

**MANAGEMENT BOARD REPORT
ON BANK ZACHODNI WBK GROUP
PERFORMANCE
IN THE FIRST HALF OF 2011**



2011

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I. Overview of BZ WBK Group Performance in H1 2011

Financial and business performance of Bank Zachodni WBK Group in H1 2011 compared with the previous year can be summarized as follows:

Financial Highlights

- Total income increased by 8.7% y-o-y to PLN 1,901.5 m.
- Total costs increased by 6.8% y-o-y to PLN 910.6 m, with staff costs and other administrative expenses up 6.5% y-o-y to PLN 823.9 m.
- Profit-before-tax was PLN 822.3 m and up 20.6% y-o-y.
- Profit-after-tax attributable to the owners of Bank Zachodni WBK was PLN 641.1 m and 32.6% higher y-o-y.
- Capital adequacy ratio of 15.76% (15.77% as at 31 December 2010).
- Return on equity of 19.5% (17.6% as at 31 December 2010).
- Cost to income ratio was 47.9% (48.7% in H1 2010).
- Net impairment losses on loans and advances amounted to PLN 173.6 m compared with PLN 216.8 m in H1 2010.
- NPL ratio was stable at 6.7% (6.8% as at 31 December 2010) with loan loss coverage ratio rising to 50.2% (44.1% as at 31 December 2010).
- Gross loans to customers increased by 5.8% y-t-d driven by business and public sector loan portfolio (+7.5% y-t-d) and personal loan portfolio (+5.1% y-t-d).
- Deposits from customers declined by 2.9% y-t-d in the wake of falling business deposits (-8.7% y-t-d) and mildly growing personal balances (+1% y-t-d).
- Loans to deposits ratio of 85.1% as at 30 June 2011 versus 78.2% as at 31 December 2010.
- Expansion of personal and current account base (+4.8% y-o-y) driven by an attractive and diversified proposition, including complementary products and services.
- Decline in the value of net assets held by mutual funds and private portfolios (-11% y-t-d) to PLN 10,827.6 m, reflecting growing uncertainty among investors about economic and political developments in the world.
- Continuous development of BZ WBK Electronic Banking, reflected in the number of BZWBK24 service users (ca. 1.9 m) and active payment cards (ca. 2.6 m).

Key Developments and Achievements

- Finalized sale of the entire shareholding of Bank Zachodni WBK and BZ WBK Asset Management held by subsidiaries of AIB, p.l.c. to Banco Santander. Commencement of gradual integration of Bank Zachodni WBK with Banco Santander.
- Approval of the recommended dividend of PLN 8 per share at the Annual General Meeting of Bank Zachodni WBK Shareholders convened on 20 April 2011.
- Changed composition of the authorities of Bank Zachodni WBK: a new seven-person Supervisory Board appointed; two members of the Management Board (Jacek Marcinowski and Declan Flynn) stepping down; another member of the Management Board (Paul Barry) announcing his intention to resign.
- BZ WBK Rating upgrade: Long-term IDR (from 'BBB+' to 'A+'); Outlook Stable), Short-term IDR (from 'F2' to 'F1') and Support rating (from '3' to '1'); with all the ratings taken off from RWP list.
- A dynamic development of the product offering of BZ WBK Towarzystwo Funduszy Inwestycyjnych: Arka BZ WBK FIO umbrella fund was extended to include three new subfunds; two new subfunds of Arka Prestiż SFIO were launched along with a new product - Arka Optima.
- Strengthened position of Dom Maklerski BZ WBK (BZ WBK Brokerage House) as the IPO leader.



II. Basic Information

1. History and Profile of Bank Zachodni WBK Group

Background

Bank Zachodni WBK S.A. (Bank Zachodni WBK, BZ WBK) was established following the merger of Bank Zachodni with Wielkopolski Bank Kredytowy. The new Wrocław-based entity was entered into the business register in the National Court Registry on 13 June 2001 and on 23 June 2001 it debuted on the Warsaw Stock Exchange.

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

Change of the Majority Shareholder

On 10 September 2010, the Board of Allied Irish Banks decided to sell the Polish assets of AIB, i.e. 70.36% of share capital in Bank Zachodni WBK and 50% stake in BZ WBK Asset Management. On 7 February 2011, Banco Santander announced the launch of a tender offer for 100% of the share capital of Bank Zachodni WBK offering PLN 226.89 per share. On 18 February 2011, the Polish Financial Supervision Authority (KNF) issued a decision stating that there were no grounds to object to the intended direct acquisition by Banco Santander of Bank Zachodni WBK shares representing more than 50% of voting rights at the General Meeting of Shareholders.

On 1 April 2011, Banco Santander finalised the purchase of Bank Zachodni WBK via the tender for the Bank's shares. As a result, Banco Santander acquired a 95.67% stake in the bank. Consequently, Bank Zachodni WBK joined Santander Group. The acquisition price totalled EUR 3,989 m. Furthermore, Banco Santander acquired 67,500 shares of BZ WBK Asset Management from AIB Capital Markets, p.l.c. representing 50% of voting rights at the General Meeting of Shareholders for a price of EUR 150 m.

As a consequence of Banco Santander's exceeding a 90% share in the total voting power at the General Meeting of Shareholders of Bank Zachodni WBK, the non-controlling shareholders became entitled to demand that their shares be acquired by the majority shareholder. Based on the requests from the shareholders, Banco Santander acquired additional 421,859 shares of Bank Zachodni WBK, thus increasing its share in the share capital and voting power at the General Meeting of Shareholders to 96.25%.

Position of Santander Group

Banco Santander – a new parent entity of Bank Zachodni WBK – is a retail and commercial bank with over a 150 year history, headquartered in Madrid, Spain. It is currently present on 10 key markets – both developed and emerging ones. As of 2010 YE, Banco Santander was the leading bank in the eurozone and the 10th banking institution worldwide in terms of capitalization. It managed EUR 1,362 bn worth of assets, provided services to ca. 100 m customers through a distribution network of 14,082 branches, and employed 179 k people. In 2010, the net profit attributable to the Group's shareholders was EUR 8,181 m. Santander is the leading financial franchise in Spain and South America. It enjoys a strong market position in the UK, Portugal, north-eastern coast of the US as well as in Germany and Poland.



WBK

Bank Zachodni WBK S.A.

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. 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 bank aligns its product structure with the requirements of individual customer segments and combines its products into packages around current/personal accounts to provide their users with a precisely defined, tailored and comprehensive service.

The financial services of Bank Zachodni WBK also include trade finance and transactions in the capital, FX and money markets as well as in derivatives. The bank's own product range is complemented by specialist products offered by its connected companies, including: Dom Maklerski BZ WBK S.A., BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., BZ WBK Asset Management S.A., BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A., BZ WBK Faktor Sp. z o.o., BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. In co-operation with all these companies, the bank offers its customers access to brokerage services, mutual funds, insurance, leasing and factoring products.

Distribution Network

As at 30 June 2011, Bank Zachodni WBK operated through 527 outlets, which is the third largest branch network in Poland. As a result of the rapid expansion of the branch network in 2007-2008, the bank's branches are present in all the provinces of Poland.

The bank's distribution network also includes 96 BZ WBK Partner outlets, which are mainly located in small towns and in residential districts of large cities.

Individual and institutional customers can also avail of the comprehensive investment offering of the Private Banking offices based in Warsaw, Poznań, Wrocław, Gdańsk and Szczecin. Due to mobile advisors, Bank Zachodni WBK Private Banking services cover all of Poland.

Business customers are served through 17 Business and Corporate Banking Centres located across all key markets in Poland.

Through its modern Telephone and Electronic Banking Centre equipped with specialist infrastructure, the bank provides customers with information on its products and services, sells selected products and renders after-sales service.

Bank Zachodni WBK offers a modern package of electronic banking services called BZWBK24 which gives retail and business customers a convenient and safe access to their accounts and products via the Internet, phone or mobile. With its modern technology the Bank ensures the highest security of electronic services.

Integration of Bank Zachodni WBK with Banco Santander

Bank Zachodni WBK is currently in the process of integrating key business streams with the standards applied by Santander Group. The ultimate objective is to maximize the synergy effect by sharing the best practice of the global financial organisation joined by Bank Zachodni WBK in April 2011. The long standing presence of Santander Group in the international markets allows Bank Zachodni WBK to benefit from the expertise and best practice of its strategic investor in such areas as: reduction of operating costs, expansion of the product range, enhancement of service quality or streamlining of processes and procedures, thus adding to an even more effective and comprehensive customer service.

Position in the Sector

According to the financial information as at the end of Q1 2011, which as at the approval date of this interim report (25 July 2011) is the only source of comparable data on the banking sector in Poland, Bank Zachodni WBK is the fifth group in Poland in terms of total assets, fourth institution by equity and third in terms of net profit. The bank is also one of the leaders of the Polish banking sector in terms of ROE, credit portfolio quality, C/I ratio and loan-to-deposit ratio.



WBK

Bank Zachodni WBK S.A.

2. Share Capital, Ownership Structure and Share Price

Ownership Structure of Bank Zachodni WBK

On 1 April 2011, Banco Santander acquired 69,912,653 shares of Bank Zachodni WBK representing 95.67% of the share capital and total voting power at the General Meeting of Shareholders, including the entire stake held by AIB European Investments, Ltd., i.e. 51,413,790 shares representing 70.36% of the bank's share capital.

As a consequence of Banco Santander's exceeding a 90% share in the total voting power at the General Meeting of Bank Zachodni WBK Shareholders, the non-controlling shareholders became entitled to demand that their shares be acquired by the majority shareholder (under Art. 83 of Public Offering Act of 29 July 2005) provided that relevant formal requirements were satisfied (demand made in writing within 3 months from the day when the threshold was reached). Banco Santander acquired the shares as demanded by the shareholders within the statutory deadline of 30 days of such demand.

To the best knowledge of BZ WBK Management Board, as at the date of the publication of the Interim Report 2011 (27 July 2011), Banco Santander acquired additional 421,859 shares of Bank Zachodni WBK through the purchase of non-controlling stakes at the demand of shareholders and held 70,334,512 shares in total, representing 96.25% in the total voting power at the General Meeting of Shareholders. Consequently, it was the only shareholder with at least 5% of the total voting power.

Shareholder	Number of Shares Held		% in the Share Capital		Number of Votes at AGM		Voting Power at AGM	
	30.06.2011	30.06.2010	30.06.2011	30.06.2010	30.06.2011	30.06.2010	30.06.2011	30.06.2010
Banco Santander S.A.	70 334 512	-	96,25%	-	70 334 512	-	96,25%	-
AIB European Investments Ltd.	-	51 413 790	-	70,36%	-	51 413 790	-	70,36%
Others	2 741 501	21 662 223	3,75%	29,64%	2 741 501	21 662 223	3,75%	29,64%
Total	73 076 013	73 076 013	100,0%	100,0%	73 076 013	73 076 013	100,0%	100,0%

Share Price

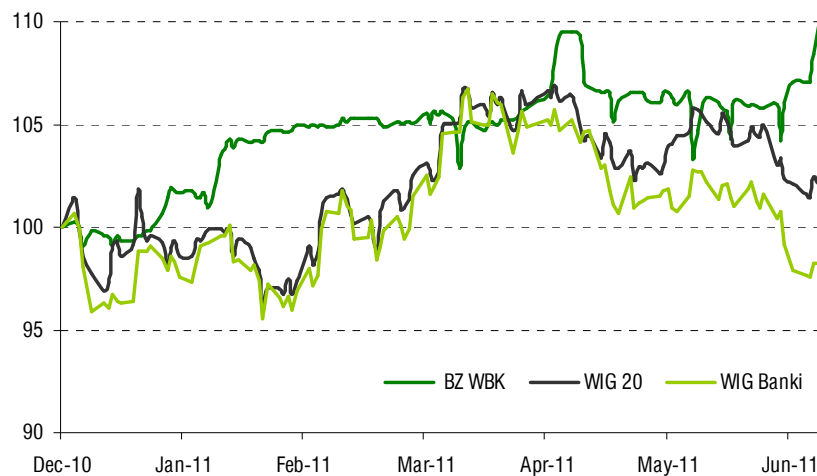
H1 2011 saw a slight increase in WIG20, the main WSE index. Over this period, the blue chip index went up by 2.1%, hitting record high in April (up 6.9% on 2010 YE). A limited growth and swings in market sentiments were primarily triggered by investors' concerns over the spreading eurozone debt crisis. The situation on the stock exchange also reflected the fears over the slowdown of China's GDP growth, which continued to be one of the main factors impacting the global economy. In addition, the key business cycle indicator was largely affected by high fluctuations caused by bullish commodity and agricultural markets.

In the 6-month period ended 30 June 2010, the price of Bank Zachodni WBK shares increased by as much as 9.8% compared to WIG 20 (+2.1%), WIG (+1.9%) and WIG Banks (-1.7%). From early 2011 until 7 February, the bank's share price was in the region of PLN 214-217. On 7 February, when the tender for Bank Zachodni WBK shares was announced, the share price went up to PLN 222.50 compared to PLN 217 the day before. Afterwards, the share price traded in the region PLN 222-236. As at the end of June, the bank's share price reached PLN 236, hitting record high since 2007.

The bank proved to be one of the best investments in the banking sector in the first half-year. Except for positive market response to the bank's performance over the last quarters, an increase in the share price was triggered by the change of the majority shareholder by way of tender. Given the dividend of PLN 8 per share paid out in May, the return on this investment was even more satisfactory.



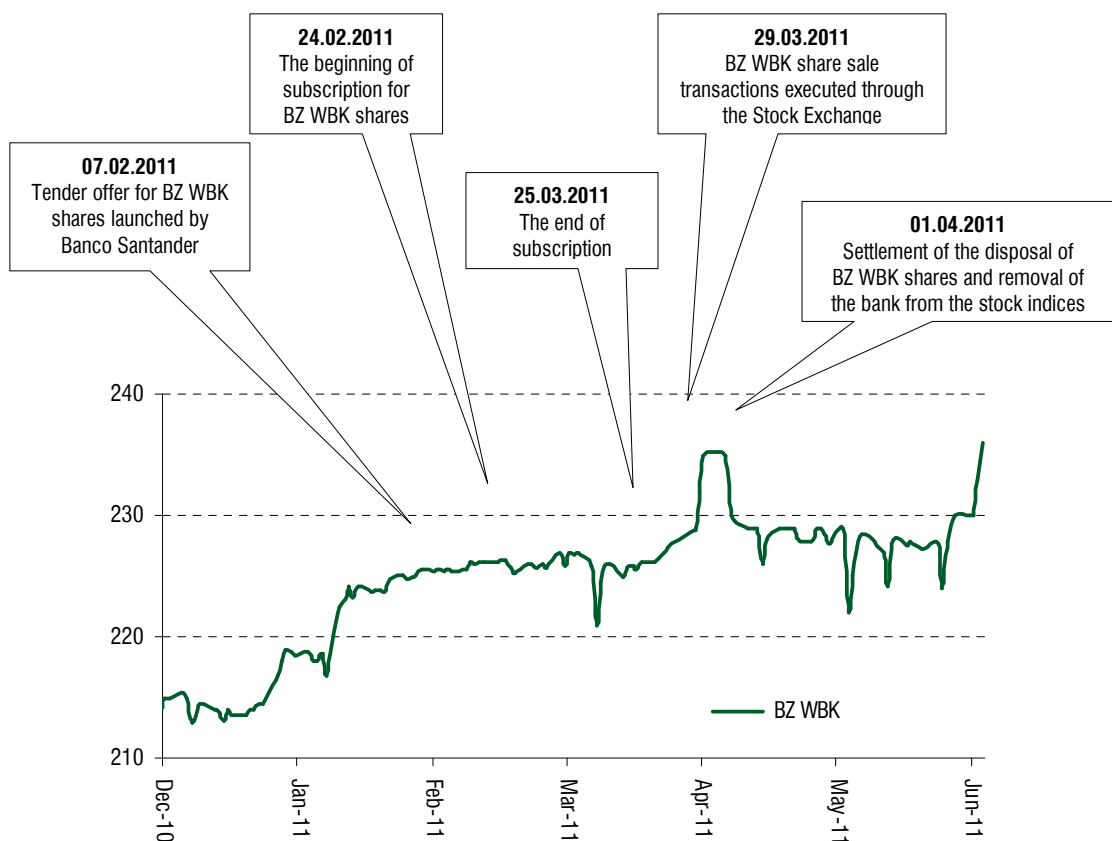
Share price of Bank Zachodni WBK vs. Indices
BZ WBK share price, WIG-20 and WIG-Banki as at 31.12.2010 = 100



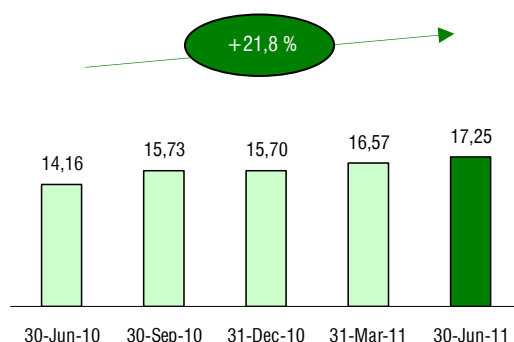
Over the last 12 months, the price of BZ WBK shares went up by 21.8% from PLN 193.80 on 30 June 2010 to PLN 236 on 30 June 2011, which exceeded the WIG Banks Index (+17.5%). The maximum share price in this period came in at PLN 236 (30 June 2011) whereas the minimum share price was PLN 179 (11 August 2010).

As a consequence of the changes in the ownership structure, on 1 April 2011 the shares of Bank Zachodni WBK were removed from the stock market indices. In line with the methodology adopted by the Warsaw Stock Exchange, the companies with less than 10% of shares in free float may not be listed in the indices.

Bank Zachodni WBK Share Price in H1 2011



BZ WBK market capitalisation (PLN bn) at the end of successive quarters from 30.06.2010 to 30.06.2011



Bank Zachodni WBK Rating

In the announcement dated 5 April 2011, Fitch Ratings upgraded Long-term Issuer Default Rating (IDR) of Bank Zachodni WBK from 'BBB+' to 'A+', removed the rating from Rating Watch Positive (RWP) and assigned a Stable Outlook. Fitch simultaneously upgraded Short-term Issuer Default Rating and Support Rating, and removed them from Rating Watch Positive. As a result of the rating actions, the current rating of Bank Zachodni WBK is as follows:

- **Long-term IDR:** upgraded from 'BBB+' to 'A+'; off RWP; Outlook Stable;
- **Short-term IDR:** upgraded from 'F2' to 'F1'; off RWP;
- **Support Rating:** upgraded from '3' to '1'; off RWP;
- **Individual Rating:** affirmed at 'C';
- **Support Rating Floor:** affirmed at 'BB' and withdrawn.

In the announcement dated 16 June 2011, Fitch Ratings affirmed all the above ratings.

Long and short-term IDRs and support rating reflect the extremely high potential support the bank could receive if needed from its majority shareholder, Banco Santander (AA/F1+/Stable). In Fitch's view, following BZ WBK acquisition, Santander's banking operations in Poland gained a critical mass and became strategically important. The rating actions also reflect the early stage of integration of BZ WBK with Santander Group and potential Polish country risk, given the sovereign long-term IDR of 'A-/Stable'.

The Individual Rating reflects the bank's resilience to the deterioration in the operating environment during the financial crisis and adequate capitalisation and internal capital generation, prudent risk management and better-than-market-average asset quality. Downside risk related to the bank's significant exposure to the vulnerable commercial property segment appears limited, given signs of recovery of the property market in Poland.

BZ WBK rating actions by Fitch Ratings in the period from 2010 to 2011

Rating type	Announcement of 05.04.2011	Announcement of 15.09.2010	Announcement of 12.05.2010
Long-term IDR	A+	BBB+ (RWP*)	BBB+
Outlook for the long-term rating	stable	RWP	stable
Short-term IDR	F1	F2 (RWP)	F2
Individual Rating	C	C	C
Support Rating	1	3 (RWP)	3

* Risk Watch Positive



Bank Zachodni WBK S.A.

3. Companies Connected with Bank Zachodni WBK

Subsidiary Undertakings

Bank Zachodni WBK forms a Group with the following nine subsidiaries which are fully consolidated in accordance with IAS 27. These are:

1. BZ WBK Asset Management S.A.
2. BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. - subsidiary of BZ WBK Asset Management S.A.
3. BZ WBK Inwestycje Sp. z o.o.
4. BZ WBK Faktor Sp. z o.o. - subsidiary of BZ WBK Finanse Sp. z o.o.
5. BZ WBK Finanse Sp. z o.o.
6. BZ WBK Finanse & Leasing S.A. - subsidiary of BZ WBK Finanse Sp. z o.o.
7. BZ WBK Leasing S.A. - subsidiary of BZ WBK Finanse Sp. z o.o.
8. BZ WBK Nieruchomości S.A.
9. Dom Maklerski BZ WBK S.A.

The entities connected with the bank are chiefly financial institutions which conduct specialised activities in securities brokerage, leasing, asset/mutual funds management, factoring and trading in equity securities.

Compared with 30 June 2010 and 31 December 2010, the structure of Bank Zachodni WBK Group did not change.

Joint Ventures and Associates

In the consolidated financial statements of Bank Zachodni WBK for the 6-month period ended 30 June 2011, the following companies are accounted for using the equity method in accordance with IAS 28 and 31:

Joint ventures:

1. BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.
2. BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.

Associates:

1. Holicon Group S.A. – associated undertaking of BZ WBK Inwestycje Sp. z o.o.
2. Krynicky Recykling S.A. - associated undertaking of BZ WBK Inwestycje Sp. z o.o.
3. Metrohouse S.A. - associated undertaking of BZ WBK Inwestycje Sp. z o.o.
4. POLFUND - Fundusz Poręczeń Kredytowych S.A.

Compared with 30 June 2010 and 31 December 2010, the list of associates and joint ventures of Bank Zachodni WBK was extended to include Holicon Group S.A.

On 16 April 2010, BZ WBK Inwestycje acquired 753,853 shares of Holicon Group S.A. at PLN 1 per share. Concurrently, it entered into an investment agreement for the purchase of 3,296,147 bonds convertible to shares at PLN 1 each. As a consequence of the conversion of bonds into shares in April 2011, BZ WBK Inwestycje Sp. z o.o. holds 4,050,000 shares at the nominal value of PLN 1, which represents 47.09% of the total voting power at the General Meeting of Shareholders.

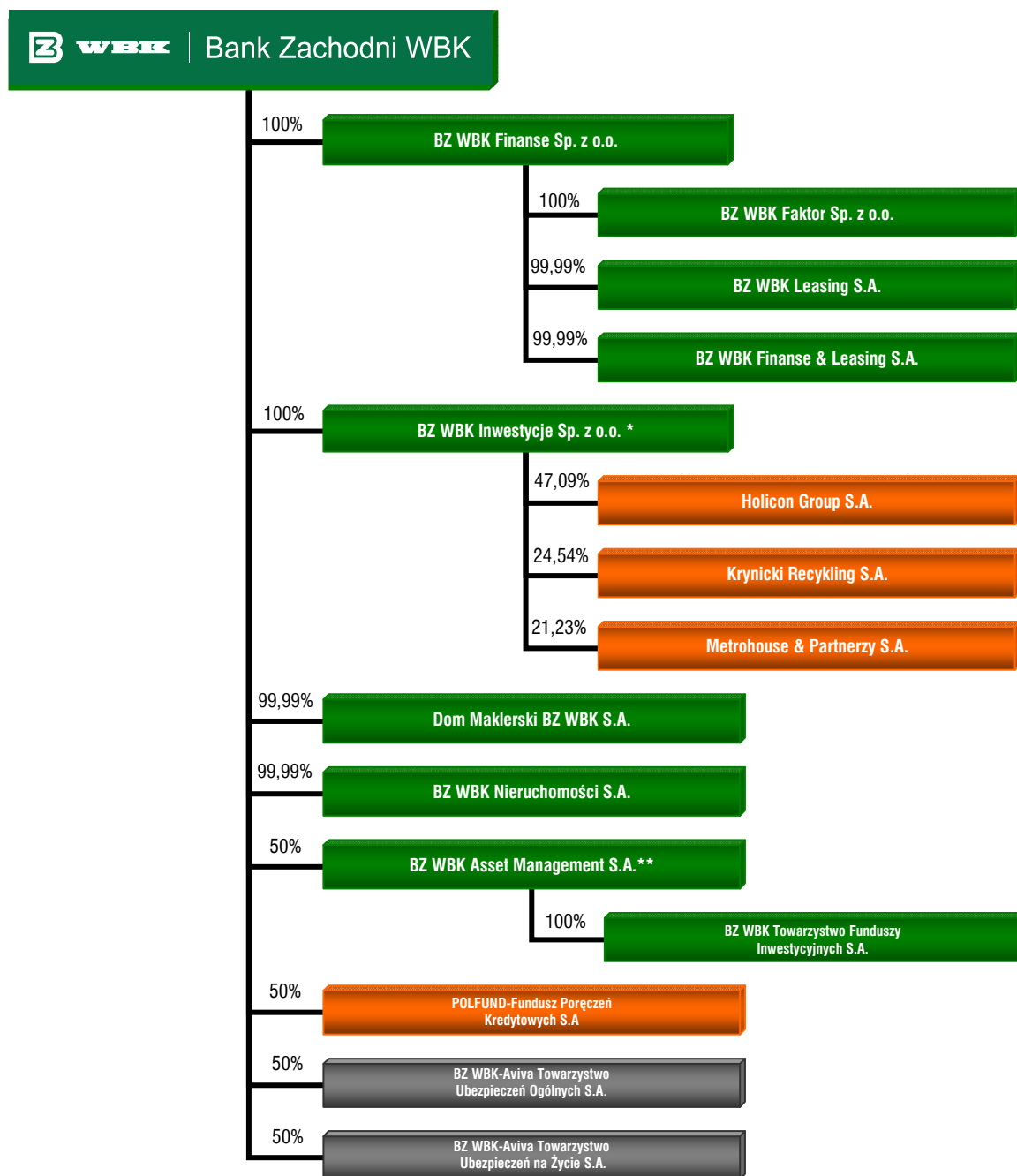
Holicon Group S.A. is a provider of business outsourcing services, including call and contact centre, as well as HR management.



WBK

Bank Zachodni WBK S.A.

Organisational Chart of Entities Connected with Bank Zachodni WBK



* Associated undertakings of BZ WBK Inwestycje Sp. z o.o., i.e. Holicon Group S.A., Metrohouse S.A. and Krynicky Recykling S.A. are classified as BZ WBK associates since the bank has a significant impact on their operations. The respective shareholdings were acquired as part of the bank's strategy to build a portfolio of "pre-IPO" investments.

** As at 30 June 2011, Bank Zachodni WBK was a co-owner of BZ WBK Asset Management S.A., together with Banco Santander S.A. Both owners are members of Santander Group and each holds an equal stake of 50% in the company's share capital. In practice, Bank Zachodni WBK exercises control over the company and its subsidiary, BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., because through it Banco Santander pursues its policy in Poland. Consequently, the company is treated as a subsidiary.

Legend:

- % Voting power
- Subsidiaries (fully consolidated with BZ WBK)
- Associates
- Joint ventures

4. Other Equity Investments

As at 30 June 2011, Bank Zachodni WBK Group owned more than 5% of the share capital in the following companies (compared with 30 June 2010 and 31 December 2010).

Ref.	Company	% in the Share Capital	Voting Power at AGM	% in the Share Capital	Voting Power at AGM	% in the Share Capital	Voting Power at AGM
		30.06.2011		31.12.2010		30.06.2010	
1.	Kuźnia Polska	16,67%	16,67%	16,67%	16,67%	-	-
2.	Krajowa Izba Rozliczeniowa S.A.	11,48%	11,48%	11,48%	11,48%	11,48%	11,48%
3.	Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A.	10,00%	10,00%	10,00%	10,00%	10,00%	10,00%
4.	Aviva Towarzystwo Ubezpieczeń na Życie S.A.	10,00%	10,00%	10,00%	10,00%	10,00%	10,00%
5.	Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	10,00%	10,00%	10,00%	10,00%	10,00%	10,00%
6.	Masterform Sp. z o.o. *	10,59%	10,59%	-	-	-	-
7.	Centrum Klimat S.A. *	9,41%	9,41%	9,41%	9,41%	9,41%	9,41%
8.	Hortico S.A. *	6,71%	6,71%	6,71%	6,71%	-	-
9.	AWSA Holland II B.V.	5,44%	5,44%	5,44%	5,44%	5,44%	5,44%
10.	Biuro Informacji Kredytowej S.A.	5,14%	5,14%	5,14%	5,14%	5,14%	5,14%
11.	i3D S.A. *	5,01%	5,01%	-	-	-	-
12.	Gorzowski Rynek Hurtowy S.A.*	4,10%	6,53%	4,10%	6,53%	4,10%	6,53%

* companies from the equity investment portfolio of BZ WBK Inwestycje Sp. z o.o.



III. Macroeconomic Situation in H1 2011

Economic growth

GDP growth in Poland amounted to 4.4% y-o-y in the first quarter of 2011 and according to estimates it remained at the similar level in the second quarter of the year. Economic growth is being fuelled mainly by a robust increase in private consumption and increasingly by accelerating growth of fixed investments which reached 6% y-o-y in the first quarter of 2011. Apart from a high pace of investment growth in the public sector driven, among others, by delivery of infrastructure projects prior to the Euro 2012 and projects financed with the EU funds, signs of revival in private investments can also be noted. These signs of reviving investment demand are: substantial acceleration of firms' demand for bank loans as well as high momentum of construction and assembly output (almost 20% y-o-y in the first half of 2011). In the first quarter of 2011, the foreign trade deficit narrowed so the net exports' contribution to the GDP growth was less negative. However, a gradual slowdown in Polish exports can still be expected, which will be related to the waning economic growth abroad. The continuation of this tendency, combined with the higher pace of imports and supported by robust domestic demand, will cause trade and current account deficits widening in the remainder of the year (to ca. 5% of GDP).

The National Bank of Poland has published quite material revision of the balance of payments data for 2004-2010, taking into account, among others, previously unregistered imports of used cars and capital transactions. In the upcoming future, this may cause a revision of CSO data on national accounts in the corresponding period, but potential changes are likely to affect mainly the structure rather than GDP level or growth.

Labour market

The first half of 2011 saw an improvement of labour market situation. Average employment in corporate sector increased in the first half of the year by ca. 4% y-o-y. However, it has to be noted that this figure is distorted by an annual change of statistical sample of firms which are taken into account by the Central Statistical Office (CSO). According to more reliable Labour Force Survey (FLS), the number of the employed in the Polish economy went up by ca. 2% y-o-y in the first quarter of 2011 and its pace slowed down to ca. 1% y-o-y in the second quarter. The increase in the number of the employed in the first months of the year was paralleled by the increase in the number of the unemployed which was related to the growth of the economically active population (the rising share of working age people interested in job seeking). However, the seasonally adjusted unemployment rate according to FLS is in moderate downward trend, declining from 9.5% at the end of 2010 to 9.2% in May 2011.

The pace of wage growth remained moderate in the first half of 2011 oscillating in 4%-6% y-o-y range in the corporate sector. It seems quite likely that the growing labour demand and high inflation expectations will boost the wage pressure which will fuel the wage growth in the remainder of the year.

Inflation

The rise of inflation in the first months of 2011 proved to be stronger than expected. The CPI inflation spiked in May to 5%, mainly due to rising fuel and food prices on the global markets. At the same time, the core inflation (CPI excluding food and energy prices) increased as well, approaching the NBP's target at 2.5%. In June, the CPI inflation fell to 4.2% which was caused by a strong correction of vegetable and fruit prices due to E. coli food contamination, correction of sugar prices, declining fuel prices and discounts on the mobile phones market. However, in the remainder of the year, the inflation is expected to remain at elevated levels and the core inflation to increase further. In longer run, there is a risk of so-called second round effects (resulting from the wage-price spiral), which can have a considerable influence on the inflation.

Interest rates

The Monetary Policy Council increased main interest rates four times in the first half of 2011 in response to the growing inflationary pressure. The rate hikes (each by 25 bps) took place in January, April, May and June, bringing the NBP's main reference rate to 4.5% at the end of the second quarter from 3.5% at the end of 2010. The official MPC communiqués and comments of its members suggest that currently the Council is planning a break in the tightening cycle in order to assess the outlook for inflation and economic growth. However, a continuation of hikes cannot be ruled out should, in the MPC's view, the coming information affect adversely the outlook for inflation's return to the target. According to the NBP governor, many MPC members do not rule out a further monetary tightening before the end of the year.

Credit market

The beginning of the year brought a substantial revival in firms' demand for bank loans (its pace accelerated to 7% y-o-y in June from -0.2% y-o-y in December 2010). It is worth noting that investment loans demonstrate the highest pace of growth (ca. 9% y-o-y in April-May) which confirms a revival in the private investment activity. The growth of households' demand for loans stabilised at a quite high level (10-13% y-o-y), mainly thanks to strong interest in mortgage loans, while consumer loans were stagnant.

Financial market

In the first half of the year, the global financial markets experienced elevated volatility. In the first quarter, the political unrest in MENA region and earthquake in Japan weighted on the market sentiment, while in the second quarter the investor's attention focused on debt problems of the Euro zone's countries (mainly Greece) and deteriorating outlook of global economic growth after disappointing macroeconomic data releases. Consequently, the zloty exchange rate was volatile in the first half-year and oscillated around 4.0 versus the euro. Growing inflation and expectations for monetary tightening triggered an increase in short-term market interest rates. In the middle and long end of the yield curve, the yields were increasing in the first months of the year, affected by higher risk aversion, however in the second quarter they erased previous losses, among others thanks to positive information about the budget outturn and low supply of long-term bonds at the Ministry of Finance's auctions.

IV. Activities of BZ WBK Group in H1 2011

1. Business Development of Bank Zachodni WBK

Retail Banking

Loans

- In March 2011, the bank introduced a number of changes to the mortgage lending proposition for personal customers, including:
 - Adoption of Individual Pricing model for PLN mortgage borrowers. The model, which has already proved effective for cash loans, enables to align the margin with the customer's risk profile to ensure optimum pricing for a given exposure.
 - Full automation of the decision-making process related to the analysis of the repayment capacity of customers who have employment contracts and apply for mortgage loans of up to PLN 500 k. It helped reduce the wait time for approval, which in the case of customers who meet both criteria takes only 15 minutes.
- From 28 March to 19 June 2011 "Your own home in no time" campaign was carried out emphasizing short time-to-yes (15 minutes), easy access to financing (decision via phone) and low margins.
- In H1 2011, the bank introduced changes to the cash loan proposition to increase its competitiveness and improve cross-selling.
 - On 1 February 2011, the bank launched the sale of a cash loan bundled with a personal account and/or credit card. As part of the package offer, the bank introduced MoneyBack Plus account, which offers new pricing compared to the standard version and a lower arrangement fee for customers applying for a cash loan.
 - The customers seeking a cash loan were offered a new pricing schedule introduced in January. In March, the minimum pricing was reduced to 5.99% for the borrowers with the best risk profile.
- May 2011 saw the end of the first edition of the cash loans campaign (started in March) featuring Antonio Banderas. The next edition began on 17 June 2011 under the slogan "Go on better holidays" and was conducted concurrently via TV, Internet and radio stations. The better recognition of the bank's brand and products as well as effective credit process, pricing advantages and special proposition for individual customer groups have been reflected in the bank's sales performance.
- Bank Zachodni WBK prepared a special "PGNiG cash loan" that can be used (to any extent) for the purchase of gas boilers and water heaters offered via the e-Pasaż internet platform of PGNiG (Polish Oil & Gas Company) by its partners. After the pilot phase of the internet platform, the product will be accessible to all of its users.
- In January 2011, Bank Zachodni WBK expanded its product proposition to include a universal Business Express Mortgage loan addressed to SME sector. The loan is secured with a mortgage and may be earmarked for any purpose connected with the company's operations.
- In May 2011, for the first time in its history, the bank launched a TV campaign for businesses, supported by advertisements in other media. The campaign endorsed by Antonio Banderas was a continuation of the cash loans campaign addressed to retail customers. It focused on two key elements of the bank's credit proposition for micro and small companies: any credit purpose ("Take and don't say what for") and no need to present invoices ("zero invoices"). The campaign ended on 22 June 2011.



Deposits

- In response to the market demand, on 10 May 2011, Bank Zachodni WBK offered its retail customers an attractively priced 3-month Daily Earning Deposit with daily capitalisation of interest.
- On 15 June 2011, in selected big city regions (Tri-City, Silesia, Łódź and Cracow), the bank introduced a 3-month Daily Earning Deposit Plus, which is different from its standard equivalent in respect of the interest rate offered and permitted maximum deposit amount. The product was implemented as part of the "strategy for big cities" designed to strengthen the bank's presence in individual regions of Poland.
- In early April 2011, the bank simplified its personal accounts proposition, removing Konto24, Konto24 Prestiż and Konto24.pl accounts. Now the key personal accounts include: MoneyBack account, Konto<30 for the Young, Konto Aktywni 50+ (account for customers older than 50 years of age) and Konto24 VIP for persons who meet stated income criteria.

Structured Products

- In H1 2011, the bank made four issues of structured bonds. The instruments represent two-year investments with a minimum nominal unit value of PLN 1,000. They provide 100% capital protection on redemption and an opportunity to earn on attractive investment strategies.
 - 13 December 2010 - 21 January 2011: subscription of the Market Giant Bonds 3, whose yield depends on the value of the shares of large listed companies that represent key sectors of the Polish economy.
 - 7 March 2011 - 8 April 2011 and 7 April 2011 - 13 May 2011: two subsequent editions of subscription of Sound Brands Bonds whose yield depends on changes in the prices of shares of 10 companies from the DAX index that are main pillars of the German economy.
 - 16 May 2011 - 1 July 2011: subscription of the Market Potentates Bonds whose yield depends on the growth of value of the shares of six international companies.
- The subscribers of structured bonds were also offered attractively priced term deposits.
- In H1 2011, the bank made 11 subscriptions (6 for VIP customers and 5 for retail customers) for structured term deposits with interest rate linked to EUR/PLN exchange rate movements under three alternative investment strategies: appreciation of the zloty (Złoty Plus), appreciation of the euro (Euro Plus) or stabilisation of the zloty (Złoty Stabilizacja).

Cards

- On 1 April 2011, the bank introduced changes to the schedule of fees and charges to make the card offer simpler and more attractive. The key changes include:
 - free-of-charge cash withdrawals as part of the Cash-Back service (all cards);
 - introduction of uniform charges for cash withdrawals from ATMs abroad and account balance checks in the ATMs of BZ WBK and other banks;
 - withdrawal of co-branded cards from the offer, except the PAYBACK cards.
- In H1 2011, the bank's card proposition changed as follows:
 - introduction of a debit card Superkarta MasterCard PAYBACK; the product is covered by the PAYBACK loyalty programme and is addressed to employees of financial institutions;
 - withdrawal of co-branded credit cards, except for the MasterCard PAYBACK credit card;
 - launching the mass sale of a) prepaid cards with an activation code that enable customers to assign individual PINs, thus increasing security of transactions; and b) pre-paid cards with contactless devices that enable smooth payments up to PLN 50.
- The functionality of the Wrocław Urbancard issued by the bank and used so far for coding electronic season tickets and for other payments, has been extended to include features of a contactless card.
- In February 2011, Bank Zachodni WBK won a tender announced by the City Office of Poznań to issue personalised and non-personalised electronic cards as part of the Urban Card Project (PEKA) and signed a relevant agreement. The card will have a contactless payment functionality. The project will be delivered in close liaison with Mennica Polska S.A., which will run a dedicated PEKA website and deliver a marketing campaign.



Insurance

- From 24 January to 3 March 2011 Bank Zachodni WBK arranged for a subscription of the unit-linked insurance policy Giants of Europe for the bank's customers. The coupon interest rate was tied to changes in the value of shares of large listed companies from the key sectors of the European economy.
- On 4 May 2011, the bank launched a new product – "Biznes Gwarant" insurance for personal borrowers who carry on one-person business activity and for partners of unincorporated firms applying for an overdraft, working capital loan, term loan or "Biznes Ekspres" business loan. The insurance protects customers in case of death, full or temporary inability to work due to accident or hospitalisation. The coverage is provided by BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie.
- On 20 June 2011, the bank introduced a modified insurance proposition for mortgage borrowers, i.e. insurance packages Hipoteka+. The customer may acquire: a) Life Package – insurance against death and full inability to work; and b) Work Package – insurance against temporary inability to work and loss of work. The coverage is provided by BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie and BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych.

Business and Corporate Banking

- In H1 2011, the bank introduced changes to the existing business and corporate banking model aimed to improve effectiveness of operations and increase the bank's presence in the business and corporate banking sector. The key changes are:
 - Establishing two new Business Banking Centres (in Bydgoszcz and Rzeszów) and merging Business Banking Centres with Corporate Centres in Poznań, Warsaw and Wrocław, which helped harmonize the service provided to both segments.
 - Adjusting the operating units to the new turnover-based segmentation, and reorganising workforce to strengthen the front-line functions (separating the roles of Relationship Manager, Credit Relationship Manager and product experts support as well as creating competency centres for financing individual sectors).
- The bank started a pilot of a new distribution channel of banking services for business and corporate customers (iBiznes24). After the pilot phase, the system will be offered to a wide group of corporate customers as a tool for more effective finance management.
- On 10 March 2011, the bank launched a new website presenting the Group's proposition addressed to customers of Business and Corporate Banking Area.
- Bank Zachodni WBK entered into a co-operation agreement with Bank Gospodarstwa Krajowego under the Technological Loan Programme. The Programme is designed to support investments into new technologies, and is co-financed by the European Union (the EU subsidies cover a portion of the loan incurred on commercial terms). Following implementation of the relevant procedures, the technological loan became available to customers of Bank Zachodni WBK in June 2011.
- The bank implemented an actual pooling service (with physical transfer of funds) to complement the existing virtual pooling. By aggregating account balances and creating mutual debt arrangements, the product optimises liquidity management within groups of companies while providing additional interest benefits.

Investment Banking

- Bank Zachodni WBK acted as an advisor in the following transactions effected together with Dom Maklerski WBK:
 - initial public offering of Inpro S.A. with a value of PLN 66 m;
 - initial public offering of Avia Solutions Group with a value of PLN 77 m;
 - initial public offering of PEP S.A. with a value of PLN 45 m;
 - initial public offering of KSG Agro with a value of PLN 108 m;
 - initial public offering of Kruk S.A. with a value of PLN 370 m;
 - initial public offering of Westa ISIC with a value of PLN 130 m;
 - initial public offering of Ovostar with a value of PLN 93 m.



- The bank also rendered analytical and advisory services for its customers (in relation to public offerings, valuations, mergers and acquisitions), and provided financial / transaction advice in several privatisation processes, including SPEC S.A., PKP Cargo S.A., PKP Energetyka S.A., ZCh Police S.A., ZA Puławy S.A. and Krajowa Spółka Cukrowa S.A.
- The European Investment Bank (EIB) chose Bank Zachodni WBK as its partner in the EU JESSICA Programme. Under the agreement signed with EIB on 29 March 2011, the bank will manage the Urban Areas Revitalisation Fund for the Szczecin Metropolitan Area. The Programme changes the method of distribution of EU funds from subsidies to financial engineering instruments, which is supposed to encourage investments through advanced financial solutions and to promote business initiatives of local authority units.
- In H1 2011, the bank arranged 5 issues of non-treasury debt securities for 2 entities with a total value of PLN 38.2 m, which were placed with the entities indicated by the issuers.
- An agency agreement was signed by both the bank and BZ WBK Brokerage House to arrange the public offering of corporate bonds of MCI Management S.A. on a best effort basis. Bank Zachodni WBK acted as an equity advisor in the issue. PLN 35.4 m worth of corporate bonds were taken up.
- The bank subscribed for 434,268 J-series shares of Bank Polskiej Spółdzielczości S.A. (BPS) (350,000 shares - by exercising the subscription rights, and 84,268 shares - under an additional subscription order). Following the capital increase registration, the total number of BPS shares held by the bank will amount to 1,134,268, which represents 0.57% of the share capital.
- The bank sold its entire shareholding in Inter Groclin Auto S.A. and Cetrozap S.A., earning a total profit of PLN 26.1 k.

Treasury

- Treasury Services business returned strong double digit growth in revenues over the comparable period in 2010. The restructuring of BZ WBK treasury business model at the beginning of 2010 has helped ensure an increased emphasis on integration with Business and Corporate Banking Divisions and Retail Banking Divisions. This continues to reap improvements in the cross sell and revenue performance. The more buoyant economic outlook is also supporting an increase in business flows which is also a factor in the increased revenue performance.
- Wholesale Treasury also performed very well with revenues exceeding expectations and the comparable period in 2010. Accrual revenue performance was helped by a later than expected change in monetary policy stance, which ultimately supports the carry earned on investment portfolios. Trading revenue performance was underpinned by astute positioning in a market where expectations were for more aggressive hiking in interest rates. In the second quarter, the outperformance of the wholesale business moderated as the carry on investment book positions narrowed and as the market developed more consensus on the timing and size of future interest rate increases.
- Treasury manages the bank's liquidity and funding position and the situation was quite stable during the first half of the year. The division continues to manage conservatively its funding profile in particular in foreign currencies and through the holding of a large portfolio of high quality Polish Government Bonds.

Services for Financial Institutions

- Bank Zachodni WBK co-operates with more than 20 banks, offering them card personalisation, issuing and handling services in addition to managing ATM network, domestic and foreign payments, cash handling and financial fraud prevention. The bank manages a network of 1,442 third-party ATMs and handles 3.4 m Visa/MasterCard cards for external customers.
- In H1 2011, the bank implemented two agreements with co-operative banks for ATM management and card issuing & handling, respectively. The bank also entered into two other card handling agreements with entities from the co-operative sector.
- As part of the agreement with Invest-Bank S.A., all the ATMs of the entity were added to the Bank Zachodni WBK system.



Development of Distribution Channels

Branch Network

- As at the end of June 2011, Bank Zachodni WBK operated through 527 branches (vs. 518 as at 30 June 2010).

Implementation of the NEO Project

- In H1 2011, Bank Zachodni WBK started mass-rollout of the New Branch Energy (NEO) project, which is designed to improve operational effectiveness of the branch network through a better use of the available tools and shaping appropriate behaviours among branch advisors and managers.
- The pilot of the new model conducted from October 2010 till the end of January 2011 in 20 branches of 4 regions of the bank (Śląski, Dolnośląski, Pomorsko-Kujawski and Warsaw Region) proved effectiveness of the proposed changes and enabled mass roll-out of the solutions developed under the Project. Given the size of the initiative, implementation was split into 3 consecutive phases, the last of which ended in July 2011.

Partner Outlets

- The bank's branch network was supported by 96 Partner outlets (90 outlets as at 30 June 2010). In H1, harmonisation continued of the bank's and the Partner outlets' products range. A new packaged offer was implemented, containing cash loans, personal account and/or credit card, as well as Biznes Gwarant insurance and loans towards heating equipment offered by the partners of PGNiG (Polish Oil and Gas). Furthermore, the Partners' remuneration system was aligned with the system used by the bank's branch network to ensure it rewards the best performing outlets.

Direct Banking

- New solutions were implemented as part of telephone banking development with a view to increasing the number of customers handled in sales and relationship campaigns as well as extending the range of automated services via phone. In addition, the customers can now receive a preliminary credit decision for a mortgage loan via phone.
- In April 2011, the bank launched a new IVR platform for phone services called BZWBK24telefon. The platform will help implement additional services to support sales and security. Based on the new infrastructure, on 19 June the bank extended the PIN for BZWBK24 phone service from 4 to 6 digits, which increased security and allowed new prospective functionalities to be implemented in the phone channel.
- Bank Zachodni WBK is the first Polish institution whose phone service centre was certified for compliance with EN 15838, a new EU quality standard for contact centres. The certification audit conducted by SGS Polska covered the sale and management of banking products for retail customers via phone and internet channels, as well as phone service and support for business customers.
- On 20 June 2011, the bank enhanced the functionality of the e-FX platform in the BZWBK24 Moja Firma Plus tool for business customers. The changes allow customers to make currency sale / purchase transactions between own accounts using the negotiated rate with value date today, spot-1 and spot.
- In February 2011, Bank Zachodni WBK, in liaison with Mennica Polska (the only manufacturer of gold bars in Poland), opened an on-line store which offers investment gold bars (<http://sklep.mennica.com.pl/bzwbk/> or via wystarczysiec.pl). Gold bars of different basis weight are appended with a certificate and delivered to the buyer by a courier. Transactions are settled via Przelew24, an online fast payment system.

ATM Network

- As at 30 June 2011, the bank's ATM network comprised 1,041 machines (vs. 1,048 as at 30 June 2010).
- In May, the bank obtained a certificate issued by the Polish Association of the Blind, confirming that the solutions used in the BZ WBK ATM network are friendly to vision-impaired people.



Transfer Agent Services

- Since 2011, the Transfer Agent of Bank Zachodni WBK has been operating under the business name of Financial Business Services. In H1 2011, the unit launched a strategy focusing on:
 - active support for the sale of products offered by BZ WBK Towarzystwo Funduszy Inwestycyjnych;
 - cooperation with new entities including mutual funds, open-end pension funds and insurance companies.
- In March 2011, the unit received SAS 70 Type II Report by an independent auditor (a standard developed by the American Institute of Certified Public Accountants in compliance with the SOX Act) confirming that the controls in place for Transfer Agent are adequate and effective.
- In H1 2011, the second stage of establishment of an umbrella structure for Arka funds was completed. This marked a successful end of the initiative started in 2010. The Transfer Agent infrastructure was also adjusted to support a new product – Arka Optima.

2. Business Development of Subsidiaries

BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.

- For the greater part of H1 2011, the equity market was in a sideways trend. Improving investors' sentiments which triggered an increase in share prices (observed mainly from late February until early April) faded in view of the worse-than-expected performance of US economy and a growing likelihood of Greece's debt restructuring. The macroeconomic factors and a tense social and political situation in the Arab states enhanced risk aversion among investors, triggering a severe outflow of funds from share-based mutual funds, and thus a negative balance of investments to redemptions in the respective section of the domestic mutual funds market.
- In the year to date to June 2011, the value of net assets under the management of BZ WBK Towarzystwo Funduszy Inwestycyjnych dropped by 9%. With total net assets of PLN 9,647.9 m, the subsidiary had a 8.1% share in the mutual funds market (9.1% at the end of December 2010) and the fifth position in Poland. In line with the market trends, the highest asset growth was recorded by the following subfunds: Arka BZ WBK Ochrony Kapitału (Capital Protection Subfund) and Arka BZ WBK Obligacji (Bonds Subfund) along with Arka BZ WBK Energii (Energy Subfund) and Arka Prestiż SFIO subfunds launched in November 2010. At the same time, the performance of the share-based subfunds deteriorated.
- On 28 May 2011, changes to the prospectus and Articles of Association of Arka BZ WBK FIO fund became effective. They included transformation of the regional equity fund Arka BZ WBK Rozwoju Nowej Europy (New Europe Development Subfund) into Arka BZ WBK Akcji Tureckich (Turkish Equity Subfund). The conversion helped customers increase their exposure to the promising Turkish market and expanded the subsidiary's offering of foreign Arka funds.
- In November 2010, 7 independent Arka funds were transformed into subfunds, jointly forming one umbrella fund BZ WBK Arka Fundusz Inwestycyjny Otwarty (Open-Ended Investment Fund). On 17 March 2011, the subsidiary received the decision of the Polish Financial Supervision Authority (KNF) allowing it to transform the remaining 3 funds, i.e. Arka BZ WBK Akcji Środkowej i Wschodniej Europy FIO (CEE Equity Fund), Arka BZ WBK Obligacji Europejskich FIO (European Bonds Fund) and Arka BZ WBK Funduszy Akcji Zagranicznych FIO (Foreign Equity Fund) into subfunds of the umbrella Arka BZ WBK FIO fund. A two-stage transformation was completed on 13 May 2011.
- On 16 May 2011, the proposition of BZ WBK Towarzystwo Funduszy Inwestycyjnych was expanded to include a new product – Arka Optima, combining investments in Arka BZ WBK Ochrony Kapitału (Capital Protection Fund) with investments into a selected share-based Arka subfund.
- On 27 May 2011, Arka Prestiż SFIO was extended to include two new subfunds: Arka Prestiż Akcji Europejskich (European Equity Subfund) and Arka Prestiż Globalnego Rynku Akcji (Global Equity Market Subfund). On 28 May 2011, the Prospect was further updated to reflect the changes in the investment policy of the three funds and their respective names:
 - Arka Prestiż Globalnego Rynku Akcji (Global Equity Market Subfund) was renamed Arka Prestiż Akcji Rosyjskich (Russian Equity Subfund),



- Arka Prestiż Obligacji (Bonds Subfund) was renamed Arka Prestiż Obligacji Skarbowych (Treasury Bonds Subfund),
- Arka Prestiż Akcji Europejskich (European Equity Fund) was renamed Arka Prestiż Obligacji Korporacyjnych (Corporate Bonds Subfund).

Presently, Arka Prestiż SFIO consists of 2 bond subfunds and 3 equity subfunds, investing in companies from 3 different geographic areas.

BZ WBK Asset Management S.A.

- As at 30 June 2011, the value of assets in the private portfolios managed by BZ WBK Asset Management was PLN 1,180 m, i.e. down 24.7% on 2010 YE. A drop in the value of assets was driven by the prevailing stock exchange climate which adversely affected the price of financial instruments and customers' satisfaction with the yield. Other significant factors included the sustained risk aversion and growing competitiveness on the local market.
- The structure of asset allocation to particular investment strategies reflects a decreased contribution of share-oriented strategies and a growing share of other investment strategies, in particular specialist strategies.
- Pursuant to the consent received by BZ WBK Asset Management from the Polish Financial Supervision Authority of late 2010 to the accepting and transferring the instructions, in H1 2011 the subsidiary expanded its proposition and offered participation units in Arka Prestiż SFIO.
- Since the beginning of Q2 2011, BZ WBK Asset Management has been offering the participation units of Luxembourg-based Arka Emerging Markets SICAV SIF. The investment policy assumes up to 100% capital allocation to Arka Prestiż SFIO and a yield in the form of participation unit dividend.

Dom Maklerski BZ WBK S.A.

- In H1 2011, the stock trading of Dom Maklerski BZ WBK (BZ WBK Brokerage House) was at PLN 32.5 bn, which is up 55.3% y-o-y as the company handled customer sell transactions for shares of Bank Zachodni WBK. Such a performance secured the company the second position in Poland and a 10.5% market share (an increase by 1.2 pp y-o-y).
- In the futures market, which is the second most important stock market in Poland, Dom Maklerski BZ WBK acted as an agent for concluding of 1,658 k transactions. This market is witnessing an increasing activity of institutional investors who avail of Dom Maklerski BZ WBK's services to a limited extent. The volume of transactions decreased by 22.6% y-o-y, giving the company the third position in Poland and a 12.4% market share (a decrease by 1.3 pp y-o-y).
- Due to an increasing presence of global brokers on the Polish secondary market, Dom Maklerski BZ WBK redefined its strategy, placing a stronger focus on arranging IPOs. Similarly to the previous year, the company earned a reputation of the IPO leader ("IPO – who with?", "Parkiet" daily of 28-29.05.2011) and also a specialist in servicing companies from Lithuanian and Ukrainian market.
- In the first six months of 2011, Dom Maklerski BZ WBK arranged seven IPOs for a total value of PLN 889 m (Inpro S.A., Aviva Solution Group, PEP S.A., Kruk S.A., KSG Agro, Westa ISIC, Ovostar) and handled the sale of PLN 35 m worth of bonds of MCI Management S.A. to institutional investors. In cooperation with Bank Zachodni WBK, the company also distributed structured bonds: Giganci Rynku 3 (Market Giants 3), Solidne Marki (Sound Brands), Solidne Marki 2 (Sound Brands 2) and Potentaci Rynku (Market Potentates).

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

- From 1 January to 30 June 2011, the two companies financed net assets totalling PLN 744.2 m, i.e. up 19% on H1 2010. A notable sales growth was recorded in all asset categories, particularly plant & equipment.
- In response to the market demand, in April 2011, the leasing companies prepared a new proposal for freelancers, including doctors, lawyers and architects. The customers are able to lease vehicles, plant & equipment and insure the leased asset for a price starting from PLN 1.
- In June 2011, the proposition of BZ WBK Finance & Leasing was expanded to include services tailored to customers from the construction industry (seasonal leasing payments and lease of a wide array of new and second-hand building machines).



BZ WBK Inwestycje Sp. z o.o.

- BZ WBK Inwestycje acquired:
 - 4 thousand shares in Masterform Sp. z o.o., representing 10.59% of the company's share capital;
 - 175,796 shares in Krynicky Recykling S.A., thus increasing its stake in the company to 24.54%;
 - 465,000 shares in i3D S.A., representing 5.01% of the company's share capital.
- In H1 2011, BB Investment S.A. purchased a total number of 7,064 registered bonds for PLN 6.9 m.
- Following the conversion of the bonds held by BZ WBK Inwestycje into shares of Holicon Group S.A. in April 2011, the subsidiary increased its share in the total voting power at the General Meeting of Shareholders of the company to 47.09% (see Chapter II "Basic Information", Part 3 "Companies Connected with Bank Zachodni WBK", "Joint Ventures and Associates" section for more details).

BZ WBK Faktor Sp. z o.o.

- At the end of June 2011, the total credit portfolio of the factoring company amounted to PLN 369 m, which was by 61% higher than in the corresponding period of the previous year. The value of purchased invoices increased by 55% y-o-y to PLN 1.1 bn amid strong interest of SMEs in the universal factoring product Faktoring Ekspres.
- In H1 2011, the company added to its product range non-recourse factoring with a foreign debtor. The new product is provided based on an insurance policy concluded with KUKE S.A. and can be used in trading with partners from OECD countries.

3. Awards and Recognitions

Key Awards for Bank Zachodni WBK

- On 25 January 2011, the Warsaw Stock Exchange announced the new list of socially responsible companies covered by RESPECT Index. Bank Zachodni WBK was among 16 companies recognised by the WSE. The index comprises Polish companies listed on the main floor of the WSE which adhere to the superior corporate governance and disclosure practices, promote effective investor relations and are committed to ecology as well as social and employee relationship development.
- Bank Zachodni WBK and three other companies came joint first in the Investor Relations category of the Listed Company of the Year ranking published on 4 February 2011 by the "Puls Biznesu" daily. Investor Relations are one of five categories of the survey conducted by TNS Pentor among analysts, advisors and brokers of Polish financial institutions.
- On 2 March 2011, the "Parkiet" daily awarded for the 17th time the Bull and Bear Statuettes to Polish listed companies and equity institutions. Among others, the awards went to an analyst from BZ WBK Brokerage House ("Industry" category) and BZ WBK Chief Economist's Team.
- On 28 March 2011, Bank Zachodni WBK took the 1st position in the ranking of cash loans for non-customers published by TotalMoney.pl.
- "Buy-by-click" products of Bank Zachodni WBK were recognized among products of financial institutions in "2011 Best IT Solutions" Awards organised by "Gazeta Bankowa".
- In June Bank Zachodni WBK came 2nd in the ranking "Residential Brand of the Year" in the category of home mortgage loans. The rank was awarded by customers themselves.
- Bank Zachodni WBK was awarded in the "Gazeta Prawna" ranking of responsible companies. This year again the bank was recognised for its CSR activity, taking second place in the category "Banking, Finance and Insurance".



- For the fourth time, the bank was awarded in the HR Management Leader competition organised by the Institute for Labour and Social Affairs. The bank was recognised for the strategic role of the HR Management Division in managing the organisation, particularly for delivery of the following six processes: designing and managing soft and hard HR processes, support for internal and external customers, acting as a partner to the business and shaping the corporate culture.
- The bank was also awarded in the competition "Women's activity in Lower Silesia in 2011" in the category "Business that supports women" for its "Mother-Friendly Bank" policy, which is designed to help women reconcile their professional and motherhood duties. The competition is a joint initiative of the Lower-Silesian local and provincial authorities.
- Bank Zachodni WBK was among the three banks recognised for their achievements in the 19th "Best Banking" ranking of "Gazeta Bankowa" in the category of large banks. The bank was awarded for its effectiveness, assessed on the basis of its financial performance.

Key Awards for Subsidiaries

- BZ WBK Towarzystwo Funduszy Inwestycyjnych was one of the leaders of the stable yield ranking published by "Forbes", assessing an eight-year investment horizon ("Market Leaders" by "Forbes", March 2011). Arka Funds were one of the two brands recognised for strong performance enjoyed by all funds: equity, balanced, stable growth, bond and cash funds. Particularly noteworthy is the performance of BZ WBK Arka Equity Fund, which boasted the best yield over a ten-year horizon in its category.
- Dom Maklerski BZ WBK came top in the "Broker's Market Strength Index" ranking published on 8 March 2011 by "Puls Biznesu", thus outstripping the previous long-time winner. The company was recognised for its leadership position in the equity and futures market as well as strong presence in the primary market.
- Dom Maklerski BZ WBK was the winner of the 2nd Super Market Maker Awards held by the WSE (February 2011). The Brokerage House came first in all seven categories, which only confirmed its long-standing reputation of one of the best market makers on the Warsaw floor.
- On 3 March 2011, "Warsaw Business Journal" awarded the companies which boasted strongest performance in respective categories of Book of Lists 2011. Dom Maklerski BZ WBK came first in the category of brokerage houses.
- BZ WBK Finanse & Leasing was awarded the title of the Financial Brand of 2011 by readers and the panel of "Gazeta Finansowa" in recognition of its proposition which is best aligned with the customers' needs with regard to the financing of vehicles.
- BZ WBK-Aviva insurance company was awarded with an accolade of the Poland-wide certification programme "Customer-Friendly Firm". The certificate goes to the companies which are oriented towards customer needs and service quality. The certification process was based on a survey conducted among customers to find out about their satisfaction with the products held, alignment of the offering with their needs, availability of communication channels, trust, reliability and fulfilment of promises.

4. Strategic Priorities for 2011

- The key priority for Bank Zachodni WBK Group is a sharp increase in effectiveness and reduction of the cost to income ratio to 47% in 2011 and 41% in 2013. The Group will be implementing savings initiatives and will continue its cost discipline policy implemented in 2008. However, income growth will be the key factor for improvements of the bank's cost effectiveness.
- The key challenge for the second half of 2011 will be to maintain the excellent sales performance and continuous work on reinforcing changes in the culture and routine of the daily work in the branch network.
- On implementation of the organisational solutions for the new corporate customer service model, the Group is preparing roll-out of the two key process and infrastructure projects: new transaction platform for the business and the Customer Service Centre. The two structures will take over a lot of back-office tasks from retail branches, thus improving operational effectiveness in the corporate segment.
- Growth will also be driven by maximising the opportunities arising from increasingly stronger co-operation with Santander Group. In the second half of 2011, the main focus areas for the co-operation will be investment and corporate banking, and bancassurance.



- In the retail segment, Bank Zachodni WBK Group will continue to place a strong emphasis on consumer finance products (cash loans, credit cards and overdrafts) and will give special attention to bancassurance and investment banking (mutual funds, structured products, policies).
- In the micro and small companies segment, the Group's primary ambition is to continue to achieve a substantial growth in the credit portfolio concurrently with non-interest income (domestic and foreign transactions, currency exchange, building a new source of income from business insurance products).
- In addition to the actions designed to improve effectiveness of key segments, the Group is carrying out projects that improve central processes, monitoring of effectiveness of implemented changes and tighter cost control.



WBK

| Bank Zachodni WBK S.A.

V. Financial Performance of BZ WBK Group in H1 2011

1. Profit and Loss Account

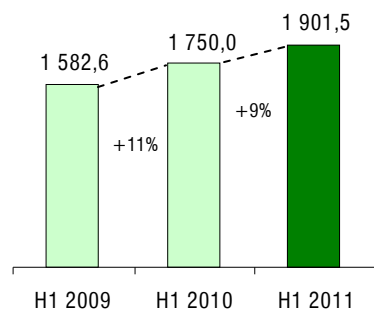
Profit and its composition

The table below shows year-on-year changes in key items of the Group's consolidated profit and loss account in the first half of 2011 compared with the corresponding period last year.

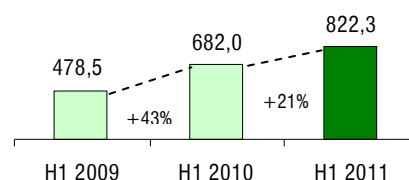
PLN m			
Condensed Profit & Loss Account	H1 2011	H1 2010	Change
Total income	1 901,5	1 750,0	8,7%
Total costs	(910,6)	(852,6)	6,8%
Impairment losses on loans and advances	(173,6)	(216,8)	-19,9%
Profit/loss attributable to the entities accounted for using equity method	5,0	1,4	257,1%
Profit-before-tax	822,3	682,0	20,6%
Tax charges	(150,8)	(165,0)	-8,6%
Net profit for the period	671,5	517,0	29,9%
- Net profit attributable to owners of BZ WBK	641,1	483,6	32,6%
- Net profit attributable to non-controlling shareholders	30,4	33,4	-9,0%

In H1 2011, Bank Zachodni WBK Group generated a profit-before-tax of PLN 822.3 m, i.e. 20.6% more than in the same period last year. The net profit attributable to Bank Zachodni WBK shareholders was PLN 641.1 m and higher by 32.6% y-o-y.

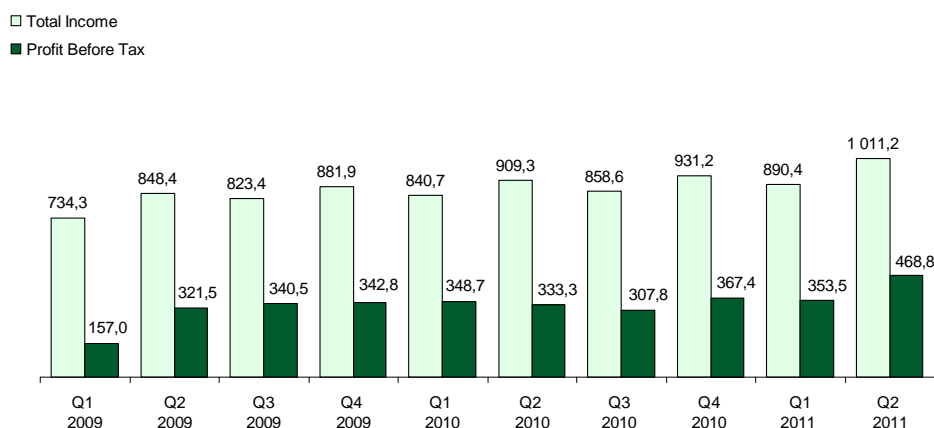
Total income of BZ WBK Group
for H1 in years 2009-2011 (PLN m)



Net profit of BZ WBK Group
for H1 in years 2009-2011 (PLN m)



Total income and PBT earned by BZ WBK Group in consecutive quarters of 2009-2011 (PLN m)



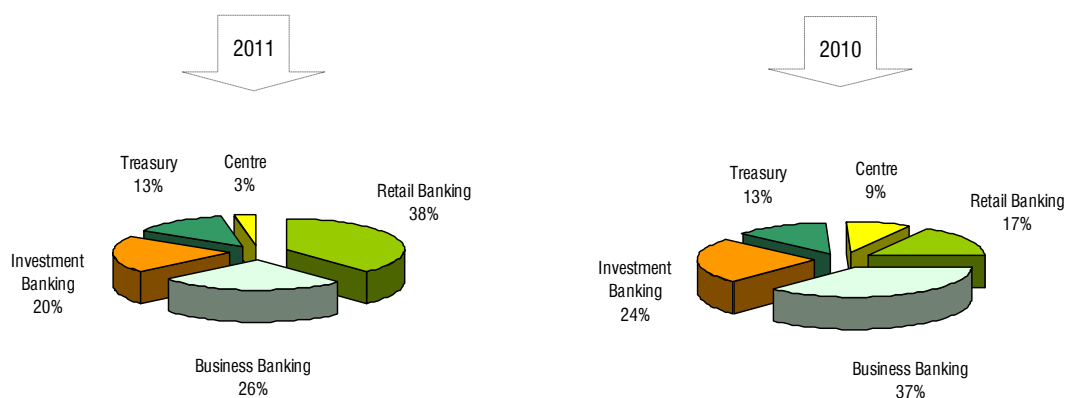
Structure of the PBT Earned by BZ WBK Group

Structure of the PBT earned by BZ WBK Group in H1 2011 and H1 2010 - by company

	PLN m	
	H1 2011	H1 2010
Bank	796,7	633,0
Subsidiaries, of which:	232,4	221,3
Dom Maklerski BZ WBK	33,5	34,2
BZ WBK Leasing and BZ WBK Finance & Leasing	24,5	4,9
BZ WBK Asset Management and BZ WBK Towarzystwo Funduszy Inwestycyjnych	170,1	177,4
Other subsidiaries	4,3	4,8
Intercompany and consolidation adjustments	(206,8)	(172,3)
Total	822,3	682,0

In H1 2011, the stand-alone profit-before-tax of Bank Zachodni WBK was higher by 25.9% y-o-y. Except for BZ WBK Leasing and BZ WBK Finance & Leasing, Group subsidiaries reported similar performance results as in the past year. Considerable growth in profits generated by the leasing companies is attributable to high impairment charges for leasing receivables recognised in the same period last year. Total income of both entities was comparable in the periods under review.

Structure of the PBT earned by BZ WBK Group in H1 2011 and H1 2010 - by segment



In H1 2011, Retail Banking Segment increased its contribution to the consolidated profit-before-tax of Bank Zachodni WBK Group while the share of Business Banking, Investment Banking and Central segments declined. The y-o-y changes result mainly from different levels of impairment charges and reversals reported in both reporting periods. They were also impacted by the development of business activity in the current year, in particular: growth of interest income from customer deposits (Retail Banking), lower income from mutual funds and asset management market with concurrent growth of dividend income (Investment Banking), and also valuation of derivative transactions (Central Segment).

Income

The total income generated by Bank Zachodni WBK Group in the first half of 2011 was PLN 1 901.5 m and 8.7% up y-o-y.

PLN m			
Total Income	H1 2011	H1 2010	Change
Net interest income	997,1	862,8	15,6%
Net fee and commission income	688,2	667,7	3,1%
Net trading income and revaluation	109,9	137,7	-20,2%
Dividend income	67,5	53,6	25,9%
Other income *	38,8	28,2	37,6%
Total	1901,5	1 750,0	8,7%

* includes gains from financial securities and other operating income

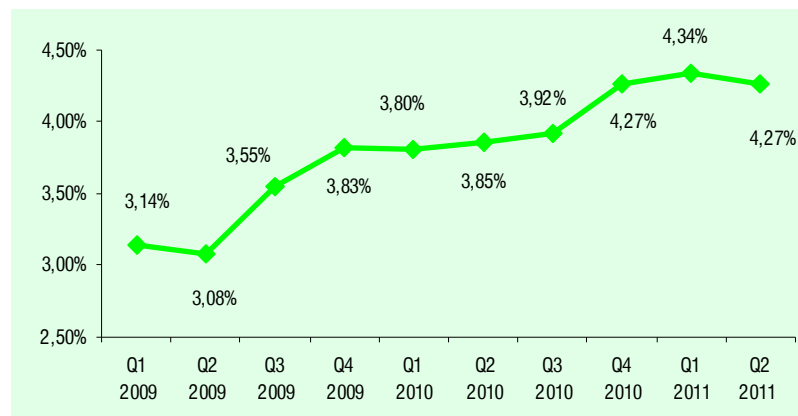
Net Interest Income

Net interest income amounted to PLN 997.1 m and increased by 15.6% y-o-y. This performance was strongly influenced by the sustainable growth of deposit margins, which over the past six months was supported by 4 official interest rate hikes (by 100 b.p. in total). While deposit margins improved, credit margins, especially in the business and corporate banking segment, narrowed under increased competitive pressure in the quality loan market.

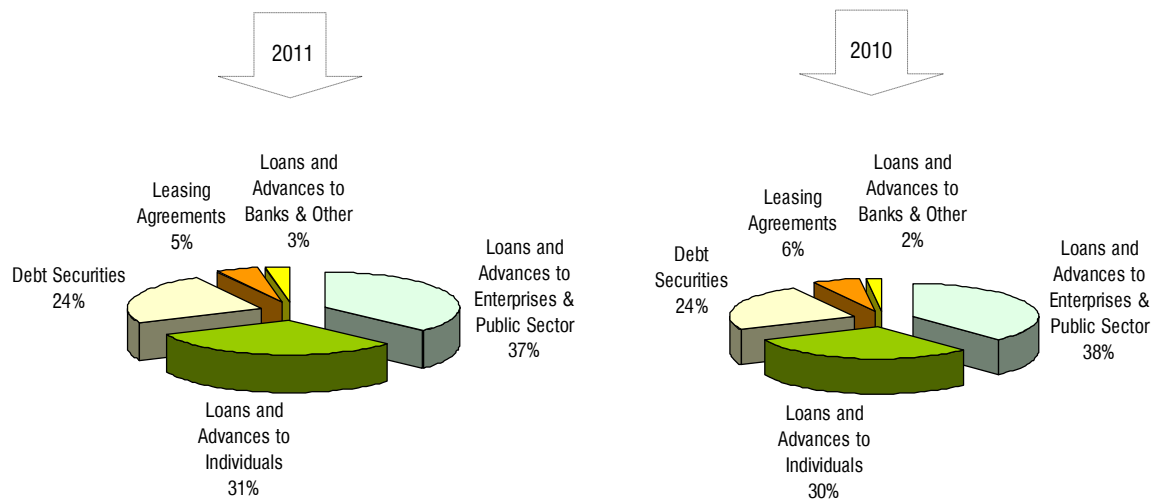
Annualized y-t-d net interest margin of Bank Zachodni WBK Group was 4.30% vs. 3.86% for the same period last year. On a quarterly basis, however, there was a slight decrease (to 4.27% in Q2 2011 from 4.34% in Q1 2011), reflecting a decline in loan margins and the Bank's initiatives aimed to make selected elements of the deposit offer more attractive for customers in the environment of growing inflationary pressure and reviving banking competition for short-term deposits.

Taking into account other interest-related income from FX Swaps and Basis Swaps (PLN 82.8 m in H1 2011 and PLN 105 m in H1 2010), which are disclosed under "Net trading income and revaluation", the underlying net interest income increased by 11.6% y-o-y.

Net interest margin of BZ WBK Group in consecutive quarters of years 2009-2011
(including swap points)



Structure of interest income earned by BZ WBK Group in H1 2011 and H1 2010



Net Commission Income

PLN m			
Net Fee and Commission Income	H1 2011	H1 2010	Change
Direct banking *	152,8	133,1	14,8%
Mutual fund distribution and asset management **	131,7	146,1	-9,9%
Account maintenance and cash transactions	123,1	124,9	-1,4%
FX fees	104,4	97,9	6,6%
Credit fees ***	78,1	73,2	6,7%
Brokerage fees	56,7	53,0	7,0%
Insurance fees	35,1	38,7	-9,3%
Other **	6,3	0,8	687,5%
Total	688,2	667,7	3,1%

* includes fees for foreign and mass payments, Western Union transfers, trade finance, debit cards, services for third parties as well as other electronic & telecommunications services

** fees for distribution of structured products (PLN 5.4 m in H1 2011 against PLN 3.3 m in H1 2010), which in Note 7 of "Condensed Interim Consolidated Financial Statements of BZ WBK Group for the Period of 6-Months Ended 30 June 2011" are recognized as distribution fee income, in the table above are included in other net fee and commission income

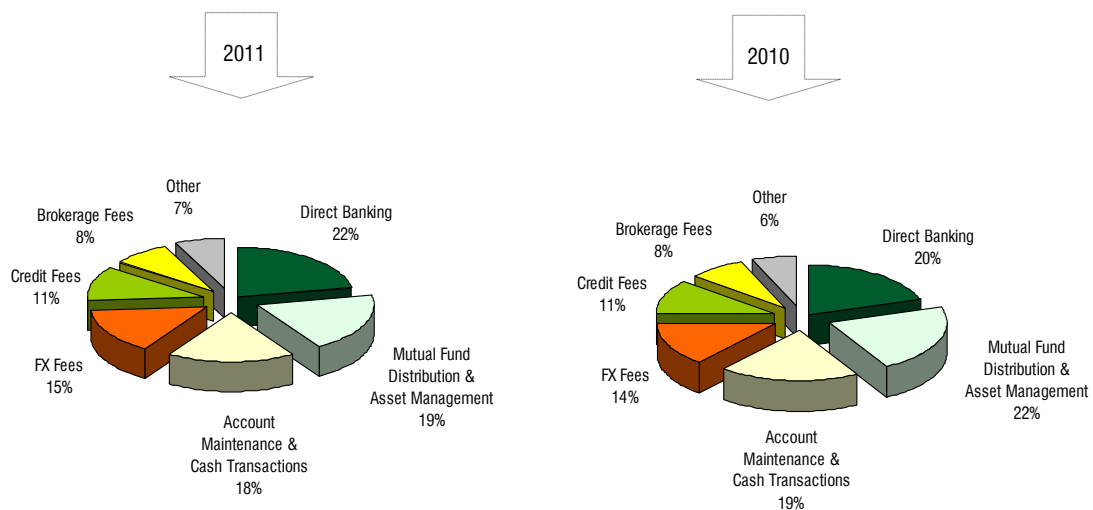
*** includes selected fees related mainly to lending, leasing and factoring activities which are not amortised to interest income (e.g. credit cards and overdrafts)

In H1 2011, net commission income was PLN 688.2 m and 3.1% higher y-o-y. Changes in the main contributing items are as follows:

- Direct banking services generated a net commission income of PLN 152.8 m, i.e. up 14.8% y-o-y. This growth was driven by revenues from debit cards which were on the rise along with the higher number (+35% y-o-y) and value (+27% y-o-y) of cashless transactions effected by debit card holders. The net commission income for H1 2011 was also affected by lower expenses incurred by the bank due to the reduction of interchange rate applied for customer cash withdrawals from third-party ATMs.
- The Group's income from mutual funds and asset management amounted to PLN 131.7 m, a decrease of 9.9% y-o-y. The direction and extent of this change was shaped by the situation on the WSE, in particular stabilisation of indices within a narrow band and investors' aversion to high-risk assets in response to the escalation of political conflicts in Northern Africa and Middle East, debt crisis of the eurozone and concerns about the sustainability of economic recovery worldwide. In such circumstances, the average value of net assets held by mutual funds and private portfolios fell by 8.1% y-o-y, which adversely affected income earned from asset management. The income from distribution of mutual funds decreased as well, due to prevailing market trends, sluggish sales and promotional reductions of distribution fees collected from customers.

- In spite of the growth in the number of personal and current accounts, the Group's income from maintenance and money transactions, totalling PLN 123.1 m, declined by 1.4% y-o-y as a result of more favourable pricing offered to customers in respect of selected accounts and payments services.
- FX fee income went up by 6.6% y-o-y to PLN 104.4 m due to developments in the currency market.
- Credit fee income amounted to PLN 78.1 m and was 6.7% up on H1 2010 as a result of the decrease in agency costs with a modified settlement process in place.
- Net commission income earned by the BZ WBK Brokerage House increased by 7% y-o-y to PLN 56.7 m, driven by higher income from servicing public offerings in the primary market.
- Insurance fee income totalled PLN 35.1 m and was lower by 9.3% y-o-y, mainly under the impact of cash loan insurance. This movement does not reflect current trends in sales as the Group accounting approach involves deferred insurance income recognition. Lower income resulting from the cash loan insurance accounting was partly offset by the growth in sales of other insurance products, including items launched after 30 June 2010, such as: the "In Plus" Investment Program or the Payment Protection product.

Structure of the net commission income earned by BZ WBK Group in H1 2011 and H1 2010 - by type



Net Trading Income and Revaluation

Net trading income and revaluation amounted to PLN 109.9 m, a decrease of 20.2% y-o-y. A significant portion of this line comprises interest-related income from FX and Basis Swap transactions, which totalled PLN 82.8 m in H1 2011 compared with PLN 105 m in H1 2010. It also includes the write-back of adjustments to the value of derivative instruments related to the counterparty risk, totalling PLN 11.3 m vs. the negative adjustment of PLN 7.5 m in the corresponding period last year.

Lower net trading income and revaluation was driven primarily by CIRS transactions funding the bank's EUR and CHF loan portfolios. Last year, a positive impact on the valuation of these items came from an increase in spreads triggered by the developments on the global market.

Dividend Income

Dividend income of PLN 67.5 m increased by 25.9% y-o-y due to higher dividend payment from Aviva Group companies which are part of the Group's portfolio of non-controlling investments. In 2010, Bank Zachodni WBK recognized lower dividend income from this source as a result of the precipitated dividend payout (PLN 20.3 m) in December 2009.



Impairment Charges

In H1 2011, the loan impairment charge to the profit and loss account was PLN 173.6 m compared with PLN 216.8 m in the corresponding period.

PLN m		
Impairment Losses on Loans and Advances	H1 2011	H1 2010
Collective and individual impairment charge	(178,6)	(240,4)
Impaired but not reported losses (IBNR)	1,5	4,1
Recoveries of loans previously written off	3,7	14,5
Off-balance sheet credit related items	(0,2)	5,0
Total	(173,6)	(216,8)

The balance of provisions for identified losses (individual and collective) went down by 25.7% y-o-y, which is indicative of the positive developments in the country's economic environment.

The liquidity position of Polish enterprises has stabilised, although potential threats are still present. The counterparty risk remains rather high, while the volatile situation in the commodity market and high prices of fuel continue to affect the production processes and costs. While the recovery on the real estate market can be seen, some elements of the construction sector have been having problems with effective debt service as a result of their inability to sell completed projects in due time and low returns earned on investments.

The situation has also improved in the household sector, which is statistically confirmed by the disposable income growth, yet high unemployment rate, price increases and larger credit-related charges (driven by NBP interest rate hikes) impair payment discipline of personal customers.

Costs

Total costs of Bank Zachodni WBK Group in H1 2011 amounted to PLN 910.6 m and were up 6.8% y-o-y. With total income (+8.7% y-o-y) exceeding the growth rate of expenses, the cost to income ratio improved from 48.7% in H1 2010 to 47.9% in H1 2011.

Total costs grew y-o-y in the wake of higher obligatory fees and projects aimed to develop the business and improve the organisational efficiency (such as the development of IT infrastructure to support business operations, changes in the work flow in the branches, incentive scheme and ownership changes). The foregoing initiatives were coupled with sustained focus on cost control and continued implementation of administrative, technological and procedural measures aimed to reduce the Group's cost base.

PLN m			
Total Costs	H1 2011	H1 2010	Change
Staff and other administrative expenses, including	(823,9)	(773,9)	6,5%
- staff expenses	(480,1)	(451,4)	6,4%
- other administrative expenses	(343,8)	(322,5)	6,6%
Depreciation/amortisation	(71,6)	(63,7)	12,4%
Other operating expenses	(15,1)	(15,0)	0,7%
Total	(910,6)	(852,6)	6,8%

In H1 2011, staff expenses increased by 6.4% y-o-y to PLN 480.1 m as a result of average salary rise of 3.5% (introduced in April 2010 based on the performance review), cost recognised as a result of implementation of the 4th edition of the "Performance-Share Programme" incentive scheme (PLN 6.8 m) and growth of training costs in connection with the deployment of the NEO Project.



The Group's operating costs increased by 6.6% y-o-y to PLN 343.8 m. The most pronounced growth (+63% y-o-y) was seen in fees payable to market regulators, mainly in relation to the doubled maximum bank guarantee from the PLN equivalent of EUR 50 k to EUR 100 k. Consultancy and advisory fees, which are another growth driver (+45.8% y-o-y), include the expenses related to the ownership changes. Development projects and initiatives implemented as part of the merger impacted the costs of business travels disclosed under "cars, transport and CIT services" (+9.2% y-o-y). Running costs associated with the IT system grew by 5.6% y-o-y following the upgrade of the Group's IT infrastructure, purchases of additional licenses in connection with the change of the strategic partner and development of tools for successful delivery of business projects.

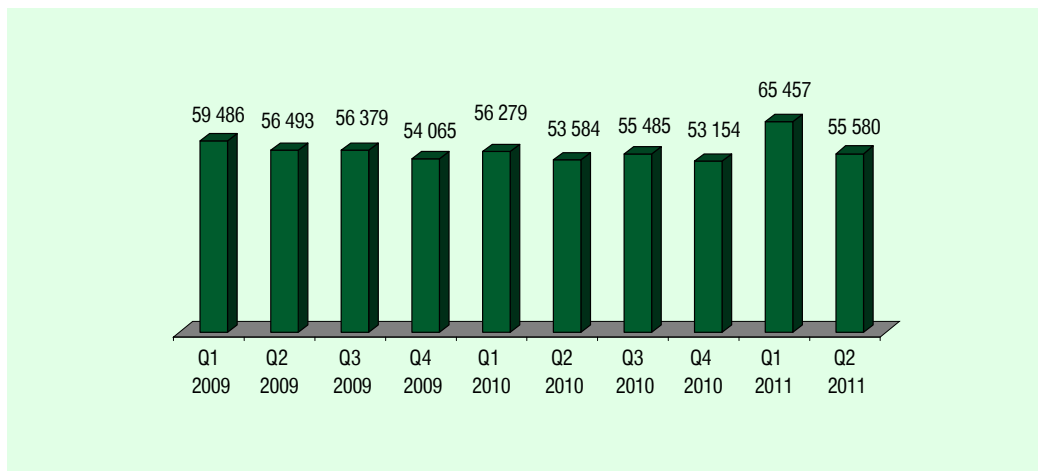
In H1 2011, the depreciation was PLN 71.6 m and 12.4% higher y-o-y.

2. Financial Position

Assets

As at 30 June 2011, total assets of Bank Zachodni WBK Group amounted to PLN 55,579.8 m, an increase of 4.6% on 31 December 2010. The value and structure of the Group's financial position is determined by the bank (parent), which accounts for 98.6% of the consolidated total assets.

Total assets of BZ WBK Group in years 2009-2011 by quarter (PLN m)



Total assets declined significantly from 31 March 2011 level when the consolidated statement of financial position reported PLN 65,457 m due to recognition of short-term settlements of PLN 11.7 bn between BZ WBK Brokerage House and the National Depository of Securities regarding the sale of Bank Zachodni WBK shares through a public tender announced by Banco Santander.



The table below presents major developments in the key categories of the consolidated assets of Bank Zachodni WBK Group as at 30 June 2011 versus the previous 6 and 12 months.

Assets	PLN m							
	30.06.2011	Structure 30.06.2011	31.12.2010	Structure 31.12.2010	30.06.2010	Structure 30.06.2010	Change	Change
	1	2	3	4	5	6	1/3	1/5
Loans and advances to customers *	34 695,0	62,4%	32 838,4	61,8%	34 333,6	64,1%	5,7%	1,1%
Investment securities	12 625,0	22,7%	13 395,4	25,2%	13 406,1	25,0%	-5,8%	-5,8%
Financial assets held for trading	3 672,2	6,6%	2 239,0	4,2%	1 609,4	3,0%	64,0%	128,2%
Cash and operations with Central Banks	2 186,6	3,9%	2 534,5	4,8%	1 477,9	2,7%	-13,7%	48,0%
Loans and advances to banks	798,4	1,5%	619,7	1,2%	1 026,4	1,9%	28,8%	-22,2%
Fixed and intangible assets	693,8	1,3%	720,1	1,3%	731,1	1,4%	-3,7%	-5,1%
Other assets	908,8	1,6%	806,8	1,5%	999,3	1,9%	12,6%	-9,1%
Total	55 579,8	100,0%	53 153,9	100,0%	53 583,8	100,0%	4,6%	3,7%

* including impairment write-down

The most prominent change in the consolidated statement of financial position as at 30 June 2011 was noted in the line "Financial assets held for trading", which grew by 64% y-o-y along with expansion of the Group's portfolio of short-term NBP bills. As part of the Group's ongoing liquidity management, loans and advances to banks increased by 28.8% y-t-d, while cash and operations with the Central Bank went down by 13.7% y-t-d.

Investment securities declined by 5.8% over the same period, following the redemption at maturity of Treasury securities from the held-to-maturity portfolio.

An increase was also observed in net loans and advances to customers (+5.7% y-t-d) which represent 85.1% of the bank's deposits from non-financial entities against 78.2% as at 31 December 2010.

Credit Portfolio

Gross Loans and Advances to Customers	PLN m				
	30.06.2011	31.12.2010	30.06.2010	Change	Change
	1	2	3	1/2	1/3
Loans and advances to business and public sector customers	21 886,9	20 352,6	21 895,9	7,5%	0,0%
Loans and advances to personal customers	12 023,2	11 437,5	11 253,9	5,1%	6,8%
Finance lease receivables	2 327,4	2 435,8	2 541,1	-4,5%	-8,4%
Other *	7,8	20,1	24,4	-61,2%	-68,0%
Total	36 245,3	34 246,0	35 715,3	5,8%	1,5%

* other receivables include repo and other transactions

As at 30 June 2011, gross loans and advances to customers amounted to PLN 36,245.3 m, up 5.8% on 31 December 2010.

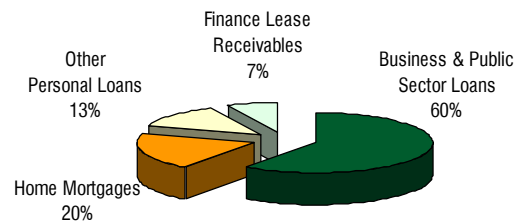
Over the first 6 months of 2011, loans and advances to business and public sector customers increased by 7.5% to PLN 21,886.9 m. This movement is attributable to sustainable economic growth and the resultant expansion of the business loan portfolio. Property loans, which make up a large portion of loans and advances to business and public sector customers, decreased by 4.6% y-t-d to PLN 9,104.1 m as at 30 June 2011, reflecting scheduled credit repayments and gradual acquisition of new business amid moderate investment activity in the real estate market.

Relatively low demand for car leases from transport companies and low interest in FX financing curbed the growth of financial leasing receivables which went down by 4.5% y-t-d to PLN 2,327.4 m as at 30 June 2011.

Loans to personal customers increased by 5.1% y-t-d to PLN 12,023.2 m, of which mortgage loan-book amounted to PLN 7,182.5 m (up 3.7% y-t-d) and cash loan-book was worth PLN 3,478.9 m (up 13.2% y-t-d).

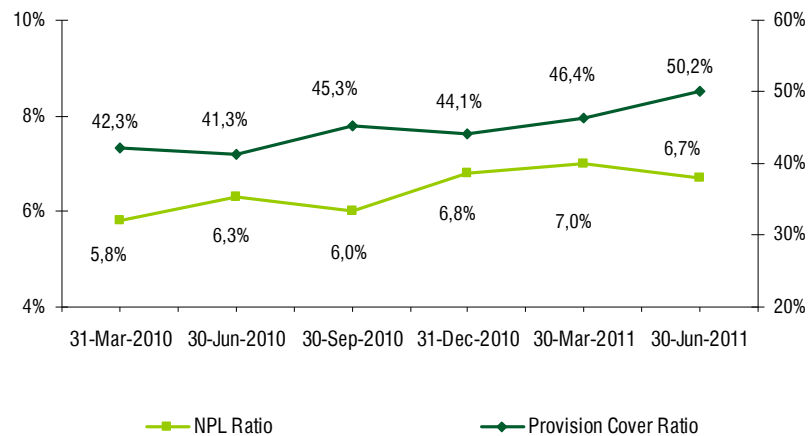


Loans and advances to customers of BZ WBK Group as at 30.06.2011 and 31.12.2010
(no changes against the corresponding period)



At the end of June 2011, the impaired loans accounted for 6.7% of the gross portfolio versus 6.8% recorded as at 31 December 2010. The provision cover ratio for impaired loans was 50.2% compared with 44.1% reported 6 months earlier.

The NPL ratio and provision cover ratio of BZ WBK Group
at the end of consecutive quarters from 31.03.2010 to 30.06.2011



Historical ratios provided in the chart above, have not been adjusted for the change in the presentation of matured, past-due customer derivatives which effective from Q2 2011 have been recognized in loans and advances to customers rather than in financial derivatives. Credit quality data for comparative periods (30 June 2010 and 31 December 2010) are included in Note 4 of „Condensed Interim Consolidated Financial Statements of Bank Zachodni WBK Group for the 6-month period ended 30 June 2011”, Credit Risk Section.

Equity and Liabilities

The table below presents major developments in the key categories of the consolidated equity and liabilities of Bank Zachodni WBK Group as at 30 June 2011 versus the previous 6 and 12 months.

Equity & Liabilities	PLN m							
	30.06.2011	Structure 30.06.2011	31.12.2010	Structure 31.12.2010	30.06.2010	Structure 30.06.2010	Change	Change
	1	2	3	4	5	6	1/3	1/5
Deposits from customers	40 769,6	73,4%	41 970,5	79,0%	41 298,5	77,1%	-2,9%	-1,3%
Deposits from banks	5 972,2	10,7%	2 526,1	4,8%	3 782,6	7,1%	136,4%	57,9%
Financial liabilities held for trading	642,8	1,2%	578,6	1,1%	852,6	1,6%	11,1%	-24,6%
Subordinated liabilities	398,0	0,7%	395,2	0,7%	-	-	0,7%	-
Amounts owed to the Central Bank	-	-	-	-	224,3	0,4%	-	-
Other liabilities	947,8	1,7%	909,9	1,7%	1 178,4	2,2%	4,2%	-19,6%
Total equity	6 849,4	12,3%	6 773,6	12,7%	6 247,4	11,6%	1,1%	9,6%
Total	55 579,8	100,0%	53 153,9	100,0%	53 583,8	100,0%	4,6%	3,7%

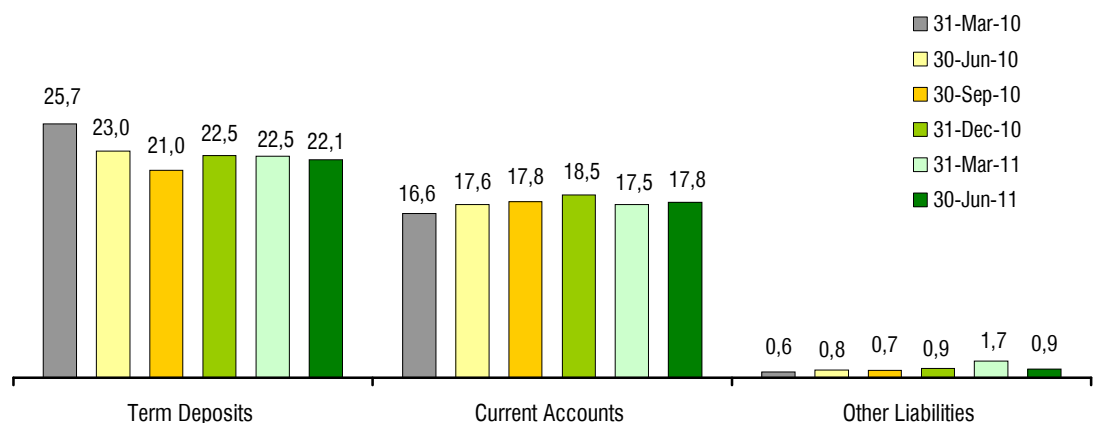
A significant increase in deposits from banks (+136.4% y-t-d) was recorded against 31 December 2010 in the wake of the Group's high activity on the repo market. Financial liabilities held for trading went up (+11.1% y-t-d) driven by CIRS transactions. At the same time, deposits from customers slightly declined (-2.9% y-t-d). Subordinated liabilities of PLN 398 m represent 10-year bonds issued by the bank.

Deposit Base

Deposits from Customers	PLN m				
	30.06.2011	31.12.2010	30.06.2010	Change	Change
	1	2	3	1/2	1/3
Deposits from personal customers	25 482,1	25 230,8	25 817,5	1,0%	-1,3%
Deposits from business and public sector customers	15 287,5	16 739,7	15 481,0	-8,7%	-1,2%
Total	40 769,6	41 970,5	41 298,5	-2,9%	-1,3%

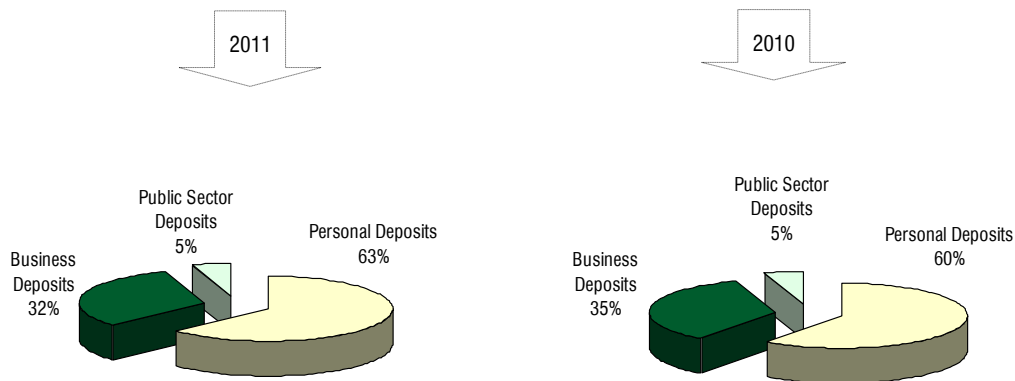
Deposits from customers, which represent 73.4% of the Group's total equity and liabilities are the primary source of funding the Group's lending business. At the end June 2011, they amounted to PLN 40,769.6 m, down by 2.9% y-t-d. This figure is comprised of term deposits of PLN 22,099.5 m (-1.9% y-t-d), balances in current accounts of PLN 17,783.8 m (-4% y-t-d) and other liabilities, including a utilised portion of the credit line of EUR 100 m from the European Investment Bank intended for SME funding.

Structure of deposits from customers of BZ WBK Group (by deposit type)
at the end of consecutive quarters from 31.03.2010 to 30.06.2011 (in PLN bn)



As at 30 June 2011, the Group's deposits from personal customers amounted to PLN 25,482.1 m, slightly up on 31 December 2010. The most popular products were: Daily-Earning Deposit, Easy-Earning Deposit and savings accounts. Deposits from business customers amounted to PLN 15,287.5 m and were down 8.7% y-t-d due to the decline in the balance of current and term deposit accounts.

Deposits from customers of BZ WBK Group as at 30.06.2011 and 31.12.2010



Key Financial Ratios

Selected Financial Ratios	30.06.2011	31.12.2010	31.06.2010
Total costs / Total income	47,9%	49,9%	48,7%
Net interest income / Total income	52,4%	51,5%	49,3%
Net interest margin *	4,30%	3,98%	3,86%
Net commission income / Total income	36,2%	38,0%	38,2%
Customer loans/Customer deposits	85,1%	78,2%	83,1%
NPL ratio **	6,7%	6,8%	6,3%
NPL coverage ratio **	50,2%	44,1%	41,3%
Impairment losses on loans and advances / Average loans and advances	1,0%	1,2%	1,2%
ROE ***	19,5%	17,6%	18,9%
ROA ****	2,0%	1,8%	1,8%
Capital adequacy ratio	15,76%	15,77%	13,67%
Book value per share (in PLN)	93,73	92,69	85,49
Earnings per share (in PLN) *****	8,77	13,33	6,62

* annualised interest income (including Swap points) to the quarterly average of interest-bearing assets (net of impairment write-down)

** comparable periods have not been adjusted for the presentation change involving matured and past-due customer derivatives on grounds of immateriality

*** annualised net profit attributable to the shareholders of BZ WBK (4 consecutive quarters) to the quarterly average of equity calculated based on balances of total equity at the end of five consecutive quarters, net of the current period profit, non-controlling interests and dividend due to BZ WBK shareholders (change of calculation method since Q1 2011)

**** annualised net profit attributable to the shareholders of BZ WBK (4 consecutive quarters) to the quarterly average of total assets calculated based on balances as at the end of five consecutive quarters (change of calculation method since Q1 2011)

***** net profit attributable to the shareholders of BZ WBK for the reporting period divided by the number of ordinary shares

3. Additional Financial Information

Selected Transactions with Connected Entities

Transactions between the bank and its connected 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 2011, total exposure of Bank Zachodni WBK on loans to subsidiaries amounted to PLN 2,252 m compared with PLN 2,093.1 m as at 31 December 2010 and 1,179.7 m as at 30 June 2010.

As at 30 June 2011, the deposits held by the subsidiaries with the Bank totalled PLN 1,304.4 m versus PLN 1,114.3 m as at 31 December 2010 and PLN 1,057.2 m as at 30 June 2010.

Bank Zachodni WBK guarantees to subsidiaries amounted to PLN 307.6 m versus PLN 246.2 m as at 31 December 2010 and PLN 257.1 m as at 30 June 2010.

These intercompany items have been eliminated from the consolidated accounts.

The Group's receivables from the parent entity (Santander in 2011 and AIB in 2010) amounted to PLN 13.2 m as at 30 June 2011 compared with PLN 93.4 m as at 31 December 2010 and PLN 241.2 m as at 30 June 2010, while the obligations totalled PLN 165.8 m vs. PLN 326.1 m as at 31 December 2010 and PLN 1,547.9 m as at 30 June 2010. The decrease in obligations results from repayment of the loans provided by AIB to the bank's subsidiaries.

Pending Court Proceedings

As at 30 June 2011, no case was pending before any court or state administration agencies with relation to any claims made by or against the bank or its subsidiaries that would equal or exceed 10% of the Group's equity.

The value of all litigations totalled PLN 242.2 m, which is 3.5% of the Group's equity (vs. PLN 240.9 m, i.e. 3.9% of the Group's equity as at 30 June 2010). It includes PLN 99.3 m claimed by the Group, PLN 131 m in claims against the Group and PLN 11.9 m of the Group's receivables in the arrangement or bankruptcy proceedings.

In H1 2011, the value of finalised litigation totalled PLN 7.9 m vs. PLN 23.3 m in the same period last year.

Dividend Per Share

By the decision of the General Meeting of Shareholders dated 20 April 2011, Bank Zachodni WBK allocated PLN 584.6 m of the 2010 net profit for dividend to shareholders. The dividend of PLN 8 per share was paid out on 23 May 2011.

The Annual General Meeting of Shareholders of Bank Zachodni WBK held on 21 April 2010 resolved on allocation of PLN 292.3 m of the 2009 net profit for dividend to shareholders. The dividend of PLN 4 per share was paid out on 21 May 2010.



WBK

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4. Factors with Potential Impact on Future Financial Results of the Group

The most important factors, which may affect financial results of Bank Zachodni WBK Group in the future are:

- Slight deceleration of economic growth abroad, including Poland's major trading partners, which to some extent will weaken the rise in exports and industrial output. However, the external demand is likely to remain strong enough to stimulate - along with the improving domestic demand - investment activity and thus demand for corporate loans and other banks' products for firms.
- Further improvement in the labour market conditions, positively affecting quality of the credit portfolio in the household segment and increasing demand for new consumption and mortgage loans.
- Continuation of the interest rate hikes started by the MPC in January amid positive prospects for economic growth and inflation running above the central bank's inflation target.
- Changes in costs of funding the banks' assets depending on scale and pace of hikes in the NBP interest rates, zloty exchange rate, changes in liquidity position of the banking sector and intensity of banks' competition for retail deposits.
- Continued high volatility in the financial markets connected with geopolitical tensions, uncertainty regarding debt problems in many countries and possible aggressive monetary tightening in major global economies.
- Further developments in the global and domestic equity markets and their impact on clients' interest in directing savings towards mutual funds or banks' deposits.

VI. Risk Management in BZ WBK Group in H1 2011

1. Risk Management Principles in BZ WBK Group

The main objective of risk management in Bank Zachodni WBK Group is to ensure effective operations to support development within the approved risk parameters. Risk management practice is in keeping with the industry benchmark, regulatory guidance and recommendations from supervisory authorities, and covers operational risk as well as the main financial risk areas: 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 "Risk Appetite Statement" approved by the Management Board and Supervisory Board. Global limits are used to set watch limits and shape risk management policies.

The applicable risk management policies govern the process of identifying, measuring and reporting the risk level and the process of setting limits for individual risks on a regular basis. The Group modifies and expands its risk management procedures on a regular basis, taking into account evolving good practice in the sector as well as changes to market conditions, product offer and regulatory environment.

2. Risk Management Structure

The bank's Management Board, which is responsible for shaping and implementing the risk management structure, sets up committees, which are directly accountable for developing risk management methods and monitoring risk levels in specific areas.

The activities of these committees are supervised by the Risk Management Committee which defines the risk management strategy in Bank Zachodni WBK Group, in particular identifies key risks, specifies the risk appetite and methods of its measurement, controlling, monitoring and reporting.

The following Committees report to the Risk Management Committee: Credit Policy Forum, Credit Risk Measurement Committee, Credit Committee, Provisions Committee, Operational Risk Management Committee (ORMCo), Market Risk Committee, Assets and Liabilities Management Committee (ALCo), Equity Investment and Underwriting Committee, Interbank Limits Committee, Disclosure Committee, DWG (Deposit Working Group) and Private Banking Investment Committee.

3. Credit Risk Management

Credit Risk

Credit risk is defined as the possibility of suffering a loss if the borrower fails to meet their credit obligation, including payment of interest and fees. Credit risk arises also from the impairment of credit assets and contingent liabilities as a consequence of the borrower's worsening credit quality. Credit risk measurement is based on the estimation of credit risk weighted assets, with the relevant risk weights representing both the probability of default and the potential loss given default of the borrower.

The Group's credit risk arises mainly from lending activities on the retail, corporate and inter-bank markets. This risk is managed as part of the policy approved by the Management Board on the basis of the adopted credit delivery procedures as well as on the basis of discretionary limits. The Group's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan portfolio. On top of that, the Group uses collateral (financial and tangible assets) and specific covenants and clauses in agreements to mitigate credit risk.



The Group's credit risk management involves actions taken as a result of the on-going analysis of the macroeconomic environment and the internal review of the particular credit portfolios. The advanced credit risk assessment tools allow quick remedial action to be taken in response to the first signals of changes in the portfolio quality or structure.

The Group continues to develop and improve risk based methods of pricing loans, allocating capital and measuring returns. For all significant portfolios, risk assessment models based on EVA have been or are being implemented.

In H1 2011, the bank continued its conservative credit risk management policy. As part of the proactive approach to credit risk management, the Group continued its actions aimed to ensure a sustainable growth and top quality of the credit portfolio. The Group took steps to improve the credit risk assessment tools in response to changing market and regulatory environments as well as customers' needs. On top of that, the Group closely monitored the risk profile of respective credit portfolios.

Credit Decision Making Process

Discretionary limits applied across the bank are governed by the guidelines on "Discretionary Limits in Bank Zachodni WBK". The guidelines define roles and responsibilities of individual units and staff members involved in the credit delivery process.

The credit decision-making process as part of the risk management policy is based upon Individual Credit Discretions vested in credit officers, commensurate with their knowledge and experience relating to particular activities (branch banking, business banking and corporate banking). Credit exposures in excess of PLN 25 m are referred to the Credit Committee composed of senior management and top executives.

In Bank Zachodni WBK Group the credit risk approval function has been separated from the sales function. Credit decision making functions and sales functions are combined only at the Branch Banking level and these are limited to exposures up to a pre-defined ceiling. The responsibility for credit decisions and loan portfolio quality assurance lies with the Chief Credit Officer and reporting managers.

Credit Grading

Intensive work has been undertaken by the Group for further development of the credit risk assessment tools to conform to the Basel requirements and IAS/IFRS. The Group uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, home loans, income-producing real estates, cash loans, credit cards and personal overdrafts.

In H1 2011, the Group continued to develop models underlying risk management, including fraud detection models, debt recovery models and retail risk models.

The Group runs regular monitoring of credit grading pursuant to the rules described in the lending manuals. Additionally, for selected models, automated process of credit grade verification is carried out based on the number of overdue days or behavioural factors analysis. Credit grade is also verified at subsequent sanctions.

Credit Reviews

The Group performs regular reviews to determine the actual quality of the credit portfolio, to confirm that adequate credit grading and provisioning processes are in place and to objectively assess professionalism in credit management. The reviews are performed by the Credit Review Department and the Quality Assurance Department which are independent of the risk-taking units.



Collateral

The role of the Securities Centre is to ensure that security covers are duly established and held effective in line with the lending policy for all business segments. The Securities Centre is also responsible for developing standardised internal procedures with respect to perfecting and maintaining validity of collateral as well as ensuring that establishment, monitoring and release of security covers is duly effected. In addition, the Securities Centre provides assistance to credit units in credit decision making and development of credit policies with respect to collateral, gathers data on security covers and ensures adequate management information.

Credit Risk Stress Testing

Stress testing is a part of the credit risk management process used to evaluate potential effects of specific events, movements in financial and macroeconomic ratios or changes in the risk profile on the Group's condition. Stress tests are composed of assessment of potential changes in credit portfolio quality when faced with adverse conditions. The process also provides management information about adequacy of agreed limits and internal capital allocation.

Calculation of Impairment

In Bank Zachodni WBK and its subsidiaries impairment charges are recognised in accordance with IFRS. The charges reflect credit impairment which is recognised if the Group presents an objective evidence that such amounts cannot be recovered in line with the signed loan agreement. Objective indications of impairment were defined in accordance with recommendation of Basel Committee and with IFRS (IAS 39).

Impairment is calculated on the basis of the estimated recoverable amount. Impairment analysis is performed using both the individual (for individually significant exposures with objectively evidenced impairment) and collective approach (individually insignificant exposures with objectively evidenced impairment), and incurred but not reported losses.

Twice a year, the Group compares the assumptions and parameters used for impairment calculations with the actual situation, including changes of economic conditions, amendments to the Group's credit policies and recovery process. The process provides assurance that impairment charges are recognized correctly. The responsibility for ensuring an adequate level of charges rests with the Provisions Committee.

4. Market Risk and Liquidity Risk Management

The key objective of Bank Zachodni WBK Group's market risk policy is to reduce the impact of interest and FX rates movements on the Group's profitability and market value as well as to increase income within the strictly defined risk limits and to ensure the Group's liquidity.

The market risk associated with the Group's operations stems mainly from services provided to customers and related debt instruments, FX and equity transactions.

Market Risk

The Risk Management Committee approves market risk management strategies and policies as well as limits that define the maximum acceptable exposure to individual risk types, in accordance with the "Risk Appetite Statement".

The Management Board makes its strategic decisions on the basis of recommendations put forward by ALCo or the Market Risk Committee. The Management Board delegated the direct supervision of market risk management to the two above-mentioned Committees.

The direct market risk management is centralised within the Treasury Division, except for the risk arising from changes in the price of equity instruments, which is managed by the staff of Dom Maklerski BZ WBK (BZ WBK Brokerage House).

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Identification and Assessment of Market Risk

On an ongoing basis, qualified personnel – using relevant systems and controls – identify and transfer the market risk associated with the retail and commercial business to the Treasury Division which enters into transactions (e.g. on the inter-bank market, in securities and derivatives) to ensure the risk is kept at an acceptable level.

Market risk is measured and its compliance with the stated risk limits is monitored by qualified personnel independent of the unit which manages and generates the risk. Exposure to market risk is regularly reviewed by Market Risk Committee. Risk limits are subject to periodical review to ensure they are in keeping with the company's strategy and current objectives.

The Value at Risk (VaR) methodology is a standard industry tool for the measurement of interest rate and FX risk used by the Group to monitor interest rate and FX risks. The bank applies the VaR methodology both to the trading and banking portfolio.

Liquidity Risk

Liquidity risk is the risk that the bank fails to meet its contingent and non-contingent commitments made to its customers and contractors.

The liquidity policy adopted by the Group is to ensure that all expected outflows are fully covered by the anticipated inflows and/or qualified liquid assets (mainly debt securities) which are sold in extraordinary circumstances or distress triggered by internal factors (e.g. sudden increase in the value of loans disbursed as part of credit lines) or external factors (e.g. significantly lower liquidity of interbank market). The policy covers all assets and liabilities as well as off-balance sheet items impacting the liquidity level.

In H1 2011, Bank Zachodni WBK Group kept its loan-to-deposit ratio at a comfortable level. The Group also maintained a stable level of deposits.

At the same time, the unencumbered liquid assets (mainly treasury debt securities) created a liquidity cushion.

Liquidity Risk Management

ALCo has overall responsibility for the supervision of liquidity risk on behalf of the Management Board. ALCo makes recommendations to the Management Board on appropriate strategies and policies for strategic liquidity management.

Direct management of liquidity is centralised within the Treasury Division to keep the risk within the set limits. The responsibility for day-to-day measurement and monitoring of risk limits rests with well-qualified staff, independent of risk generating units and management.

Liquidity risk reports and results of stress tests are regularly reviewed by the senior management and by ALCo.

The Group has a scenario-based contingency plan approved by the Management Board to cater for unexpected liquidity problems, whether caused by external or internal factors. The plan is updated on a regular basis.

Identification and Assessment of Liquidity Risk

Liquidity risk is identified and measured daily, mainly using modified liquidity gap reports and regulatory reports. Regular liquidity measurement reports are supported by stress test results.

According to the Group's policy, the bank should have sufficient funds to cover outflows expected over a one-month horizon in full. The liquidity position over a longer time horizon and the level of qualified liquid assets are monitored as well.

Since early 2011, the bank's funds have significantly exceeded the level required to cover the expected outflows.

At the same time, the bank complies with Resolution no. 386/2008 of the Polish Financial Supervision Authority (KNF) on liquidity management, in respect of, inter alia, liquidity monitoring, measurement and reporting.

In H1 2011, the bank met the regulatory quantitative requirements for liquidity. Key regulatory indicators (i.e. short term liquidity ratio and ratio of coverage of non-liquid assets and assets of limited liquidity with own funds and core external funds) comfortably exceeded the required levels.



5. Operational Risk Management

According to the definition agreed by the Basel Committee on Banking Supervision, operational risk is the risk of loss resulting from external factors or inadequacy or failure of internal processes, human resources and systems.

Operational risk is inherent in all the Group's business processes, including the outsourced functions or services delivered jointly with third parties. Each organisational unit in the Group is fully responsible for identification and management of the operational risks pertaining to its operations. The objective of the operational risk management is to minimise the likelihood and/or reduce the impact of unexpected adverse events.

Bank Zachodni WBK Group applies "Operational Risk Management Policy" and "Operational Risk Management Framework" which are subject to regular reviews. In addition, detailed procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated.

The Operational Risk Management Committee (ORMCo) established by the Bank's Management Board sets the strategic direction as well as defines and monitors operational risk management objectives, in relation to, inter alia, BCM, information security, outsourcing and insourcing and fraud prevention in all business areas.

BZ WBK Group is committed to maintaining superior standards of operational risk management, which involves: in-depth analysis of the environment in which the Group operates, identification of risks and development of effective controls to curb operating losses. The operational risk appetite factors in the maximum loss before tax resulting from residual operational risk that the Group is ready to incur in pursuit of its business goals.

To ensure adequate risk management and identification of the key threats, the following processes are employed:

- Identification and assessment of operational risk;
- Reporting on operational incidents and lessons learned;
- Analysis of risk indicators;
- Business continuity management (BCM);
- Information security management;
- Regular reporting to the Risk Management Committee and Supervisory Board;
- Insurance.

6. Legal and Regulatory Risk Management

Legal and Regulatory (Compliance) Risk

Legal and regulatory (compliance) risk is defined – in line with the Basel Committee recommendation – as risk of regulatory sanctions, material financial loss or loss to reputation that may be incurred by Bank Zachodni WBK Group as a result of failure to comply with the applicable laws, standards or codes of conduct applicable to its activities.

Risk Identification and Assessment

The scope of the Legal and Compliance Division responsibilities relates to "conduct of business" compliance obligations, including protection of the clients' rights, anti-money laundering, protection of sensitive information and personal data.

The identification, interpretation and communication roles relating to other legal and regulatory obligations have been assigned to functions with specialist knowledge in those areas. All issues regarding compliance with employment law are assigned to HR Management Division; taxation law and reporting requirements to Finance Division and prudential regulations to Finance Division and Risk Management Division in respective aspects.

Every six months, the Bank Zachodni WBK Compliance Area coordinates assessment process of the key legal and compliance risks. During the process, risks and their potential impact on the business are assessed, and the effectiveness of appropriate controls that may be applied to mitigate these risks is evaluated. Legal and regulatory (compliance) risk reviews take into account any risks the Group may be exposed to within the following three years.

Risk Management and Mitigation

The Bank Management Board adopted a policy statement on compliance with legal and regulatory obligations which was then approved by the Supervisory Board. The policy provides the Compliance Area with the relevant mandate and ensures it is sufficiently independent to support management in effective compliance risk management.

The Risk Management Committee ensures execution of applicable regulations and approves principles of internal control and compliance policy framework. It also ensures independence and sufficient resources of the Compliance Area.

The compliance unit's major responsibilities include in particular (except for specific responsibilities of Finance Division, Risk Management Division and HR Management Division):

- independent identification, assessment and monitoring of compliance risk the Group is exposed to;
- providing advice and reporting to the Risk Management Committee, Bank's Management Board and Audit Committee on the effectiveness of the processes established to ensure compliance with laws and regulations within its scope;
- providing advice and guidance to management and staff on compliance risks and on appropriate policies and procedures to mitigate them.

Legal and regulatory (compliance) risk management is coordinated by the Legal and Compliance Division reporting to the Management Board Member. The Area coordinates and supervises the process of compliance risk management with subsidiary compliance units pursuant to the applicable law.

Risk Monitoring and Reporting

The Compliance Area undertakes risk-based monitoring of compliance with relevant policies, procedures, regulatory obligations and best practices. Monitoring can be undertaken by dedicated Risk and Compliance Monitoring Office, the AML Office and Compliance Officers in indicated units and subsidiaries, as well as staff of other controlling units acting on behalf of the Compliance Area (for branch network).

Risk prioritised annual compliance monitoring plans are prepared based on the risk assessment process. The annual monitoring plan, accepted by the Audit Committee, is reviewed and updated on a regular basis. Issues emerging from compliance monitoring are escalated for management attention, and action plans and implementation dates are agreed with the Legal and Compliance Division. The implementation of these action plans is monitored by the Legal and Compliance Division.

7. Capital Management

Introduction

It is the policy of Bank Zachodni WBK Group to maintain capital at a level appropriate to the type and scale of its business and the risk it is exposed to, in accordance with the applicable Banking Law and regulations of the Polish Financial Supervision Authority, which transposed the New Capital Accord of the Basel Committee on Banking Supervision (Basel II) into the Polish law.

Basel II defines the approach to measurement of the minimum regulatory capital requirement (Pillar 1) and sets out the general principles of internal capital measurement (Pillar 2) where in-house models are applied by banks in day-to-day risk management. Internal capital adequacy assessment is an integral part of the management of the bank's business.

In addition, the Group's capital level is determined by the ultimate external rating and stress tests results for individual risks identified as material to the business.

The Management Board is accountable for capital management, calculation and maintenance, including assessment of capital adequacy vis-à-vis different economic conditions. Responsibility for general oversight over estimation of internal capital rests with the Supervisory Board.



The bank's Management Board delegated the day-to-day capital management to ALCo/ICAAP Forum. The Committee assesses capital adequacy, including capital adequacy under stressed scenarios, on an ongoing basis. Also, the Committee monitors the capital level and initiates transactions which affect it.

Capital Policy

Solvency ratio, which is the ratio of capital requirements in respect of individual risks to the bank's total capital, after obligatory deductions recognised in accordance with the Banking Law and resolutions of the Polish Financial Supervision Authority, is one of the key measures used by Bank Zachodni WBK Group to manage capital. Under the Banking Law, the minimum capital adequacy ratio is 8% at both the bank and Group level.

Under the Group's capital management policy, the target minimum solvency ratio is 10% at both the bank and Group level.

At the same time, the Tier 1 capital ratio (which is the ratio of core equity capital to risk-weighted assets for credit, market and operational risks) may not be lower than 8% within both the bank and the Group.

Regulatory Capital

Pillar 1 risks and capital required to cover such risks are assessed quantitatively. The bank uses regulatory approaches to the measurement of these risks. The Group applies the following approaches with respect to individual risks:

- credit risk – the standardised approach,
- operational risk – the standardised approach,
- market risk – the foundation approach.

The capital requirement for individual risks is aggregated directly to determine the overall minimum capital requirement (Pillar 1).

Internal Capital

The Group defines internal capital as the capital required to safeguard the Group against the impact of major unexpected losses which may jeopardise its solvency.

A key element of Pillar 2 is the internal capital adequacy assessment process (ICAAP). Under this process, the Group is required to estimate, allocate and maintain the required level of internal capital to secure safe conduct of business, taking into account the Group's risk profile set out in the "Risk Appetite Statement".

The key objective of the ICAAP is to create a link between the risk profile, risk management, risk mitigation and internal capital level. The Group has an appropriate process in place to assess all the key elements of capital planning and management (including aggregation of capital for different risk types). The process ensures that the capital will be sufficient to cover all risks. The internal capital assessment process is adjusted to the type, scale and complexity of the Group's business.

VII. Governing Bodies

General Meeting of Shareholders

The Annual General Meeting of Shareholders of Bank Zachodni WBK held on 20 April 2011 (AGM) approved the 2010 financial statements submitted by the Management Board and the Supervisory Board, granted discharge to the Management and Supervisory Board members for the performance of their duties in the previous year, appointed the Supervisory Board for the next term of office and resolved on distribution of the net profit and dividend payment of PLN 8 per share. AGM also launched the 4th Incentive Scheme for employees of Bank Zachodni WBK Group who significantly contributed to the growth of the parent entity (a three year Incentive Scheme IV). Furthermore, the AGM approved changes to the bank's Statutes regarding requirements for governing bodies and conditional increase of the share capital, and adopted its consolidated version. On 11 May 2011, the changes to the bank's Statutes were entered into the National Court Register.

Supervisory Board

As at 30 June 2011, compared to 30 June 2010, the composition of Bank Zachodni WBK Supervisory Board was as follows:

Role in the Supervisory Board	Composition as at 30.06.2010		Composition as at 30.06.2011	
Chairman of the Supervisory Board:	1.	Aleksander Szwarc	1.	Gerry Byrne
	2.	Gerry Byrne	2.	Jose Antonio Alvarez
	3.	Waldemar Frąckowiak	3.	Witold Jurcewicz
	4.	Aleksander Galos	4.	Jose Luis De Mora
Members of the Supervisory Board:	5.	Anne Maher	5.	Piotr Partyga
	6.	Maeliosa OhOgartaigh	6.	John Power
	7.	Piotr Partyga	7.	Jose Manuel Varela
	8.	John Power	-	-
	9.	Jacek Słotała	-	-

The members of the Supervisory Board as at 30 June 2011 were appointed for a joint 3-year term of office by the GM held on 20 April 2011. The former members of the Supervisory Board were appointed by the GM on 18 April 2008, except for Ms. Anne Maher and Mr. Piotr Partyga who were appointed by the GM held on 21 April 2010.

As at 30 June 2011, the following members of the Supervisory Board held an independent status: Mr. Witold Jurcewicz, Mr. Piotr Partyga and Mr. John Power.

The following Supervisory Board committees operate in Bank Zachodni WBK: Audit and Compliance Committee, Risk Oversight Committee, Remuneration and Nominations Committee.

Management Board

The table below presents the composition of Bank Zachodni WBK Management Board as at 30 June 2011, together with the roles and responsibilities of its members. It is compared with the composition as at 30 June 2010.

Role in the Management Board	Ref.	Composition as at 30.06.2010	Ref.	Composition as at 30.06.2011	Reporting Areas as at 30.06.2011
President of the Management Board:	1.	Mateusz Morawiecki	1.	Mateusz Morawiecki	Reporting units: Treasury Division, Internal Audit Area, Corporate Communication Area, Brand Management and Investor Relations Area, Bacassurance
Members of the Management Board:	2.	Paul Barry	2.	Paul Barry	Finance Division
	3.	Andrzej Burliga	3.	Andrzej Burliga	Risk Management Division
	4.	Declan Flynn	-	-	-
	5.	Justyn Konieczny	4.	Justyn Konieczny	Investment Banking Division
	6.	Janusz Krawczyk	5.	Janusz Krawczyk	HR Management Division
	7.	Jacek Marcinowski	-	-	-
	8.	Michael McCarthy	6.	Michael McCarthy	Business and Corporate Banking Division
	9.	Marcin Prell	7.	Marcin Prell	Legal and Compliance Division
	10.	Miroslaw Skiba	8.	Miroslaw Skiba	Retail Banking Division
	11.	Feliks Szyszkowiak	9.	Feliks Szyszkowiak	Business Support Division

Compared with 6 and 12 months before, two members stepped down from the Management Board of Bank Zachodni WBK:

- On 16 December, Mr. Jacek Marcinkowski tendered his resignation from the Management Board, effective from 31 December 2010, in connection with his appointment as President of the Management Board of BZ WBK Towarzystwo Funduszy Inwestycyjnych, effective from 1 January 2011. Mr. Jacek Marcinowski was in charge of the Private Banking Department, Bancassurance Office and Partner Outlet Development Office which, following his resignation, were incorporated into other organisational structures within Bank Zachodni WBK Group, effective from 1 January 2011.
- On 6 December 2010, Mr. Declan Flynn submitted his decision to step down from his position as Management Board member for personal reasons, effective from 13 April 2011. Until the appointment of a new Management Board member in charge of Credit Division, the responsibilities related to oversight over this business area were delegated to Mr. Piotr Mazur.

In addition, on 3 June 2011, Mr. Paul Barry submitted his decision to step down from his position in the Management Board, effective from 31 July 2011, because of personal reasons.



VIII. Additional Information

Employment

- As at 30 June 2011, the employment level in Bank Zachodni WBK Group was 9,744 FTEs, which is 96 FTEs less than in December 2010. The decrease is an effect of unfilled vacancies that arose as a result of natural personnel movements and the consistent delivery of optimisation of back-office functions in the Branch Network. On a year-on-year basis, the number of FTEs in the Group increased by 122.
- In H1 2011, the bank continued its development programmes for the Branch Banking at all key management levels. Also, development initiatives were carried out for the senior management and executives of the Business Support Centre. The programmes were delivered both using in-house resources (management development trainers, partners, business experts, assessors and mentors) and external training providers.
- In H1 2011, the major training project addressed to branches focused on sales and management skills development as part of the New Branch Energy (NEO) project. In H1 2011, training was provided to all managers in the Branch Banking (805 persons) and 30% of advisors (1,659 persons).
- After each NEO phase (3 cycles), an electronic survey (voluntary, anonymous and confidential) was carried out among the Branch Banking employees (ca. 5,500 persons). The purpose of the survey was to find out people's opinions about the key elements of the NEO and the attitude of managers during the implementation phase, as well as to gather suggestions for the areas that need improvement.

Performance Share Programme

On 20 April 2011, the Annual General Meeting of Shareholders launched a three year Incentive Scheme IV, as a continuation and development of the existing Group's Performance Share Programme. The Programme was designed to attract, motivate and retain the best managers in the market to ensure a dynamic growth of the organisation going forward. On 22 June, the list of 496 Programme participants recommended by the Management Board was approved by the Supervisory Board. Having executed an agreement with the bank, the participants will be eligible to subscribe for and acquire a defined number of shares at the nominal value (PLN 10) provided that certain economic criteria are met. Under the 4th edition of the Incentive Scheme, similarly to previous editions, the shares may be vested depending on the bank's performance in the years 2011–2013. To exercise the rights, the bank will issue up to 400,000 of incentive shares.

Shares in Possession of the Supervisory and Management Board Members

As at the publication date of Interim Report 2011 of Bank Zachodni WBK Group and Interim and Annual Reports for 2010, none of the members of the Supervisory Board held any shares of Bank Zachodni WBK.

Under the 1st BZ WBK Performance Share Programme (Incentive Scheme) launched in 2006, members of the Management Board were allocated 23,084 out of 115,729 of H series shares issued as part of the conditional increase of the share capital. Due to the expiry of the 2nd and 3rd Incentive Scheme in 2010 and 2011 respectively, under which no rights were exercised, the Management Board members have conditional rights to acquire shares under the 4th Incentive Scheme. Below are the shares and rights held by the Management Board Members as of the publication date of interim and annual reports for the periods ended 30 June 2010, 31 December 2010 and 30 June 2011.



Management Board Members as at 30.06.2011	30.06.2011		31.12.2010		30.06.2010	
	No. of BZ WBK shares	Rights	No. of BZ WBK shares	Rights	No. of BZ WBK shares	Rights
Mateusz Morawiecki	3 591	10 120	3 591	7 403	3 591	7 403
Paul Barry	-	-	-	-	-	-
Andrzej Burliga	1 606	4 282	1 606	3 332	1 606	3 332
Justyn Konieczny	3 591	5 283	3 591	5 182	3 591	5 182
Janusz Krawczyk	3 397	3 854	3 397	4 442	3 397	4 442
Michael McCarthy	-	4 875	-	-	-	-
Marcin Prell	2 530	3 704	2 530	4 442	2 530	4 442
Miroslaw Skiba	1 575	4 282	1 575	1 850	1 575	1 850
Feliks Szyszkowiak	3 438	4 449	3 438	4 442	3 438	4 442
Razem	19 728	40 849	19 728	31 093	19 728	31 093

Selection of Auditor

In accordance with § 32 point 10 of the Statutes of Bank Zachodni WBK, applicable regulations and the industry practice, on 17 May 2011 the bank's Supervisory Board passed a resolution appointing Deloitte Audyt Sp. z o.o. as an auditor to review and audit the bank's stand-alone and the Group's consolidated financial statements for H1 2011 and for 2011. The Bank contracted Deloitte Audyt Sp. z o.o and other companies from Deloitte Group for consulting and tax advisory services. In the bank's view, the above services do not affect impartiality and independence of the auditor.

The bank's financial statements for the previous financial years were reviewed and audited by KPMG.



IX. Representations of the Management Board

True and Fair Presentation of the Financial Statements

According to the Management Board's best knowledge and belief, the financial figures and the comparable data presented in the Interim Report 2011 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 Group's development, achievements and position (including the underlying risks) in the first half of 2011.

Selection of Auditor

The auditing firm responsible for reviewing the interim consolidated financial statements of the Bank and its Group was selected in compliance with the applicable legislation. The auditing firm and its auditors satisfied the necessary conditions to ensure they provide an unbiased and independent report compliant with Polish law and the professional standards.

Signatures of the Management Board Members			
Date	Name	Function	Signature
25.07.2011	Mateusz Morawiecki	President of the Board	
25.07.2011	Paul Barry	Member	
25.07.2011	Andrzej Burliga	Member	
25.07.2011	Justyn Konieczny	Member	
25.07.2011	Janusz Krawczyk	Member	
25.07.2011	Michael McCarthy	Member	
25.07.2011	Marcin Prell	Member	
25.07.2011	Miroslaw Skiba	Member	
25.07.2011	Feliks Szyszkowiak	Member	

