

**MANAGEMENT BOARD REPORT
ON BANK ZACHODNI WBK GROUP
PERFORMANCE
IN THE FIRST HALF OF 2016**

2016



Bank Zachodni WBK

 Grupa Santander

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I. Overview of Bank Zachodni WBK Group Performance in H1 2016

This section provides an overview of the activity of Bank Zachodni WBK Group (BZ WBK Group) in H1 2016. 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

Key financial and business highlights of Bank Zachodni WBK Group for H1 2016	
Total income	<ul style="list-style-type: none"> Total income of Bank Zachodni WBK Group for H1 2016 decreased by 4.3% YoY to PLN 3,942.9m. Excluding one-off gains on equity transactions (PLN 316.1m in relation to the settlement of acquisition of Visa Europe Ltd. by Visa Inc. in H1 2016 and PLN 523m from partial disposal and loss of control over BZ WBK-Aviva TUnZ and BZ WBK-Aviva TUO in H1 2015), the underlying total income was stable (+0.8% YoY).
Total costs	<ul style="list-style-type: none"> Total costs went up by 2.1% YoY to PLN 1,705.3m.
Profit	<ul style="list-style-type: none"> Profit before tax amounted to PLN 1,773.9m, down 15.7% YoY. Adjusting income as above and excluding banking tax, the underlying profit before tax increased by 3.2% YoY. Profit attributable to the shareholders of Bank Zachodni WBK was PLN 1,280.0m and 18.9% lower YoY (0.9% higher on a comparable basis).
Capital ratio	<ul style="list-style-type: none"> Capital ratio stood at 14.4% (14.3% as at 30 June 2015).
ROE	<ul style="list-style-type: none"> Return on Equity (ROE) was 11.9% (16.7% as at 30 June 2015), and 11.5% excluding one-off items (14.4% as at 30 June 2015). The marked decrease in the ROE ratio results from the introduction of a tax on financial institutions and increased capital requirements imposed by the banking supervision authorities.
Costs/Income	<ul style="list-style-type: none"> Cost to income ratio was 47.0% excluding one-off items (46.4% in H1 2015).
Net impairment losses	<ul style="list-style-type: none"> Net impairment losses on loans and advances amounted to PLN 311.1m compared with PLN 353.2m in H1 2015.
Credit quality	<ul style="list-style-type: none"> NPL ratio was 6.8% (8.1% as at 30 June 2015), while the ratio of impairment losses to the average gross credit volumes was 0.7% (0.9% as at 30 June 2015).
Loans to customers	<ul style="list-style-type: none"> Gross loans to customers increased by 10.8% YoY to PLN 105,721.8m due to the growth of 7.8% YoY in personal loans and 12.8% YoY in loans to enterprises and the public sector to PLN 54,326.4m and PLN 46,157.8m, respectively.
Deposits from customers	<ul style="list-style-type: none"> Deposits from customers increased by 13.0% YoY to PLN 105,757.9m as a result of the expansion of deposits from enterprises and the public sector by 18.0% YoY to PLN 44,399.0m and increase in personal deposits by 9.6% YoY to PLN 61,358.9m.
Loans/Deposits	<ul style="list-style-type: none"> Customer loan-to-deposit ratio was 95.0% as at 30 June 2016 compared with 96.2% as at 30 June 2015.
Net assets under management	<ul style="list-style-type: none"> Net value of assets in mutual funds and private portfolios amounted to PLN 13.3bn, down 6.7% YoY and up 2.9% Ytd.
Electronic banking	<ul style="list-style-type: none"> The number of customers using BZWBK24 electronic banking services totalled 3.2m (+4.2% YoY), including customers with access to mobile services of 0.8m (+35.0% YoY). The BZ WBK Group payment card base included 4.1m debit and prepaid cards (+0.7% YoY) and more than 1.2m credit cards (+10.1% YoY) including the cards of SCB customers.
Customer base	<ul style="list-style-type: none"> The customer base of BZ WBK and SCB was more than 6.4m customers.

Comparability of Periods

Comparability of Periods in the Income Statement of BZ WBK Group for H1 2016	
H1 2016	H1 2015
New statutory charge	Loss of control over BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO
<ul style="list-style-type: none"> Pursuant to the Act on tax imposed on certain financial institutions, effective from 1 February 2016 bank assets are subject to tax of 0.0366% per month. In H1 2016, total charge to the income statement of BZ WBK and SCB in this respect was PLN 173.3m. 	<ul style="list-style-type: none"> On 27 February 2015, BZ WBK sold a part of the stake in BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO, which resulted in a loss of control over the above entities. In effect, gains on the sale and adjustments resulting from the loss of control were recognised, totalling PLN 523m. 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.
Remuneration resulting from the merger of Visa Europe Ltd. with Visa Inc.	
<ul style="list-style-type: none"> As part of settlement of the transaction of take-over of Visa Europe Ltd. by Visa Inc. on 21 June 2016, BZ WBK and SCB, as members and shareholders of the acquired company received a cash payment, preferred series C shares and an earn-out totalling PLN 316.1m, including PLN 305.9m attributable to BZ WBK. 	

Determinants of the BZ WBK Group's Profit in H1 2016

Determinants of the BZ WBK Group's profit in H1 2016	
Increase in net interest income	<ul style="list-style-type: none"> The increase in net interest income (+PLN 194.5m YoY) was slightly higher than the growth in net interest bearing assets, causing the Group's annualised net interest margin to rise to 3.62% in H1 2016 (+0.09 p.p. YoY). The expansion of key business volumes was accompanied by favourable structural trends such as an increase in the portfolio of cash loans and other consumer loans, rise in low-cost current account balances and stable level of term deposits.
Increase in net fee and commission income	<ul style="list-style-type: none"> Net fee and commission income levelled off at PLN 943.6m as a result of major diversification of the Group's income sources and external and internal factors such as: development of the Polish economy and financial markets, promotional campaigns, regulatory changes, competitive pressures and strategic objectives. In H1 2016, the Group's net fee and commission income was particularly strongly influenced by the economic environment as evidenced by net fee income from asset distribution and management, insurance fees, brokerage fees and fees for arrangement of securities issues.
Decrease in other income	<ul style="list-style-type: none"> A YoY decrease of PLN 148.3m in the Group's other income (excluding one-off transactions in the capital market) was attributed to lower profit on the portfolio of available-for-sale debt securities and a decline in other operating income due to changes in the presentation of the Group's insurance income following the deconsolidation of BZ WBK-Aviva insurance companies and a modified calculation of BFG fee refunds based on new regulations. One-offs arising in the current and base periods are provided the preceding table on comparability of periods.
Lower level of impairment losses	<ul style="list-style-type: none"> Lower YoY level of impairment losses (-PLN 42.1m) amid a 10.8% YoY increase in gross loan book and improved credit quality ratios reflect favourable trends in the economic environment and the Group's proactive credit risk management policy, including continuous development of tools supporting credit decision making, close monitoring of loan portfolios and debt restructuring.
Effective cost management	<ul style="list-style-type: none"> Consolidated costs were only slightly higher YoY (+PLN 35.8m). Bank Zachodni WBK Group effectively manages costs and maintains strict budgetary discipline while conducting numerous projects, developing the IT infrastructure and incurring additional costs connected with its participation in the banking system and the deposit guarantee system.

Impact of Macroeconomic Developments in 2016

Key macroeconomic factors impacting financial and business performance of the Group in H1 2016	
Economic growth	<ul style="list-style-type: none"> • Solid economic growth in the euro zone, worries about the global economic outlook due to the slowdown in China, deteriorating tendencies in the international trade.
Labour market	<ul style="list-style-type: none"> • Favourable situation in the labour market – gradual increase in employment in the enterprise sector, declining unemployment and relatively fast wage growth, supporting private consumption.
Inflation	<ul style="list-style-type: none"> • Low inflationary pressure, CPI inflation rate still below zero. • Oil prices remaining at a relatively low level.
Monetary policy	<ul style="list-style-type: none"> • NBP official rates kept at the lowest level ever.
Credit market	<ul style="list-style-type: none"> • Deceleration of credit growth in the banking sector.
Financial markets	<ul style="list-style-type: none"> • Changes of mood in international financial markets influenced by the expected policy orientation of the main central banks (Federal Reserve, ECB), incoming macroeconomic data, worries about the geopolitical situation, including concerns about the results of the UK EU membership referendum, the immigration crisis and the economic slowdown in China. • Volatility of the zloty exchange rate versus the main currencies; decline in Polish bond yields. • Downgrade of Poland's sovereign credit rating and outlook by S&P; downgrade of Poland's credit outlook to negative by Moody's. • Introduction of tax on bank assets. • Increase in the capital ratios for the banking sector by KNF.

Key Developments and Achievements

Major corporate events in H1 2016	
January	<ul style="list-style-type: none"> • Conclusion of a loan agreement (22 January 2016) between Bank Zachodni WBK and one of international banks providing for a EUR 50m worth of credit line to finance the bank's general corporate purposes.
February	<ul style="list-style-type: none"> • Supervisory Board's decision (11 February 2016) to extend the mandate for the Supervisory Board Chairman Mr. Gerry Byrne to continue as acting Management Board President pending the decision to select a new CEO in the first half of 2016. • Redemption by BZ WBK (17 February 2016) of 230k A series certificates of deposit with a nominal value of PLN 1k each. • Issuance by BZ WBK of the following securities: <ul style="list-style-type: none"> ➢ series B certificates of deposit (17 February 2016) with a total nominal value of PLN 250m and a 6-month maturity; ➢ bearer bonds (26 February 2016) with a total nominal value of PLN 185m and a 1-year maturity. • Issuance by SCB of bonds with a nominal value of PLN 110m (a total of PLN 332m in H1 2016) with a maturity of 2 to 4 years as part of the debt securities issue programme. • Affirmation of the bank's ratings (29 February 2016) from Fitch Ratings.
March	<ul style="list-style-type: none"> • Conclusion of an agreement (16 March 2016) with the European Bank for Reconstruction and Development (as part of the Programme of Financing Energy Efficiency Improvement) for financing in the amount of EUR 75m with 4-year maturity. • Announcement by the Management Board of BZ WBK (22 March 2016) of a dividend proposal (approved by the Supervisory Board), providing for a payout of PLN 13 per share from the bank's 2014 and 2015 profit (PLN 587.6m and PLN 702.5m, respectively). • Selection by the BZ WBK Supervisory Board of PricewaterhouseCoopers (22 March 2016) as the auditor for the bank's unconsolidated and consolidated financial statements for the periods ending 30 June and 31 December 2016. • Finalisation of the reverse merger (31 March 2016) between BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI) and BZ WBK Asset Management (BZ WBK AM), whereby the parent (BZ WBK AM) was taken over by its subsidiary (BZ WBK TFI).

Major corporate events in the first half of 2016 cont.

April	<ul style="list-style-type: none"> Annual General Meeting of BZ WBK (20 April 2016), which approved the distribution of the bank's profit for 2015, the amount of dividend for 2014 and 2015 and changes to the statutes of BZ WBK . It also adopted the "2016 Code of Best Practice for WSE Listed Companies" and the "Policy for Selection and Assessment of Qualifications of Supervisory Board Members of Bank Zachodni WBK". Conclusion of a loan agreement (26 April 2016) with the European Investment Bank (EIB), providing for a loan of EUR 70m for 5 years towards financing the bank's ordinary activity.
May	<ul style="list-style-type: none"> Appointment of Mr. Michal Gajewski as the bank's Management Board President (16 May 2016). The new CEO is to take office after receipt of consent from the Polish Financial Supervision Authority (KNF) and after expiry of the obligations relating to his prior employment.
June	<ul style="list-style-type: none"> Registration of changes to the Statutes of BZ WBK with the National Court Register (10 June 2016) adopted by the AGM of BZ WBK on 20 April 2016. Conclusion of a loan agreement with the Council of Europe Development Bank (13 June 2016), providing for a 5-year loan of EUR 100m to be used for financing lending to SMEs. Early repayment (15 June 2016) of a tranche of CHF 60m under one of the EIB loans issued to Kredyt Bank on 29 June 2012. Resignation of Mr. Pawel Wieczorek as a member of the bank's Management Board as of 20 June 2016. In connection with the take-over of Visa Europe Ltd. by Visa Inc. finalised on 21 June 2016 – BZ WBK as a shareholder of the acquired company (Visa Europe Ltd.) – obtained rights to remuneration of EUR 50m in cash, 18.1k C series shares and an earn-out of 0.38% out of the total amount of EUR 1.12bn payable to all the shareholders. Remuneration for SCB resulting from the settlement of the respective transaction amounted to: EUR 1.7m in cash, 0.6k C series shares and an earn-out of 0.01% out of the total amount of EUR 1.12bn payable to all the shareholders. Appointment of Mr. Artur Chodacki (22 June 2016) as a member of the bank's Management Board in charge of the SME Banking Division, as he replaced in this role Mr. Feliks Szyszkowiak – member of the Management Board appointed as Chief Digital Officer.
July	<ul style="list-style-type: none"> Change of conditions relating to EUR 100m worth of subordinated bonds issued by BZ WBK on 5 August 2010 and acquired in full by the EBRD. In accordance with the KNF decision (18 May 2016), the bonds were classified as Tier 2 capital.

II. Basic Information about BZ WBK Group

1. History, Ownership Structure and Profile

History and Profile

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 debuted on the Warsaw Stock Exchange on 25 June 2001.

Bank Zachodni WBK was originally a member of AIB Group together with the majority shareholder – AIB European Investments Ltd. – which on 1 April 2011 sold their entire stake in the bank (70.36% of share capital and voting power) to Banco Santander 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, acquiring an interest representing 95.67% of share capital and voting power in the bank.

On 4 January 2013, Bank Zachodni WBK merged with Kredyt Bank pursuant to the Investment Agreement of 27 February 2012 between Banco Santander and KBC Bank NV. The merger by acquisition was completed 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.

Pursuant to the Investment Agreement of 27 November 2013 between Bank Zachodni WBK, Santander Consumer Finance (SCF) and Banco Santander, on 1 July 2014 Bank Zachodni WBK acquired ordinary and preference shares in Santander Consumer Bank (SCB) with its registered office in Wrocław (SCB), representing 60% of the share capital of SCB and 67% of votes at the General Meeting of SCB. In exchange for SCB shares contributed in kind, the bank issued series L shares with the total nominal value of PLN 53.8m.

On 31 October 2014, the organised part of enterprise of Dom Maklerski BZ WBK specialising in the provision of brokerage services was incorporated into the bank's structures.

Structure of Share Capital of Bank Zachodni WBK

The table below presents the entities with significant holdings of Bank Zachodni WBK shares alongside the number of shares held and votes at the company's General Meeting as well as the percentage share in the registered capital and voting power at the General Meeting as at 30 June 2016, 31 December 2015 and 30 June 2015.

Shareholder	Number of Shares Held			% in the Share Capital & Voting Power at AGM		
	30.06.2016	31.12.2015	30.06.2015	30.06.2016	31.12.2015	30.06.2015
Banco Santander S.A.	68 880 774	68 880 774	68 880 774	69,41%	69,41%	69,41%
Nationale-Nederlanden OFE	5 110 586	5 110 586	5 110 586	5,15%	5,15%	5,15%
Others	25 243 174	25 243 174	25 243 174	25,44%	25,44%	25,44%
Total	99 234 534	99 234 534	99 234 534	100,0%	100,0%	100,0%

Over the last 12 months ended 30 June 2016, no changes were noted in the structure of shareholders having more than 5% stake in the registered capital of Bank Zachodni WBK.

Based on information available to the Management Board of Bank Zachodni WBK, as at the date of release of H1 2016 Report of Bank Zachodni WBK Group (27 July 2016), no changes took place to the structure of shareholders compared with 30 June 2016. 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 Nationale-Nederlanden OFE (formerly 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 S.A. (BZ WBK TFI S.A.), BZ WBK Leasing S.A., BZ WBK Lease S.A., BZ WBK Faktor Sp. z o.o., BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. (BZ WBK-Aviva TUO S.A.) and BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. (BZ WBK-Aviva TUŻ S.A.). 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 2016, Bank Zachodni WBK Group provided services to 6.4 m customers, including customers of Santander Consumer Bank.

Business Model of Bank Zachodni WBK Group

Operating Structure

Bank Zachodni WBK with its non-banking subsidiaries carries on its operations through the following central units: Retail Banking Division, SME Banking Division, Business & Corporate Banking Division and Global Corporate Banking Division.

Retail Banking of Bank Zachodni WBK offers services to personal customers, who are allocated to Standard, Premium, VIP or Private Banking segments, taking into account their diverse needs and expectations. Retail customers interact with the bank via the extensive network of branches and remote channels, e.g. telephone banking, internet banking and mobile banking (the BZWBK24 electronic banking service and the Telephone Banking Centre).

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 specialised macroregional teams.

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 Corporate Banking 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.

Both corporate customers and SMEs can use advisors from the bank's relevant units and access the Bank's products and services via remote channels, including the internet and mobile (through the BZWBK24 and iBiznes24 platforms) and well as phone services of a specialised operating centre.

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

In addition to traditional banking, Bank Zachodni WBK offers 24-hour access to banking products and services by means of modern technology. The bank has steadily developed multi-channel banking solutions to ensure consistent service levels and continuity of communication with customers in all the distribution channels as part of integrated CRM systems. A particular focus is placed on digitization, speed, convenience and security of banking processes.

Basic Distribution Channels of BZ WBK and SCB			
Bank Zachodni WBK	30.06.2016	31.12.2015	30.06.2015
Branches (location)	666	723	769
Partner Outlets	112	115	115
ATMs and ATM/Cash lodgements machines	1 564	1 525	1 379
Cash Lodgements Machines	153	158	274
BZWBK24 - registered users (in thousands)	3 207	3 193	3 079
iBiznes24 - registered users/companies (in thousands)	16	15	10
Santander Consumer Bank	30.06.2016	1.01.2016	30.06.2015
Branches	164	167	172
Partner Outlets	143	136	110

Business Model Framework

The fundamental element of the strategy and business model of Bank Zachodni WBK Group is customer-centricity, an approach whereby each initiative and banking process is judged from the customer's viewpoint, with a concentration on the customer's needs and experience in order to build lasting mutual relationships underpinned by an attractive products portfolio and high service quality. The bank focuses on modern technologies, digitisation and multi-channel banking. At the same time, a focus is placed on developing friendly working environment and internal corporate culture by promoting cooperation, increasing motivation, engagement and professionalism of employees. 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 business volumes, an increasing presence in the most profitable market segments as well as 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, modern banking technologies and rapidly growing functionality of remote distribution channels increase the potential for further market penetration. The achieved business scale and strong orientation on building durable partnerships with customers allow the Group to compete successfully with the largest players in the Polish banking market.

Strengths of Bank Zachodni WBK Group



According to the financial statements for the three months ended 31 March 2016, which at the date of approval of this Management Board report (25 July 2016) 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 and loans.

According to NBP statistics, as at the end of March 2016 the Group’s share of the market was 9.8% for loans and 9.6% for deposits.

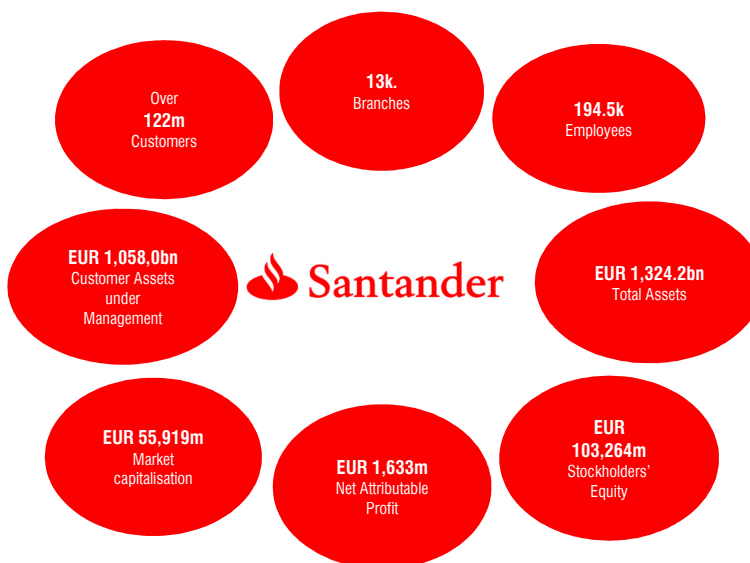
The Group continued to strengthen its presence in the factoring and leasing markets via its subsidiaries, generating 11.7% and 8.6% of sales for Q1 2016, respectively (according to the Polish Factors Association and the Polish Leasing Association). At the same time, the Group’s share in the retail mutual fund market was 10.4% (according to Analizy Online) while in the equity and futures markets it held 5.3% and 11.1%, respectively (according to the Warsaw Stock Exchange).

Majority Shareholder

Banco Santander - a parent entity of Bank Zachodni WBK – is a commercial bank with a history of about 160 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 business, corporate, asset management and insurance market. Banco Santander, which is characterised by the geographic diversification of its business, currently focuses on its 10 selected core markets – both developed and emerging. It has a strong position in Spain, Argentine, Brazil, Chile, Mexico, the United States, Poland, Portugal and the United Kingdom. It is also present in the consumer loans market in Europe (in Germany, France, Italy, Poland and Scandinavia).

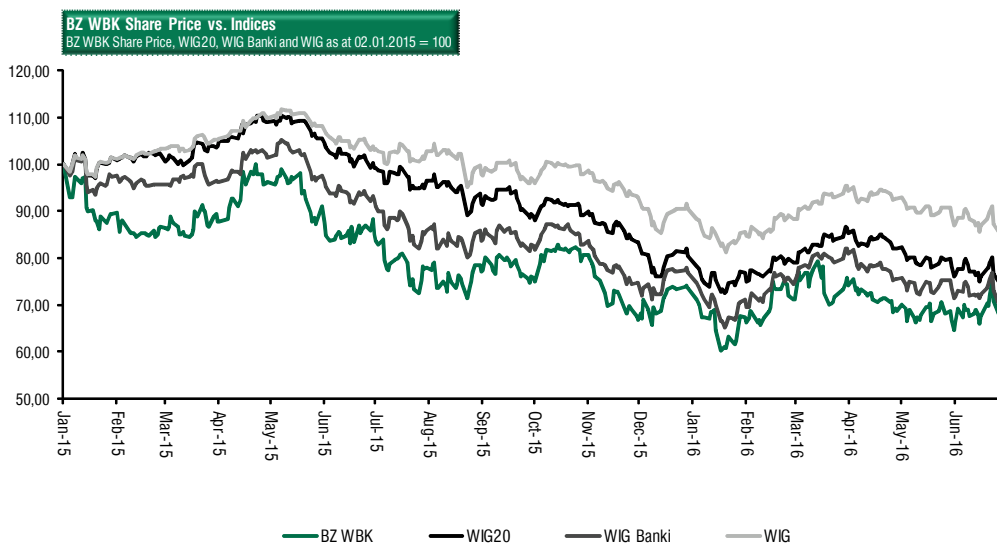
According to data as at the end of March 2016, Banco Santander was the 3rd largest bank in Europe and 15th bank globally in terms of capitalisation.

Key figures presenting the scale of consolidated activity of Banco Santander Group as at 31.03.2016



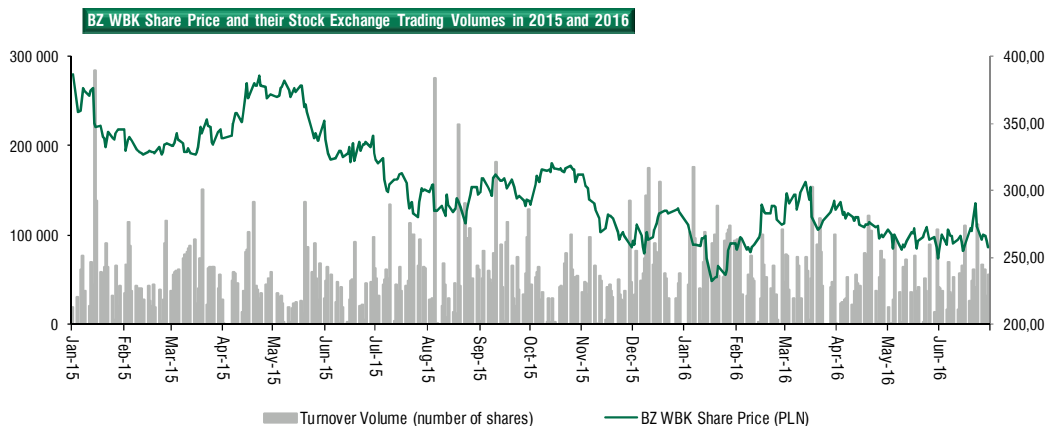
On 3 December 2014, Banco Santander debuted on the Warsaw Stock Exchange. A total of 12,840.5 million ordinary shares of the bank with a nominal value of EUR 0.50 each were floated. In addition to WSE, Banco Santander shares are traded on stock exchanges in Madrid, Milan, Lisbon, London, New York, Buenos Aires and in other cities.

Share Price of Bank Zachodni WBK in the Market Context



In H1 2016, the bank's share price remained similar to the levels noted at the end of 2015 and was in line with the trends of the main indices of the Warsaw Stock Exchange. The bank's share price fell by 7.5% Ytd (from PLN 284.0 at the end of 2015 to PLN 262.8 at the end of June 2016) and was similar to the losses sustained by the sectoral WIG-Banki index, which at that time fell by 6.6%. During H1 2016, the bank's share price reached its maximum closing price of PLN 306.2 on 14 March, while the minimum price of PLN 232.5 was noted on 18 January. The short-term consolidation of the bank's share price might suggest a growing strength of the demand side, albeit over a longer term the price remains on a downward trend.

In addition to the factors that affect the global market situation, the bank's share price is influenced by the risks associated with the ongoing work on CHF loan conversion law and the introduction of the banking tax. After the annual non-dividend period required by the KNF, on 20 April 2016, the General Meeting of Bank Zachodni WBK decided to pay dividend of PLN 13 per share in respect of the 2014 and 2015 profits. The dividend was paid on 16 May 2016.



As at 30 June 2016, market capitalisation of Bank Zachodni WBK was PLN 26,073.9m compared to PLN 28,182.6m as at 31 December 2015 and PLN 33,863.8m as at 30 June 2015.

Bank Zachodni WBK Rating

Bank Zachodni WBK has bilateral credit rating agreements with Fitch Ratings and Moody's Investors Service.

Rating Actions by Fitch Ratings

The table below presents the ratings of Bank Zachodni WBK as at 30 June 2016, affirmed by Fitch Ratings on 29 February 2016.

Fitch Rating	Ratings updated as at 29.02.2016
	International Ratings
Long-term IDR	BBB+
Outlook for the long-term IDR rating	stable
Short-term IDR	F2
Viability rating	bbb+
Support rating	2
	National Ratings
National long-term rating	AA-(pol)
Outlook for the national long-term rating	stable
Senior unsecured debt national long-term rating	AA-(pol)

Fitch believes that Bank Zachodni WBK is a strategically important subsidiary for Banco Santander and there is a high probability of support from the parent entity if need be. This view is reflected in the long-term IDR assigned to the bank, which is one notch below the rating of the controlling shareholder. The rating is also justified by individual VR assigned to Bank Zachodni WBK which reflects the bank's strong capitalisation and loss absorption capacity as well as a track record of solid internal capital generation. The profitability, efficiency and credit quality ratios analysed by the agency are satisfactory, and liquidity is adequate, benefitting from the bank's stable funding position, based on diversified, predominantly retail, customer deposits.

Rating Actions by Moody's Investors Service

The table below presents the ratings of Bank Zachodni WBK as at 30 June 2016, affirmed/upgraded by Moody's Investors Service on 20 November 2015.

Category of Moody's Ratings	Ratings updated as at 20.11.2015
Bank Deposit	A3/P-2
Baseline Credit Assessment	baa3
Adjusted Baseline Credit Assessment	baa2
Outlook	stable
Counterparty Risk Assessment	A2 (cr)/ P-1 (cr)

On the basis of the Advanced LGF analysis, the bank's long-term deposit rating was set to A3, i.e. two notches higher than the adjusted Basic Credit Assessment (BCA), while the short-term deposit rating was P-2. The A3/Prime-2 deposit ratings are underpinned by the bank's BCA, the probability of support from the parent (Banco Santander) and the Advanced Loss Given Failure (LGF) analysis.

The bank's baa3 BCA is supported by the bank's expanding franchise in the Polish market (following acquisition of Kredyt Bank and Santander Consumer Bank), a good liquidity profile, and adequate capitalisation, supported by high internal capital creation. The BCA is constrained by the bank's asset quality (NPL ratio remains higher than the market average) and some dependence on medium-term wholesale FX funding due to its FX mortgage portfolio.

3. Entities Related with Bank Zachodni WBK

Subsidiaries

As at 30 June 2016, Bank Zachodni WBK formed a Group with the following subsidiaries:

1. Santander Consumer Bank S.A. (SCB S.A.)
2. Santander Consumer Finanse Sp. z o.o. (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. SC Poland Consumer 2015-1 Sp. z o.o. (a subsidiary of SCB S.A.)
6. BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.
7. BZ WBK Finanse Sp. z o.o.
8. BZ WBK Faktor Sp. z o.o. (a subsidiary of BZ WBK Finanse Sp. z o.o.)
9. BZ WBK Leasing (a subsidiary of BZ WBK Finanse Sp. z o.o.)
10. BZ WBK Lease (a subsidiary of BZ WBK Finanse Sp. z o.o.)
11. BZ WBK Inwestycje Sp. z o.o.
12. BZ WBK Nieruchomości S.A.
13. Gieldokracja Sp. z o.o. in liquidation.

Compared with 30 June 2015, the list of related entities of Bank Zachodni WBK was reduced by two as a result of the following ownership changes:

- **Merger of BZ WBK Asset Management S.A. (BZ WBK AM) and BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. (BZ WBK TFI)**

The transaction (finalized on 31 March 2016) was a reverse acquisition, whereby the parent (BZ WBK AM) was taken over by its subsidiary undertaking (BZ WBK TFI). The merger was completed by transferring the entire assets of the acquired company (BZ WBK AM) to the acquiring company (BZ WBK TFI) with a concurrent increase in the latter's share capital by way of issuing 135 thousand H series merger shares, which were transferred to the co-owners of the acquired company (50% to Bank Zachodni WBK and 50% to Banco Santander) in return for their shareholdings. In consequence, BZ WBK TFI all the rights and obligations of BZ WBK AM passed to BZ WBK TFI.

The acquired company was dissolved, without a liquidation process, on 31 March 2016, i.e. on the day when it was struck off the business register of the National Court Register. On the same day, the capital increase and decrease were recorded and the merger was registered.

- **Dissolution of the special purpose vehicle S.C. Poland 2014-1 Limited**

20 April 2016 saw repayment of the last tranche of bonds issued as part of the first securitisation transaction of SCB S.A. completed via SC Poland Auto 2014-1 Limited, an SPV established in Ireland, which in 2014 took over a part of the receivables associated with car and instalment loans and on their basis issued series 14-1, class A and B securitisation bonds. The SPV was dissolved after the completion of the project for which it had been formed.

- **Formation of SC Poland Consumer 2015-1 Sp. z o.o.**

SC Poland Consumer 2015-1 Sp. z o.o. is a subsidiary of SCB S.A. registered on 7 July 2015. It was established for the purpose of securitisation of instalment loans of SCB. Its shareholder is a foreign legal person that has no connections with SCB Group. However, since 23 September 2015 the entity has been controlled by SCB due to fulfilment of the control conditions laid down in IFRS 10.7

- **Disposal of a shareholding in Lizar Sp. z o.o.**

On 29 October 2015, BZ WBK Lease entered into an agreement regarding the sale of the total stake in Lizar, as a result of which the latter company ceased to be a member of Bank Zachodni WBK Group.

On 28 April 2016, the Annual General Meeting adopted a resolution to dissolve Gieldokracja Sp. z o.o. and to start its liquidation as of 1 May 2016.

As at 30 June 2016, all the companies from Bank Zachodni WBK Group were consolidated with the bank in accordance with IFRS 10.

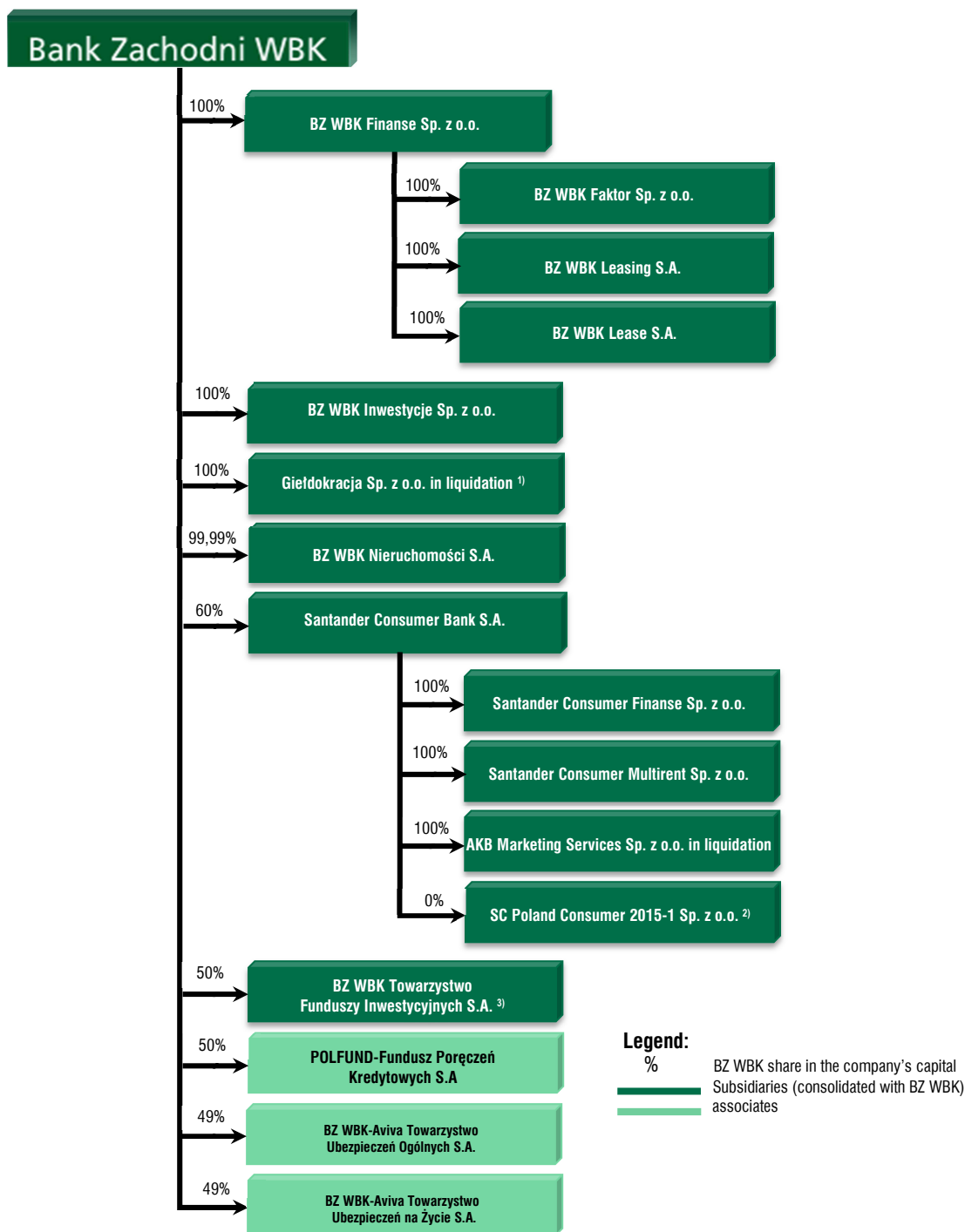
Associates

In the consolidated financial statements of Bank Zachodni WBK for the 6-month period ended 30 June 2016, the following companies are accounted for using the equity method in accordance with IAS 28:

1. BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. (BZ WBK-Aviva TUO S.A.)
2. BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. (BZ WBK-Aviva TUnŻ S.A.)
3. POLFUND - Fundusz Poręczeń Kredytowych S.A.

Compared with 30 June 2015 and 31 December 2015, the list of associated companies was reduced by the members of Metrohouse Franchise Group as on 22 January 2016, BZ WBK Inwestycje Sp. z o.o. sold its entire shareholding of Metrohouse Franchise S.A. (representing 20.13% stake in the entity's share capital).

Organisational Chart of Entities Related with Bank Zachodni WBK Group as at 30.06.2016



1) On 28 April 2016, the Annual General Meeting adopted a resolution to dissolve Gieldokracja Sp. z o.o. and to start its liquidation as of 1 May 2016.

2) SC Poland Consumer 2015-1 Sp. z o.o. is an SPV formed on 7 July 2015 for the purpose of securitisation of a part of the credit portfolio of SCB S.A. Its shareholder is a foreign legal person that has no ties with the Group. The company is controlled by SCB as it meets the conditions of IFRS 10.7.

3) On 31 March 2016, BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. (BZ WBK TF) merged with BZ WBK Asset Management S.A. by acquiring its assets in return for merger shares issued to the co-owners, i.e. to Bank Zachodni WBK and Banco Santander. Both shareholders are members of Santander Group and have 50% stake each in the merged entity's capital. In practice, Bank Zachodni WBK controls BZ WBK TF as with the bank's participation and intermediation Banco Santander carries out its strategy in Poland. For this reason, the company is treated as a subsidiary.

III. Macroeconomic Situation in H1 2016

Economic Growth

The available data suggest that the Polish economy slowed down at the start of 2016. In Q1, the GDP growth reached 3.0% YoY and was considerably lower than in 2015 on average (3.6% YoY). The deceleration was caused by weaker tendencies in investment and foreign trade. The investment fell by 1.8% YoY in Q1 2016 and this was the weakest result since 2013. The deep fall in investment was probably recorded in the public sector, which may have been an effect of weak disbursement of EU funds in the temporary period between two EU financial frameworks. Private investment most likely decelerated as well. The decrease in investment was observed in non-housing construction, while other types of investment advanced in annual terms. Exports decelerated slightly versus Q4 2015 due to weaker tendencies in the global trade despite a relatively robust growth at Poland's main trade partners. Imports accelerated, which worsened the foreign trade's contribution to the Polish GDP. Private consumption remained solid and grew at a similar pace as in 2015 thanks to positive labour market situation. Poland's external trade imbalance remained low – according to the bank's estimate the current account deficit accounted for approximately 0.6% of GDP at the end of H1 2016. Industry was in a moderately good shape and showing relatively high growth rates, especially in export-oriented sectors. On the other hand, the construction output contracted. The preliminary data for Q2 2016 suggest that the tendencies observed in Q1 2016 continued and the economic growth remained close to 3.0% YoY, with a similar breakdown as in the first quarter.

Labour Market

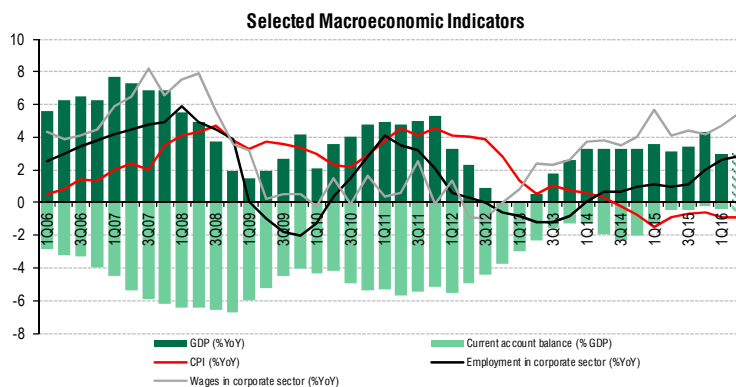
The labour market was strong in H1 2016. Average employment in the corporate sector grew by approximately 2.7% YoY, amid a steady increase in the demand for labour. Unemployment continued to fall, with regard to both the official unemployment rate and Labour Force Survey (LFS) unemployment, reaching its lowest levels since early 90s (8.8% and 6.3%, respectively). Corporate sector wages increased in nominal terms by 4.2% YoY, which together with negative growth of consumer prices and an increase in employment caused a decent rise in real wage bill (by approximately 8.0% YoY). At the end of H1 2016, a rise in wage pressure was visible, primarily in the retail sector.

Inflation

Inflationary pressure was low in 2016 and generally surprised to the downside, similarly to the preceding periods. CPI inflation stood at -0.9% YoY on average mainly due to still low fuel prices, yet negative price growth was visible in many consumer products. In H1 2016, deflationary tendencies strengthened in the core categories, driving core inflation down to -0.2% YoY on average (excluding food and energy prices).

Monetary Policy

In H1 2016, the new Monetary Policy Council (MPC) continued the policy of the previous Council, keeping monetary policy parameters stable. According to the MPC members, deflation did not show any negative effects, the GDP slowdown in Q1 2016 was temporary and interest rates were at optimum levels. The Council predicted that CPI inflation would stay negative in the coming quarters due to the earlier substantial decline in global commodity prices. What is more, the MPC expected GDP growth to remain stable, following a temporary deceleration earlier this year. According to the Council, consumer demand would continue to be the main driver of economic growth, supported by rising employment, forecasted acceleration of wage growth and an increase in social benefits. At the same time, central bankers believed that the downside risks to the global economic conditions and the volatility of commodity prices remained the sources of uncertainty for domestic economy and price developments.



Credit and Deposit Markets

In H1 2016, the growth in total deposits accelerated by 10.5% YoY on average. It stemmed from a solid increase in deposits from the household sector (by 10% YoY on average in the period from January to June 2016) and from the corporate sector (increase of 11% YoY on average). In the first half of 2016, the credit market slowed down compared to the corresponding period of 2015. In the period from January to June 2016, the growth in loans to households stabilised slightly below 4% YoY (FX-adjusted), mainly due to a gradual increase in consumer loans. Mortgage loans were rather sluggish, slightly above 2% YoY in H1 2016. At the same time, the growth of the corporate loan portfolio was curbed, which might have resulted from the implementation of a new banking tax. Despite a gradual slowdown, the growth of investment loans remained relatively robust (at approximately 10% YoY in June), while both working capital and property loans to corporate customers grew at a much less impressive rate.

Financial Market

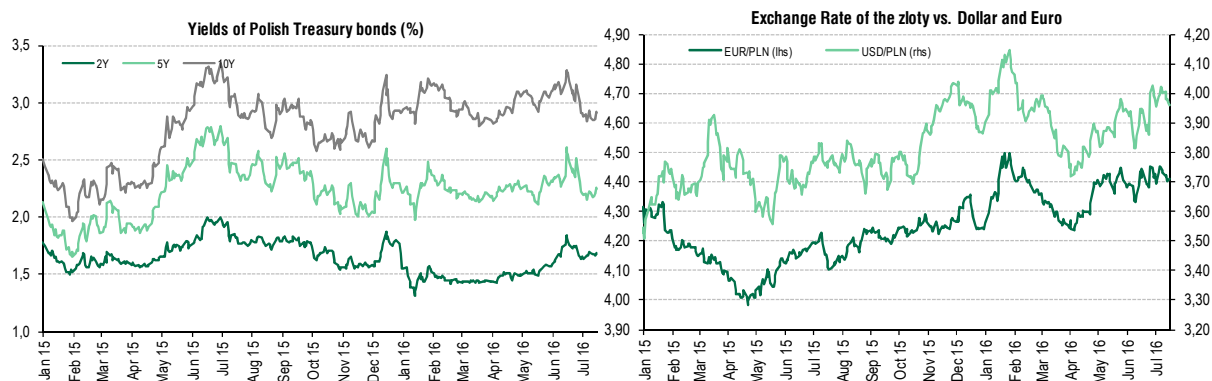
Financial markets were quite volatile in H1 2016. Investors' sentiment was driven by the following factors:

- decisions of the rating agencies: a) downgrade of Poland's credit rating by S&P from A- (positive outlook) to BBB+ (negative outlook) in January 2016; b) affirmation of Poland's rating by Moody's at A2 in May 2016, with outlook changed to negative;
- central bank actions: a) decision of ECB and Bank of Japan to further stimulate the economy; b) decision of the Federal Reserve to keep interest rate unchanged; c) scaling back market expectations on rate hikes in the US;
- domestic macroeconomic data: a) disappointing GDP growth in Q1 2016; based on monthly data, GDP growth acceleration in Q2 2016 will not be significant;
- intentions to resolve the CHF mortgage loans issue, reduce the retirement age, and introduce changes to pension funds;
- geopolitical risk, in particular the referendum in the UK, which decided to leave the European Union.

These factors determined the direction of the financial markets, in particular changes in the zloty and treasury bonds. In the first half of 2016, the domestic debt market, after weakening in the first months, finally gained. Belly and long end of the yield curve were supported by actions of the major central banks, but also by solid demand at auctions on the primary market from foreign investors. On the other hand, the introduction of a banking tax contributed to increased purchases of debt securities (treasury bills, bonds with maturities up to 5 years) by domestic commercial banks, which also supported the downward trend in yield on the front end of the curve. This effect was fully offset by hawkish rhetoric of the new MPC.

Poland's risk premium rose in H1 2016, as reflected by a wider spread versus German bonds (to almost 330 bp for 10Y, the highest level since September 2012). This spread narrowed below 300 bp after the referendum in the UK on the wave of expectations for monetary easing by the major central banks.

The Polish currency was under pressure of domestic factors, mainly uncertainty about the final project of FX loan conversion. As a consequence, the Polish zloty underperformed other CEE and EM peers despite global mood improvement. In the first half of 2016, the zloty lost most against the euro (by approximately 4%). EUR/PLN reached nearly 4.50 at the start of the year as a consequence of the S&P decision to downgrade Poland's credit rating. Depreciation of the zloty against the euro after the announcement of results of the UK referendum was moderate – the rate temporarily increased to 4.45. The zloty lost more than 3% against the Swiss franc and 2% against the US dollar, but gained slightly more than 7% against the British pound (GBP weakened on international markets after the UK decided to leave the European Union).



Stock Market

After 2015, which was a weak year for stock investors, the first six months of 2016 brought further reductions in the main indices. In January, WIG and WIG20 hit their several years' lows only to grow in the subsequent months, setting their highs at the end of March. Since then, the demand side lost momentum. The WIG index ended the half-year 3.7% below the level observed at the end of December 2015, while WIG20 lost 5.8%. The indexes used as barometers for small (sWIG80) and medium-sized enterprises (mWIG40), respectively, which had been rather resilient so far, were unable to resist the pressure from sellers and fell by 0.3% and 4.9%.

The performance of the stock indices was again weaker not only in comparison with the US indices, but also when compared with other barometers of our region. The underlying factors for such performance of the Polish stock indices included concerns about the slower economic growth in China and subsequent interest rate increases in the United States, which at the end of H1 were overshadowed by the EU referendum in the United Kingdom. The valuation of companies on the Warsaw Stock Exchange was affected by the increasingly tighter supervision of the government over state influenced entities and the ongoing search for a solution to the problem of CHF loans. The Warsaw Stock Exchange climate was also under the influence of the government's plans regarding the future of the Open Pension Funds (OFE).

Potential Effects of the UK Referendum

On 23 June 2016, British citizens voted in favour of the UK leaving the EU. The impact of the decision is difficult to assess as it is an unprecedented event, however it poses a downward risk for economic growth in Poland.

Legal Environment of the Banking Sector

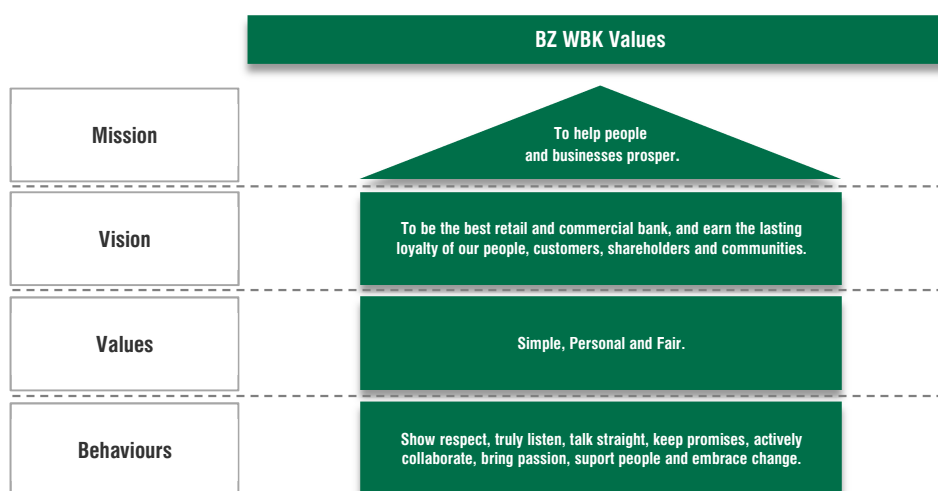
In the period before publication of this report, the following pieces of legislation were ratified, which affected the banking sector in Poland:

Legal act	Selected regulations affecting the banking sector
Act of 9 October 2015 on the support for distressed mortgage borrowers (the "Support Act", which came into force in its entirety on 19 February 2016)	<ul style="list-style-type: none"> The act lays down the rules for granting refundable financial aid from the Borrowers Support Fund created by Bank Gospodarstwa Krajowego from contributions from lenders. The value of the contributions is determined pro-rata to the value of their respective portfolios of mortgages that are more than 90 days in arrears. The fund will be replenished by banks as needed, in line with the support given to the customers of the individual banks.
Act of 15 January 2016 on the tax on certain financial institutions (effective since 1 February 2016)	<ul style="list-style-type: none"> Domestic banks have been charged with a tax at a monthly rate of 0.0366% (approx. 0.44% annually) of the value of their assets understood as the excess of the taxpayer's total assets (resulting from the trail balance as per the General Ledger at the last day of the month) over the statutory limit of PLN 4bn. In the case of non-associated banks, the tax base is reduced by the value of own funds, assets purchased from the National Bank of Poland held as collateral for a refinancing credit facility granted by that bank and the value of treasury securities.
Act on changes to the act on supervision over the financial market, the Banking Law act and certain other acts of 11 October 2015	<ul style="list-style-type: none"> The act regulates the operations of lending companies. It introduces changes that are important for banks, relating to the consumer loans act (effective since 11 March 2016) as it sets the cap on non-interest credit costs and the total amount of default interest and fees. It also sets the cap on the borrowing costs in relation to loans granted within 120 days from the first loan that has not been cleared yet.
Act of 9 October 2015 on changes to the Banking Law act and certain other acts (effective from 1 July 2016)	<ul style="list-style-type: none"> The act determines the procedure to be followed by banking institutions with regard to dormant accounts, i.e. accounts that have been inactive for a long time.
Act of 14 April 2016 on withholding the sale of properties owned by the Agricultural Property Stock of the State Treasury and on changes to certain acts (effective since 30 June 2016)	<ul style="list-style-type: none"> The act introduced the rule that the value of mortgage on an agricultural property may not exceed the property's market value as at the date of mortgage perfection, and gives the Agricultural Property Agency a pre-emptive right to buy any agricultural property put up for sale. The legislative actions have been instigated to change certain rules of this law, including mortgaging of an agricultural property.
Act of 20 May 2016 on the Banking Guarantee Fund, deposit guarantee system and forced restructure (the act becomes effective three months after publication, except selected articles)	<ul style="list-style-type: none"> The act introduced the provisions of Directive 2014/59/EU (BRRD) and Directive 2014/49/EU (DGSD), enabling the Banking Guarantee Fund to conduct recovery and resolution proceedings for banks and other financial institutions, and modified the deposit guarantee scheme in Poland.

IV. Development Strategy

1. Values, Mission, Vision and Strategic Objectives for 2016-2018

In view of dynamic and complex changes in the macroeconomic environment, the strategy of Bank Zachodni WBK Group was verified in order to formulate a new three-year concept (2016-2018), taking account of current and expected challenges emerging in the external environment, the Group's development objectives and other relevant factors. The new strategy is a continuation of the previous course of action, based on the same values and assumptions. It promotes a customer-centric culture in business management, digital transformation and improvement of the business model and product offering. The strategy is expected to ensure that Bank Zachodni WBK is the preferred bank for customers, earning their lasting loyalty, and has a mature corporate culture that reinforces employees' engagement and motivation.



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

Customers	➤ Enhancement of the bank's image as a trusted partner to customers which provides innovative and high quality solutions.
Employees	➤ Commitment to staff development and engagement and creation of a favourable working environment.
Communities	➤ Commitment to the well-being and development of local communities.
Shareholders	➤ Maximisation of shareholder value.

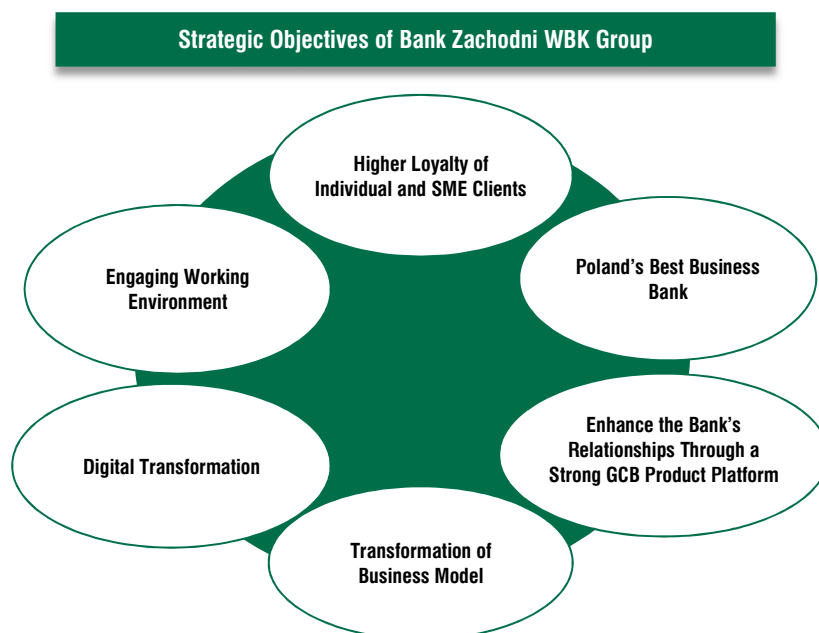
As part of its strategic vision, Bank Zachodni WBK intends to:

- become a leading bank in terms of service quality, focusing on customer needs and expectations;
- create an engaging work environment through collaboration, communication and bottom-up initiatives raised in all bank's units;
- grow faster than peers;
- become the best retail and commercial bank that earns the lasting loyalty of our people, customers, shareholders and communities.

The corporate culture of Bank Zachodni WBK and Banco Santander is enshrined in the Simple, Personal and Fair values.



2. Delivery of Strategy of Bank Zachodni WBK Group in 2016



In accordance with its customer-centric approach and its core values, the bank implements tools (on the CRM platform) that are necessary to engage in an active dialogue with customers with a focus on their needs and expectations. With the new solutions, the bank's personalised and active proposition will be increasingly based on a comprehensive knowledge about customers, taking into account their behaviours, risk profile and the relationship to-date. In their interaction with the bank via different distribution channels, customers will be offered a consistent service and continuous communication.

The concept of the target customer relationship management model takes shape as the work on implementation of the new CRM platform becomes more advanced.

In H1 2016, the bank made efforts to ensure that its portfolio includes simple and understandable products, transparent conditions and prices, rewards and benefits based on the strength of the customers' relationship with the bank.

The bank took measures to strengthen its market position with respect to services provided to importers and exporters and manufacturing and processing companies from the food sector. In particular, it offered tailored products and services, while developing and promoting its competences and technological and networking capabilities. The customers also had an opportunity to attend a number of conferences and workshops and gain market insight and access to the database of prospective business partners.

Over the last six months, an emphasis was also placed on enhancing the corporate culture and on streamlining operating processes (mainly through initiatives that reduce or eliminate paper workflows and optimise IT and other processes).

Going forward, one of the key strategic pillars will be the new Digital Transformation Programme, which is designed to ensure coordination of the initiatives that implement new systems and technologies. The Programme will include a number of strategic initiatives, including process digitization, the development of sales via remote channels, the development of digital banking for corporate customers and an improved CRM approach. The programme will also define a new branch mode and an updated range of products.

Alongside the digital transformation, the bank will work on transformation of the business model to facilitate implementation of the initiatives that will reinforce positive customer experience, simplify operating processes, increase productivity, eliminate overlaps and improve synergies and effectiveness.

The above measures are expected to help the bank achieve the position of the best financial institution for retail and corporate customers.

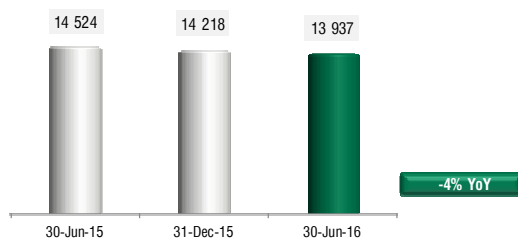
V. Human Resources and Corporate Culture

Human Resources

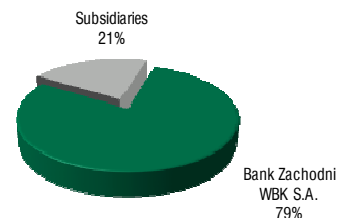
As at 30 June 2016, the number of FTEs in Bank Zachodni WBK Group was 13,937, down 587 YoY. The headcount figures as at the end of June 2016 include FTEs of SCB Group of 2,509 (vs. 2,681 as at 30 June 2015).

The reduction in the employment levels in BZ WBK Group is attributable mainly to the gradual evolution of the business model with a view to increasing the share of remote customer contact channels and the resulting need to optimise the branch banking structures. The optimisation processes take account of local business needs and prevailing market conditions and are based to the largest possible extent on natural staff turnover.

Employment in BZ WBK Group from 30.06.2015 to 30.06.2016 (in FTEs)



Employment Structure of BZ WBK Group as at 30.06.2016



Key HR Initiatives

The bank builds the culture of dialogue, promotes consistent system of values and behaviours, and increases staff engagement in delivery of operational and strategic activities on the basis of the periodic staff evaluation process, i.e. quarterly meetings between employees and managers whose objective is to set individual goals (at the beginning of the year), provide necessary support and feedback (during the year), and evaluate the annual performance (at the end of the year).

The measures taken to create an engaging work environment are additionally supported by the following activities:

- launch of initiatives to promote work-life balance such as an educational campaign under the “Healthy bank” programme (“Zdrowie na bank”) and work time management tools;
- planning succession and knowledge transfer to ensure effective use of the company’s intellectual potential;
- elimination of adverse developments generating reputational and legal risks.

Preparations are underway for the next edition of the internal engagement survey (planned for Q3 2016), which serves as a valuable source of up-to-date information about the organisation, its values and operational and leadership styles. A number of initiatives were launched in H1 2016 based on the results of the last year’s survey, including talent development programmes and a managerial competence model.

The BZ WBK Referrals Programme, which was launched in 2015 as a tool supporting recruitment of employees for customer service positions in the branch network, was expanded in June 2016 to provide an opportunity to recommend candidates for positions in other organisational units of the bank. The system helps to reach a wider group of prospective employees who have relevant competences, skills and motivation, and are interested in taking up a job at the bank.

Training Activity

BZ WBK employees have access to a wide variety of tools which help foster professional development, such as remote training (e-learning and webcasts), workshops (internal and external), language courses, postgraduate studies and specialist courses.

In H1 2016, training activities focused mainly on the branch network and covered issues related to the strategic projects implemented by the bank: new CRM tools, solutions for SMEs, business customer service, products and services for farmers, sales skills regarding insurance products and motivation of sales staff. Training for the Business Support Centre covered such issues as business and financial analysis and prevention of money laundering.

In H1 2016, the number of registered attendees totalled 53k, of which 21% participated in training workshops while the remainder were provided with remote training.

Performance Share Programme

As at 30 June 2016, Bank Zachodni WBK delivered a three-year 5th Incentive Scheme, introduced by the Extraordinary General Meeting of 30 June 2014 in relation to both 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 top-performing executives.

The Incentive Scheme covers no more than 500 key employees of Bank Zachodni WBK Group indicated by the Management Board and approved by the Supervisory Board, inclusive of all the Management Board members. 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 performance shares. The three-year long 5th Incentive Scheme is monitored to check if any employees have lost their participant status. The usual reason for the loss of such status is a termination of employment, either with the bank or another entity of BZ WBK Group.

VI. Business Development

1. Retail Banking

Personal Customer Relationship Management

Bank Zachodni WBK continues its Multichannel CRM programme whose objective is to implement consistent communication with customers across all distribution channels, taking account of their specific needs and preferences. The key priority in H1 2016 was to launch new processes together with analytical, operational and front-end tools, as well as to develop a campaign data layer for the purpose of migration to the new tools. The new Front-End CRM application was finalised and deployed in the Telephone Banking Centre in May 2016. Currently, works are underway to implement the application in the Branch Banking.

The new system is a complete solution for customer advisors and managers alike. Uploaded with relevant data, the tool effectively supports customer contact, management of sales leads and multichannel communication. It offers an opportunity to tailor products and services to specific needs of customers and build long-standing relationships, which helps to increase the effectiveness and profitability of sales.

Personal Accounts

Key Accounts

In H1 2016, the number of newly opened personal accounts increased by 53% YoY, expanding the respective portfolio to include a total of 3.9m accounts. The sales were driven primarily by “Account with 4% Interest” (“Konto na 4%”) promotional campaign featuring digital only, free-of-charge, interest-bearing Account Worth Recommending (Konto Godne Polecenia). The product was most effectively distributed via the Telephone Banking Centre. The expansion of the bank’s current account base was also supported by the sale of 1|2|3 Account (Konto 1|2|3) and Account<20 (Konto<20). The latter account received positive feedback from target customers (persons under 20) and won the first prize in the 2016 WPROST Portfolios Awards as the best account for the young.

Family Packages

On 15 April 2016, Bank Zachodni WBK introduced services for persons applying for a parent benefit under the government programme “Family 500 Plus”. BZ WBK customers were provided with an opportunity to apply via BZWBK24 internet, as well as to manage their finances using an account and a credit card, and save for their children’s future by opening a term deposit.

On 18 April 2016, the bank signed another cooperation agreement with the Ministry of Labour and Social Policy as part of the “Big Family Card” programme under which the families with at least three children may use dedicated products including personal account 1|2|3, mortgage loan and cash loan at an attractive price.

Savings and Investment Products

With regard to savings and investment products, the bank focused on increasing the share of current and savings account balances and investment funds in the deposit structure, building loyalty of deposit customers and optimising prices of term deposits, while ensuring stable growth in total deposit and investment portfolio.

Bank Deposits

At the beginning of 2016, Bank Zachodni WBK launched a wide-ranging programme called "Active Deposit" ("Aktywny Depozyt") to increase the strength of relationship by linking interest on savings accounts to the volume of transactions in a personal account. As part of the programme, two promotional campaigns were started in January 2016: "Double interest" ("Podwajamy oprocentowanie") and "Activity pays off" ("Aktywność procentuje"). Customers who chose one of the above-mentioned special offers and satisfied certain transactional criteria (on a monthly basis) could earn higher than standard interest on a selected savings account.

The bank continued to increase the strength of relationship and product penetration (through cross-selling of investment, insurance and transactional products) on the basis of Bonus Deposit (Lokata Bonusowa) and e-Investor deposit (e-Inwestor) available only via electronic banking.

Deposit acquisition activities were supported by 4-month Easy Earning Deposit (Lokata Swobodnie Zarabiająca) for new funds, which paid attractive fixed interest, while the retention activities involved the communication of selected special offers to price-sensitive customer segments and the use of negotiated deposits.

Structured Products

In H1 2016, Bank Zachodni WBK continued its activity on the structured deposit market, providing 100% capital protection at maturity. The bank offered 27 products with different maturities in the total of 13 subscriptions, including:

- 11 subscriptions for standard personal customers, with interest linked to exchange rates (EUR/PLN, USD/PLN) or S&P500 stock index;
- 2 subscriptions for Private Banking customers, with interest linked to Euro Stoxx Oil&Gas® index or performance of SPDR Gold Shares investment fund.

In all, more than PLN 203.9m worth of funds were collected as a result of the aforementioned subscriptions.

Brokerage Products

In H1 2016, the main objective of the BZ WBK Brokerage Office was to acquire new customers and encourage the existing ones to invest in the stock market. The key tool to attain the above goal was the special offer called "Bonus for yield" ("Premia za zysk") launched in March 2016, featuring a cash bonus depending on the rate of return from trading in a brokerage account. The promotional campaign was supported by a marketing campaign called "Profitable (re)start on the stock exchange" ("Zyskowy (re)start na giełdzie") which was run online and via direct contact with customers.

Furthermore, the bank took measures to strengthen the position of BZ WBK brokerage products and services among personal customers:

- The range of OTC derivative instruments was extended to include contracts for difference (CFD) which allow the parties to take advantage of movements in indices and prices of commodities and raw materials.
- An automated currency conversion mechanism was introduced to facilitate access to foreign markets, in particular in terms of purchase of stock and bonds.
- An investment profiling service was implemented to help customers choose a suitable investment fund.
- The Investor Mobile platform was further upgraded and is now available to nearly 10 thousand customers.

Investment Funds Managed by BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI)

Merger of BZ WBK TFI and BZ WBK AM

On 31 March 2016, BZ WBK TFI (acquirer) and BZ WBK AM (acquiree) were merged by acquisition (for details see Chapter II “Basic Information about BZ WBK Group” section 3 “Entities Related with Bank Zachodni WBK”).

Sale of Investment Funds

As at 30 June 2016, the total net assets managed by BZ WBK TFI were PLN 13.3bn, including PLN 12.9bn worth of net assets in mutual funds, which were up 3% Ytd and down 5.3% YoY. Since February 2016, BZ WBK TFI investment funds have reported positive net monthly sales, mainly as a result of the sale of money market and corporate bond subfunds such as Arka BZ WBK Gotówkowy, Arka Prestiż Gotówkowy and Arka Prestiż Obligacji Korporacyjnych (corporate bonds subfund). Both above-mentioned money market subfunds were ranked among the top 10 retail investment funds in Poland by an independent research company Analizy Online (May 2016).

BZ WBK TFI became the leader among investment companies from banking groups in terms of net sales of retail funds, staying ahead of the main competitors such as PKO TFI and Pioneer Investment TFI.

It is an effect of contribution of Bank Zachodni WBK – the controlling entity and the main distributor of BZ WBK TFI products - to sales and customer communication processes, as well as special offers launched to increase the volume of transactions in remote channels such as no distribution fee for Arka fund customers placing orders via electronic or telephone banking channels (BZWBK24, Arka Online, call centres) after 2 May 2016 or e-Investor campaign featuring higher interest on deposits for customers investing in mutual funds via BZWBK24.

The sales growth was also supported by activities taken by BZ WBK TFI such as introduction of new communication and new training and sales support programme as well as the top quality of management confirmed by a number of awards and accolades granted to the funds and BZ WBK TFI by Analizy Online.

Management of Individual Portfolios

BZ WBK Asset Management (the legal predecessor of BZ WBK TFI) decided to change the profile of the asset management activity and focus on business customers. On 15 February 2016, the company’s policies were modified accordingly.

Newly Launched European Funds

Following the modification of the Information Prospectus and the Statutes of Arka Prestiż SFIO Fund, two new subfunds of Arka Prestiż SFIO were set up on 19 February 2016, namely Arka Prestiż Akcji Europejskich (European equity fund) and Arka Prestiż Europejskich Spółek Dywidendowych (European dividend-paying companies fund).

The subfunds invest up to 100% of assets in subfunds of Santander SICAV, in particular:

- Arka Prestiż Akcji Europejskich invests in Santander AM Euro Equity subfund, whose principal policy is to invest in equity securities of issuers belonging to the euro zone;
- Arka Prestiż Europejskich Spółek Dywidendowych invests in Santander European Dividend subfund, which focuses on equity securities of issuers in developed European countries which regularly pay dividends.

Both subfunds may also invest up to 30% of assets in debt securities and money market instruments issued by the State Treasury and the National Bank of Poland. These are the first master-feeder funds offered by BZ WBK TFI, therefore their commercial implementation was accompanied by an extensive information campaign addressed to the sales network and prospective customers.

Liquidation of the Property Market Fund

On 8 March 2016, BZ WBK TFI, acting in its capacity as a liquidator of Arka BZ WBK Fundusz Rynku Nieruchomości 2 FIZ in liquidation, completed the last stage of the liquidation process by transferring proceeds from the liquidation to the National Depository of Securities (KDPW) for the purpose of redemption and transfer of aggregate amounts to relevant brokerage offices and banks, which subsequently distributed the proceeds to the fund holders.

Lending Proposition

Mortgage Loans

In January 2016, the mortgage loan proposition of Bank Zachodni WBK was modified to include solutions designed to enhance the bank's competitive advantage and satisfy statutory obligations. In particular:

- The maximum LTV insurance was introduced, which allows the bank to offer loans with max 90% LTV in accordance with Recommendation S, with margin kept unchanged;
- The bank modified the terms of fixed-rate mortgage loans by introducing an interest rate of 3.95% for home loans and 5.45% for equity releases for the period of five years (available since 18 January 2016);
- Under the cooperation agreement with Bank Gospodarstwa Krajowego, the bank offered refundable support to BZ WBK mortgage borrowers with financial difficulties who may apply for repayment of the loan from the Borrowers Support Fund for the maximum period of 18 months (available since 19 February 2016).

In H1 2016, the value of new (disbursed) mortgage loans totalled PLN 2.9bn, up 47.3% YoY. The mortgage portfolio grew by 9.4% YoY, reaching PLN 32.4bn at the end of June 2016. The value of PLN mortgage loans amounted to PLN 19.0bn, up 23.1% YoY.

Cash Loans

In H1 2016, the bank's sales activities were supported by a new TV and Internet campaign featuring a cash loan with interest reduced by as much as 50%.

The range of loans and the lending process were modified in order to increase the bank's competitive edge, while ensuring satisfactory profitability of sales. The lending period was extended to 120 months and at the end of June 2016 retail credit facilities up to PLN 4k were offered to customers in a simplified procedure, i.e. on the basis of a statement on employment and earnings, without the need for additional evidence (a solution targeted at customers with insufficient or no credit history).

In H1 2016, cash loan sales increased by 7.4% YoY, reaching PLN 2bn. The respective loan portfolio was up 9.7% YoY and totalled PLN 7bn.

Payment Cards

Similarly to previous years, the bank focused on initiatives designed to enhance the functionality and security of card products and to increase sales and volume of card transactions. One of the key projects involved improvement of security of online transactions made by debit and credit card holders (personal or business customers) through introduction of the 3D Secure service, which became an integral feature of all cards (irrespective of access to electronic banking services).

Credit Cards

In order to promote a wider use of credit cards, the bank re-launched and extended the promotional campaign called "Starter card" ("Karta na start") which is targeted at customers who use credit cards for the first time or after a break. Credit card holders are exempt from the majority of fees for the maximum period of two years. The bank also launched a number of other promotional campaigns addressed to selected or all customers.

In April 2016, customers were offered an opportunity to make contactless payments using a mobile phone based on Visa or MasterCard credit cards. The mobile card is available via BZWBK24 mobile for holders of a plastic credit card (the principal card) and may be used directly after downloading (the transactions with a mobile card reduce the existing credit limit).

In order to increase the transparency of the bank's credit cards offer, a number of affinity cards dedicated to small customer groups were withdrawn from it.

In June 2016, the promotion of cash transactions under CashBack service was launched for Visa, MasterCard and Maestro credit cards, the maximum amount of a single withdrawal being PLN 300 for Visa cards and PLN 500 for MasterCard cards. Until the end of the year, the interest-free period for CashBack transactions will be the same as for non-cash transactions (up to 54 days).

As at 30 June 2016, the credit card portfolio of Bank Zachodni WBK comprised 761k instruments. The comprehensive sales activities helped the bank become the second largest player in the credit card market, with 21,5% share in the total credit card sales (based on data for Q1 2016).

Debit Cards

In H1 2016, Bank Zachodni WBK focused on the promotion of card payments as part of the acquisition campaigns called “Double interest” (“Podwajamy oprocentowanie”), “Activity pays off” (“Aktywność procentuje”), and “Account with 4% Interest” (“Konto na 4%”) as well as offers targeted at specific customer groups (e.g. customers of insolvent banks). The bank was also actively involved in the initiatives undertaken by the payment organisations: Visa and MasterCard, and campaigns supported by the Cash Transactions Development Foundation (FROB).

The bank conducted a communication campaign among customers to inform them about changes planned to be introduced on 1 August 2016, such as modification of the range of debit cards and the schedule of fees and charges and automatic issuance of new cards replacing cards reported lost or stolen (without the need to sign new agreements or visit a branch).

As at the end of June 2016, the personal debit card portfolio of Bank Zachodni WBK (excluding prepaid cards) comprised nearly 3.1m items and increased by 4.7% YoY. Taking business cards into account, the total number of debit cards reached 3.3m, up 4.9% YoY.

Prepaid Cards

The value of the prepaid card portfolio has been gradually decreasing in the wake of the Management Board's decision of November 2015 to withdraw prepaid cards from the bank's offer following an industry debate and guidance from the market regulator.

Bancassurance

In H1 2016, the range of insurance products was extended to include Safe Limit individual payment protection plan for personal overdraft customers (Bezpieczny Limit) and a new product for SME customers called Partner in Business (Partner w biznesie), which offers a multirisk insurance coverage for companies with higher turnover. Customers were also provided with an opportunity to apply for Safe Money credit card insurance via telephone (Pewne Pieniądze). The above products are offered in cooperation with BZ WBK-Aviva insurance companies (BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie and BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych).

Services to Financial Institutions

Bank Zachodni WBK is a major outsourcing service provider for banks and financial institutions in Poland with regard to card personalisation, issuance and handling, and ATM network management. 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, ensuring it is highly innovative. The latest services provided by the bank include, among other things, 3D Secure service and cash deposit machines.

As at the end of June 2016, Bank Zachodni WBK co-operated with more than 20 banks operating in Poland and abroad. It managed the network of 415 third-party ATMs and handled nearly 3.0 million Visa/MasterCard cards for third party institutions.

Selected Distribution Channels

Electronic Banking

The number of BZWBK24 internet users increased by 4.2% YoY and reached 3.2 million at the end of June 2016. The number of customers with access to BZWBK24 mobile went up by 35% to 769.4 thousand.

On 12 January 2016, Bank Zachodni WBK launched an upgraded version of BZWBK24 mobile and BZWBK24 internet for personal customers, including:

- new features of BZWBK24 mobile:
 - ✓ transfer to a phone – a modified “transfer to a mobile phone” service that allows customers to send money via the BLIK network by providing the beneficiary’s phone number (instead of their account number);
 - ✓ update of the credit card balance on each payment made on a business day, as a result of which the correct balance is displayed on the next business day.
- new features of BZWBK24 internet:
 - ✓ “Customer service” tab, which facilitates access to the most frequently used services such as ordering a card duplicate, stopping an ID document, applying for a cash loan etc.;
 - ✓ masking of phone numbers displayed on “My data” and “Order product” screens;
 - ✓ update of credit card account balance to include current payments,
 - ✓ online contact with Customer Advisor via video call, audio call or Internet chat or via a contact form.

On 12 March 2016, all users of BZWBK24 internet and BZWBK24 mobile with access to smsCodes or a token were offered electronic currency exchange transactions on the e-FX platform.

Furthermore, Android phone users were provided with an opportunity to make contactless payments using a mobile credit card of Visa or MasterCard. This way, Bank Zachodni WBK became the first bank in Poland to offer contactless payments by phone using a mobile debit or credit card.

On 25 May 2016, the bank launched an upgraded version of BZWBK24 mobile application, which offered such functionalities as: Touch ID (an option to log in with fingerprint available to users of selected iPhones), transfers to the Social Security Office (ZUS) and Tax Office, phone top-ups (any phone number), parking zones (fees for actual parking time) and taxi services (ordering and paying via Mobile Shopping service).

The BZWBK24 mobile application has been awarded numerous accolades for its innovativeness and functionality. In June 2016, it was named the best application in Poland and third best application among the top 11 banks in European by an international R&D company Forrester Research.

Telephone Banking Centre

The Telephone Banking Centre implemented the following initiatives:

- provided support for “Active deposit” (“Aktywny depozyt”) programme, including two promotional campaigns: “Double interest” (“Podwajamy oprocentowanie”) and “Activity pays off” (“Aktywność procentuje”), and sale of Safe Money insurance (Pewne Pieniądze).
- launched sale of 1|2|3 Current Account in the video channel (since 22 March 2016, holders of the above-mentioned account may get a partial refund of utility expenses by submitting a relevant invoice in the video channel instead of personally at the branch).
- implemented the process of retention of savings and investment products (i.e. Arka subfunds and In-Plus investment programme).
- launched the process of sale, modification and retention of Safe Limit insurance (Bezpieczny Limit).
- offered Online Advisor services to SME customers enabling contact with the bank’s consultants via video call, audio call or Internet chat.
- offered customers an opportunity to apply for additional services (e.g. change a phone number for smsCode, generate an account statement or stop a document that had not been registered before).

ATMs/Cash Deposit Machines

In H1 2016, Bank Zachodni WBK continued the programme designed to develop self-service channels in order to reduce cashier-services in branches and enhance customer experience. The bank extended the network of self-service devices with cash deposit and withdrawal functions by extending the functionality of the existing ATMs and installing new deposit ATMs.

As at the end of June 2016, the network of self-service devices of Bank Zachodni WBK comprised 1,143 ATMs and 153 CDMs (vs. 1,320 and 274, respectively, at the end of June 2015) as well as 421 devices combining the function of ATM and CDM (vs. 59 as at 30 June 2015). As at the end of June 2016, the total network included 1,717 self-service devices (compared with 1,653 at the end of June 2015).

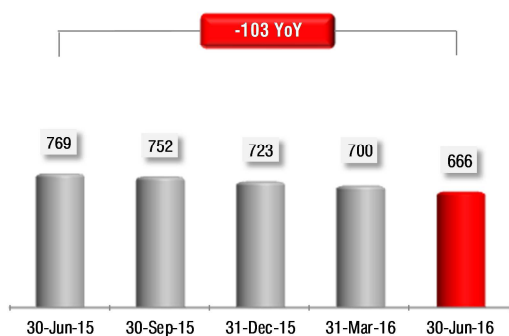
Branches and Outlets

In H1 2016, the bank carried out a review of its branch network, taking into account customers' needs and changes in their banking behaviour as well as the development of electronic and mobile services. The process of rationalisation and relocation of branches was continued accordingly, as a result of which the number of outlets decreased by 103 during the last 12 months to 666 as at 30 June 2016. Concurrently, the bank invested in the development of CRM tools, remote channels and self-service machines.

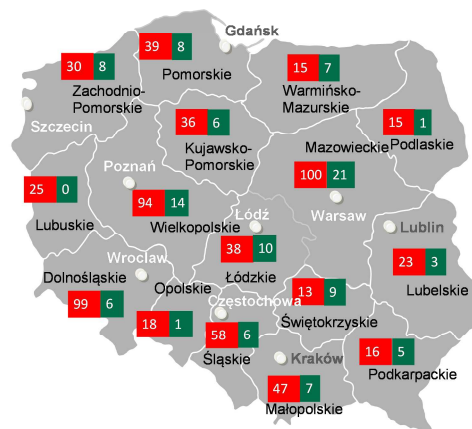
The bank's branch network was supported by 112 partner outlets (vs. 115 as at 30 June 2015).

The branch network management structure covered 8 macroregions and 65 reporting regions.

BZ WBK Branch Network at the end of individual quarters from 30.06.2015 to 30.06.2016



Distribution of BZ WBK branches and partner outlets in Poland as at 30.06.2016



2. SME Banking

Profile and Product Range

The SME segment includes 286.1 thousand business customers with an annual turnover of less than PLN 40m and a maximum credit exposure of PLN 5m. The segment is divided into two groups by the volume of turnover. SME customers generating lower turnover are handled by business advisors at Bank Zachodni WBK branches and partner outlets, while those with higher turnover are managed by 12 dedicated macroregional teams.

The fundamental elements of the SME offering are the following:

- Current account packages that suit the size, profile and needs of individual companies;
- A wide array of credit facilities such as working capital financing, investment loans (including from the European Investment Bank), preferential loans subsidised by the Agency for Restructuring and Modernisation of Agriculture and guarantees, leasing and factoring facilities.

An extensive range of deposits and investment products, modern distribution channels and comprehensive automated trade finance services serve as additional tools to build sustainable relationships with customers.

The SME Banking Division supports customers in their business expansion based on the following three pillars:

- top quality customer services provided through the network of qualified branch advisors and robust remote communication channels;
- building loyalty and long-term relationships with customers;
- simple but distinctive products offering additional non-financial services.

The ambition of the bank is to become a partner for customers by offering advice and wide array of non-financial services (e.g. support in networking with prospective counterparties and investors, industry insight, specialist workshops and training).

The above approach along with the focus on relationship banking should help BZ WBK become the first choice bank and contribute to building a strong and stable customer base.

Product Range Development

Current Accounts

In line with the business model in place which focuses on providing easy access to simple products and services, in H1 2016, the bank modified the range of current accounts for SME customers by replacing the existing packages with two types of Business Account Worth Recommending (Firmowe Konto Godne Polecenia) depending on the volume of transactions. Customers with greater transaction volumes are offered Business Account Worth Recommending package covering the main account with a monthly maintenance fee and unlimited free-of-charge additional accounts in PLN, FX accounts and online transfers via ELIXIR. Entrepreneurs with lower transaction volumes may opt for Business Account Worth Recommending package covering the main current account operated free of charge (if used for payment of tax commitments or social security contributions), one free-of-charge FX account and limited free online transfers via ELIXIR (per month). The option of the Business Account Worth Recommending package earmarked for customers with lower transaction volumes was made available online.

Pursuant to the agreement between the bank and Elavon, new POS terminals were offered to customers.

Loans

In H1 2016, significant changes were made to increase the competitiveness of products and services for SME customers:

- An online SME loan (up to PLN 50k) was designed for sole proprietorship companies who may apply for a loan using an online form and receive a preliminary credit decision in less than 20 minutes. The decision is immediately communicated to the customer in a remote channel, without the need to visit the branch.
- A new package of credit facilities was offered to customers from the agriculture sector to finance specific business needs (for details see part 3 below "Business and Corporate Banking").
- A process was put in place allowing customers to apply for a loan to finance technological innovations. The loan is granted by Bank Zachodni WBK in cooperation with Bank Gospodarstwa Krajowego (BGK) as part of the EU Intelligent Development Operational Programme.
- New collateral was introduced under relevant agreements with BGK:
 - ✓ free-of-charge de minimis guarantees financed from the Guarantee Fund under the Innovative Economy Operational Programme to secure loans for companies which meet certain innovativeness criteria;
 - ✓ guarantees securing working capital and investment loans for SMEs as part of the COSME Programme (established to improve competitiveness of the European SMEs) and the European Fund for Strategic Investments.

Preliminary credit decisions issued in relation to all loans for SME customers in the standard process (without a detailed financial analysis, description of the business model, details about collateral and valuation) contribute to the bank's competitive edge as customers are provided with quick information about their repayment capacity, loan pricing and the required type and value of collateral.

Educational and Information Support for Customers

In H1 2016, Bank Zachodni WBK developed various platforms of communication with customers (Entrepreneur Academy, firmoweewolucje.pl portal) to offer expert advice, identify customers' business needs and respond with suitable products and procedures.

The bank held another series of conferences for small and medium enterprises across Poland as part of the Entrepreneur Academy entitled "Global markets wide open to Polish entrepreneurs" ("Światowe rynki szeroko otwarte dla polskich przedsiębiorców"). The conferences covered such issues as foreign trade, business in international markets and new technologies. The programme has a Poland-wide scope (50 cities) and leverages the knowledge and experience of experts from Bank Zachodni WBK, renowned external companies and Fundusz Poręczeń Kredytowych Polfund.

In view of the success of the first edition of a TV show called "Business Evolutions" ("Firmowe Ewolucje") dedicated to small and medium enterprises, the bank - together with its partners – decided to have another edition of the programme and organised casting to select candidates. The new series of "Business Evolutions" is due to start in September.

In addition, firmoweewolucje.bzwbk.pl portal was launched as a platform combining all initiatives and activities taken by the bank in relation to products, services and general support for SME customers. The portal offers a wide range of training and workshop opportunities, discounts from partners, as well as non-financial solutions provided free of charge or at a preferential price.

Mobile and Internet Banking

Bank Zachodni WBK continuously develops the functionality of electronic and telephone banking services by expanding the scope of services and features available to customers.

In H1 2016, iBiznes24 mobile application was launched (for details see part 3 below "Business and Corporate Banking").

Furthermore, the bank extended the scope of services provided by the Telephone Banking Centre to SME customers to include an opportunity to open and terminate negotiated deposits via telephone.

The functionality of the mobile and Internet application for business customers – BZWBK Mini Firma – was upgraded to include "e-FX Currency Exchange" option, which comes as a standard element and does not require signing a separate agreement on currency exchange in electronic channels.

Leasing Business

In H1 2016, BZ WBK Leasing and BZ WBK Lease financed PLN 1,972.7m worth of total movables (in the form of operating or finance lease or loan), which translates into a YoY growth of 11.6% and a leadership position in each of the key lease market segments (according to the Polish Leasing Association).

- In the vehicles segment, sales went up by 47.1% YoY to PLN 1,102.9m, mainly on account of lease of cars, trucks, tractor units and trailers.
- In the machines and equipment segment, the companies financed PLN 818.8m, keeping its leadership position in this asset category.

As per data for Q1 2016, the companies are ranked third among the Polish lease companies.

The leasing companies leverage the sales potential of Bank Zachodni WBK and increase sales in collaboration with suppliers of fixed assets. In the reporting period, the value of assets financed in cooperation with BZ WBK branches in the SME segment alone exceeded PLN 876m net, which accounted for approx. 44% of total sales, an increase of 18% YoY.

In H1 2016, BZ WBK Leasing took the following measures to modify products and services in response to customers' needs:

- The parameters of a loan for farmers were modified to include an option of financing up to 6 years without the need for downpayment (March 2016).
- In cooperation with a supplier of spraying machines, a new machines and equipment financing scheme was launched for customers from the agriculture sector under a special offer (April 2016).
- the process of agreement verification and activation was precipitated, significantly reducing the servicing time of financing transactions.

In February 2016, BZ WBK Leasing was awarded an accolade by *Gazeta Finansowa* in the category of machines and equipment in recognition of business development in 2015. In April 2016, BZ WBK Leasing was awarded by the 11th Banking Forum 2016 as the only leasing company in Poland in recognition of new financing standards: transparency for customers and growth well above the market for the fourth year in a row.

Development of Business Volumes

In H1 2016, lending to SMEs grew at a rate of 11.1% YoY and resulted in the increase of the entire SME loan-book by 11.5% YoY. A YoY increase of 10.4% was also reported in deposit volumes.

3. Business and Corporate Banking

Profile and Product Range

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.

As at the end of June 2016, the Business & Corporate Banking Division provided services to the customer base of 8.8k entities from various sectors, supporting them in building and growing their business. Corporate bankers together with credit partners and product specialists delivered tailor made solutions to these customers and comprehensive services in the area of loans, deposits, transactional banking, treasury, leasing, factoring and capital markets.

Product Range Development

In order to strengthen the position of Bank Zachodni WBK as the first choice bank for business customers, the Business & Corporate Banking Division continued the operational transformation and extended the range of products and services to improve the customer experience. The development initiatives launched in 2015 were continued in H1 2016 with a focus on such areas as: foreign trade development programme, products and services for the agriculture sector, digital banking, service quality, human resources and efficiency.

Export Development Programme

In view of the growing importance of international trade to the Polish economy, the bank's priority is to increase its presence in the imports and exports markets. The objective of the development initiatives is three-fold:

- to develop products, processes and systems;
- to increase market presence and ensure effective communication with customers (e.g. Export Development Programme);
- to increase the competence of sales teams in terms of international business.

An important element of the bank's strategy aimed at building a leadership position in the trade finance sector is the Export Development Programme set up by the bank to support export sales. The initiative is targeted at companies interested in international expansion. The programme was developed in collaboration with external partners and received strong support from the Ministry of Foreign Affairs and the Ministry of Economy, and from local governments and regional chambers.

Together with partners in the Programme, Bank Zachodni WBK prepared materials about exports, including information about foreign markets, companies from selected sectors, insurance, law and tax issues, logistics and online promotion. The bank held conferences across Poland enabling interaction with experts and practitioners who provided insights into market analysis, verification of counterparties, export sales finance and export insurance. Apart from regional conferences, the customers could participate in special theme meetings, trade missions (traditional and virtual) and online training.

In H1 2016, the bank co-organised 12 meetings as part of the Orly Eksportu programme, which awards best performing exporters.

On 23 June 2016, the bank received the Bloomberg Luminatus accolade from *Bloomberg Businessweek Poland* monthly in the category of the most interesting innovations in Poland in recognition of the Export Development Programme, which supports Polish businesses in their foreign expansion.

Products and Services for the Agriculture and Food Sector

In view of the growing importance and potential of the agriculture and food sector, in 2014 the bank gave a strategic priority to this market segment and strives to become the best partner for all the participants, including suppliers, farmers and processing companies. To that end, the bank develops a competitive product range, coordinates the cooperation between divisions dedicated to this customer segment and ensures integration of activities between product lines and distribution channels.

In H1 2016, the structure of the Food & Agri Department was finally established, and sales managers were successfully recruited. The employees, including staff from other divisions, were trained in products and services provided to customers from the above sector. Measures were taken to increase the awareness of Bank Zachodni WBK brand through marketing initiatives and participation in trade fairs, conferences and congresses (European Economic Congress, Meat Congress, AGROSEC), and also through presentations and sector analysis prepared for customers.

The bank shared its expertise and best practice, while focusing on development of the product range. The lending proposition was extended to include five new products for farmers:

- Agri Production (Agro Produkcja) – financing of production cycles,
- Agri Development (Agro Budowa) – financing of construction and modernization of buildings for live inventory,
- Agri Land (Agro Grunt) – financing of purchase of built up land and farms,
- Agri Investment (Agro Inwestycja) – financing of live stock and fixed assets which cannot be financed through leasing,
- Agri Bridge Financing (Agro Pomostowy) – VAT financing.

Credit Services

In H1 2016, Bank Zachodni WBK joined the Guarantee Fund managed by Bank Gospodarstwa Krajowego (BGK) under the Innovative Economy Operational Programme (FG POIG), offering free-of-charge de minimis guarantees to customers who meet the criteria of innovativeness specified in the agreement. As part of the programme, Bank Zachodni WBK was granted the second highest portfolio guarantee line by BGK.

The bank maintained the second position in the banking sector in terms of the total value of de minimis guarantees granted in H1 2016. In liaison with the SME Banking Division, the Business & Corporate Banking Division used funds from a new credit line provided by the European Investment Bank to finance corporate customers.

Other

Procedures were put in place to allow customers to open an account and use bundled services via IBOS Association (International Business Operations Services), an alliance of banks set up to provide international customers with global banking support based on collaboration and service sharing at the local level.

Development of Distribution Channels

In H1 2016, the bank extended the functionality of iBiznes24 electronic banking platform in relation to payment cards, cash management, trade finance and transaction batches. New e-Requests were added to promote self-service in the above channel (including e-Requests for debit cards which replaced a written agreement). Furthermore, a number of new solutions were put in place to enhance the security of operations.

The 3D-Secure service was launched as a standard security mechanism for all online payments made with credit and debit cards issued by Bank Zachodni WBK.

In the reporting period, the bank implemented iBiznes24 mobile application which comes with such features as: easy check of balance, details and history of current accounts, term deposits and loans; filtering of selected transactions and transaction batches; check of details of transaction batches, their acceptance and execution; e-FX module; display and calculation of current FX rates; direct contact with a dedicated Advisor in the Business Service Centre (COB) and iBiznes24 Advisor. Corporate customers who effect great volume of transactions with counterparties preferring cash payments were offered BLIK payouts in ATMs in place of traditional payment card or cheque operations.

Development of Key Business Volumes

In H1 2016 the lending dynamics to business and corporate customers expanded the loan portfolio of the respective segment by 15.4% YoY. The deposit base grew at a similar rate.

Factoring Business

During H1 2016, the turnover of BZ WBK Faktor came in at PLN 8.7bn, up 11% YoY. This performance secured the company third position in the membership ranks of the Polish Association of Factoring Companies. As at the end of June 2016, the company's credit exposure was PLN 3.1bn and higher by 20% YoY.

4. Global Corporate Banking

Profile and Product Range

Global Corporate Banking Division (GCB) provides an end-to-end support to the largest corporate customers of Bank Zachodni WBK (around 170 companies and groups as at the end of June 2016), renders services to corporations handled under the global framework of Santander Group GCB, is responsible for the bank's activities on the financial markets and provides specialist financial products including treasury, brokerage and capital market instruments to retail and corporate customers.

The GCB Division consisted of the following business lines: Global Transactional Banking, Capital Markets (including BZ WBK Inwestycje), Credit Markets and Financial Markets (including Treasury, Structured Products Office and Brokerage Office).

Global Transactional Banking

Global Transactional Banking provided support to GCB customers in respect of financing working capital needs and managing cash in current accounts and deposits. The offer also included trade finance, guarantees, factoring, leasing and custodian services.

In the reporting period, Global Transactional Banking closed a number of deals in relation to financing, guarantees and trade finance with companies from the automotive, media, telecommunications, trade, construction, shipbuilding and mining sectors.

It implemented innovative cash management solutions for one of the Group's strategic customers, which helped to fully automate the processes of transferring transactions from the customer's accounting and settlement system to the bank and sending statements and information about transaction status from the bank to the customer, ensuring full data integrity through elimination of interference.

The volume of factoring transactions grew by 23% YoY to PLN 1.7bn and was generated mainly by the food sector.

As at the end of June 2016, the value of current account balances totalled PLN 1.3bn.

Capital Markets

In H1 2016, the Capital Markets provided analytical and advisory services to customers and were engaged as a financial/transactional advisor for companies from the financial, automotive, construction, power and media sectors.

The unit managed the JESSICA Programme (Urban Regeneration Fund for Greater Szczecin) under the agreement with the Zachodniopomorskie province. It also signed an agreement on behalf of the bank to provide financial/transactional advisory services in relation to PLN 2.2bn worth of capital raising for a financial institution.

Credit Markets

The Credit Markets provided funding towards medium and long-term investment projects delivered by GCB customers through loans and debt issue, including in cooperation with other units, both within its Division (e.g. with Global Transactional Banking) and outside it (e.g. with the Business & Corporate Banking Division).

In H1 2016, the main developments in the Credit Markets area included:

- execution of a number of financing deals with companies from the food, property and finance sectors (the latter also involved transactional advisory services provided by Capital Markets and the Brokerage Office);
- completion of an investment project by GCB customer co-financed by the bank, consisting in the construction of a modern delayed coking unit and other units connected with the EFRA (Effective Refining) Programme;
- sanction of funding to companies from the food and chemical sectors in cooperation with the Business & Corporate Banking Division.

As at 30 June 2016, the value of open credit lines increased to PLN 8.2bn, whereas the total sum of loans and advances amounted to PLN 5.4bn, up 34% YoY.

In Q3 2015, the bank provided PLN 1,750m worth of funding to a group from the media and telecommunications sector as part of syndicate lending of PLN 12.5bn granted by 20 banks. As at the end of June 2016, nearly 90% of the bank's ticket was drawn.

Financial Markets

Treasury

In H1 2016, the Financial Market Transactions Department focused on further development of products and services using global know-how of Santander Group. The new products are targeted at large corporates and include solutions with a considerable market potential based on debt and derivative instruments.

The Department made intensive efforts to extend the range of structured products for retail and corporate customers in response to market demand and trends. It also generated satisfactory income from the market making activity.

In the reporting period, the Treasury Services Department continued an income diversification strategy based on the development of interest rate hedges. It expanded the product range to include interest hedging instruments dedicated to mortgage borrowers and SME customers. The Department also focused on the promotion of foreign exchange instruments to enable customers to hedge currency risk in a long term and thus stabilise their balance sheet positions. It continued to develop the distribution channels for treasury products and e-commerce tools, which increases sales opportunities and customer service quality.

In the first half of 2016, the Department also actively offered currency and interest rate hedging solutions to the largest companies in Poland, including customers from the power, food, chemical and telecommunications sectors.

Brokerage Office

In H1 2016, the Brokerage Office extended the range of available contracts for difference and launched a promotional campaign called "Bonus for yield" ("Premia za zysk") (for details see section on savings and investment products).

An upgraded version of Investor mobile application was launched, featuring such functionalities as mobile PIN or default NIK.

Customers investing in foreign stock markets were provided with a new functionality, i.e. an automatic currency conversion, owing to which purchase of stock, bonds or ETFs is possible using PLN only.

In H1 2016, BZ WBK Brokerage Office was granted award by the Warsaw Stock Exchange in recognition of the highest share in the options trading without market-making in 2015. The panel appreciated not only the performance (39% share in the options market) but also the impact on the Polish capital market.

The Stock Market Analysis Team of the Brokerage Office was ranked top by institutional investors in the annual analyst ranking published by Parkiet daily. Nearly all analysts from the Brokerage Office were ranked in the top ten in their respective categories, while three individuals were ranked among the top three analysts.

5. 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, focused on providing products and services to households and small and medium companies. The lending business is based on the following credit facilities: car loans, business loans, instalment loans, cash 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 BZ WBK and Warta in terms of financial advisory services), AKB Marketing Services (auxiliary banking services) and S.C. Poland Consumer 15-1 (SPV set up for the purpose of securitisation transactions).

The bank is constantly looking to provide better quality and more innovative products, and to therefore increase the satisfaction of its customers. The bank pursues the sustainable and safe growth of the business, based on transparent procedures, economic analysis and business ethics rules consistently applied to its relationship with stakeholders. Its strength is underpinned by in-depth knowledge of the market and the optimum use of resources, including different delivery channels and access to the extensive expertise and experience of Santander Group.

Business Development in H1 2016

Development Directions

In H1 2016, Santander Consumer Bank Group (SCB Group) maintained its strong position in the consumer finance market, as one of long-term leaders in the car loans sector and among the top 10 credit card issuers in Poland. The Group conducts a stable and secure banking activity and acquires new business from specific market segments. It continues to develop sales and communication channels, while strengthening its presence in remote channels and increasing exposure towards higher-end customer segments.

In the reporting period, the Group gave priority to the following:

- Maintenance of strong sales of cash loans, instalment loans and credit cards.
- Growth in sales of car loans and lease facilities in an increasingly competitive environment.
- Maintenance of a stable risk level and a high provision coverage ratio.
- Sale of part of the non-performing loan portfolio.
- Maintenance of a strong capital position
- Optimisation of cost of funding in an environment of low interest rates and a changing regulatory regime.
- Modification of the bank's regulations in accordance with the Act of 11 September 2015 on insurance and reinsurance activities effective since 1 April 2016.

In H1 2016, the Group generated PBT of PLN 358.2m (after intercompany transactions with Bank Zachodni WBK), up 5% YoY.

Loans to Customers

Lending Proposition

SCB Group specializes in car loans, cash loans, instalment loans and credit cards.

As part of car finance, the Group offers car loans, asset-backed loans, leases and refinancing solutions to personal and business customers. The Group is strengthening its position in the car finance market by liaising with car dealers and importers. A wide range of financing solutions (for the purchase of new and used cars up to 12 years old with a maximum repayment period of 96 months) and flexible repayment schedules (equal, diminishing or balloon payments) add to the Group's competitive edge.

Cash loans are offered either as a regular cash loan or a consolidation loan. Consolidation loans are targeted at the existing customers with the capacity to consolidate internal or external debt. In addition, the Group grants consolidation loans to customers in financial difficulties as part of debt restructuring. The Group's customers can sign an agreement and draw down a cash loan in a remote channel, without the need to visit a branch.

Instalment loans, which are an important customer acquisition tool, are available countrywide from Santander Consumer Bank partners.

The range of credit cards offered by the bank includes Visa Comfort, Visa Comfort Plus, TurboKARTA as well as co-branded cards.

In H1 2016, the lending proposition of SCB Group was expanded to include the following solutions:

- a new extended version of Banking Services Package offered to cash loan and instalment loan borrowers;
- a modified assistance insurance "Help at your beck and call" ("Pomoc na zawołanie") available to credit card holders and cash loan borrowers (three insurance coverage options to choose from: medical assistance, home assistance or cardiac telecare);
- contactless payments using Comfort+ credit card (two of five credit cards feature a contactless payment functionality).

In order to develop sales and communication channels, SCB Group launched a new website dedicated to credit card holders which provides access to transaction history and key information about the product (transaction limits, terms of use etc.). Furthermore, a network dedicated to second-hand car finance was separated from the existing sales structures to strengthen the bank's presence in this market segment as well as to increase the number of active partners offering car loans and improve the experience of second-hand car buyers.

Credit Portfolio

As at 30 June 2016, gross loans and advances granted by Santander Consumer Bank Group amounted to PLN 14,517.3m (including intercompany transactions) and were 3.2% higher YoY due to the growth in cash loan, instalment loan and credit card portfolios. Increasing sales of cash loans were achieved on account of low interest rates and an intensive marketing campaign.

Deposits from Customers

One of the Group's main sources of funding are deposits from customers, which totalled PLN 7,959.7m at the end of June 2016 (including intercompany transactions) and increased by 17.2% YoY driven by higher volume of deposits from corporate and retail customers.

Retail deposits are the bulk of the bank's deposit base, and mainly include term deposits from personal customers with a fixed capitalisation rate at maturity. The remaining portion is made up of business deposits. The bank focuses on the sale of deposits for tenors of one year or more, by offering attractive pricing, particularly on 12-month deposits.

Liabilities in respect of debt securities increased by PLN 720m compared to 30 June 2015, due to the issue of bonds by S.C. Poland Consumer 15-1 as part of the second securitisation transaction. The impact of the above transaction on the balance sheet was offset by partial redemption of maturing bonds issued under the debt securities programme and full redemption of bonds issued in the first securitisation transaction.

Distribution Network of Santander Consumer Bank

As at 30 June 2016, Santander Consumer Bank sold its products through the following distribution channels:

- own network of 164 branches and 143 franchise outlets (172 and 110 at the end of June 2015, respectively);
- a mobile sales channel for car loans;
- a mobile sales channel for corporate deposits;
- remote channels, including call centre and the Internet;
- a network of 555 partners offering the bank's car loans plus 12,669 active partners offering the bank's instalment loans (549 and 13,269 at the end of June 2015, respectively);
- remote channel for car loan sales.

VII. Financial Situation

1. Income Statement of Bank Zachodni WBK Group

Structure of Profit Before Tax Earned by BZ WBK Group

The table below illustrates year-on-year and quarter-on-quarter changes in the key items of the Group's consolidated income statement for H1 and Q2 of 2016.

	PLN m					
Condensed Income Statement (for analytical purposes)	H1 2016	H1 2015	Q2 2016	Q1 2016	YoY Change	QoQ Change
Total income	3 942,9	4 121,2	2 114,9	1 828,0	-4,3%	15,7%
- Net interest income	2 277,2	2 082,7	1 152,5	1 124,7	9,3%	2,5%
- Net fee & commission income	943,6	961,2	470,9	472,7	-1,8%	-0,4%
- Other income ¹⁾	722,1	1 077,3	491,5	230,6	-33,0%	113,1%
Total costs	(1 705,3)	(1 669,5)	(840,6)	(864,7)	2,1%	-2,8%
- Staff, general and administrative expenses	(1 472,7)	(1 488,9)	(732,9)	(739,8)	-1,1%	-0,9%
- Depreciation/amortisation	(134,2)	(128,8)	(68,8)	(65,3)	4,2%	5,4%
- Other operating expenses	(98,4)	(51,8)	(38,9)	(59,6)	90,0%	-34,7%
Impairment losses on loans and advances	(311,1)	(353,2)	(177,0)	(134,1)	-11,9%	32,0%
Profit/loss attributable to the entities accounted for using the equity method	20,7	5,4	13,1	7,6	283,3%	72,4%
Tax on financial institutions ²⁾	(173,3)	-	(105,7)	(67,6)	-	56,4%
Consolidated profit before tax	1 773,9	2 103,9	1 004,7	769,2	-15,7%	30,6%
Tax charges	(379,2)	(403,5)	(231,4)	(147,8)	-6,0%	56,6%
Net profit for the period	1 394,7	1 700,4	773,3	621,4	-18,0%	24,4%
- Net profit attributable to BZ WBK shareholders	1 280,0	1 577,4	723,5	556,5	-18,9%	30,0%
- Net profit attributable to non-controlling shareholders	114,7	123,0	49,8	64,9	-6,7%	-23,3%

- 1) Other income includes the following items of the full income statement: dividend income; net profit on shares in subordinate entities; net trading income and revaluation; gains on other financial instruments; other operating income.
The figure for H1 2016 and Q2 2016 includes one-off profit gained by BZ WBK and SCB from the settlement of acquisition of Visa Europe Ltd. by Visa Inc. in a total amount of PLN 316.1m (in the full version of the income statement this amount is reported as a part of gains on other financial instruments).
The figure for H1 2015 includes a one-off gain of PLN 523m on subordinate entities on account of partial disposal and loss of control over BZ WBK-Aviva TUŃZ and BZ WBK-Aviva TUO on 27 February 2015 (in the full version of the income statement this amount is reported as a gain on subordinate entities).

- 2) The banking tax is calculated in accordance with the Act on tax imposed on certain financial institutions that became effective on 1 February 2016.

In H1 2016, Bank Zachodni WBK Group posted a profit before tax of PLN 1,773.9m, down 15.7% YoY. The profit-after-tax attributable to the shareholders of Bank Zachodni WBK was PLN 1,280.0m and lower by 18.9% YoY.

Adjusting the half-yearly periods under review for one-off gains on equity instruments:

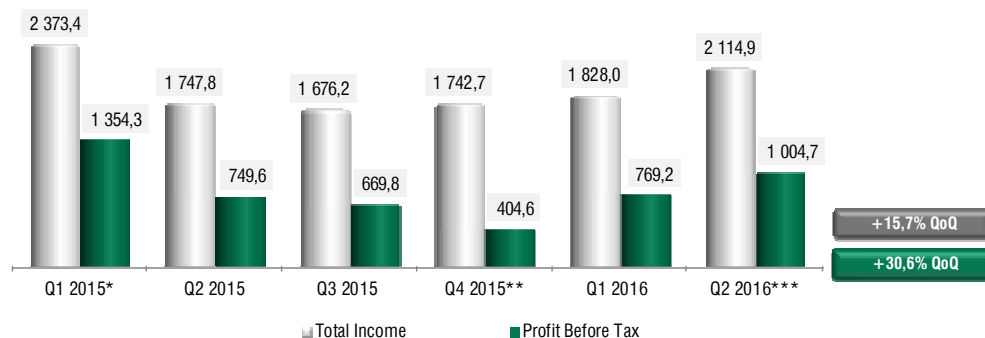
- PLN 316.1m reported in H1 2016 on account of settlement of the acquisition of Visa Europe Ltd. by Visa Inc.;
- PLN 523m reported in H1 2015 on account of settlement of the disposal of and loss of control over BZ WBK-Aviva companies;

and for the new statutory charge applicable in the current period:

- tax on financial institutions of PLN 173.3m;

the underlying profit before tax increased by 3.2% YoY and the profit attributable to the shareholders of the parent increased by 0.9% YoY.

Total Income and Profit Before Tax by Quarter in 2015 and 2016 (PLN m)



* As a result of a partial disposal of and loss of control over BZ WBK-Aviva TUŃ and BZ WBK-Aviva TUO in Q1 2015, the Group reported a one-off gain on subordinate entities of PLN 523m.

** Under Resolution of BFG Management Board of 26 November 2015, BZ WBK and SCB were obligated to make a contribution of PLN 183.8m from the deposit protection fund to help cover the reimbursements of guaranteed funds to depositors of a third bank following its bankruptcy.

*** As a result of the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. (21 June 2016), BZ WBK and SCB recognised a total gain of PLN 316.1m on their shareholdings in the acquired entity.

Structure of Profit Before Tax Earned by BZ WBK Group by Contributing Entities

PLN m

Components of Bank Zachodni WBK Group Profit-Before-Tax by contributing entities	H1 2016	H1 2015	YoY Change
Bank Zachodni WBK S.A.	1 668,1	1 416,6	17,8%
Existing subsidiary undertakings:	428,9	424,2	1,1%
Santander Consumer Bank and its subsidiaries ¹⁾	358,2	341,0	5,0%
BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. ²⁾	31,9	35,6	-10,4%
BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A., BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. ³⁾	-	12,1	-
BZ WBK Leasing S.A., BZ WBK Lease S.A. and BZ WBK Finanse Sp. z o.o.	33,3	27,7	20,2%
Faktor Sp. z o.o.	12,7	9,2	38,0%
Other subsidiary undertakings ⁴⁾	(7,2)	(1,4)	414,3%
Equity method valuation	20,7	5,4	283,3%
Elimination of dividends received by BZ WBK ⁵⁾	(343,8)	(46,0)	647,4%
Other intercompany and consolidation adjustments ⁶⁾	-	303,7	-
Profit before tax	1 773,9	2 103,9	-15,7%

1) SCB Group is controlled and consolidated by BZ WBK. As at 30 June 2016, SCB Group included the following entities: AKB Marketing Services in liquidation, Santander Consumer Multirent, Santander Consumer Finanse and SC Poland Consumer 15-1. As at 30 June 2015 the SCB Group also included SC Poland Auto 2014-1. The amounts provided above represent profit before tax (after intercompany and consolidation adjustments) of SCB Group for the periods indicated.

2) On 31 March 2016, BZ WBK TFI merged with BZ WBK AM by taking over its assets in return for merger shares issued to the co-owners, i.e. to BZ WBK and Banco Santander. The combined profit before tax of these entities for H1 2015 excludes the dividend of PLN 41.6m received by BZ WBK AM from BZ WBK TFI.

3) BZ WBK-Aviva TUO and BZ WBK-Aviva TUŃ 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) Other subsidiaries include: BZ WBK Inwestycje, BZ WBK Nieruchomości and Geldokracja in liquidation.

5) Dividend received by Bank Zachodni WBK from subsidiaries and associated undertakings, including dividend of PLN 260.8m received from SCB and disclosed in Q2 2016.

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

Parent Entity of Bank Zachodni WBK Group

In H1 2016, the stand-alone profit before tax of Bank Zachodni WBK increased by 17.8% YoY.

On an underlying basis (i.e. when the base period is adjusted for the one-off gain of PLN 234.4m on partial disposal of shares in BZ WBK-Aviva companies and the current period is adjusted for PLN 305.9m representing the one-off gain from settlement of Visa Europe Ltd. take-over by Visa Inc. and for PLN 159.6m of the banking tax), the PBT increased by 28.7% YoY and was affected by the following trends:

- major improvement in net interest income (+9.9% YoY) on the back of strong credit delivery;
- increase in net trading income and revaluation (+59.8% YoY);
- higher dividend income disclosed in H1 2016 (222.8% YoY) as a result of the dividend received from SCB (PLN 260.8m) and BZ WBK TFI (PLN 29.8m);
- lower impairment losses on loans and advances (-18.1% YoY).

At the same time, a decrease was noted in gains on debt securities(-65.2% YoY), chiefly treasury bonds, and an increase in operating costs (+3.1% YoY) amid higher depreciation/amortisation and a provision to cover disputed legal issues.

Subsidiaries

Despite the increase in profitability of Santander Consumer Bank Group (SCB Group) as well as the leasing and factoring companies, the total PBT gained by the companies consolidated with Bank Zachodni WBK was higher year-on-year merely by 1.1%, which is mainly due to the impairment loss on the portfolio of equity investments of BZ WBK Inwestycje Sp. z o.o. and the weaker performance of BZ WBK TFI in the market of mutual funds and asset management.

The contribution of SCB Group to the consolidated PBT of Bank Zachodni WBK Group for the six months of 2016 was PLN 358.2m (after intercompany transactions and consolidation adjustments) and increased by 5% YoY due to the following factors:

- 8.9% YoY higher net interest income totaling PLN 544.5m, driven by larger net interest margin amid lower funding cost, growing credit portfolio and favourable changes reported in its structure (e.g. bigger share of high-margin products such as cash loans and credit cards);
- increase of 158.1% YoY in total gains on other financial instruments and net trading income due to the remuneration arising from the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. as well as valuation of derivatives through profit and loss;
- additional charge to the income statement of PLN 13.7m representing tax on financial institutions;
- higher net impairment charge by PLN 24.9m YoY, mainly attributable to the lower value of disposal of bad loans in H1 2016 compared with the corresponding period of the previous year and changes in the underwriting policy for the instalment loans portfolio.

In H1 2016, both BZ WBK Faktor and the leasing companies with its parent BZ WBK Finanse generated higher profit before tax (up 38% YoY and 20.2% YoY, respectively) amid steadily rising sales and lower loan impairment charges. Furthermore, leasing companies achieved larger net interest income and higher fee income on account of the insurance offered.

The change in accounting treatment of the insurance companies BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO from line-by-line consolidation to equity method valuation is an effect of the partial disposal of shares of both companies and the loss of control over them, effective from 27 February 2015.

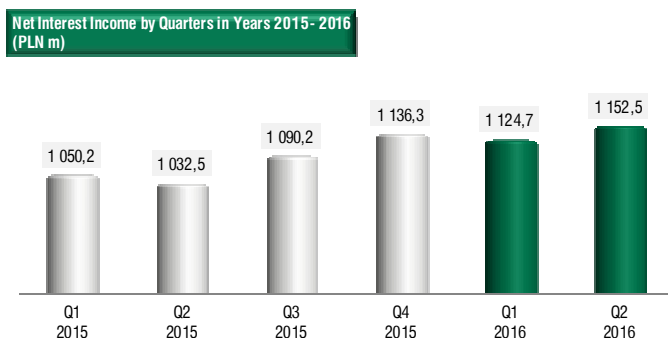
The 10.4% YoY decrease in profit before tax reported by BZ WBK TFI reflects lower net fee income from asset management as a result of a decline in the average value of net assets under management and the change in their structure with a shift towards safe low-margin (chiefly cash-based) products. Due to the high volatility of capital markets in H1 2016, and in particular the downturn caused by concerns about the result of the referendum in the UK, the demand for share-based solutions and mixed funds was relatively low.

Total Income

In H1 2016, total income of Bank Zachodni Group decreased by 4.3% YoY to PLN 3,942.9m. Adjusting the current period for one-off gains on equity instruments, the Group's underlying total income was higher by 0.8% YoY.

Net Interest Income

In H1 2016, net interest income amounted to PLN 2,277.2m and increased by 9.3% YoY.

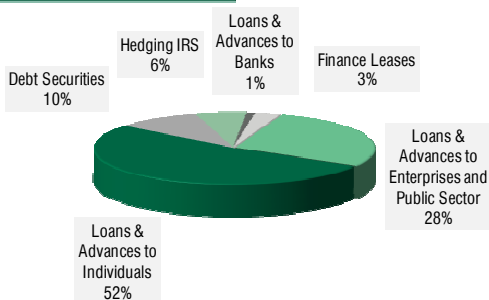


In the lower interest rate environment, the Group reported increased income (by 3.6% YoY to PLN 2,941m) alongside a marked decline in interest expense (down 12.0% YoY to PLN 663.8m).

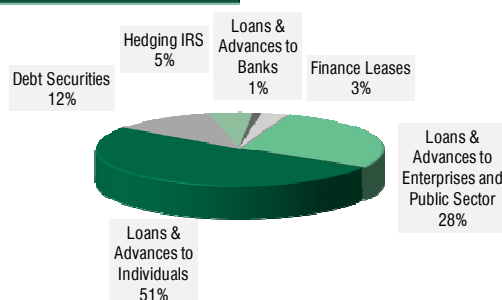
The growth rate of interest income – fueled by loans to personal and business customers, leasing receivables and CIRS/IRS transactions (cash flow hedges) – was slowed down by decreases in the portfolio of debt securities and in other asset categories.

The decline in interest expense was due to the pressure from customer deposits from all market segments (retail, corporate and public).

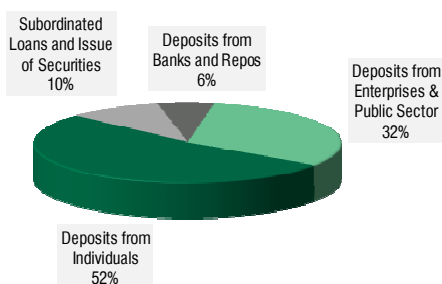
Structure of Interest Revenues in H1 2016



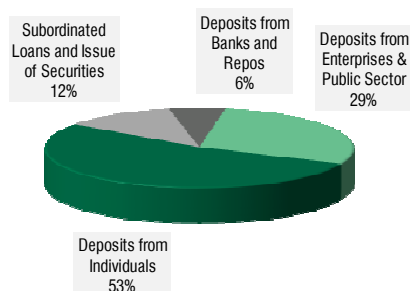
Structure of Interest Revenues in H1 2015



Structure of Interest Expense in H1 2016

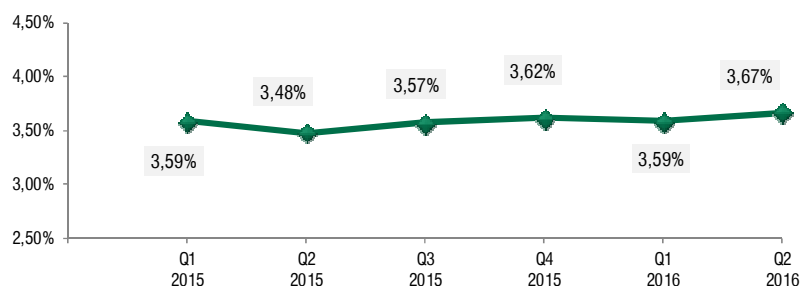


Structure of Interest Expense in H1 2015



The annualised net interest margin of Bank Zachodni WBK Group increased from 3.53% in H1 2015 to PLN 3.62% in H1 2016 as a result of a decrease in the cost of funding in the lower interest rate environment (after the Monetary Policy Council decided to cut interest rates by 50 bp in March 2015) and the favourable developments in the Group's key business volumes, including further growth in cash loans and other consumer loan volumes and an increase in low-cost current account balances. The above development lines were influenced by the Group's proactive acquisition, promotion and management of product offer parameters, taking into account market conditions, customer expectations and the organisation's own objectives in liquidity, capital and balance sheet management.

Net Interest Margin by Quarters in Years 2015-2016
(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.

In Q1 2016, the annualized quarterly net interest margin decreased to 3.59% from 3.62% posted in Q4 2015, and then rebounded to 3.67% in Q2 2016. The margin decrease as observed over the first three months of this year was caused by, inter alia, slower sales of high-margin retail loans with a concurrent growth in loans to business entities and by increased balances in retail savings accounts amid higher costs of their acquisition and retention under promotional campaigns rewarding customers' transaction activity with premium interest rates. Higher margin in the subsequent quarter of 2016 reflected a strong increase in the retail loans portfolio with growing mortgage and cash loan sales as well as a continued growth in balances of retail and business current accounts alongside a decline in deposit balances. The bank continued optimisation of its pricing offer, taking into account the market dynamics, internal conditions and the adopted strategy of balance sheet structure development.

Net Fee and Commission Income

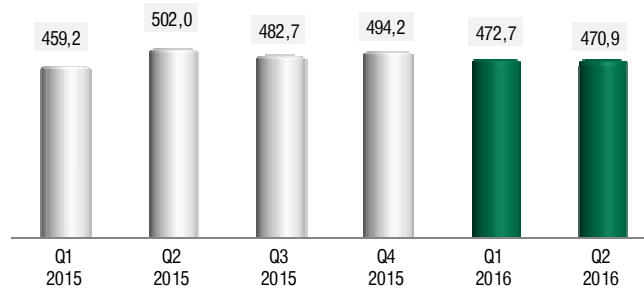
Net fee and commission income for H1 2016 was PLN 943.6m and declined by 1.8% YoY.

PLN m

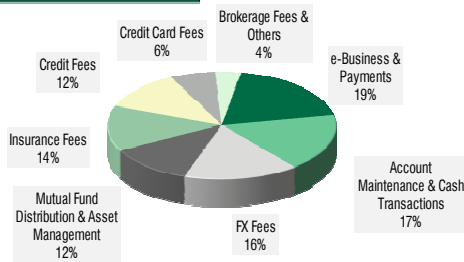
Net Fee and Commission Income	H1 2016	H1 2015	YoY Change
E-Business and payments ¹⁾	180,8	179,9	0,5%
Account maintenance and cash transactions ²⁾	162,2	172,1	-5,8%
FX fees	152,1	150,2	1,3%
Insurance fees ³⁾	127,9	130,6	-2,1%
Credit fees ⁴⁾	112,8	111,5	1,2%
Asset management and distribution	112,5	127,0	-11,4%
Credit cards	60,2	51,2	17,6%
Brokerage fees	27,0	27,6	-2,2%
Other ⁵⁾	8,1	11,1	-27,0%
Total	943,6	961,2	-1,8%

- 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 1.5m in H1 2016 vs. PLN 1.7m in H1 2015).
- 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 the insurance business in "Other operating income" instead of "Net fee and commission income" (PLN 26.3m in Q1 2015). Since the loss of control over the entities, the entire insurance fee income other than an integral part of effective interest rate has been disclosed under "Net fee and commission income".
- 4) Net fee income from lending, leasing and factoring activities which is not amortised to interest income. This line item includes inter alia the cost of credit agency.
- 5) Guarantees and sureties, issue arrangement fees and others.

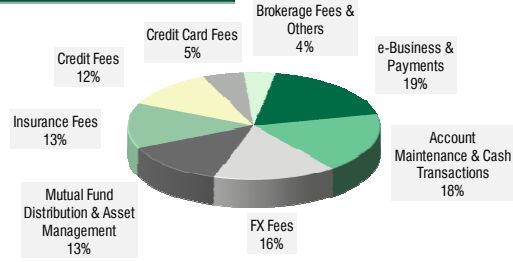
Net Fee & Commission Income by Quarters in Years 2015-2016 (PLN m)



Net Commission Income Structure in H1 2016



Net Commission Income Structure in H1 2015



The highest YoY growth in net fee and commission income in H1 2016 was reported for credit cards (+17.6% YoY) on account of a 10.1% increase in the size of a combined credit card portfolio of Bank Zachodni WBK and SCB, higher volume of credit card-related transactions and a revision of selected fees and charges of SCB.

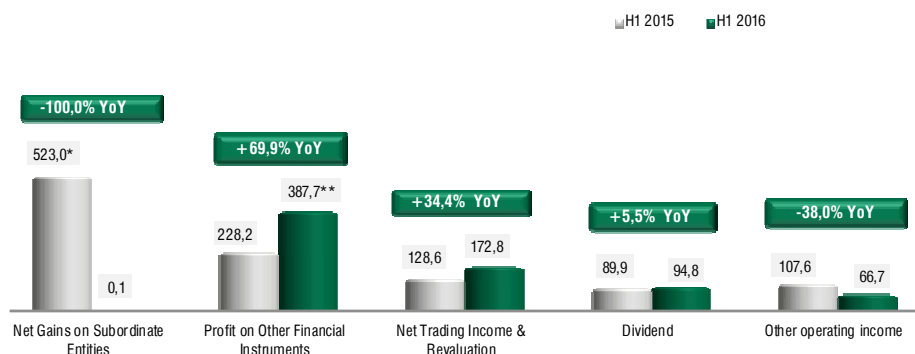
Lower net fee income from fund distribution and asset management (-11.4% YoY) reflects a decrease in the average value of assets managed by BZ WBK TFI and a change in the mix of assets in favour of lower risk funds. Amid high volatility of financial markets, H1 2016 saw an outflow of funds from investment solutions with equity and bond components.

Net fee income from account maintenance and cash transactions declined by 5.8% YoY due to, among other things, the Group's promotional and retention campaigns targeted at a growing number of BZ WBK account holders.

Year-on-year movements in other business lines were moderate and kept within the deviations observed in the business as usual operations. The only exception was the decline in net fee and commission income from insurance business due to the statutory ban imposed by the Act of 11 September 2015 on insurance and reinsurance activity (effective from 1 April 2016) on collection of insurance fees by banks acting as insuring parties in relation to group insurance plans still held in their banking portfolios (i.a. linked with credit or debit cards).

Other Income

Components of Other Income (PLN m) in H1 2015 vs. H1 2016



* Includes one-off gains on subordinate entities of PLN 523m recognized in Q1 2015 on account of partial disposal and loss of control over BZ WBK-Aviva TUŃ and BZ WBK-Aviva TUO.

** Includes total gains of PLN 316.1m on a shareholding in Visa Europe Ltd. disclosed by BZ WBK and SCB upon the completion of acquisition of Visa Europe Ltd. by Visa Inc. on 21 June 2016.

Gains on Subordinate Entities

In H1 2015, Bank Zachodni WBK Group disclosed one-off gains of PLN 523m on interest in subordinated entities arising from the partial sale of shares in BZ WBK-Aviva TUO and BZ WBK-Aviva TUŃ (17% each) and the loss of control over the above-mentioned companies in favour of Aviva Ltd., and their consequent reclassification from subsidiaries to associates.

Gains on Other Financial Instruments

Gains on other financial instruments for H1 2016 increased by 69.9% YoY to PLN 387.7m, including PLN 316.1m of total gains earned by the Group (PLN 305.9m by BZ WBK and PLN 10.2m by SCB) from settlement of acquisition of Visa Europe Ltd. by Visa Inc. on 21 June 2016. Bank Zachodni WBK and SCB – as members and shareholders of the acquired company – received cash consideration of EUR 51.6m, 18,692 series C preference shares and an earn-out of approx. 0.40% from EUR 1.12bn payable to all transaction participants.

Gains on other equity from BZ WBK Group's available for sale equity investment portfolio totalled PLN 2m.

Gains on the sale of treasury bonds were PLN 79.9m, down PLN 65.1% YoY. The measures taken as part of duration management on the available-for-sale debt securities portfolio are kept in line with market conditions and take into account the Group's objectives with regard to risk and liquidity management. The decisions regarding the structure of the portfolio and balance sheet were determined by expectations on interest rate cycle movements and fluctuations of yield curves caused by geopolitical factors and the decisions of central banks.

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

In H1 2016, net trading income and revaluation reported by Bank Zachodni WBK Group was PLN 172.8m, up 34.4% YoY.

The Group generated a profit on derivatives and interbank FX trading of PLN 154.0m vs. PLN 142.5m a year before. This result was achieved amid substantial volatility on the interest rate and FX markets. Compared with the end of June 2015, the yield curves trended downwards (by 40-80 base points in the case of IRS curve), whereas the zloty weakened by approx. 6% against the euro and the US dollar, appreciated by approx. 9% against the GBP and held fairly stable against the Swiss franc.

The above-mentioned item includes the net interest-related income of PLN 8m for H1 2016 on the non-hedging CIRS/IRS transactions vs. PLN 10.4m for H1 2015. It excludes, however, the net interest income from the CIRS and IRS transactions designated as hedging instruments under the cash flow hedge accounting (PLN 140.3m in H1 2016 vs. PLN 119.6m in H1 2015), which is disclosed under "Net interest income".

Other FX trading related income was PLN 9.2m, higher by PLN 4.4m on a YoY basis.

Debt and equity securities trading brought in a total profit of PLN 9.6m compared to a loss of PLN 18.7m in the corresponding period.

Dividends

In H1 2016, the Group disclosed dividend income of PLN 94.8m, i.e. up 5.5% YoY on account of dividends from Aviva Group companies from Bank Zachodni WBK portfolio of equity investments.

Other Operating Income

In H1 2016, other operating income decreased by 38.0% to PLN 66.7m as a high base effect caused by methodological reasons:

- changed presentation of the Group's insurance income following the loss of control over BZ WBK-Aviva companies;
- changed frequency of BFG fee refund calculation to ensure consistency with the Bank Guarantee Fund Act (BFG).

From 1 January 2014 to 27 February 2015, the major part of net insurance income was disclosed under other operating income (PLN 26.3m in 2015), whereas starting from March 2015, total insurance income that is not an integral part of an effective interest rate and spread over time, is taken to insurance fees.

Change in the frequency of BFG fee refund calculation resulted in the difference between the amounts disclosed in both reporting periods under review: PLN 25.1m in H1 2016 vs. PLN 37.4m in H1 2015.

Impairment Charges

	PLN m		
Impairment Losses on Loans and Advances	H1 2016	H1 2015	YoY Change
Collective and individual impairment charge	(378,4)	(380,1)	-0,4%
Impaired but not reported losses charge	(0,9)	(52,4)	-98,3%
Recoveries of loans previously written off	51,4	70,9	-27,5%
Off-balance sheet credit related facilities	16,8	8,4	100,0%
Total	(311,1)	(353,2)	-11,9%

In H1 2016, the loan impairment charge to the income statement of Bank Zachodni WBK Group was PLN 311.1m, down 11.9% YoY. The contribution of SCB Group to that figure was PLN 38.3m vs. PLN 13.4m in the corresponding period of 2015.

The charge for incurred and reported losses (on individual and collective exposures) was PLN 378.4m in H1 2016 and stable YoY amid a robust growth in the credit portfolio: loans from enterprises and the public sector increased by 12.8% YoY (including factoring receivables), retail loans by 7.8% YoY and lease facilities by 27.5% YoY. Compared with H1 2015, impairment charges on individually assessed exposures decreased in favour of impairment charges on collectively assessed exposures. This development was driven, among others, by the reclassification of selected individually assessed retail exposures to the collective portfolio based on a new tool for calculation of impairment charges.

The impairment charge for incurred but not reported losses was PLN 0.9m vs. PLN 52.4m in the base period. In H1 2016, Bank Zachodni WBK sold business receivables from the IBNR portfolio in the principal amount of PLN 440.0m.

In total, in H1 2016, Bank Zachodni WBK sold credit receivables in the principal amount of PLN 622.8m (PLN 646.7m including interest) vs. PLN 100.5m in the corresponding period, which contributed PLN 23.1m and PLN 10.5m to the profit before tax in both periods, respectively. Apart from business loans, mainly from the IBNR portfolio, the receivables sold included overdue retail loans.

At the same time, Santander Consumer Bank sold the written-off portfolio of cash loans and instalment loans of PLN 326.6m, which brought in a profit before tax of PLN 51.9m. Last year, SCB sold the written-off portfolio of credit cards, cash loans and instalment loans for the total amount of PLN 425.5m, generating profit before tax of PLN 60.5m.

The changes in the value and structure of impairment charges reflect the prudential approach of Bank Zachodni WBK Group to credit risk management.

As at 30 June 2016, Bank Zachodni WBK Group's NPL ratio was 6.8% compared with 8.1% as at 30 June 2015. The cost of credit improved as well and totalled 0.7% vs. 0.9% for H1 2015.

Total Costs

PLN m

Total costs	H1 2016	H1 2015	YoY Change
Staff, general and administrative expenses, of which:	(1 472,7)	(1 488,9)	-1,1%
- Staff expenses	(745,6)	(769,8)	-3,1%
- General and administrative expenses	(727,1)	(719,1)	1,1%
Depreciation/amortisation	(134,2)	(128,8)	4,2%
Other operating expenses	(98,4)	(51,8)	90,0%
Total costs	(1 705,3)	(1 669,5)	2,1%

In H1 2016, the total expenses of BZ WBK Group amounted to PLN 1,705.3m, and were 2.1% higher YoY despite higher prudential fee payable to BFG, significant costs associated with maintenance and extension of IT systems and continuation of the Group's development projects, and provisions for legal disputes reflected in other operating costs.

Given the business growth and development projects under way, the annual total cost growth rate points to the strong cost discipline across the entire Group.

Adjusting the current and base period for the one-off gains on equity instruments, the Group's cost to income ratio totalled 47.0% in H1 2016 vs. 46.4% in H1 2015.

Staff Expenses

Staff expenses of Bank Zachodni WBK Group for H1 2016 totalled PLN 745.6m and decreased by 3.1% YoY. SCB Group's contribution to consolidated staff expenses was PLN 112.4m and stable YoY.

The key staff expense line items, i.e. "salaries and bonuses" and "statutory deductions from salaries" decreased by 3.4% YoY to PLN 610.3m and by 2% YoY to PLN 110m as a result of reduction of the Group's headcount by 587 FTEs to 13,937 and release of provisions for unused bonuses from the previous years.

General and Administrative Expenses

General and administrative expenses of Bank Zachodni WBK Group for H1 2016 increased slightly (+1.1% YoY) to PLN 727.1m. Costs incurred by SCB Group totalled PLN 123.6m and contributed most to the cost of marketing and entertainment, cost of maintenance and rental of premises, IT usage and fees payable to market regulators.

The most pronounced increase in the consolidated general and administrative expenses (in absolute terms) was reported for statutory charges imposed on Bank Zachodni WBK and Santander Consumer Bank by market regulators (+PLN 20.1m YoY). The growth was driven mainly by a prudential fee of PLN 35.4m (+68.4% YoY) payable to the BFG stabilisation fund which is calculated quarterly at an increased rate and against the new base. In addition, part of contribution to the BGK Borrowers Support Fund was recognised in H1 2016 (PLN 8.5m in addition to the provision raised for that purpose in Q4 2015).

The increase in the core general and administrative expenses was driven by the growth in the following line items: cost of machine repair (+95.7% YoY) as part of fitting out of office premises; cost of IT usage (+5% YoY) connected with the new systems, development of the central environments and delivery of development projects and cost of bank security (+31.9% YoY) related to e.g. physical protection.

Cost of marketing and entertainment declined YoY (-11.2% YoY) due to change of the frequency and intensity of marketing campaigns delivered by Bank Zachodni WBK and SCB. The Group reduced cost of data transmission (-22% YoY) as well as postal fees and telecommunication fees (-11.2% YoY) on the back of review and renegotiation of agreements. Furthermore, savings were achieved in such line items as: cost of vehicles, transportation and valuables in transit (-11.3% YoY) and cost of consumables, prints, cheques and cards (-7.2% YoY).

The Group has a suppliers management system in place which covers verification, quality control and contracting. The Group continuously monitors costs, regularly analyses market conditions, reviews and renegotiates agreements and implements optimisation measures within the organisation.

Tax on Financial Institutions

Pursuant to the Act of 1 February 2016 on tax imposed on certain financial institutions, bank assets are subject to tax of 0.0366% per month. In H1 2016, total charge to the income statement of Bank Zachodni WBK Group in this respect was PLN 173.3m.

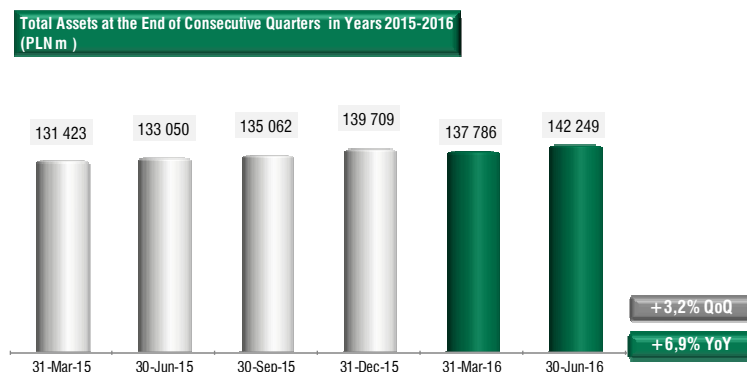
Effective Tax Rate

In H1 2016, the effective tax rate was 21.4% vs. 19.2% in the corresponding period, due to loss on debt sale, higher prudential fee and banking tax, which are not tax deductible.

2. Financial Position

Assets

As at 30 June 2016, total assets of Bank Zachodni WBK Group amounted to PLN 142,248.8m, and increased by 1.8% Ytd and by 6.9% YoY. The value and structure of the Group's financial position is determined by the parent entity, which accounts for 89.5% of the consolidated total assets vs. 89.8% as at the end of December 2015.



The table below presents major developments in the key categories of the consolidated assets of Bank Zachodni WBK Group as at 30 June 2016 vs. 31 December 2015 and 30 June 2015.

Assets (condensed presentation for analytical purposes)	PLN m							
	30.06.2016	Structure 30.06.2016	31.12.2015	Structure 31.12.2015	30.06.2015	Structure 30.06.2015	Change	Change
	1	2	3	4	5	6	1/3	1/5
Loans and advances to customers ¹⁾	100 480,4	70,7%	94 913,9	67,9%	90 078,0	67,7%	5,9%	11,5%
Financial assets available for sale	22 956,6	16,1%	24 622,1	17,6%	25 649,2	19,3%	-6,8%	-10,5%
Financial assets held for trading and hedging derivatives	5 018,5	3,5%	4 330,3	3,1%	5 139,4	3,9%	15,9%	-2,4%
Loans and advances to banks ²⁾	4 593,4	3,2%	3 581,0	2,6%	3 166,2	2,4%	28,3%	45,1%
Cash and operations with Central Banks	3 139,3	2,2%	6 229,9	4,5%	3 031,1	2,3%	-49,6%	3,6%
Fixed assets, intangibles and goodwill	2 925,0	2,1%	2 984,7	2,1%	2 840,2	2,1%	-2,0%	3,0%
Other assets ³⁾	3 135,6	2,2%	3 046,8	2,2%	3 146,2	2,3%	2,9%	-0,3%
Total	142 248,8	100,0%	139 708,7	100,0%	133 050,3	100,0%	1,8%	6,9%

1) Net of impairment losses and excluding buy-sell-back transactions which are reported here under other assets whereas in the full version financial statements are disclosed in the separate line item.

2) Excludes buy-sell-back transactions reported under other assets.

3) Other assets include the following: buy-sell-back transactions, investments in associates, net deferred tax assets, assets classified as held for sale and other assets.

The movements in the consolidated statement of financial position of Bank Zachodni WBK Group that occurred over the first six months of 2016 reflect market tendencies, new business acquisition and the Group's strategy for management of its balance sheet structure and current liquidity.

As at 30 June 2016, net consolidated loans to customers totalled PLN 100,480.4m and increased by 5.9% vs. 31 December 2015 driven by business and retail lending. SCB Group contributed PLN 12,925.6m to this line vs. PLN 12,901.7m as at 30 June 2015 (after intercompany and consolidation adjustments).

The portfolio of financial assets available for sale decreased in value (-6.8% Ytd) as the NBP bills held by the bank matured for payment. SCB Group contributed PLN 2,048.4m to this item, which is an increase of 2.4% Ytd.

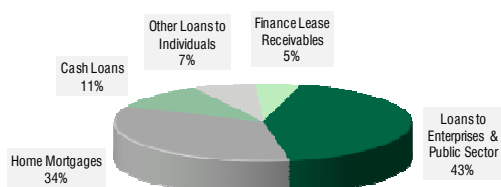
A decrease in the balance of the bank's current account held with the NBP caused a decrease in the value of "Cash and operations with Central Banks" (-49.6% Ytd). At the same time, loans and advances to banks increased by 28.3% Ytd and so did the portfolio of debt securities, reported under "Financial assets held for trading and hedging derivatives" (+15.9% Ytd).

Credit Portfolio

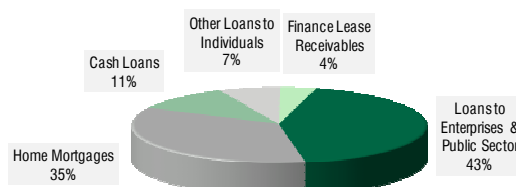
Gross Loans and Advances to Customers	PLN m				
	30.06.2016	31.12.2015	30.06.2015	Change	Change
	1	2	3	1/2	1/3
Loans and advances to individuals	54 326,4	51 950,1	50 398,6	4,6%	7,8%
Loans and advances to enterprises and public sector customers ¹⁾	46 157,8	43 542,3	40 905,0	6,0%	12,8%
Finance lease receivables	5 204,6	4 545,7	4 080,6	14,5%	27,5%
Other	33,0	6,9	13,1	378,3%	151,9%
Total	105 721,8	100 045,0	95 397,3	5,7%	10,8%

1) Gross loans and advances to customers does not include buy-sell-back transactions.

Structure of Loans & Advances to Customers as at 30.06.2016



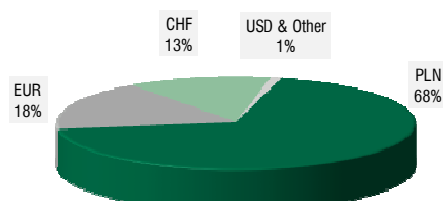
Structure of Loans & Advances to Customers as at 30.06.2015



As at 30 June 2016, gross loans and advances to customers were PLN 105,721.8m (excluding buy-sell-back transactions) and higher by 5.7% Ytd.

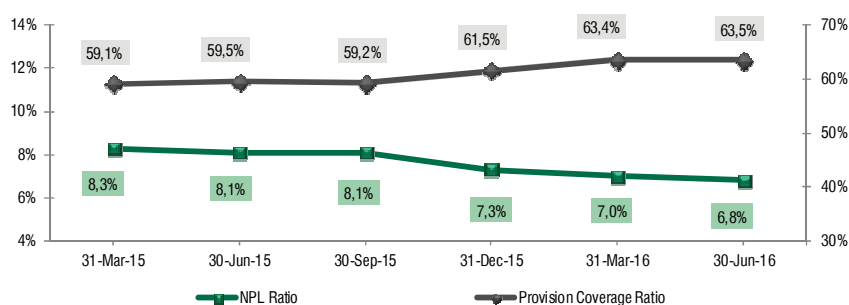
Compared with 31 December 2015, loans and advances to individuals increased by 4.6% to PLN 54,326.4m at the end of June 2016. Housing loans, which represent the major portion of loans and advances to individuals, increased by 5.6% Ytd to PLN 35,609.8m during the first six months of 2016. The second significant constituent item, i.e. cash loans, grew by 5.4% Ytd to PLN 11,462.5m.

FX Structure of Loans and Advances to Customers as at 30.06.2016



Loans and advances to enterprises and public sector entities were PLN 46,157.8m and higher by 6.0% Ytd, driven by robust lending to corporate and SME customers. Finance leases, which include the portfolios of BZ WBK Leasing, BZ WBK Lease, and Santander Consumer Multirent, increased by 14.5% Ytd to PLN 5,204.6m on account of a dynamic growth in sales of vehicles. Loans granted by the BZ WBK leasing companies to finance machines and vehicles for business customers, which totalled PLN 1,548.7m as at 30 June 2016 (vs. PLN 1,460.6m as at 31 December 2015), are disclosed outside the leasing portfolio, as loans and advances to enterprises.

Credit Quality Ratios by Quarters in 2015 and 2016



As at 30 June 2016, non-performing (impaired) loans to customers accounted for 6.8% of the gross portfolio vs. 7.3% six months before. The provision coverage ratio for impaired loans was 63.5% compared with 61.5% as at 31 December 2015.

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 2016 vs. 31 December 2015 and 30 June 2015.

Liabilities & Equity (condensed presentation for analytical purposes)	PLN m							
	30.06.2016	Structure 30.06.2016	31.12.2015	Structure 31.12.2015	30.06.2015	Structure 30.06.2015	Change	Change
	1	2	3	4	5	6	1/3	1/5
Deposits from customers ¹⁾	105 757,9	74,2%	101 245,2	72,4%	93 611,7	70,5%	4,5%	13,0%
Subordinated liabilities and debt securities in issue	4 921,7	3,5%	4 847,5	3,5%	3 745,5	2,8%	1,5%	31,4%
Financial liabilities held for trading and hedging derivatives	4 869,4	3,4%	4 615,5	3,3%	4 981,5	3,7%	5,5%	-2,3%
Deposits from banks ¹⁾	2 403,0	1,7%	1 066,8	0,8%	1 648,0	1,2%	125,3%	45,8%
Sell-buy-back transactions	1 786,5	1,3%	5 258,0	3,8%	7 543,6	5,7%	-66,0%	-76,3%
Other liabilities ²⁾	2 231,0	1,6%	2 107,6	1,5%	2 028,3	1,5%	5,9%	10,0%
Total equity	20 279,3	14,3%	20 568,1	14,7%	19 491,7	14,6%	-1,4%	4,0%
Total	142 248,8	100,0%	139 708,7	100,0%	133 050,3	100,0%	1,8%	6,9%

1) Deposits from customers and banks do not include liabilities in respect of sell-buy-back transactions which are reported under a separate line item.

2) Other liabilities include current income tax and other liabilities.

The key change in the consolidated equity and liabilities of Bank Zachodni WBK Group was noted in deposits from banks, which increased by 125.3% Ytd, driven by placements and loans obtained in the domestic and international wholesale market. At the same time, sell-buy-back transactions decreased by 66.0%.

The aggregated line item "Financial liabilities held for trading and hedging derivatives" increased moderately (+5.5% Ytd) under the impact of hedging derivatives.

The Group continued the issue of debt securities as part of diversification of funding sources. In February 2016, the first series of certificates of deposit of Bank Zachodni WBK with a nominal value of PLN 230m matured for payment. The bank issued another series of such securities with a nominal value of PLN 250m and zero-coupon bearer bonds with a nominal value of PLN 185m. At the same time, Santander Consumer Bank issued bonds with a nominal value of PLN 332m and repurchased several series of matured bonds with a nominal value of PLN 474.7m. The above transactions did not cause any material movements in the Group's liabilities from the issue of debt securities compared with 31 December 2015.

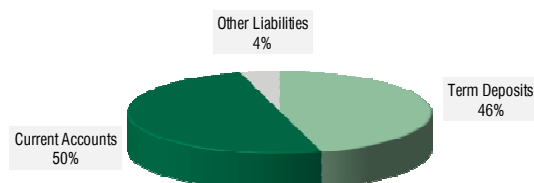
Deposit Base

Deposits from Customers	PLN m				
	30.06.2016	31.12.2015	30.06.2015	Change	Change
	1	2	3	1/2	1/3
Deposits from individuals	61 358,9	59 200,7	55 977,1	3,6%	9,6%
Deposits from enterprises and public sector customers ¹⁾	44 399,0	42 044,5	37 634,6	5,6%	18,0%
Total	105 757,9	101 245,2	93 611,7	4,5%	13,0%

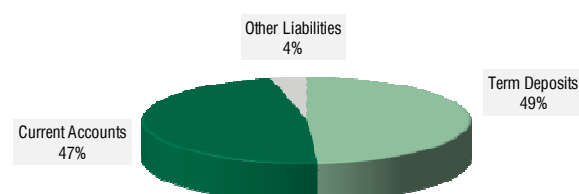
1) Deposits from enterprises do not include repo transactions.

Deposits from customers, which represent 74,3% of the Group's equity and liabilities, are the primary source of funding its lending business. Over the last six months, these deposits increased by 4.5% and as at 30 June 2016 amounted to PLN 105,757.9m (excluding sell-buy-back transactions), including PLN 7,959.7m relating to SCB Group after intercompany transactions (vs. PLN 7,006.5m at the end of December 2015).

Structure of Customer Deposits as at 30.06.2016

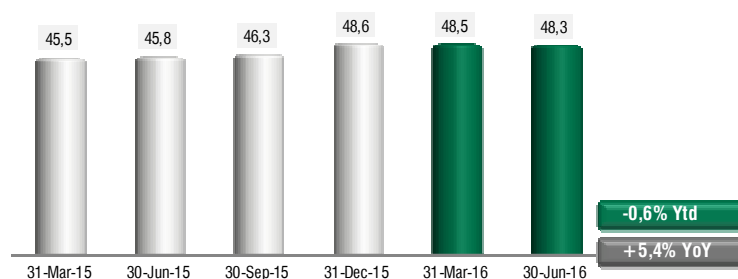


Structure of Customer Deposits as at 30.06.2015

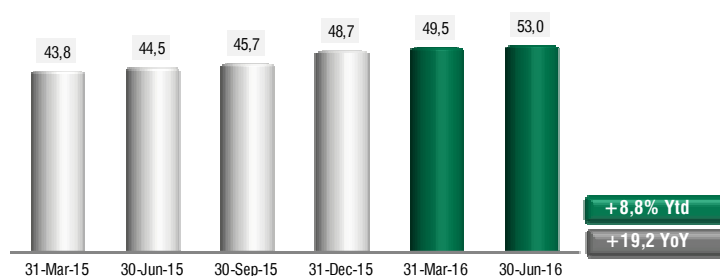


The Group's total term deposits from customers totalled PLN 48,261.3m and were relatively stable over H1 2016. Current account balances increased by 8.8% Ytd to PLN 53,007.4m, and other liabilities were PLN 4,489.2m, up 13.1% on 31 December 2015. The largest constituent of the last item were "loans and advances" (PLN 3,547.5m vs. PLN 3,002m as at 31 December 2015), reported under "deposits from enterprises", which included loans granted by the European Investment Bank, the European Bank for Reconstruction and Development and the Council of Europe Development Bank to finance the bank's credit delivery and the leasing business of the bank's subsidiaries. In H1 2016, the bank obtained funding from the above-mentioned financial institutions for a total value of EUR 170m (based on the agreements described in the section "Diversification of funding sources of Bank Zachodni WBK Group"), while the leasing subsidiary drew down EUR 20m under its credit agreement. At the same time, the bank repaid two tranches of the loan from the European Investment Bank in a total amount of CHF 90.1m, including an early repayment in accordance with contractual conditions.

Term Deposits at the End of Consecutive Quarters of 2015 and 2016 (PLN bn)



Current Accounts* at the End of Consecutive Quarters of 2015 and 2016 (PLN bn)



* include savings accounts

The retail deposit base stood at PLN 61,358.9m, higher by 3.6% on 31 December 2015 as a result of an increase in current account balances (+13.5% Ytd), including savings accounts. In H1 2016, the bank launched promotional campaigns offering higher interest rates to customers for selected savings accounts, which translated into a significant increase in the balance of such accounts. The value of term deposits declined markedly (-8% Ytd) because of a low appeal of deposits in the record low interest rate environment.

Over the first six months of 2016, deposits from enterprises and the public sector increased by 5.6% Ytd to PLN 44,399m at the end of June 2016. The balances in current accounts became stable while term deposits showed strong growth (+8.6% Ytd), driven mainly by the public sector.

Diversification of Funding Sources of Bank Zachodni WBK Group

In H1 2016, actions were continued to diversify the funding sources of Bank Zachodni WBK Group.

Financing From International Banks and International Financial Institutions

- Under the loan agreement of 16 December 2015 concluded with an international bank, on 4 January 2016, the full loan amount of EUR 100m was drawn to be used for financing the bank's general corporate purposes. The loan is based on the Euribor rate and matures within 36 months of signing the agreement.
- Bank Zachodni WBK signed the following:
 - ✓ Loan agreement of 22 January 2016 with an international bank providing for EUR 50m worth of funding with interest rate based on Euribor and maturity date falling 24 months after the date of the agreement. The loan is earmarked for the bank's general corporate purposes and was disbursed in bullet on 29 January 2016.
 - ✓ Loan agreement of 16 March 2016 with the European Bank for Reconstruction and Development (as part of the Polish Residential Energy Efficiency Financing Facility programme) providing for EUR 75m worth of funding with a 4-year maturity and interest rate based on Euribor. The first tranche of EUR 50m was disbursed on 30 March 2016. The above facility extended the bank's product range for customers interested in enhancing energy efficiency of their apartments and houses.
 - ✓ Loan agreement of 26 April 2016 with the European Investment Bank (EIB) for a loan of EUR 70m to be used for financing companies from the SME and Mid-Cap segment (public companies with a stated level of capitalisation), with an interest rate based on Euribor and repaid in bullet after 5 years. The loan was drawn on 20 May 2016.
 - ✓ Loan agreement with the Council of Europe Development Bank (13 June 2016) providing for a 5-year loan of EUR 100m to be used for funding SMEs and supporting job creation and retention. The first tranche of EUR 50m was drawn on 28 June 2016.
- On 29 March 2016, BZ WBK Leasing received the second tranche of EUR 20m from the Council of Europe Development Bank under an agreement signed in 2015 for the total amount of EUR 50m (previously, a tranche of EUR 25m was drawn).
- Based on the agreement with the EIB, the bank made an early repayment of a tranche of CHF 60m (on 15 June 2016) representing an early repayment of one of the loans advanced to the former Kredyt Bank on 29 June 2012.

Issue/Redemption of own Debt Securities

- Bank Zachodni WBK made new issues of debt securities:
 - ✓ On 17 February 2016, the bank issued series B certificates of deposits with the total nominal value of PLN 250m, interest rate based on 6M WIBOR rate plus margin of 0.15%. All certificates, which mature on 17 August 2016, were taken up by investors.
 - ✓ On 26 February 2016, the bank made a private placement of bearer bonds with a total nominal value of PLN 185m and redemption date of 26 February 2017.
- As part of the updated (23 December 2015) debt securities issue programme underwritten by Santander Consumer Finance (with the maximum amount underwritten increased to PLN 3bn), Santander Consumer Bank issued bonds for a nominal value of PLN 332m and maturity ranging from two to four years.
- Bank Zachodni WBK redeemed series A certificates of deposit with a total nominal value of PLN 230m in accordance with their maturity date falling six months after the issue date (17 February 2016).

Selected Ratios

Selected Financial Ratios	H1 2016 ¹⁾	H1 2015 ¹⁾
Total costs/Total income	47,0%	46,4%
Net interest income/Total income	62,8%	57,9%
Net interest margin ²⁾	3,6%	3,5%
Net commission income/Total income	26,0%	26,7%
Customer net loans/Customer deposits	95,0%	96,2%
NPL ratio	6,8%	8,1%
NPL coverage ratio	63,5%	59,5%
Credit risk ratio ³⁾	0,7%	0,9%
ROE ⁴⁾	11,9%	16,7%
ROTE ⁵⁾	14,3%	21,3%
ROA ⁶⁾	1,4%	1,9%
Capital ratio ⁷⁾	14,4%	14,3%
Tier I ratio ⁸⁾	14,0%	13,8%
Book value per share (in PLN)	204,4	196,4
Earnings per share (in PLN) ⁹⁾	10,3	11,6

1) The calculations of the following ratios for 2016 and 2015 use the Group's total income or profit (as the case may be) after adjustment for one-off gains on equity transactions: cost/income, net interest income/total income, net commission income/total income and earnings per share.

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

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

4) 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 the profit/dividend. Adjusted for one-off items. ROE was 11.5% as at 30.06.2016 vs. 14.4% as at 30.06.2015. The marked decrease in the ROE ratio results from the introduction of a tax on financial institutions and increased capital requirements imposed by the banking supervision authorities.

5) 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, retained earnings, intangible assets and goodwill. Adjusted for one-off items, ROTe was 13.9% as at 30.06.2016 vs. 17.7% as at 30.06.2015.

6) 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).

7) The capital adequacy ratio was calculated on the basis of own funds and the total capital requirements established for the individual risk types by means of the standardised approach, in line with the CRD IV/CRR package.

8) Tier 1 ratio is Tier 1 capital expressed as a percentage of risk weighted assets for credit, market and operational risk.

9) Net profit for the period attributable to shareholders of BZ WBK (after elimination of non-recurring items) divided by the number of ordinary shares. Additionally adjusted for the tax on financial institutions, the underlying earnings per share were PLN 12.1 for H1 2016.

3. Additional Financial Information

Selected Transactions with Related Entities

Key Transactions with Subsidiaries

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

As at 30 June 2016, the total value of the bank's exposure on loans to subsidiaries amounted to PLN 8,275.6m compared with PLN 7,357.0m as at 31 December 2015 and PLN 6,953.1m as at 30 June 2015.

As at 30 June 2016, the deposits held by all the bank's subsidiaries totalled PLN 127.3m vs. PLN 166.8m as at 31 December 2015 and PLN 145.7m as at 30 June 2015.

The guarantees issued to subsidiaries were PLN 67.1m vs. PLN 64.6m as at 31 December 2015 and PLN 63.6m as at 30 June 2015. Contingent financial liabilities were PLN 2,449.0m vs. PLN 2,227.7m as at 31 December 2015 and PLN 1,638.7m as at 30 June 2015.

These intercompany items have been eliminated from the consolidated accounts.

Lease-back

On 16 April 2015, Bank Zachodni WBK signed an agreement with 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) 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. As at 30 June 2016, the current value of the fixed assets transferred under the financial leaseback agreement was PLN 39.5m, and the value of fixed assets under construction was PLN 9.4m.

The basic lease period was set to 153 months. The purchase of assets and construction of the office building by BZ WBK Leasing is financed with a loan from Bank Zachodni WBK.

Intercompany Transactions with the Parent

The amounts owed by the bank to its parent and other entities from Santander Group were PLN 391.6m vs. PLN 338.5m as at 31 December 2015 (PLN 164.6m as at 30 June 2015), compared with PLN 239.7m vs. PLN 111.8m as at 31 December 2015 (PLN 57m as at 30 June 2015).

A full disclosure on related party transactions is available in Note 38 of the consolidated financial statements of Bank Zachodni WBK Group for the 6-month period ended 30 June 2016 and in Note 36 of the financial statements of Bank Zachodni WBK for the 6-month period ended 30 June 2016.

Selected Off-balance Sheet Items

Guarantees and Derivatives

Guarantees and commitments of Bank Zachodni WBK Group and nominal amounts of derivative transactions are as follows:

	in PLN m		
Guarantees and Commitments	30.06.2016	31.12.2015	30.06.2015
Financial commitments:	22 510,3	21 870,8	20 647,9
- credit lines	18 664,0	18 463,0	17 591,1
- credit cards debits	3 259,3	2 967,0	2 681,4
- import letters of credit	582,6	438,0	358,5
- term deposits with future commencement term	4,4	2,8	16,9
Guarantees	4 398,3	4 397,6	4 426,8
Total	26 908,6	26 268,4	25 074,7

As at 30 June 2016, 31 December 2015 and 30 June 2015 Bank Zachodni WBK and its subsidiaries did not report any guarantees issued to one business unit or a subsidiary totalling a minimum of 10% of the issuer's equity.

	in PLN m		
Nominal Value of Derivatives	30.06.2016	31.12.2015	30.06.2015
Derivatives - Forward (hedging)	35 899,8	37 200,0	39 269,6
Derivatives - Forward (trading)	303 490,4	250 073,8	213 799,3
Current FX transactions	1 516,4	3 022,1	3 932,8
Trading in equities	1 143,3	1 485,1	863,8
Total	342 049,9	291 781,0	257 865,5

Pending Court Proceedings

As at 30 June 2016, no cases were 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.

	in PLN m		
Court Proceedings with BZ WBK Group as a Party	30.06.2016	31.12.2015	30.06.2015
Amounts claimed by the Group	450,4	256,5	135,4
Claims against the Group	166,0	211,8	192,6
Receivables due to bankruptcy or arrangement cases	0,2	15,2	2,0
Value of all litigation	616,6	483,5	330,0
Share [%] of all litigation in equity	3,0%	2,4%	1,7%
Completed significant court proceedings	172,1	80,0	59,8

A significant increase in the value of the claim brought by the Group results from the abrogation of the laws pertaining to the banking writs of execution and the need to refer to the court any unpaid receivables of the bank under ordinary proceedings or proceedings by writ of payment.

4. Key Factors Affecting the Profit in 2016

The following external developments will have a significant impact on the financial performance and activity of Bank Zachodni WBK Group in 2016:

- Uncertainty about the world economic outlook, fuelled by external risk factors such as economic slowdown in China.
- Effects of the UK referendum to leave the European Union.
- Movements in commodity prices.
- Stabilisation of Polish economic growth at around 3% YoY.
- Favourable growth in real disposable income of households due to low inflation, higher employment and wage growth, and a new parent benefit programme.
- Low financing costs for households and businesses should stimulate demand for bank debt. At the same time, low interest on deposits should encourage bank customers to seek alternative savings/investment options.
- Possible changes in the monetary policy of the NBP, the ECB and Federal Reserve.
- Changes in Poland's credit rating or rating outlook.
- Easing of fiscal policy in Poland.
- New proposals on how to deal with the foreign currency loans issue, which may be expensive for the banking sector.
- Possible reduction of the retirement age.
- Changes in asset funding costs dependent on the pace and degree of changes in base rates, movements in the PLN exchange rate, liquidity position of the banking sector and the degree of price competition between banks seeking to attract customer deposits.
- A possible increase in volatility in financial markets in the event of a more negative outlook for global economic growth, growing concerns about potential monetary policy tightening by the Federal Reserve and further turmoil in financial markets in China.

VIII. Risk Management in H1 2016

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 BZ 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 and scenario analyses 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 identification, measurement, monitoring and mitigation of 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

The bank's Supervisory Board is responsible for ongoing supervision of the risk management system in Bank Zachodni WBK, supported by the Audit and Compliance Committee of the Supervisory Board and the Risk Oversight Committee. The Supervisory Board approves the strategy, key risk management policies and risk appetite, and monitors the use of internal limits from the perspective of current business strategy and macroeconomic environment. It reviews the main risk areas, the process of risk identification and definition and monitoring of remedial actions. The Supervisory Board also assesses the effectiveness of measures taken by the Management Board.

The bank's Management Board is responsible for implementing an effective risk management system 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 tailored to the size and profile of the risks taken, to segregate responsibilities in order that risk assessment and control functions remain independent of operational functions, to introduce and update a risk management strategy and ensure an adequate information policy.

The Management Board fulfils its risk management role through the Risk Management Committee and the Risk Control Committee, which was set up in March 2016. In accordance with the powers vested with the two committees, the Risk Management Committee is an executive committee, 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 Control Committee, on the other hand, monitors the risk level across different areas of the bank's operations and supervises the activities of lower-level risk management committees set up by the Management Board. The above-mentioned 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.

In H1 2016, the bank reviewed and streamlined the structure of its committees:

- The powers of the Monitoring Committee (responsible for ensuring ongoing and effective monitoring of business and corporate credit portfolio) were delegated to the existing committees;
- The Information Management Panel, which used to operate as part of the Risk Management Forum, was replaced by a separate Information Management Committee, which is responsible for the quality and organisation of data related to risk management and other areas of the bank's operations;
- The Cyber Risk Committee was set up as a forum for direct cooperation and communication among all organisational units involved in the processes related to cyber security, to ensure effective supervision of the cyber security strategy.

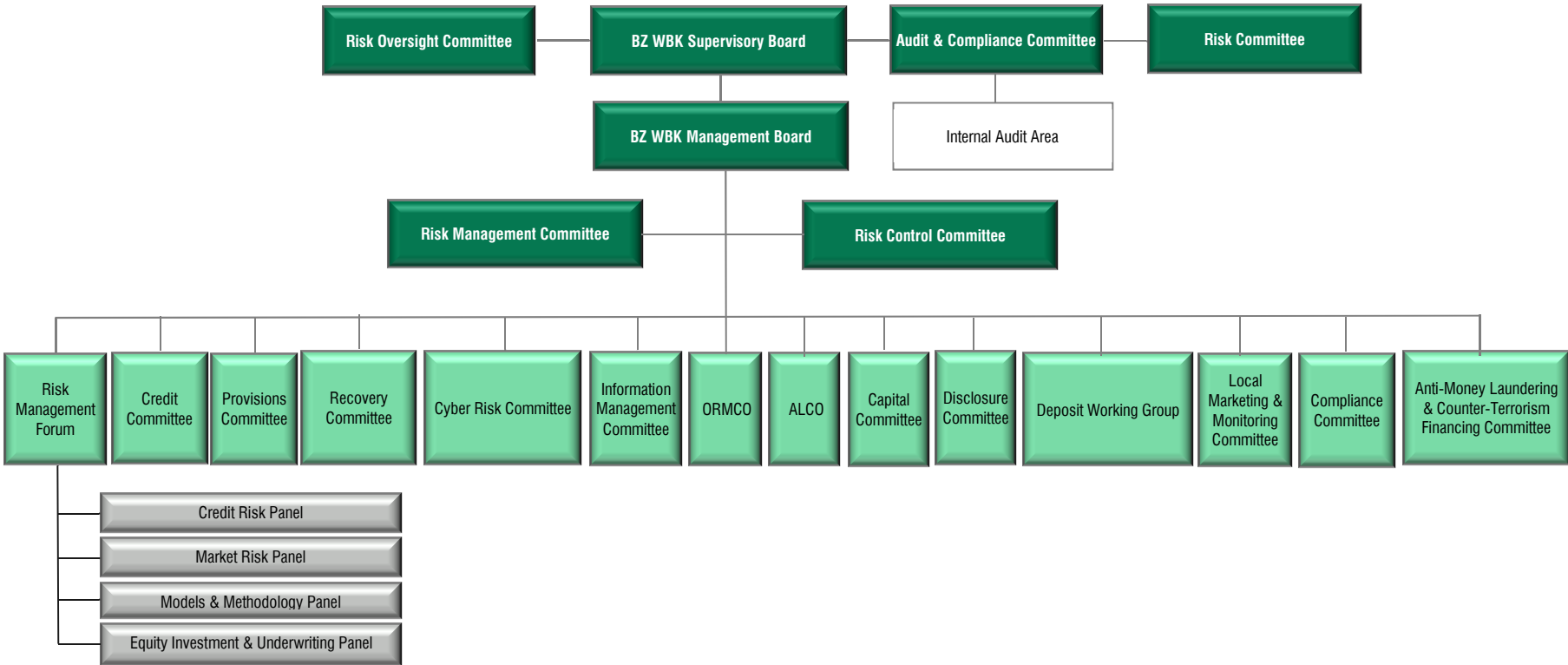
Through the committees, the bank also supervises the risk attached to the operations of subsidiaries.

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 Risk Control Committee supervises the following committees responsible for risk management in the Group:

- Risk Management Forum composed of panels dedicated to credit risk, market risk, models and methodology and equity investment and underwriting
- Credit Committee
- Recovery Committee
- Provisions Committee
- Information Management Committee
- Operational Risk Management Committee / ORMCO
- Cyber Risk Committee
- Assets and Liabilities Management Committee / ALCO
- Capital Committee
- Disclosure Committee
- Deposit Working Group
- Local 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

Stable economic growth, record low interest rates and increasing demand for mortgage loans had a positive impact on credit delivery and overall risk of the credit portfolio in H1 2016. In view of the Group's priority to maintain high quality of the loan book, any adverse developments in the environment and their potential influence on the customer risk profile were analysed in detail. The bank was actively involved as a member of a working group set up by the Polish Banks Association (ZBP) to address the issue of loans denominated in (or linked to) foreign currency.

Legal regulations that became effective in H1 2016 (including banking tax, amendment of the Civil Code and the Consumer Credit Act) have a significant influence on the Group's income statement. The bank continuously optimises its processes and products to increase the profitability of business, while ensuring attractive products and services for customers. To that end, in H1 2016, the bank launched a new prelimit offer for the existing customers and implemented a new decision engine which enables greater flexibility with respect to change implementation.

The key challenges in the coming months include the issue of loans denominated in (or linked to) foreign currency and potential new legislation that may significantly impact the bank's performance and risk profile. Furthermore, the Directive of the European Parliament and of the Council on payment services in the internal market ("PSD2") may reduce the banks' competitive edge in terms of having access to information about customers' income and expense. Pursuant to PSD2, non-bank entities which are subject to far less regulatory supervision may gain access to behavioural data about customers.

Adverse macroeconomic developments (economic slowdown in China, concerns about the global economic outlook, risk of continued depreciation of the zloty as a result of the British exit from the European Union, sustained deflation and growing demand for jobs) may have a negative impact on the financial performance of companies and their investments, which in turn may affect the results of the banking sector.

In response to the emerging challenges, the bank launched the Digital Transformation Programme, which will introduce significant changes in the credit processes and technologies in place. The bank also consistently develops and promotes the remote channels in relationships with customers. Furthermore, it continues to design 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.

4. Capital Management

In H1 2016, Bank Zachodni WBK Group managed its capital in accordance with the rules presented in the consolidated financial statements for 2015. There were no significant changes in the capital management process in the current reporting period.

On 1 January 2014, the CRD IV/CRR package became effective pursuant to the decision of the European Parliament and of the Council. The package consists of:

- Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC (CRD IV),
- Regulation no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) no. 648/2012 (CRR).

The CRR is directly applicable in all EU member states. The CRD IV was transposed into the Polish law under Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial system.

As at 30 June 2016, the calculation of capital ratio took account of the equity and total capital requirements for relevant risks using a standardised approach in line with Part Three of the Regulation no. 575/2013.

Net Profit Distribution

BZ WBK AGM agreed on the distribution of the net profit of PLN 1,756.2m for the accounting year ended 31 December 2015 as follows:

- PLN 702.5m to be allocated to the dividend for shareholders;
- PLN 878.1m to be allocated to capital reserves,
- PLN 175.6m to be left undistributed.

The AGM allocated PLN 587.6m of the undistributed profit for the year ended 31 December 2014. The total amount of dividend was PLN 1,290m, i.e. PLN 13 per share. The dividend was paid out on 16 May 2016.

Capital Ratios

The table below present calculation of the capital ratio and Tier 1 ratio of Bank Zachodni WBK Group as at 30 June 2016, 31 December 2015 and 30 June 2015.

BZ WBK Group		30.06.2016	31.12.2015	30.06.2015
I	Total capital requirement	8 995,9	8 745,2	8 618,8
II	Own funds after reductions	16 232,5	15 980,4	15 387,2
CAD [II/(I*12.5)]		14,44%	14,62%	14,28%
Tier 1 Ratio		13,99%	14,10%	13,79%

The tables below presents the capital and Tier 1 ratios of Bank Zachodni WBK and Santander Consumer Bank as at 30 June 2016, 31 December 2015 and 30 June 2015.

BZ WBK Capital Ratios	30.06.2016	31.12.2015	30.06.2015
Total Capital Ratio	15,63%	15,80%	15,28%
Tier I Ratio	15,21%	15,40%	14,89%

SCB Capital Ratios	30.06.2016	31.12.2015	30.06.2015
Total Capital Ratio	16,44%	16,31%	14,98%
Tier I Ratio	16,37%	16,16%	14,75%

The total capital ratio as at 30 June 2016 vs. 31 December 2015 was impacted by the following:

- increase in capital reserves as a consequence of profit distribution,
- allocation of the undistributed profit for 2015 to Tier 1 capital,
- payment of the portion of the retained profit for 2014 in the form of dividend,
- amendment of the terms and conditions of issue of subordinated bonds allocated to Tier 2 supplementary capital,
- increase in the value of risk weighted assets for credit risk arising from the business activity and reduction of capital requirements for counterparty risk and CVA through the recognition of contractual netting in accordance with Articles 295-298 of the CRR.

The minimum capital ratios set by the Polish Financial Supervision Authority (KNF) for Bank Zachodni WBK Group, including a conservation buffer and a buffer for an additional capital requirement due to risk attaching to foreign currency home mortgages, are as follows:

- a Tier 1 capital ratio of 10.78%
- a total capital ratio of 13.96%.

The capital ratios of Bank Zachodni WBK Group calculated in accordance with the CRR requirements and an individual capital decision of the supervision authority exceed the above minimum requirements.

Impact of Subordinated Lending

The bank amended the terms and conditions of issue of subordinated bonds allocated to Tier 2 supplementary capital and received KNF consent of 18 May 2016 to allocate the new issue of EUR 100m maturing on 5 August 2025 to the supplementary capital.

Banking Supervision Assessment

On 6 July 2016 the Bank received information from KNF about the commencement of supervision assessment in relation to identification of Bank Zachodni WBK as other systematically important institution and introduction of a relevant buffer in accordance with Article 39 (1) of Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial system.

As at the publication date of this document, the Bank has not received the relevant decision related to the level of the above buffer.

IX. Governing Bodies

General Meetings of Shareholders

The Annual General Meeting of Shareholders of Bank Zachodni WBK held on 20 April 2016 (AGM) approved the following reports:

- unconsolidated and consolidated financial statements of the bank and BZ WBK Group for 2015 and;
- BZ WBK Supervisory Board's report on its activities in 2015 along with the assessment of the financial statements and reports of the bank and BZ WBK Group for 2015, and the remuneration policy.

The 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 2015 and dividend payment for 2014 and 2015 (see section "Capital Management, Ch.VIII "Risk Management"). The AGM also adopted the Policy on selection and suitability assessment of Supervisory Board Members of Bank Zachodni WBK and set the maximum ratio between fixed and variable components of remuneration for persons holding managerial positions in BZ WBK Group. The 2016 Code of Best Practice for WSE Listed Companies issued by WSE was adopted and changes to the bank's statutes were approved.

Supervisory Board

Below is the composition of the Bank Zachodni WBK Supervisory Board as at 30 June 2016 vs. 30 June 2015.

Role in the Supervisory Board	Ref.	Composition as at 30.06.2016	Ref.	Composition as at 30.06.2015	
Chairman of the Supervisory Board:	1.	Gerry Byrne	1.	Gerry Byrne	
	2.	Danuta Dąbrowska	2.	Danuta Dąbrowska	
	3.	David R. Hexter	3.	David R. Hexter	
	4.	José Garcia Cantera	4.	José Garcia Cantera	
	5.	Witold Jurcewicz	5.	Witold Jurcewicz	
	Members of the Supervisory Board:	6.	José Luis de Mora	6.	José Luis de Mora
		7.	John Power	7.	John Power
		8.	Jerzy Surma	8.	Jerzy Surma
		9.	Marynika Woroszyńska-Sapieha	9.	Marynika Woroszyńska-Sapieha
		10.	José Manuel Varela	10.	José Manuel Varela

The composition of the bank's Supervisory Board did not change in the period of 12 months ended 30 June 2016.

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.

Detailed information about education and professional experience of the bank's Supervisory Board members can be found at the bank's website: <http://www.bzwbk.pl/relacje-inwestorskie/spolka/rada-nadzorcza/rada-nadzorcza.html>.

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

Supervisory Board Committees as at 30.06.2016					
Role in the Supervisory Board	Ref.	Composition as at 30.06.2016	Audit and Compliance Committee	Risk Oversight Committee	Nominations & Remuneration Committee
Chairman of the Supervisory Board:	1.	Gerry Byrne			●
Members of the Supervisory Board:	2.	Danuta Dąbrowska	●		●
	3.	David R. Hexter	●	●	
	4.	José Garcia Cantera			
	5.	Witold Jurcewicz		●	●
	6.	José Luis de Mora			●
	7.	John Power	●	●	
	8.	Jerzy Suma	●		●
	9.	Marynika Woroszyńska-Sapieha		●	
	10.	José Manuel Varela		●	

● Chairman
● Members

As at 30 June 2016, the following members of the Supervisory Board held independent status: Ms. Danuta Dąbrowska, Mr. David R. Hexter, Mr. Witold Jurcewicz, Mr. Jerzy Suma and Ms. Marynika Woroszyńska-Sapieha.

In H1 2016, 5 Supervisory Board meetings were held at which 45 resolutions were passed. The average attendance level was 90%.

Management Board

The table below presents the composition of the Bank Zachodni WBK Management Board as at 30 June 2016 and 30 June 2015 together with the roles and responsibilities of its members.

Role in the Management Board	Ref.	Composition as at 30.06.2016	Reporting Areas as at 30.06.2016	Ref.	Composition as at 30.06.2015	Reporting Areas as at 30.06.2015
President	1.	Gerry Byrne *	Units reporting directly to the President: Internal Audit Area, Corporate Communications & Marketing Area, Board Office	1.	Mateusz Morawiecki	Units reporting directly to the President: Internal Audit Area, Corporate Communications & Marketing Area, Central Banking Operations Area, Board Office
Board Members:	2.	Andrzej Burliga	Risk Management Division	2.	Andrzej Burliga	Risk Management Division
	3.	Eamonn Crowley	Financial Management Division	3.	Eamonn Crowley	Financial Management Division
	4.	Beata Daszyńska-Muzyczka	Business Partnership Division	4.	Beata Daszyńska-Muzyczka	Business Partnership Division
	5.	Michael McCarthy	Business & Corporate Banking Division	5.	Michael McCarthy	Business & Corporate Banking Division
	6.	Carlos Polaino Izquierdo	Financial Accounting & Control Division	6.	Carlos Polaino Izquierdo	Financial Accounting & Control Division
	7.	Juan de Porras Aguirre	Global Corporate Banking Division	7.	Juan de Porras Aguirre	Global Banking & Markets Division **
	8.	Marcin Prell	Legal & Compliance Division	8.	Marcin Prell	Legal & Compliance Division
	9.	Miroslaw Skiba	Retail Banking Division	9.	Miroslaw Skiba	Retail Banking Division
	10.	Feliks Szyszkowski	Digital Transformation Division	10.	Feliks Szyszkowski	Small & Medium Enterprise Banking Division
	-	-	-	11.	Paweł Wieczorek	Technology Division
11.	Artur Chodacki	Small & Medium Enterprise Banking Division	-	-	-	

* Chairman of the Supervisory Board has been performing duties of the President of the Management Board until their adoption by Michał Gajewski who was appointed to this position by a resolution of the Supervisory Board of 16 May 2016 after resignation by Mateusz Morawiecki. The new President will assume his office as soon as the relevant consent of the Polish Financial Supervision Commission is obtained and the terms of his former employment are fulfilled.

** As at 31 December 2015 Global Banking & Markets Division was renamed as Global Corporate Banking Division.

President of the Management Board

On 9 November 2015, Mr. Mateusz Morawiecki resigned with immediate effect as the President of the bank's Management Board due to his appointment as the Deputy Prime Minister in the newly created Polish government.

On 9 November 2015, the Supervisory Board delegated its Chairman – Mr. Gerry Byrne – to serve as the President of the Management Board until a successor is appointed. On 11 February 2016, the delegation of Mr. Gerry Byrne was prolonged in view of the advanced stage of selection of the new CEO.

On 16 May 2016, the Supervisory Board appointed Mr. Michał Gajewski President of the Management Board. Mr. Michał Gajewski will assume the role after the bank receives consent from the Polish Financial Supervision Authority (KNF) and after his current employment arrangements are concluded. The appointment of Mr. Gerry Byrne as acting President of the Management Board will then cease to be effective.

Other Management Board members

On 20 June 2016, Mr. Paweł Wieczorek resigned with immediate effect as the Management Board member in charge of the Technology Division.

On 22 June 2016, Mr. Artur Chodacki was appointed the Management Board member in charge of the SME Banking Division, replacing Mr. Feliks Szyszkowski, who was nominated as the Chief Digital Officer.

Detailed information about the education and professional experience of the bank's Management Board members can be found at the bank's website: <http://www.bzwbk.pl/relacje-inwestorskie/spolka/zarząd/zarząd-banku-bz-wbk-sa.html>.

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

As at the date of release of the Interim Report 2016 of Bank Zachodni WBK Group and the Interim and Annual Report for 2015, none of the members of the Supervisory Board held any shares in Bank Zachodni WBK.

The table below presents Bank Zachodni WBK shares and attached conditional rights held by the Management Board members as at 30 June 2016, 31 December 2015 and 30 June 2015.

Management Board members	27.07.2016		12.02.2016		30.07.2015	
	No. of BZ WBK shares	Rights	No. of BZ WBK shares	Rights	No. of BZ WBK shares	Rights
Mateusz Morawiecki *					13 711	3 857
Andrzej Burliga	4 888	2 204	4 888	2 204	4 888	2 204
Artur Chodacki	724	1 253				
Eamonn Crowley	-	2 094	-	2 094	-	2 094
Beata Daszyńska-Muzyczka **	923	700	923	700	923	700
Michael McCarthy	1 075	2 424	1 075	2 424	1 075	2 424
Carlos Polaino Izquierdo **	-	1 000	-	1 000	-	1 000
Juan de Porras Aguirre	-	2 217	-	2 217	-	2 217
Marcin Prell	-	1 983	-	1 983	-	1 983
Mirosław Skiba	3 257	2 248	3 257	2 248	5 857	2 248
Feliks Szyszkowski	1 704	2 248	3 704	2 248	4 704	2 248
Paweł Wieczorek **	-	-	-	800	-	800
Total	12 571	18 371	13 847	17 918	31 158	21 775

* As at 9.11.2015 Mr Mateusz Morawiecki submitted his resignation from the position of the President of the Management Board due to his appointment as Deputy Prime Minister. Until the assumption of this position by appointment of a new President his duties are performed by Gerry Byrne.

** 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. As at 20.06.2016 Mr Paweł Wieczorek submitted his resignation from the position of the member of the Management Board.

Pursuant to Bank Zachodni WBK AGM Resolution of 16 April 2014 regarding satisfaction of the criteria for the exercising of awards 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 order to be the preferred bank for retail and business customers, Bank Zachodni WBK has launched the process of business transformation in accordance with the multi-channel digitization model.

A Chief Digital Officer was appointed with a responsibility for the entire digital transformation project and with a direct oversight of the Banking Operations Area and the Technology Area.

The digital transformation of the bank will be conducted in close coordination with transforming the business model. This will involve the evaluation and implementation of initiatives that strengthen customer experience, streamline the organisation's activities, increase its productivity and effectiveness, and eliminate overlaps. The activity will be undertaken by the Business Model Transformation Team. To ensure full synchronization of business, operational and technological changes, a functional reporting matrix was set up between the new digital structure and transformation leaders in business segments.

In the Retail Banking Division changes were introduced to support the ongoing transformation. A Retail Banking Transformation Area was formed to elaborate a New Branch Model, simplify and digitise processes, build an offer and tariff for retail customers and ensure consistency of the actions delivered as part of the Strategic Programmes. The Affluent Customer Segment Area was merged with the Personal Customer Segment Area, and VIP sales structures were removed from macroregional structures.

Selection of Auditor

In accordance with the Statutes of Bank Zachodni WBK, applicable regulations and industry practice, on 22 March 2016, the bank's Supervisory Board passed a resolution appointing PricewaterhouseCoopers as the entity authorised to:

- review the unconsolidated and consolidated interim financial statements of the bank and BZ WBK Group for the period of six months ended 30 June 2016.
- audit the unconsolidated and consolidated financial statements of the bank and BZ WBK Group for 2016.

The agreements with PricewaterhouseCoopers are signed for the terms required to carry out the specified work.

Retaining the same auditor for both Bank Zachodni WBK and Banco Santander ensures a consistent approach to the audit process.

Corporate Governance Statement

Bank Zachodni WBK published its "Corporate Governance Statement for 2015" as part of the Annual Report 2015, which is equivalent to submitting the document to the Warsaw Stock Exchange in line with relevant requirement.

Awards and Recognitions

Bank Zachodni WBK (BZ WBK)	
Golden Banker	<ul style="list-style-type: none"> Second position in the survey by <i>Puls Biznesu</i>, <i>Bankier.pl</i>, <i>TNS Polska</i> and <i>Obserwatorium.biz</i> in the mortgage loan category in recognition of the comprehensiveness of the mortgage loan proposition, its accessibility to customers with a lower downpayment, competitive margin and attractive early repayment terms (April 2016).
Institution of Year 2016	<ul style="list-style-type: none"> Top position in the second edition of Institution of Year 2016 ranking by <i>Moжебankowanie.pl</i>, for the best remote customer services (June 2016).
Luminatus 2016	<ul style="list-style-type: none"> Accolade from <i>Bloomberg Businessweek Poland</i> monthly for the Export Development Programme which supports Polish businesses in their foreign expansion (June 2016).
2016 Wprost Portfolios Awards	<ul style="list-style-type: none"> The best account in the "account for the young" category voted by the jury of the 2016 Wprost Portfolio Awards. Account<20 (Konto<20) is a free-of-charge account for customers under 20 which is a mobile account, combining convenient use with financial education (June 2016). At the end of H1, there were nearly 37 thousand holders of the above account.
Best Bank in Poland	<ul style="list-style-type: none"> Title of the Best Bank in Poland awarded by Euromoney Awards for Excellence 2016 in recognition of outstanding effectiveness and excellent financial performance (July 2016).
Award from WSE	<ul style="list-style-type: none"> Award granted to BZ WBK Brokerage Office in recognition of the highest share in the options trading without market-making in 2015. The panel appreciated not only the performance (39% share in the options market) but also the impact on the Polish capital market.
Analyst ranking	<ul style="list-style-type: none"> Top ranking of the Stock Market Analysis Team of BZ WBK Brokerage Office in the annual analyst ranking published by <i>Parkiet</i> daily – nearly all analysts from the Brokerage Office were ranked in the top ten in their respective categories, while three individuals were ranked among the top three analysts.
BZ WBK Leasing	
Sale of machines and equipment	<ul style="list-style-type: none"> Accolade from <i>Gazeta Finansowa</i> in the category of machines and equipment in recognition of business development in 2015 (February 2016).
Banking Forum 2016	<ul style="list-style-type: none"> Accolade from Banking Forum 2016 for best-in-class financing standards (April 2016).
Pearls of Polish Lease	<ul style="list-style-type: none"> "Pearls of Polish Lease" award for 2015 in the machines and equipment category from <i>Gazeta Finansowa</i>, confirming the leadership position in the lease market segment.
BZ WBK Towarzystwo Funduszy Inwestycyjnych	
Alfa 2015	<ul style="list-style-type: none"> Four accolades and two Alfa awards from <i>Analizy Online</i> (February 2016). The accolades were given in the following categories: best investment company, best Polish equity fund (Arka Prestiż Akcji Polskich SFIO), best balanced fund (Arka BZ WBK Zrównoważony FIO) and best Polish treasury securities fund (Arka Prestiż Obligacji Skarbowych SFIO). Alfa awards were granted to two funds managed by BZ WBK TFI under the Credit Agricole brand: Credit Agricole FIO (best Polish equity fund) and Credit Agricole Stabilnego Wzrostu FIO (best stable growth fund).
Santander Consumer Bank	
Ranking by TotalMoney.pl	<ul style="list-style-type: none"> First position in the cash loan ranking by <i>TotalMoney.pl</i> in the category of loans for external customers (i.e. with no personal account or credit facility in the bank) (March 2016). Third position in the cash loan ranking by <i>TotalMoney.pl</i> in the category of loans for internal customers (i.e. customers holding a personal account or credit facility in the bank) (March 2016).
Ranking by direct.money.pl	<ul style="list-style-type: none"> Second position in the term deposit ranking by <i>direct.money.pl</i>, in the category of 12-month deposits (March 2016).
Banking Stars	<ul style="list-style-type: none"> Award in the Banking Stars ranking published by <i>Dziennik Gazeta Prawna</i> and PwC in the category of profitability and effectiveness (June 2016).
Customer Friendly Company	<ul style="list-style-type: none"> Title of Customer Friendly Company awarded by the Management Observatory Foundation (June 2016).

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 2016 Interim Report of Bank Zachodni WBK Group were prepared in keeping with the applicable accounting policies and give a true and fair view of the state of affairs and earnings of Bank Zachodni WBK Group. The Management Board's Report contained in this document shows a true picture of the development, achievements and position of Bank Zachodni WBK Group (including the underlying risks) in H1 2016.

Selection of Auditor

The auditing firm responsible for auditing „Condensed Interim Consolidated Financial Statements of Bank Zachodni WBK Group for the period of six months ended on 30 June 2016” was selected in compliance with the applicable legislation. The auditing firm and its auditors satisfied the necessary conditions to ensure they provide an unbiased and independent report compliant with the Polish law and professional standards.

Signatures of the Management Board Members			
Date	Name	Function	Signature
25.07.2016	Gerry Byrne	Acting President of the Board	
25.07.2016	Andrzej Burliga	Member	
25.07.2016	Artur Chodacki	Member	
25.07.2016	Eamonn Crowley	Member	
25.07.2016	Beata Daszyńska-Muzyczka	Member	
25.07.2016	Michael McCarthy	Member	
25.07.2016	Carlos Polaino Izquierdo	Member	
25.07.2016	Juan de Porras Aguirre	Member	
25.07.2016	Marcin Prell	Member	
25.07.2016	Mirosław Skiba	Member	
25.07.2016	Feliks Szyszkowski	Member	