 137.0m and PLN 196.7m) to finance the bank's lending activity and disclosed as loans and advances under deposits from enterprises. The reported decrease results from the repayment of three tranches of CHF loans totalling CHF 117.2m.

**Term Deposits at the End of Consecutive Quarters of 2014 and 2015 (PLN bn)**



**Current Accounts\* at the End of Consecutive Quarters of 2014 and 2015 (PLN bn)**



\* including savings accounts

The retail deposit base totalled PLN 55,977.1m and decreased by 3.9% over the first six months of 2015 due to lower balances of term deposits (-14.6% Ytd) arising from reduced appeal of bank deposits in a record low interest rate environment. Bonus deposits and a 6-month term deposit for new funds attracted the major portion of funds in the above period. Funds were partially transferred from term deposits to current accounts, which increased by 8.2% on the end of December 2014 supported by a modified offer of savings accounts featuring "à la Deposit Account" (Konto Oszczędnościowe à la Lokata), which recorded an increase of PLN 1.8bn to PLN 3.2bn as at the end of June 2015.

The reverse trends prevailed in deposits from enterprises and the public sector, i.e. an increase in the balances of term deposits (+10.4% Ytd) was coupled with a drop in current account balances (-5.0% Ytd). As a consequence, the deposit base from the two sectors grew by 2.8% in the first half of 2015, totalling PLN 37,754.6m.

## Selected Ratios

Selected Financial Ratios	H1 2015 <sup>1)</sup>	H1 2014
Total costs/Total income <sup>2)</sup>	46,4%	48,3%
Net interest income/Total income	57,9%	59,4%
Net interest margin <sup>3)</sup>	3,5%	3,7%
Net commission income/Total income	26,7%	29,9%
Customer net loans/Customer deposits	96,1%	91,9%
NPL ratio	8,1%	7,5%
NPL coverage ratio	59,5%	57,7%
Credit risk ratio <sup>4)</sup>	0,9%	0,9%
ROE <sup>5)</sup>	16,7%	17,2%
ROTE <sup>6)</sup>	21,3%	24,8%
ROA <sup>7)</sup>	1,9%	2,0%
Capital ratio <sup>8)</sup>	14,3%	13,3%
Tier I ratio <sup>9)</sup>	13,8%	12,0%
Book value per share (in PLN)	196,4	156,3
Earnings per share (in PLN) <sup>10)</sup>	11,6	10,2

1) The Group's total income and profit have been adjusted for the one-off gains on interest in BZ WBK-Aviva companies in the calculations of the following ratios for H1 2015: cost/income, net interest income/total income, net commission income/total income and earnings per share.

2) Excluding integration costs, the adjusted cost-to-income ratio was 45.6% for H1 2015 vs. 44.6% for H1 2014.

3) Annualized net interest income (excluding interest income from the portfolio of trading securities) to average interest-bearing assets (excluding the trading portfolio).

4) Impairment losses for four consecutive quarters to average gross loans and advances to customers (as at the beginning and end of the reporting period).

5) Net profit attributable to the parent's shareholders (for four consecutive quarters) to average equity (as at the beginning and end of the reporting period), net of non-controlling interests, current period profit and undistributed portion of profit/dividend. Adjusting for the impact of integration costs and divestment from BZ WBK-Aviva companies, ROE as at 30 June 2015 was 14.4%.

6) Net profit attributable to the parent's shareholders (for four consecutive quarters) to average tangible equity (as at the beginning and end of the reporting period) defined as common equity attributable to the parent's shareholders less revaluation reserve, current period profit, undistributed portion of profit/dividend, intangible assets and goodwill. Excluding the impact of integration costs and divestment from BZ WBK-Aviva companies, the ROTE ratio as at 30 June 2015 was 17.7%.

7) Net profit attributable to BZ WBK shareholders (for four consecutive quarters) to average total assets (as at the beginning and end of the reporting period).

8) The calculation of capital ratio takes account 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.

9) Tier I ratio is Tier I capital expressed as a percentage of risk weighted assets for credit, market and operational risk.

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

## Capital Ratio

The table below presents the capital ratio of Bank Zachodni WBK Group as at 30 June 2015, 31 December 2014 and 30 June 2014.

		PLN m		
		30.06.2015	31.12.2014	30.06.2014
I	Total capital requirement	8 618,8	8 082,4	6 841,2
II	Own funds after reductions	15 387,2	13 044,9	11 395,0
<b>CAD [II/(I*12.5)]</b>		<b>14,28%</b>	<b>12,91%</b>	<b>13,33%</b>

The capital adequacy ratio is calculated based on own funds and total capital requirements established for individual risk types using a standardised approach, in line with the CRD IV/CRR package (the Capital Requirements Directive IV and Capital Requirements Regulation), which became effective on 1 January 2014 by virtue of the decision of the European Parliament and the European Banking Authority.

The difference between the capital ratio reported at the end of June 2015 vs. 31 December 2014 is due to:

- an increase in the reserve capital resulting from distribution of profit
- recognition of verified and approved profit for 2014 as retained profit in Tier I capital
- recognition of a part of unrealised gains on valuation of debt and equity instruments in the calculation of own funds.

The Bank's capital ratio calculated in line with CRR is much above the minimum regulatory requirements.



### 3. 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 their ordinary business and represent mainly loans, bank accounts, deposits, guarantees and leases.

As at 30 June 2015, the bank's total exposure on loans to subsidiaries (BZ WBK Leasing, BZ WBK Lease, BZ WBK Faktor) amounted to PLN 6,953.1m compared with PLN 7,938.4m as at 31 December 2014 and PLN 5,301.7m as at 30 June 2014.

As at 30 June 2015, the deposits held with the bank by subsidiaries (e.g. BZ WBK Finanse, BZ WBK Lease, BZ WBK Inwestycje, BZ WBK Asset Management, BZ WBK Towarzystwo Funduszy Inwestycyjnych, Santander Consumer Multirent) totalled PLN 145.7m vs. PLN 2,127.1m as at 31 December 2014 and 1,164.3m as at 30 June 2014.

Guarantees to subsidiaries amounted to PLN 63.6m versus PLN 65.1m as at 31 December 2014 and PLN 62.9m as at 30 June 2014.

On 16 April 2015, an agreement was signed between Bank Zachodni WBK and its subsidiary BZ WBK Leasing providing for a financial leaseback of properties (freehold of a building and land and perpetual usufruct of land) and a lease of a planned project (an office building to be developed during the next three years), all of them located in Wrocław.

The final total value of the assets arising from the lease of the building and land, which was estimated at the time of initiation of the transaction, was PLN 156.3m. Current value of the fixed assets obtained under the financial leaseback agreement was PLN 39.6m as at 30 June 2015 while the initial value of fixed assets under construction was PLN 2m.

In accordance with the agreement, the basic lease term was defined as 153 months. The purchase of assets by BZ WBK Leasing and development of the office building is financed with a loan provided by Bank Zachodni WBK.

The bank's receivables from the parent entity (Santander Group) amounted to PLN 164.6m compared with PLN 0.7m at 31 December 2014 and PLN 723.2m as at 30 June 2014, while obligations amounted to PLN 57.0m compared with PLN 155.5m as at 31 December 2014 and 64.1m as at 30 June 2014.

A full disclosure on related party transactions, including those with senior management, is available in Note 36 of the "Condensed Interim Consolidated Financial Statements of Bank Zachodni WBK Group for the 6-month period ended 30 June 2015" and in Note 34 of the "Condensed Interim Unconsolidated Financial Statements of Bank Zachodni WBK for the 6-month period ended 30 June 2015".

#### Pending Court Proceedings

As at 30 June 2015, 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 amounting to a minimum of 10% of the Group's equity.

Court Proceedings with BZ WBK Group as a Party	PLN m		
	30.06.2015	31.12.2014	30.06.2014
Amounts claimed by the Group	135,4	176,7	100,2
Claims against the Group	192,6	182,3	167,1
Receivables due to bankruptcy or arrangement cases	2,0	5,1	16,4
<b>Value of all litigation</b>	<b>330,0</b>	<b>364,1</b>	<b>283,7</b>
<b>Share [%] of all litigation in equity</b>	<b>1,7%</b>	<b>2,0%</b>	<b>1,9%</b>
Completed significant court proceedings	59,8	187,3	134,0

## 4. Factors Likely to Affect Performance in H2 2015

The most likely factors to affect the Group's performance in the near future are as follows:

- Revival of the global economic growth, especially in the euro zone, providing improved prospects for Polish exports. Acceleration of the Polish economic growth.
- Favourable growth rate of real household income due to low inflation, employment growth and wage growth.
- 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.
- Changes in the ECB and Fed monetary policy.
- Possible loosening of fiscal policy and introduction of laws unfavourable for the banking sector, especially the so-called bank tax and obligatory conversion of CHF mortgage loans.
- Changes in asset funding cost depending on the pace and scale of changes in the main interest rates, changes in the zloty exchange rate, development of liquidity situation in the banking sector and intensity of price competition among banks for deposits.
- Possible increase in volatility of financial markets in the case of disappointment about the pace of global economic revival, worries about excessive pace of monetary policy tightening by the Fed or lack of agreement between Greece and international creditors about additional financial help.
- Further developments in the stock markets and their impact on willingness to purchase investment funds or keeping savings in safe bank deposits as an alternative.

## VII. Risk Management in H1 2015

### 1. Risk Management Principles

The main objective of risk management in Bank Zachodni WBK Group is to ensure effective and safe operations to support development within approved risk parameters. Risk management practice is in keeping with the industry benchmark, regulatory guidance and recommendations from supervisory authorities, and covers 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 the "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 measurement, monitoring and controlling risks in a way that ensures independence of risk management functions from 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 in Bank Zachodni WBK Group

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 developing a risk management strategy across the Group, including the identification of material risk types, setting the risk appetite and defining the methods of risk measurement, control, monitoring and reporting.

The Risk Management Committee supervises the activities of the 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 risk levels in specific areas. Through these committees, the bank also supervises the risk attached to the operations of subsidiaries.

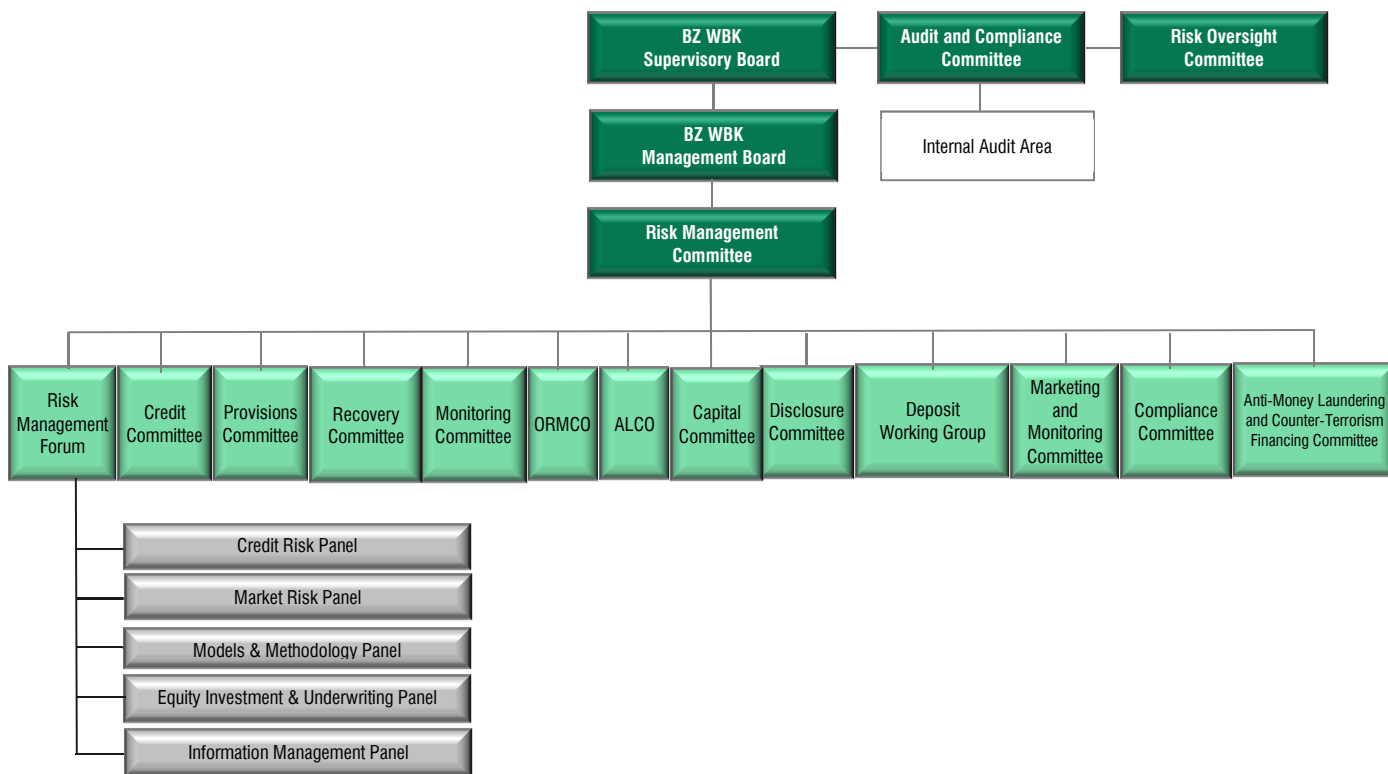
Acting under the applicable law, the bank exercises oversight over risk management in Santander Consumer Bank (SCB) in line with the same oversight rules as applied to other Bank Zachodni WBK Group companies. Bank Zachodni WBK Management Board members in charge of the Risk Management Division and Financial Management Division (respectively) sit on the Supervisory Board of SCB. Pursuant to the "BZ WBK strategy of investments in capital market instruments", they are responsible for supervision over SCB and they ensure, together with the SCB Supervisory Board, that the company operates in line with adopted plans and operational security procedures. The bank monitors the profile and level of SCB risk via BZ WBK risk management committees.

The RMC supervises the following risk committees:

- Risk Management Forum
- Credit Committee
- Recovery Committee
- Provisions Committee
- Monitoring Committee
- Operational Risk Management Committee / ORMCO
- Assets and Liabilities Management Committee / ALCO
- Capital Committee

- Disclosure Committee
- Deposit Working Group
- Marketing and Monitoring Committee
- Compliance Committee
- Anti-Money Laundering and Counter-Terrorism Financing Committee

Corporate Governance Structure for Risk Supervision and Management



### 3. Risk Management Priorities in H1 2015

Stable economic growth, steady increase in exports, optimistic macroeconomic outlook and record low interest rates had a positive impact on credit delivery and overall risk of the credit portfolio in H1 2015. In view of the Group’s priority to maintain high quality of the loan book, any adverse developments and their potential influence on the customer risk profile were analysed in detail, with a particular focus on:

- tensions in the eurozone connected with the financial problems of Greece
- China’s economic slowdown causing turbulence in the financial markets
- conflict in Ukraine and developments in the coal sector.

Following the abandonment of the Swiss franc-euro cap by the Swiss National Bank (SNB) on 15 January 2015, Bank Zachodni WBK Group was actively involved as a member of a working group set up by the Polish Banks Association (ZBP) to develop scenarios designed to alleviate the negative effect of SNB decision on bank customers. On 25 May 2015, the bank signed a declaration “on aid to be provided by banks to the borrowers who have housing loans, including foreign currency loans”. An increase in the loan-to-value ratio of the CHF mortgage loan portfolio amidst FX movements caused the bank to raise additional provisions as part of the existing monitoring and recovery processes. The bank took measures to prevent the intensification of financial stress for all borrowers, including customers with FX mortgage loans.

The Group continuously develops credit risk management processes and tools and adjusts them to the amended regulatory requirements (e.g. Recommendation S). In the analysed period, particularly noteworthy was the implementation of the first stage of the Workflow tool for the corporate segment, which helped to streamline the application process and enhance effectiveness of risk monitoring of corporate customers.

In view of the expected end to interest rate cuts, the Group took steps to modify the structure of assets and liabilities, getting ready to operate in a stable or increasing interest rate environment. The strategy adopted by the bank involved re-modelling of the profile of risk generated by Treasury bonds. Any changes were kept within the set sensitivity limits for net interest margin and market value of equity.

The Group's liquidity position and funding strategy were largely determined by a satisfactory loan-to-deposit ratio. The Group closely monitored the use of liquidity risk limits, including LCR limit, while minimising the exposure to liquidity risk through a stable deposit base. Despite the good liquidity position, the Group issued own bonds, thus increasing the diversification of funding sources.

On 30 March 2015, Bank Zachodni WBK implemented Recommendation U issued by KNF in June 2014 regarding changes in the process of selling insurance products by banks. The bank no longer acts as an insuring party for its customers but as an insurance broker of BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ. In order to offer and handle insurance products under an agency model, the bank's employees had to apply for a licence from KNF along with an entry in the register of insurance brokers. The implementation of Recommendation U also involved a number of complex changes to the processes, including with respect to selling and handling insurance products.

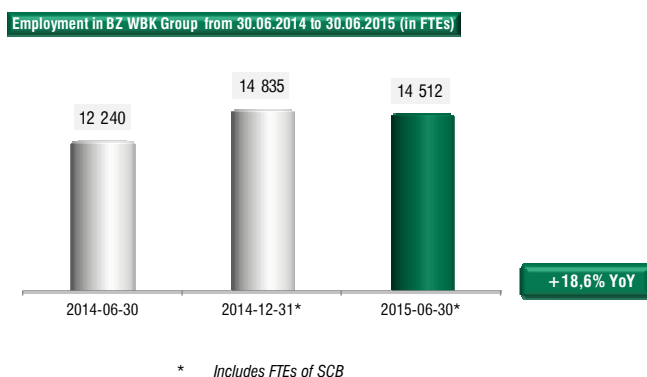
In the second half of 2015, the Group will focus on further development of innovative risk management solutions that will help achieve a safe and stable growth of business volumes in accordance with the regulatory requirements regarding advanced risk management methods.

## VIII. Human Resources Management

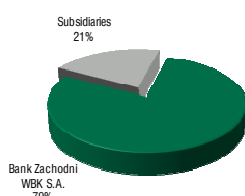
### Human Resources

As at 30 June 2015, the number of FTEs in Bank Zachodni WBK Group was 14,512 vs. 14,835 as at 31 December 2014 and 12,240 as at 30 June 2014. The headcount figures as at 30 June 2015 also include FTEs of SCB of 2,681 (vs. 2,720 as at 31 December 2014), however, they do not take into account the employees of BZ WBK-Aviva TUO and BZ WBK-Aviva TUnž (68 FTEs as at 31 December 2014) following the loss of control over the above insurance companies as of 27 February 2015.

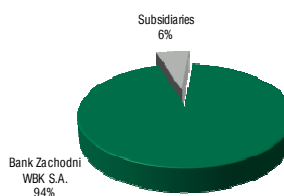
Excluding the FTEs of: SCB S.A., BZ WBK-Aviva TUO S.A and BZ WBK Aviva TUnž S.A., the underlying headcount in Bank Zachodni WBK Group was 11,831 FTEs, i.e. 344 lower YoY. The decrease is due to the change of the brokerage service delivery model and the continued optimisation of organisational structures within the Business Support Centre and Branch Banking, taking account of current business needs and prevailing market conditions.



Employment Structure in BZ WBK Group as at 30.06.2015



Employment Structure in BZ WBK Group as at 30.06.2014



### Training and Development Programmes

#### Development Programmes for Existing and Future Managers

In H1 2015, 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 and Personal Development Planning (support programme for the employees who received the highest ratings in performance reviews), Coaching (a programme addressed to senior executives and mid-level managers who wish to develop their leadership and management skills through individual work with an external coach), Programme for newly appointed managers (an induction programme) and local development programmes (responding to the specific needs in divisions and regions).

The New Management Style Programme launched in 2014 was continued in 2015. The purpose of this initiative 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. This programme covers 4 stages: diagnosis, feedback, development initiatives and implementation of changes. In May 2014, as part of the diagnosis stage, leadership styles surveys (for managers) and organisational climate surveys (for directors in charge of more complex functions) were carried out in the bank. The next stage covers feedback sessions and meetings held in organisational units to analyse the summary results of the survey for each Division and Macroregion.

### **Training for Business as Usual**

In H1 2015, a number of training and development initiatives were carried out for branches, partner units and the Business Support Centre in the form of workshops and remote sessions. As in previous periods, training for the branch staff focused on sales skills, knowledge of products, security-related aspects, the handling of bank applications, credit processes and procedures. Training for the Business Support Centre was focused on legal, financial, security, IT and interpersonal subjects.

### **Pilot of the Employee Referral Programme**

In June 2015, the Branch Banking of Bank Zachodni WBK launched the pilot of the Employee Referral Programme which will serve as an additional solution for the recruitment of customer service staff. The new system will reward those employees who recommend a promising, reliable, and committed candidate for a sales position.

## **Performance Share Programme**

### **Performance Share Programme**

On 30 June 2014, the Extraordinary General Meeting of Bank Zachodni WBK introduced a three-year 5th Incentive Scheme beginning in 2014 and addressed to the bank and subsidiary employees that have a key contribution to the value of the organisation. The main objective of the programme is to retain and motivate the top-performing executives.

The Incentive Scheme covers all Management Board members of the bank and no more than 500 key employees of Bank Zachodni WBK indicated by the Management Board and approved by the Supervisory Board. Having executed an agreement with the bank, the participants are eligible to subscribe for and acquire a defined number of shares at the nominal value of PLN 10 per share provided that certain economic criteria are met. For the award to be granted, the bank must achieve a stated net profit growth rate in 2014-2016. Persons who are covered by the EU's regulations on variable remuneration components and have a significant impact on the risk profile of the Group are additionally required to achieve a stated RoRWA ratio in the respective years of the programme. For the purpose of the scheme, the bank will issue up to 250,000 incentive shares.

The three-year 5th Incentive Scheme is monitored to check if any of the employees might have lost their participant status. The main reason for the loss of such status is a termination of employment, either with the bank or another entity of the BZ WBK Group.

## IX. Supervisory and Management Bodies

### General Meetings of Shareholders

The Annual General Meeting of Shareholders of Bank Zachodni WBK held on 23 April 2015 (AGM) approved the unconsolidated and consolidated statements of Bank Zachodni WBK for 2014 as well as Supervisory Board's report on its activities in 2014 along with the assessment of the financial statements and reports of the bank and BZ WBK Group for 2014. AGM granted discharge to members of the Management and Supervisory Boards for the performance of their duties in the previous year and agreed on the distribution of the net profit for 2014, i.e. allocation of the amount of PLN 1,994.6m to capital reserves, with the remaining part of PLN 952.7m left undistributed as per the requirement of KNF to retain the entire profit for 2014 until the regulator determines an additional capital requirement for the bank. AGM appointed a new member of the Supervisory Board (Mr. José Garcia Cantera), determined the remuneration of the Supervisory Board members and adopted the Rules of Corporate Governance for Supervised Institutions published by KNF on 22 July 2014. In addition, AGM approved the interim financial statements of Dom Maklerski BZ WBK for the period of ten months ending 31 October 2014 and gave discharge to members of the Management and Supervisory Boards of the above company.

### Supervisory Board

Below is the composition of the Bank Zachodni WBK Supervisory Board as at 30 June 2015 vs. 31 December 2014 and 30 June 2014:

Role in the Supervisory Board	Ref.	Composition as at 30.06.2015	Ref.	Composition as at 31.12.2014 and 30.06.2014
Chairman of the Supervisory Board:	1.	Gerald Byrne	1.	Gerald Byrne
	2.	-	2.	José Antonio Alvarez
	3.	José Garcia Cantera	3.	-
Members of the Supervisory Board:	4.	Danuta Dąbrowska	4.	Danuta Dąbrowska
	5.	David R. Hexter	5.	David R. Hexter
	6.	Witold Jurcewicz	6.	Witold Jurcewicz
	7.	José Luis de Mora	7.	José Luis de Mora
	8.	John Power	8.	John Power
	9.	Jerzy Surma	9.	Jerzy Surma
	10.	Marynika Woroszyńska-Sapieha	10.	Marynika Woroszyńska-Sapieha
	11.	José Manuel Varela	11.	José Manuel Varela

On 5 February 2015, Mr. José Antonio Álvarez resigned with immediate effect as the bank's Supervisory Board member due to his appointment as a CEO of Banco Santander S.A. Mr. José Garcia Cantera was nominated as a new member of the Supervisory Board by virtue of AGM Resolution of 23 April 2015. Other members were appointed for a new joint term of office by the Annual General Meeting of 16 April 2014.



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

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

As at 30 June 2015, the following members of the Supervisory Board held an independent status: Danuta Dąbrowska, David R. Hexter, Witold Jurcewicz, Jerzy Surma and Marynika Woroszyńska-Sapieha.

In the period from 1 January to 30 June 2015, 5 Supervisory Board meetings were held at which 32 resolutions were passed. Average attendance was 88%.

## Management Board

The table below presents the composition of Bank Zachodni WBK Management Board together with the roles and responsibilities of its members as at 30 June 2015 vs. 30 June and 31 December 2014.

Role in the Management Board	Ref.	Composition as at 30.06.2015	Reporting Areas as at 30.06.2015	Composition as at 30.06.2014 and 31.12.2014	Reporting Areas as at 30.06.2014 and 31.12.2014
President	1.	Mateusz Morawiecki	Units reporting directly to the President: Internal Audit Area, Corporate Communications & Marketing Area, Mobile & Internet Banking Area	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	Andrzej Burliga	Risk Management Division
	3.	Eamonn Crowley	Financial Management Division	Eamonn Crowley	Financial Management Division
	4.	Beata Daszyńska-Muzyczka	Business Partnership Division	Piotr Partyga	Business Partnership Division
	5.	Michael McCarthy	Business & Corporate Banking Division	Michael McCarthy	Business & Corporate Banking Division
	6.	Carlos Polaino Izquierdo	Financial Accounting & Control Division	Marco Antonio Silva Rojas	Financial Accounting & Control Division
	7.	Juan de Porras Aguirre	Global Banking & Markets Division	Juan de Porras Aguirre	Global Banking & Markets Division
	8.	Marcin Prell	Legal and Compliance Division	Marcin Prell	Legal and Compliance Division
	9.	Mirosław Skiba	Retail Banking Division	Mirosław Skiba	Retail Banking Division
	10.	Feliks Szyszkowski	Small and Medium Enterprises Banking Division	Feliks Szyszkowski	Business Support Division
	11.	Paweł Wieczorek	Technology Division	-	-

The Management Board of Bank Zachodni WBK as at 30 June 2015 was appointed for a new term of office by the bank's Supervisory Board on 23 April 2015. The composition changed as follows: Mr. Marco Antonio Silva Rojas in charge of the Financial Accounting and Control Division and Mr. Piotr Partyga in charge of the Business Partnership Division ceased to be members of the Management Board and were replaced by Mr. Carlos Polaino Izquierdo and Ms. Beata Daszyńska-Muzyczka, respectively. In relation to changes in the organisational structure, the former Head of the Business Support Division, Mr. Feliks Szyszkowiak, took charge of the newly created SME Banking Division, while Mr. Paweł Wieczorek was appointed as the Head of the transformed Business Support Division, which now operates as the Technology Division.

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

As at the release date of Interim Report 2015 of Bank Zachodni WBK Group and Interim and Annual Report for 2014, none of the members of the Supervisory Board held any shares in Bank Zachodni WBK.

The table below presents the shares of Bank Zachodni WBK and attached conditional rights held by the Management Board members as at 30 June 2015, 31 December 2014 and 30 June 2014.

Management Board members	30.07.2015		03.02.2015		31.07.2014	
	No. of BZ WBK shares	Rights	No. of BZ WBK shares	Rights	No. of BZ WBK shares	Rights
Mateusz Morawiecki	13 711	3 857	13 711	3 857	13 711	-
Andrzej Burliga	4 888	2 204	4 888	2 204	4 888	-
Eamonn Crowley	-	2 094	1 003	2 094	4 003	-
Beata Daszyńska-Muzyczka **	923	700				
Michael McCarthy	1 075	2 424	1 075	2 424	4 875	-
Carlos Polaino Izquierdo **	-	1 000				
Juan de Porras Aguirre	-	2 217	-	2 217	-	-
Piotr Partyga *			2 855	2 094	2 855	-
Marcin Prell	-	1 983	-	1 983	4 404	-
Marco Antonio Silva Rojas *			-	2 704	-	-
Mirosław Skiba	5 857	2 248	5 857	2 248	5 857	-
Feliks Szyszkowiak	4 704	2 248	4 704	2 248	4 704	-
Paweł Wieczorek **	-	800				
<b>Total</b>	<b>31 158</b>	<b>21 775</b>	<b>34 093</b>	<b>24 073</b>	<b>45 297</b>	<b>-</b>

\* As at 23.04.2015 Mr Piotr Partyga and Mr Marco Antonio Silva Rojas terminated their employment with Bank Zachodni WBK upon the expiry of their terms in office.

\*\* As at 23.04.2015 the Bank's Supervisory Board appointed the Bank's Management Board for the next term in office with three new Board Members: Mrs Beata Daszyńska-Muzyczka, Mr Carlos Polaino Izquierdo and Mr Paweł Wieczorek

Pursuant to Bank Zachodni WBK AGM Resolution of 16 April 2014 regarding 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 members of the Management Board.

In relation to the launch of the 5th Incentive Scheme for the years 2014-2016, approved by the Extraordinary General Meeting of Shareholders held on 30 June 2014, the Management Board members – as obligatory participants – were vested with conditional rights to buy 24,073 of the total of 250k incentive shares.

## X. Additional Information

### Organisational Changes

In April 2015, the Supervisory Board approved changes to the organisational structure of Bank Zachodni WBK aimed at aligning the chart with the business model adopted by the bank and facilitating the delivery of the strategy.

The SME Segment Area was removed from the Retail Banking Division and transformed into the SME Banking Division, which reflects the bank's increased focus on improving its service quality and strengthening the presence in the sector of micro, small and medium companies. The organisational solutions will allow the bank to better adapt to a competitive environment and meet increasing demands of SME customers who value accessibility, professionalism and personalisation of services.

The transformation process also covered the units of the Retail Banking Division offering products and services to individuals. The former CRM and Sales Support Department was changed into the CRM Development Area which is responsible for delivery of a comprehensive multi-channel strategy based on the CRM system. The Distribution Channels Development Area was set up to ensure a flexible and consistent approach to customers in remote distribution channels and, ultimately, to provide customers with top-quality products and services "anytime and anyplace". Furthermore, the Directors of Macroregions now have a direct reporting line to the Management Board member, and not the Head of Branch Banking (this position has been eliminated). The number of macroregions was reduced from 12 to 8 and the number of regions from 78 to 72 with a view to streamlining and optimising the branch network management, taking account of changes in local markets. The bank continues the gradual restructuring of the branch network, involving relocation or liquidation of less profitable branches and opening of new outlets.

The Business Support Division was transformed into the Technology Division and the Operational Service Area and the Settlements Area were merged into the Central Operations Area reporting directly to the CEO of the bank. The new Area is responsible for end-to-end operational support for customers and internal units. It also plans further centralisation of services and automation and digitisation of repetitive operations in accordance with the "paperless bank" concept.

### Selection of Auditor

In accordance with § 32 (10) of the Statutes of Bank Zachodni WBK, applicable regulations and industry practice, on 25 May 2015, the bank's Supervisory Board passed a resolution appointing Deloitte Polska as an entity to review and audit the bank's unconsolidated and consolidated financial statements for H1 2015 and the entire year 2015. The bank signed agreements with Deloitte Polska for the terms required to carry out the specified works.

The bank also 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 the impartiality and independence of the auditor.

Retaining 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 for the Core Business

#### Certificates of Deposit Issuance Programme

On 18 March 2015, the Management Board of Bank Zachodni WBK adopted a resolution on the issuance of Certificates of Deposits as part of the Issuance Programme with a nominal value of up to PLN 3bn, to ensure an alternative source of funding. CDs will be issued in tranches denominated in PLN, EUR, USD or CHF, with maturity ranging from three months to three years. Detailed parameters of individual tranches will be specified in the issuance terms and conditions.

### Issue of Own Bonds by Bank Zachodni WBK

On 24 June 2015, Bank Zachodni WBK issued 485,000 bearer bonds with a nominal value of PLN 1,000 each, a 3-year maturity and a variable interest rate (WIBOR 6M+1.05% p.a.) payable semi-annually. The bonds with a total value of PLN 485m were issued in a private placement and taken up by bondholders. The issue has been assigned a long-term national rating of AA-(pol) by Fitch Ratings.

As at 16 July 2015 the bonds were introduced to the Catalyst alternative trading system of the Warsaw Stock Exchange.

### Issue of Own Bonds by Santander Consumer Bank

In H1 2015, SCB continued to issue bonds under the Program of Debt Securities Issue underwritten by Santander Consumer Finance.

Under the private placement the bank issued floating interest rate bonds (based on WIBOR 6M) with a nominal value of PLN 100m and maturity up to 3 years as well as zero coupon bonds with a nominal value of PLN 85m and maturity of up to 6 months.

## Awards and Recognitions

Bank Zachodni WBK (BZ WBK)	
<b>Best in Sales</b>	<ul style="list-style-type: none"> <li>The Best in Sales Award granted by the jury of the Annual European Structured Products and Derivatives Awards for the largest distributor of structured products in Poland in 2014 (6 February 2015)</li> </ul>
<b>Best Mobile Banking of 2015</b>	<ul style="list-style-type: none"> <li>BZWBK24 mobile application ranked first out of 20 applications in terms of functionality in the ranking published by Money.pl</li> </ul>
<b>Quality Star of 2015</b>	<ul style="list-style-type: none"> <li>BZ WBK named a trustworthy company with best-in-class service standards in the report of the 8th Polish Service Quality Programme (13 March 2015)</li> </ul>
<b>IT Leader of 2014</b>	<ul style="list-style-type: none"> <li>Accolade for BZWBK24 mobile application for personal customers in recognition of its extensive features and dynamic development, granted at the Technology Awards in Warsaw organised by <i>Gazeta Bankowa</i> (18 March 2015)</li> </ul>
<b>Best Bank on Social Media – top position in the category</b>	<ul style="list-style-type: none"> <li>Best bank in terms of communication with customers on social media voted by Internet users who appreciated the bank's diligence and effort in responding quickly to all questions and comments</li> </ul>
<b>Best Account in Poland</b>	<ul style="list-style-type: none"> <li>Top position of the Account Worth Recommending in the April ranking published by Bankier.pl, taking into account such criteria as total monthly maintenance fee, terms of use of payment card and withdrawals from ATMs of other banks</li> </ul>
<b>Best Helpline</b>	<ul style="list-style-type: none"> <li>BZ WBK helpline ranked second in the helpline services category of the survey conducted by <i>mojebankowanie.pl</i>, taking into account such aspects as time to reach a "contact with an agent" option, actual waiting time, number of referred calls, navigation through IVR, as well as the quality of a connection and a call itself</li> </ul>
<b>Grand Prix in the Marketing Director of the Year Awards</b>	<ul style="list-style-type: none"> <li>Top accolade received by BZ WBK marketing team in the fifth edition of the prestigious Marketing Director of the Year Awards organised by Mediarun, for "the unparalleled marketing strategy" which contributed to the growth of the customer base, further improvement of the financial performance and strengthening of the bank's position among the top financial institutions</li> </ul>
<b>Best Mobile Application</b>	<ul style="list-style-type: none"> <li>BZWBK24 mobile hailed the best application in Poland and second best in Europe in the European Mobile Banking Functionality Benchmark report</li> </ul>
<b>Award from WSE</b>	<ul style="list-style-type: none"> <li>Award granted by the Warsaw Stock Exchange to BZ WBK Brokerage Office in recognition of the highest share in the options trading without market-making in 2014</li> </ul>
BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych (BZ WBK TUO)	
<b>Silver Umbrella for insurance</b>	<ul style="list-style-type: none"> <li>Silver Umbrella Award for BZ WBK-Aviva TUO granted by Home&amp;Market monthly in recognition of an outstanding financial performance in 2014, in particular a YoY growth of profit and technical result by 82% and 104%, respectively</li> </ul>

**BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI)****Golden Wallet**

- Golden Wallet award from *Parkiet* daily (16 March 2015) for the managers of the debt and equity components of Arka BZ WBK Zrównoważony sub-fund (Arka BZ WBK FIO) which was named the best balanced fund/sub-fund in 2014

**Alfa 2014**

- Alfa 2014 award from Analizy Online (17 March 2015 r.) for Arka Prestiż Obligacji Korporacyjnych SFIO, Arka Prestiż Obligacji Skarbowych SFIO and Credit Agricole Stabilnego Wzrostu FIO



# 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 Interim 2015 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 2015.

## Selection of Auditor

The auditing firm responsible for auditing the unconsolidated and consolidated financial statements of the bank and Bank Zachodni WBK Group for the period of six months ending 30 June 2015 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 Polish law and professional standards.

Signatures of the Management Board Members			
Date	Name	Function	Signature
28.07.2015	Mateusz Morawiecki	President of the Board	
28.07.2015	Andrzej Burliga	Member	
28.07.2015	Eamonn Crowley	Member	
28.07.2015	Beata Daszyńska-Muzyczka	Member	
28.07.2015	Michael McCarthy	Member	
28.07.2015	Carlos Polaino Izquierdo	Member	
28.07.2015	Juan de Porras Aguirre	Member	
28.07.2015	Marcin Prell	Member	
28.07.2015	Mirosław Skiba	Member	
28.07.2015	Feliks Szyszkowiak	Member	
28.07.2015	Paweł Wieczorek	Member	