

**MANAGEMENT BOARD REPORT
ON BANK ZACHODNI WBK GROUP
PERFORMANCE
IN THE FIRST HALF OF 2013**

2013



WBK | Bank Zachodni WBK S.A.

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I. Overview of BZ WBK Group Performance in H1 2013

This section is an overview of the financial and business performance of Bank Zachodni WBK Group (BZ WBK Group) in H1 2013 compared with the previous year and shows internal and external factors affecting the Group's profit and activity.

Financial Highlights

Consolidated financial statements presented in the "Interim Report 2013 of Bank Zachodni WBK Group" are the first semi-annual statements published after the merger with Kredyt Bank (KB) on 4 January 2013. Figures for the same period last year (prior to the legal merger) are derived from consolidated financial statements of Bank Zachodni WBK as the acquiring entity, which explains the dynamic year-over-year growth of specific financial items.

- Total income of BZ WBK Group increased by 39.2% y-o-y to PLN 2,795m.
- Total costs increased by 55.4% y-o-y to PLN 1,405.7m.
- Profit-before-tax was PLN 997.1m and up 12.2% y-o-y.
- Profit attributable to the owners of Bank Zachodni WBK was PLN 793.1m and 14.2% higher y-o-y.
- Capital Adequacy Ratio of 14.3% for the Group (16.5% as at 31 December 2012) and 14.4% for the Bank (16.5% as at 31 December 2012).
- Return on Equity was 12.6% (21.1% as at 31 December 2012), and 13.8% excluding the cost of integration with Kredyt Bank. The y-o-y decrease in ROE was driven by significant increase of the BZ WBK Group capital through the issue of 18.9m merger shares.
- Cost to income ratio was 50.3% (45% in H1 2012), and 46.2% excluding the cost of integration with Kredyt Bank.
- Net impairment losses on loans and advances amounted to PLN 399.0m compared with PLN 220.8m in H1 2012.
- NPL ratio was 8.2% (5.4% as at 31 December 2012), while the ratio of impairment losses to the average gross credit volumes was 1.1% (1.2% as at 31 December 2012).
- Loans to deposits ratio was 93.6% as at 30 June 2013 compared with 84.7% as at 31 December 2012.
- Gross loans to customers increased by 77.2% y-t-d to PLN 73,387.8m due to the expansion of personal loans (+152% y-t-d) and business & public sector loans (+40.9 y-t-d) to PLN 34,552.2m and PLN 35,760.0m, respectively.
- The deposit base grew by 58.5% y-t-d to PLN 74,596.2m on account of personal deposits (+57.1% y-t-d) as well as deposits from business & public sectors (+60.6% y-t-d), which brought the respective liabilities to PLN 44,985.6m and PLN 29,610.7m.
- The value of net assets managed by the mutual funds and private portfolios grew by 7.6% y-t-d and 19.6% y-o-y, to PLN 11.5bn.
- The number of customers using the BZWBK24 and KB24 electronic banking services came in at 2.8m (+30.9% y-o-y) while the BZ WBK payment card base included ca. 3.4m debit cards (+29.2% y-o-y).
- The number of active bank accounts was 4.2m as at 30 June 2013 compared with 2.5m as at 30 June 2012.

To ensure full period-to-period comparability of data, the discussion and analysis in section V "Financial Situation of BZ WBK Group in H1 2013" is focused on financial results generated in Q2 2013 as compared with the previous period.

Key Developments and Achievements

- The legal merger of BZ WBK and Kredyt Bank (KB) was finalised on 4 January 2013.
- 18,907,458 series J merger shares were issued to all eligible shareholders of Kredyt Bank in accordance with the agreed exchange ratio. On 25 January 2013, merger shares were registered in the National Depository for Securities (KDPW) and admitted to trading on the primary market.

- On 22 March 2013, KBC Bank NV and Banco Santander S.A. announced a secondary offering for 19,978,913 of Bank Zachodni WBK shares, representing 21.4% of the bank's share capital. As a result:
 - ✓ KBC Bank NV sold 15,125,964 of BZ WBK shares, representing 16.7% of the bank's registered capital;
 - ✓ Banco Santander sold 4,852,949 BZ WBK shares, whereby Banco Santander's share in the bank's registered capital and votes at its General Meeting was reduced by 5.19 pps to 70%.
- The open-ended pension fund ING OFE purchased the bank's shares and exceeded 5% of the total number of votes at the bank's General Meeting (transaction settled on 27 March 2013).
- The total number of the BZ WBK's shares in free float increased to 30% and consequently the bank was re-admitted to the main stock indices (MSCI Poland, WIG, WIG Poland, WIG20, WIG Banks).
- BZ WBK rating for the merged BZ WBK was affirmed in early 2013, based on the bank's internal strength and Santander's propensity to provide support to the bank: long-term IDR ("BBB/stable outlook"), short-term IDR ("F3"), support rating ("2") and individual VR ("bbb").
- Approval of the recommended dividend payout of PLN 7.60 per share at the Annual General Meeting of BZ WBK Shareholders convened on 17 April 2013.
- Changes in the composition of the Supervisory Board of BZ WBK S.A.:
 - ✓ appointment of two new members of the Supervisory Board: David R. Hexter and Guy Libot (EBRD and KBC Bank NV), under the resolution passed by the Extraordinary General Meeting of BZ WBK Shareholders on 13 February 2013;
 - ✓ Guy Libot's stepped down after the sale of all BZ WBK shares by KBC Bank NV.
- Dynamic growth of sales of Konto Godne Polecenia (Account Worth Recommending) – a new personal account for individual customers, offered since 15 March 2013 in all branches of the merged bank.
- On-schedule delivery of the integration process, including modification of organisational structure and operating model for major Business Support units (the Branch Banking and the Business and Corporate Banking), and pre-launch arrangements for a homogeneous product offer and centralised service.

External Factors Impacting the Group's Activity and Results

- Deceleration of economic growth (GDP growth at 0.5% y-o-y in Q1 2013 and probably still below 1% y-o-y in Q2 2013) among other factors due to contracting domestic demand, including contraction of fixed investment.
- Contracting industrial and construction output. Declining activity of investors in residential construction. Financial problems of the construction sector companies.
- Low pace of growth of retail sales and a slow growth of private consumption.
- Further stagnation on the labour market. Gradual decrease in employment in the enterprise sector. Wage growth rate at a moderate level.
- Reduction of NBP interest rates by 150 basis points over H1 2013.
- Drop in WIBOR money market rates to the all-time lows.
- Yields of Polish bonds running at all-time lows for the most part of H1 2013, at the end of the period a strong sell-off on the domestic debt market following the global tendencies.
- Weakening of the zloty against main currencies.
- Weak growth of households' and companies' loans.
- Quite a strong increase in households' deposits and low, but accelerating growth rate of companies' deposits.
- Slowdown of downward trend in home prices in most of the main cities, falling number of new home starts and building permits.

II. Basic Information

1. History and Profile of Bank Zachodni WBK Group

History and Profile

Background

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

Both predecessors of Bank Zachodni WBK were spun off the National Bank of Poland in 1989. Subsequently, they were privatised and became members of the AIB Group under control of the majority shareholder, i.e. AIB European Investments Ltd. from Dublin, a fully-owned subsidiary of the Allied Irish Banks, p.l.c. (AIB). After the merger, the 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 Strategic Investor

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 S.A. On 1 April 2011, Banco Santander finalised the purchase of Bank Zachodni WBK in the tender for the bank's shares. As a result, Banco Santander S.A. acquired a 95.67% stake in the bank. On exceeding 90% share in the total voting power at the General Meeting of Shareholders of Bank Zachodni WBK, the new strategic shareholder was bound to acquire a block of shares at the request of non-controlling shareholders, which increased its shareholding and voting power in Bank Zachodni WBK to 96.25%.

Growth through the Merger

On 27 February 2012, the majority shareholders of Bank Zachodni WBK and Kredyt Bank, i.e. Banco Santander S.A. and KBC Bank NV entered into an investment agreement whereby they expressed intention to merge the two banks under their respective control. On 11 May 2012, both banks signed a merger plan laying down the rules and method of delivery of the transaction. Upon the receipt of the legally required authorisations and consents, on 4 January 2013, the merger was recorded in the court register. In consequence, Bank Zachodni WBK (the acquiring entity) assumed all the rights and obligations of Kredyt Bank which was dissolved without a liquidation procedure.

The merger process led to further changes in the shareholding structure resulting in a reduction of the Banco Santander's stake to 70% and an increase in the free-float shares to 30% (as at the date of publication of the "Interim 2013 Report of Bank Zachodni WBK Group").

Merger-Driven Changes in the Controlling Shareholder's Stake in the Share Capital

On 30 August 2012, the shareholding of Banco Santander S.A. fell to 94.23% due to an increase in the share capital of Bank Zachodni WBK through the issue of ordinary series I shares acquired by EBRD to support the merger of Bank Zachodni WBK with Kredyt Bank. The merger was carried out by transferring all the assets of Kredyt Bank to Bank Zachodni WBK (merger through acquisition) in exchange for the newly issued series J shares allocated to all the shareholders of Kredyt Bank. Following the issue of the merger shares on 4 January 2013, the share of Banco Santander S.A. in the total voting power at the General Meeting of Bank Zachodni WBK was reduced to 75.19%. The share was further reduced to 70% as Banco Santander S.A. (together with KBC Bank NV) announced a secondary tender for BZ WBK shares on 22 March 2013, in accordance with the investment agreement of 27 February 2012. (Details about these processes and the ownership structure are presented in section 2 "Legal Merger, Changes in the Ownership Structure, Integration Processes").

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 financial services of Bank Zachodni WBK also include trade finance and transactions in the capital, FX and money markets, derivative transactions and custodian services.

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 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 Model

As at 30 June 2013, Bank Zachodni WBK operated country-wide through 876 outlets (524 as at 30 June 2012), which is the third largest branch network in Poland. The bank's branch infrastructure was complemented by 105 partner outlets (106 as at 30 June 2012) and 1,429 AMTs (1,047 as at 30 June 2012).

Large and medium-sized business customers are serviced by the Business and Corporate Banking Division through 12 regional Corporate Business Centres operating nationwide, and two specialised departments: the Large Corporate Department and the Corporate Property Department, operating in a centralised model and covering the whole of Poland.

The Global Banking and Markets Division is responsible for a banking relationship with the largest institutional clients. The clients are offered investment, credit, transactional and treasury products and services as part of the global CRM Model of Santander Group.

Bank Zachodni WBK offers a modern platform 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. Mobile banking is available through a mobile website and via dedicated applications developed for the leading operating systems. The bank also has a specialised iBiznes24 electronic banking platform for businesses and corporations, a tool that can be used to carry out a wide range of transactions and safely manage the company's finances.

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

2. Legal Merger, Changes in the Ownership Structure, Integration Processes

Legal Merger and the Issue of Merger Shares

On 4 January 2013, the District Court for Wrocław-Fabryczna, 6th Commercial Division of the National Court Register, registered the merger of Bank Zachodni WBK and Kredyt Bank, the increase of the share capital of the acquiring bank and the amendment to its statutes passed by the Extraordinary General Meeting of Shareholders of 30 July 2012. At the same time, Bank Zachodni WBK (the acquiring bank) assumed all rights and obligations of Kredyt Bank (the acquired bank) which had been dissolved without a liquidation procedure.

The merger was carried out under Article 492 § 1(1) of the Commercial Companies Code, i.e. by transferring all the assets of Kredyt Bank to Bank Zachodni WBK (merger through acquisition) in exchange for the newly issued series J shares allocated to all the shareholders of Kredyt Bank in accordance with the following exchange ratio: 6.96 of merger shares for 100 shares of Kredyt Bank. On 8 January 2013, the 18,907,458 merger shares (code PLBZ00000044) were recorded in the National Depository of Securities (KDPW). The registration took place after the Management Board of the Warsaw Stock Exchange adopted a resolution, dated 22 January 2013, on introducing the shares to the public trading on the main stock exchange market in the ordinary procedure, effective from 25 January 2013.

As a result of the issue of series J shares, the registered capital of Bank Zachodni WBK increased from PLN 746,376,310 to PLN 935,450,890 (i.e. by PLN 189,074,580), and is divided into 93,545,089 ordinary bearer shares with a nominal value of PLN 10 each.

Events Affecting the Share Capital Structure After the Merger

On 22 March 2013, KBC Bank NV and Banco Santander S.A. announced a secondary offering for the shares of Bank Zachodni WBK. The offering was for 19,978,913 shares representing 21.4% of the bank's share capital, with 15,125,964 shares owned by KBC Bank NV, and 4,852,949 owned by Banco Santander S.A. The final price per share was set in a book-building process at PLN 245. The total value of the offering was PLN 4.9bn.

The offering was addressed to selected institutional investors in Poland and abroad, including in the United States. Participants of the transaction included reputable financial institutions acting as underwriters, managers or global co-ordinators: Deutsche Bank AG (London Branch), CitiGroup Global Markets Limited, Morgan Stanley & Co. International plc, Merrill Lynch International, Credit Swiss Securities (Europe) Limited, KBC Securities NV, Santander Investment S.A., Goldman Sachs International, UBS Limited, RBC Europe Limited, Powszechna Kasa Oszczędności Bank Polski S.A., Dom Maklerski PKO Banku Polskiego w Warszawie, ING Bank NV, Société Générale, Dom Maklerski Banku Handlowego SA, Dom Maklerski BZ WBK S.A. and ING Securities S.A. Under the underwriting agreement of 22 March 2013 between KBC Bank NV, Banco Santander S.A. and Bank Zachodni WBK S.A., the above-named entities undertook to take actions to acquire buyers for the offered shares, and if such efforts turned out to be unsuccessful – to acquire a stated number of the shares offered. Furthermore, Deutsche Bank AG (London Branch) was authorised to act as a stabilisation manager, i.e. to buy on the Warsaw Stock Exchange, during the close period, up to 10% of the offered shares of Bank Zachodni WBK to stabilise their market price. The stabilisation by Deutsche Bank AG (London Branch) was completed on 11 April 2013.

On 28 March 2013, Bank Zachodni WBK was advised that all of its 15,125,964 shares held by KBC Bank NV, representing 16.7% of the bank's registered capital, had been sold directly. On the same day, the bank also received a notice about disposal of 4,852,949 shares of Bank Zachodni WBK held by Banco Santander S.A. and reduction of the latter's share in the bank's registered capital and votes at the General Meeting by 5.19 pps to 70%.

As a result of the transaction, the free-float increased to 30% and Bank Zachodni WBK re-joined the stock indices.

On 2 April 2013, Bank Zachodni WBK was notified by the open-ended pension fund ING OFE that it had purchased the bank's shares and consequently exceeded 5% of the total number of votes at the bank's General Meeting. As at 27 March 2013, ING OFE held 4,966,506 of the bank's shares, representing 5.31% of the share capital and the number of votes at the General Meeting of Bank Zachodni WBK.

Summary of Changes in the Ownership Structure of the Share Capital

The table below summarises the changes that occurred in the share capital structure of Bank Zachodni WBK over the last 12 months, based on the figures noted at the dates of publication of the respective financial reports.

Shareholder	Number of Shares and Votes at AGM					% in the Share Capital & Voting Power at AGM				
	30.07.2013	25.04.2013	31.01.2013	25.10.2012	26.07.2012	30.07.2013	25.04.2013	31.01.2013	25.10.2012	26.07.2012
Banco Santander S.A.	65 481 563	65 481 563	70 334 512	70 334 512	70 334 512	70,00%	70,00%	75,19%	94,23%	96,25%
ING Otworthy Fundusz Emerytalny	4 966 506	4 966 506	-	-	-	5,31%	5,31%	-	-	-
KBC NV	-	-	15 125 964	-	-	-	-	16,17%	-	-
Others	23 097 020	23 097 020	8 084 613	4 303 119	2 741 501	24,69%	24,69%	8,64%	5,77%	3,75%
Total	93 545 089	93 545 089	93 545 089	74 637 631	73 076 013	100,00%	100,0%	100,0%	100,0%	100,0%

As at the date of publication of the "Interim 2013 Report of Bank Zachodni WBK Group", the shareholders with at least 5% of the total number of votes at the General Meeting of the bank were Banco Santander S.A. (70%) and ING Open-Ended Pension Fund (5.31%).

Integration of Bank Zachodni WBK with Kredyt Bank

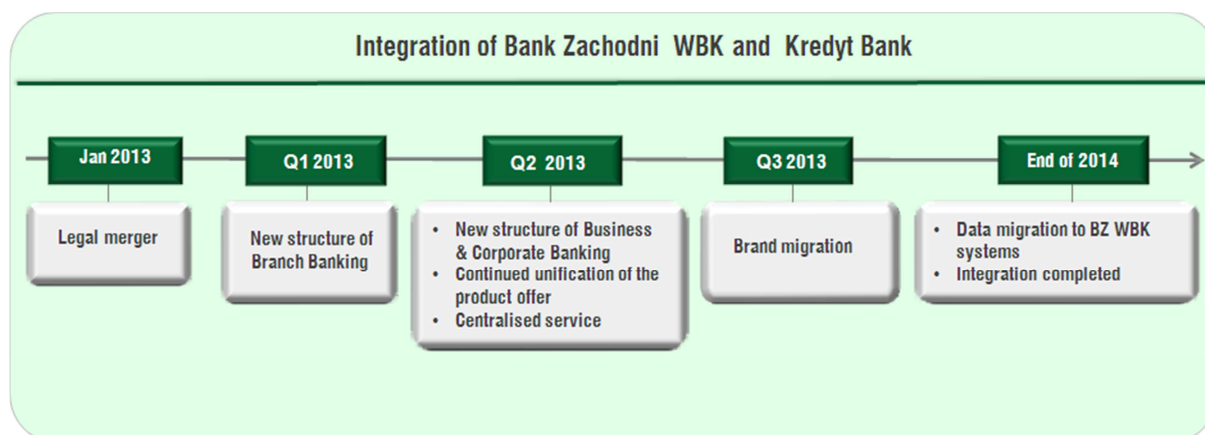
In the first half of 2013, the structure of the Branch Banking and the central units of the merged banks were integrated, with a new operating model implemented in the Business and Corporate Banking in April 2013. Also, active steps were taken to integrate the operating systems, harmonise regulations and standardise the product offering and prices. Progress achieved in this area included:

- In Q1, the bank enabled handling of domestic and foreign payments through a single settlement system. Customers were offered free transfers between accounts held in both branch networks and free-of-charge withdrawals from the ATMs of the merged entity. The branches of the former Kredyt Bank started to offer the Western Union Money Transfers, cash loan, the new Account Worth Recommending with its ancillary products, Arka mutual funds, structured deposits and negotiated deposits. All the consumer loans were covered by the credit risk assessment models of Bank Zachodni WBK.
- In Q2, the Bank Zachodni WBK process of mortgage loans handling and security evaluation was implemented in the branches with the Kredyt Bank logo. The bank also introduced the Biznes Ekspres loan addressed to SMEs. A uniform product offering for retail customers (including small companies), business and corporate customers, with a consistent central management, was prepared for implementation on 8th of July.

Actions are underway to prepare for brand migration and replacement of the Kredyt Bank logo with the BZ WBK brand and corporate colours. In the first stage of the process an information campaign will be held to prepare the customers of the former Kredyt Bank for the planned changes. In addition to the branch signage, changes will include the Kredyt Bank website design to bring it in line with the design of the Bank Zachodni WBK transaction sites.

The work on brand migration (harmonisation of the bank's image and market offering) and operational merger (implementation of common customer service processes, customer data and product migration) will be continued until full integration is achieved. All the business and IT projects are part of the Integration Programme and follow the adopted schedules. Their execution is supervised by a Steering Committee.

As the integration process moves on, Bank Zachodni WBK regularly conducts customer satisfaction surveys. The satisfaction and recommendation ratios have not changed compared with 2012, thus showing that the bank remains strong against its competition.



3. Rating, Share Price and Market Position of Bank Zachodni WBK

Bank Zachodni WBK Rating

On 10 January 2013, in response to the legal merger between Bank Zachodni WBK and Kredyt Bank, Fitch Ratings affirmed the ratings of Bank Zachodni WBK and withdrew the ratings of Kredyt Bank. As a result of these actions, the rating of the post-merger bank is as follows:

Fitch Ratings of 14.06.2012 affirmed in the announcement of 10.01.2013*	
Rating type	
Long-term IDR	BBB
Outlook for the long-term IDR rating	stable
Short-term IDR	F3
Viability Rating	bbb
Support Rating	2

* BZ WBK rating valid as at 30.06.2012, 31.12.2012 and 30.06.2013

Confirmed IDRs and individual VR reflect Fitch's view that the credit profile of the merged organisation is broadly in line with that of pre-merger Bank Zachodni WBK, although it is slightly weaker owing to Kredyt Bank. Both ratings reflect the intrinsic strength of Bank Zachodni WBK, i.e. robust performance, comfortable liquidity and capital position as well as a stable funding structure based on customer deposits. According to Fitch, risks arising from the bank's credit exposures to commercial property loans and residential mortgages are adequately secured, given the high capitalisation and profitability of the merged bank.

The affirmed support rating ("2") means that the bank's majority shareholder - Banco Santander (Santander, "BBB+" / Negative) - will have a high propensity to provide support to the merged bank in case of need, given its strategic importance for Santander's business in Poland.

According to the base-line scenario developed by Fitch, prospective downgrade of the long-term IDR for Santander will not have any impact on BZ WBK rating. No VR or IDR upgrades are expected in the short- and medium-term perspective, given the merger-related organisational challenges for the bank, moderately negative impact of the merger, deterioration of the macroeconomic environment and the credit rating of Banco Santander.

Share Price of Bank Zachodni WBK in the Market Context

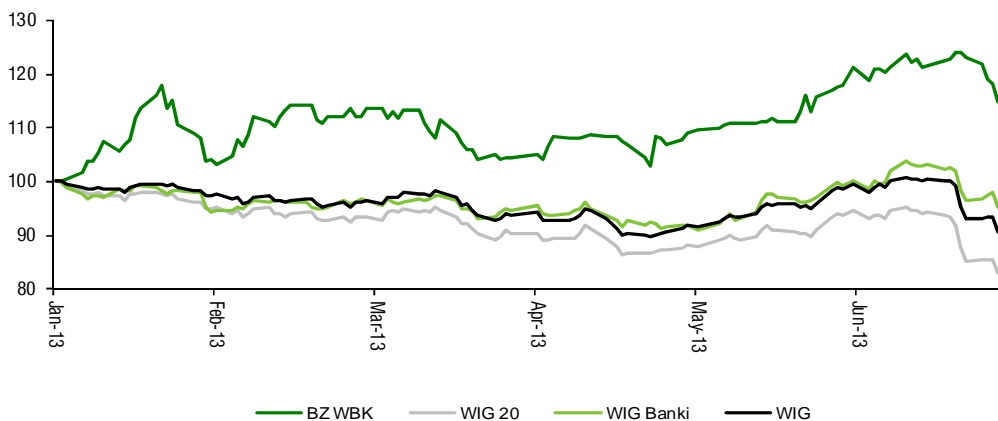
In the first half of 2013, the Warsaw stock exchange was characterised by increased fluctuations combined with a gradual weakening of the main stock indices. Due to the uncertainty aroused by the deteriorating indicators of the Polish economy and the investors' fears of possible reversal of the upward trend in the developed markets, WIG and WIG20 lost 5.7% and 13.1%, respectively. At the same time, the WIG Banks index decreased by 0.8%.

The weak performance of the stock of the largest listed companies was due to the debate initiated by the Polish government regarding changes in the operation of the open-ended pension funds. This gave rise to negative sentiments among the largest investors concerned that the funds might be eventually liquidated. In effect, the WIG20 index ceased its upward trend and remained under an increased supply pressure.

Meanwhile, the indices measuring the economic condition of the companies with a small to medium capitalisation performed much better, noting evident increases at the end of June. mWIG40 and sWIG80 increased by 8.8% and 12.2%, respectively, due to a consistent approach of the local portfolio shareholders interested in long-term investments. Both indices have remained on their 1.5-year upward trends that are likely to continue until the year-end.

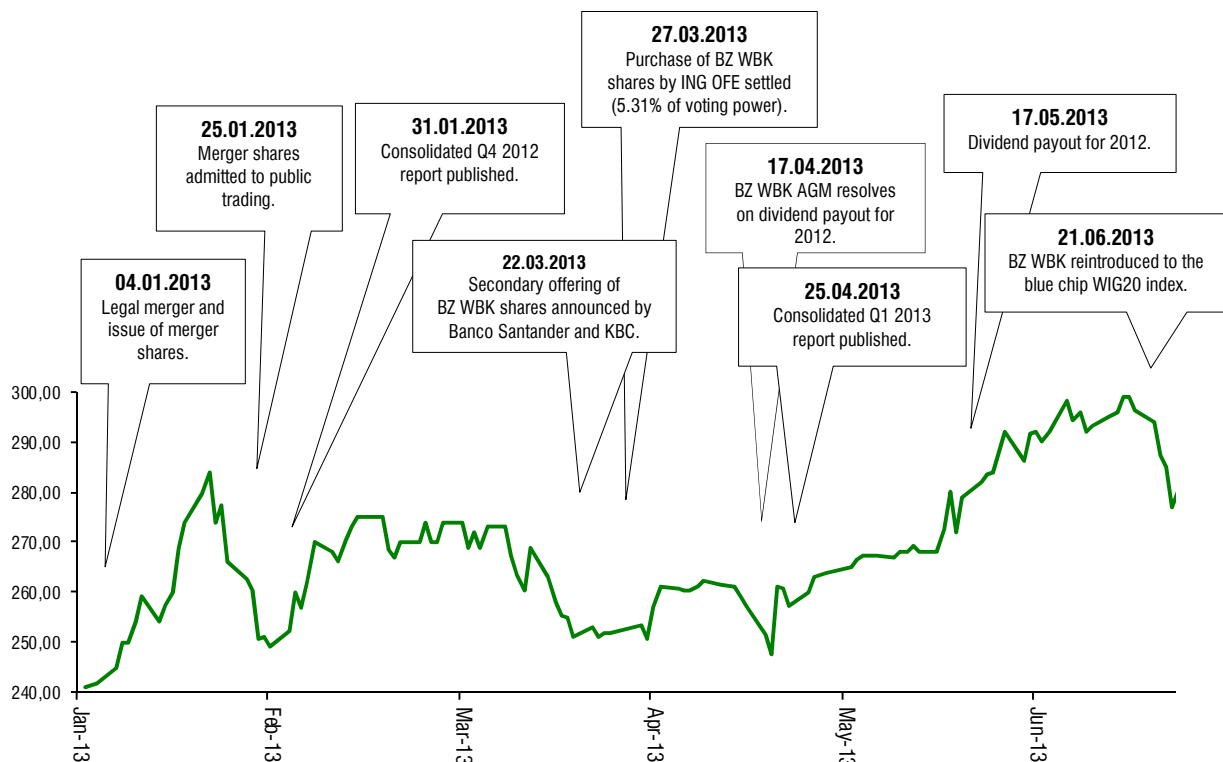
In the first half of 2013, the share price of Bank Zachodni WBK continued to move upward, with slight corrections, reaching its 6-year peak in June. The bank's share price yielded 15.8% over a 6 month period, but taking into account the dividend of PLN 7.60 paid to the shareholders for 2012, the yield was 18.9%. The observed investors' interest in the bank's shares was driven by the secondary offer held in March, with nearly 20 million shares worth PLN 4.9 bn put on the market by KBC NV and Santander Bank S.A. As the bank's free-float increased and exceeded the threshold of 10% of the share capital, Bank Zachodni WBK was re-admitted to the stock indices, including the blue-chip WIG20 index, which took place after the session of 21 June 2013 as part of the quarterly revision of indices. Previously, i.e. from 1 April 2011, the bank's shares had not been included in any stock indices on account of its ownership structure.

BZ WBK share price vs. indices
BZ WBK share price, WIG20, WIG and WIG Banki of 02.01.2013 = 100



Over the 6 months, the share price increased by 15.8%, i.e. from PLN 241.90 as at 31 December 2012 to PLN 280 as at 30 June 2013. The maximum share price was PLN 299 (19 June 2013) versus the minimum of PLN 241 (2 January 2013).

BZ WBK Share Price in H1 2013



As at 30 June 2013, the capitalisation of Bank Zachodni WBK was PLN 26,192.6m compared to PLN 23,573.4m as at 31 March 2013 and PLN 18,054.8m as at 31 December 2012.

Position of BZ WBK Group in the Polish Banking Sector

According to the financial information as at the end of Q1 2013, which at the date of approving this report (25 July 2013) was the most up-to-date source of comparable data on the Polish banking sector, Bank Zachodni WBK was the 3rd largest banking institution in Poland in terms of total assets, equity, loans, deposits and PBT. The post-merger bank has stable sources of funding and a strong capital, with a share in core financial markets ranging from 7% to 10%. The wide array of complementary services to different customer segments and the extensive branch network across Poland position the bank well for further market penetration. With the expanded scale of its business, the bank is able to compete more successfully with the biggest players in the Polish banking sector, leveraging off the emerging synergies to increase operational effectiveness.

Position of Santander Group

Banco Santander – the parent entity of Bank Zachodni WBK – is a commercial bank with over 150 year history, having its registered office in Santander and operational headquarters in Madrid (Spain). While it specialises in retail banking services, the bank is also active on the corporate, asset management and insurance market. Banco Santander is characterised by geographic diversification of its business. It currently focuses on its 10 key markets, both developed and emerging ones. As at the end of March 2013, Banco Santander was one of the leading banks in the eurozone and the 16th banking institution worldwide in terms of capitalization. It managed EUR 1,406.6bn worth of customer funds, provided services to over 100 million customers via a distribution network of 14,689 branches, and employed 189.9 thousand people. In Q1 2013, the net profit attributable to the Group's shareholders came in at EUR 1,205m. Santander is the leading group in Spain and South America. It also enjoys a strong market position in the UK, north-eastern coast of the US as well as in Germany and Poland.

4. Companies Connected with Bank Zachodni WBK

Subsidiary Undertakings

Bank Zachodni WBK forms a Group with the following twelve subsidiaries:

1. BFI Serwis Sp. z o.o.
2. BZ WBK Asset Management S.A.
3. BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. - subsidiary of BZ WBK Asset Management S.A.
4. BZ WBK Inwestycje Sp. z o.o.
5. BZ WBK Faktor sp. z o.o. - subsidiary of BZ WBK Finanse Sp. z o.o.
6. 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.
10. Kredyt Lease S.A. - subsidiary of BZ WBK Finanse Sp. z o.o.
11. Kredyt Trade Sp. z o.o. in liquidation
12. Lizar Sp. z o.o. - subsidiary of Kredyt Lease S.A.

Compared with 30 June 2012 and 31 December 2012, the composition of the Group increased to include four subsidiaries acquired together with Kredyt Bank on 4 January 2013: Kredyt Lease S.A., Lizar Sp. z o.o., BFI Serwis Sp. z o.o. and Kredyt Trade Sp. z o.o. in liquidation. At the same time, BZ WBK Finanse & Leasing S.A. was removed from the list of subsidiaries as it was merged with BZ WBK Leasing S.A. on 29 March 2013 (for more details, see chapter IV "Activities of Bank Zachodni WBK Group in H1 2013", the section on the Business and Corporate Banking).

Except for one company, all of the above-mentioned subsidiary undertakings are fully consolidated in accordance with IAS 27. Lizar Sp. z o.o. is not consolidated due to the insignificant size of its business and negligible financials.

Joint Ventures and Associates

In the consolidated financial statements of Bank Zachodni WBK for the 6 month period ending 30 June 2013, 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:

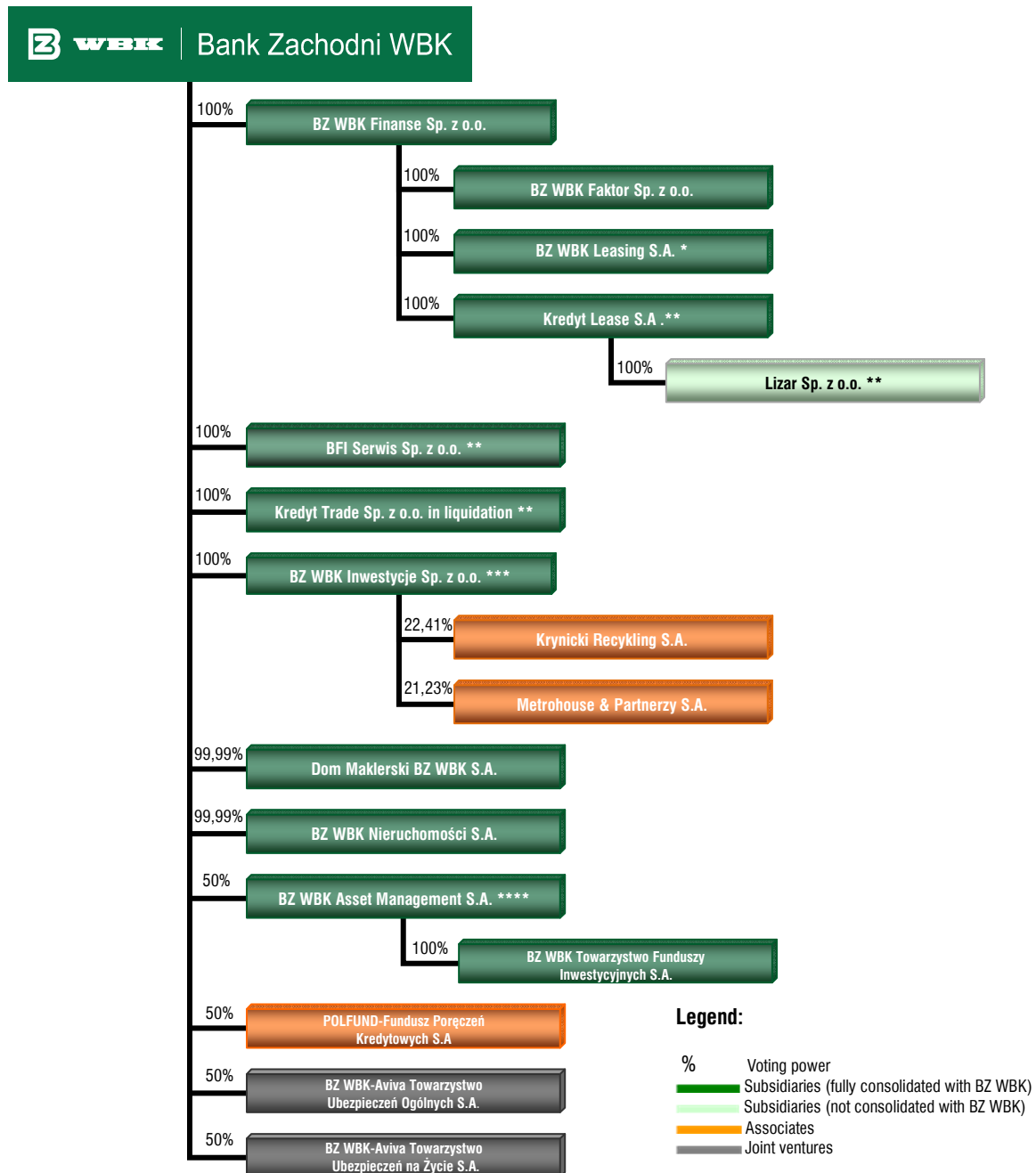
1. Krynicki Recykling S.A. - associated undertaking of BZ WBK Inwestycje Sp. z o.o.
2. Metrohouse & Partnerzy S.A. - associated undertaking of BZ WBK Inwestycje Sp. z o.o.
3. POLFUND - Fundusz Poręczeń Kredytowych S.A.

Compared with 30 June 2012, the list of associates is shorter by Holicon Group S.A., whose entire stake held by BZ WBK Inwestycje Sp. z o.o. had been sold on 21 September 2012.

Compared with 31 December 2012, no changes took place in the composition of Bank Zachodni WBK portfolio of associates and joint ventures.

Due to the increase in the share capital of Krynicki Recycling S.A. through the issue of series G and H shares (31 May 2013), the voting power of BZ WBK Inwestycje Sp. z o.o. decreased from 24.54% to 22.41%, i.e. by 2.13 pps.

Organisational Chart of Entities Connected with BZ WBK as at 30.06.2013



- * On 29 March 2013, BZ WBK Leasing S.A. merged with BZ WBK Finanse & Leasing S.A. whereby the latter company transferred its assets to the former in exchange for shares.
- ** The companies: Kredyt Lease S.A., Kredyt Trade Sp. z o.o. in liquidation, BFI Serwis Sp. z o.o. and Lizar Sp. z o.o. were acquired in the merger between Bank Zachodni WBK S.A. and Kredyt Bank S.A. Lizar Sp. z o.o. is not consolidated due to the insignificant size of its business and financials.
- *** The subsidiaries of BZ WBK Inwestycje Sp. z o.o., i.e. Metrohouse & Partnerzy S.A. and Krynicki Recykling S.A. were classified as associates since the bank has a significant impact on their operations. The respective shareholdings were acquired as part of the bank's strategy to build a portfolio of "pre-IPO" investments.
- **** As at 30 June 2013, 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 50% stake in the company's share capital. In practice, Bank Zachodni WBK exercises control over the company and its subsidiary, BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. because through it Banco Santander pursues its policy in Poland. Consequently, the company is treated as a subsidiary.

III. Macroeconomic situation in H1 2013

Economic Growth

The Polish economy recorded a significant slowdown in the first half of 2013. Already in Q1 2013, the GDP growth in Poland decelerated to 0.5% y-o-y, the lowest level in four years. Based on available monthly data, it can be estimated that GDP growth in Q2 2013 was only slightly higher, reaching the level of ca. 0.8% y-o-y. Deterioration of economic situation in Poland was caused not only by economic slowdown abroad (mainly in the euro zone), but also by a slump in domestic demand (in Q1 2013 it recorded fourth straight quarter of decline, by 0.9% y-o-y, and probably remained below zero also in Q2). Weakness of domestic demand was a result of stagnation in private consumption (under difficult situation in the labour market: low income growth, gradual unemployment rise), negative investment growth and slower growth of inventories. Despite negative economic climate in the world economy, Polish exports recorded moderately high growth, thanks to high price competitiveness of Polish products and the fact that domestic companies clearly intensified search for new markets abroad, which led to higher geographical diversification of Polish trade. At the same time, weak domestic demand was curbing imports growth, which resulted in sharp reduction of external imbalance. At the end of H1 2013, leading indicators started to show some signs of improvement, heralding a rise in economic activity in the second part of the year.

Inflation

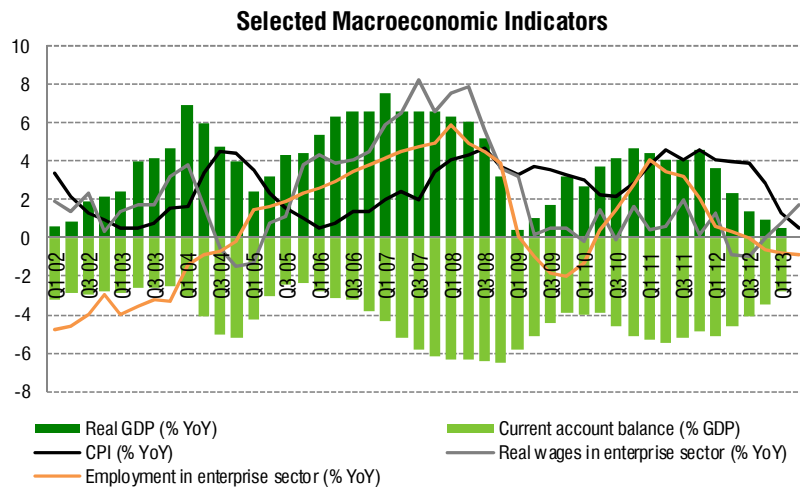
First half of 2013 was characterised by very quick drop of inflation. Annual price growth fell from 2.4% at the end of 2012 to merely 0.2% y-o-y in June 2013. Thus, inflation rate in Poland fell to the lowest level since the beginning of the 90s. Core inflation was also in downward trend, but remained above the headline CPI measure – in June the core inflation excluding prices of food and energy reached 0.9% y-o-y, versus 1.4% at the end of 2012. Producer prices (PPI) were declining in first year-half (ca. -1.5% y-o-y on average), showing complete lack of cost pressure on producers. Quickly falling inflation had a positive impact on households' purchasing power.

Labour Market

Lower economic activity caused stagnation in the domestic labour market. Average employment in the corporate sector was gradually decreasing in the first months of the year and only in May the downward trend halted. In June, a quite significant rise in employment was recorded, by over 9,000 versus May, although the number of jobs was still 0.8% lower than in the corresponding period of the previous year. It is still difficult to say with certainty whether it was a beginning of recovery on the Polish labour market or a temporary phenomenon. At the same time, wage growth remained at a moderately low level, on average only slightly above 2% in H1 2013. Still, sharp inflation drop supported real wage growth. Registered unemployment rate, after rise in the first months of the year, was falling in the second quarter due to seasonal factors and heavy interventions of the Ministry of Labour. Meanwhile, seasonally adjusted unemployment rate consistent with Labour Force Survey's methodology hit the all-time high in seven years (10.7%) and stabilised at this level in the second quarter.

Monetary Policy

In reaction to a significant decline of inflation and deceleration of economic growth, the Monetary Policy Council was continuing the cycle of monetary policy easing that was started in November 2012. In the period between January and June 2013 the MPC trimmed main interest rates by a total of 150 bps, lowering the NBP reference rate to the record-low level of 2.75%. At the start of July, after another cut by 25bps, the MPC announced the end of monetary easing cycle and the shift to "neutral" bias in monetary policy. According to NBP President, Marek Belka, main interest rates in Poland should remain unchanged at least until the end of 2013.



Credit and Deposit Markets

Credit market was also in stagnation in the first half of 2013, both as regards loans to households and companies. Firms and households were not eager to take out loans given the weak economic outlook. At the end of June 2013, the total loans were 3.5% higher than the year before, households' loans increased by 2.4% y-o-y, while corporate loans by 2.2% y-o-y. Households' deposit growth remained at a relatively high level (7.6% y-o-y in June), although a quick decline of interest rates triggered a clear move of savings from term-deposits to current and saving accounts. Companies' deposit growth accelerated to 4.4% y-o-y in June from -7.6% y-o-y in December 2012.

Financial Market

Situation on the interest rate market was quite volatile in Q2. Bond yields reached new all-time lows after May's meeting of the Monetary Policy Council (MPC), but then a strong correction occurred driven by the outflow of foreign capital from emerging markets connected to worries that the Fed will taper the 3rd round of quantitative easing (QE3) soon. Signals from the MPC that the monetary easing cycle is close to an end was another argument to continue the sell-off. This trend strengthened (also globally) after June's meeting of the US central bank, when the Fed governor suggested that QE3 tapering may begin in 2013 already, while the whole programme may be closed in mid-2014. In due course, yield of domestic 10Y bond surged to 4.60% and 10Y IRS jumped to 4.40%. End of Q2 brought some recovery on the markets due to calming comments of the Fed members, which helped to trim some losses. As a result, curves steepened as yields fell on the shorter end (by 4bps for IRS and 12bps for bonds) and rose on the longer end (by 55bps for IRS and 42bps for bonds).

Expectations about cuts of the NBP interest rates and worries about further actions of the Fed weakened the zloty in relation to the main currencies. A marked rise in volatility on the EUR/PLN encouraged the NBP to intervene on the FX market and at the same time state-owned BGK bank increased its presence on the FX market (the bank was selling currencies held by the government). Combined actions of the NBP and BGK limited the FX market volatility, but EUR/PLN remained at an elevated level (above 4.30). In Q2, the zloty lost 3.6% versus the euro and 1.8% versus the US dollar. In general, H1 2013 saw a weakening of the zloty versus the main currencies and a rise of IRS/yields at the middle and at the longer end of the curve, while the front end remained at relatively low levels.

Forecast of Economic Situation

In the second half of the year a gradual revival of economic activity in Poland may be expected. The process of recovery will be probably quite sluggish and irregular, though. The average GDP growth in 2013 is forecasted to reach ca. 1.0% y-o-y, but the final quarter of the year might see a number slightly above 1.5% y-o-y.

Economic recovery will be based mostly on increasing Polish exports. Improving situation of Poland's main trading partners will positively affect exports to those countries, and at the same time Polish producers will be expanding into emerging markets (Asia, Middle East). Growth in the domestic demand will remain muted. In particular, a further drop in investments is expected in 2013, largely due to strong cuts in public investment spending. Some support for private sector's investment may come from lower interest rates and launch of government's programme "Inwestycje Polskie". The pace of private consumption growth will be still quite anaemic, although some revival is expected during the year. Sharp fall of inflation and gradual acceleration of wage growth (mainly in exporting sectors) will contribute to the growth in households' real disposable income, which should be supportive for higher spending. Still, consumption growth will be limited by reconstruction of households' savings that were dented in 2012.

Inflation, after a sharp drop to almost zero in H1, will be rebounding in the upcoming months, yet remaining considerably below the NBP inflation target. This will be an effect of, among other factors, very low statistical base of the previous year and higher living costs due to waste-management bill, rising fuel and food prices. At the year-end, the inflation rate should approach ca. 1.5% y-o-y again.

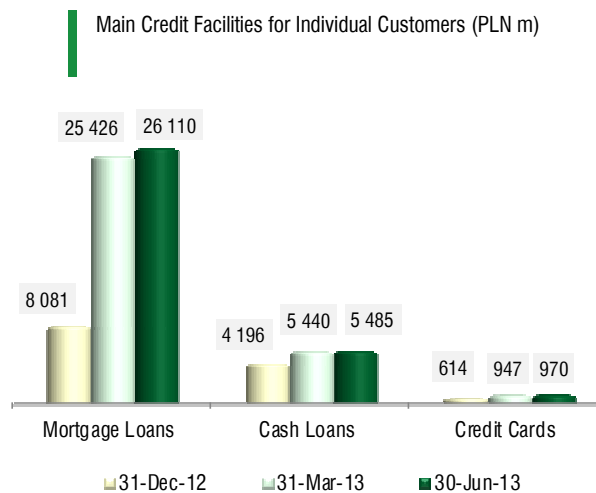
The Monetary Policy Council ended the monetary easing cycle in July and it seems unlikely that it will retreat from this declaration. In due course, NBP interest rates should remain unchanged at least until H2 2014.

IV. Activities of Bank Zachodni WBK Group in H1 2013

1. Retail Banking

- The merged Bank Zachodni WBK renders services to ca. 3.8m personal customers and 0.27m small companies. To meet customer needs, the bank has used best practice to develop and implement business relationship management system in the three main streams:
 - ✓ personal customer segment management;
 - ✓ customer lifecycle relationship management;
 - ✓ operational management of customer contacts.

Personal Loans



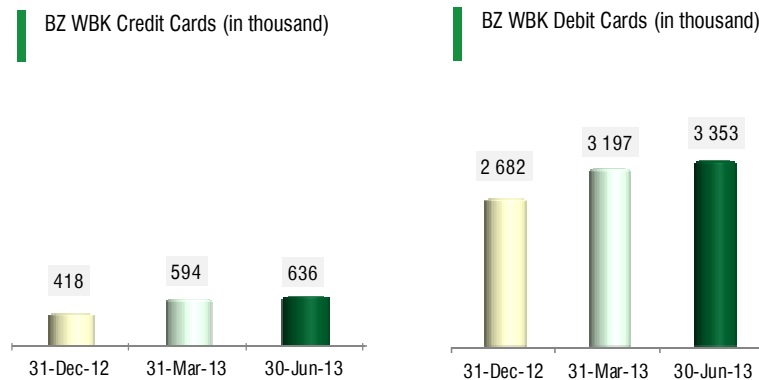
Mortgage Loans

- On 2 April 2013 a common mortgage lending proposition became available to all customers of the post-merger Bank Zachodni WBK as a result of implementation of respective BZ WBK products, regulations and customer service procedures across the branch network with the Kredyt Bank logo. Despite the unfavourable market trends (continuing fall of apartment prices, low market turnover, end of the programme of state-subsidised loans) and strict regulatory requirements, in H1 2013 the sale of mortgage loans kept at a stable, higher than expected level.

Consumer Loans

- The harmonisation of consumer loans has been delivered in phases.
- In the first half of July, cash loan parameters and credit delivery were standardised across the two branch networks. The pricing applicable in the Kredyt Bank network included Individual Pricing offered by branches with the Bank Zachodni WBK logo.
- High sales of cash loans reported in H1 2013 were fuelled by, among other things, two multimedia advertising campaigns targeted at personal customers of the merged bank: cash loan campaign under the slogan "Hurry up – the cash is waiting!" ("Nie zwlekaj, gotówka czeka!") (run from 1 February to 14 March 2013) and consolidation loan campaign under the slogan "Consolidate your debt and save" ("Połącz kredyty i zyskaj") (run from 13 May to 14 July 2013).

- As part of the integration process, the bank devised and launched an action plan aimed at harmonisation of the credit cards portfolio as well as effective and smooth customer migration. As a consequence, on 8 July 2013 the product proposition of the branch network with the Kredyt Bank logo was expanded to include credit cards offered by Bank Zachodni WBK, while branches with the Bank Zachodni WBK logo started handling credit cards sold formerly by Kredyt Bank.
- On 1 February 2013, new rules were introduced by Bank Zachodni WBK as regards interest rate on the credit card limit, whereby interest on the utilised credit limit is charged at the variable interest rate, linked to the NBP Lombard Loan rate. In addition, the validity of credit cards was extended from two to four years.



Settlement Products

Current Accounts with Associated Products and Services

- On 15 March 2013, the merged bank implemented across its network a unique and attractive current account called Account Worth Recommending (Konto Godne Polecenia).
 - ✓ As expected by customers, the account is free-of-charge, irrespective of the monthly turnover. Likewise, no fees are charged for the associated products and services, including: debit card, sticker for contactless payments, Elixir transfers via BZWBK24 platform, standing orders, direct debits, withdrawals from the ATMs of BZ WBK, Kredyt Bank and PKO BP.
 - ✓ The account comes with debit cards (MasterCard Omni or MasterCard PAYBACK Omni) and modern stickers for contactless payments (MasterCard Omni or MasterCard PAYBACK Omni). The customers opting for the MasterCard PAYBACK sticker or card participate in the PAYBACK programme.
 - ✓ Customers who opened an account bundled with BZWBK24 electronic banking services and a card were covered by a special offer titled "Even 700 is Waiting for You" ("Nawet 700 zł czeka na Ciebie"), which was valid from 15 March 2013 to 10 May 2013.
 - ✓ Between 1 April and 10 May 2013, a major marketing campaign was launched to promote the new offering.
- In H1 2013, customers of the post-merger bank were approached with a uniform offer of personal accounts, implemented on 8 July 2013. Account<30 (Konto<30) and all accounts offered by former Kredyt Bank were withdrawn. The personal account proposition of Bank Zachodni WBK currently includes: Account Worth Recommending, MoneyBack Account (Konto Wydajesz&Zarabiasz), MoneyBack PLUS Account (Wydajesz&Zarabiasz PLUS), High Heel Account (Konto na Obcasach), Active 50+ Account (Konto Aktywni 50+), VIP 24 Account (Konto 24 VIP) and FX 24 Account (Konto24 walutowe).
- As regards debit cards, each branch network continues to pursue its pre-merger customer service model and product offering, although the latter has been in meantime complemented with common items. Projects are underway to standardise the debit card proposition along with the respective pricing policy across the post-merger bank. These are scheduled to be implemented in Q4 2013.



Bancassurance

- In H1 2013, the main priority of the Bancassurance unit was to harmonise the product proposition of the post-merger bank.
- In co-operation with BZ WBK-Aviva insurance companies, the bank delivered the following initiatives:
 - ✓ In May 2013, the bank's proposition was expanded to include a new insurance product ("Family Caregiver"/"Opiekun Rodziny").
 - ✓ The bank prepared the launch of the sale of an accident insurance "For Family and Friends" ("Dla Bliskich") in direct distribution channels.
 - ✓ The business loan insurance offer Biznes Gwarant was streamlined in line with customer expectations.

Bank Deposits

- Since the merger with Kredyt Bank, efforts have been taken to standardise deposit and investment products, customer service procedures as well as the pricing policy. In H1 2013, the following initiatives were delivered, among others, in order to advance the integration and enhance the product proposition:
 - ✓ At the beginning of January 2013, a new deposit product was launched in branches with the Kredyt Bank logo and in the KB24 electronic banking channel. It was a PLN personal savings account called "Extra Savings Account" ("Konto Ekstra – oszczędnościowe") offered on the same conditions as savings accounts available in branches with Bank Zachodni WBK logo.
 - ✓ In January 2013, the offer of negotiated deposits was standardised in both branch networks of Bank Zachodni WBK, which enabled all customers to negotiate customised rates following the same rules.
 - ✓ In late January 2013, the bank introduced another deposit product with a progressive interest rate, the so-called "5-Month Fast Earning Deposit" ("5-miesięczna Lokata Dynamicznie Zarabiająca"). The deposit offers monthly capitalisation of interest and can be closed early without losing any interest accrued over full months of its effective term.
- The harmonisation process was completed on 8 July 2013, once the common deposit offer for personal customers was rolled out across the merged bank. Customers of the former Kredyt Bank may now avail of term deposits and savings accounts offered by Bank Zachodni WBK and make deposit-related operations in the branch network with the BZ WBK logo. Term deposits available with the former Kredyt Bank are no longer on offer.

Investment Products

- Bank Zachodni WBK focused on integration of investment procedures and offering of the merged branch networks with a view to strengthening its position as the key distributor of the subsidiaries' products and the main business partner of other financial institutions.

Structured Products

- In H1 2013, Bank Zachodni WBK remained active in the segment of structured products. It offered 3 and 6-month structured deposits with interest rate linked to the EUR/PLN and the USD/PLN rate. The deposits ensured 100% capital protection at maturity and were generally available in three options depending on the investment strategy: appreciation, depreciation or stabilisation of the currency. Over the past six months, the bank offered 34 structured products in the total of 12 issues. Structured deposits were issued and sold simultaneously and under the same conditions in both branch networks of Bank Zachodni WBK, starting from 8 February 2013.

InPlus Investment Programme

- In H1 2013, actions were taken to introduce the BZ WBK InPlus Investment Programme (life insurance linked with insurance capital funds) to the branch network of former Kredyt Bank S.A. The bank plans to provide all the customers with a full access to the Programme across the merged branch network by the end of 2013.

Mutual Funds

- On 21 January 2013, the sale of Arka mutual funds was launched in the selected branches with the Kredyt Bank logo. The offer included a full range of products of BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. (BZ WBK TFI), including the open-ended umbrella Arka BZ WBK FIO fund, the open-ended specialist umbrella Arka Prestiż SFIO fund, Arka Optima – a programme for optimisation of investments in equity funds, Personal Pension Accounts and Systematic Savings Programmes. Arka funds will be available across the entire network of the post-merger bank by the end of Q3 2013.
- From January through June 2013, BZ WBK TFI reported record high net sales of mutual funds, totalling PLN 1.2bn, which exceeded the result for the entire 2012 and gave the company a leading position in the market. Sales were particularly high in April and May, adding up to PLN 421m and PLN 664m, respectively. The value of net assets under management of BZ WBK TFI increased by 7.9% q-o-q and 24.5% y-o-y, reaching PLN 11.0 bn as at 30 June 2013.
- During the analysed period, customer investment strategies were driven by two factors: the demand for higher yield products instead of low interest bearing term deposits and aversion to equity-linked products (except for Turkish shares). Arka BZ WBK Ochrony Kapitału (capital protection fund) and Arka BZ WBK Obligacji Skarbowych (treasury bond fund) were the first choice subfunds. Corporate bond subfunds grew much more popular as well. At the same time, some outflow of funds from Arka Prestiż Obligacji Skarbowych (treasury bond subfund) was observed as customers wished to earn profits prior to the end of the bull bond market cycle.

Wealth Management

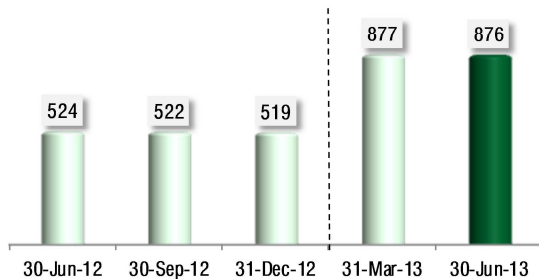
- Bank Zachodni WBK renders wealth management services to customers who have signed relevant agreements with the bank. In June 2013, the Wealth Management Department merged with the Private Brokerage team of Dom Maklerski BZ WBK, which apart from increased headcount resulted in a stronger geographical presence (14 offices nationwide), more comprehensive offering and a larger and more diverse portfolio of assets under management. At the end of June 2013, the value of assets under management of the Department reached ca. PLN 6.4bn, including ca. PLN 4.7bn worth of shares, warrants and futures. Smaller contributors included: private portfolios offered under asset management services (PLN 0.4bn), mutual funds (PLN 0.4bn), deposits, bonds and funds in current accounts.

Selected Retail Distribution Channels

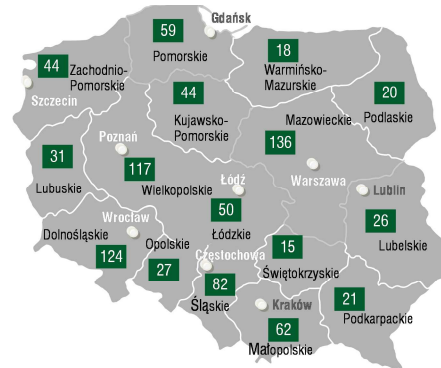
Branch Network and Complementary Distribution Channels

- At the start of January 2013, the bank introduced a new organisational structure of BZ WBK Branch Banking to enhance network management and to foster development of the bank's sales potential. Branches were subordinated to regions managed by macroregions. The only exception were the three largest branches (Poznań 6, Wrocław 1, Wrocław 5) which report directly to their respective macroregions.
- As at 30 June 2013, Bank Zachodni WBK operated through 876 branches in 85 regions and 12 macroregions. For comparison, at the merger date (04.01.2013), the branch network consisted of 889 branches including 519 branches of Bank Zachodni WBK and 370 branches of Kredyt Bank. A decline in the number of branches is attributable to the optimisation of overlapping outlets.
- At the end of June 2013, the bank's branch network was complemented by 105 Partner outlets (107 outlets as at the end of March 2013).

BZ WBK Branch Network
from 30 June 2012 to 30 June 2013



Geographic Location of BZ WBK Branches
in Poland as at 30 June 2013



ATM Network

- At the end of June 2013, the ATM network of Bank Zachodni WBK comprised 1,429 machines (vs. 1,440 at the end of March 2013), including 1,051 ATMs of the former BZ WBK network and 378 ATMs of the former Kredyt Bank network. The ATM network integration process is underway, which is expected to end in the third quarter of 2013, with a full harmonisation of services offered to customers.

Telephone and Electronic Banking Centre (CBTE)

- In late 2012/early 2013, a new video channel was launched whereby customers are able to buy the bank's products in a direct video call with an advisor.
- In H1 2013, the bank merged the operations of the Telephone Centre of the former Kredyt Bank in Lublin with the Telephone and Electronic Banking Centre in Poznań and Środa Wielkopolska. As a consequence, through each of the above-mentioned locations customers have been provided access to IT systems of the former Kredyt Bank and Bank Zachodni WBK. The first joint sales activities were launched.

BZ WBK24 Electronic Banking for Personal Customers

- In H1 2013, BZWBK24mobile users were offered an application for another mobile platform - Windows Phone, and a new service – transfers to any non-BZ WBK accounts. The bank also ran an information campaign among electronic banking users without access to BZWBK24mobile to encourage them to use mobile banking services.
- On 15 March 2013, Internet applications for a new product package built around the Account Worth Recommending (the Account Worth Recommending, electronic banking services, a card and a sticker for contactless payments) became available on the web sites bzbwk.pl and kredybank.pl. The Account Worth Recommending was also made available in the "buy-by-click" formula.
- In the reporting period, the volume of loans sold via Internet was systematically on the rise, which ranked this channel as the second most popular one (after the branch network).
- In H1 2013, a number of promotional campaigns were held to encourage a stronger customer activity and to increase the value of non-cash transactions. The campaigns were targeted both at selected customer groups and the entire population ("3% Bonus for the Active"/"3% premii dla aktywnych", "Winter 7%" / "Zimowe 7%" campaign of card payments over the Internet; the "50 for 500" competition, a campaign targeted at Visa Wydajesz&Zarabiasz and Visa na Obcasach card holders). Customers were also incentivised to increase their BZWBK24 electronic banking activity.

BZ WBK24 Electronic Banking for Business Customers

- Promotional and incentive campaigns were also addressed to business customers who used the bank's cards and/or electronic banking services (the "50 for 500" campaign for active card holders; special offer of BZWBK24 Moja Firma Plus bundled with a business debit card - "Electronic Business Package", activation campaign "Discover the advantages of your card").

Services to Financial Institutions

- As part of its outsourcing services, Bank Zachodni WBK co-operates with more than 20 banks operating in international and domestic markets, as well as a group of external financial institutions. The bank renders such services as ATM network management, card issuing and handling, and other.
- In H1 2013, the bank started co-operation with new entities and expanded the relationship with the existing partners (220 ATMs of one of the commercial banks were added to the network handled by Bank Zachodni WBK and the Dynamic Currency Conversion was implemented for another co-operative bank).

2. Business and Corporate Banking

Changes in the Organisational and Business Model

- In the wake of the legal merger, the corporate part of the Business Banking Division of former Kredyt Bank was incorporated into the organisational structure of the Business and Corporate Banking Division of Bank Zachodni WBK. This led to the double growth of the customer base in the target segments of the market (from 4.2k as at 31 December 2012 to 9k as at 30 June 2013), a larger team of corporate customer relationship managers and the bank's stronger presence in some regions of the country. In order to integrate the functions and operational solutions of both banks, a new organisational structure and operating model for the Division was implemented on 1 April 2013.
- These have been based on new customer segmentation assumptions. The customer base was divided into three basic segments by the turnover volume:
 - ✓ Corporate segment with turnover at PLN 40-500m;
 - ✓ Large corporate segment with turnover over PLN 500m (except for customers fitting in the GBM segment definition);
 - ✓ Property finance segment.
- In the new structure, services for large companies are centralised in the Large Corporate Department, while the property sector is handled by the Corporate Property Department. The Corporate Banking Area provides services to corporate customers and is divided into three regions (North, Central, South) which overlap the voivodships. Each region has 4 Corporate Banking Centres. On top of that, a newly established Product Sales Department is responsible for the growth of cross-sales and non-interest income on transactional banking, trade finance and treasury products. It targets all customer segments via its sales staff working in 12 Corporate Banking Centres, Large Property Department and Corporate Property Department. The Business and Corporate Banking Division also covers the Product Development and Operations Department.
- In the adopted service model, the relationship manager works in a relatively close vicinity of the customer's business seat and his responsibilities include management of relationship with customers from the assigned portfolio as well as providing them with tailored solutions from a comprehensive product offer (loans, deposits, liquidity management services, transactional banking, capital market and treasury transactions). To ensure the top quality of services, the relationship manager closely cooperates with the credit partners, product experts and central operational units (Business Support Centre, Central Settlements Area, Securities Centre). Services for corporate customers and large companies represent a growing source of the bank's competitive edge which is driven by such aspects as: wide network of advisors operating close to customers' premises, sound knowledge of the local market, speed of the credit decision-making process, tailored and innovative product offers and a dedicated transactional platform iBiznes24.

Other Integration Processes

- In Q1 2013, the bank organised a series of roadshows for corporate customers as part of a wide information campaign, presenting the grounds for the merger, the ensuing benefits for customers and prospects for further development of the organisation. Meetings were run by the bank's top executives and were held in 12 cities which host Corporate Banking Centres of Bank Zachodni WBK.



- As part of works aiming at migrating Kredyt Bank resources to target solutions of Bank Zachodni WBK, customers have been gradually incorporated into the service model adopted by the Business and Corporate Banking Division. All of the customers of the post-merger bank have been provided with an access to the full offer of leasing and factoring products. On 8 July 2013, the bank introduced a uniform product offer for newly acquired customers, after several months of preparations (staff training, definition of product structure and parameters, authorisations). Brand migration, another important stage of the process, is scheduled for autumn 2013.

Development of the Product Offer

- The bank's offer for business customer was extended to include MasterCard Corporate Card (debit and charge variety) which facilitates non-cash payments (incl. online transactions) and ATM withdrawals worldwide. This product gives companies full control over expenses through individual limits and real-time view of transactions in iBiznes24. MasterCard Corporate Charge cards also have a 21-day non-interest bearing period.
- On 3 July 2013 Bank Zachodni WBK launched the "de minimis" Credit Guarantee Program based on the agreement with Poland's state-owned Bank Gospodarstwa Krajowego. The "de minimis" program is aimed at providing co-guarantees for working capital loans for SMEs, the burden of the risk being taken entirely by the State Treasury. Loans may be granted for up to PLN 3.5m per firm, with state guarantees encompassing up to 60% of the loan value.

Leasing Business

- In line with the BZ WBK Group strategy aimed at providing a full leasing offer via a single specialised entity, BZ WBK Leasing S.A. and BZ WBK Finanse & Leasing S.A. were merged on 29 March 2013 under art. 492 (1)(1) of the Commercial Companies Code, i.e. all assets of BZ WBK Finanse & Leasing S.A. were transferred to BZ WBK Leasing S.A. (merger through acquisition) in exchange for 868 600 registered shares with the par value of PLN 100 each issued to BZ WBK Finanse Sp. z o.o., the sole shareholder of BZ WBK Finanse & Leasing S.A. The merger of BZ WBK Leasing S.A. and Kredyt Lease S.A., a subsidiary of former Kredyt Bank, is expected in due time.
- In H1 2013, BZ WBK Leasing S.A. focused on operations supporting the growth of sales to the agricultural sector, development of liquid asset financing in the corporate and SME segments and enhancement of cooperation with providers of fixed assets (mainly: personal vehicles).
- In the period under review, BZ WBK Leasing S.A. financed net assets of PLN 987.6m, including machinery and equipment of PLN 526.7m and vehicles of PLN 448.4m. The fastest growth rate was reported by the vehicle segment (+29.7% y-o-y).

Factoring Business

- In H1 2013, BZ WBK Faktor Sp. z o.o. reported turnover of PLN 4,717.3m, up 230% y-o-y and much above the market growth rate, which nearly tripled the company's share in the factoring market as compared to the same period last year (11% in H1 2013 vs. 4% in H1 2012) and placed it in the 4th position among members of the Polish Factors Association. As at 30 June 2013, the company's exposure totalled PLN 1,382.7m, an increase of 188% y-o-y. The growth of turnover and factoring receivables was driven by the increasing popularity of factoring solutions as a tool for w/c financing, effective acquisition initiatives in the bank network and extension of the scale of business after the legal merger.

3. Global Banking and Markets

- The Global Banking and Markets Division (GBM Division) provides an end-to-end support to leading local and global entities and groups of companies allocated to that segment based on turnover. As at 30 June 2013, the GBM Division cooperated with ca. 100 capital groups from the energy, financial, FMCG, pharmaceutical, retail trade and white goods sectors. The merger of Bank Zachodni WBK and Kredyt Bank had no significant impact on the size of the GBM customer base, yet it extended its offering to include custody services provided by the acquired bank.



- The Division operates within the framework of the Global Banking and Markets model of Santander Group, which facilitates entering into and maintaining relationships with customers operating globally and allows to provide local customers with solutions available in Santander Group.
- The Division is responsible for the development of the proposition for GBM customers within the following product lines:
 - ✓ transactional banking products (Global Transactional Services);
 - ✓ credit facilities (Credit Markets);
 - ✓ treasury products (Rates);
 - ✓ investment products (Equity).
- Selected units of the Division, in particular the Rates Area and Dom Maklerski BZ WBK, render specialist services to all customers of the bank.

Global Transactional Services

- Global Transactional Services (GTS) provide support to the Division's customers in respect of current accounts, deposits and working capital needs. GTS proposition also includes factoring, bank guarantees and leasing.
- At the turn of 2012 and 2013, GTS introduced Banco Santander's flagship product – "confirming" – into its product offer as well as initiated pilot cooperation with two customers in the area of liquidity management (cash pooling). The business profile was also extended to include financial custody services.
- The merger of Bank Zachodni WBK and Kredyt Bank contributed to the growth of revenues earned by GTS. Several financing transactions finalised in H1 improved the net result. Among other things, the bank provided financing to companies from the energy and retail trade sectors and closed the first inventory financing deal.
- The value of term deposits and funds maintained in current accounts increased q-o-q and y-o-y to PLN 4.0bn as at 30 June 2013.
- Factoring receivables, driven by FMGC customers, grew quarter-on-quarter in Q2 2013. Leasing debt remained on the similar level as at the end of Q1 2013.

Credit Markets

- Credit Markets Department provided funding towards medium and long-term investment projects delivered by customers of the GBM Division through loans and debt issue.
- In H1 2013, Credit Markets Department entered into a number of new agreements with customers from the mining, trade and telecommunications sectors, including c. PLN 1bn worth of participation in the record-high syndicated loan agreement in the bank's history. The Department also co-financed and provided counselling services to Polish and international capital groups. The value of financing granted was PLN 2.8bn as of 30 June 2013.

Rates

- In the wake of the merger, the treasury-related operations of both banks were integrated in the Rates Area at the start of January 2013, through the physical merger of dealing rooms.
- In H1 2013, the Rates Area continued the income diversification strategy supported by the development of interest rate products. It also launched an intensive campaign targeted at corporate and SME customers to promote the Bank's offer in the area of interest rate and currency hedges.
- Transactions delivered by the Rates Area in H1 2013 included, in particular, the interest rate hedge for a company from the retail trade sector serviced by Santander GBM.



Equity

Corporate Finance Area

- The investment banking activity was pursued by the Corporate Finance Area, composed of Equity Area and BZ WBK Inwestycje Sp. z o.o., and Dom Maklerski BZ WBK (BZ WBK Brokerage House, DM BZ WBK).
- In H1 2013, the Corporate Finance Area acted as an advisor in a number of transactions, mainly mergers and acquisitions, public offerings and private placements. The Area successfully finalised the purchase of the controlling stake in Zelmor S.A. and the purchase of wind farms on behalf of PGE, whereby the bank claimed the leading position among advisors on the mergers and acquisitions market.
- Both the Corporate Finance Area and DM BZ WBK participated in the sale of shares of Bank Zachodni WBK – announced by KBC Bank NV and Banco Santander S.A. – for a total value of PLN 4.9 bn DM BZ WBK acted as one of the offering parties and one of global coordinators responsible for book-building.
- Other transactions arranged by the Corporate Finance Area and DM BZ WBK in H1 2013 included: IPO of Polski Holding Nieruchomości S.A., sale of Kruk S.A. shares via a private equity fund and floating of International Personal Finance plc.
- Under the agreement entered into with the European Investment Bank, the bank managed the Urban Regeneration Fund for Greater Szczecin Area (JESSICA Programme).

Dom Maklerski BZ WBK S.A.

- In H1 2013, the market position of DM BZ WBK measured by the volume of trade on the Warsaw Stock Exchange was as follows:
 - ✓ The share of DM BZ WBK in the stock market trading was 7.8%, an increase of 1.1 pps y-o-y driven by the company's participation in the sale of shares of Bank Zachodni WBK by Banco Santander and KBC Bank NV and in the tender offers for other entities' shares. DM BZ WBK ranked 5th on the market in terms of the stock turnover volume.
 - ✓ The share of DM BZ WBK in the futures and forwards market trading grew by 1.2 pps y-o-y to 12.6%, which gave the company the 3rd place among brokerage houses in Poland.
 - ✓ The share of DM BZ WBK in the options market trading decreased by 9.4 pps y-o-y to 12.1%, which gave the company the 4th place among brokerage houses in Poland. This drop results from the institutionalisation of trade on the foregoing market where DM BZ WBK services only retail customers and does not act as a market maker.
- DM BZ WBK also ranked 1st on the Catalyst retail stock market with the share of 42.2%, an increase of 15.5 pps y-o-y.



4. Awards, Recognitions and Position in Rankings

In H1 2013, Bank Zachodni WBK and its subsidiaries received the following major awards and accolades:

Bank Zachodni WBK (BZ WBK)	
Financial Brand of 2013, in the "Bank" category	<ul style="list-style-type: none"> Award received from the <i>Gazeta Finansowa</i> weekly. The bank was recognised for the sustainable and coherent development, innovation and friendly relationship with personal and business customers. The smooth delivery of the merger with Kredyt Bank was acknowledged as well.
Socially Devoted	<ul style="list-style-type: none"> Certificate from Socialbakers (social media analytics platform), in recognition of the top customer communication standards in social media (January 2013).
2012 IT Leader of Financial Institution Awards	<ul style="list-style-type: none"> An accolade in the 11th edition of the IT Leader of Financial Institution Awards, a competition organised by <i>Gazeta Bankowa</i>, in the "Back-office Systems" category for end-to-end design and implementation of MIS Corpo for the BZ WBK Business and Corporate Banking Division.
Hits of the Year 2013	<ul style="list-style-type: none"> An award in the 6th edition of the technological competition of <i>Gazeta Bankowa</i> ("Hits of the Year 2013") in the "Products" category for credit products available in the "buy-by-click" formula (March 2013).
Best Bank 2013	<ul style="list-style-type: none"> Recognition for BZ WBK's effectiveness in the "Large Bank" category in the 21st edition of the 2013 Best Bank contest (May 2013).
Trusted Brand	<ul style="list-style-type: none"> The Crystal Trusted Brand Emblem and Crystal Trusted Brand Statuette awarded in the "Bank" category, based on consumer surveys organised by Reader's Digest (May 2013).
Dom Maklerski BZ WBK (DM BZ WBK)	
3rd place in the ranking of the best brokerage accounts for private investors	<ul style="list-style-type: none"> DM BZ WBK was recognised by <i>Puls Biznesu</i> for the high quality of customer service (mobile application, long business hours of the call centre, availability of customer service points and the AmiBroker program for technical analysis).
Recognition of analysts' performance	<ul style="list-style-type: none"> DM analysts were evaluated as follows in the ranking of the best analysts published by <i>Parkiet</i>: 1st place: production sector, incl. chemical industry, 3rd place in the telecommunications, IT and media sectors, and 2nd place among technical analysts (21 January 2013).
WSE Award for the most active brokers	<ul style="list-style-type: none"> WSE award for the highest share in the volume of derivative transactions (forward, futures and option contracts) in 2012, excl. market maker transactions (21 February 2013).
Third-largest financial result in the sector	<ul style="list-style-type: none"> Third position in the ranking of domestic brokerage houses reporting the highest net profit (<i>Parkiet</i>, dd. 23-24 March 2013).
BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI)	
Arka BZ WBK Akcji Tureckich (Turkish Equity Subfund)- Investment Fund of the Year ("Puls Biznesu")	<ul style="list-style-type: none"> Arka BZ WBK Akcji Tureckich (Turkish Equity Subfund) was recognised as the investment fund of the year as it topped the ranking compiled by <i>Puls Biznesu</i> (7.01.2013: "Brokers well-poised for the bull market") with the highest annual rate of return (49.5% in PLN). Awards were also received by Arka BZ WBK Zrównoważony (21.0%, 3rd place in the ranking of balanced funds) and Arka BZ WBK Stabilnego Wzrostu (18.2%, 3rd place in the ranking of stable growth funds). The manager of the Turkish Equity Subfund received the Golden Portfolio award in recognition of the best financial result earned on the investment fund market in 2012 (49.5% in PLN). This above-average performance resulted from good economic climate on the Turkish market and well-chosen portfolio of companies managed by the sub-fund.
Arka among the most popular investment funds in Q1 2013	<ul style="list-style-type: none"> According to Analizy Online, the top 3 most popular products (in terms of net sales for Q1 2013) included two Arka sub-funds: Arka Prestiż Obligacji Korporacyjnych, an open-end treasury bond subfund (1st place) and Arka BZ WBK Ochrony Kapitału, corporate bonds subfund (3rd place).
BZ WBK Leasing	
Gazeta Biznesu	<ul style="list-style-type: none"> Award granted by "Puls Biznesu" to Polish companies demonstrating the most dynamic business growth.
Turbina Polskiej Gospodarki (Engine of Polish Economy)	<ul style="list-style-type: none"> BZ WBK Leasing was recognised for its AUTOLEASING service (quick and simple financing of vehicles) by <i>Gazeta Finansowa</i> which awards the best products addressed to SME customers.

5. Strategic Priorities for H2 2013

- One of the major challenges for Bank Zachodni WBK Group is to implement an optimum operational model across the merged bank and leverage the synergy effects, while delivering a value for customers, employees and shareholders and maintaining the existing cost discipline.
- In the **Retail Segment**, Bank Zachodni WBK Group will focus on further development of the base of active personal customers and small companies through an attractive product proposition and top-class customer service. The bank will work closely with the subsidiaries and joint ventures (e.g. Dom Maklerski BZ WBK S.A., BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., BZ WBK Asset Management S.A. and BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.) to strengthen the Group's market position in terms of innovative savings products, including deposit, investment and insurance products. The Group will take proactive measures to enhance customer satisfaction, maximise cross-selling and develop long-standing relationships. The Customer Lifecycle Management Programme, which looks at individual stages of relationship between the customer and the bank, will help the Group improve customer satisfaction and loyalty.
- The strategic priorities of the **Business and Corporate Banking** fall into four key areas: growth of market share, customer excellence, innovative product proposition and staff development. In all segments, the Division will strive to diversify the business and strengthen the Group's market position by making the most of the existing relationships and acquiring new business. The Group aspires to be distinctive in the market and become a first-choice financial institution for business and corporate customers owing to top-class, flexible and effective customer service, and to innovative product proposition. The Group will proactively seek out new business opportunities through the global network of the Santander Group. The strategy pursued is expected to ensure satisfactory profits from key income streams, with a focus on non-interest income, in particular in the transactional banking segment.
- The **Global Banking & Markets (GBM)** segment will continue to support international business projects through the global framework and distribution network of Santander Group. It will also look to ensure its customers with the widest possible array of products and services. Investment products will be distributed both globally and locally, via domestic retail channels. Transactional Banking segment will place a greater focus on cash management and further development of trade finance. Measures will be taken to maximise cross-selling of treasury products among corporate, SME and retail customers. On top of that, GBM will strive to grow sales in individual business lines in order to earn balanced income from diverse streams.
- Bank Zachodni WBK Group will continue to manage its capital position and funding sources in a way which will stimulate business growth going forward. Deposits from customers will remain the primary source of funding, however, the Group will actively seek alternative sources, including co-operation with international financial institutions.



V. Financial Situation of BZ WBK Group in H1 2013

1. Income Statement

The consolidated financial statements presented in the "Interim 2013 Report of Bank Zachodni WBK Group" are the first half-yearly statements following the acquisition of Kredyt Bank on 4 January 2013. The data for the corresponding period last year (prior to the legal merger) come from the consolidated financial statements of Bank Zachodni WBK as an acquiring entity, hence significant movements in individual financial items over 12 month period. Since fully comparable data can be provided on a q-o-q basis only, this chapter discusses the Group's financial performance in Q2 2013 vs. Q1 2013.

Profit Earned by Bank Zachodni WBK Group

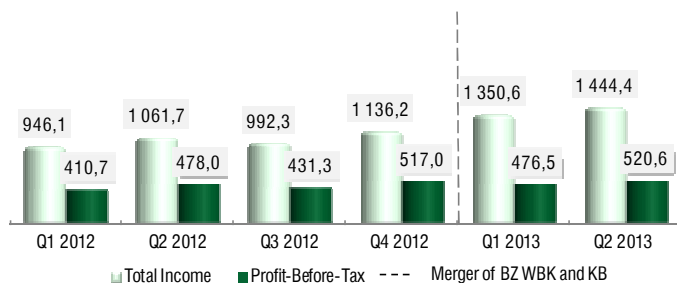
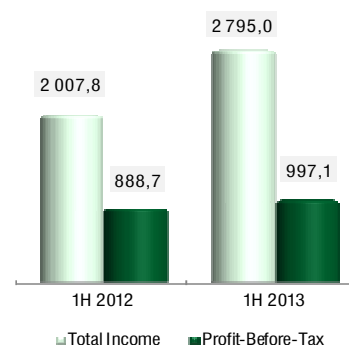
The table below shows changes in the key items of the Group's consolidated income statement for Q2 2013 compared with the previous quarter and in H1 2013 compared with the same period last year.

PLN m						
Condensed Income Statement (for analytical purposes)	Q2 2013	Q1 2013	QoQ Change	H1 2013	H1 2012*	YoY Change
Total income	1 444,4	1 350,6	6,9%	2 795,0	2 007,8	39,2%
- Net interest income	797,6	752,8	6,0%	1 550,4	1 128,8	37,3%
- Net fee & commission income	445,7	429,2	3,8%	874,9	671,4	30,3%
- Other income	201,1	168,6	19,3%	369,7	207,6	78,1%
Total costs	(730,2)	(675,5)	8,1%	(1 405,7)	(904,5)	55,4%
- Staff, general and administrative expenses	(670,3)	(606,9)	10,4%	(1 277,2)	(823,7)	55,1%
- Depreciation/amortisation	(57,4)	(57,0)	0,7%	(114,4)	(70,3)	62,7%
- Other operating expenses	(2,5)	(11,6)	-78,4%	(14,1)	(10,5)	34,3%
Impairment losses on loans and advances	(200,0)	(199,0)	0,5%	(399,0)	(220,8)	80,7%
Profit/loss attributable to the entities accounted for using equity method	6,4	0,4	1500,0%	6,8	6,2	9,7%
Profit-before-tax	520,6	476,5	9,3%	997,1	888,7	12,2%
Tax charges	(94,0)	(95,5)	-1,6%	(189,5)	(178,6)	6,1%
Net profit for the period	426,6	381,0	12,0%	807,6	710,1	13,7%
- Net profit attributable to BZ WBK shareholders	419,5	373,6	12,3%	793,1	694,6	14,2%
- Net profit attributable to non-controlling shareholders	7,1	7,4	-4,1%	14,5	15,5	-6,5%

* Financial data for H1 2012 present BZ WBK Group's performance prior to the merger with Kredyt Bank S.A.

In Q2 2013, Bank Zachodni WBK Group posted a profit-before-tax of PLN 520.6m, an increase of 9.3% q-o-q. The profit attributable to Bank Zachodni WBK shareholders was PLN 419.5m and higher by 12.3% q-o-q.

This performance was achieved in similar macroeconomic environment (compared with Q1 2013), yet under a stronger pressure from the downward interest rates movements (two consecutive cuts) and from volatility of the financial market (fluctuating share prices, higher bond and IRS yields). The Group reported a higher profit due to such factors as: diversified income streams, flexible approach to changing market conditions, active management of balance sheet structure and successful acquisition of business (e.g. new credit exposures in the Global Banking and Markets segment, increase in the value of mutual fund assets, inflow of funds to savings accounts). The Group carried its business as usual, while delivering the challenging and multi-dimensional integration process, which generated a charge of PLN 88.5m to the Group's income statement in Q2 2013 (PLN 115m for the entire H1 2013).

Total Income and Profit-Before-Tax by Quarters
in Years 2012-2013 (PLN m)

Total Income and Profit-Before-Tax
in H1 2012 and H1 2013 (PLN m)


Structure of PBT Earned by BZ WBK Group

Structure of Profit-Before-Tax by Contributing Entities					
	Q2 2013	Struktura Q2 2013*	Q1 2013	Structure Q1 2013*	Change QoQ
Bank **	552,5	89,5%	421,8	88,6%	31,0%
Subsidiaries, of which:	64,7	10,5%	54,3	11,4%	19,2%
BZ WBK Asset Management S.A. and BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.	40,7	6,6%	18,3	3,8%	122,4%
BZ WBK Leasing S.A. and Kredyt Lease S.A. and Finanse Sp. z o.o. ***	7,7	1,3%	14,7	3,1%	-47,6%
Dom Maklerski BZ WBK S.A.	8,2	1,3%	17,1	3,6%	-52,0%
Other subsidiaries ****	8,1	1,3%	4,2	0,9%	92,9%
Intercompany and consolidation adjustments	(96,6)	-	0,4	-	-
Total	520,6	-	476,5	-	9,3%

* Percentage share in BZ WBK Group profit before tax, intercompany and consolidation adjustments.

** Unconsolidated profit before tax of Bank Zachodni WBK S.A.

*** BZ WBK Leasing S.A. acquired BZ WBK Finanse & Leasing S.A. on 29 March 2013 r.

**** BZ WBK Faktor Sp. z o.o., BZ WBK Inwestycje Sp. z o.o., BZ WBK Nieruchomości S.A., Kredyt Trade Sp. z o.o. in liquidation.

The unconsolidated profit-before-tax of Bank Zachodni WBK for Q2 2013 increased by 31% q-o-q. In the analysed period, the bank recognised PLN 132m worth of dividend income and earned higher interest and fee & commission income. The resultant income growth was partly offset by higher operating costs related to the integration process and downward movement in the net trading income and revaluation.

The subsidiaries consolidated with Bank Zachodni WBK reported a 19.2% q-o-q increase in profit-before-tax, which is attributable to PLN 23.2m worth of dividend paid by BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. (BZ WBK TFI) to BZ WBK Asset Management S.A. (BZ WBK AM) in Q2 2013. The foregoing dividend – along with dividends paid to the bank by subsidiaries and associates – was eliminated from the Group's consolidated financial statements.

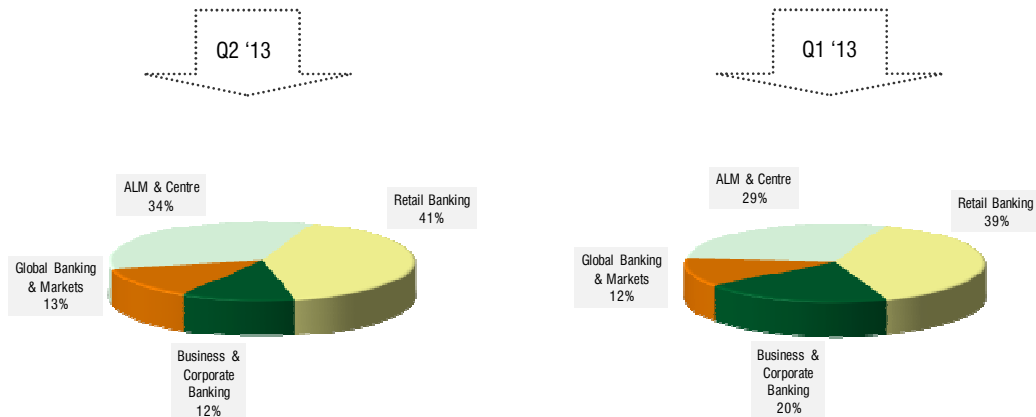
Adjusted for the dividend of PLN 23.2m, the combined profit-before-tax of BZ WBK AM and BZ WBK TFI for Q2 2013 decreased by 4.4% q-o-q, reflecting higher growth rate of total operating costs than income due to pursuit of staff incentive policy in the extended distribution network of BZ WBK TFI. As a result of consecutive interest rate cuts and equity market upturn, April and May witnessed an increased demand for mutual funds. It was focused, however, on low margin products and towards the end of Q2 turned into sell-offs, generating only a moderate increase in fee and commission income.

Leasing companies, with its controlling entity BZ WBK Finanse Sp. z o.o., generated a 47.6% lower pre-tax-profit on a q-o-q basis due to higher impairment allowance for lease receivables of Kredyt Lease S.A. following the review of risk profile of the respective portfolio. The profit of BZ WBK Leasing S.A., whose legal merger with BZ WBK Finanse & Leasing S.A. was finalised in Q1 2013, came in at PLN 11.8m and was just above the level recorded in the previous quarter.

Excluding the remuneration of Dom Maklerski BZ WBK for its participation in the sale of Bank Zachodni WBK shares held by Banco Santander and KBC Bank NV, the subsidiary reported a q-o-q decrease of 31.4% in the pre-tax profit, reflecting lower stock trading due to the market deterioration in June 2013, smaller base of customer and own funds available for placements in the declining interest rate environment and staff bonus policy in use.

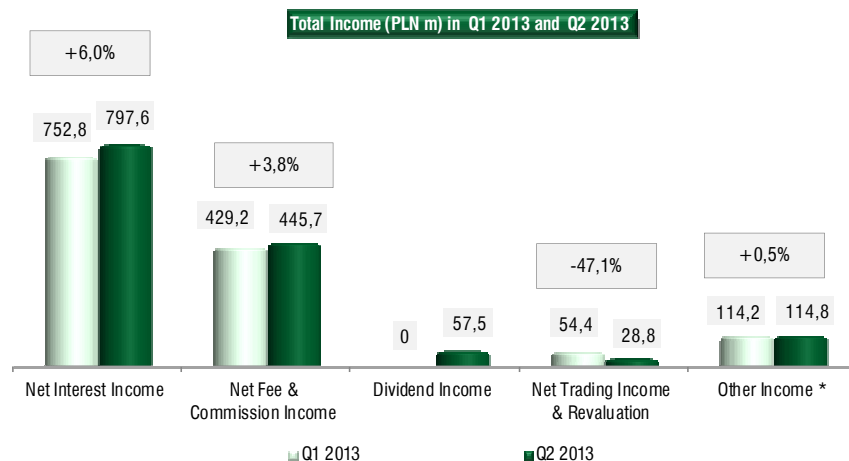
Structure of PBT Earned by BZ WBK Group by Segment

Structure of PBT earned by BZ WBK Group after Q1 and Q2 2013 - by segment



Total Income

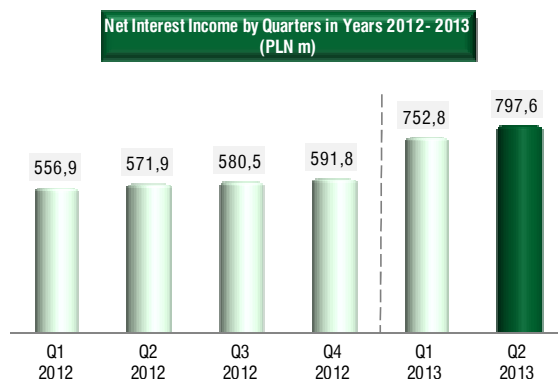
The total income generated by Bank Zachodni WBK Group in Q2 2013 was PLN 1,444.4m and up 6.9% q-o-q.



* Other income includes income from other financial instruments and other operating income.

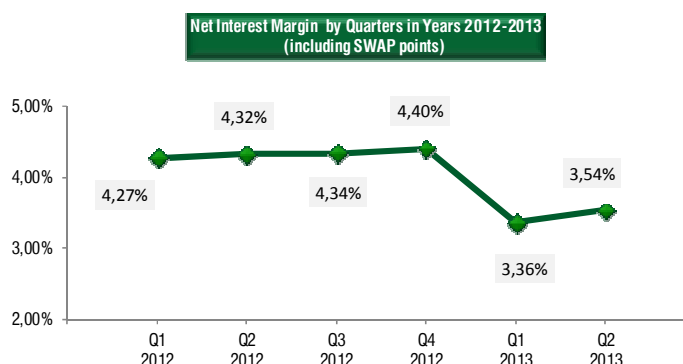
Net Interest Income

From April to June 2013, the net interest income increased by 6% q-o-q to PLN 797.6m.



The net interest income includes interest income of PLN 69.6m for Q2 2013 (PLN 73.2m for Q1 2013) from CIRS transactions designated as hedging instruments under cash flow hedge accounting, which is disclosed in Note 6 "Net interest income" in the line "Interest income from IRS hedges" showing PLN 83.9m in Q2 2013 vs. PLN 86.2m in Q1 2013.

Taking into account the Group's other interest-related income, specifically the income from FX Swaps and non-hedging CIRS transactions (PLN 6.6m for Q2 2013 vs. PLN 26.6m for Q1 2013), reported under "Net trading income and revaluation", the underlying net interest income increased by 3.2% q-o-q.

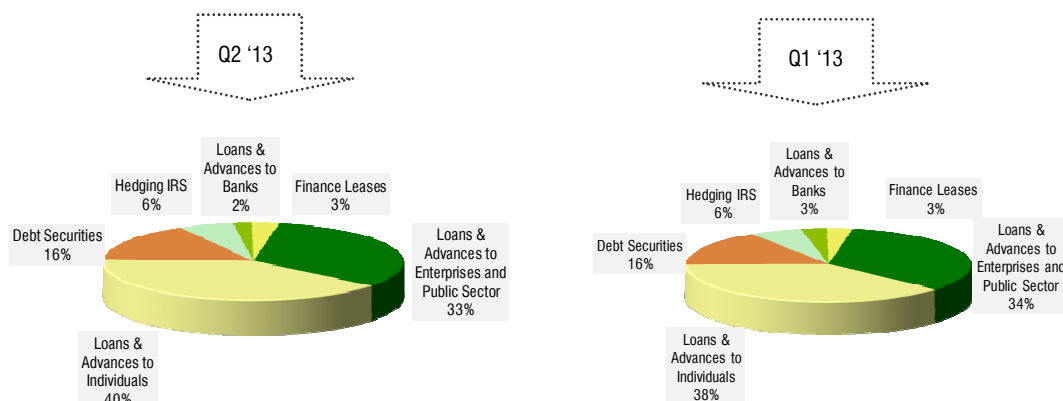


Despite the continued interest rate cuts effected by the Monetary Policy Council in Q2 2013 (reduction of the reference rate by 0.5 pp to 2.75% in June 2013), the net interest margin of Bank Zachodni WBK Group rebounded to 3.54% from 3.36% in Q1 2013. This movement was driven by significant changes in the balance sheet structure and flexible pricing adjustments.

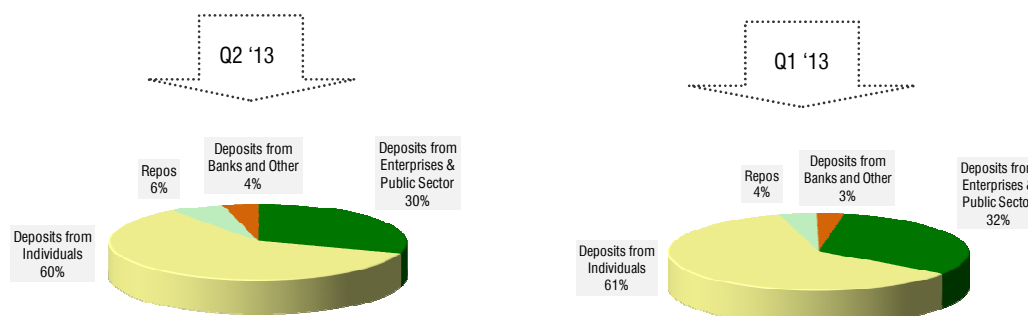
The structural factors that had the strongest impact on the reported interest income and expense and, ultimately, on the net interest margin level in Q2 2013 included the outflow of funds from term deposits to current and savings accounts of personal customers, the increase in the value of credit exposure to GBM and corporate customers, and the repositioning of the debt securities portfolios as part of the Group's liquidity and balance sheet structure management.

Bank Zachodni WBK Group was adjusting its pricing proposition to the changing market conditions, trying to keep the balance between customers' expectations, the competitive pressure, regulatory requirements and own objectives with regard to the management of funding sources, balance sheet structure, risk, capital and profits. Actions taken resulted in the reversal of negative trends in the personal term deposit margins.

Structure of interest income earned by BZ WBK Group in Q1 and Q2 2013



Structure of interest expense of BZ WBK Group in Q1 and Q2 2013



In Q2 2013, the interest income fell by 4.6% q-o-q to PLN 1,327.6m, i.e. at a much slower pace than the interest expense which declined by 16.9% q-o-q to PLN 530.0m. The most pronounced decreases in percentage terms were observed in the following portfolios: loans to banks (-16.9% q-o-q), lease receivables (-11.7% q-o-q), debt securities (-7.9% q-o-q) and business loans and advances (-6.8% q-o-q). The decline in interest expense was the most notable in the case of deposits from banks (-42% q-o-q), deposits from business customers (-23.7% q-o-q) and deposits from individual customers (-17.1% q-o-q).

Net Fee and Commission Income

PLN m			
Net Fee and Commission Income	Q2 2013	Q1 2013	Change QoQ
E-Business and payments *	100,2	97,0	3,3%
Account maintenance and cash transactions	88,3	88,6	-0,3%
FX fees	75,0	63,0	19,0%
Asset management and distribution	59,5	58,7	1,4%
Credit fees **	54,5	55,1	-1,1%
Insurance fees	26,4	26,4	0,0%
Brokerage fees	21,5	24,8	-13,3%
Other ***	20,3	15,6	30,1%
Total	445,7	429,2	3,8%

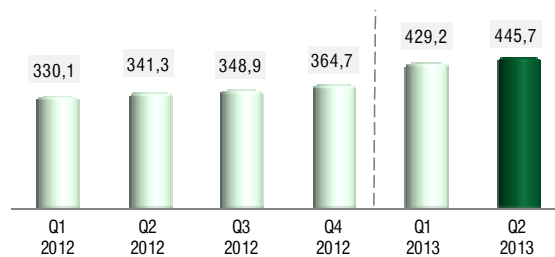
Includes:

* 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 related to lending, leasing and factoring activities which are not amortised to interest income.

*** Credit card fees, guarantees & sureties, issue arrangement fees and others.

Net Fee & Commission Income by Quarters in Years 2012-2013
(PLN m)



In Q2 2013, the net fee and commission income came in at PLN 445.7m and was higher by 3.8% q-o-q.

The most dynamic growth was recorded in FX fee income (+19.0% q-o-q), which is attributable to the currency market fluctuations (zloty depreciation) and an increase in volumes of FX customer transactions handled by the bank.

A 3% q-o-q increase reported under the “e-Business and payments” line item, which is the largest contributor (22%) to the total net fee and commission income of Bank Zachodni WBK Group, was driven by a higher volume of foreign payments handled by the bank and larger income earned from services rendered to external financial institutions.

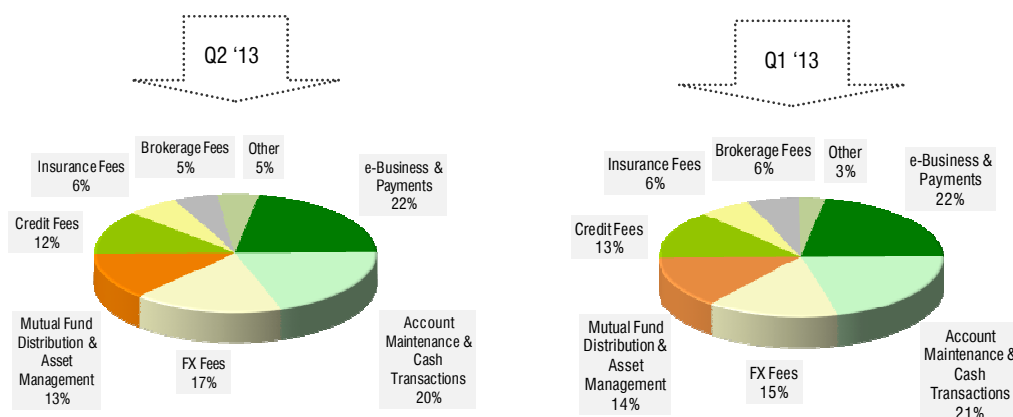
The net fee and commission income from asset management and distribution (generated by BZ WBK AM and BZ WBK TFI) increased by mere 1.4% q-o-q despite high sales of mutual funds in April and May 2013 supported by interest rate cuts and stock market upturns. In June, the sales trend reversed amidst the deterioration of financial market sentiment in response to the signals of tapering off quantitative easing by the Federal Reserve. In the entire Q2 2013, the average net value of assets managed by the Group went up by 7.5% q-o-q, yet the overall financial performance was reduced by the prevailing demand for low margin products.

The net brokerage fee income generated by Dom Maklerski BZ WBK went down by 13.3% q-o-q due to deterioration of sentiments in the financial markets and high base effect resulting from the remuneration recognized in Q1 2013 for the sale of Bank Zachodni WBK shares held by Banco Santander S.A. and KBC Bank NV.

Despite higher credit fee revenues, net credit fee income was slightly down in Q2 2013 (-1.1% q-o-q) as a result of accounting policy used for credit agency fees paid.

Other fee and commission income went up by 30.1% q-o-q. The most noticeable growth of PLN 2.3m q-o-q was due to “issue arrangement” constituent fuelled by advisory services and sale of shares in the primary and secondary market.

Structure of the net fee and commission income earned by BZ WBK Group in Q1 and Q2 2013



Other Income

Net Trading Income and Revaluation

The net trading income and revaluation ("net trading income") amounted to PLN 28.8m and declined by 47.1% y-o-y in line with market developments.

The major component of net trading income is the result on FX transactions and derivative trading, which was a loss of PLN 0.5m in Q2 2013 vs. a gain of PLN 53.7m in Q1 2013. This aggregate was driven by the following:

- In Q2 2013, a loss of PLN 341.5m was reported on derivative trading (vs. a loss of PLN 166.9m in Q1 2013) caused by volatility of the interest rate market. The pricing of interest rate swaps (IRS), which plunged towards 2012 year-end, clearly rebounded in the first two months of 2013, only to hit all-time lows in the wake of consecutive interest rate cuts by MPC. Hints on the Fed cutting back quantitative easing prompted the IRS yields to increase, yet the end of Q2 2013 saw faint signs of recoiling, with lower yields on the short-end and higher on the mid and long-end of the IRS curve.
- The above-mentioned loss was offset by a gain of PLN 341.0m from interbank transactions in the FX market (vs. PLN 220.6m in Q1 2013), following depreciation of the zloty amidst deterioration of financial market sentiment.

The result on FX transactions and derivative trading includes interest related income from wholesale FX Swaps of PLN 3.3m (PLN 20.6m in Q1 2013) and from non-hedging CIRS transactions of PLN 3.3m (PLN 6m in Q1 2013). The figure excludes interest income from CIRS transactions designated as hedging instruments under cash flow hedge accounting (PLN 69.6m in Q2 2013 vs. PLN 73.2m in Q1 2013), which is disclosed in Note 6 "Net interest income" in the line "Interest income from IRS hedges".

Net Dividend Income

The dividend income posted in Q2 2013 added up to PLN 57.5m, including PLN 50.3m worth of dividend from Aviva Group companies.

Other Income Items

Other income of Bank Zachodni WBK Group, i.e. gains on the sale of other financial instruments and other operating income, totalled PLN 114.8m and remained stable q-o-q.

- In order to re-align the investment profile of the debt instruments portfolio, the Group continued the strategy of managing its duration in Q2 2013, leveraging the prevailing downward trend in interest rates. The gains on the sale of available-for-sale debt securities were flat q-o-q, coming in at PLN 88.7m, and contributing most significantly to the net income from other financial instruments, totalling PLN 91m (+1.4% q-o-q).
- Other operating income amounted to PLN 23.8m and was down 2% q-o-q.

Impairment Losses

PLN m		
Impairment Losses on Loans and Advances	Q2 2013	Q1 2013
Collective and individual impairment charge	(287,6)	(229,6)
Impaired but not reported losses charge	70,7	49,2
Recoveries of loans previously written off	1,5	1,3
Off-balance sheet credit related facilities	15,4	(19,9)
Total	(200,0)	(199,0)

In the period from April to June 2013, the loan impairment charge to the profit and loss account was relatively stable q-o-q and amounted to PLN 200m.

Changes in the impairment loss structure reflect the conservative approach of Bank Zachodni WBK Group to credit risk management with regard to the troubled construction sector. In the period under review, selected credit exposures were transferred from the portfolio of incurred but not reported losses to the portfolio of evidenced impairment. As a consequence, the positive balance of provisions for incurred but not reported losses (IBNR) grew by PLN 21.5m to PLN 70.7m, while the negative balance of provisions for identified losses (individual and collective) went up by PLN 58m to PLN 287.6m. In addition, the Group carried out semi-annual validation of parameters underlying off-balance sheet exposure assessment.

In Q2 2013, Bank Zachodni WBK Group sold a retail loan portfolio with a total principal value of PLN 121.1m (PLN 158.3m in Q1 2013).

Due to the above-mentioned transfer of credit exposures, the NPL ratio of Bank Zachodni WBK Group climbed from 7.6% as at 31.03.2013 to 8.2% as at 30.06.2013.

Total Costs

PLN m			
Total costs	Q2 2013	Q1 2013	Change QoQ
Staff, general and administrative expenses, of which:	(670,3)	(606,9)	10,4%
- Staff expenses	(347,6)	(345,1)	0,7%
- General and administrative expenses	(322,7)	(261,8)	23,3%
Depreciation/amortisation	(57,4)	(57,0)	0,7%
Other operating expenses	(2,5)	(11,6)	-78,4%
Total	(730,2)	(675,5)	8,1%
Integration costs	(88,5)	(26,5)	234,0%
Underlying total costs	(641,7)	(649,0)	-1,1%

The total costs reported by Bank Zachodni WBK Group for Q2 2013 amounted to PLN 730.2m and were higher by 8.1% q-o-q due to the on-going integration process resulting in a charge to the consolidated income statement of PLN 88.5m (PLN 26.5m in Q1 2013). Integration expenses have been incurred in accordance with the budget assigned to particular stages of the Integration Programme which aims at creating an organisationally and operationally homogeneous organisation with a strong focus on efficiency and quality.

Excluding the integration expenses, the total cost base of the Group was PLN 641.7m and 1.1% lower than in Q1 2013, which attests to high cost discipline and monitoring Group-wide. The underlying cost to income ratio was 44.4% for Q2 2013 vs. 48.1% for Q1 2013.

Staff, general and administrative expenses, which have the highest share in the Group's total costs (91.8%), amounted to PLN 670.3m, of which:

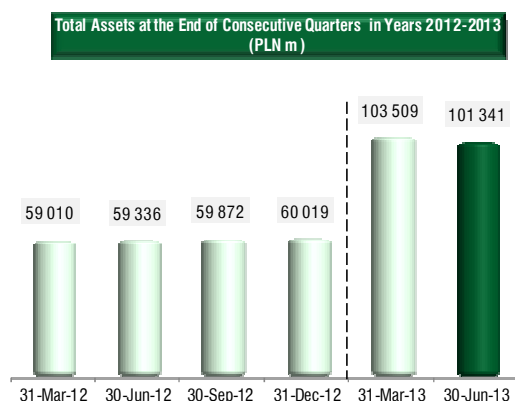
- Staff expenses came in at PLN 347.6m and held fairly steady q-o-q.
- The general and administrative expenses added up to PLN 322.7m and were 23.3% higher q-o-q, driven mainly by integration and development projects. The most pronounced growth was observed with respect to consulting and advisory services (+327.0% q-o-q) related to continued execution of obligations assumed prior to the merger with Kredyt Bank. Higher postage and telecommunication costs (+30.5% q-o-q) were triggered by mass communication campaigns aimed at informing customers about amended product proposition. Extensive advertising activity in Q2 2013 (Account Worth Recommending and consolidation loan campaigns) drove up marketing and entertainment costs (+13.0% q-o-q), while maintenance and integration of overlapping IT systems caused an increase in IT expenses (+7% q-o-q). Higher costs of maintenance and lease of premises were driven by provisions for vacant office space and harmonisation reclasses that were effected by former Kredyt Bank and involved, among others, costs of repairing machines. The above increases were offset by a clear drop in costs of data transmission (-22.7% q-o-q) as well as KIR and SWIFT clearing (-5.0% q-o-q).



2. Financial Position

Assets

As at 30 June 2013, the total assets of Bank Zachodni WBK Group amounted to PLN 101,341.4m, a decrease of 2.1% q-o-q. The value and structure of the Group's statement of financial position was mainly affected by the parent company which accounted for 99.4% of the consolidated total assets.



The table below presents major developments in the key categories of the consolidated assets of Bank Zachodni WBK Group as at 30 June 2013 versus 31 March 2013 and 31 December 2012.

								PLN m
Assets (condensed presentation for analytical purposes)	30.06.2013	Structure 30.06.2013	31.03.2013	Structure 31.03.2013	31.12.2012	Structure 31.12.2012	Change QoQ	Change Ytd
	1	2	3	4	5*	6*	1/3	1/5
Loans and advances to customers **	69 839,7	68,9%	67 887,2	65,6%	39 867,6	66,4%	2,9%	75,2%
Investment securities	19 936,2	19,7%	21 529,6	20,8%	11 716,1	19,5%	-7,4%	70,2%
Cash and operations with Central Banks	2 498,2	2,5%	5 093,6	4,9%	4 157,3	6,9%	-51,0%	-39,9%
Loans and advances to banks	1 583,2	1,6%	1 256,5	1,2%	1 458,1	2,4%	26,0%	8,6%
Financial assets held for trading	2 971,0	2,9%	2 910,8	2,8%	831,7	1,4%	2,1%	257,2%
Fixed assets, intangibles and goodwill	2 641,5	2,6%	2 697,0	2,6%	607,1	1,0%	-2,1%	335,1%
Hedging derivatives	229,5	0,2%	284,7	0,3%	253,6	0,4%	-19,4%	-9,5%
Other assets	1 642,1	1,6%	1 849,5	1,8%	1 127,7	2,0%	-11,2%	45,6%
Total	101 341,4	100,0%	103 508,9	100,0%	60 019,2	100,0%	-2,1%	68,8%

* Financial data of BZ WBK Group as at 31.12.2012 prior to the merger with Kredyt Bank of 4.01.2013.

** Includes impairment write-down.

The consolidated assets of Bank Zachodni WBK Group show a q-o-q decline in cash and operations with central banks (-51.0% q-o-q) driven by significantly lower balance of current account held with NBP as part of current liquidity management. This was accompanied by a decline in investment securities (-7.4% q-o-q) due to the lower nominal value of the NBP bills held in available-for-sale debt securities portfolio.

The goodwill arising on the acquisition of Kredyt Bank, which in the table above is disclosed in the aggregate line "fixed assets, tangibles and goodwill", was PLN 1,688.5m as at 30 June 2013.

Net loans and advances to customers increased by 2.9% q-o-q to PLN 69,839.7m and at the end of June 2013 they accounted for 93.6% of the funding deposits from non-financial entities, as compared with 88.0% at the end of March 2013.

Credit Portfolio

	PLN m				
Gross Loans and Advances to Customers	30.06.2013	31.03.2013	31.12.2012	Change QoQ 1/2	Change Ytd 1/3
	1	2	3*		
Loans and advances to enterprises and public sector customers	35 760,0	34 016,5	25 386,0	5,1%	40,9%
Loans and advances to individuals	34 552,2	34 448,1	13 708,6	0,3%	152,0%
Finance lease receivables	2 946,0	2 944,9	2 289,9	0,0%	28,7%
Other	129,6	122,7	27,3	5,6%	374,7%
Total	73 387,8	71 532,2	41 411,8	2,6%	77,2%

* Financial data of BZ WBK Group as at 31.12.2012 prior to the merger with Kredyt Bank of 4.01.2013.

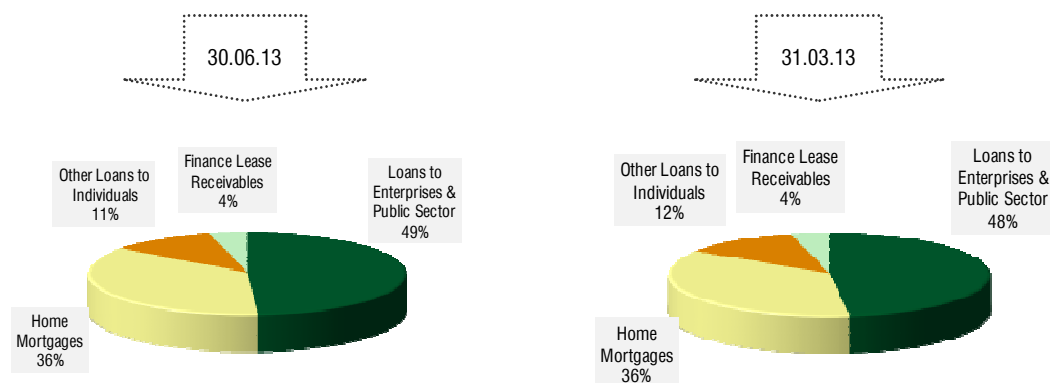
As at 30 June 2013, gross loans and advances to customers amounted to PLN 73,387.8m, an increase of 2.6% q-o-q.

This upward movement was triggered by loans and advances to enterprises and public sector which grew at a rate of 5.1% q-o-q to reach PLN 35,760.0m as a result of effective business acquisition by the sales functions of Global Banking and Markets as well as Business and Corporate Banking. Particularly noteworthy is the bank's participation in a club deal closed in June 2013 with a number of other financial institutions with regard to refinancing debts of a telecom company, totalling PLN 7.95bn.

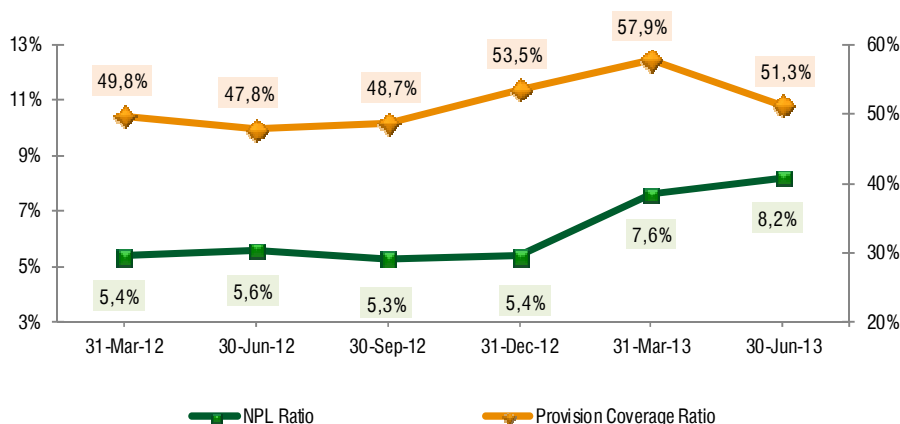
The loans and advances to personal customers went slightly up to PLN 34,552.2m. The main contributor was the mortgage loan-book whose value increased by 2.7% q-o-q to PLN 26,110.3m on account of a steady sales growth and zloty depreciation against EUR and CHF. The second major item, cash loans, was relatively stable over the last three months, amounting to PLN 5,484.9m at the quarter-end.

As at 30 June 2013, the finance lease receivables, including the Kredyt Lease portfolio, totalled PLN 2,946.9m and remained flat on a q-o-q basis.

Loans and advances to customers of BZ WBK Group as at 30.06.2013 and 31.03.2013



The Group's NPL and provision cover ratio at the end of individual quarters in the period from 31.03.2012 to 30.06.2013



As at 30 June 2013, non-performing (impaired) loans to customers accounted for 8.2% of the gross portfolio vs. 7.6% at the end of March 2013. The provision cover for the impaired loans was 51.3% compared with 57.9% three months before.

Equity and Liabilities

The table below presents major developments in key categories of the consolidated equity and liabilities of Bank Zachodni WBK Group at 30 June 2013 versus 31 March 2013 and 31 December 2012.

Liabilities & Equity (condensed presentation for analytical purposes)	PLN m							
	30.06.2013	Structure 30.06.2013	31.03.2013	Structure 31.03.2013	31.12.2012	Structure 31.12.2012	Change QoQ	Change YoY
	1	2	3	4	5*	6*	1/3	1/5
Deposits from customers	74 596,2	73,6%	77 109,6	74,5%	47 077,1	78,4%	-3,3%	58,5%
Deposits from banks	8 016,5	7,9%	7 056,6	6,8%	1 351,1	2,3%	13,6%	493,4%
Financial liabilities held for trading	1 301,0	1,3%	2 015,5	1,9%	728,8	1,2%	-35,4%	78,5%
Subordinated liabilities	1 436,1	1,4%	1 400,9	1,4%	409,1	0,7%	2,5%	251,0%
Hedging derivatives	863,9	0,8%	496,2	0,5%	322,0	0,5%	74,1%	168,3%
Other liabilities	1 878,4	1,9%	1 612,1	1,6%	1 153,4	1,9%	16,5%	62,9%
Total equity	13 249,3	13,1%	13 818,0	13,3%	8 977,7	15,0%	-4,1%	47,6%
Total	101 341,4	100,0%	103 508,9	100,0%	60 019,2	100,0%	-2,1%	68,8%

* Financial data of BZ WBK Group as at 31.12.2012 prior to the merger with Kredyt Bank of 4.01.2013.

As at 30 June 2013, the consolidated equity and liabilities of Bank Zachodni WBK Group show a decline in financial liabilities held for trading (-35.4% q-o-q), reflecting an impact of financial market volatility on the valuation of the interest rate swap portfolio. At the same time, the balance of hedging derivatives went up (+74.1% q-o-q) as a result of new cash flow hedging relations established and FX movements. The deposits from banks grew as well (+13.6% q-o-q) on the back of trading in securities under repo agreements.

The total equity of Bank Zachodni WBK Group decreased by 4.1% q-o-q due to PLN 710.9m worth of dividend paid on 17 May 2013 to the bank's shareholders from the 2012 profits.

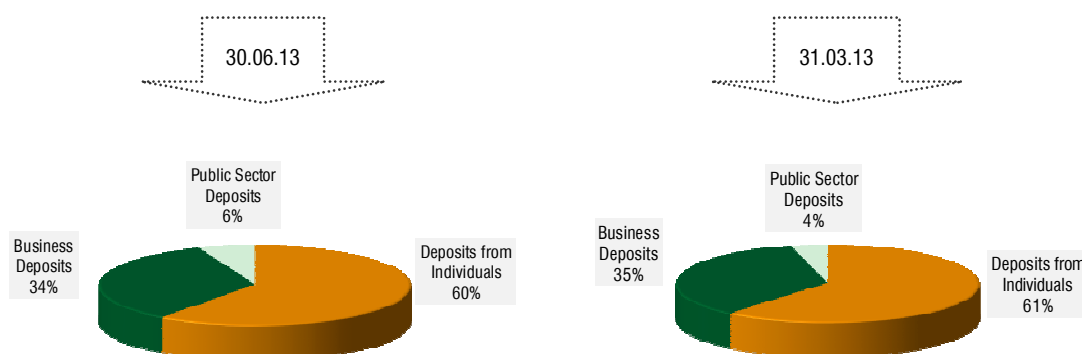
Deposit Base

	PLN m				
Deposits from Customers	30.06.2013	31.03.2013	31.12.2012	Change QoQ	Change Ytd
	1	2	3*	1/2	1/3
Deposits from individuals	44 985,6	46 942,4	28 636,3	-4,2%	57,1%
Deposits from enterprises and public sector customers	29 610,6	30 167,2	18 440,8	-1,8%	60,6%
Total	74 596,2	77 109,6	47 077,1	-3,3%	58,5%

* Financial data of BZ WBK Group as at 31.12.2012 prior to the merger with Kredyt Bank of 4.01.2013.

Deposits from customers, which represent 73.6% of the Group's total equity and liabilities, are the primary source of funding the Group's lending business. As at 30 June 2013, these liabilities amounted to PLN 74,596.2m, a decrease of 3.3% q-o-q. The popularity of bank deposits waned amidst the NBP interest rate cuts, which caused a decline in the Group's deposit base. The positive developments on the stock market and continually bullish bond market during the first two months of Q2 2013 incentivised customers to seek savings and investment instruments with higher-yield than a banking deposit, most of them turning toward mutual funds.

Structure of deposits from customers of BZ WBK Group as at 30.06.2013 and 31.03.2013

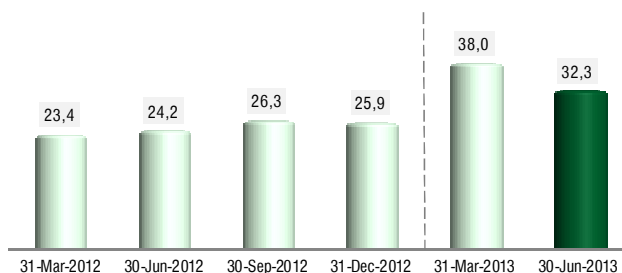


As at 30 June 2013, deposits from individual customers amounted to PLN 44,985.6m, which was down 4.2% q-o-q as a result of outflow of funds from maturing term deposits (-19.5% q-o-q), partly to current and savings accounts (+10% q-o-q). Despite the above trend, the 5-Month Fast Earning Deposit with a progressive interest rate enjoyed much popularity, with a q-o-q surge in balances.

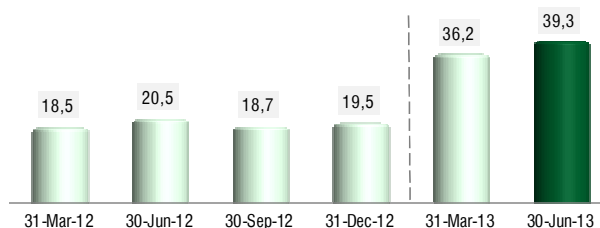
Deposits from enterprises & public sector decreased by 1.8% q-o-q to PLN 29,610.7m. Similarly to the personal customer segment, the value of term deposits ran low (-8.7% q-o-q), while the balance of current accounts went up (+5.7% q-o-q).

In the total amount of deposits from customers, term deposits were PLN 32,268.9m and down 15.1% q-o-q, current accounts were PLN 39,261.0m and up 8.6% q-o-q, while other liabilities increased by 4.6% on the previous quarter to PLN 3,066.3m. The latter item includes credit facilities extended by the European Investment Bank to the former Bank Zachodni WBK and Kredyt Bank for their lending activity.

Term Deposits at the End of Consecutive Quarters of 2012 and 2013 (PLN bn)



Current Accounts at the End of Consecutive Quarters of 2012 and 2013 (PLN bn)



3. Financial Ratios

Selected Ratios

Selected Financial Ratios	Q2 2013	Q1 2013
Total costs/Total income ¹⁾	50,6%	50,0%
Net interest income/Total income	55,2%	55,7%
Net interest margin ²⁾	3,5%	3,4%
Net commission income/Total income	30,9%	31,8%
Customer loans/Customer deposits	93,6%	88,0%
NPL ratio	8,2%	7,6%
NPL coverage ratio	51,3%	57,9%
Credit risk ratio ³⁾	1,1%	1,1%
ROE ⁴⁾	12,6%	12,1%
ROA ⁵⁾	1,5%	1,5%
Capital adequacy ratio	14,3%	14,3%
Book value per share (in PLN)	141,6	147,7
Earnings per share (in PLN) ⁶⁾	4,5	4,0

1) C/I ratios based on reported financial data for Q1 2013 and Q2 2013. Excluding integration costs of PLN 26.5m for Q1 2013 and PLN 88.5m for Q2 2013, the adjusted cost-to-income ratio was 48.1% for Q1 2013 and 44.4% for Q2 2013.

2) Annualised net interest income (including Swap points) to average quarterly interest-bearing assets, net of impairment write-down.

3) Annualised impairment losses on loans and advances to average gross loans and advances to customers.

4) Annualised net profit attributable to the shareholders of BZ WBK (for 4 consecutive quarters) to average equity calculated based on total equity (as at the beginning and end of the current reporting period), net of the current period profit, non-controlling interests and dividend due to BZ WBK shareholders. In calculations of the ratio as at 31.03.2013 and 30.06.2013, the combined pro forma equity as at 31.12.2012 was used as presented in unaudited "Condensed Consolidated Financial Pro Forma Information" published in the current report on 8.01.2013.

Excluding costs of integration with Kredyt Bank (PLN 37.8m for Q4 2012, PLN 26.5m for Q1 2013 and PLN 88.5m for Q2 2013), adjusted ROE as at 31.03.2013 and 30.06.2013 was 12.7% and 13.8%, respectively.

5) Net profit attributable to the shareholders of BZ WBK to average total assets. The calculation method is the same as that applied for ROE.

6) Net quarterly profit attributable to the shareholders of BZ WBK divided by the number of ordinary shares.



WBK

Bank Zachodni WBK S.A.

Capital Adequacy Ratio

The table below shows amounts used to calculate the capital adequacy ratio for BZ WBK Group as at 30 June 2013 and 31 March 2013.

		PLN m	
		30.06.2013	31.03.2013
I	Total capital requirement	6 758,4	6 641,7
II	Own funds after reductions	12 107,9	11 884,9
CAD [II/(I*12.5)]		14,3%	14,3%

4. Additional Financial Information

Selected Transactions with Connected Entities

Transactions between the bank and its connected entities are banking operations carried out on the arm's length basis as part of the business as usual and represent mainly loans, bank accounts, deposits, guarantees and leasing transactions.

As at 30 June 2013, the total value of the bank's exposure on loans to subsidiaries amounted to PLN 4,297.7m compared with PLN 3,362.7m as at 31 December 2012 and PLN 2,687.1m as at 30 June 2012.

As at 30 June 2013, the deposits held by all the bank's subsidiaries totalled PLN 849.8m vs. PLN 905.2m as at 31 December 2012 and PLN 2,757.4m as at 30 June 2012. The deposits of associates and joint ventures amounted to PLN 193.8m as at 30 June 2013 compared with PLN 480.4m as at 31 December 2012 and PLN 382m as at 30 June 2012.

Guarantees to subsidiaries amounted to PLN 320.1m vs. PLN 310.2m as at 31 December 2012 and PLN 328.7m as at 30 June 2012.

These intercompany items have been eliminated from the consolidated accounts.

The bank's receivables from the parent entity (Santander Group) amounted to PLN 110.8m as at 30 June 2013 compared with 283.8m as at 31 December 2012 and PLN 204.7m as at 30 June 2012, while the liabilities amounted to PLN 235.4m compared with PLN 36.3m as at 31 December 2012 and PLN 60.5m as at 30 June 2012.

Pending Court Proceedings

As at 30 June 2013, no case was pending before any court or state administration agencies with relation to any claims made by or against the bank or its subsidiaries that would equal or exceed 10% of the Group's equity.

		PLN m		
Court Proceedings with BZ WBK Group as a Party		30.06.2013	31.12.2012	30.06.2012
Amounts claimed by the Group		110,1	44,4	44,6
Claims against the Group		149,8	81,3	79,9
Receivables due to bankruptcy or arrangement cases		60,6	9,7	9,1
Value of all litigation		320,5	135,4	133,6
Share [%] of all litigation in equity		2,4%	1,5%	1,7%
Completed significant court proceedings		53,6	100,0	78,9



Dividend per Share

The Annual General Meeting of Shareholders of Bank Zachodni WBK held on 17 April 2013 resolved on allocation of PLN 710.9m of 2012 net profit for dividend to shareholders. The dividend was PLN 7.60 per share.

Last year, the Annual General Meeting of Shareholders of Bank Zachodni WBK held on 10 May 2012 resolved on allocation of PLN 584.6m of 2011 net profit for dividend to shareholders. The dividend was PLN 8.00 per share.

5. Factors and Events that May Affect Future Financial Results

The most important factors that may affect the financial performance of Bank Zachodni WBK Group in H2 2013 are as follows:

- Predicted gradual improvement of economic growth in the world economy, in particular in the euro zone, which implies improving prospects for Polish exports.
- Rising growth rate of real households' income due to quickly falling inflation, moderately high pension indexation and some recovery in the domestic labour market in H2 thanks to improving performance of exporters.
- Strong decline in public sector's investment spending, which may deepen the slump in the construction sector. Financial problems of construction companies.
- Stabilization of NBP interest rates at all-time lows. Lower financing costs for households and companies, which should be supportive for a gradual rise in the demand for bank loans. At the same time, low interest on deposits should encourage banks' clients to look for alternative forms of saving / investing.
- Changes of assets' financing cost depending on the pace and scale of changes of the main interest rates, changes of the zloty exchange rate, development of liquidity situation of the banking sector and intensity of price competition between banks regarding collection of deposits.
- Possible higher volatility in the financial market in case of disappointing pace of global economic revival, negative scenario of social or political developments (instability in the southern European states) and worries about monetary policy tightening in the world's main economies.
- Further developments on the global stock market and their impact on willingness to purchase investment funds units or keeping savings in safe bank deposits as an alternative.
- Pending government decisions on open pension funds (OFE), which may affect prices and liquidity of debt and equity markets.

VI. Risk Management in BZWBK Group in H1 2013

1. Risk Management Principles

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

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

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

2. Risk Management Structure in Bank Zachodni WBK Group

The bank's Management Board is responsible for implementing an effective risk management system compliant with the bank's regulatory obligations and internal regulations. Specifically, the bank's role in this regard includes setting up an organisational structure adjusted to the size and profile of the risks taken, division of responsibilities that ensure segregation of the risk assessment and control functions from operational functions, introduction of risk management policies and ensuring an adequate information policy.

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

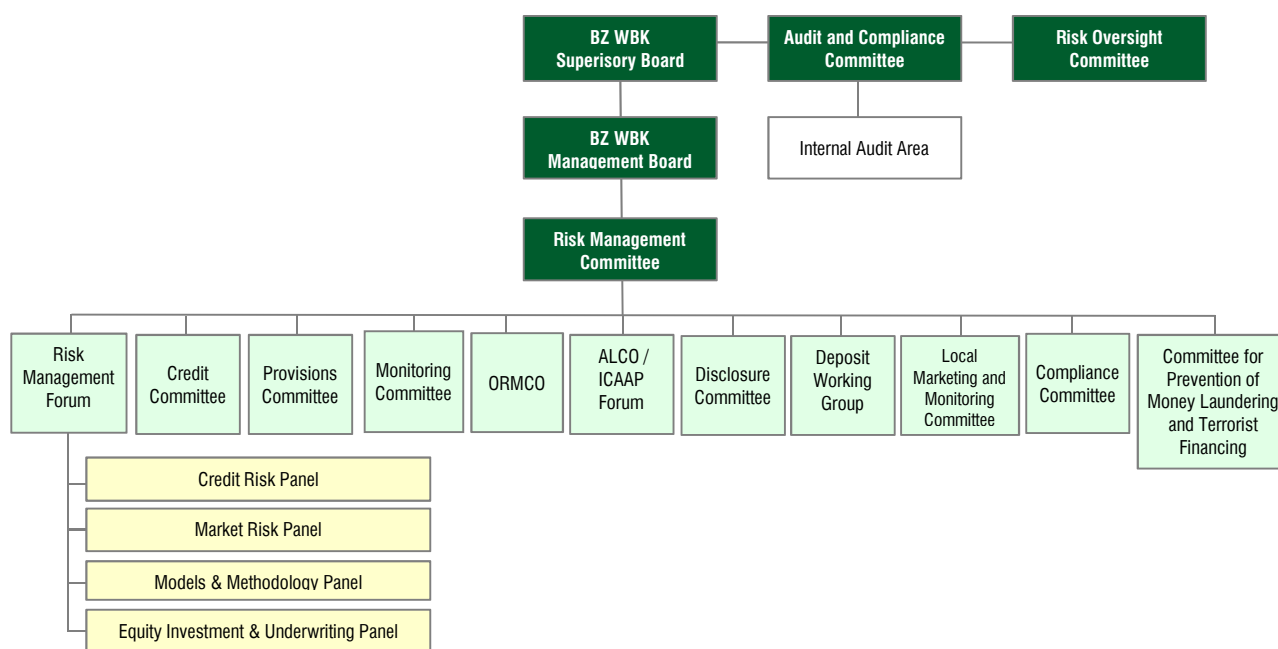
The Risk Management Committee supervises the activities of the risk management committee set up by the bank's Management Board. These committees, acting within their respective remits, are directly responsible for developing risk management methods and monitoring of risk levels in the particular areas.

The committees responsible for risk management in the Group, whose activity is supervised by the Risk Management Committee, include:

- **Risk Management Forum** (approves and supervises the risk management policy and methodology, as well as risk monitoring with respect to credit risk, market risk and liquidity risk).
- **Credit Committee** (takes credit decisions in accordance with the applicable credit discretion levels).
- **Provisions Committee** (takes decisions on creating and releasing provisions).
- **Monitoring Committee** (charged with responsibility for continuous and effective monitoring of the credit portfolio of the business and corporate segment).
- **Operational Risk Management Committee/ORMCO** (approves and supervises the operational risk management policy; defines the methodology of measuring the risk and its monitoring).

- **Assets and Liabilities Committee/ALCO** (charged with responsibility for capital management, including the ICAAP process; supervises the activity on the banking book; manages liquidity and interest rate risk on the banking book; oversees funding, balance sheet management and pricing policy).
- **Disclosures Committee** (verifies the published financial information of the bank in terms of its conformity with the legal and regulatory requirements).
- **Deposit Working Group** (ensures a balanced growth of the savings and investment products portfolio).
- **Local Product Marketing and Monitoring Committee** (approves new products and services to be put on the market; takes into account the reputation risk analysis).
- **Compliance Committee** (sets standards in non-compliance risk management).
- **Anti-Money Laundering and Terrorism Financing Committee** (approves the bank's policy with respect to prevention of money laundering and the financing of terrorism; and approves and monitors the bank's actions in this regard).

Corporate Governance Structure for Risk Supervision and Management



3. Priorities for Risk Management in H1 2013

Due to the merger of Bank Zachodni WBK with Kredyt Bank, one of the priorities for the first half of 2013 was to ensure smooth integration of the risk management policies, processes and systems.

After the legal merger, no changes were made in the risk management process, but a key focus was placed on full integration of the risk functions of the two banks. At present, intensive efforts are being undertaken towards full harmonisation of credit processes and tools. As regards market and liquidity risks, the respective policies have been reviewed to reflect the post-merger changes in the bank's organisation structure. The market risk and the liquidity risk are measured on the basis of the methodologies of Bank Zachodni WBK, taking account of the updated parameters. The contingency plan has also been reviewed to provide for potential liquidity problems, using stress scenarios conducted on the balance sheet of the merged bank. With regard to operational risk, the existing regulations have been reviewed and the "Operational Risk Management Strategy" has been implemented. Since the merger date, all the units of the merged entity have applied uniform processes in the management of the operational risk, information security risk, business continuity risk and outsourcing risk, as well as uniform reporting processes. Furthermore, consistent measures are being taken to eliminate the differences identified in the operational risk management processes.

The bank's risk management policy was also affected by the updated KNF recommendations (Recommendation D, Recommendation M, Recommendation T and Recommendation S). The bank was actively involved in the change consultation process and is bound to ensure full compliance of its internal processes and procedures with these regulations by the regulatory deadlines.

The first half of 2013 was also marked by a significant decrease in inflation and restriction of inflationary expectations, which opened the way for the Monetary Policy Council to cut interest rates deeper than expected by the market. The adverse changes in the macroeconomic environment in Poland and higher overliquidity in the financial markets led to a decrease in both short-term and long-term interest rates in the market. The bank closely monitored and analysed the external developments, bringing balance sheet management strategy in line with the macroeconomic conditions. In response to the changes in the deposit base and the yields of Polish treasury bonds, the bank adjusted accordingly its strategy of the bonds portfolio duration management to ensure maximisation of profits.

VII. Governing Bodies

General Meeting of Shareholders

Annual General Meeting of Shareholders of Bank Zachodni WBK

The Annual General Meeting of Shareholders of Bank Zachodni WBK (AGM) held on 13 February 2013, appointed two new members of the Supervisory Board nominated by the shareholders of the European Bank for Reconstruction and Development and KBC Bank NV (more details in the "Supervisory Board" section below).

Annual General Meeting of Shareholders of Bank Zachodni WBK

The Annual General Meeting of Shareholders of Bank Zachodni WBK (AGM), held on 17 April 2013, approved consolidated and non-consolidated financial reports of Bank Zachodni WBK and Kredyt Bank for 2013 as well as the report of Supervisory Board of Bank Zachodni WBK for 2012 and the Supervisory Board's assessment of financial reports prepared by the Bank and the Group. AGM granted discharge to the Management and Supervisory Board members from both banks for the performance of their duties in the previous year and resolved on distribution of the net profit and dividend payment of PLN 7.60 per share. AGM also introduced the amendments to the Bank Statutes regarding the inclusion of brokerage services into the bank's business profile and increased the number of Supervisory Board members with an independent status. These amendments were approved by the Financial Supervision Authority and entered into the National Court Register on 3 June 2013.

Supervisory Board

As at 30 June 2013, compared to 30 December 2012 and 30 June 2012, the composition of the Bank Zachodni WBK Supervisory Board was as follows:

Role in the Supervisory Board	Ref.	Composition as at 30.06.2013	Composition as at 31.12.2012	Ref.	Composition as at 30.06.2012
Chairman of the Supervisory Board:	1.	Gerry Byrne	1. Gerry Byrne	1.	Gerry Byrne
Vice-Chairman of the Supervisory Board:	2.	José Manuel Varela	2. José Manuel Varela	2.	José Manuel Varela
	3.	José Antonio Alvarez	3. José Antonio Alvarez	3.	José Antonio Alvarez
	4.	David R. Hexter	-	-	-
Members of the Supervisory Board:	5.	Witold Jurcewicz	4. Witold Jurcewicz	4.	Witold Jurcewicz
	6.	José Luis de Mora	5. José Luis de Mora	5.	José Luis de Mora
	7.	John Power	6. John Power	6.	John Power
	8.	Jerzy Surma	7. Jerzy Surma	7.	Jerzy Surma

Changes in the composition of the Supervisory Board over the 12 month period ending 30 June 2013:

- On 13 February 2013, the Extraordinary General Meeting of Shareholders of Bank Zachodni WBK appointed two new members of the Supervisory Board: David R. Hexter and Guy Libot, who had been nominated by the shareholders of the European Bank for Reconstruction and Development and KBC Bank NV, respectively.
- Guy Libot stepped down as the Supervisory Board member on 2 April 2013 as KBC Bank NV sold its entire stake in Bank Zachodni WBK effective from 2 April 2013.

As at 30 June 2013, the following members of the Supervisory Board held an independent status: David R. Hexter, Witold Jurcewicz, John Power and Jerzy Surma.



WBK

Bank Zachodni WBK S.A.

Management Board

The table below presents the composition of Bank Zachodni WBK Management Board as at 30 June 2013, 31 December 2012 and 30 June 2012, together with the roles and responsibilities of its members.

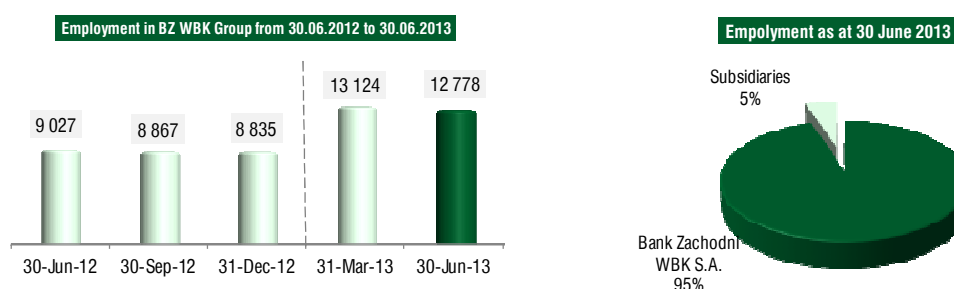
Role in the Management Board	Ref.	Composition as at 30.06.2013	Ref.	Composition as at 31.12.2012	Reporting Areas as at 30.06.2013 and 31.12.2012	Ref.	Composition as at 30.06.2012	Reporting Areas as at 30.06.2012
President of the Board:	1.	Mateusz Morawiecki	1.	Mateusz Morawiecki	Units reporting directly to the President: Internal Audit Area, Corporate Communications & Marketing Area	1.	Mateusz Morawiecki	Units reporting directly to the President: Internal Audit Area, Corporate Communications & Marketing Area
Members of the Board:	2.	Andrzej Burliga	2.	Andrzej Burliga	Risk Management Division	2.	Andrzej Burliga	Risk Management Division
	3.	Eamonn Crowley	3.	Eamonn Crowley	Financial Management Division	3.	Eamonn Crowley	Finance Division
	4.	Michael McCarthy	4.	Michael McCarthy	Business and Corporate Banking Division	4.	Michael McCarthy	Business and Corporate Banking Division
	5.	Piotr Partyga	5.	Piotr Partyga	Human Resources Management Division	5.	Piotr Partyga	Human Resources Management Division
	6.	Juan de Porras Aguirre	6.	Juan de Porras Aguirre	Global Banking & Markets Division	6.	Juan de Porras Aguirre	Global Banking & Markets Division
	7.	Marcin Prell	7.	Marcin Prell	Legal and Compliance Division	7.	Marcin Prell	Legal and Compliance Division
	8.	Marco Antonio Silva Rojas	8.	Marco Antonio Silva Rojas	Financial Accounting & Control Division	-	-	-
	9.	Mirosław Skiba	9.	Mirosław Skiba	Retail Banking Division	8.	Mirosław Skiba	Retail Banking Division
	10.	Feliks Szyszkowski	10.	Feliks Szyszkowski	Business Support Division	9.	Feliks Szyszkowski	Business Support Division

On 30 August 2012, the Supervisory Board appointed Marco Antonio Silva Rojas as a member of the Management Board in charge of the Accounting and Financial Control Division (which was spun off the former Finance Division), effective from 3 September 2012. Other responsibilities, in particular assets and liabilities management, were delegated to the Financial Management Division headed by Eamonn Crowley, a Management Board member.

VIII. Additional Information

Human Resources

As at 30 June 2013, the number of FTEs in Bank Zachodni WBK Group was 12,778, i.e. 3,943 higher on 31 December 2012 and 346 lower from 31 March 2013. The growth of the employment level in H1 2013 was driven by the merger of Bank Zachodni WBK and Kredyt Bank on 4 January 2013, while the quarter-to-quarter decline results from intensive process of establishing new organisational units and filling staff positions in the Business Support centre and Branch Banking Network of the merged bank, taking into account the optimisation requirements, current business needs and market climate.



In H1 2013, a project was launched to migrate the data of employees of the former Kredyt Bank to SAP HR, the IT system used in Bank Zachodni WBK for human resource management purposes. Stage I of this initiative (standardisation of the HR-payroll module) will have been completed in H2 2013, thus ensuring a shared standard of services for employees across the merged Bank.

Over the past 6 months intensive training was delivered to support the integration process. A number of projects were launched for employees of former Kredyt Bank to ensure full standardisation of the operational activity and infusion of the corporate organisational culture. These initiatives included, among others, the Integration Support Programme focused on organisational and teamwork-related aspects and an Induction Program for employees of former Kredyt Bank consisting of a series of meetings on the corporate values of Bank Zachodni WBK and challenges for the bank. The largest project was addressed to the branch banking network employees and its objective was to streamline the operational activity of the merged bank and ensure timely delivery of the brand migration process, mainly by providing trainings on the standardised product offer and on the handling of processes and systems of Bank Zachodni WBK.

Bank Zachodni WBK also continued to carry out development programs such as: Leaders of the Future (an initiative supporting the development of outstanding employees with a potential to take up managerial and expert roles across the bank), Mentoring (addressed to the top-performing employees), the program for newly appointed managers, and the "Leader's Academy" project initiated by Kredyt Bank and co-financed from the European Social Fund.

Performance Share Programme

In H1 2013, BZ WBK Group continued the three-year 4th Incentive Scheme which had been launched on 20 April 2011 by the Annual General Meeting of Shareholders as a continuation of the existing Group's Performance Share Programme aimed at motivating and retaining the top-performing executives. Initially, the scheme covered 496 key employees of Bank Zachodni WBK. Over the years 2011-2012 five other persons were qualified to join the programme. Having executed an agreement with the bank, the participants are eligible to subscribe for and acquire a defined number of shares at the nominal value of PLN 10 provided that certain economic criteria are met. 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.

The 4th Incentive Scheme, spread over three years, is monitored to check if any of the employees might have lost their participant status. So far, the only reason for losing the status was termination of the employment relationship, either with the bank or another entity of BZ WBK Group. As at 30 June 2013, there were 476 participants. 25 participants of the 4th Incentive Scheme lost their status.

Shares and Conditional Rights in Possession of the Supervisory and Management Board Members

As at the publication date of Interim 2013 Report, Interim 2012 Report and Annual Report of Bank Zachodni WBK Group for 2012, 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 conditional rights held by the Management Board Members as of the publication date of semi-annual and annual reports of the BZ WBK Group for 2013 and 2012.

Shares and contingency rights to shares held by Management Board Members as at the publication date of reports for periods ending 30.06.2013, 31.12.2012 and 30.06.2012.

Management Board Members	30.06.2013		31.12.2012		30.06.2012	
	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	10 120	3 591	10 120
Andrzej Burliga	1 606	4 282	1 606	4 282	1 606	4 282
Eamonn Crowley	-	4 003	-	4 003	-	4 003
Michael McCarthy	-	4 875	-	4 875	-	4 875
Piotr Partyga	-	2 855	-	2 855	-	2 855
Juan de Porras Aguirre	-	-	-	-	-	-
Marcin Prell	2 530	3 704	2 530	3 704	2 530	3 704
Marco Antonio Silva Rojas *	-	-	-	-	-	-
Mirosław Skiba	1 575	4 282	1 575	4 282	1 575	4 282
Feliks Szyszkowiak	1 755	4 449	1 755	4 449	3 438	4 449
Total	11 057	38 570	11 057	38 570	12 740	38 570

* Marco Antonio Silva Rojas was appointed BZ WBK Management Board Member on 30 August 2012, effective from 3 September 2012.

Selection of Auditor

In accordance with § 32 (10) of the Statutes of Bank Zachodni WBK, applicable regulations and industry practice, on 12 June 2013 the bank's Supervisory Board passed a resolution appointing Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) as an entity to review and audit the bank's unconsolidated and consolidated financial statements for H1 2013 and the entire year 2013. The Bank contracted Deloitte Polska and other companies from Deloitte Group for consulting and tax advisory services. In the bank's view, the consulting services do not affect impartiality and independence of the auditor.

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

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 2013 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 and its 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 2013.

Selection of Auditor

The auditing firm responsible for auditing the unconsolidated and consolidated financial statements of Bank Zachodni WBK and its Group for the 6 month period ended 30 June 2013 was selected in compliance with the applicable legislation. The auditing firm and its auditors satisfied the necessary conditions to ensure they provide an unbiased and independent report compliant with the Polish law and professional standards.

Signatures of the Management Board Members			
Date	Name	Function	Signature
25.07.2013	Mateusz Morawiecki	President of the Board	
25.07.2013	Andrzej Burliga	Member	
25.07.2013	Eamonn Crowley	Member	
25.07.2013	Michael McCarthy	Member	
25.07.2013	Piotr Partyga	Member	
25.07.2013	Juan de Porras Aguirre	Member	
25.07.2013	Marcin Prell	Member	
25.07.2013	Marco Antonio Silva Rojas	Member	
25.07.2013	Miroslaw Skiba	Member	
25.07.2013	Feliks Szyszkowiak	Member	

