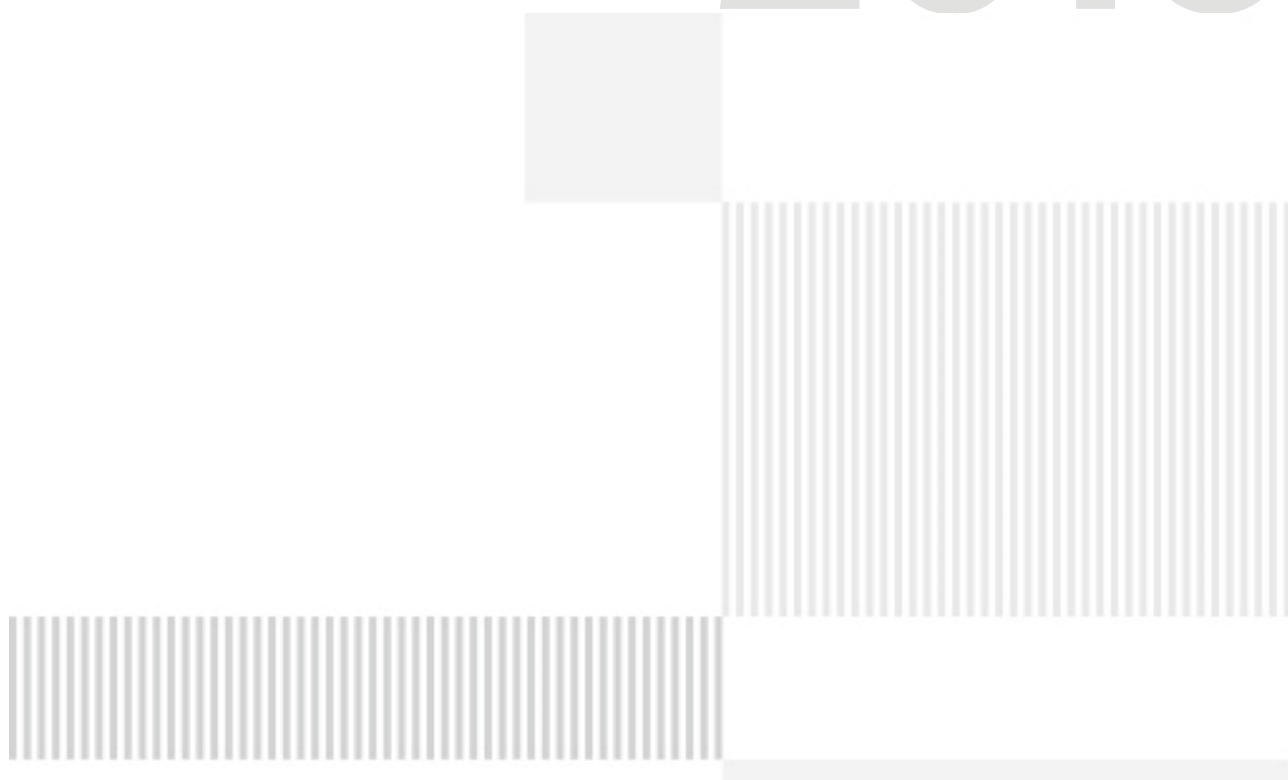


**MANAGEMENT BOARD REPORT
ON BANK ZACHODNI WBK GROUP
PERFORMANCE IN 2015**

2015



Bank Zachodni WBK

 Grupa Santander

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I. Overview of Bank Zachodni WBK Group Performance in 2015

This section provides an overview of the activity of Bank Zachodni WBK Group (BZ WBK Group) in 2015. It presents the financial, business and organisational performance compared with the previous year, and reports on the internal and external factors affecting the Group's activities.

Financial and Business Highlights

Financial ¹⁾ and Business Highlights of Bank Zachodni WBK Group (BZ WBK Group) for 2015	
Total Income	<ul style="list-style-type: none"> Total income of Bank Zachodni WBK Group for 2015 increased by 14.6% YoY to PLN 7,540.2m. Excluding gains on interest in subordinate entities²⁾ totalling PLN 523m in 2015 and PLN 10.6m in 2014, the underlying total income grew by 6.8% YoY.
Total Costs	<ul style="list-style-type: none"> Total costs went up by 15.3% YoY to PLN 3,578.9m. Excluding the diminishing costs of integration with former Kredyt Bank, the impact of acquisition or loss of control over subordinate entities (Santander Consumer Bank, BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ) and the mandatory contribution under the Polish guaranteed deposit scheme³⁾, the underlying cost base⁴⁾ grew by 7.4% YoY. Adjusting further for recurring statutory fees, total underlying costs were stable.
Profit	<ul style="list-style-type: none"> Profit before tax increased by 20.4% YoY to PLN 3,178.3m and by 8% YoY excluding one-off items (gains on divestment from BZ WBK-Aviva companies and contributions under the deposit protection fund). Profit attributable to the shareholders of Bank Zachodni WBK was PLN 2,327.3m and 21.5% higher YoY (7.7% excluding one-off items).
Capital Ratio	<ul style="list-style-type: none"> Capital ratio stood at 14.6% (12.9% as at 31 December 2014).
ROE	<ul style="list-style-type: none"> Return on Equity (ROE) was 15.1% (14.4% as at 31 December 2014), and 13.7% excluding one-off items and integration costs.
Costs/Income	<ul style="list-style-type: none"> Cost to income ratio was 48.4% excluding one-offs (47.3% in 2014), and 47.5% excluding also integration costs (44.6% in 2014).
Net Impairment Losses	<ul style="list-style-type: none"> Net impairment losses on loans and advances amounted to PLN 810.7m compared with PLN 836.6m in 2014.
Credit Quality	<ul style="list-style-type: none"> NPL ratio was 7.3% (8.4% as at 31 December 2014), while the ratio of impairment losses to the average gross credit volumes was 0.8% (1% as at 31 December 2014).
Loans to Customers	<ul style="list-style-type: none"> Gross loans to customers increased by 10.0% YoY to PLN 100,062.0m due to growth of 8.7% YoY in personal loans and 10.7% YoY in loans to enterprises and the public sector to PLN 51,950.1m and PLN 43,542.3m, respectively.
Deposits from Customers	<ul style="list-style-type: none"> Deposits from customers increased by 7.2% YoY to PLN 101,865.4m as a result of the expansion of deposits from enterprises and the public sector by 16.2% YoY to PLN 42,664.7m and the growth in personal deposits by 1.6% YoY to PLN 59,200.7m.

1) Significant YoY increases in several line items of the consolidated income statement of BZ WBK Group for 2015 are largely attributed to asymmetrical periods of consolidation of Santander Consumer Bank Group in the years under review (starting from the acquisition of control over the company on 1 July 2014).

2) One-off gains on subordinate entities of PLN 523m result from partial disposal and loss of control over BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO on 27 February 2015, while the one-off gain of PLN 10.6m in 2014 was earned on the sale of a shareholding from the portfolio of BZ WBK Inwestycje.

3) Pursuant to the Resolution of the Bank Guarantee Fund (BFG) no. 87/DGD/2015 of 26 November 2015, BZ WBK and SCB were obliged to make a contribution of PLN 170.5m and PLN 13.3m, respectively, from the guaranteed deposit protection fund to reimburse depositors of Spółdzielczy Bank Rzemiosła & Rolnictwa, Wolomin, as a result of the latter's bankruptcy.

4) The cost base of BZ WBK Group includes a provision of PLN 40.8m raised by BZ WBK and SCB for their obligatory contribution to the support fund for distressed residential borrowers (supervised by Bank Gospodarstwa Krajowego). The fee was imposed on the Polish banks maintaining residential mortgage loan books, effective from the start of 2016. The costs also include annual and prudential BFG fee of PLN 230.9m.

Financial and Business Highlights of BZ WBK Group for 2015 (cont.)

Loans/Deposits	<ul style="list-style-type: none"> Loan-to-deposit ratio was 93.2% as at 31 December 2015 compared with 90.4% as at 31 December 2014. This increase is attributable to the growth in the Group's lending business.
Net Assets under Management	<ul style="list-style-type: none"> Net value of assets in mutual funds and private portfolios declined by 1.8% YoY to PLN 13.0bn.
Electronic Banking	<ul style="list-style-type: none"> The number of customers using BZWBK24 electronic banking services totalled 3.2m (+5.0% YoY), the number of customers with access to mobile services stood at 0.7m (+37.8% YoY), while the BZ WBK Group payment card base included 4.1m debit and pre-paid cards (-3.2% YoY) and more than 1.1m credit cards (+12.6% YoY), including the cards of SCB customers.
Customer Base	<ul style="list-style-type: none"> The customer base of BZ WBK and SCB was 6.4m customers.

Impact of Macroeconomic Developments in 2015

Key Macroeconomic Factors Impacting Financial and Business Performance of the Group in 2015

Economic Growth	<ul style="list-style-type: none"> Mixed signals about economic growth in the euro zone, worries about the global economic outlook due to the slowdown in China.
Labour market	<ul style="list-style-type: none"> Favourable situation in the labour market – gradual increase in employment in the enterprise sector, declining unemployment and relatively fast wage growth, supporting private consumption.
Inflation	<ul style="list-style-type: none"> No inflationary pressure, CPI inflation rate hitting an all-time low (-1.6%YoY) and gradually rebounding thereafter. Drop in oil prices to their lowest levels in years.
Monetary Policy	<ul style="list-style-type: none"> NBP official rates reduced to the lowest level ever. Decision of the Swiss National Bank to stop defending EUR/CHF floor at 1.20, resulting in strong depreciation of the zloty versus the Swiss franc; cut of LIBOR CHF rates below zero.
Credit and Deposit Markets	<ul style="list-style-type: none"> Relatively strong growth in loans in the banking sector, particularly investment loans and consumer loans.
Financial Markets	<ul style="list-style-type: none"> Changes of mood in international financial markets influenced by the expected policy orientation of the main central banks (Federal Reserve, ECB), incoming macroeconomic data, worries about the geopolitical situation, including concerns about Greece exiting the EU, the immigration crisis and the economic slowdown in China. Volatility of the zloty exchange rate versus the main currencies; decline in Polish bond yields. Presidential and parliamentary elections in Poland, resulting in a change of President, government and economic policy.

Key Developments and Achievements

Major Corporate Events in 2015	
January	<ul style="list-style-type: none"> Launch of BLIK services for BZ WBK customers – a system of mobile payments developed by the Polish Payment Standard (Polski System Płatności) as a joint venture of Polish banks (26 January 2015).
February	<ul style="list-style-type: none"> Resignation of Mr. José Antonio Álvarez as BZ WBK Supervisory Board member on 5 February 2015 due to his appointment as a CEO of Banco Santander. Conclusion of an agreement between BZ WBK and Aviva International Insurance Ltd. (Aviva) (27 February 2015) on the sale of 17% of shares in BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie (BZ WBK-Aviva TUnŻ) and 17% of shares in BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych (BZ WBK-Aviva TUO) and transfer of the ownership title to these shares to Aviva Ltd. After the transfer, the bank holds a 49% stake in the share capital and the voting power of each of the insurance companies, with the remaining 51% of the shares and votes being held by Aviva Ltd.
March	<ul style="list-style-type: none"> Adoption of a resolution by BZ WBK Management Board on the issuance of certificates of deposit as part of the Issuance Programme of up to PLN 3bn to ensure an alternative source of funding (18 March 2015). Declaration of BZ WBK to pay out dividend from 2014 net profit at PLN 9.60 per share (23 March 2015).
April	<ul style="list-style-type: none"> Requirement from the Polish Financial Supervision Authority (KNF) to retain the entire profit for 2014 until the regulator determines an additional capital requirement for the bank (1 April 2015). Amendment to the dividend payment declaration by BZ WBK (8 April 2015) – a motion to leave the portion of profit as dividend undistributed in line with the above-mentioned KNF requirement and recommendation of BZ WBK Management Board and Supervisory Board on distribution of 2014 net profit for the Annual General Meeting of Shareholders (AGM) convened on 23 April 2015. Convening of AGM of Bank Zachodni WBK (23 April 2015) which, inter alia, approved the distribution of the net profit for 2014, appointed Mr. José García Cantero as a new member of the Supervisory Board, determined the remuneration of the Supervisory Board members, adopted the Rules of Corporate Governance for Supervised Institutions, approved the financial statements of Dom Maklerski BZ WBK and gave discharge to members of the Management and Supervisory Boards of the above company. Appointment of the bank's Management Board for a new term of office by the Supervisory Board (23 April 2015) – its composition is provided in Chapter XI "Statement on Corporate Governance in 2015".
May	<ul style="list-style-type: none"> Upgrade of a long-term deposit rating for BZ WBK by Moody's (21 May 2015) to A3 from Baa1 following Advanced Loss Given Failure (LGF) analysis. Selection of Deloitte Polska as an entity to review and audit the unconsolidated and consolidated financial statements of BZ WBK (25 May 2015).
June	<ul style="list-style-type: none"> Private placement of 485,000 bearer bonds with a nominal value of PLN 1,000 each (PLN 485m in total), a 3-year maturity and a variable interest rate (24 June 2015). The issue has been assigned a long-term national rating of AA-(pol) by Fitch Ratings. Repayment of subordinated loans from KBC Bank NV for a total of PLN 1,138.3m which did not qualify as Tier 2 capital under CRD IV/CRR.
July	<ul style="list-style-type: none"> Waiver of preference rights attached to Santander Consumer Bank's shares held by BZ WBK (effective from 10 July 2015), resulting in the bank's holding 60% of voting rights at the GM of SCB. Introduction of the above-mentioned bonds with a nominal value of PLN 485m to the Catalyst alternative trading system (16 July 2015). Conclusion of a loan agreement for EUR 50m between BZ WBK Leasing and the Council of Europe Development Bank (29 July 2015).
August	<ul style="list-style-type: none"> Acquisition by investors of the entire private placement of 230k certificates of deposit (17 August 2015) with a nominal value of PLN 1,000 each, carrying a variable interest rate and maturing on 17 February 2016.
September	<ul style="list-style-type: none"> Securitisation of the instalment loans portfolio by SCB, with a transfer of ownership of the securitised receivables to an SPV – SC Poland Consumer 2015-1 Sp. z o. o. (SCPC). Issuance by SCPC of bonds backed by securitised assets with a total value of PLN 1,051.1m. Conclusion of an agreement between BZ WBK and European Investment Bank (18 September 2015) on a 5-year loan of EUR 100m to finance small and medium-sized enterprises. Conclusion by BZ WBK Lease and BZ WBK of a loan agreement with the European Bank for Reconstruction and Development for EUR 50m (9 September 2015).

Major Corporate Events in 2015 (cont.)

October	<ul style="list-style-type: none"> Receipt of KNF requirements (23 October 2015) for the Management Boards of BZ WBK and SCB to maintain own funds to cover the capital requirement at 0.72 p.p. and 1.07 p.p., respectively, to secure the risk associated with foreign currency mortgage loans for households, with Tier 1 own funds to constitute at least 75% of the total own funds (corresponding to 0.54 p.p. and 0.80 p.p. with respect to the above banks). Requirement imposed by KNF (as of 1 January 2016) on Polish banks to keep an additional capital buffer (capital conservation buffer) of 1.25%, whereby the previous minimal capital ratios increased as follows: CET1 from 9% to 10.25% and CAR from 12% to 13.25%.
November	<ul style="list-style-type: none"> Resignation of Mateusz Morawiecki as President of the Bank's Management Board effective from 9 November 2015 due to his appointment as Deputy Prime Minister of the new Polish government. Appointment of the Supervisory Board Chairman Gerry Byrne as acting Management Board President. Upgrade by Fitch Ratings of the Viability Rating of Bank Zachodni WBK from bbb to bbb+ and affirmation of the other ratings (announcement of 23 November 2015). Maintaining the key ratings of BZ WBK from Moody's Investors Service (credit opinion of 20 November 2015). An obligatory payment of PLN 183.8m made by BZ WBK and SCB to the Bank Guarantee Fund (BFG) from the deposit protection fund to be used for guaranteed pay-outs to the deposit holders of Spółdzielczy Bank Rzemiosła i Rolnictwa of Wolomin following the petition filed by KNF for the bank's bankruptcy. Announcement made on 29 November 2015 by the Management Boards of BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI) and BZ WBK Asset Management (BZ WBK AM) regarding the intended merger through the transfer of all the assets and liabilities of the acquire (BZ WBK AM S.A.) to the acquirer (BZ WBK TFI S.A.).
December	<ul style="list-style-type: none"> Guaranteed payouts of PLN 2bn made between 30 November 2015 to 29 January 2016 to the deposit holders of Spółdzielczy Bank Rzemiosła & Rolnictwa via the BZ WBK branches acting in its capacity as BFG Agent Bank. Conclusion of a loan agreement with an international financial institution (16 December 2015) concerning an unsecured loan of EUR 100m for BZ WBK to be used for general corporate purposes, with a maturity date falling 36 months after the date of the agreement (the funds were received in January 2016).

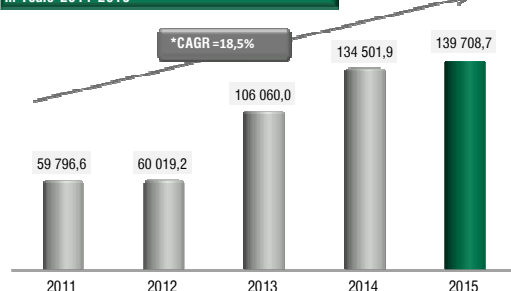
Development of Bank Zachodni WBK Group in Years 2011-2015

Selected data illustrating performance of BZ WBK Group in years 2011-2015

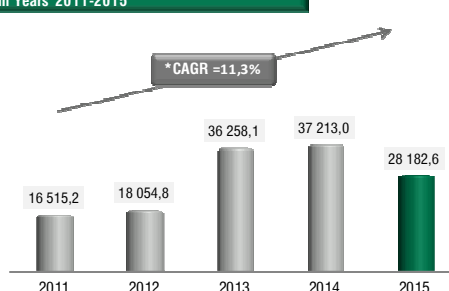
Selected Financial Data (PLN m)	2015	2014	2013	2012	2011
Total Assets	139 708,7	134 501,9	106 060,0	60 019,2	59 796,6
Net Loans and Advances to Customers	94 930,8	85 820,6	68 132,1	39 867,6	38 017,2
Deposits from Customers	101 865,4	94 981,8	78 543,0	47 077,1	46 829,5
Total Equity	20 568,1	18 051,7	14 482,9	8 977,7	7 483,0
Profit Before Tax	3 178,3	2 640,0	2 514,7	1 837,0	1 542,4
Profit Attributable to Owners of BZ WBK	2 327,3	1 914,7	1 982,3	1 433,8	1 184,3
Selected Ratios	2015	2014	2013	2012	2011
Cost to Income Ratio ¹⁾	48,4%	47,3%	47,0%	43,9%	50,2%
Capital Ratio	14,6%	12,9%	13,9%	16,5%	15,1%
NPL Ratio	7,3%	8,4%	7,9%	5,4%	5,5%
Earnings per Share ¹⁾ (PLN)	20,7	19,9	21,2	19,4	16,2
Net Book Value per Share (PLN)	207,3	181,9	154,8	120,3	102,4
Selected Non-Financial Data	2015	2014	2013	2012	2011
Number of Branches	723	788	830	519	526
Number of FTEs	14 218	14 835	12 612	8 835	9 383
Dividend (PLN)	n/a ²⁾	- ³⁾	10,7	7,6	8,0
Number of Shares at the Year-End	99 234 534	99 234 534	93 545 089	74 637 631	73 076 013
Closing Share Price at the Year-End (PLN)	284,0	375,0	387,6	241,9	226,0

- 1) The calculations of the C/I and basic EPS ratios for 2015 use the Group's total income, total costs and profit (as applicable) adjusted for one-off items (gains on divestment of BZ WBK-Aviva companies and payout from the deposit protection fund).
- 2) As at the release date of this report, the Management Board of Bank Zachodni WBK has not completed the analysis leading to the issuance of a recommendation on the dividend pay-out for 2015.
- 3) Based on KNF requirement (1.04.2015) to retain the entire profit for 2014 until the regulator determines an additional capital requirement for the bank, BZ WBK GM of 23 April 2015 left PLN 952.7m of after-tax profit as undistributed after allocating the remaining portion of the profit to the reserve capital.

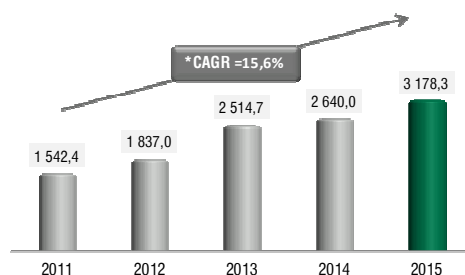
Total Assets of BZ WBK Group (PLN m) as at 31 Dec. in Years 2011-2015



Capitalisation of BZ WBK (PLN m) as at 31 Dec. in Years 2011-2015



Profit Before Tax of BZ WBK Group (PLN m) in Years 2011-2015



* CAGR – compounded annual growth rate

II. Basic Information about Bank Zachodni WBK

1. History, Ownership Structure and Profile

History and Profile

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

Both predecessors of Bank Zachodni WBK were spun off the National Bank of Poland in 1989. Subsequently, they were privatised and became members of the AIB Group under control of the same investor, i.e. AIB European Investments Ltd. of Dublin, a fully-owned subsidiary of Allied Irish Banks, p.l.c.

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

On 1 April 2011, Banco Santander finalised the purchase of Bank Zachodni WBK in its tender for 100% of the bank's shares. As a result, Banco Santander acquired an interest representing 95.67% of share capital and voting power in the bank. As at 31 December 2015, the stake of Banco Santander in the share capital and voting rights at the bank's General Meeting of Shareholders totalled 69.41% as a result of developments described in the table below.

Actions Resulting in a Change of the Stake of Banco Santander (BS) in the Share Capital of Bank Zachodni WBK (BZ WBK)	Date of change	BS share
<ul style="list-style-type: none"> Mandatory acquisition of additional shares from all willing shareholders by BS as a result of exceeding 90% of votes at BZ WBK General Meeting upon completion of a tender offer to purchase BZ WBK shares (1 April 2011). 	27.07.2011 ¹⁾	96,25%
<ul style="list-style-type: none"> Increase in the bank's share capital through the issue of ordinary series I shares with a nominal value of PLN 15.6m taken up by EBRD in a private placement. 	9.08.2012	94,23%
<ul style="list-style-type: none"> Merger of BZ WBK and Kredyt Bank (pursuant to the Investment Agreement of 27 February 2012 signed by BS and KBC Bank NV) by acquisition, i.e. by way of a transfer of all assets of Kredyt Bank to Bank Zachodni WBK in exchange for newly issued series J shares with a nominal value of PLN 189.1m allotted to all of the existing shareholders of Kredyt Bank at the agreed exchange ratio. 	4.01.2013	75,19%
<ul style="list-style-type: none"> Sale of a stake in BZ WBK for the total amount of PLN 4.9bn as part of a secondary offering announced by KBC Bank NV and BS on 22 March 2013. As a result, KBC Bank IV ceased to be a shareholder of Bank Zachodni WBK and BS stake was reduced to 70%. The total number of BZ WBK shares in free float on Warsaw Stock Exchange increased to 30% and consequently the bank was re-incorporated into the key stock indices ²⁾. 	28.03.2013	70,00%
<ul style="list-style-type: none"> Increase in the share capital of BZ WBK in July 2014 by the following amounts: <ul style="list-style-type: none"> ✓ PLN 3.1m through the issue of series K ordinary bearer shares under the 4th Incentive Scheme; ✓ PLN 53.8m through the issue of series L ordinary shares offered to and taken up by Santander Consumer Finance (SCF) in exchange for an in-kind contribution of ordinary and preferred shares in Santander Consumer Bank (SCB) representing 60% of share capital and 67% of votes at the General Meeting of Shareholders. 	11.07.2014	69,77%
<ul style="list-style-type: none"> Acquisition by BS of the entire stake in BZ WBK from SCF (representing 5.42% of voting power). 	13.08.2014	71,41%
<ul style="list-style-type: none"> Sale of nearly 2m shares in BZ WBK by way of accelerated book-building in order to keep the free float of the bank's shares at a minimum level of 30%. 	6.10.2014	69,41%

¹⁾ Date of first announcement of the change.

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

Structure of Share Capital of Bank Zachodni WBK

The table below represents shareholders with significant shareholding in Bank Zachodni WBK and gives an indication of the number of their shares and votes at the General Meeting as well as the percentage of their shares in the share capital and the total number of votes at the General Meeting as at 31 December 2015 and 31 December 2014.

Shareholder	Number of Shares Held		% in the Share Capital & Voting Power at AGM	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Banco Santander S.A.	68 880 774	68 880 774	69,41%	69,41%
ING OFE	5 110 586	5 110 586	5,15%	5,15%
Others	25 243 174	25 243 174	25,44%	25,44%
Total	99 234 534	99 234 534	100,0%	100,0%

In 2015, there were no changes in the structure of shareholders with more than a 5% stake in the share capital of Bank Zachodni WBK.

Based on information available to the Management Board of Bank Zachodni WBK S.A., as at the date of release of the 2015 Annual Report of Bank Zachodni WBK Group (12 February 2016), the shareholder structure remained unchanged to 31 December 2015. The shareholders above the minimum of 5% of the total number of votes at the BZ WBK General Meeting of Shareholders were Banco Santander with a stake of 69.41% and ING OFE with a stake of 5.15%.

Scope of Activities of Bank Zachodni WBK Group

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

The bank's own product range is complemented by specialist products offered by its group of related companies, including: BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI), BZ WBK Asset Management (BZ WBK AM), BZ WBK Leasing, BZ WBK Lease, BZ WBK Faktor, BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych (BZ WBK-Aviva TUO S.A.) and BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie (BZ WBK-Aviva TUnŻ). In co-operation with all these companies, the bank offers its customers access to mutual fund units, individual asset portfolios as well as insurance, leasing and factoring products.

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

As at 31 December 2015, Bank Zachodni WBK Group provided services to 6.4m customers, including customers of Santander Consumer Bank.

Business Model of Bank Zachodni WBK Group

Operating Structure

Bank Zachodni WBK with its non-banking subsidiaries provides services to customers through the following central units: Retail Banking Division, SME Banking Division, Business & Corporate Banking Division and Global Corporate Banking Division (former Global Banking & Markets Division).

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

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

The Private Banking and Brokerage Support Department provides services to high net worth customers through dedicated advisers operating from 12 offices located across Poland.

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

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

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

Basic Distribution Channels

As at 31 December 2015, Bank Zachodni WBK operated country-wide through 723 outlets. The bank's distribution network also included 115 partner outlets, 1,525 ATMs (including 286 dual function ATMs, dispensing cash and accepting note deposits) and 158 deposit ATMs.

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

The bank also offers a specialised iBiznes24 electronic banking platform for businesses and corporations – a tool that can be used to carry out a wide range of transactions and safely manage the company's finances.

Santander Consumer Bank delivered its products through a network of 167 branches and 136 franchise outlets (as at 1 January 2016), structures for mobile sales of car loans and corporate deposits, remote channels (Call Centre and the Internet) and a network of partners selling the bank's car loans and instalment loans.

Business Model Framework

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

2. Market Position, Rating and Share Price

Position of BZ WBK Group in the Polish Banking Sector

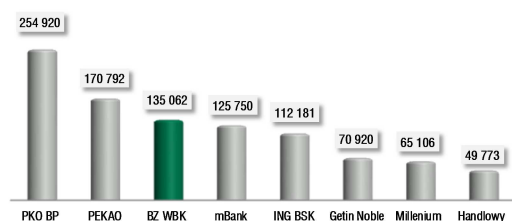
Bank Zachodni WBK Group has stable sources of funding and a solid capital and liquidity position. The strong foothold in the market has been supported by a clear, coherent and consistent strategic vision, an efficient and straightforward business model, with critical mass gained by integration with Kredyt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

Competitive Strengths of Bank Zachodni WBK Group

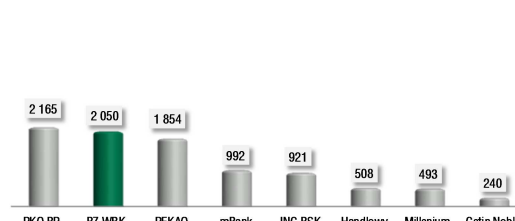


According to the financial statements for the nine months ended 30 September 2015, which at the date of approval of this Management Board report (9 February 2016) were the most up-to-date source of comparable data on the performance of banks listed on the Warsaw Stock Exchange (WSE), Bank Zachodni WBK – including its subsidiaries and associates – was Poland’s third largest banking group in terms of total assets, equity and deposits.

Total Assets of BZ WBK Group (PLN m) vs. Peers as at 30 September 2015



Profit Attributable to BZ WBK Shareholders for Q1-3 2015 vs. Peers (PLN m)



According to NBP statistics, as at the end of December 2015 the Group’s share of the market was 9.6%, both for loans and deposits.

The Group continued to strengthen its presence in the factoring and leasing markets via its subsidiaries, holding a market share of 12.7% and 7.5%, respectively, as at the end of December 2015 (as per data published by the Polish Factors Association and the Polish Leasing Association). At the same time, the Group’s share in the retail mutual fund market was 10.3% (according to Anality Online) while in the equity and futures markets it held 5.9% and 11.3%, respectively (according to the Warsaw Stock Exchange).

3. Entities Related with Bank Zachodni WBK

Subsidiaries

As at 31 December 2015, Bank Zachodni WBK formed a Group with the following subsidiaries:

1. Santander Consumer Bank S.A. (SCB S.A.)
2. Santander Consumer Finanse Sp. z o.o. – a subsidiary of SCB S.A.
3. AKB Marketing Services Sp. z o.o. in liquidation – a subsidiary of SCB S.A.
4. Santander Consumer Multirent Sp. z o.o. – a subsidiary of SCB S.A.
5. SC Poland 2014-1 Limited – a subsidiary of SCB S.A.
6. SC Poland Consumer 2015-1 Sp. z o.o. – a subsidiary of SCB S.A.
7. BZ WBK Asset Management S.A.
8. BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. – a subsidiary of BZ WBK Asset Management S.A.
9. BZ WBK Finanse Sp. z o.o.
10. BZ WBK Faktor Sp. z o.o. – a subsidiary of BZ WBK Finanse Sp. z o.o.
11. BZ WBK Leasing S.A. – a subsidiary of BZ WBK Finanse Sp. z o.o.
12. BZ WBK Lease S.A. – a subsidiary of BZ WBK Finanse Sp. z o.o.
13. BZ WBK Inwestycje Sp. z o.o.
14. BZ WBK Nieruchomości S.A.
15. Gieldokracja Sp. z o.o.

Compared with 31 December 2014, the list of related entities of Bank Zachodni WBK was reduced by two companies as a result of the following changes:

- **Loss of control over BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie (TUnŻ) and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych (TUO).**

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

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

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

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

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

All the entities within Bank Zachodni WBK Group are consolidated with the bank in accordance with IFRS 10 as at 31 December 2015.

Associates

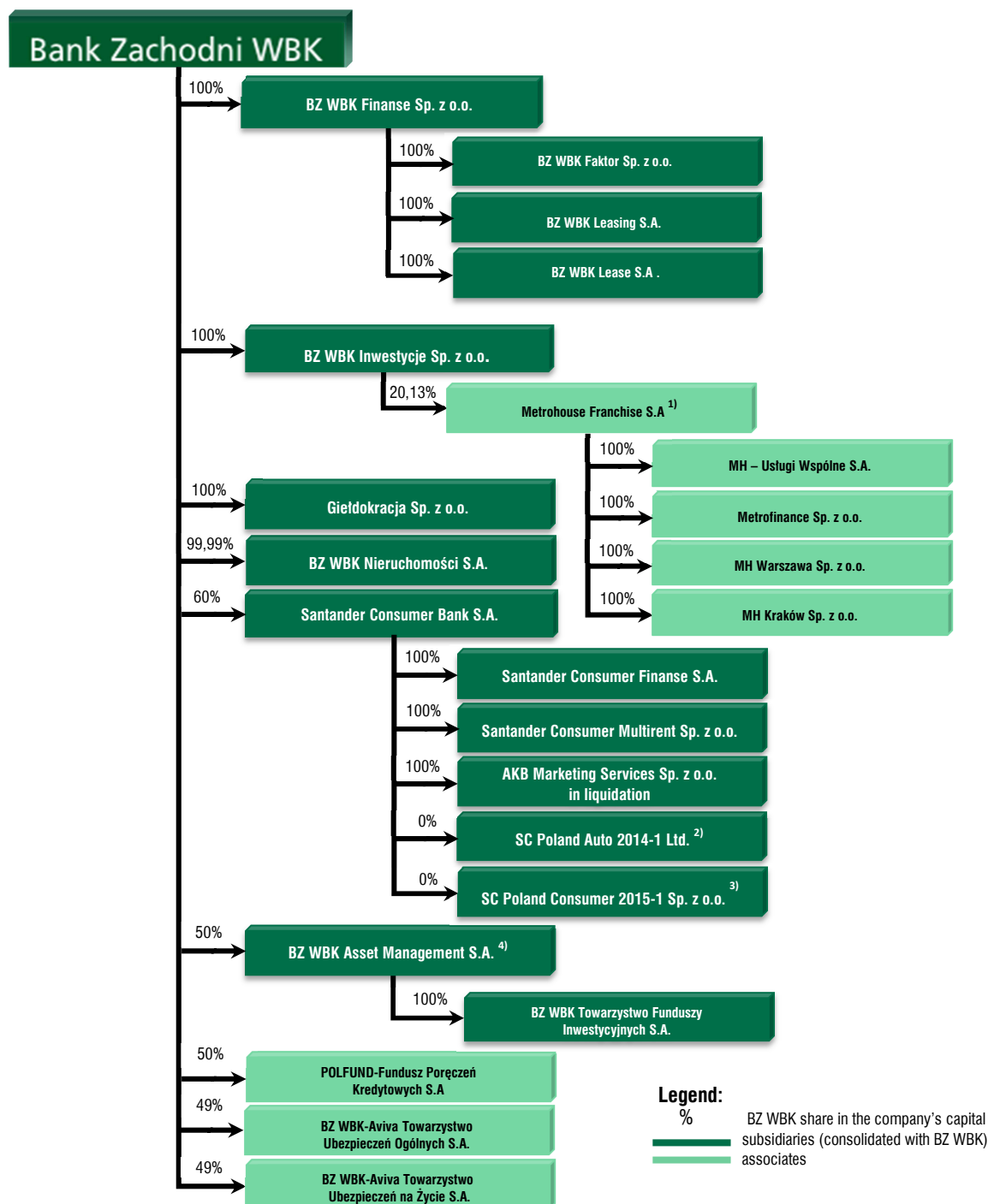
In the consolidated financial statements of Bank Zachodni WBK for the 12 months ended 31 December 2015, the following companies are accounted for using the equity method in accordance with IAS 28:

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

Compared with the end of December 2014, the list of associates increased as a result of the following ownership and organisational changes:

- Loss of control over BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ by Bank Zachodni WBK on 27 February 2015 and change of the classification of the companies from subsidiaries to associates (see the “Subsidiaries” section above for more details).
- Organisational transformations continued in 2015 in Metrohouse Franchise Group, which as at 31 December 2015 included the following subsidiaries: MH - Usługi Wspólne S.A. (formerly Metrohouse S.A. now trading under the new name), Metrofinance Sp. z o. o. (financial advisor), MH Warszawa Sp. z o.o. and MH Kraków Sp. z o.o. (intermediary in real property trading).

Organisational Chart of Entities Related with Bank Zachodni WBK Group as at 31.12.2015



1) As a result of organisational changes, Metrohouse Franchise Group expanded as at 31 December 2015. In addition, the former subsidiary Metrohouse S.A. was renamed as MH – Usługi Wspólne S.A.
 2) SC Poland Auto 2014-1 Limited is an SPV set up for the purpose of securitisation of part of the SCB credit portfolio. Shares in the company are held by foreign nationals who are not connected with the Group. The company is controlled by SCB as it meets the conditions laid down in IFRS 10.7.
 3) SC Poland Consumer 2015-1 Sp. z o.o. is an SPV set up on 7 July 2015 for the purpose of securitisation of the credit portfolio of SCB. Its shareholder is a foreign legal person who is not connected with the Group. The company is controlled by SCB as it meets the conditions laid down in IFRS 10.7.
 4) As at 31.12.2015, BZ WBK and Banco Santander co-owned BZ WBK Asset Management. Both are members of Santander Group and each holds a 50% stake in the company's share capital. In practice, Bank Zachodni WBK exercises control over the company and its subsidiary, BZ WBK Towarzystwo Funduszy Inwestycyjnych, because Banco Santander pursues its policy in Poland through it. Consequently, the company is treated as a subsidiary.

4. Other Equity Investments

The table below presents the entities where BZ WBK Group had at least 5% of share capital or total votes at the General Meeting as at 31 December 2015 vs 31 December 2014.

Ref.	Company	31.12.2015		31.12.2014	
		% in the Share Capital	Voting Power at AGM	% in the Share Capital	Voting Power at AGM
1.	Reliz Sp. z o.o. in liquidation	100,00%	100,00%	100,00%	100,00%
2.	Zakłady Przemysłu Jedwabniczego DOLWIS S.A. in liquidation	44,00%	44,00%	44,00%	44,00%
3.	Invico S.A. ¹⁾	21,09%	12,21%	21,09%	12,21%
4.	Krynicki Recycling S.A. ¹⁾	19,57%	19,57%	19,96%	19,96%
5.	Masterform S.A. ¹⁾	-	-	19,88%	11,72%
6.	Chronos Film Sp. z o.o.	-	-	16,67%	16,67%
7.	Polski Standard Płatności Sp. z o.o.	16,67%	16,67%	16,66%	16,66%
8.	i3D S.A. ¹⁾	15,77%	15,77%	15,77%	15,77%
9.	Krajowa Izba Rozliczeniowa S.A.	14,23%	14,23%	14,23%	14,23%
10.	Zakłady Remontowe Energetyki KATOWICE S.A.	13,08%	5,00%	13,08%	13,08%
11.	Agencja Wspierania Rozwoju Infrastruktury Lokalnej Sp. z o.o.	12,00%	12,00%	12,00%	12,00%
12.	Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A.	10,00%	10,00%	10,00%	10,00%
13.	Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	10,00%	10,00%	10,00%	10,00%
14.	Aviva Towarzystwo Ubezpieczeń na Życie S.A.	10,00%	10,00%	10,00%	10,00%
15.	Biuro Informacji Kredytowej S.A.	7,72%	5,14%	7,72%	7,71%
16.	Infosystems S.A. ¹⁾	7,50%	7,50%	7,50%	7,50%
17.	Hortico S.A. ¹⁾	6,39%	6,39%	6,71%	6,71%
18.	AWSA Holland II B.V.	5,44%	5,44%	5,44%	5,44%
19.	Gorzowski Rynek Hurtowy S.A. ¹⁾	2,47%	6,53%	4,10%	6,53%

1) Companies from the equity investment portfolio of BZ WBK Inwestycje Sp. z o.o.

III. Macroeconomic Situation in 2015

Economic Growth

Economic growth in Poland remained solid and stable at 3.6% YoY in 2015. All the three main contributors – private consumption, fixed investments and exports – continued to be satisfactory, although the composition of growth changed slightly during the year. Fixed investments slowed down, following the dynamic growth in 2014 and early 2015, whereas private consumption remained stable, with upside prospects, as healthy wage growth, possible social transfers and low interest rates were likely to boost spending. Exports increased on account of the recovery in the euro zone, Poland's main trading partner. Poland's external trade imbalance declined throughout 2015 – according to the bank's estimate the current account deficit accounted for approximately 0.2% of GDP at the end of December. Industry was in good shape and showing relatively high growth rates, especially in export-oriented sectors. On the other hand, however, the construction output levelled off in H1 and further contracted in H2.

Labour Market

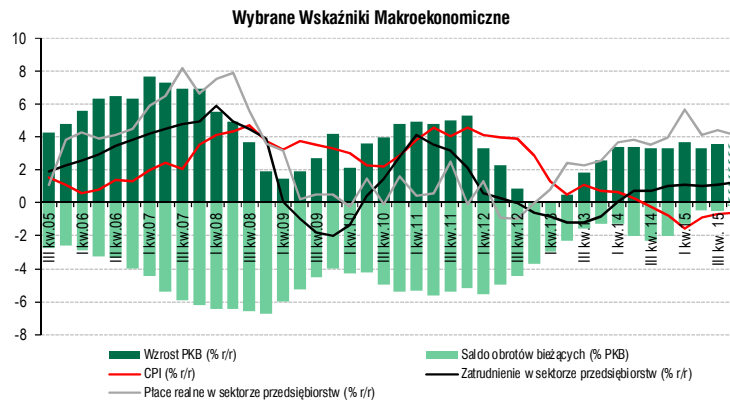
The labour market was strong in 2015. Average employment in the corporate sector grew by 1% YoY, amid a steady increase in the demand for labour. The greater demand for employees was generated mostly by industrial manufacturing, retail trade as well as administrative and supporting activities, while the trend in other sectors remained weaker. Unemployment continued to fall, with regard to both the official unemployment rate and Labour Force Survey (LFS) unemployment, reaching its lowest levels since 2008. Corporate sector wages increased in nominal terms by 3.5% YoY, which together with negative growth in consumer prices and an increase in employment caused a decent rise in disposable incomes in real terms (by approximately 4.6% YoY). According to the bank's estimate, the real wage bill in the corporate sector increased by 5.7% YoY, its highest pace since 2008.

Inflation

Inflationary pressure was low in 2015 and generally surprised to the downside. CPI inflation trended gradually higher after bottoming out in February 2015, but it remained below zero throughout the year. This stemmed from positive supply shocks, deflationary trends abroad and continually negative output gap in Poland. CPI inflation amounted to -0.9% YoY on average in 2015 and -0.5% YoY at the year-end. Core inflation, excluding food and energy prices, was equal to 0.3% YoY on average and at the year-end.

Monetary Policy

The Monetary Policy Council (MPC) lowered the reference rate by 50 b.p. to 1.50% in March 2015 due to low inflation, and continued with a stable monetary policy going forward. The MPC highlighted the fact that no further monetary policy changes would be needed unless there was a significant downturn in the macroeconomic outlook. The majority of the Council's members, as indicated by the MPC minutes, thought that interest rates should remain unchanged until the end of the Council's term (until early 2016). Some Council members emphasised that the stabilisation of interest rates strengthened the resilience of the Polish economy to shocks, particularly in view of considerable uncertainty over the global economic outlook and increased volatility in international financial markets.



Credit and Deposit Markets

The situation in the credit market was stable during 2015. Lending to companies accelerated from approximately 6% YoY to almost 9% YoY at the end of the year (after FX adjustment). It was a positive sign, suggesting that the activity of Poland's companies continued unabated despite the uncertainty over the global economic outlook. Loans in the household sector grew at a fairly stable rate of 4% YoY. Household deposits went up by nearly 10% YoY on account of increasing income levels. Meanwhile, the growth rate of corporate deposits accelerated and achieved a double-digit pace, indicating that the financial performance of companies remained strong.

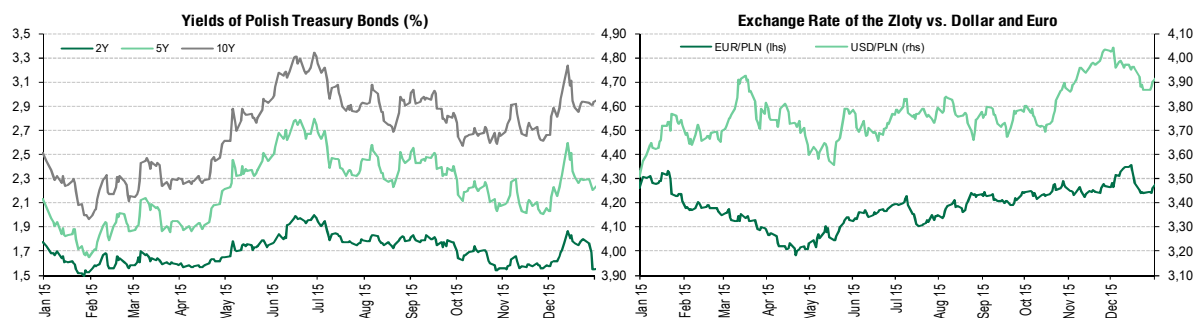
Financial Market

Financial markets were highly volatile in 2015, mainly due to actions taken by the central banks. While the European Central Bank and the Polish MPC decided to ease monetary conditions, the Federal Reserve made a long-awaited decision to end the seven-year period of interest rates trending close to zero as a result of a significant improvement in the US labour market and a slight rise in inflation.

The market situation in 2015 favoured investment on the short end of the bond and swap curves, while the middle portion and the long end increased markedly, mainly due to higher yields on core markets. The short end of the curves was also supported by prolonged deflation in Poland and an expectation of further monetary easing by the new MPC. This prompted investors to price in a rate cut of 25 b.p. in the first half of 2016 and caused quite a significant drop in short FRA rates.

The curves steepened markedly in 2015, with the 2-10Y spread widening towards 140 bp for bonds (vs 74 bp at the end of 2014) and towards 80 bp for IRS (vs 44 bp at the end of 2014). The risk premium for Poland rose quite significantly, which caused an increase in the spread between Polish and German bonds in the 10Y sector. The debt market underperformed the IRS market, which resulted in a significant widening in asset swap spreads.

The FX market, similarly to the interest rate market, witnessed a relatively high volatility in 2015. The domestic currency was under the influence of both global factors (mainly central banks' actions, the situation in China, geopolitical developments) and domestic factors (mainly changes in the political scene in Poland, concerns about the future government's actions related to the conversion of mortgage loans in CHF or other foreign currencies, the introduction of bank and retail taxes, as well as the increased expectation for interest rate cuts by the new MPC). At the end of 2015, the EUR/PLN rate stood at 4.2615 and was only slightly lower than the level reached at the end of 2014. Much bigger changes were recorded in the case of the zloty valuation against other major currencies. In 2015, the zloty depreciated by more than 11% against the US dollar (the effect of the EUR/USD drop due to expectations for a rate hike by the Federal Reserve) and against the Swiss franc (as a result of the Swiss National Bank's decision to abandon the EUR/CHF floor at 1.20 in January 2015). In December, USD/PLN reached a local maximum of around 4.05, its highest level since 2002. The zloty also lost approximately 6% against the British pound as a result of better than expected macroeconomic data for the UK and strong expectations for a rate hike by the Bank of England in the first half of 2016.



Stock Exchange Market

2015 turned out to be a turbulent year for the Warsaw Stock Exchange (WSE) due to the changes that occurred both in and around the stock market. Throughout that time, the WSE was influenced by unfavourable external circumstances that caused major declines in the main stock indices. This situation stood in contrast with what was observed on stock exchanges in mature markets. In that period, the WIG and WIG20 fell by 9.7% and 19.7%, respectively, in response to the proposed changes in the state's economic policy, among other things. Additional factors that affected the WSE included the economic slowdown in China and the first interest rate increase in the United States in nine years, which resulted in global capital movements. This in turn caused investors to flee emerging markets, including Poland, which particularly affected companies with the highest capitalisation.

In this context, the stocks of firms with small and medium capitalisation, mainly held by domestic investors, proved to be much more resilient. Neither global turbulence nor political reshuffle prevented the mWIG40 or sWIG0 from achieving positive rates of return at 2.4% and 9.1%, respectively.

Regulatory Environment of Banking Sector

The key Polish legislation developments in 2015 included the following:

- Act of 28 November 2014 amending the Payment Services Act (effective from 29 January 2015), which reduced the maximum interchange fee for all types of cards from 0.5% of the value of a (domestic) payment transaction to 0.2% for debit cards and 0.3% for credit cards in accordance with Regulation 2015/751 of the European Parliament and of the Council on interchange fees for card-based payment transactions;
- Restructuring Law of 15 May 2015 under which debtors are provided with an option for restructuring through an arrangement with creditors whose legitimate rights are duly secured. The previous Bankruptcy and Reorganisation Law was renamed the Bankruptcy Law and covers the liquidation proceedings only;
- Act of 24 July 2015 amending the Mortgage Bonds and Mortgage Banks Act and Certain Other Acts, whose purpose is to develop the market of bonds issued by mortgage banks by increasing the volume of trading in long-term low-risk debt securities, eliminating the existing legal obstacles, implementing best global practices in mortgage bonds and defining the bankruptcy procedure for mortgage banks;
- Act of 5 August 2015 amending the Competition and Consumer Protection Act and Certain Other Acts, the purpose of which is to prevent the sale of financial products and services which are unsuitable for the customer's needs in a way that does not fit their purpose. The Act prohibits the use of abusive contractual clauses, and vests the Competition and Consumer Protection Office with powers to make interim decisions;
- Act of 5 August 2015 on the investigation of complaints by financial market entities and on the Financial Ombudsman, which enhances the protection of customers using financial services by defining the statutory procedure and deadlines for the investigation of complaints filed by customers. If an entity fails to meet the statutory deadline, the complaint must then be resolved in favour of the customer;

- Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial system, which transposes CRD IV into the Polish law with regard to, among other things, additional capital buffers to be maintained by banks. The Act introduces the formal macroprudential policy framework and sets up the Financial Stability Committee with responsibility for macroprudential supervision over the financial system;
- Act of 25 September 2015 amending the Banking Law and certain other acts, which provides bank customers with an option to apply for debt restructuring. Concurrently, it imposes an obligation on banks to enable debt restructuring if it is justified by an economic and financial assessment of the customer's circumstances. The Act removed banking writs of execution from Polish legislation. As of the effective date (27 November 2015), all regulations pertaining to banking writs of execution ceased to apply, while the proceedings to append an enforcement clause were discontinued.

In 2016, the banking sector will be impacted by the following legislation:

- Act of 15 January 2016 on tax on certain financial institutions, effective from 1 February 2016, imposing a tax on domestic banks at 0.0366% of total assets per month (ca. 0.44% per annum) calculated as the surplus of the taxpayer's assets (according to the summary of turnover and balances as generated from the general ledger as at the end of the month) above the statutory limit of PLN 4bn. In the case of non-associated banks, the tax base is reduced by the value of own funds, assets purchased from the National Bank of Poland held as collateral for a refinancing credit facility granted by that bank and the value of treasury securities.

IV. Development Strategy

1. Delivery of Strategy of Bank Zachodni WBK Group in 2015

In 2015, Bank Zachodni WBK Group pursued its strategy for 2015-2017 with the support of the Next Generation Bank Programme, under which new solutions are steadily implemented with primary focus on the needs and expectations of customers and effective cooperation between the bank's units ensuring a superior customer experience.

Next Generation Bank Programme in 2015

Key Assumptions

The Next Generation Bank Programme (NGB) was launched in October 2013 to deliver projects aimed at strengthening the position of Bank Zachodni WBK as the first-choice bank in accordance with its adopted strategy. To that end, intensive efforts have been made to steadily transform the Group towards a customer-centric organisation which employs well-motivated, engaged and collaborating people.

The main features of the Programme are:

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

The Next Generation Bank Programme and the strategy in place are based on the Simple, Fair and Personal values, which are fundamental elements of both Bank Zachodni WBK Group and Banco Santander's corporate culture.



Key Deliverables of the Next Generation Bank Programme in 2015

In 2015, the NGB Programme focused on strategic initiatives in risk management, employee engagement and development, multichannel strategy, simplification of the bank's processes & products, quality improvement and digitisation.

Risk Management

In 2015, as part of the NGB Programme a three-year Advanced Risk Management (ARM) programme was launched, designed to achieve a higher level of excellence in financial and non-financial risk management. All the risk policies were reviewed and updated in order to ensure full compliance with EU regulations and the best industry practices. In addition, a communication campaign was held to increase risk awareness among employees and rules for data and information management were put in place. Furthermore, the bank modified its key risk data reporting processes in accordance with Basel Committee guidelines (BCBS 239 – Principles for effective risk data aggregation and risk reporting).

At the same time, the Risk Management Division proceeded with the iRisk Programme, which in 2015 focused on IT solutions that facilitated the flow of information and accelerated and automated processes to improve the management of credit facilities. One of the key initiatives under the programme included implementation of a tool whereby the advisor could determine and communicate to the customer the likely credit decision for selected facilities by using data derived from the bank's systems or obtained by direct interaction with the customer. Customers were also offered the option to self-manage their overdue debts by means of the BZWBK24 mobile application and the BZWBK24 internet online platform.

Staff Engagement and Development

In accordance with the adopted strategy, the Business Partnership Division focused on building an engaging work environment in three areas: organisational effectiveness, each employee's professional life cycle and a friendly working environment. The projects undertaken focused on supporting collaboration, dialogue and bottom-up initiatives to create a work atmosphere conducive to staff engagement and development.

In 2015, a series of workshops commenced with the bank's top management in order to define the measures needed to deliver the business strategy based on the adopted values and behaviours. The achievement of business objectives was also facilitated by continued development programmes and projects relating to a new model of management competency measurement.

The bank also developed initiatives that strengthened its image as an employer of choice.

Simple Bank

In 2015, as part of the NGB Programme, Bank Zachodni WBK launched a strategic programme called "Simple Bank", which refers to the organisation's key values: "Simple, Fair and Personal". Actions were undertaken in six streams: simple processes and a multichannel approach, paperless banking and digitisation, cashless banking, simple products, the appearance and functionality of branches and simple communication. The purpose of these actions was to increase customer satisfaction, facilitate the use of banking services and ensure a personalised service. The main stream included, inter alia, simplification of the account opening process for the SME segment, centralisation of complaint handling and increase in the number of processes available to customers over the phone (such as placing instructions and making changes in credit products). As part of the paperless bank project, central credit processes were digitised to enable an electronic flow of documents. The bank continued development of its cash deposit machines network and implemented a number of other initiatives to support cash services for customers, including a new model of handling large deposits at selected branches and cash centres or a simplified model of cash and vault management.

Multichannel CRM

The multichannel CRM programme delivered under the NGB Programme is designed to introduce a relationship-based customer strategy to ensure consistent communication across all channels, depending on customer needs identified by means of modern technologies. As part of the first stage of the work, the bank implemented a new campaigns management system and completed its first campaigns in the new analytical environment. The key changes under the multichannel CRM programme are to be fully implemented in 2016.

Segment Strategy

Initiatives aimed at an improvement to customer service in individual channels were presented in Chapter VI "Business Development".

2. Macroeconomic Outlook for 2016

- Stable economic growth close to that observed in 2015 (3.6% YoY) is likely to continue in 2016, supported by three main contributory factors: private consumption, fixed investments and exports.
- The world economy, and in particular the euro-zone, is expected to continue to see a recovery. An improvement in the situation for Poland’s main trading partners should positively affect exports to those countries. Nevertheless, there is still a lot of uncertainty regarding emerging economies, especially China, which may considerably weigh on economic sentiment.
- Inflation is expected to remain low (0.0% YoY on average) amid low commodity prices, cuts in energy and gas prices and weak trends in food prices. The inflation rate will gradually increase throughout 2016 and is expected to reach 1% YoY in December.
- Domestic demand will continue to be an important driver of growth in 2016. The improvement in the labour market should continue with job creation and significant growth in real wages (supported by productivity increases). Nominal wage growth may reach 5%, and low inflation is likely to support disposable income in real terms. Household budgets should also enjoy support through higher social benefits for families with children (the 500+ Programme) and low interest rates. Private consumption should be an important driver and GDP growth stabilizer in 2016.
- The zloty exchange rate may be volatile in 2016. After a sharp depreciation of the Polish currency in January in response to the rating downgrade by Standard & Poor’s, the prospect of the zloty’s appreciation seems to be quite limited. An improving economic climate may support a moderate currency rebound. On the other hand, there will be a number of domestic risk factors that could negatively affect the zloty: decisions or statements from rating agencies, further work on the FX loans conversion bill, possible interest rate cuts by the MPC, and work on the 2017 budget bill. The bank expects that by the end of the year, the EUR/PLN rate may be close to 4.30.
- Prolonged deflation is likely to encourage the Monetary Policy Council to trim interest rates by 50 b.p., bringing the reference rate to a record low of 1.0%.

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

In view of dynamic and complex changes in the macroeconomic environment, the existing strategy of Bank Zachodni WBK Group was verified in order to formulate a new three-year concept (2016-2018), taking account of current and expected challenges emerging in the external environment, the Group’s development objectives and other relevant factors. The new strategy is a continuation of the previous course of action, based on the same values and assumptions. One of the important elements of the strategy is the Next Generation Bank Programme which promotes a customer-centric culture in business management.

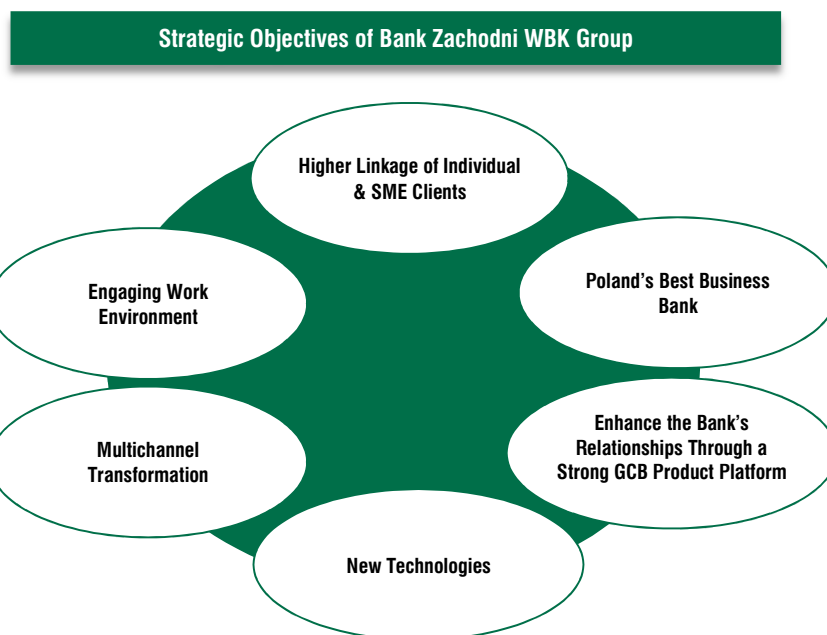


With respect to key stakeholder groups, the bank's mission and vision are formulated as follows:

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

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

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



V. Human Resources and Corporate Culture

1. Human Resources Management

Human Resources

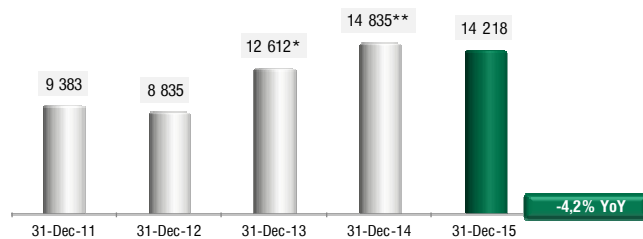
As at 31 December 2015, the number of FTEs in Bank Zachodni WBK Group was 14,218 vs. 14,835 as at 31 December 2014.

The headcount figures as at the end of 2015 also include FTEs of SCB Group of 2,625 (vs. 2,720 as at 31 December 2014), however, they do not take into account the employees of BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŽ (68 FTEs as at 31 December 2015) following the loss of control over the above insurance companies as of 27 February 2015.

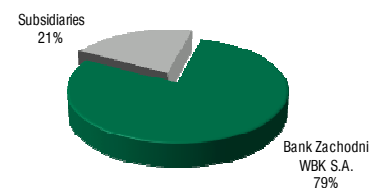
Excluding FTEs of BZ WBK-Aviva TUO and BZ WBK Aviva TUnŽ, the underlying headcount in Bank Zachodni WBK Group was 548 lower YoY. The decrease is due to the change of the brokerage service delivery model and the continued optimisation of organisational structures within the Business Support Centre and Branch Banking, taking account of current business needs and prevailing market conditions.

Human capital of Bank Zachodni WBK Group is created by highly-qualified, experienced and committed specialists, experts and managers who successfully deliver on their business goals, with a continuous focus on personal and professional development.

Employment in BZ WBK Group in Years 2011-2015
(in FTEs)



Employment Structure in BZ WBK Group as at 31.12.2015



* Merger of BZ WBK S.A. and Kredyt Bank on 4 April 2013
 ** Includes employees of SCB Group as a result of acquisition of a controlling stake in SCB on 1 July 2014

HR Policy and Its Delivery

Recruitment

Bank Zachodni WBK recruits new employees both internally and externally using methods and sources which are relevant to the available vacancies, including social media (GoldenLine, LinkedIn), practical training and internships, career fairs, events organised by universities, science clubs and career services, external service providers and the Referrals Programme.

The Referrals Programme was launched in June 2015 as a tool supporting recruitment of employees for customer service positions in the branch network. The system helps to reach a wider group of prospective employees who have relevant sales skills and are interested in taking up a job at a branch.

In 2015, 110 interns participated in the Practical Training and Internships Programme designed to recruit young, qualified and talented people. The programme is run in cooperation with many Polish universities. 87% of interns who completed their paid training in Bank Zachodni WBK last year positively assessed their time with the bank, as well as the knowledge and skills they gained. They also emphasized the importance of tasks assigned and their associated responsibility, and expressed their willingness to take up a job with the bank in the future.

The Practical Training and Internship Programme, along with the bank's participation in career fairs and communication in social media, are examples of a broad-scope of employer branding initiatives which are aimed at building the reputation of the bank as a first-choice employer among students, graduates and prospective employees.

Remuneration and Incentive System

At Bank Zachodni WBK, remuneration essentially comprises a base salary which is determined on the basis of performance, scope of responsibilities, qualifications and experience. In its approach to job valuation, the bank uses best market practice to ensure competitiveness of remuneration (e.g. payroll reports prepared by leading advisory companies).

Variable remuneration depends on a bonus scheme relevant to a given employee (including bonus regulations for branch employees, Business Support Centre employees and executives).

The bonus schemes in place enhance staff motivation and support the delivery of strategic objectives set by the organisation. They are linked to the results of the bank, respective units and individual employees who are subject to regular performance review. Management Board members are covered by a separate bonus system which is related to financial performance and risk generated. In addition, up to 500 key employees and executives in the Group are covered by a three-year share-based incentive scheme (for details see section "Performance Share Programme").

The bank offers additional benefits that suit employees' needs such as its health care package and *cafeteria system* which offers a wide range of cultural, sports or travel benefits.

Training and Development Programmes

The Business Partnership Division provides top-quality development programmes and business-as-usual training (both traditional and remote) which support the development of Bank Zachodni WBK employees and executives, and contribute to the delivery of the bank's strategic goals and key business projects. Business and training objectives are harmonised by the planning and co-ordination of training – a process actively supported by the branch network and key business areas.

Training Activity

Bank Zachodni WBK employees have access to a wide variety of tools which help foster professional development, such as remote training (e-learning and webcasts), workshops (internal and external), language courses, postgraduate studies and specialist courses. An important element of staff development is the practical application of acquired skills and knowledge sharing within the organisational units.

In 2015, training activities for the branch network were focused mainly on sales skills, an improvement in service quality, knowledge of selected products, security and compliance with regulations, insurance activity in the context of Recommendation U, lending processes and repayment capacity assessment. Training for the Business Support Centre covered such issues as changes in the law, finance, security, IT, personal development and interpersonal skills.

Remote training methods enjoy increasing popularity at the bank and have played a considerable role in training activities for some time now. In 2015, as part of ongoing training and development initiatives the bank purchased several hundreds of annual licences to provide employees with access to English language courses via an online platform and completed pilot projects of remote IT training courses and of expert training (in finance, audit and risk) in the form of a video call.

The number of training hours came to a total of 418.4k, i.e. 36.7 hours or nearly 5 working days on average per employee. The number of registered attendees totalled 81.5k, 26% of which related to workshops and the remainder to remote training. The bank also continued activities aimed at developing the competencies of BZ WBK Partner outlet agents.

Development Programmes

Development programmes for executives and high-potential employees of Bank Zachodni WBK are an important element of human resources management strategy that aims at building an engaging work environment.

Programmes for Managers

In 2015, the bank continued to develop leadership skills for business effectiveness and building staff incentivization based on dialogue, collaboration and bottom-up initiatives. A total of 1,378 employees participated in workshops for managerial staff and 848

employees underwent feedback sessions. Members of middle and senior management were additionally covered by a coaching process aimed at the development of managerial and leadership skills as part of individual sessions with an external trainer.

Talent Management

The following programmes were the bank's key talent management initiatives:

- Leaders of the Future Programme involving workshops, training in project management, leadership skills development and delivery of Corporate Social Responsibility (CSR) projects;
- The First Step Programme addressed to the bank's best experts from the areas of IT and Operations. The policy objective is to increase each employees' capacity to cooperate, create and develop business ideas and initiatives as part of actual projects;
- The Out of the Box Programme is dedicated to top-performing employees. Its goal is to promote a partnership across the bank and provide a platform for knowledge and experience sharing by means of the joint delivery of business projects requiring integrated actions and a holistic approach to the organisation.

Programmes for Employees

More than 1,040 employees from 131 branches took part in the pilot project known as the "Advisor Development Programme" designed to support development of both soft and specialist skills. In addition, the bank continued to pursue a mentoring and personal development planning initiative as part of which experienced managers share their knowledge and experience with development programme participants. Additionally, the entire organisation is undergoing a three-year process aimed at implementation of the Simple, Personal, Fair values fundamental to the Group's corporate culture.

Performance Share Programme

As at 31 December 2015, Bank Zachodni WBK delivered a three-year 5th Incentive Scheme, introduced by the Extraordinary General Meeting of 30 June 2014 in relation to both the bank and subsidiary employees that have a key contribution to the value of the organisation. The main objective of the programme is to retain and motivate top-performing executives.

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

The three-year long 5th Incentive Scheme is continually monitored to check if any employees have lost their participant status. The usual reason for the loss of such status is a termination of employment, either with the bank or another entity of BZ WBK Group. In 2015, 21 eligible employees lost their participant status.

2. Business Ethics

Bank Zachodni WBK Group endeavours to ensure that all employees act within the law, regulatory requirements and corporate governance rules, maintaining the highest ethical standards in all their activities.

Ethical standards, available in the written form, have been for years a fundamental element of the Group's corporate culture. Initially, they were collected in the Code of Business Ethics and in January 2013, the General Code of Conduct was implemented across Bank Zachodni WBK Group.

Ethical values promoted by the Group's General Code of Conduct					
<i>Equal opportunities</i>	<i>Respect</i>	<i>Work-life balance</i>	<i>Health and safety at work</i>	<i>Environmental protection and social responsibility</i>	<i>Collective rights</i>
Attitudes promoted among employees					
<i>Compliance with law, external and internal regulations, ethics and social responsibility rules</i>		<i>No competition</i>	<i>Responsibility (professionalism)</i>	<i>Engagement (acting in the Group's best interest)</i>	

The Code includes not only general ethical standards and attitudes but also specific rules of conduct regarding different aspects of Group's operations such as conflicts of interest, the marketing and sale of financial products, cooperation with third parties, information security, prevention of money laundering and terrorism financing, anti-corruption practices, and conduct in securities markets.

Supplementary and detailed guidelines facilitate its interpretation and are included in the following regulations: AML Manual, Code of Conduct in Securities Markets, Financial Products Manual, Code of Conduct for Research Activity, Information Security Manual, Speak Up Policy and Dignity and Respect at Work Policy. The General Code of Conduct is supplemented and extended by such initiatives as the Anti-Corruption Programme designed to eliminate gaps in the bank's controls and promote the Group's Zero Tolerance for Corruption policy applied across Santander Group.

Comprehensive training initiatives with the specific aim of protecting the Group's reputation have been developed to address all employees. The ethics and compliance e-learning programme (COMET) launched a few years ago helps reinforce the best ethical standards among employees. In 2015, the bank launched an information and training campaign called "I am Fair" to consolidate the knowledge of ethical standards and security rules in both work and non-work environments.

The Group also promotes open and sincere communication, encouraging all staff to voice any issues of concern. To that end, the bank maintains dedicated communication channels for staff to raise any matters, such as any breach of ethical standards.

3. Corporate Social Responsibility of Bank Zachodni WBK

For many years now, Bank Zachodni WBK has been pursuing a social responsibility philosophy out of concern for the local environment. In 2012, the bank implemented the Corporate Social Responsibility and Sustainable Development Policy in which it undertook to give due respect to social interests and ethical and environmental considerations in each and every action it takes. This approach is an integral part of business management, long-term commitment and investment for the future.

Four areas of Sustainable Development (SD) Policy and five foundations of Corporate Social Responsibility (CSR) Policy of Bank Zachodni WBK have been provided below.





The bank's commitment to social responsibility is confirmed by its inclusion in Respect Index's list of Poland's most socially responsible companies.

The overriding goal of all social projects delivered by the bank is to build a civil society which is aware, enterprising and active. In the pursuance of the above objective, the bank delivers initiatives which are mainly aimed at young people. The two major projects dedicated to the above group include:

- **School Card** - a project aimed at the enhancement of security in schools by preventing unauthorised access. The bank provides schools with an access control system using contactless prepaid cards (known as School Cards) which combine the features of an ID card and electronic key, a library card, a payment card and a public transport pass or ticket. All schools participating in the project benefit from a special curriculum, including presentations delivered by the bank's experts on the subject of economics;
- **Santander Universidades** – a flagship project dedicated to students, PhD students, academics, administrative staff and graduates. The Santander Universidades Programme that had been in existence for over 17 years was launched in Poland in 2011 as part of a global initiative of Banco Santander. The idea behind the programme is to invest in the development of communities in the countries in which Banco Santander operates.

A large number of social programmes are delivered via Bank Zachodni WBK Foundation which started some 18 years ago. Particularly noteworthy are the two largest grant programmes:

- **The "Bank of Children's Smiles"** initiative focuses on organisations which help children from dysfunctional, unemployed or poverty-stricken families, as well as supporting institutions such as NGOs, community centres, local administration units and schools. The funds (PLN 0.7m per annum) are invested in the development of children facing difficult financial circumstances.
- **The "Bank of Ambitious Youth"** initiative is designed to help young people who are in the process of developing their social attitudes to understand the needs of their local communities, define objectives, create task forces, solve problems and deliver projects at a local level. The application process takes place twice a year and the total annual support under the programme is PLN 1m.

From mid-May until the end of July 2015, Bank Zachodni WBK ran its second social campaign addressed at assisting local communities: **"Here I live, here I make changes"**. The campaign featured a Poland-wide grant competition in which residents were invited to suggest improvements for their local neighbourhood in terms of public space, aesthetics, cleanliness, functionality and quality of life, and to propose projects that might promote social commitment to art and culture, the protection of historical monuments and memorials, and environmental safety. The competition was publicised through campaigns on the Internet, in the press and via external advertising, including emails sent to local institutions/administration units. The campaign was supported by local events held in 200 cities. In all, the bank awarded grants of PLN 4k, PLN 7k and PLN 10k to 300 projects from among 2,224 entries sent online.

In October 2015, Bank Zachodni WBK published a second CSR Report for 2014, which had been prepared in accordance with GRI (Global Reporting Initiative) Guidelines 4.0. The report contributes to the overall picture of organisational management, focusing on social, ethical and environmental aspects of the bank's operations, and describing the bank's relationship with stakeholders, including employees, customers, shareholders, suppliers and local communities. For the first time, the report was subject to independent assurance in terms of conformity of its non-financial data with GRI G4 guidelines.

In line with objectives set in CSR Report for 2013, the report for 2014 presented the results of the first survey on effectiveness and social impact of key CSR initiatives such as Santander Universidades, School Card, Barrier-Free Banking and educational games. It was the first analysis of this kind in Poland covering CSR activities. The report is available at <http://www.bzwbk.pl/csr>.

4. Customer Relationship

Quality Management

Service quality and customer satisfaction are the key elements of the customer centricity strategy pursued by Bank Zachodni WBK. The bank measures customer satisfaction on an ongoing basis and continuously improves service standards.

Key elements of quality management system in Bank Zachodni WBK



Customer Expectations and Feedback

Since 2014, customer satisfaction surveys have been conducted on an ongoing basis, which enables the bank to exercise control and take prompt action if needed. The results of customer satisfaction surveys and customer feedback are available in real time. Many employees at different organisational levels are authorised to use such information in order to propose improvements and remedial actions. Where a customer is not satisfied with the service received, the issue is promptly investigated.

The customer satisfaction survey carried out by the bank is based on quality attributes grouped into the following areas: brand image, customer relationship, service quality, scope and terms of service, main distribution channels and key customer segments. The methodology used by the bank is consistent with the practice adopted across Santander Group, which ensures comparability of results and enables sharing of tried-and-tested solutions between different countries. In 2015, new survey modules were introduced, covering a wider scope of processes, products and customer relationship with the bank.

Customer Experience Management

The bank manages customer experience at each stage of the relationship, from customer onboarding, the selection of an offer, teller operations (at a branch or in a self-service zone), the purchase of products and services in individual distribution channels, to the assessment of the complaint procedure.

Customer satisfaction surveys help Bank Zachodni WBK to continually improve service quality and become a better bank. To that end, in 2015 the bank launched Online Advisor services, services for hearing-impaired customers and a helpline for SMEs and VIP customers. Furthermore, the bank offered a wider range of products and services via BZWBK24 mobile, extended the network of ATMs and CDMs and increased the number of barrier-free branches (with facilities for disabled customers).

The responsibility for implementation and application of customer service standards adopted by Bank Zachodni WBK was delegated to macroregional customer relationship managers. In 2015, the business competence of the team was extended and the number of members doubled. Managers are responsible for delivery of corrective actions in respect of services and the satisfaction of branch customers. They also support the training programme designed to build branch staff competence in relation to the bank's customer needs analysis and the development of sales skills.

Communication with Bank Customers

Bank Zachodni WBK endeavours to ensure that information provided to customers in the process of its product offering and after-sales service is accurate and clear. To that end, changes were introduced to the style of letters sent in reply to customer complaints. This is to ensure that customer cognitive and emotional needs are respected and that the content is correct in terms of composition, follows a logical order, is exhaustive, as concise as possible and free of complex terminology.

The new correspondence standards in place have now made communications more transparent and understandable to customers.

Barrier-Free Banking

For the last five years, the bank has been delivering the “Barrier-Free Banking” programme to enhance disabled customers’ experience with BZ WBK in all contact channels (from branches to mobile banking). The bank’s holistic and multichannel approach to elimination of barriers for disabled customers makes the programme a unique initiative in the Polish financial sector.

The Barrier-Free Banking Programme facilitates day-to-day banking for disabled customers through the following:

- branches without architectural or other barriers with accessibility certificates in place;
- Online Advisor services in sign language (via video call) supporting bank branches;
- ATMs designed for the visually impaired or blind customers;
- BZWBK24 home banking services certified for accessibility to sight impaired customers.

Marketing and Communication Campaigns

In 2015, Bank Zachodni WBK consolidated its position among the leaders of bank franchises as the third most recognisable brand in Poland, with an unaided brand awareness of 35%. The bank also maintained its position as a leader in image-building and marketing campaigns on social media. At present, it is a financial institution that is most active in its communication with web users and also has the largest number of Facebook fans (by the end of 2015, 251k people had “liked” the bank’s page). The bank also has a large number of unique visitors to its blog and many followers on Twitter.

Following its effective communication on social media, the bank was certified as a “Socially Devoted” institution by Socialbakers, a prominent analytical company. Web users chose Bank Zachodni WBK as the best bank on social media in the 2014 Golden Banker (Złoty Bankier) ranking.

In 2015, a number of campaigns were held to support the sales of products to individual customer segments and promote customer activity in remote distribution channels, including:

- Wide-ranging product campaigns (for offers such as cash loans and the Account Worth Recommending) on traditional media, endorsed by Polish artists targeted at retail customers;
- Activities promoting mobile and internet banking (e.g. “The mobile rule the world” / “Do mobilnych świat należy” and “Be Smart”/“Bądź Smart” campaigns, encouraging customers to use mobile applications and their advanced functionalities) and BLIK payments;
- Educational and promotional campaigns for credit cards, designed to increase the activity of card users by highlighting card functionalities and their associated benefits;
- Campaigns encouraging affluent and VIP customers to actively use the bank’s savings and investment products, including those offered by the Brokerage Office, BZ WBK TFI and the BZ WBK-Aviva insurance companies.

The bank also strengthened its relations with business and corporate customers through the following initiatives:

- Participation in the “Business Evolution” (“Firmowe Ewolucje”) project (a TV series broadcast by the TVP1 channel, presenting specific firms and their planned growth, facilitated by various experts), designed to encourage the activity of SMEs;
- Continuation of the Poland-wide workshop programme “Entrepreneur Academy” (“Akademia Przedsiębiorcy”) for SMEs, which in 2015 focused on EU funding and was held in conjunction with external partners;
- Implementation of the Export Development Programme to support customers in international expansion of their business;
- Annual cycle of relationship-building meetings with more than a thousand corporate clients in five cities in Poland.

5. Awards, Recognitions and Position in Rankings

Bank Zachodni WBK (BZ WBK)	
Quality Star of 2015	<ul style="list-style-type: none"> BZ WBK named a trustworthy company with best-in-class service standards in the report issued by <i>8th Polish Service Quality Programme</i> (13 March 2015).
Top 50 Banks in Poland	<ul style="list-style-type: none"> Third place in the jubilee edition of Top 50 Banks in Poland organised by the monthly magazine <i>Bank</i> (11 June 2015).
Best Bank in Poland	<ul style="list-style-type: none"> BZ WBK named “Best Bank in Poland” at the international <i>Euromoney Awards for Excellence 2015</i> for high efficiency and outstanding profits as well as innovative solutions in the area of Internet and mobile banking.
Friendly Bank by Newsweek	<ul style="list-style-type: none"> BZ WBK mobile banking ranked top in the 14th edition of the ranking organised by <i>Newsweek</i> magazine, in recognition of the widest array of services, new features, easy navigation, efficiency of contact channels and the transaction system as well as processing times.
2015 Leopard Awards	<ul style="list-style-type: none"> Third place in 2015 <i>Leopard Awards</i> for the most impressive banking brand creation process, voted by professionals from the banking and insurance sector.
Top Brand	<ul style="list-style-type: none"> BZ WBK hailed a positive brand in the Top Brand ranking as conducted by <i>PRESS</i> monthly and <i>PRESS-SERVICE</i>, based on the following criteria: frequency, scope and type of publicity.
2015 Wprost Portfolios Awards	<ul style="list-style-type: none"> The best bank for small and medium enterprises as chosen by customers, sector experts and professionals in the <i>2015 Wprost Portfolios Awards</i> hosted by <i>Wprost</i> weekly. The following criteria were evaluated: brand recognition, transparency of products and services and their customisation, fees and charges, service quality, customer loyalty policy and customer trust (29 June 2015).
Best Bank on Social Media	<ul style="list-style-type: none"> Best bank in terms of communication with customers on social media as voted for by Internet users who appreciated the bank’s diligence and effort in responding quickly to all questions and comments.
Ambassador of UN Convention	<ul style="list-style-type: none"> Awarded the title of Ambassador of <i>UN Convention on the Rights of Persons with Disabilities</i> by NGOs acting in the interest of the disabled and in recognition of the proactive and effective promotion by the bank of the UN Convention’s regulations.
Best in Sales	<ul style="list-style-type: none"> The Best in Sales Award granted by the jury of the <i>Annual European Structured Products and Derivatives Awards</i> for the largest distributor of structured products in Poland in 2014 (6 February 2015).
Best Account in Poland	<ul style="list-style-type: none"> Top position for the Account Worth Recommending in the April ranking published by <i>Bankier.pl</i>, taking into account such criteria as total monthly maintenance fee, terms of use of payment card and withdrawals from ATMs of other banks.
Account<20	<ul style="list-style-type: none"> First place in the “Account for children, youth and students” category of the TOP 10 ranking conducted by <i>Money.pl</i>. The main advantages of the account include: free-of-charge maintenance, MasterCard<20 card for free ATM withdrawals in Poland and abroad, and full mobile banking functionality.
Best Loan	<ul style="list-style-type: none"> Top position of Home for the Young Loan in the ranking organised by <i>Bankier.pl</i> (November 2015) in respect of the offer for customers taking out a loan for 25 years with a 10% downpayment. Second position in the ranking in terms of offer for borrowers with a 20% downpayment.
Best Mobile Banking of 2015	<ul style="list-style-type: none"> BZWBK24 mobile application ranked first out of 20 applications in terms of functionality in the ranking published by <i>Money.pl</i>.
Best Mobile Application	<ul style="list-style-type: none"> BZWBK24 mobile named “Best Mobile Application” at the <i>Emerging Payments Awards</i> in recognition of comprehensiveness and diversity of mobile payment solutions.
Best Mobile Application	<ul style="list-style-type: none"> BZWBK24 mobile hailed the best application in Poland and second best in Europe in the <i>European Mobile Banking Functionality Benchmark</i> ranking.
IT Leader 2014	<ul style="list-style-type: none"> Accolade for BZWBK24 mobile application for personal customers in recognition of its extensive features and dynamic development, granted at the Technology Awards in Warsaw organised by <i>Gazeta Bankowa</i> (18 March 2015).
Best Helpline	<ul style="list-style-type: none"> BZ WBK helpline ranked second in the helpline services category of the survey conducted by <i>mojebankowanie.pl</i>, considering such aspects as time taken to make a “contact with an agent”, actual waiting time, number of referred calls and navigation through IVR, as well as the technical quality of the connection and call itself.

Bank Zachodni WBK (BZ WBK) cont.	
Award from WSE	<ul style="list-style-type: none"> Award granted by the Warsaw Stock Exchange to the BZ WBK Brokerage Office in recognition of the highest share in the options trading without market-making in 2014.
Cessio Accolade for debt sales	<ul style="list-style-type: none"> <i>Super Cessio</i> accolade for the best debt sales in the period from 1 July 2014 to 30 June 2015 awarded at the 6th Debt Management Congress in Warsaw. The jury evaluated all stages of the debt sale process – from bid, to valuation, to after-sale service (November 2015).
Grand Prix in the Marketing Director of the Year Awards	<ul style="list-style-type: none"> Top accolade received by BZ WBK marketing team in recognition of “the unparalleled marketing strategy” in the fifth edition of the prestigious Marketing Director of the Year Awards organised by <i>Mediarun</i>.
BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI)	
Golden Wallet	<ul style="list-style-type: none"> <i>Golden Wallet</i> award from <i>Parkiet</i> daily (16 March 2015) for the managers of the debt and equity components of Arka BZ WBK Zrównoważony sub-fund (Arka BZ WBK FIO) which was named the best balanced fund/sub-fund in 2014.
Alfa 2014	<ul style="list-style-type: none"> <i>Alfa 2014</i> accolade from <i>Analizy Online</i> (17 March 2015) for Arka Prestiż Obligacji Korporacyjnych SFIO, Arka Prestiż Obligacji Skarbowych SFIO and Credit Agricole Stabilnego Wzrostu FIO.
Bulls and Bears 2014	<ul style="list-style-type: none"> Nomination for the best investment company in the ranking held by <i>Parkiet</i> daily (19 March 2015).
Santander Consumer Bank (SCB)	
TotalMoney Ranking	<ul style="list-style-type: none"> SCB ranked second in the ranking of car loans carried out by <i>TotalMoney</i> (May 2015). First place in the TotalMoney.pl ranking of cash loans (grudzień 2015 r.).
Business Efficiency	<ul style="list-style-type: none"> Top position in the category of “Bank Efficiency” in the 20th edition of Top 50 Banks in Poland held by the monthly magazine <i>Bank</i> (June 2015).
Customer Friendly Bank	<ul style="list-style-type: none"> SCB named Customer Friendly Company in the category of customer service based on an independent customer satisfaction survey coordinated by <i>Obserwatorium Zarządzania</i> (June 2015).
Bank Star	<ul style="list-style-type: none"> First place in the category “Profitability and Flexibility” in the Bank Star ranking organised by <i>Dziennik Gazeta Prawna</i> daily, in recognition of unparalleled yields and margin levels (Q3 2015).
Financial Institutions and Products of the Year 2015	<ul style="list-style-type: none"> Product of the Year title for a cash loan and “Mazda Wygodna Rata” car loan awarded by Central Bureau for Domestic Certification (August 2015)
Pearl of Polish Economy	<ul style="list-style-type: none"> Second position in the Pearl of Polish Economy ranking held by the <i>Polish Market</i> monthly, in the category “Pearls of the Financial Sector” (November 2015).
Ranking of Deposits	<ul style="list-style-type: none"> Second place among 12M deposits in the ranking of <i>Bankier.pl</i> for a deposit „Direct+ on-line” for new customers.

VI. Business Development

1. Retail Banking

Personal Customer Segmentation and Relationship Management

In 2015, Bank Zachodni WBK revised the segmentation criteria for personal customers and modified segment allocation accordingly. A Private Banking segment was extracted from the VIP segment, and an upper Standard segment was separated as Premium segment.

Following the incorporation of Dom Maklerski BZ WBK into the bank's structures, the customers of the former company were grouped into relevant segments and assigned customer advisors. While leveraging the synergies of the integration, the bank took measures to increase sales of banking products to brokerage house customers and maximise investment account penetration among the bank's customers.

In 2015, changes were implemented to improve personal customers' interaction with the bank, with a particular focus on the segment of affluent customers (VIP and Premium) who were offered personalised services based on a portfolio approach and enjoyed the support of the Affluent Customer Centre in the Telephone Banking Centre.

The bank continued with the projects aimed at providing individuals with full access to products and services, both in terms of sales and after-sales support, in all remote channels without the need to visit the branch. To this end, the bank launched a telephone banking service for customers availing of cash loans, mortgage loans and overdrafts. In 2015, nearly 30% of sales were generated in remote channels.

In order to foster loyalty and strengthen its relationship with personal customers, the bank conducted regular communication campaigns to encourage active use of banking products and services.

In 2015, the Multichannel CRM stream of the Next Generation Bank programme focused on the development of NEOCRM+, a new front-end application for branches and the Telephone Banking Centre. This new tool will facilitate delivery of the customer relationship strategy in accordance with the needs identified, while ensuring consistent communication across all channels. The first stage of implementation involved the set-up of a campaign management system and launch of the first campaigns in the new environment.

Development of Products and Services for Personal Customers

Personal Accounts and Bundled Products

Personal Accounts

In 2015, Bank Zachodni WBK attracted new business on the basis of its existing range of personal accounts, in particular the Account Worth Recommending (Konto Godne Polecenia), which was the main focus of the bank's promotional campaigns in the reporting period, both in the branch network and remote channels. Two other flagship products in the new portfolio of personal accounts were 1|2|3 Current Account (Konto 1|2|3) and Account<20 (Konto<20).

On 7 September 2015, Bank Zachodni WBK launched Account<20 (Konto<20) dedicated to customers aged 13-20. The account came with a MasterCard<20 card, free ATM withdrawals in Poland and abroad and a no-fee guarantee for account holders under the age of twenty. As part of a promotional campaign for the new package, customers were offered a gadget and 10% cashback on card transactions at cinemas and theatres. The new product received a positive feedback from the market, securing the first place in the TOP10 2015 ranking of accounts for children, youth and students (category of accounts for youth and students) organised by *Money.pl* (October 2015).

In the pursuit of its multichannel development strategy, in early November the bank launched a campaign called "Account with 4% Interest" ("Konto na 4%") under which customers applying for the Account Worth Recommending via remote channels can benefit from a range of its attractive features such as interest rate of 4% for balances up to PLN 4k (available until the end of June 2017).

Debit Cards

In the area of debit cards, Bank Zachodni WBK focused on the activation of selected customer groups in 2015, mainly through the promotion of card payments.

In July 2015, the range of debit cards was extended to include an ATM card which attracted a lot of interest from customers. The card is issued independently of payment organisations and can be used to make cash withdrawals or deposits in ATMs/CDMs of Bank Zachodni WBK and partner outlets. The card is issued and used free of charge.

In October, the bank's product range was expanded to include MasterCard Mobile and VISA Mobile cards which may be used to make contactless payments with smartphones in the HCE (Host Card Emulation) technology via BZWBK24 mobile application.

In 2015, a number of projects were implemented to enhance security of transactions, including management of transaction limits and 3D-Secure service for cardholders with active access to BZWBK24 electronic banking services.

As at 31 December 2015, the personal debit card portfolio of Bank Zachodni WBK comprised 3.1 million items and decreased slightly (-1,8% YoY). Taking business cards into account, the total number of debit cards reached 3.3 million.

Prepaid Cards

Bank Zachodni WBK took a decision (November 2015) to launch the process of withdrawing pre-paid cards from the bank's offer after an industry discussion and guidance from the market regulator.

Savings and Investment Products

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

In the first months of 2015, marketing and sales activities focused on the retention of maturing high-paying deposits acquired in 2014. In the latter part of the year, deposit activities were aimed at optimisation of the deposit structure to increase the share of stable funds and savings and at acquisition of structured deposits and selected term deposits.

Bank Deposits

In 2015, Bank Zachodni WBK strengthened its relationship with deposit customers by modifying product range and pricing in a way that rewards customers' activity and their linkage with the bank. The above activities were supported by the sale of two new deposits, i.e. Bonus Deposit (Lokata Bonusowa) and Bonus Deposit for Investor (Lokata Bonusowa dla Inwestora), which paid relatively high interest on the condition that active use was made of other banking products (both settlement and savings/investment instruments).

New funds were acquired on the back of a special offer of 6-month and 4-month deposits paying fixed interest. Deposit retention was facilitated by a negotiated cross-sell deposit designed based on modified rules for negotiation of interest that take into account the strength of the customer relationship with the bank. Concurrently, promotional campaigns were conducted and changes to the product range were introduced with a view to increasing the balances of active personal and savings accounts of customers and optimising the structure of the term deposit portfolio which is sensitive to changes in pricing.

Pursuant to the agreement with the Bank Guarantee Fund (BFG), from November 2015 to January 2016, Bank Zachodni WBK reimbursed funds to depositors of the bankrupt co-operative bank in Wołomin (Spółdzielczy Bank Rzemiosła & Rolnictwa). The bank provided information and marketing support to the latter's customers.

As a result of measures taken in 2015, current balances in personal account reached an all-time high (+23,5% YoY), and the volume of funds in savings accounts increased significantly, too (+14,5% YoY). The most pronounced growth in term deposits was reported for the 6-month Easy Earning Deposit for new funds (Lokata Swobodnie Zarabiająca) and the Bonus Deposit for Investor.

Brokerage Products and Services

Throughout 2015, the bank was engaged in successfully building awareness and position for the products offered by the Brokerage Office to personal customers, as reflected by the growth in the number of investment advice agreements and brokerage accounts. This was achieved by expanding the distribution network of brokerage services to more than 500 outlets with more than 1,000 trained and certified advisors as at the end of 2015, and also due to regular meetings with customers and the “Account for the Investor” (“Konto dla Inwestora”) promotional campaign offering a brokerage account bundled with the Account Worth Recommending.

The bank modified the Account with Investment Advice (Rachunek z Doradztwem) dedicated to customers making investment decisions based on model portfolios of Brokerage Office experts. Changes involved the design of a mechanism facilitating the management of several global model portfolios at a time, including highly liquid companies, and implementation of changes to the rebalancing process. As a result, the maximum value of assets to be invested was increased to PLN 500m.

In July 2015, the bank launched a new mobile trading platform called “Investor Mobile” (“Inwestor Mobile”), which was available on special offer and attracted 7k users by the end of December 2015.

Investment Funds

As at 31 December 2015, the total net assets managed by BZ WBK TFI were PLN 12.5bn (including the net assets of Arka BZ WBK Property Fund 2 in liquidation), down 2.4% YoY. The annual drop in net assets was a combined effect of the lower value of underlying instruments and negative net sales. Sales performance reflected volatility in equity and debt markets and its impact on the client propensity to invest and redeem treasury bond sub-funds and equity sub-funds amid declining value of participation units. The stock market, especially the downward trend of the large-cap indices WIG 20 and WIG (down 19.7% YoY and 9.7% YoY, respectively), exerted particularly high pressure on the annual movements in prices of the underlying financial instruments.

In 2015, customers were particularly interested in the following sub-funds: Arka Prestiż Obligacji Korporacyjnych, Arka BZ WBK Obligacji Korporacyjnych, Arka BZ WBK Gotówkowy and Arka Platinum Konserwatywny.

In November 2015, Arka Prestiż Obligacji Korporacyjnych SFIO (corporate bond sub-fund) was rated top by Analizy Online as a high-quality solution yielding returns which consistently exceed the market average in the long term. Arka BZ WBK Obligacji Korporacyjnych SFIO was high in the ranking too, with performance between January and November 2015 matching the average results in its class.

In 2015, two sub-funds of Arka BZ WBK FIO were renamed: Arka BZ WBK Ochrony Kapitału as Arka BZ WBK Gotówkowy and Arka BZ WBK Akcji as Arka BZ WBK Akcji Polskich. In September 2015, pursuant to the KNF consent of 26 June 2015, the following sub-funds of Arka BZ WBK SFIO were merged: CEE equity sub-fund Arka Prestiż Akcji Środkowej i Wschodniej Europy (an acquiring sub-fund) and Russian equity sub-fund Arka Prestiż Akcji Rosyjskich (an acquired sub-fund). The investment policies of individual sub-funds of Arka Prestiż SFIO were subsequently amended (effective from 30 December 2015), which made it possible to lower the first input and rendered the fund more accessible for customers.

In October 2015, changes were introduced to improve the parameters of the Individual Pension Account (IKE) offered as part of Arka funds, which contributed to strong growth in sales of this product.

Arka BZ WBK Fundusz Rynku Nieruchomości 2 FIZ, a property fund set up for a definite period until 28 December 2015, redeemed 1,138,734 investment certificates at PLN 78.29 each, which corresponded to the value of net assets per investment certificate as at the redemption date (30 October 2015). It was the final redemption date before the start of the liquidation process on 29 December 2015. BZ WBK TFI was appointed as its liquidator. Payments to the fund participants will be made by 15 March 2016, and the undistributed funds will be placed in the court deposit. According to the liquidator, the fund should be closed by 30 June 2016.

Structured Deposits

In 2015, Bank Zachodni WBK strengthened its leading position in the Polish market of structured products. It continued to sell deposits with a wide variety of tenors and underlying instruments to suit customers' needs, ensuring 100% capital protection at the end of the deposit term. It was the first bank in Poland to offer FX structured deposits with interest linked to EUR/USD rate.

The bank offered 148 products in the total of 82 subscriptions, including:

- 55 subscriptions for standard personal customers:
 - ✓ in 23 subscriptions, the bank offered deposits where the interest rate was linked to the EUR/PLN or USD/PLN rate, and was also dependent on the investment strategy adopted by the customer: appreciation, depreciation or stabilisation of currency.
 - ✓ in 24 subscriptions, the yield was linked to stock indices: S&P500, SX5E, SX7E, SXEE and DAX.
 - ✓ eight subscriptions of FX structured deposits paid interest depending on EUR/PLN, USD/PLN or EUR/USD rate.
- 23 subscriptions (43 products) were made exclusively to VIP customers, with interest linked to USD/PLN or EUR/PLN exchange rate or stock indices: Euro Stoxx 50, Eurostoxx Health Care and performance of SPDR Gold Shares investment fund.
- Four issues were targeted at Private Banking customers, with yield depending on the Dow Jones Global Titans 50 index or performance of SPDR Gold Shares and Energy Select Sector SPDR investment funds.

In 2015, more than PLN 3.4bn worth of funds were collected as a result of the aforementioned subscriptions.

Personal Loans

Cash Loans

In February and March 2015, the bank's cash loan sales were supported by a multi-media campaign delivered via TV, press, Internet, cinemas and the branch network. The campaign focused on a fast and easy lending procedure under which regular customers were granted credit decision without the need to present any additional documents. In June 2015, the bank launched a special offer of an "Interest-Free Loan" ("Kredyt bez odsetek") valid until 31 August 2015 and applicable for cash loans from PLN 1k up to PLN 50k. In Q4 2015, the bank's advertising message focused on the opportunity to apply for cash loans in any channel and the chance to win a car or a cash prize for borrowers of a cash loan with Worry-Free Loan insurance (Spokojny Kredyt).

With the aid of marketing campaigns, cash loan sales in 2015 went up by 3.7% YoY. A growing percentage of loans are being disbursed through remote channels, with Telephone Banking Centre and Internet Banking reporting an increase in sales by 49% YoY and 78% YoY, respectively.

Mortgage Loans

Due to the record low interest rate environment, Bank Zachodni WBK prepared solutions for mortgage borrowers to hedge them against upward movements in interest rates.

In February 2015, the bank's range of products and services was expanded to include the "Capped Loan" service ("Kredyt nie droższy niż"). Borrowers who meet certain criteria are offered a capped rate (3M WIBOR) on a home loan or an equity release in PLN for the period from one to five years (chosen by the customer). In May, the bank introduced new fixed interest rates for home loans (4.35%) and equity releases (5.85%) to increase the competitiveness of this type of product. Between 1 July 2015 and 31 August 2015, customers were offered fixed interest rates at 3.95% and 5.5%, respectively, for the same period of time.

Home for the Young Loans

Effective from 1 September 2015, Bank Zachodni WBK modified the terms of the Home for the Young Loan (Mieszkanie dla Młodych) in compliance with the amended Act on state aid for young first-time apartment buyers:

- The amount of the downpayment subsidy now depends on the number of children in the family;
- The requirement for the first apartment and age limitations have been waived in relation to families with at least three children;
- Customers could apply for a loan to buy apartments and single-family houses in the secondary market.

CHF Mortgage Loans

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

- A negative LIBOR CHF reference rate was applied, with the financial effect reflected in the current loan instalments and the repayment schedules adjusted accordingly;
- The currency spread was reduced to 2% for CHF starting from 28 January 2015;
- Borrowers could apply for free-of-charge reduction of instalments by 10% or 20% for three, six or twelve months;

- Loan instalments were reduced through an interest-only option, payment holidays or an extension of maturity;
- A fee for annexes was waived in relation to forbearance solutions connected with CHF loans;
- Customers had an option to request loan conversion to PLN at the mean NBP rate, with no additional fees charged.

In 2015, a number of improvements were implemented in the area of after-sales services for mortgage loans. Customers may now contact the bank's helpline to enquire about the loan, apply for a banker's statement, place an instruction for early repayment or apply for a change of contractual terms.

In 2015, the value of new (disbursed) mortgage loans reached nearly PLN 4.3bn, up 48% YoY. Record sales were reported both by branches and agents. The mortgage loan portfolio totalled PLN 30.4bn, an increase of 11% YoY.

Credit Cards

In 2015, Bank Zachodni WBK ran intensive campaigns to encourage greater use of non-cash payments and promote additional credit card features. Customers could take advantage of a special offer "Starter Card" ("Karta na start") under which they could sign up for a card free of charge. The bank also held competitions to reward the active use of cards with credit card top-ups, plane tickets, and tickets and vouchers for high-profile artistic and cultural events.

Measures were taken to simplify the range of credit cards by withdrawing the selected types of cards from sale.

In order to increase the competitiveness of credit cards, in June 2015, the bank reduced the amount of the minimum payment for the newly issued cards from 5% to 3%. Furthermore, the bank introduced a direct debit facility from a credit card account to enable customers to make regular payments using their credit card limit.

As at 31 December 2015, the credit card portfolio of Bank Zachodni WBK comprised 730.8k instruments, an increase of 5.3% YoY. Bundled services such as the Ratio loan, Fast Cash service or automatic minimum payment grew in popularity, too.

Offers for Selected Groups of Customers

Products and Services for VIP Customers

Bank Zachodni WBK offers products and bundled services tailored to the needs of VIP customers, through its network of 200 VIP advisors, via telephone (at the Affluent Customer Centre) or via the Internet or mobile banking platforms. In 2015, the range of products for VIP customers included VIP Account (Konto VIP), gold and platinum credit cards, VIP structured deposits, Arka Platinum investment funds and investment advice from the Brokerage Office (as one of the features of the Account with Investment Advice offering, including professional guidance and ongoing portfolio management). VIP customers could also apply for insurance packages providing coverage for family members and property or use non-financial services.

As part of a professional concierge service, holders of Visa Platinum and Visa Platinum Porsche credit cards were covered by a programme under which they were updated on major cultural events and could have reservations made or tickets purchased on their behalf.

Big Family Card Offer

In April 2015, the bank joined the national programme "Big Family Card" ("Karta Dużej Rodziny") issued by the Ministry of Labour and Social Policy, which provides large families with a range of discounts and special offers from public institutions and private entities. To this end, Bank Zachodni WBK launched a special Big Family Card offer incorporating 1|2|3 Current Account, 1|2|3 Credit Card, MasterCard Payback credit card, overdraft and mortgage loan on preferential terms.

Private Banking

Since May 2015, Bank Zachodni WBK has been rendering Private Banking services to customers whose assets exceed PLN 3m. The total value of assets entrusted by Private Banking customers reached approximately PLN 6.6bn as at 31 December 2015.

The bank takes measures to gain a competitive edge and promote its image as the first choice bank among affluent customers. To that end, the development strategy is regularly updated and adequate actions are taken in response to changes in the business environment.

During 2015, selected Private Banking offices were relocated within a total network of 12 outlets as at the end of 2015. The range of products and services was further enhanced, particularly in relation to brokerage services and structured products. The bank also worked closely with Santander Global Private Banking in terms of knowledge and experience sharing as well as access to globally tried-and-tested financial solutions.

Financial Institutions

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

In 2015, Bank Zachodni WBK started co-operation with new partners and expanded the scope of its relationship with existing ones, mainly with respect to the management of ATMs and issuance and handling of cards. As part of this continuous improvement process, the functionality of services was expanded to include an option to enable/disable the payment function on cards handled for other banks. As at 31 December 2015, Bank Zachodni WBK co-operated with more than twenty banks, managed a network of 420 third-party ATMs and handled 2.9m Visa/MasterCard cards for third party institutions.

Bancassurance

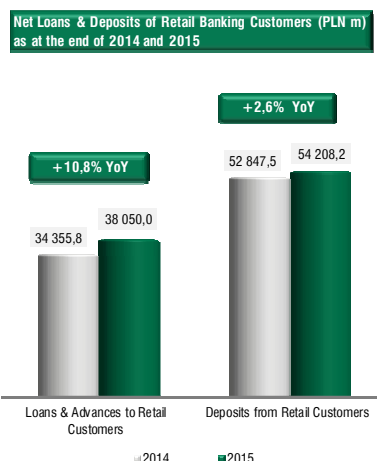
At the end of March 2015, Bank Zachodni WBK changed its rules regarding the sale of insurance products in accordance with Recommendation U issued by the KNF. The bank no longer acts as an insuring party but as an insurance broker for BZWBK-Aviva TUO and BZ WBK-Aviva TUnŻ offering individual insurance plans. The implementation of the agency model was preceded with intensive training and certification workshops for nearly six thousand employees. This change involved the modification of IT systems and processes both in the bank and in the cooperating insurance companies (BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ). The bank also reorganised the process of complaint registration and handling, and of storing insurance documentation.

The bank offers a wide range of individual insurance products which are arranged, distributed and marketed in cooperation with BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ. In February 2015, the scope of insurance products was extended to include a new product for SME customers called "Partner in Business" ("Partner w biznesie"), which offers multirisk insurance coverage for property and business activities.

In 2015, the Insurance Retention Team was set up and based at the Telephone Banking Centre which is responsible for delivering strategies aimed at the retention of insurance customers. Personal and business customers were offered an opportunity to sign an individual LOCUM insurance agreement.

Business Performance

Throughout 2015, net loans and advances to retail customers increased by 10.8% with deposits growing in this segment by 2.6% YoY.



2. SME Banking

SME Segment and Product Range

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

The SME segment includes 278.8k business customers with an annual turnover of less than PLN 40m and a maximum bank debt of PLN 5m. The segment is divided into two groups by the volume of turnover. SME customers generating lower turnover are handled by business advisors at BZ WBK branches and Partner outlets, while those with higher turnover are managed by dedicated macroregional teams.

Products and services are distributed through the following three channels: in branches, over the telephone and via the electronic banking platform including Internet and mobile applications. In the case of leasing companies, distribution is supported by financial and lease advisors.

The fundamental elements of the SME offering are the following:

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

An extensive range of deposit and investment products and comprehensive automated trade finance services serve as additional tools to build sustainable relationships with customers.

In June 2015, Bank Zachodni WBK was hailed the best bank for small and medium enterprises in the 2015 Wprost Portfolios Awards organised by *Wprost* weekly in recognition of transparent and personalised products and services, service quality and customer loyalty and trust.

Product and Service Offering Development

Lending Proposition

Bank Zachodni WBK streamlined the SME lending process by increasing to PLN 300k the maximum loan amount eligible for the simplified procedure. The product range was expanded to include a fixed margin loan and “Capped Rate” service (“Oprocentowanie nie wyższe niż”), i.e. an embedded cap option which allows customers to hedge against interest rate risk. The bank also re-launched the co-financing of projects delivered from EU funds for 2014-2020 as well as preferential loans for agriculture projects subsidised by the Agency for Restructuring and Modernisation of Agriculture. Furthermore, the bank signed a new agreement with the European Investment Bank (18 September 2015) providing for a EUR 100m credit line earmarked for funding towards small and medium enterprises (detailed information is presented in Chapter VIII “Financial Situation”, section “Diversification of funding sources”).

The diversity of lending solutions offered by the bank combined with a favourable market environment contributed to a sound increase in sales of SME loans over the reporting period.

Deposit and Settlement Products

The range of deposit and settlement products was expanded to include a special Business Account Worth Recommending (Firmowe Konto Godne Polecenia) package including a PLN current account, an FX account (EUR, USD, GBP or CHF), domestic transfers via the e-banking platform and international transactions, all of which are offered free of charge. As part of the Business Account Worth Recommending promotion, the bank ran two acquisition campaigns (in Q2 and Q3 2015) which contributed to a significant increase in the SME customer base.

In 2015, the functionality of Internet and mobile applications was gradually upgraded, e.g. the limit for cashback transactions with VISA cards was increased to PLN 300 and the functionality of debit card transaction limit management was expanded to include an opportunity to set monthly limits for cash, non-cash and remote transactions. Newly-issued Visa Business Electron cards were equipped with a contactless payment function and the 3D-Secure service was implemented to enhance security of online transactions with business cards.

In addition, business customers were offered a BLIK Cheque service so as to enable them to make payments and withdrawals from ATMs without using a payment card (following the generation of an access code).

Functionality of Remote Channels

In 2015, the functionality of Internet and mobile applications was gradually upgraded. SME customers were offered Online Advisor services enabling contact with the bank's consultants via video call, audio call or Internet chat. BZWBK24 mobile users were provided with an opportunity to make FX transfers between their own accounts with the bank. The functionality of the BZWBK24 platform was upgraded to include arrears management, BlueCash instant transfers (payments up to PLN 20k between PLN accounts in domestic banks) and new services available on an eFX platform (futures options, forward transactions, orders and FX Alert). The bank also added new features to its iBiznes24 platform such as BlueCash transfers and e-requests. Users of Faktor24 and iBiznes24 platforms were offered direct access to the factoring application from the Internet banking application.

The bank also provided full support for SME customers over telephone.

Development of Services

As part of the strategic programme Next Generation Bank, in 2015 the bank simplified SME customer service processes; in particular it reduced the time needed to set up a bank account to less than 20 minutes. New customers are offered an opportunity to apply for a loan online. Furthermore, the bank developed a service strategy for SME customers who use trade finance solutions, are active in the agriculture and food sector and are interested in EU subsidies. A lot of focus was placed on strengthening brand perception among SME customers through a range of activation programmes such as the TV series "Business Evolution" ("Firmowe ewolucje") and educational programmes including "Entrepreneur Academy" ("Akademia Przedsiębiorcy").

In April 2015, advisors and managers were provided with MIS application designed to facilitate the management of relationships with SME customers. The application comes with such features as activity tracking and an analysis of relationship history and customer needs.

Educational and Information Support for Customers

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

In 2015, the bank held a series of fifty conferences as part of the Entrepreneur Academy entitled "How do you beat your competitors in the race to EU funds?" ("Jak wyprzedzić konkurencję w wyścigu po dotacje unijne?"). The conferences were attended by nearly six thousand entrepreneurs who were interested in EU subsidies as part of the new financial perspective 2014-2020, with the total pool of funds of EUR 17bn earmarked for business development. The participants were provided with practical guidance on the rules of distribution of EU funds as well as the application procedures. They could also get inspiration from the presentation of successful initiatives completed in the previous years.

Bank Zachodni WBK was a sponsor of a unique TV show called "Business Evolution" ("Firmowe Ewolucje") dedicated to small and medium enterprises. The programme consisted of ten episodes about companies from ten different sectors and was broadcast on TVP1 channel from September to November 2015. The purpose of the programme was to support Polish entrepreneurs in setting the direction for further growth based on recommendation and advice from a sector mentor and experts in finance, marketing, human resources and banking. The programme attracted a large audience of TVP1 channel.

Leasing Business

In 2015, BZ WBK Leasing and BZ WBK Lease financed a record high value of net assets, PLN 3,712.6m in total. This performance represents a growth of 31.4% YoY, which is two-fold faster than the market. It secures both companies the third position in movables financing market and the overall fourth position, while driving an increase in their gross lease receivables to PLN 5.6bn as at 31 December 2015.

The leasing companies finance a wide array of fixed assets (vehicles, machines & equipment, property) in the form of operating leases, finance leases or a loan. Leasing products and services are aimed at both SME and corporate customers. Leaders in the machine financing segment, both entities provided PLN 1 880.9m towards the financing of fixed assets, an increase of 28.3% growth Y-o-Y. This figure includes: farming equipment, plastics production- and metal processing devices, construction machines and printing machines. Sales in the car segment grew 21.3% Y-o-Y up to PLN 1 595.3m, primarily on account of cars, tractors, semi-trailers, trailers and trucks.

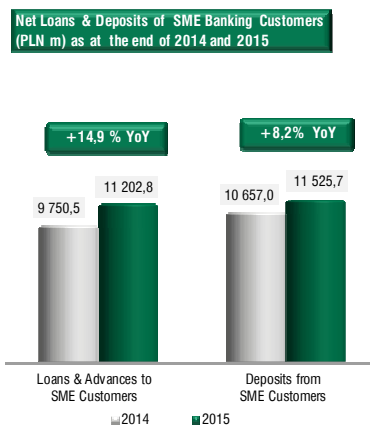
BZ WBK Lease was first to introduce a land purchase loan for sole traders in Poland in 2015.

In cooperation with Polish manufacturers of agricultural machinery and equipment, the companies also launched four new financing schemes that facilitate access to new machines, reduce turnaround times and offer attractive finance terms.

Dedicated solutions were implemented to speed up credit assessment in a fast-track process. The simplified procedure was offered to agriculture and construction sector customers along with other attractive solutions, which helped to enhance the competitive edge of leasing companies.

Business Performance

Lending to SMEs showed good dynamics and resulted in a 14.9% YoY growth of the net credit portfolio in this segment. A YoY increase of 8.2% was also reported in deposit volumes.



3. Business and Corporate Banking

Segmentation and Product Range

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

Corporate customers are handled by the Corporate Banking Sales Network Area which consists of three regions defined by the boundaries of the provinces in Poland, namely: North Region, Central Region and South Region. There are four Corporate Banking Centres in each region. The biggest corporate customers are serviced centrally by the Large Corporate Department, while the property sector is managed by the Corporate Property Department.

As at the end of December 2015, the Business & Corporate Banking Division provided services to the customer base of 9,500 entities from all the business sectors, supporting them in building and growing their business. Corporate bankers together with credit partners and product specialists delivered tailor made solutions to these customers and comprehensive services in the area of loans, deposits, transactional banking, treasury, leasing, factoring and capital markets.

Main Areas of Activity

In order to strengthen the position of Bank Zachodni WBK as the first choice bank for business customers, in 2015, the Business & Corporate Banking Division continued the operational transformation and extended its range of products and services to improve the customer experience. A number of development initiatives were delivered as part of the Advanced Business Bank Programme (an element of the Next Generation Bank Programme), which focuses on four areas: people and efficiency, trade finance, digital banking and CRM.

Trade Finance

The growing importance of international business in the Polish economy induced a stronger focus on strengthening the bank's position in the imports and exports markets by developing and promoting the bank's expertise in this area along with advanced technological and relationship solutions. With the support of external partners, the bank offered a set of additional benefits to foreign traders, including a suite of tools, international markets insight and access to a database of prospective business partners.

The objective of these development initiatives was three-fold:

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

The overriding goal of the above measures is to build upon the credentials of Bank Zachodni WBK as the bank of first choice for companies doing business or seeking to expand into foreign markets.

Export Development Programme

An important element of the bank's strategy aimed at building a leadership position in the trade finance sector is a three-year Export Development Programme set up by the bank to support export sales. The initiative is targeted at companies interested in international expansion. The programme was developed in collaboration with external partners and received strong support from the Ministry of Foreign Affairs and the Ministry of Economy, and from local governments and regional chambers. The Export Development Programme met with a very good reception from customers and received the 2015 Innovator Award granted by *Wprost* magazine to the most innovative Polish companies. The programme was launched with a series of conferences taking place from May to June 2015 in twelve cities in which BZ WBK Corporate Banking Centres are located. Another series of conferences were held in the autumn, including six Export Eagles (Orły Eksportu) conferences during which awards were granted to the best performing local companies that operate globally.

As part of services provided by the International Desk, the bank organised – individually or in cooperation with Banco Santander – a series of meetings for companies doing business or seeking investment opportunities and business contacts in the Spanish market and other markets where Santander Group is operating. The bank continued with its trade mission programme started in 2014 to support Polish exporters in business networking and an expansion into foreign markets (mainly via video conferencing). The virtual trade missions included, among others, both a UK mission and China mission.

Throughout 2015, the bank substantially upgraded the functionality of its iBiznes24 platform in the area of trade finance, providing full access to products and services on eFX, Trade Finance and iFactor platforms (for more details, see section below "Development of Products and Services").

Other Activities

In view of the intensification of activities in the agricultural sector, measures were taken to set up a dedicated team and expand the range of products and services for personal, SME and corporate customers from the above sector.

In 2015, the bank developed a comprehensive WorkFlow tool for the corporate segment, covering the end-to-end credit delivery process in the area of corporate loans. Upon implementation, the solution will facilitate the process of information gathering, initial customer assessment and credit decision making.

In 2015, the Business & Corporate Banking Division organised a number of educational and information meetings including the following:

- Meetings at the Corporate Banking Centres addressed to customers interested in applying for EU funds to support business growth, during which experts from the Division were joined by partners who provided customers with practical advice on how to receive and use such funds;
- Corporate Academy – a programme aimed at promoting Bank Zachodni WBK at selected universities in order to attract interns.

Product and Service Offering Development

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

In terms of products and services:

- New features were added to iBiznes24 electronic banking platform, including:
 - ✓ the modification of eFX and Trade Finance modules and FX transactions as per customer feedback;
 - ✓ optimisation of account opening and modification instructions placed in the form of e-requests via iBiznes24 platform;
 - ✓ changes in management of financing lines and implementation of new features with respect to payroll accounts;
 - ✓ direct access to Faktor24 from iBiznes24 was granted to users of both platforms.
- Innovative solutions were implemented in response to the needs of export and import companies (e.g. letter of credit and factoring under one limit);
- A package of EU-subsidised loans was introduced including the issuance of letters of commitment and co-financing of projects in the form of subsidies and loans;
- The range of electronic money orders was expanded to include transactions in EUR, USD, CHF or GBP;
- New terms of cooperation were introduced as part of cash pooling services in relation to customers of sound financial standing (zero balancing based on debt swap);
- The product range was expanded to include BlueCash instant transfer, the Progressive account (a current account dedicated to local administration units), a current account for subsidies and advances from the EU and PLUS negotiated deposit (with an interest payment option throughout the deposit term);
- changes were introduced in relation to loans and trade finance including:
 - ✓ Multiline with factoring - a unique solution combining a multiline agreement with a factoring limit;
 - ✓ New loan agreements including collections (new options for financing collections) and an investment loan with VAT (two agreements merged into one, simplified documentation, common collateral);
 - ✓ The option to issue guarantees under a foreign law for selected bank customers;
 - ✓ A package of EU-subsidised loans including issuance of letters of commitment and the co-financing of projects in the form of subsidies and loans.

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

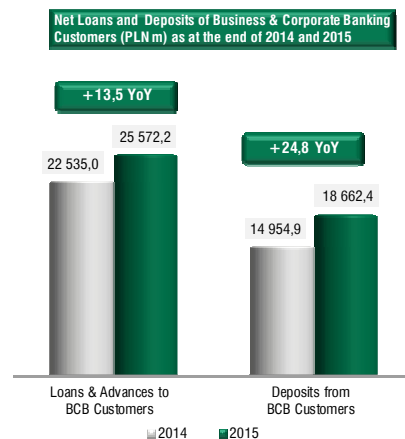
Factoring Business

During 2015, the turnover of BZ WBK Faktor came in at PLN 17,016.7m, up 17.9% YoY. Most of it was generated by Bank Zachodni WBK customers. This performance gave the company a market share of 12.7% and a stable third position in the membership ranks of the Polish Association of Factoring Companies. As at the end of December 2015, the company's credit exposure was PLN 2,889.3m and higher by 25.6% YoY.

Business Performance

In 2015, the Business & Corporate Banking Division increased sales volumes, maximised cross-selling opportunities, improved service quality and strengthened its relationship with customers in accordance with a customer-centric approach.

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



The growth of lending to business and corporate customers in 2015 increased the net loan portfolio of the relevant segment by 13.5% YoY.

In the reporting period, Bank Zachodni WBK concluded a number of corporate transactions, including acting as book-runner and co-manager of the largest IPO in the Polish market in 2015 (PLN 504m) and participating in a syndicated facility arrangement of five banks, which provided financing of PLN 496m.

Business & Corporate Banking steadily increased its deposit base and in 2015 the balance of deposits grew by 24.8% YoY.

4. Global Corporate Banking (formerly Global Banking & Markets)

Segmentation and Product Range

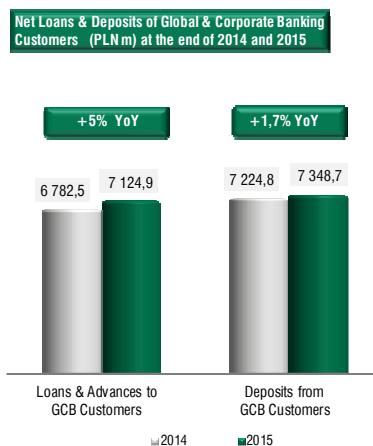
On 29 September 2015, the Global Banking & Markets Division was renamed Global Corporate Banking Division (GCB). The scope of its business however did not change.

In 2015, the Global Corporate Banking Division provided an end-to-end support to the largest corporate customers of Bank Zachodni WBK and rendered services to corporations handled under the global framework of GCB of Santander Group. As at 31 December 2015, the active GCB customer base included nearly 150 of the largest companies and groups (allocated to that segment based on the turnover) from the fuel, energy, mining, financial, FMCG, pharmaceutical, retail, chemical and household appliance sectors.

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

The Division had a comprehensive proposal covering a wide range of services and products, including transactional banking, working capital, short-term and long-term financing, guarantees, M&A solutions, liquidity management and custodian services. GCB Division conducted the bank's activity on financial markets and provided specialist financial products (including treasury, brokerage and capital market ones) to retail and corporate customers.

As a result of the steady growth of business, net loans and advances to customers allocated to the Global Corporate Banking segment increased by 5% YoY, while customer deposits grew by 1.7% YoY. The Division's credit delivery was fully financed with customer deposits, with a loan-to-deposit ratio of over 90%.



The GCB Division used the opportunities from the global presence of Santander Group and rendered services to corporations within international GBM structures and cooperated with several Santander Group units (Santander UK, Santander Chile, Santander USA, Santander Mexico and Santander Madrid) on large financing projects for groups of companies. For example, the bank participated in the issue of eurobonds for one of Poland's financial institutions, and refinanced working capital loans in Poland and Mexico for a global financial group.

Global Transactional Banking

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

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

In early Q3 2015, Bank Zachodni WBK implemented electronic cheques for GCB corporate customers, which is a convenient alternative to traditional cheques and an innovative solution in the Polish banking sector. Electronic cheques were subsequently offered to companies handled by Business and Corporate Banking and SME Banking.

In the reporting period, Global Transactional Banking closed a number of deals in relation to financing, guarantees and trade finance with companies from the financial, transport, construction and telecommunications sectors. It also actively cooperated with companies from the fuel, retail, food, mining and construction sectors in relation to other products and services.

Capital and Credit Markets

Capital Markets

In 2015, Capital Markets provided analytical and advisory services to customers and were engaged as a financial/transactional advisor for companies from the automotive, financial, clothing, transport and construction sectors.

Capital Markets managed the JESSICA Programme (Urban Regeneration Fund for Greater Szczecin) under the agreement with the Zachodniopomorskie province. 100% of the committed credit line was drawn as early as the end of September 2015.

In the reporting period, Capital Markets successfully completed the first two Corporate Equity Derivative transactions with companies from the media and financial sectors. The unit also sold shares in Masterform from the portfolio of BZ WBK Inwestycje at a profit of PLN 7.8m.

In addition, due to global cooperation with Santander Mexico (a member of Santander Group), a purchase transaction was effected for a shareholding in a locally quoted motor industry company.

Credit Markets

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

In 2015, the Department closed several financing deals with companies from economically-important sectors such as media and telecom, chemical, energy, fuel and FMCG sectors. It also worked closely with the Business & Corporate Banking Division in terms of financing for medical, food and furniture sectors.

In 2015, GCB Division participated in the largest transaction ever concluded by the bank, i.e. a syndicate of 20 banks to provide PLN 12.5bn worth of funding to a group from the media and telecom sector, with the bank's share amounting to PLN 1,750m. The funds were earmarked for refinancing the existing debt (loan and obligations). The bank – together with three other banks – acted as a global banking coordinator.

It also participated in the largest financing transaction in the Polish energy sector last year as part of a syndicate agreement with a leading energy group in Poland for the total amount of PLN 5.5bn, with a share of PLN 500m.

In addition, Bank Zachodni WBK – through Credit Markets – took part in a number of syndicated lending projects:

- In a syndicate with eight banks, Bank Zachodni WBK provided financing to a company from the fuel sector, comprising an investment loan of USD 432m and a working capital loan of PLN 300m (with the bank's share of USD 40m and PLN 20m, respectively). These funds were allocated toward the construction of technological facilities (the "EFRA Programme").
- Bank Zachodni WBK signed a financing agreement with the largest Czech electricity provider as part of a bank syndicate for a total of PLN 700m, entering into an exposure of PLN 175m. Apart from its role as the syndicate leader, the bank also acted as the facility and security agent.
- Bank Zachodni WBK was selected by one of the largest State Treasury companies to participate in a syndicate to sanction a revolving loan of PLN 1.5bn to cover corporate financing requirements and selected investment projects. The bank acted as a co-arranger with a share of PLN 300m.

Financial Markets

Treasury

In 2015, the Treasury focused on the further development of products and services using the global know-how of Santander Group. The new products are targeted at large corporates and include solutions based on debt and derivative instruments. In addition, in response to market demand and trends, the Treasury made intensive efforts to extend the range of structured products for retail and corporate customers.

In 2015, the Treasury continued an income diversification strategy based on the development of interest rate hedges. The range of interest rate hedging instruments offered by the bank was extended to include new solutions for mortgage borrowers and SME customers. This function also focused on the promotion of foreign exchange instruments to enable customers to hedge currency risk in a long term and thus stabilise their balance sheet positions.

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

In addition, work was underway to develop the distribution channels for treasury products and create e-commerce tools in order to increase sales opportunities and customer service quality.

In 2015, Bank Zachodni WBK acted as a Treasury Securities Dealer.

Brokerage Office

In 2015, BZ WBK Brokerage Office continued to render brokerage services to business and personal customers in relation to securities trading on WSE and – in cooperation with the Capital Markets Department – provided support to companies with respect to public offerings and private placements.

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

- The share in the equity market totalled 5.9% and declined by 0.98 p.p. YoY. With this performance, the Brokerage Office took 6th position in the equity market;
- The share in the futures market amounted to 11.3%, up 2.68 p.p. YoY. At the end of 2015, the Brokerage Office was in 3rd position in the futures market.

In 2015, the BZ WBK Brokerage Office received an award from the Warsaw Stock Exchange in recognition of the highest share in the volume of option deals excluding market making transactions in 2014.

Last year, the bank implemented Investor Mobile, a new application which enables stock market trading in a convenient, modern and mobile way and provides access to the latest market information. In addition, the range of products and services for institutional investors was extended to include a specialist platform for foreign derivative trading and settlement.

In 2015, BZ WBK Brokerage Office held a number of conferences devoted to respective economy sectors:

- 1st Conference of Energy and Commodity Sector Companies, which was attended by ca. 30 institutional investors from Poland and a foreign investment fund. The meetings with eight key companies from the Polish energy and commodity sector provided an opportunity to learn about the current position of the companies and prospects for the sector under prevailing economic conditions;
- 1st Conference of Retail Companies, which was attended by ca. 60 Polish institutional investors and eight key companies from the sector;
- 4th Investor Conference dedicated to the construction sector, which was attended by 10 sector companies. The conference attracted 40 leading institutional investors from Poland who were represented by 62 managers.

As part of educational activity, the Brokerage Office organised or co-organised events which were very popular among current and prospective investors and also analysts. The key ones included:

- A series of educational meetings “Inwestuj świadomie” (Invest Knowingly) as part of the Civil Shareholding programme (the Brokerage Office acted as a partner);
- A prestigious international student competition in finance organised by the CFA Institute (the Brokerage Office acted as a partner);
- An investment competition called “Futures Masters”, and a conference called “Derivatives, technicznie o pochodnych” (Technical analysis of derivatives) and Summer Stock Market School.

5. Santander Consumer Bank Group

Profile

Santander Consumer Bank (SCB) is a financial institution with many years' experience and a strong position in the consumer finance sector, focused on providing products and services to households and small and medium companies. The lending business is based on the following credit facilities: car loans, business loans, instalment loans, cash loans, consolidation loans and credit cards. Deposits and insurance products are also an element of the bank's product range.

The bank's business is based on a tried-and-tested business model with a multi-product and multi-channel approach, addressed to a diverse customer base, as well as a continuous and regular cross-selling and up-selling.

The bank's offer is supplemented with car finance through leases provided by Santander Consumer Multirent Sp. z o.o., a wholly-owned subsidiary of Santander Consumer Bank.

Other subsidiaries of Santander Consumer Bank are: Santander Consumer Finance (investment of cash surpluses and cooperation with BZ WBK and Warta in terms of financial advisory services), AKB Marketing Services (auxiliary banking services) and S.C. Poland 2014-1 Limited and S.C. Poland Consumer 15-1 (SPVs set up for the purpose of securitisation transactions).

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

Business Development in 2015

Development Directions

In 2015, the key focus of SCB Group was on stability and ongoing improvements in effectiveness as well as compliance with the ever-changing legal and regulatory environment. The Group maintained its strong position in the consumer finance market. While conducting a stable and secure banking activity and acquiring new business, the Group generated PBT of PLN 555.5m for 2015 (after intercompany transactions and consolidation adjustments with Bank Zachodni WBK).

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

- The maintenance of strong sales of high-margin consumer loans with a concurrent reduction in instalment loans sales following its exit from the door-to-door channel and the transfer of part of its hire purchase business to credit cards.
- Modification of insurance products in accordance with Recommendation U.
- Optimisation of cost of funding in an environment of low interest rates and a changing regulatory regime.
- Maintenance of a stable risk level, high provision coverage ratio and steady non-performing loans sales ratio in comparable periods.
- Stabilisation of operating costs excluding regulatory fees (payments from the Guaranteed Deposit Protection Fund under guarantee deposit system and fee for Support Fund for Distressed Residential Borrowers).
- A solid capital position due in part to an increase in the bank's own funds in March and December 2015 by a total of PLN 474m.

Loans to Customers

Lending Proposition

In 2015, the range of cash loans offered by SCB Group included regular cash loans and consolidation loans. In Q4, the bank's customers were provided with an opportunity to sign an agreement and draw down a cash loan via a remote channel, without the need to visit a branch. Furthermore, the bank extended lending periods and increased the maximum loan amount. Consolidation loans were offered to existing customers with the capacity to consolidate internal or external debt. In addition, the bank granted consolidation loans to customers in financial difficulties as part of debt restructuring.

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

Santander Consumer Bank was one of the top ten credit card issuers in Poland and offered the following cards: Visa Comfort, Visa Comfort Plus, and TurboKARTA as well as co-branded cards. In April 2015, SCB was Poland's second and Europe's tenth bank to offer V.me by Visa - a payment method that increases security and saves time when using credit cards for shopping online.

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

Credit Portfolio

As at 31 December 2015, net loans and advances to Santander Consumer Bank Group amounted to PLN 12.9bn and were 4.5% higher YoY due to growth in cash loan and credit card portfolios. Growing sales of cash loans were achieved on account of interest rate cuts and an intensive marketing campaign, while the increase in credit card receivables is mainly attributable to co-branded cards.

Deposit Base

The Group's main source of funding are deposits from customers, which totaled PLN 7.0bn and increased by 2.1% YoY driven by liabilities to corporate customers.

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

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

Distribution Network of Santander Consumer Bank

As at 1 January 2016, Santander Consumer Bank sold its products through the following distribution channels:

- Own network of 167 branches and 136 franchise outlets (173 and 106 at the end of 2014, respectively);
- The structure for mobile sales of car loans;
- The structure for mobile sales of corporate deposits;
- Remote channels, including call centre and the Internet;
- A network of 611 partners offering the bank's car loans plus 13,339 active partners offering the bank's instalment loans (588 and 14,019 at the end of 2014, respectively);
- Remote channel for car loan sales.

VII. Organisational, Infrastructural and Technological Development

1. Organisational Changes

Business Support Centre of Bank Zachodni WBK

In April 2015, the Supervisory Board approved changes in the organisational structure of Bank Zachodni WBK intended to align it with the bank's business model and increase the effectiveness of strategy implementation.

The SME Customer Segment Area was excluded from the Retail Banking Division and transformed into the SME Banking Division, reflecting the importance that the bank attaches to ensuring service quality and strengthening its presence in the segment of micro, small and medium-sized enterprises. The adopted organisational solutions help the bank to be more competitive and meet the growing needs of SME customers who are looking for highly accessible, professional and personalised services.

The bank also reorganised the functions of the Retail Banking Division responsible for providing products and services to retail customers. Furthermore, Branch Banking introduced a short reporting line for Macroregional Directors, who now report to the relevant Management Board member directly rather than through the Head of Branch Banking (a role that was eliminated). In addition, the number of macroregions was reduced from 12 to 8 and the number of regions from 78 to 65 as part of streamlining and optimising branch network management, taking into account the changes happening in local markets. The bank continues the process of regular restructuring of its branch network, relocating or liquidating less effective branches and setting up new ones.

The Business Support Division was replaced by the Technology Division, and its two units: the Operational Service Area and Settlements Area were split off and then merged into the Central Operations Area, reporting directly to the Management Board President. The new Area is responsible for all day-to-day operational services for customers and internal units. Further centralisation of services is planned, with automation and digitalisation of recurring activities.

Key Changes in the Structure of Bank Zachodni WBK Group

The changes introduced in 2015 to the structure of BZ WBK Group as a result of the loss of control over BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO by way of a partial sale of the shares of those companies and the establishment of SC Poland Consumer 2015-1 Sp. z o.o. were described in Section 3 "Entities Related with Bank Zachodni WBK", Chapter II "Basic Information About Bank Zachodni WBK Group".

On 29 November 2015, the Management Boards of BZ WBK TFI and BZ WBK AM advised of their intention to merge on the basis of art. 492 sec. 1 item 1 of the Commercial Law, i.e. through the transfer of all the assets and liabilities of the acquiree (BZ WBK AM) to the acquirer (BZ WBK TFI). The announced transformations will not affect customers of Arka mutual funds.

2. Selected Distribution Channels

Branch Network and Complementary Channels

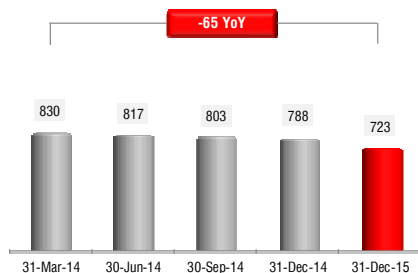
As at 31 December 2015, Bank Zachodni WBK had a network of 723 branches (locations).

In 2015, the bank carried out a review of its branch network, taking into account customers' needs and changes in their banking behaviour as well as the development of electronic and mobile services. The process of rationalisation and relocation of branches was continued accordingly, as a result of which the number of outlets decreased by 65 during the year. Concurrently, the bank invested in the development of CRM tools, remote channels and self-service machines.

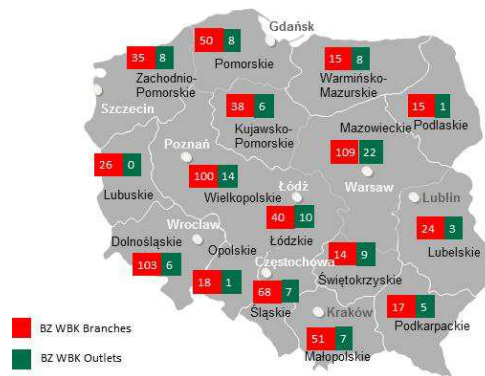
The bank's branch network was supported by 115 Partner outlets, unchanged on 31 December 2014.

In 2015, the branch network management structure was optimised, taking account of the bank's business objectives and specific local requirements. The number of macroregions and regions was reduced from 12 to 8 and from 78 to 65, respectively.

BZ WBK Branch Network at the end of individual quarters from 31.12.2014 to 31.12.2015



Distribution of BZ WBK branches and partner outlets in Poland as at 31.12.2015



Santander Consumer Bank delivered cash loans, credit cards, retail deposits and other banking products through a network of 167 branches and 136 franchise outlets (as at 1 January 2016). The Bank also maintained structures of mobile sales and a network of partners for delivery of cars loans and instalment loans.

ATMs/Cash Deposit Machines

As part of the development of self-service channels and a reduction of cashier-services in branches, Bank Zachodni WBK launched a process designed to offer the dual functionality of self-service devices. The installation of new devices and replacement/upgrade of old ones was coupled with continued rationalisation of the network, ensuring that the location of self-service devices was optimised to make them more accessible and thus enhance the customer experience.

As at 31 December 2015, the ATM network of Bank Zachodni WBK comprised 1,525 machines (1,365 at the end of December 2014), including 286 machines combining both cash withdrawal and deposit functions. Cash deposit machines installed in branches totalled 158 units. As the network of ATMs with a deposit function expanded, a higher number of lodgements from business and personal customers migrated from branches to self-service channels.

Telephone Banking Centre

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

The incorporation of the Affluent Customer Centre (January 2015) and the establishment of the SME Customer Team (April 2015) were designed to ultimately centralise services provided to mass customers, VIPs and SMEs. The recognition of customer segmentation as part of the TBC service ensured a consistent relationship management strategy across all channels, better customisation of the offer and a more efficient use of available resources. The extended availability of the Virtual Branch (retail and business customers can now contact their advisors online via video, audio or text chat) and the centralised processes of written communication with customers (via e-mail or social media) enhanced inter-channel integration. The scope of TBC functions was extended with respect to the sale of products and post-sale services (mortgage loans, processing of loan instructions, maintenance of personal accounts and insurance products, credit references for mortgage loans, cash loans, overdrafts) provided on a remote basis.

The key idea behind the modification and harmonisation of processes in the bank's hotline and the introduction of new solutions was to respond to the requirements of individual types of customers contacting the TBC in accordance with the bank's strategy of being "Simple, Fair and Personal". Last year, a number of relationship-building and sales campaigns were completed, with a particular focus on event management.

The bank also made efforts to introduce innovations to its hotline service, including voice biometrics. In order to make it easier for customers to connect to the hotline, a virtual queue solution was applied along with a dequeuing mechanism whereby excess calls can be transferred to other teams.

The strengths of the bank's TBC, including the variety of channels offered, the quality of phone and e-mail services and the short service waiting times are reflected in the results of hotline surveys carried out by Dive Poland, where the bank was ranked 1st and 2nd among the 23 financial institutions evaluated in two consecutive editions of the survey (Mystery Caller and Mystery Mailing).

Internet Banking

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

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

The bank considerably streamlined the online application procedure regarding current accounts, by introducing a shorter application form and a new processing procedure for agreements: authorisation through a single payment transfer for a symbolic amount from another bank ("Transfer-Activated Account" / "Konto na przelew"). This procedure is an alternative to signing agreements via a courier.

Customers were given access to instant BlueCash transfers, a now simplified Przelew24 funds transfer service and loan request forms as well as a new website that facilitates finance management. Furthermore, a number of other visual and functional changes were introduced that increase the ergonomics and usefulness of the service.

In 2015, intensive work continued on development of the iBiznes24 platform in order to transform it, in accordance with the bank's strategy, into the best application for corporate clients in the banking market. A number of projects were put in place making the system more user-friendly, upgrading the Trade Finance and e-FX module and accelerating transaction processing. At present, a pilot is under way for the iBiznes24 Mobile application that allows corporate clients to access their accounts via mobile devices.

Mobile Banking

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

The bank introduced an upgraded version of BZWBK24 mobile for tablets running Android and iOS with further improvements, including “Quick view” functionality to check available funds and the last transaction performed prior to logging in.

Subsequently, the bank simplified the personal account application procedure, streamlined the Mobile Purchase service and extended the list of cities where mobile payments can be made for public transport tickets and parking. Other new features include FX transfers between own accounts, BlueCash transfers and transfer confirmations in the form of a pdf document.

The ever-improving quality of the BZWBK24 mobile application of Bank Zachodni WBK is confirmed by awards, including the “best mobile banking” title in a ranking of 20 applications evaluated by Money.pl. The bank was among the winners of the Global Finance competition “2015 World's Best Digital Banks Awards in Central & Eastern Europe” (August 2015), coming top in Poland in the category “The 2015 World's Best Consumer Digital Banks in Central & Eastern Europe” while its BZWBK24 mobile tool was ranked 1st in the category “Best in Mobile Banking” and “Best in Mobile Banking App.” Furthermore, BZWBK24 mobile was hailed no. 1 in the ranking “Newsweek's Friendly Bank” (October 2015) and also won “the best mobile application” award in the competition for “Emerging Payments Awards” (October 2015).

3. IT Development

Development of IT Systems

Strategic Priorities

In terms of IT, it is a priority for Bank Zachodni WBK Group to support the highest levels of effectiveness in its business activities by using state-of-the-art IT solutions, in accordance with the Group's values of Simple, Fair and Personal. The Group's specific goals are: harmonised growth of the bank's IT and business architecture, continued development of mobile banking, IT security, and the implementation of agile methodologies in system development (ensuring the faster delivery of business changes and optimisation of IT system support processes) as well as the maintenance and improvement of IT service levels. In addition, the Group continues to focus on ensuring compliance with regulatory requirements, fostering customer relationships, improving risk management and addressing day-to-day business requirements.

Response to Business Requirements

The full integration of IT systems of Bank Zachodni WBK and the former Kredyt Bank, as completed in 2014, allowed the post-merger organization to fully focus on a wide range of development initiatives geared towards business needs and driven by external conditions. Intensive efforts were made to develop new solutions for managing customer relationships and multi-faceted risk assessment as part of a project delivered across Santander Group. The scope of data gathered using new analytical IT tools was gradually expanded. The existing IT infrastructure with its software tools was expanded and upgraded as planned.

A strong emphasis was placed on addressing the growing cyber threat: a wide programme of organisational and technical measures was put in place to properly prevent, address and minimise the impact of incidents. In addition, much effort and resources were put into maintaining an adequate level of day-to-day IT security and ensuring the expected quality and continuity of operations within the entire IT environment. These activities helped positively verify the pursued concept of development regarding the bank's IT infrastructure and the management, control and operational processes employed.

A major undertaking, which started at the end of 2014 and continued throughout 2015, was the incorporation of Dom Maklerski BZ WBK into the bank's structure. From the IT side, integration was a challenge as brokerage processes had to be kept separate from other processes. Overall, it was a success as the previously fragmented customer repositories were put together and the distribution channels of the Brokerage Office were expanded.

The bank successfully continued its programme of mobile banking development. The bank was one of the initiators of the Polish Payment Standard (PSP), a collaborative project of Polish banks, under which the mobile payments system BLIK was implemented early in 2015. The system is independent from international payment organisations and allows customers to make payments and withdraw cash from ATMs by means of a mobile with a special app. Furthermore, mobile payments were implemented using Host Card Emulation (HCE) technology.

In 2015, the strategic programme "Next Generation Bank" was expanded to include the Simple Bank, i.e. a Group-wide project that includes such initiatives as: multi-channel services, paperless bank, promotion of cashless transactions, elements of biometric identification of customers and the simplification of processes and products. At the end of the year, the project was at an advanced phase.

Response to Regulatory Requirements

In 2015, a large part of the IT projects delivered by Bank Zachodni WBK were driven by the requirements of market regulators. As a result, numerous changes were introduced in the architecture and operation of IT systems and also in database management, for example:

- As requested by the KNF, before the end of March 2015, the bank implemented Recommendation U, which introduces best practices in bancassurance;
- The implementation of changes required by KNF in Recommendation D relating to IT solutions in banking was finalised;
- Developed a database on properties that secure credit exposures, in accordance with Recommendation J that regulates the rules for gathering and processing such data;
- Continued preparations for implementation of the EU Markets in Financial Instruments Directive (MiFID), which aims to integrate investment markets and protect the interests of its participants;
- Satisfied the additional regulatory requirements relating to transaction reporting (Level 2 Reporting) as part of the European Market Infrastructure Regulation (EMIR) Programme, in relation to derivatives traded outside the regulated market, central counterparties and transaction repositories;
- Implemented the Volcker Rule, US federal regulations that restrict financial institutions that deal with American firms and their affiliates from making investments that are speculative and do not benefit customers;
- Prepared the organisation to deal with the identification and reporting processes required by FATCA (Foreign Account Tax Compliance Act), which will become mandatory as the corresponding implementing regulations are transposed into Polish law;
- Work commenced on a project of liquidity risk monitoring and reporting required under the Capital Requirements Regulation on prudential requirements for credit institutions and investment firms, which imposes an obligation on banks to carry out a multi-dimensional deposit base stability analysis on a daily basis.

4. Capital Expenditures

In 2015, Bank Zachodni WBK Group spent PLN 350.1m (compared to PLN 307.8m in 2014) on the delivery of investments, mainly on projects related to the development and management of IT systems, IT equipment, Branch Banking development, Internet and mobile banking and deposit ATMs.

In 2015, Bank Zachodni WBK introduced further IT infrastructure upgrades, in particular it improved the performance and capacity of central systems and increased hardware resources (servers, disk arrays), while enhancing their reliability and scalability to support future projects. In addition, licensed resources were extended.

Intensive efforts were taken to further enhance mobile and Internet banking, by adding new features and improvements to the BZWBK24 mobile application, BZWBK24 platform for personal and business customers and iBiznes24 platform for corporate customers. Detailed information about the above developments is presented in the section "Development of Selected Distribution Channels" in this chapter and the section "Business and Corporate Banking" in Chapter VI "Business Development".

New deposit ATMs were installed and self-service zones were set up at branches, which enhanced the customer experience and facilitated branch processes. The bank also continued to replace the machines and upgrade ATM software.

In 2015, measures were taken to develop a new front-end system for the branch network and the Telephone Banking Centre to further simplify and improve the quality of customer service processes.

In order to ensure best-in-class customer service, the bank continued to refurbish its branch network, which involved the replacement of air-conditioning and ventilation systems, and the purchase of additional IT hardware and office equipment.

The bank launched the VIP zones project aimed at creating a specially designed and equipped branch space for high-net-worth customers. The first large multi-stand VIP zones were opened in Warsaw, Poznań and Wrocław. The same interior design solutions were developed for a number of single-stand offices. The VIP zones will also be launched in other locations over the next years.

As part of the Advanced Risk Management Programme started in 2015, the bank implemented the processes to facilitate data and information management and risk reporting in accordance with the guidelines of the Basel Committee. Meanwhile, a number of IT solutions were developed under the iRisk Programme to facilitate the flow of information and accelerate and automate the processes related to credit delivery. Detailed information is presented in Chapter IV “Development Strategy”, section “Next Generation Bank Programme”.

In addition, in 2015 several obligatory projects were implemented in relation to the amended or new laws (for details, see section “IT Development” in the later part of this chapter).

VIII. Financial Situation

1. Income Statement of Bank Zachodni WBK Group

The Structure of Profit Before Tax of Bank Zachodni WBK Group

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

PLN m			
Condensed Income Statement (for analytical purposes)	2015 ¹⁾	2014	YoY Change
Total income	7 540,2	6 579,0	14,6%
- Net interest income	4 309,2	3 996,8	7,8%
- Net fee & commission income	1 938,1	1 847,8	4,9%
- Other income	1 292,9	734,4	76,0%
Total costs	(3 578,9)	(3 103,8)	15,3%
- Staff, general and administrative expenses	(3 208,7)	(2 719,5)	18,0%
- Depreciation/amortisation	(256,6)	(308,0)	-16,7%
- Other operating expenses	(113,6)	(76,3)	48,9%
Impairment losses on loans and advances	(810,7)	(836,6)	-3,1%
Profit/loss attributable to the entities accounted for using the equity method	27,7	1,4	-
Consolidated profit before tax	3 178,3	2 640,0	20,4%
Tax charges	(643,7)	(592,7)	8,6%
Net profit for the period	2 534,6	2 047,3	23,8%
- Net profit attributable to BZ WBK shareholders	2 327,3	1 914,7	21,5%
- Net profit attributable to non-controlling shareholders	207,3	132,6	56,3%

1) Other income and profit before tax for 2015 include one-off gains on subordinate entities of PLN 523m resulting from the partial disposal and loss of control over BZ WBK-Aviva TuŹ and BZ WBK-Aviva TUO on 27 February 2015. The above-mentioned one-off gains after tax totalled PLN 423.1m. Total costs for 2015 include a contribution of PLN 183.8m to reimburse deposit customers of the bankrupt co-operative bank under the guaranteed deposit scheme.

In 2015, Bank Zachodni WBK Group posted a profit before tax of PLN 3,178.3m, up 20.4% YoY. Profit attributable to the shareholders of Bank Zachodni WBK was PLN 2,327.3m and increased by 21.5% YoY. Excluding one-off gains on subordinate entities (i.e. PLN 523m in 2015 due to partial disposal and loss of control over BZ WBK-Aviva companies and PLN 10.6m in 2014 attributed to the sale of shareholdings from the portfolio of BZ WBK Inwestycje) and the mandatory contribution of PLN 183.8m from the deposit protection fund made in November 2015, the underlying profit before tax grew by 8% YoY and profit attributable to the shareholders of the parent entity increased by 7.7% YoY.

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

- **Inclusion of SCB Group in the Consolidation Scope of BZ WBK Group**
 - ✓ BZ WBK acquired control over SCB and its subsidiaries (SCB Group) on 1 July 2014. As a result, the consolidated income statement of Bank Zachodni WBK Group covers twelve months of the financial performance of SCB Group in the reporting period and six months in the base period, which increased YoY movements in respective income statement items.
- **Loss of control over BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO**
 - ✓ On 27 February 2015, Bank Zachodni WBK sold part of its stake in BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO (17% of shares in each insurance company), which resulted in a loss of control over the above entities. In effect, gains on the sale (PLN 234.4m) and adjustments resulting from the loss of control (PLN 288.6m) were recognised.
 - ✓ The loss of control resulted in reclassification of the above-mentioned companies from subsidiaries to associated undertakings along with the change of their accounting treatment from full consolidation to equity method. The above changes had the most significant impact on the comparability of the consolidated income statement with regard to the insurance fee, other operating income and share in the profit of entities accounted for using the equity method.
- **Incorporation of Dom Maklerski BZ WBK by Bank Zachodni WBK**
 - ✓ On 31 October 2014, Dom Maklerski BZ WBK was divided (and removed from the National Court Register) through the transfer to Bank Zachodni WBK of an organised part of the enterprise specialising in the provision of brokerage services and the set-up of Gieldokracja, a limited liability company, which provides communication, educational and advertising services. As a result, the brokerage activity became an integral part of operations of Bank Zachodni WBK.

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

- **Gains on partial disposal and loss of control over BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ**
 - ✓ Partial disposal and loss of control over BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ insurance companies (27 February 2015) contributed PLN 523.0m in total to the Group's consolidated profit before tax.
- **Increase in net interest income**
 - ✓ A YoY increase in net interest income (+PLN 312.4m) combined with a slight decrease in net interest margin (from 3.73% in 2014 to 3.55% in 2015 as per year-to-date annualisation) reflects the faster growth of income assets than interest income generated from that portfolio (in a low interest rate environment). This results from the consolidation of SCB Group and the organic growth of business volumes amid economic recovery and a record low interest rate environment.
- **Increase in net fee and commission income**
 - ✓ An increase in fee and commission income (+PLN 90.3m YoY) was driven by the development of the Polish economy and financial markets, regulatory changes, competitive pressures and changes in the scope of consolidation of Bank Zachodni WBK Group's financial statements. A growth in the net fee income from insurance products, distribution and asset management as well as account maintenance and cash transactions observed during 2015 was partly offset by lower fees from e-Business and payments, brokerage services, lending and currency exchange.
- **Increase in other income**
 - ✓ An increase of PLN 46.1m in the Group's other income (including dividend income but excluding gains on subordinated entities) is attributed to gains on financial instruments which more than offset the decline in other income arising from the changed presentation of insurance income. Following the deconsolidation of BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ, the Group returned to the former presentation of eligible insurance income (that is not an integral part of effective interest rate and spread over time) as fee and commission income, without any of it being taken to other operating income (effective from March 2015).

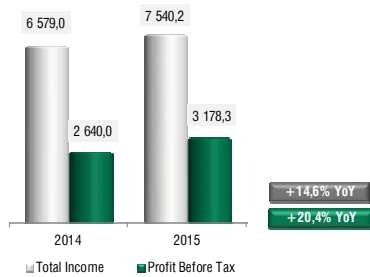
• **Lower level of impairment losses**

- ✓ Lower YoY level of impairment losses (-PLN 25.9m) coupled with a 10% YoY increase in gross loan book and improved credit quality ratios reflect the Group's proactive credit risk management policy, continuous development of tools supporting credit decision making, close monitoring of loan portfolios and favourable trends in the economic environment.

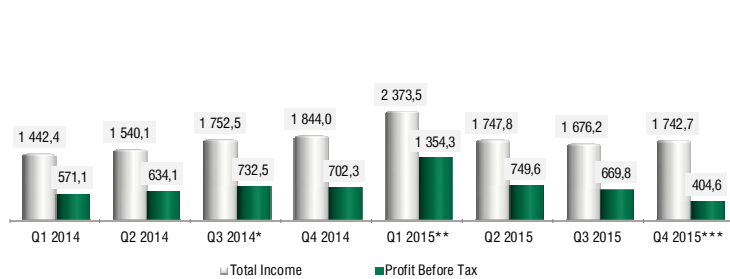
• **Effective cost management**

- ✓ BZ WBK Group effectively managed its costs based on a strict budget policy, while incurring mandatory expenses as a member of the banking system and the deposit guarantee scheme. In 2015, costs were additionally increased by mandatory contributions of PLN 170.5m and PLN 13.3m, respectively, made by BZ WBK and SCB from the deposit protection fund to reimburse depositors of the bankrupt Spółdzielczy Bank Rzemiosła & Rolnictwa, Wołomin. Excluding this one-off contribution, operating expenses of SCB Group and BZ WBK-Aviva companies as well as adjustments related to the takeover and loss of control over the above-mentioned insurance companies, the underlying cost base of Bank Zachodni WBK Group increased by 7.4% YoY, mainly on account of statutory contributions. Adjusting for such charges, the underlying cost base was stable.

Total Income and Profit Before Tax for 2014 and 2015 (PLN m)



Total Income and Profit Before Tax by Quarter in 2014 and 2015 (PLN m)



* On 1 July 2014, Santander Consumer Bank became a subsidiary and (along with its related entities) became a part of BZ WBK Group.
 ** Includes one-off gains on subordinate entities of PLN 523m from partial disposal and loss of control over BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO.
 *** Pursuant to the Resolution of BFG Management Board of 26 November 2015, BZ WBK and SCB were obliged to make a contribution of PLN 183.8m from the deposit protection fund to reimburse depositors of a Polish bank following its bankruptcy.

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

The table below illustrates the profit contribution of respective members of Bank Zachodni WBK Group to the consolidated income statement for 2015 compared with 2014.

PLN m

Components of Bank Zachodni WBK Group Profit-Before-Tax by contributing entities	2015	2014	YoY Change
Bank Zachodni WBK S.A.	2 176,6	2 478,4	-12,2%
Existing subsidiary undertakings:	722,0	500,1	44,4%
Santander Consumer Bank and its subsidiaries ¹⁾	555,5	268,6	-
BZ WBK Asset Management S.A. and BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. ²⁾	74,0	75,4	-1,9%
BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A., BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. ³⁾	12,1	29,1	-
BZ WBK Leasing S.A., BZ WBK Lease S.A. and BZ WBK Finanse Sp. z o.o. ⁴⁾	66,4	72,8	-8,8%
Dom Maklerski BZ WBK S.A. ⁵⁾	-	24,7	-
Faktor Sp. z o.o.	12,1	21,2	-42,9%
Other subsidiary undertakings ⁶⁾	1,9	8,3	-77,1%
Equity method valuation ³⁾	27,7	1,4	-
Elimination of dividends received by BZ WBK ⁷⁾	(51,7)	(338,7)	-84,7%
Other intercompany and consolidation adjustments ⁸⁾	303,7	(1,2)	-
Profit before tax	3 178,3	2 640,0	20,4%

1) On 1.07.2014, Bank Zachodni WBK acquired control over Santander Consumer Bank (SCB) and included in the consolidation scope the bank and its subsidiaries. As at 31 December 2015 SCB Group was composed of: AKB Marketing Services Sp. z o.o. in liquidation, Santander Consumer Multirent Sp. z o.o., Santander Consumer Finanse Sp. z o.o., S.C. Poland Auto 2014-1 Limited and SC Poland Consumer 2015-1 Sp. z o.o. The amounts provided above represent profit before tax (after intercompany and consolidation adjustments) of SCB Group for the period of twelve months of 2015 and six months of 2014, respectively.

2) The combined profit before tax of these entities excludes a dividend of PLN 41.6m and PLN 30.3m received by BZ WBK AM from BZ WBK TFI in 2015 and 2014, respectively.

3) BZ WBK-Aviva TUO and BZ WBK-Aviva TUŃZ changed their status from subsidiary undertakings to associates as of 27 February 2015. Since then, both entities have been accounted for using the equity method. The amounts provided in the table represent profit before tax of both companies (after consolidation adjustments and post-audit profit adjustments) for two months of 2015 and twelve months of 2014, respectively.

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

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

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

7) Dividend received by BZ WBK from subsidiaries and associated undertakings, including dividend of PLN 229.5m received from SCB in 2014.

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

Parent Entity of Bank Zachodni WBK Group

In 2015, the unconsolidated profit before tax of Bank Zachodni WBK decreased by 12.2% YoY. In the reporting period, the bank recognised gains on the partial disposal of shares in BZ WBK-Aviva companies of PLN 234.4m, higher profit on available-for-sale and trading financial instruments (+PLN 142.1m YoY) as well as lower net impairment losses (-PLN 63.3m YoY). The positive effect of the above-mentioned developments was offset by lower dividend income (-PLN 261.5m YoY, of which PLN 229.5m was received from SCB in 2014), a decrease in net interest income (-PLN 179.8m YoY) and higher total operating expenses (+PLN 302.8m YoY, including a payment of PLN 170.5m to reimburse deponents of the bankrupt co-operative bank). Profit remained under pressure from the market and regulatory environment, including record low interest rates, volatility of financial markets, regulatory changes related to selected sector fees and contributions, and an additional charge under the guaranteed deposit scheme.

Subsidiaries

The subsidiaries consolidated by Bank Zachodni WBK reported an increase of 44.4% YoY in their total profit before tax as a result of the acquisition and consolidation of SCB Group, effective from 1 July 2014.

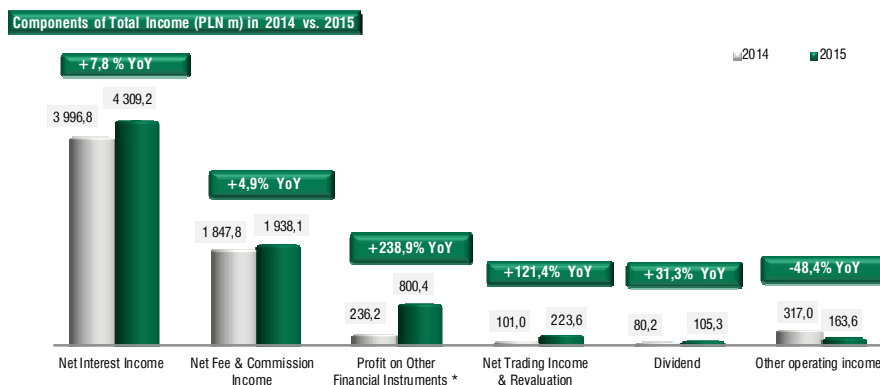
Adjusted for intercompany transactions and consolidation adjustments, SCB Group's contribution to consolidated profit before tax of Bank Zachodni WBK Group totalled PLN 555.5m in 2015. SCB Group contributed most to net interest income (PLN 1,043.4m) and net fee and commission income (PLN 190.3m) of the consolidated income of Bank Zachodni WBK Group. SCB Group's share in the total costs and impairment losses amounted to PLN 579.6m and PLN 123.4m, respectively. SCB Group's annual profit before tax (shown in the table above) is not subject to a comparative analysis over time as it covers different time periods (twelve months in 2015 vs. six months in 2014).

The partial disposal and a change in the accounting treatment of BZ WBK-Aviva insurance companies (from full consolidation to equity method) impaired the comparability of the profit before tax of both companies, as presented in the table above.

Excluding the profit of SCB Group, BZ WBK Brokerage House (Dom Maklerski BZ WBK) and BZ WBK-Aviva companies from the current and base periods, the underlying 2015 profit before tax of subsidiaries declined by 13.1% YoY. This is mainly a high base effect driven by one-off items which occurred in 2014, such as a public liabilities refund (leasing companies), released provisions for such liabilities by BZ WBK TFI and a relatively high profit from the sale of a shareholding from the equity investment of BZ WBK Inwestycje. This downward YoY movement was also aided by the higher impairment charges of BZ WBK Faktor in the reporting period and the larger operating cost base of subsidiaries fuelled by core business growth and development projects. In 2015, the Group's leasing and factoring sales volumes rose fast (as measured by financed assets and purchased factoring receivables), reaching a YoY rate of 31.4% and 17.9%, respectively. At the same time, BZ WBK TFI and BZ WBK AM held higher average assets under their management, which translated into increased distribution and asset management fee income.

Total Income

The total income earned by Bank Zachodni WBK Group in 2015 was PLN 7,540.2m, up 14.6% YoY. Adjusted for one-off gains on subordinate entities of PLN 523m in 2015 and PLN 10.6m in 2014, respective income went up by 6.8% YoY.

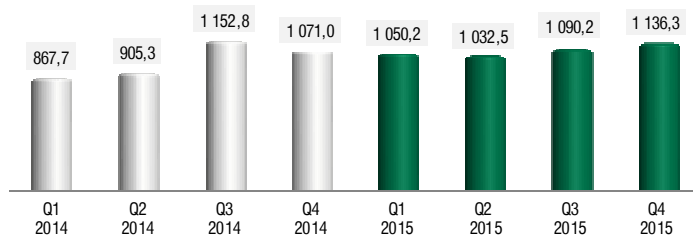


* includes income on other financial instruments and gains on subordinate entities

Net Interest Income

In 2015, net interest income amounted to PLN 4,309.2m and increased by 7.8% YoY.

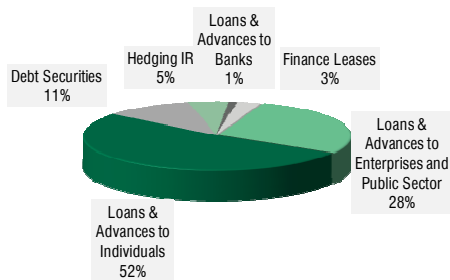
Net Interest Income by Quarter in Years 2014- 2015 (PLN m)



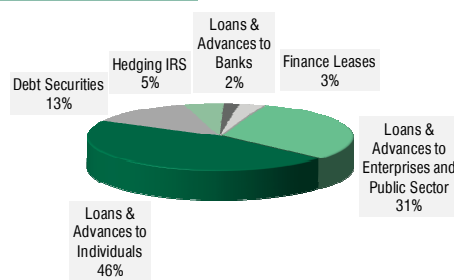
The YoY increase in the net interest income was achieved in the falling interest rate environment as a result of the consolidation of SCB Group specialising in consumer lending. The asymmetrical contribution of SCB Group to the consolidated income statement in the current and base periods (for all twelve months of 2015 and six months of 2014) let BZ WBK Group generate stable interest income (PLN 5,708.8m) while reducing the decline rate of interest expense to 18.9% YoY (PLN 1,399.7m). The stable level of interest income was attributed mainly to the growth in consumer loans which offset the decrease in business loan portfolios and the securities portfolio. The dominant negative change in interest expense was driven by customer deposits from all market segments (retail, corporate and public sector).

In 2015, loans to customers brought a yearly average nominal interest income of 4.9% compared with 5.7% in 2014. Customer deposits carried a yearly average nominal interest cost of 1.2% compared with 1.8% a year before.

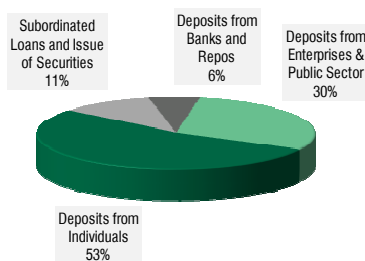
Structure of Interest Revenues in 2015



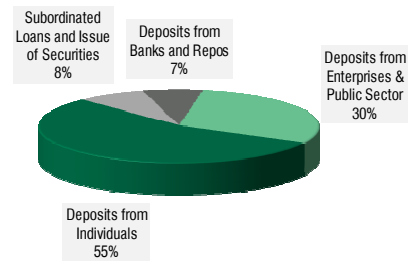
Structure of Interest Revenues in 2014



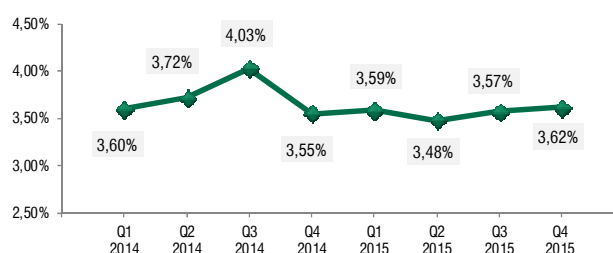
Structure of Interest Expense in 2015



Structure of Interest Expense in 2014



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



* The calculation of the adjusted net interest margin of Bank Zachodni WBK takes account of the swap points allocation from derivative instruments used for the purpose of liquidity management. It excludes however (since Q1 2014) interest income from the debt trading portfolio. Since 1 July 2014, the margin takes account of net interest income and interest-bearing assets of SCB Group.

Over the year 2015, the quarterly net interest margin held fairly steady, fluctuating around 3.5% - 3.6%. The Group generated the net interest margin in the record low interest rate environment (following another cut of 50 b.p. by the Monetary Policy Council in March 2015) as a result of proactive business acquisition, promotion and pricing modification, which were all aligned with market trends, customer expectations and the Group's objectives in terms of liquidity, capital and balance sheet structure management. The stabilisation of the net interest margin with a slight upward trend observed in the second half of the year resulted from favourable developments in business volumes, in particular a growth in the portfolio of cash loans and other consumer loans, and an increase in low-cost current and savings balances.

Compared with the previous year, the margin clearly declined due to falling interest rates and their adverse impact on interest income from credit portfolios as well as the Group's measures aimed at diversifying funding sources and building a stable deposit base founded on the strength of the Group's customer relationship.

Net Fee and Commission Income

PLN m

Net Fee and Commission Income	2015	2014	YoY Change
E-Business and payments ¹⁾	367,2	436,6	-15,9%
Account maintenance and cash transactions ²⁾	336,1	302,3	11,2%
FX fees	312,9	332,6	-5,9%
Insurance fees ³⁾	270,0	111,6	141,9%
Asset management and distribution	251,6	237,4	6,0%
Credit fees ⁴⁾	217,2	236,2	-8,0%
Credit cards	103,8	99,6	4,2%
Brokerage fees	58,5	70,6	-17,1%
Other ⁵⁾	20,8	20,9	-0,5%
Total	1 938,1	1 847,8	4,9%

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

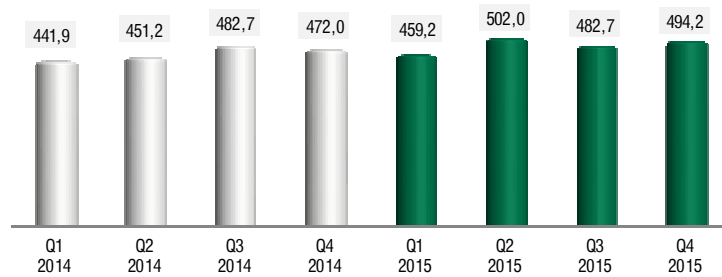
2) Fee income from account maintenance and cash transactions was reduced by corresponding expenses (PLN 2.4m for 2015 vs. PLN 13.6m for 2014) which in Note 7 "Net fee and commission income" of consolidated financial statements are included under "Other".

3) During the period of control over BZ WBK-Aviva companies (from 20 December 2013 to 27 February 2015), the bank disclosed the major part of income from the insurance business in "Other operating income" instead of "Net fee and commission income". In the reporting period, PLN 26.3m of insurance income was recognised (PLN 140.3m in the corresponding period). As a result of the loss of control over the entities, the entire insurance fee income is disclosed under "Net fee and commission income".

4) Net fee income from lending, leasing and factoring activities which is not amortised to interest income. This line item includes, inter alia, credit agency fees.

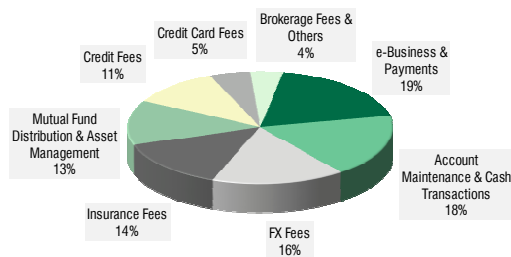
5) Guarantees and sureties, issue arrangement fees and others.

Net Fee & Commission Income by Quarter in Years 2014-2015 (PLN m)

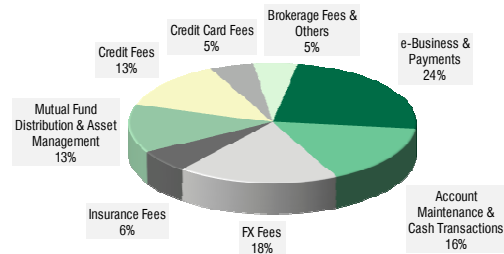


Net fee and commission income for 2015 was PLN 1,938.1m and increased by 4.9% YoY.

Net Commission Income Structure in 2015



Net Commission Income Structure in 2014



In 2015, significant growth was noted in net insurance fee income (+ 141.9% YoY), which is attributable to SCB Group’s contribution (after intercompany transactions) of PLN 143.2m in 2015 vs. PLN 58.3m in the corresponding period (representing income earned in H2 2014 after acquisition of control on 1 July 2014), as well as changes in the presentation of the Group’s insurance income following the loss of control over BZ WBK-Aviva companies. In the period from 1 January 2014 to 27 February 2015, the major part of such income was disclosed under other operating income (PLN 26.3m in 2015 and PLN 178.1m in 2014), whereas starting from March 2015, total insurance income that is not an integral part of an effective interest rate and spread over time, is taken to insurance fees. Viewed on a stand-alone basis, the underlying net insurance fee income of Bank Zachodni WBK rose by 26.5% YoY, driven mainly by the sale of loan insurance (for cash loans and business loans) and non-banking insurance.

Net fee income from account maintenance and cash transactions increased by 11.2% YoY on the back of an updated schedule of fees and charges and a higher volume of customer transactions.

Net fee income from fund distribution and asset management increased by 6.0% YoY as a result of the higher average value of assets managed by BZ WBK Towarzystwo Funduszy Inwestycyjnych and BZ WBK Asset Management driven by the inflows to sub-funds in H1 2015, supported by continued demand for corporate bonds and the sentiment prevailing in the stock market over that period.

Net credit card fee income for 2015 grew by 4.2% YoY, mainly due to the contribution of Santander Consumer Bank. Excluding the impact of SCB Group, the underlying net credit card fee income decreased by 16.5% as a consequence of a statutory reduction of the interchange fee (from 1 July 2014 to 29 January 2015) and revision of the selected bank’s fees and charges related to credit cards. The business grew steadily in the reporting period, both in terms of the number of credit cards and associated non-cash transactions.

Despite a significant increase in the volume of debit card transactions, the net fee and commission income aggregated under the “eBusiness and payments” line item declined markedly (-15.9% YoY) following the reduction of an interchange fee rate.

Lower net credit fee income (-8.0% YoY) is an effect of the revision of certain fees and charges related to credit facilities and the higher credit agency costs incurred by Bank Zachodni WBK and SCB.

An increase in FX trading failed to offset lower margins, as a result of which FX fee income declined by 5.9% YoY.

The decline in net brokerage fees (-17.1% YoY) was due to lower income earned by the BZ WBK Brokerage Office in the secondary market as a result of a decrease in equity market trading in 2015 in line with the trends prevailing on the main WSE floor and lower trading volumes in relation to distribution of non-core products.

Gains on Financial Instruments

Gains on Interest in Subordinate Entities

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

Gains on Other Financial Instruments

In 2015, gains on other financial instruments increased by PLN 23% YoY to PLN 277.4m.

Gains on the sale of treasury bonds were PLN 272.0m, up PLN 24.9% YoY. The measures taken as part of duration management on the available-for-sale debt securities portfolio were in line with market conditions and took into account the Group's objectives with regard to risk and liquidity management. The decisions regarding the structure of the portfolio and balance sheet were determined by expectations on interest rate cycle movements and fluctuations of yield curves caused by geopolitical factors and the decisions of central banks.

Gains on the sale of equity totalled PLN 11.6m, of which most (PLN 7.8m) derived from the disposal of shareholdings held in the BZ WBK Inwestycje portfolio.

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

In 2015, net trading income and revaluation reported by Bank Zachodni WBK Group was PLN 223.6m versus PLN 101.0m recorded in the previous year.

The Group generated a profit on derivatives and interbank FX trading of PLN 231.5m vs. PLN 31.8m a year before. This performance is attributed to high business volumes in relatively volatile interest rate and currency markets. The above-mentioned result on interbank FX and derivative trading includes net interest-related income of PLN 17.6m on the non-hedging CIRS/IRS transactions vs. PLN 21.5m in 2014. It excludes, however, the net interest income from the CIRS and IRS transactions designated as hedging instruments under the cash flow hedge accounting (PLN 255.4m in 2015 vs. PLN 231.8m in 2014), which is disclosed under "Net interest income". In the reporting period, gains on derivative instruments and interbank FX transactions were increased by the reversal of the first-day valuation adjustment of call options (PLN 23.4m) arising on the settlement of the disposal of a stake in BZ WBK-Aviva TUnŻ and BZ WBK Aviva TUO to Aviva Ltd.

Other FX related income was PLN 19m, lower by PLN 43.8m on a YoY basis.

Debt and equity securities trading brought in a total loss of PLN 26.8m compared to a profit of PLN 6.4m in the corresponding period.

Dividends

Dividend income from the equity investment portfolio of Bank Zachodni WBK Group came in at PLN 105.3m and were higher by PLN 25.1m YoY driven by dividends paid by Aviva Group companies.

Other Income

In 2015, other operating income was PLN 163.6m, down 48.4% on account of changes in the presentation of insurance income following the ownership changes within the Group. This line item incorporates net insurance income of PLN 26.3m generated by BZ WBK-Aviva companies over the first two months of 2015 preceding the loss of control and PLN 178.1m for 2014. The said component is inclusive of the gross premiums written, reinsurers' share of premiums written, net claims and benefits, and other net insurance income. Since March 2015, the respective income from the insurance business has been disclosed as net insurance fee income.

Impairment Charges

PLN m

Impairment Losses on Loans and Advances	2015	2014	YoY Change
Collective and individual impairment charge	(926,3)	(975,4)	-5,0%
Impaired but not reported losses charge	22,8	98,8	-76,9%
Recoveries of loans previously written off	80,4	12,0	570,0%
Off-balance sheet credit related facilities	12,4	28,0	-55,7%
Total	(810,7)	(836,6)	-3,1%

In 2015, the loan impairment charge to the income statement of Bank Zachodni WBK Group was PLN 810.7m, down 3.1% YoY. The contribution of SCB Group to that figure was PLN 123.4m vs. PLN 78.5m for the second half of 2014.

The charge for incurred and reported losses (on individual and collective exposures) was PLN 926.3m in 2015, down 5.0% YoY as a result of a decrease in impairment charges on individually and collectively assessed business exposures. The impact of the decline was partly offset by higher impairment charges on collectively assessed personal customers, arising from asymmetrical periods of SCB Group consolidation coverage in both years (12 months in 2015 vs. 6 months in 2014) and modification to the provision calculation model for SCB retail customers with the parallel update of parameters in H2 2015.

The positive net impairment for incurred but not reported losses of PLN 22.8m resulted from a periodical update of parameters underlying risk assessment in IBNR provision calculation model.

In 2015, Bank Zachodni WBK Group sold non-performing personal and business receivables in the principal amount of PLN 582.2m vs. PLN 698.2m in the corresponding period. The net result on this transaction was positive at PLN 23.6m and PLN 17.7m in the respective periods. At the same time, Santander Consumer Bank sold the written-off portfolio of retail loans at PLN 425.5m, which brought in recoveries of PLN 60.5m.

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

As at 31 December 2015, Bank Zachodni WBK Group's NPL ratio was 7.3% compared with 8.4% as at 31 December 2014. The cost of credit totalled 0.8% vs. 1% for 2014.

Total Costs

PLN m

Total costs	2015	2014	YoY Change
Staff, general and administrative expenses, of which:	(3 208,7)	(2 719,5)	18,0%
- Staff expenses	(1 544,0)	(1 449,6)	6,5%
- General and administrative expenses	(1 664,7)	(1 269,9)	31,1%
Depreciation/amortisation	(256,6)	(308,0)	-16,7%
Other operating expenses	(113,6)	(76,3)	48,9%
Total costs	(3 578,9)	(3 103,8)	15,3%
Integration costs ¹⁾	(61,5)	(177,3)	-65,3%
Total costs of SCB Group and BZ WBK-Aviva companies ²⁾	(591,6)	(374,1)	58,1%
Obligatory payment to guaranteed funds protection fund ³⁾	(183,8)	-	-
Underlying total costs	(2 742,0)	(2 552,4)	7,4%

- 1) Costs of integration of Bank Zachodni WBK with former Kredyt Bank are composed of staff, general & administrative expenses (PLN 26.9m for 2015 vs. PLN 162.2m for 2014) and amortisation/depreciation (PLN 34.6m for 2015 vs. PLN 15.1m for 2014).
- 2) Costs of BZ WBK-Aviva TUŃZ and BZ WBK-Aviva TUO (including amortisation from purchase price allocation and after intercompany adjustments) and SCB with subsidiaries (after intercompany adjustments).
- 3) Contributions of PLN 170.5m and PLN 13.3m, respectively, made by BZ WBK and SCB from the deposit protection fund to reimburse depositors of Spółdzielczy Bank Rzemiosła & Rolnictwa, Wolomin, as a result of the latter's bankruptcy.

In 2015, the total expenses of the Group amounted to PLN 3,578.9m, and were 15.3% higher YoY. Excluding the integration costs (PLN 61.5m in 2015 and PLN 177.3m in the corresponding period), mandatory contribution from the deposit protection fund (PLN 183.8m), the operating costs of SCB Group, BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ (PLN 585.4m in 2015 and PLN 289.7m in 2014), amortisation arising from allocation of the purchase price of the two insurance companies (PLN 84.4m in 2014) and the relevant adjustment after control loss (PLN 6.2m in 2015), the total underlying costs increased by 7.4% YoY, mainly on account of fees payable to market regulators. Adjusted for these charges, underlying total costs were stable.

Excluding one-off items, namely gains on subordinate entities and the fee under the guaranteed deposit scheme, the Group's cost to income ratio was 48.4% vs. 47.3% in the corresponding period. Adjusting further for integration costs, it was 47.5% compared with 44.6% in 2014.

Staff Expenses

Staff expenses of Bank Zachodni WBK Group for 2015 totalled PLN 1,544.0m and increased by 6.5% YoY, while the headcount decreased by 617 FTEs to 14,218.

The increase in the cost base was accelerated by the consolidation of SCB Group which covered asymmetrical reporting periods, i.e. twelve months of 2015 and six months of 2014 (following the assumption of control over SCB). Costs of SCB Group taken to the consolidated income statement of Bank Zachodni WBK Group totalled PLN 227.4m in 2015 vs. PLN 114.7m in the base period. The growth reported under the "salaries and bonuses" and "statutory deductions from salaries" (11.5% YoY and 13.2% YoY, respectively) was also aided by the aggregated presentation of integration costs, without breaking them down into separate cost lines. The above costs, which were diminishing in 2015, totalled PLN 69m in the corresponding period (mainly salaries and statutory deductions from salaries).

A YoY increase of 29.6% in training costs reflects the Group's focus on the development of staff knowledge, skills and managerial competence, which is reflected in a wide range of training initiatives and development programmes.

Excluding integration costs and the contribution of SCB Group and BZ WBK-Aviva companies, underlying staff expenses increased by 4.8% YoY.

General and Administrative Expenses

General and administrative expenses of Bank Zachodni WBK Group for 2015 increased by 31.1% YoY to PLN 1,664.7m. Costs incurred by SCB Group totalled PLN 292.9m and contributed most to the cost of marketing and entertainment, the cost of maintenance and rental of premises, IT usage and regulatory fees.

The growth in consolidated general and administrative expenses was driven mainly by charges imposed by market regulators (+329.3% YoY), particularly charges related to the participation of Bank Zachodni WBK and SCB in the guaranteed deposit scheme supervised by the Bank Guarantee Fund (BFG). As a consequence of an increase in the annual and prudential fee rates payable to BFG and the larger calculation base for these fees (driven by business growth), the charge to the profit and loss account for 2015 was PLN 230.9m vs. PLN 100.5m for 2014. BZ WBK and SCB were also obligated (under BFG Resolution no. 87/DGD/2015 of 26.11.2015) to make a contribution of PLN 170.5m and PLN 13.3m, respectively, via the deposit protection fund, to the payout of guaranteed deposits to customers of the bankrupt Wotomin-based co-operative bank (Spółdzielczy Bank Rzemiosła & Rolnictwa). Following the announcement made by Bank Gospodarstwa Krajowego concerning contributions to be made to the support fund for distressed residential borrowers, a provision of PLN 40.8m in total was accrued by both banks in this connection.

A significant increase in the cost of IT usage (+20.4% YoY), consultancy and advisory fees (+47.8% YoY) is an effect of the consolidation of SCB Group and exclusion from the two lines of the diminishing costs of integration with the former Kredyt Bank, which used to be relatively high in the base period. The increased share of SCB Group in the IT costs of BZ WBK Group is mainly related to the development of the mobile sales channel and the creation of a data warehouse to support risk management and reporting.

The costs of SCB Group also had a major impact on the consolidated cost of marketing and entertainment (+14.0% YoY), mainly as a result of the SCB marketing campaign supporting the sale of loans.

The cost of third party services also grew (+14.9% YoY) on account of business expansion and the extended scope of the outsourcing of selected processes. Moreover, higher insurance costs led to an increase in costs of taxes and levies (+28.2% YoY).

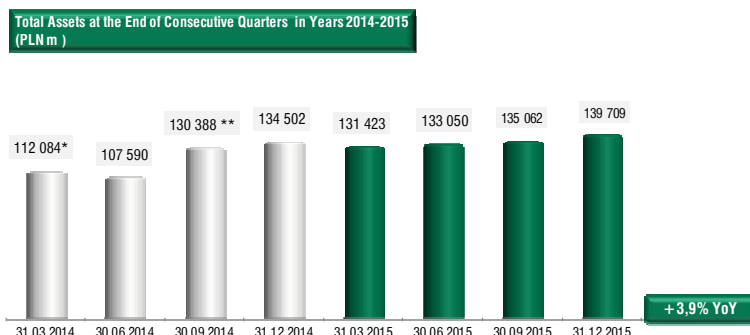
In 2015, integration costs totalled PLN 27.0m vs. PLN 93.2m in 2014.

Excluding the contribution of SCB Group and BZ WBK-Aviva companies, integration costs and the bank's contribution to the payout of depositors of the bankrupt co-operative bank, underlying general and administrative expenses increased by 10.5% YoY driven by higher recurring fees payable to market regulators.

2. Financial Position of Bank Zachodni WBK Group

Assets

As at 31 December 2015, the total assets of Bank Zachodni WBK Group were PLN 139,708.7m, an increase of 3.9% YoY. The value and structure of the Group's financial position is determined by its parent entity, which accounts for 89.8% of consolidated total assets vs. 90.4% as at the end of December 2014.



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

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

The table below presents major developments in key categories of the consolidated assets of Bank Zachodni WBK Group as at 31 December 2015 compared with the previous year.

Assets (condensed presentation for analytical purposes)	Structure					Change YoY 1/3
	31.12.2015		31.12.2014		Change YoY 1/3	
	1	2	3	4		
Loans and advances to customers *	94 930,8	67,9%	85 820,6	63,8%	10,6%	
Investment securities	24 622,1	17,6%	27 057,1	20,1%	-9,0%	
Cash and operations with Central Banks	6 229,9	4,5%	6 806,5	5,1%	-8,5%	
Financial assets held for trading and hedging derivatives	4 330,3	3,1%	5 477,6	4,1%	-20,9%	
Loans and advances to banks	3 853,3	2,8%	2 523,1	1,9%	52,7%	
Fixed assets, intangibles and goodwill	2 984,7	2,1%	3 804,7	2,8%	-21,6%	
Other assets	2 757,6	2,0%	3 012,3	2,2%	-8,5%	
Total	139 708,7	100,0%	134 501,9	100,0%	3,9%	

* Includes impairment write-down.

The movements in the consolidated statement of the financial position of Bank Zachodni WBK Group in 2015 reflect market trends, business volumes development, the Group's management of its balance sheet structure and current liquidity, and divestments (sale of 17% stake in BZ WBK-Aviva companies).

Net loans and advances to customers totalled PLN 94,930.8m, up 10.6% on the end of December 2014 on account of credit delivery to personal and business customers. SCB Group contributed PLN 12,901.7m to this line vs. PLN 12,345.7m as at 31 December 2014 (after intercompany and consolidation adjustments). Expansion of loans and advances to banks (+52.7% YoY) was propelled by the higher volume of current account balances.

Concurrently, as part of ongoing liquidity management, a decline was observed in the combined portfolio of “financial assets held for trading and hedging derivatives” (-20.9% YoY), and in “cash and operations with Central Banks” (-8.5% YoY). A decrease was also observed in “investment securities” (-9% YoY) as a result of higher sales and redemptions of treasury bonds compared with the purchases of these securities. The contribution of SCB to the consolidated investment portfolio amounted to PLN 2,000.4m vs. PLN 2,205.8m at the end of December 2014.

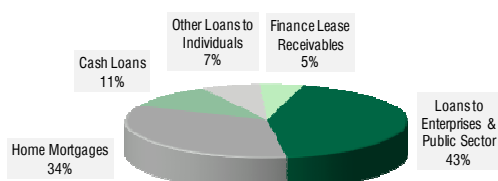
Due to the partial disposal and loss of control over BZ WBK-Aviva companies (with a concurrent transfer of the investments to the portfolio of investments in associates), the goodwill arising on acquisition of these companies (PLN 853.8m) was adjusted, reducing the “fixed assets, intangibles and goodwill” line by 21.6% YoY. As a result of deconsolidation, specifically de-recognition of insurance receivables of BZ WBK-Aviva companies, a decrease was also noted in the “other assets” line (-8.5% YoY).

Credit Portfolio

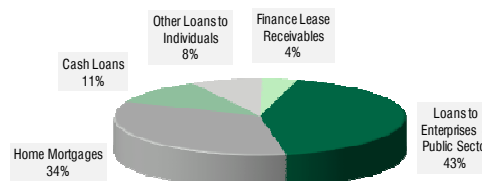
PLN m

Gross Loans and Advances to Customers	31.12.2015	31.12.2014	YoY Change
Loans and advances to individuals	51 950,1	47 784,1	8,7%
Loans and advances to enterprises and public sector customers	43 542,3	39 340,7	10,7%
Finance lease receivables	4 545,7	3 815,8	19,1%
Other	23,9	6,5	267,7%
Total	100 062,0	90 947,1	10,0%

Structure of Loans & Advances to Customers as at 31.12.2015



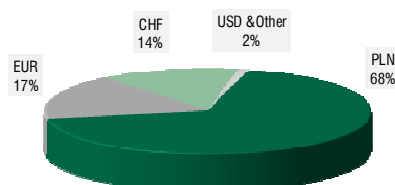
Structure of Loans & Advances to Customers as at 31.12.2014



As at 31 December 2015, gross loans and advances to customers were PLN 100,062.0m and higher YoY by 10.0%. On a constant currency basis, the increase was 8.4% YoY.

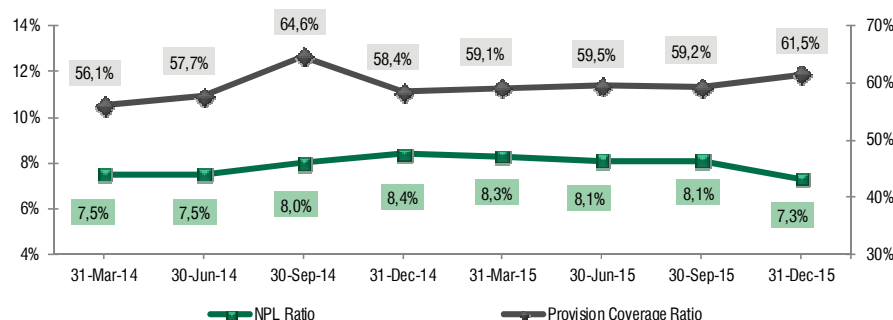
Compared with the end of 2014, loans and advances to individuals increased by 8.7% to PLN 51,950.1m. Housing loans, which represent the major portion of loans and advances to individuals, went up by 9.3% to PLN 33,720.6m during 2015. The second significant constituent item, i.e. cash loans grew by 11.6% to PLN 10,874.3m.

FX Structure of Loans and Advances to Customers as at 31.12.2015



Loans and advances to enterprises and public sector companies were PLN 43,542.3m, 10.7% higher YoY driven by lending to corporate and SME customers. Finance leases, which include, inter alia, the portfolios of BZ WBK Leasing and BZ WBK Lease, increased by 19.1% to PLN 4,545.7m on account of the sale of machinery & equipment and vehicles. Loans granted by the leasing companies to finance machines and vehicles for business customers, which totalled PLN 1,460.6m as at 31 December 2015 (vs. PLN 1,203.9m as at 31 December 2014), are disclosed outside the leasing portfolio, as loans and advances to enterprises.

Credit Quality Ratios by Quarters in 2014 and 2015



As at 31 December 2015, non-performing (impaired) loans to customers accounted for 7.3% of the gross portfolio vs. 8.4% twelve months before. The impairment charge coverage ratio for impaired loans was 61.5% compared with 58.4% as at 31 December 2014.

Equity and Liabilities

The table below presents major developments in key categories of the consolidated liabilities and equity of Bank Zachodni WBK Group as at 31 December 2015 compared with the previous year.

Liabilities & Equity (condensed presentation for analytical purposes)	PLN m				
	31.12.2015	Structure 31.12.2015	31.12.2014	Structure 31.12.2014	Change YoY
	1	2	3	4	1/3
Deposits from customers	101 865,4	72,9%	94 981,8	70,6%	7,2%
Deposits from banks	5 704,6	4,1%	8 359,9	6,2%	-31,8%
Subordinated liabilities and debt securities in issue	4 847,5	3,5%	4 913,3	3,7%	-1,3%
Financial liabilities held for trading and hedging derivatives	4 615,5	3,3%	4 039,9	3,0%	14,2%
Other liabilities	2 107,6	1,5%	4 155,3	3,1%	-49,3%
Total equity	20 568,1	14,7%	18 051,7	13,4%	13,9%
Total	139 708,7	100,0%	134 501,9	100,0%	3,9%

In the consolidated liabilities and equity as at 31 December 2015, significant growth was observed in both constituents of "subordinated liabilities and debt securities in issue", which (having a similar scope but opposite direction) were offset in this aggregated line item.

The Group continued the issue of debt securities as part of a diversification of funding sources. In 2015, Bank Zachodni WBK issued 3-year bonds with a nominal value of PLN 485m (June 2015) and 6-month certificate of deposit with a nominal value of PLN 230m (August 2015). SCB issued bonds with a nominal value of PLN 100m and maturities of up to 3 years, short-term bonds and certificates of deposit (with maturities of up to 3 or 6 months), totalling PLN 245m. At the same time, SCB redeemed PLN 116.1m worth of bonds issued under the asset securitisation programme completed in 2014 and several series of bonds from an issue programme. In addition, it entered into another securitisation transaction (based on the instalment loans portfolio) of PLN 1,051.1m. The increase in the balance of securities in issue which occurred as a result of the above-mentioned developments was offset by the repayment of three subordinated loans of CHF 100m, CHF 165m and PLN 75m granted to Bank Zachodni WBK by KBC Bank NV and not qualifying as Tier 2 capital.

The year 2015 witnessed a growth in deposits from customers (+7.2% YoY) and in financial liabilities held for trading and hedging derivatives (+14.2% YoY), the latter mainly on account of cash flow hedging relationships based on CIRS.

Total equity increased by 13.9% YoY as a result of the Resolution passed at the General Meeting of Shareholders dated 23 April 2015 to distribute the 2014 profit of Bank Zachodni WBK by allocating the amount of PLN 1,042.0m to the reserve capital and leaving the remainder of PLN 952.7m undistributed.

At the same time, deposits from banks decreased (-31.8% YoY) along with the sale of repo securities.

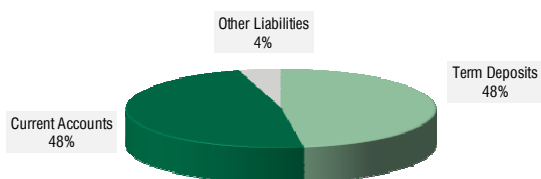
A negative change in other liabilities (-49.3%) was reported as a result of the disposal of a 17% stake in the two BZ WBK-Aviva companies, which led to derecognition of technical insurance provisions (PLN 1,074.4m as at 31 December 2014) and PLN 699.1m representing an expired obligation of Bank Zachodni WBK to repurchase other shares held by Aviva Ltd. in accordance with contractual arrangements.

Deposit Base

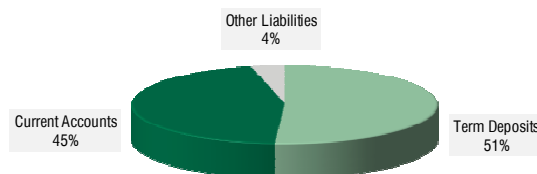
PLN m			
Deposits from Customers	31.12.2015	31.12.2014	Change YoY
Deposits from individuals	59 200,7	58 257,0	1,6%
Deposits from enterprises and public sector customers	42 664,7	36 724,8	16,2%
Total	101 865,4	94 981,8	7,2%

Deposits from customers, which represent 72.9% of the Group's equity and liabilities, are the primary source of funding for its lending business. Such deposits increased by 7.2% YoY to PLN 101,865.4m as at the end of December 2015, including an after-intercompany contribution of PLN 7,006.5m by SCB Group (PLN 6,861.5m as at the end of December 2014).

Structure of Customer Deposits as at 31.12.2015

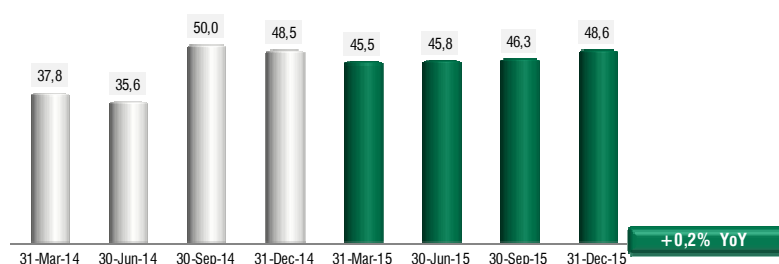


Structure of Customer Deposits as at 31.12.2014

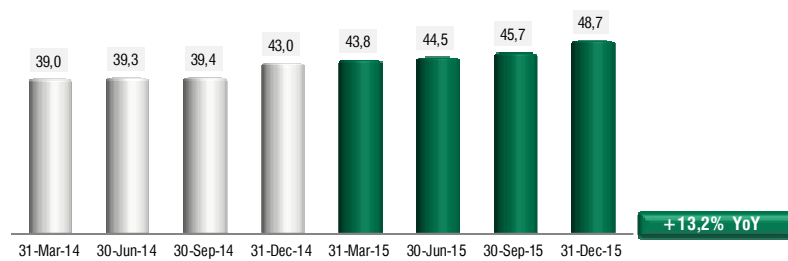


Term deposits from Group customers were PLN 48 563.5m, and were stable on a year-on-year basis. Current account balances increased by 13.2% to PLN 48,712.8m and the Group's other liabilities were PLN 4,589.1m, up 32.7% YoY.

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



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



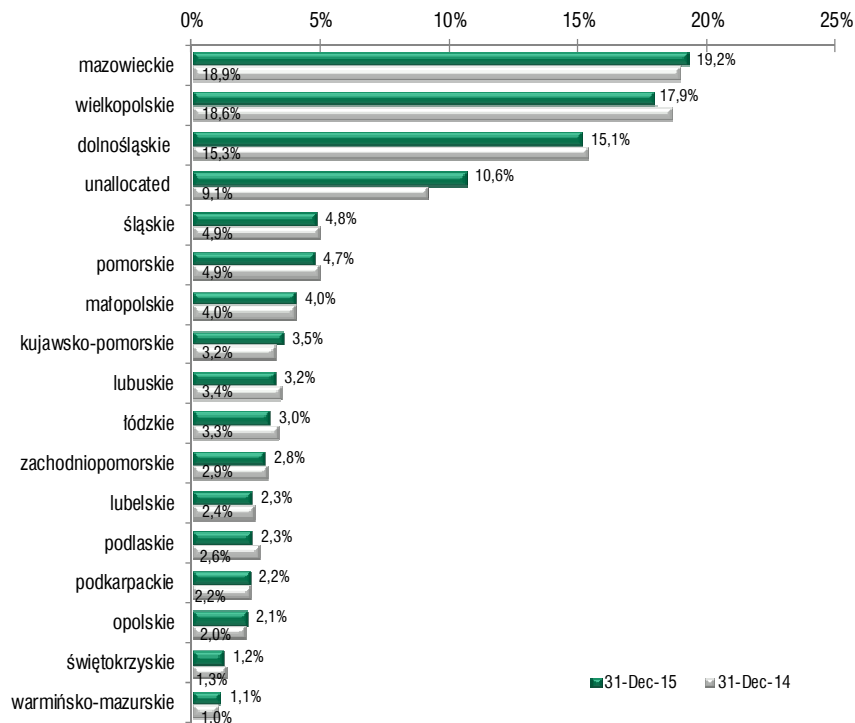
* including savings accounts

The largest constituent of the latter item are “loans and advances”, reported under “deposits from enterprises”, which include loans of EUR 350m, CHF 133.9m and PLN 196.7m granted by the European Investment Bank to finance the bank's lending activity, loans to the bank's leasing companies from the European Bank for Reconstruction and Development and the Council of Europe Development Bank (EUR 77.1m and PLN 35.7m, respectively) to finance the leasing business. In 2015, the total financing received from the above sources was EUR 100m for the bank and EUR 75m for the bank's subsidiaries.

At the end of 2015, the retail deposit base stood at PLN 59,200.7m, higher by 1.6% YoY as a result of an increase in current account balances (+17.9% YoY) with an accompanying decrease in term deposit balances (-12.8% YoY). Given a record low interest rate environment, banking deposits had a fairly low appeal, which made it difficult to retain balances acquired by the Group in 2014 at higher rates of interest. In 2015, retention efforts relied on modified rules for negotiating deposit interest rates and relationship levers. New money was attracted by means of promotional 6-month and 4-month term deposits with a fixed interest rate. Structured deposits enjoyed strong sales during the year and saw an increase to more than PLN 3bn at the end of December 2015 vs. PLN 0.8bn a year before. Some of retail deposits were transferred to current accounts, including the “à la Deposit Account” (Konto Oszczędnościowe à la Lokata), offered to customers as part of activities aimed at the optimization of the Group's deposit base.

Liabilities from enterprises and the public sector increased by 16.2% to PLN 42,664.7m at the end of 2015. The strong growth in this line is owed to the fast accumulation of term deposits (+23.2% YoY) and the increase in current account balances (+4.9% YoY). Towards the year-end, the term deposit base witnessed high-value deposit placements from large corporate clients.

Geographical Structure of Customer Deposits (by province) as at 31.12.2015 and 31.12.2014.



Diversification of Funding Sources for the Core Business

Issue of Bonds and Other Securities

Issue of Certificates of Deposit by Bank Zachodni WBK

On 18 March 2015, the Management Board of Bank Zachodni WBK adopted a resolution on the issue of certificates of deposits (CDs) with a nominal value of up to PLN 3bn as part of the Issue Programme. Its objective is to provide an alternative source of funding. CDs will be issued in tranches denominated in PLN, EUR, USD or CHF, with maturity ranging from three months to three years.

Under the above programme, on 17 August 2015, Bank Zachodni WBK issued 230k CDs in a private placement. The certificates have a nominal value of PLN 1k each, bear a variable interest rate (based on 6M WIBOR) and mature on 17 February 2016.

Issue of Own Bonds by Bank Zachodni WBK

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

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

Issue of Own Bonds by Santander Consumer Bank

In 2015, Santander Consumer Bank continued to issue bonds and certificates of deposit under a programme of debt securities issues underwritten by Santander Consumer Finance. In December 2015, the maximum value of issues under the programme was increased to PLN 3bn.

The following securities were offered by SCB in a private placement in 2015:

- Bonds with a variable interest rate (6M WIBOR), a nominal value of PLN 100m and a maximum maturity of three years;
- Zero-coupon bonds with a nominal value of PLN 85m and a maximum maturity of six months;
- Zero-coupon bonds with a nominal value of PLN 40m and a maximum maturity of three months;
- Zero-coupon certificates of deposits with a nominal value of PLN 120m.

Agreements with International Financial Institutions re. Financing of the Bank and its Subsidiaries

On 29 July 2015, BZ WBK Leasing concluded an agreement with the Council of Europe Development Bank providing for a EUR 50m loan with a five-year maturity period and the interest rate based on the 6M EURIBOR rate. The facility is earmarked for financing SME customers. On 20 October 2015, BZ WBK Leasing received the first tranche of EUR 25m.

On 9 September 2015, Bank Zachodni WBK and BZ WBK Lease entered into a EUR 50m loan agreement with the European Bank for Reconstruction and Development (EBRD) to enhance energetic efficiency of small and medium-sized enterprises. The maturity of the loan is five years and the interest rate is based on the 6M EURIBOR rate.

On 18 September 2015, Bank Zachodni WBK signed an agreement with the European Investment Bank providing for a EUR 100m credit line with a maturity of five years, which is earmarked for funding towards small and medium enterprises. The interest rate on the loan is based on the EURIBOR 6M rate.

On 16 December 2015, Bank Zachodni WBK concluded an agreement with an international financial institution, under which the bank was granted a EUR 100m unsecured loan with a 36-month maturity and interest based on the EURIBOR rate. The loan is earmarked for the bank's general corporate purposes and was disbursed on 4 January 2016.

On 22 January 2016, Bank Zachodni WBK entered into an agreement with an international financial institution, providing for a EUR 50m credit facility with an interest rate based on the EURIBOR. The loan matures within two years of the date of the agreement and is earmarked for the bank's general corporate purposes.

Securitisation of Santander Consumer Bank Assets

In September 2015, Santander Consumer Bank completed the securitisation of an instalment loan portfolio in the form of a standard revolving transaction, which involved the transfer of securitised assets to SPV SC Poland Consumer 2015-1 Sp. z o.o. (SCPC). The securitised assets were used by the company to issue bonds of PLN 1,051.1m secured by a registered pledge on SCPC assets.

Selected Financial Ratios

Selected Financial Ratios	2015 ¹⁾	2014
Total costs/Total income ²⁾	48,4%	47,3%
Net interest income/Total income	61,4%	60,8%
Net interest margin ³⁾	3,6%	3,7%
Net commission income/Total income	27,6%	28,1%
Customer net loans/Customer deposits	93,2%	90,4%
NPL ratio	7,3%	8,4%
NPL coverage ratio	61,5%	58,4%
Credit risk ratio ⁴⁾	0,8%	1,0%
ROE ⁵⁾	15,1%	14,4%
ROTE ⁶⁾	19,6%	20,4%
ROA ⁷⁾	1,7%	1,6%
Capital ratio ⁸⁾	14,6%	12,9%
Tier I ratio ⁹⁾	14,1%	12,5%
Book value per share (in PLN)	207,3	181,9
Earnings per share (in PLN) ¹⁰⁾	20,7	19,9

1) The calculations of the following ratios for 2015 use the Group's total income, total costs or profit (as applicable) adjusted for one-off items (gains on divestment of BZ WBK-Aviva companies and payout from the deposit protection fund): cost/income, net interest income/total income, net commission income/total income and basic earnings per share.

2) Excluding integration costs and one-off items, the adjusted cost-to-income ratio was 47.5% for 2015 vs. 44.6% for 2014.

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

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

5) Net profit attributable to the parent's shareholders to average equity (as at the beginning and end of the reporting period), net of non-controlling interests, current period profit and the undistributed portion of the profit. Adjusted for the impact of divestment of BZ WBK-Aviva companies, integration costs and one-off items, ROE was 13.7% as at 31 December 2015.

6) Net profit attributable to the parent's shareholders to average tangible equity (as at the beginning and end of the reporting period) defined as common equity attributable to the parent's shareholders less revaluation reserve, current period profit, undistributed part of the profit, intangible assets and goodwill.

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

8) The calculation of capital ratio takes account of the equity and total capital requirements for relevant risks using a standardised approach in line with CRD IV/CRR package.

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

10) Net profit for the period attributable to shareholders of BZ WBK (excluding one-off items) divided by the number of ordinary shares.

3. Additional Financial Information

Selected Transactions with Related Entities

Key Intercompany Transactions with Subsidiaries

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

As at 31 December 2015, the bank's total exposure on loans to subsidiaries (e.g. BZ WBK Faktor, BZ WBK Leasing, BZ WBK Lease) amounted to PLN 7,357.0m compared with PLN 7,938.4m as at 31 December 2014.

The deposits held with the bank by subsidiaries (e.g. BZ WBK Finanse, BZ WBK Inwestycje, BZ WBK Asset Management, BZ WBK Towarzystwo Funduszy Inwestycyjnych, Santander Consumer Multirent) totalled PLN 166.8m vs. PLN 2,127.1m as at 31 December 2014.

Guarantees to subsidiaries amounted to PLN 64.6m vs. PLN 65.1m as at 31 December 2014. Contingent financial liabilities totalled PLN 2,227.7m compared with PLN 393.9m as at 31 December 2014.

These intercompany items have been eliminated from the consolidated accounts.

Leaseback

On 16 April 2015, Bank Zachodni WBK signed an agreement with BZ WBK Leasing regarding the sale and leaseback of existing properties (building, land and perpetual usufruct) and the lease of the planned property (office building to be developed within three years) located in Wrocław.

The total value of assets arising from the lease agreement (building and land) was estimated at PLN 156.3m as at the start date of the transaction.

The current value of fixed assets under the leaseback agreement was PLN 39.5m as at 31 December 2015, while the value of fixed assets under construction totalled PLN 3.1m.

The basic term for the leased asset was set at 153 months. The purchase of the assets and development of the office building is financed from a loan granted by Bank Zachodni WBK to BZ WBK Leasing.

Detailed information about the settlements between the parties is presented in Note 42 "Finance and Operating Lease" of the "Financial Statements of Bank Zachodni WBK for 2015".

Intercompany Transactions with Parent Entity

The bank's receivables from the parent entity (Santander Group) amounted to PLN 338.5m compared with PLN 0.7m as at 31 December 2014, while obligations amounted to PLN 111.8m compared with PLN 155.5m as at 31 December 2014.

A full disclosure on related party transactions, including those with senior management, is available in Note 45 of the "Consolidated Financial Statements of Bank Zachodni WBK Group for 2015" and in Note 44 of the "Financial Statements of Bank Zachodni WBK for 2015".

Selected Off-Balance Sheet Items

Commitments and Derivatives

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

	PLN m	
Guarantees and Commitments	31.12.2015	31.12.2014
Financial commitments:	21 870,8	19 959,9
- credit lines	18 463,0	17 047,1
- credit cards debits	2 967,0	2 367,1
- import letters of credit	438,0	413,6
- term deposits with future commencement term	2,8	132,1
Guarantees	4 397,6	4 383,1
Total	26 268,4	24 343,0

In 2015, the Group undertook to issue loans of PLN 1,747.0m under syndicate agreements, with a future pay-out date in 2016.

PLN m		
Nominal Value of Derivatives	31.12.2015	31.12.2014
Derivatives - Forward (hedging)	37 200,0	35 207,4
Derivatives - Forward (trading)	250 073,8	178 576,9
Current FX transactions	3 022,1	4 653,2
Trading in equities	1 485,1	1 007,1
Total	291 781,0	219 444,6

Description of Guarantees Issued

Bank Zachodni WBK guarantees obligations arising from customers' operating activities. These are: payment guarantees, performance bonds, warranty bonds, bid bonds, loan repayment guarantees and customs guarantees. In accordance with the Regulations on Non-Consumer Loans from Bank Zachodni WBK, the bank provides civil law sureties and guarantees (mainly: guarantees of payments for goods or services, advance payment guarantees, performance guarantees, customs guarantees) as well as sureties and guarantees under the Bills of Exchange Law (mainly: loan repayment guarantees, guarantees of payment for goods or services).

The process and information required in the case of sureties and guarantees are similar to the lending process. The bank adopts the same approach to the credit risk here as in the case of lending exposures.

Operating Lease

Bank Zachodni WBK and Santander Consumer Bank lease offices in compliance with operating lease agreements. Typically, Bank Zachodni WBK signs its lease agreements for a term of 5-10 years, while the lease agreements of Santander Consumer Bank are concluded for a term of 3-5 years (except for the lease agreements for the premises of mobile units which are entered for an indefinite period subject to between one and three months' notice). Additionally, in 2014 BZ WBK Leasing signed operating lease agreements with leasing/financial advisors for the 3-year lease of vehicles for operational purposes.

Total payments of all the irrevocable operating leases (including the value of land in perpetual usufruct) are as below.

PLN m		
Lease payments by maturity	31.12.2015	31.12.2014
less than 1 year	258,5	281,8
between 1 and 5 years	478,0	602,4
over 5 years	421,8	345,4
Total	1 158,3	1 229,6

Writs of Execution and Value of Collateral

The table below shows the number and value of the writs of execution issued by Bank Zachodni WBK in 2015 compared with 2014.

Facility	PLN m			
	2015		2014	
	Number	Value	Number	Value
Loans to individuals	71 114	609,6	47 455	269,1
Loans to enterprises	4 094	387,9	3 570	972,7
Total	75 208	997,5	51 025	1 241,8

The Act of 25 September 2015 amending the Banking Law provided for the removal of banking writs of execution from Polish legislation. As of the effective date (27 November 2015), all regulations pertaining to these instruments ceased to apply, while the proceedings to append an enforcement clause were discontinued.

As at 31 December 2014, the value of borrowers' accounts, assets or leased objects pledged as collateral coverage to the Group amounted to PLN 78,781.4 m compared with PLN 72,817.5m as at 31 December 2014.

4. Factors Which May Affect Financial Results in 2016

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

- Uncertainty regarding the world economic outlook, fuelled by external risk factors such as the economic slowdown in China.
- Movements in commodity prices.
- Stabilisation of Polish economic growth at a solid level above 3% YoY.
- Favourable growth in real disposable income of households due to low inflation, higher employment and wage growth.
- Low financing costs for households and businesses should stimulate demand for bank debt. At the same time, low interest on deposits should encourage bank customers to seek alternative savings/investment options.
- Possible changes in the monetary policy of the NBP, the ECB and Federal Reserve.
- Changes in Poland's credit rating or rating outlook.
- Easing of fiscal policy in Poland, and the introduction of laws which are unfavourable for the banking and trade sectors.
- Changes in asset funding costs dependent on the pace and degree of changes in base rates, movements in the PLN exchange rate, liquidity position of the banking sector and the degree of price competition between banks seeking to attract customer deposits.
- A possible increase in volatility in financial markets in the event of a more negative outlook for global economic growth, growing concerns about potential monetary policy tightening by the Federal Reserve and further turmoil in financial markets in China.
- Further developments in the global equity markets and their impact on demand for mutual fund units and safe bank deposits.

IX. Investor Relations

1. Investor Relations at Bank Zachodni WBK

As a listed company with an established market position, Bank Zachodni WBK is required to actively communicate with its stakeholders in order to satisfy their information requirements in accordance with the highest market standards and prevailing laws.

The bank is committed to ensuring the effective, regular and timely communication of performance to all interested parties, including shareholders, investors, and other capital market participants. The BZ WBK Investor Relations Office maintains relationships with institutional investors and stock market analysts, informing them proactively of the bank's development and other relevant aspects which may affect their decisions. This is to ensure adequate transparency of the company, build trust and promote the bank's image in capital markets.

In 2015 - as part of standard activities in the area of investor relations - investors, shareholders and stock market analysts had the opportunity to meet the representatives of the bank's Management Board at numerous brokers' conferences in Poland and abroad as well as investor road-shows and individual meetings.

In 2015, Bank Zachodni WBK was present at fifteen international investor conferences, including the WallStreet19 Conference held by the Individual Investor Association, the largest event of its kind in Poland.

As usual, four conferences were held to present market analysts with the bank's quarterly performance. In line with best practice, they were broadcast online in both Polish and English, and recordings were made available at the bank's website (www.inwestor.bzwbk.pl).

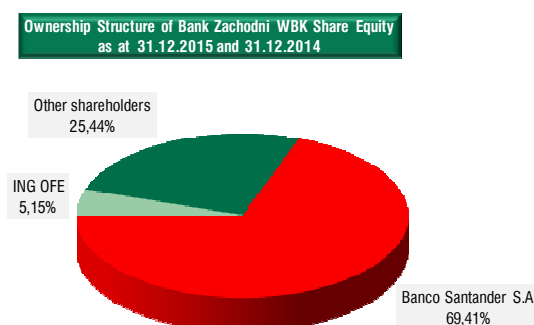
Up-to-date information on key developments regarding Bank Zachodni WBK is published at www.inwestor.bzwbk.pl.

2. Share Capital, Ownership Structure and Share Price

Share Capital and Changes in the Ownership Structure of Bank Zachodni WBK

As at 31 December 2015, the share capital of Bank Zachodni WBK totaled PLN 992,345,340, divided into 99,234,534 ordinary bearer shares at a nominal value of PLN 10 each. There were no changes to the amount of share capital in the year from 31 December 2014.

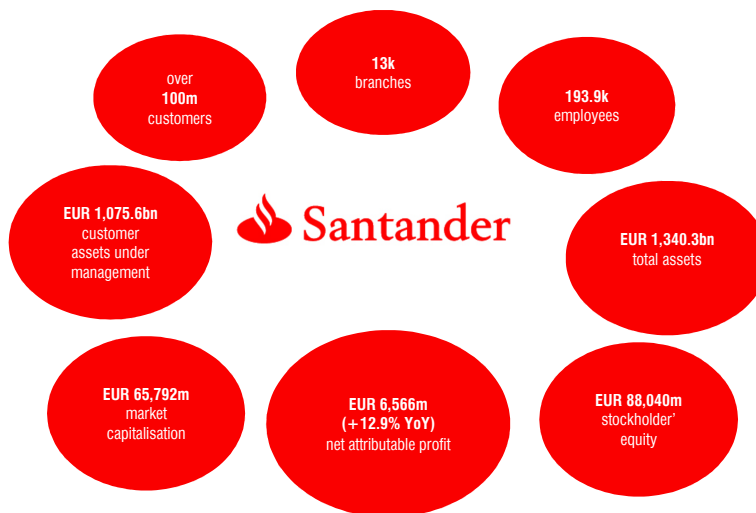
Chapter XI "Statement on Corporate Governance in 2015" (part 4 "Equity Securities of the Issuer") presents general information about shares of Bank Zachodni WBK, respective share issues, as well as the number of shares and voting power held by shareholders with more than a 5% stake in the bank's share capital as at the end of 2015 and 2014.



Majority Shareholder

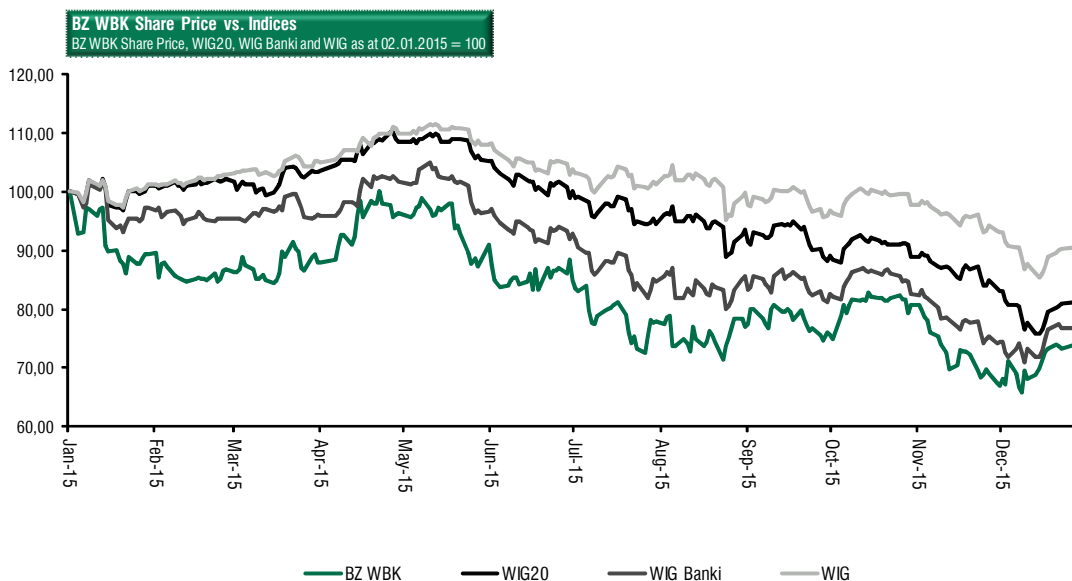
Banco Santander – a parent entity of Bank Zachodni WBK – is a commercial bank with a history of nearly 160 years, having its registered office in Santander and operational headquarters in Madrid (Spain). While it specialises in retail banking services, the bank is also active on the corporate, asset management and insurance market. Banco Santander, which is characterised by the geographic diversification of its business, currently focuses on its 10 core markets – both developed and emerging. Santander is the leading group in Spain and South America. It also enjoys a strong market position within selected segments in the UK and the north-eastern coast of the US as well as in Germany and Poland. According to data as at the end of September 2015, it was the third largest bank in Europe and 15th bank globally in terms of capitalisation.

Key Figures Presenting the Scale of Consolidated Activity of Banco Santander Group as at 31.12.2015

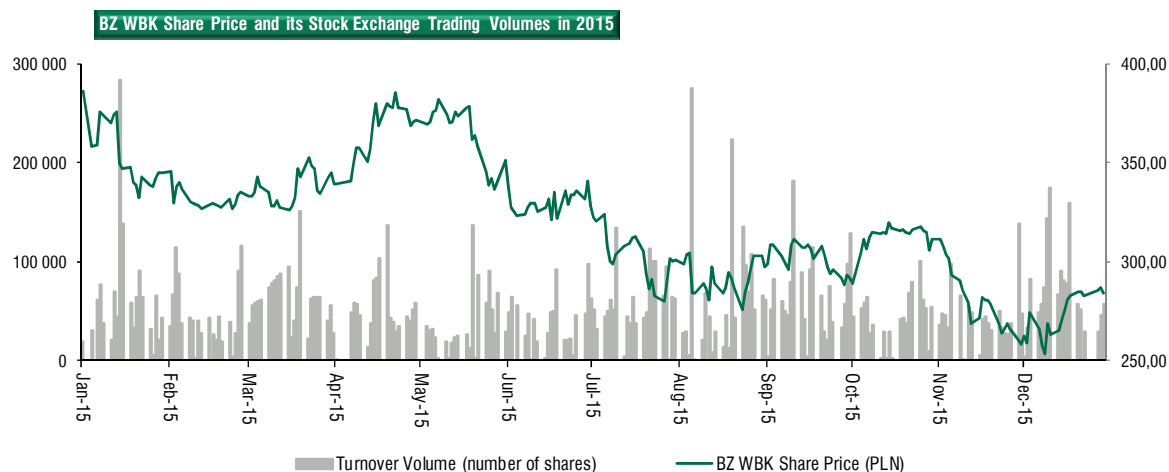


Banco Santander has been listed on the Warsaw Stock Exchange since 3 December 2014. A total of 12,840.5 million ordinary shares of the bank with a nominal value of EUR 0.50 each are now traded here. In addition to WSE, Banco Santander shares are quoted on stock exchanges in Madrid, Milan, Lisbon, London,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

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



In 2015, mirroring the end of 2014, Bank Zachodni WBK shares continued their downward trend in response to a deep correction in the entire banking sector on the WSE. Over the course of 2015, the bank's share price fell by 24.3% (from PLN 375.00 at the end of 2014 to PLN 284.0 at the end of 2015), which was comparable with the losses of the WIG-Banks index that declined by 23.5% in the same period. The bank's stocks were mainly influenced by the announced tax on bank assets and negative sentiment globally surrounding emerging markets. Another contributing factor was the decision of the Swiss National Bank, announced early in 2015, to abandon their EUR/CHF minimum exchange rate. Furthermore, as a result of the KNF's decision imposing an additional capital requirement for the bank, in April 2015 the company's AGM allocated a part of the 2014 profit to reserves and left PLN 952.7m for future distribution.



In 2015, the bank's shares reached their maximum closing price of PLN 386.0 on 23 April 2015 and their minimum closing price of PLN 253.5 on 9 December 2015.

As at 31 December 2015, the market capitalisation of Bank Zachodni WBK was PLN 28,182.6m compared with PLN 37,213.0m as at 31 December 2014.

Key Data on BZ WBK Shares	2015	2014
Share price at the year-end (in PLN)	284,0	375,0
Maximum closing share price over the year (in PLN)	386,0	422,0
Date of maximum closing share price	23.04.2015	05.03.2014
Minimum closing share price over the year (in PLN)	253,5	345,0
Date of minimum closing share price	09.12.2015	16.07.2014
Price per earning ratio (P/E) at the year-end	16,1	18,7
Number of shares at the year-end (items)	99 234 534	99 234 534
Market capitalisation at the year-end (PLN m)	28 182,6	37 213,0
Average turnover over the year (PLN m)	17,4	29,2
Dividend per share ¹⁾ (PLN m)	n/a ¹⁾	-

1) Details in "Dividend per Share Section" below.

Dividend per share

On the date of publication of this report, the Management Board had not yet finished its analysis to form the basis for recommending a dividend in respect of 2015.

On the date of publication of the "Management Board Report on Bank Zachodni WBK Group Performance in 2014" the Management Board did not issue a recommendation in respect of 2014 as the analytical process was still incomplete. Pursuant to the KNF recommendation of 1 April 2015 that the bank should retain its entire profit earned in 2014 until the regulator determines the additional capital requirement, the Bank Zachodni WBK AGM of 23 April 2015 adopted a resolution on allocation of the 2014 profit, transferring PLN 1,042.0m to reserves and leaving the remainder of PLN 952.7m undistributed.

3. Bank Zachodni WBK Rating

Bank Zachodni WBK Rating

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

Rating Actions by Fitch Ratings

Rating actions taken by Fitch Ratings over the last three years

Fitch Rating	Ratings affirmed/raised in the announcement of 23.11.2015 ¹⁾	Ratings affirmed/raised in the announcement of 2.06.2014 and affirmed in the announcement of 26.11.2014 ²⁾	Ratings affirmed/assigned in the announcement of 4.12.2013 ³⁾
International Ratings			
Long-term IDR	BBB +	BBB +	BBB
Outlook for the long-term IDR rating	stable	stable	stable
Short-term IDR	F2	F2	F3
Viability rating	bbb+	bbb	bbb
Support rating	2	2	2
National Ratings			
National long-term rating	AA-(pol)	AA-(pol)	A+(pol)
Outlook for the national long-term rating	stable	stable	stable
Senior unsecured debt national long-term rating	AA-(pol)	AA-(pol)	A+(pol)

¹⁾ BZ WBK ratings valid as at 31.12.2015 (from 23.11.2015)

²⁾ BZ WBK ratings valid as at 31.12.2014 (from 28.11.2014 to 23.11.2015)

³⁾ Ratings valid from 4.12.2013 to 26.11.2014

Ratings of Bank Zachodni WBK as at 31 December 2015 were assigned by Fitch Ratings on 23 November 2015. The agency upgraded the bank's Viability Rating from bbb to bbb+, while reaffirming the other ratings.

According to Fitch Ratings, the upgrade of BZ WBK's VR reflects the bank's improved capitalisation as well as a long track record of satisfactory consolidated financial performance and solid financial ratios compared with peers.

Similarly to other leading Polish banks, Bank Zachodni WBK has sound management and benefits from a largely supportive macroeconomic environment. As a banking market participant, the bank also faces pressure from potential regulatory measures such as changes to bank taxation and also the conversion of mortgage loans denominated or indexed to the Swiss franc at the original sanction rate.

Fitch believes that Bank Zachodni WBK is a strategically important subsidiary for Banco Santander and there is a high probability of support from the parent entity if need be. This view is reflected in the long-term IDR assigned to the bank. Continued parent company support will provide a floor for the bank's long-term IDR at one notch below that of its parent rating of A-/Stable/a-.

Rating Actions by Moody's Investors Service

Moody's rating actions on Bank Zachodni WBK in 2015

Category of Moody's Ratings	Ratings of 20.11.2015 ¹⁾	Ratings of 21.05.2015
Bank Deposit	A3/P-2	A3/P-1
Baseline Credit Assessment	baa3	baa3
Adjusted Baseline Credit Assessment	baa2	baa2
Outlook	stable	stable
Counterparty Risk Assessment	A2 (cr)/ P-1 (cr)	A2 (cr)/ P-1 (cr)

¹⁾ BZ WBK ratings valid as at 31 December 2015

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

In the credit assessment issued by Moody's Investors Service on 20 November 2015, the key ratings assigned to the bank were reaffirmed with only the short-term deposit rating being changed from P-1 to P-2.

The A3/Prime-2 deposit ratings are underpinned by the bank's BCA, assumptions of high affiliate support from the parent (Banco Santander), and the Advanced LGF analysis.

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

X. Risk Management

1. Risk Management Principles and Structure in Bank Zachodni WBK Group

Risk Management Principles

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

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

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

Risk Management Structure

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

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

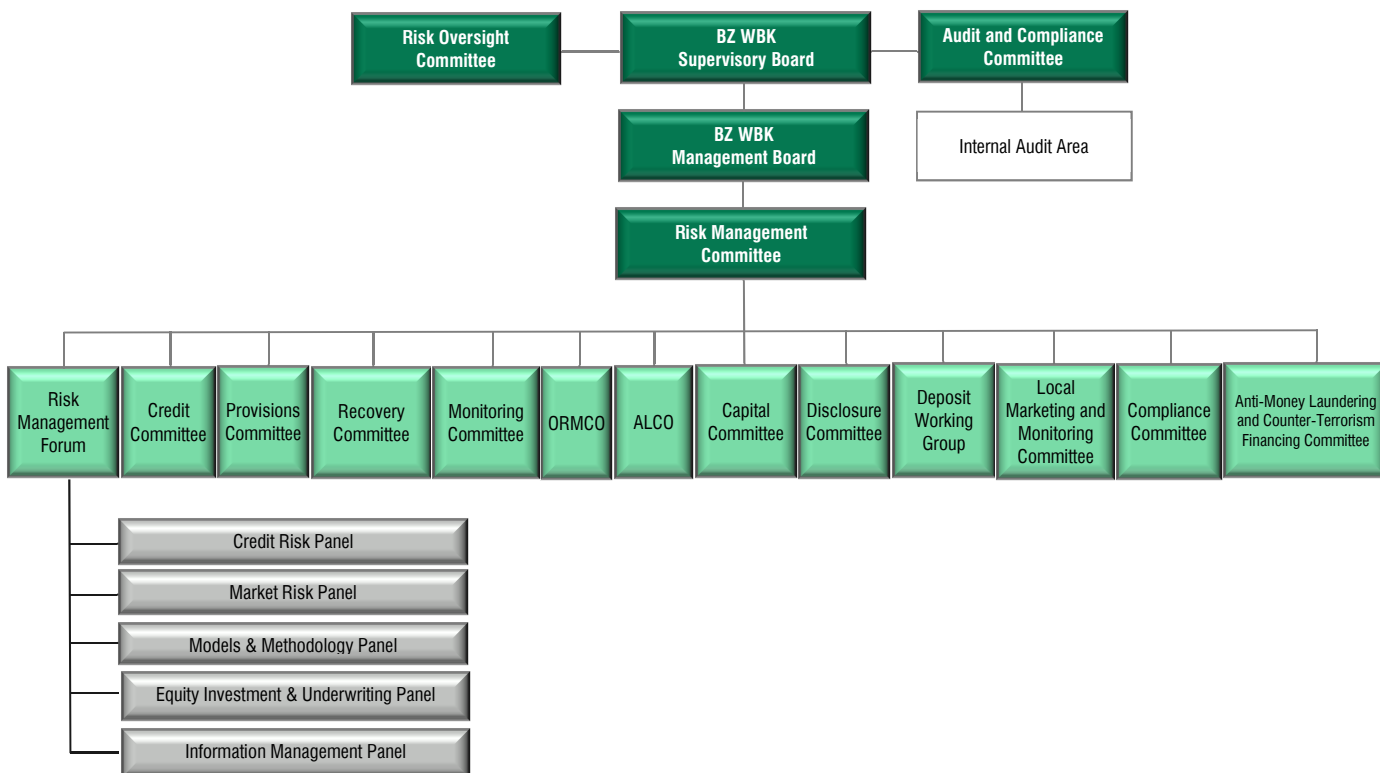
The Management Board fulfils its risk management role through the Risk Management Committee (RMC), which is responsible for developing a risk management strategy across the Group, including the identification of material risk types, setting the risk appetite and defining the methods of risk measurement,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

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

The RMC supervises the following committees responsible for risk management in the Group:

- Risk Management Forum composed of panels dedicated to credit risk, market risk, models and methodology and equity investment and underwriting
- Credit Committee
- Recovery Committee
- Provisions Committee
- Monitoring Committee
- Operational Risk Management Committee / ORMCO
- Assets and Liabilities Management Committee / ALCO
- Capital Committee
- Disclosure Committee
- Deposit Working Group
- Local Marketing and Monitoring Committee
- Compliance Committee
- Anti-Money Laundering and Counter-Terrorism Financing Committee

Corporate Governance Structure for Risk Supervision and Management



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

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

2. Credit Risk Management

Credit Risk

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

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

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

Credit Policy

In 2015, the Group continued its credit risk management policy, keeping credit risk at a safe level while ensuring high profitability of loan portfolios, growth of business volumes and an increase in market share. Credit policies were optimised in response to macroeconomic developments such as interest rate cuts. The Group carries out its lending activity with full regard to applicable prudential regulations. High quality customer service is also a priority.

The Group credit policy is a set of principles and guidelines included in credit policies and procedures which are reviewed on a regular basis. Internal limits are crucial components of the Group's lending policy because they facilitate the monitoring of exposure concentration within individual sectors, geographical regions and foreign currencies. Pursuant to the policy, BZ WBK Group ensures adequate diversification of the credit portfolio in terms of exposure towards individual customers and sectors.

The credit decision making system in place matches the profile and requirements of respective customer segments. Individuals engaged in credit risk approval are vested with powers which are commensurate with their skills and experience as well as risk associated with a given credit transaction, and are reviewed on a regular basis. Cases involving the highest credit exposures are referred to the Credit Committee.

The lending activity of subsidiaries is modelled on the bank's credit policies. In the decision-making process, Bank Zachodni WBK Group follows a consistent approach to credit risk and uses the same IT platform to assign rating/scoring (this does not apply to Santander Consumer Bank). Subsidiaries have credit risk management procedures in place which have been approved by the bank.

Credit Risk Management Process

Key Elements of the Credit Risk Management Process in BZ WBK Group	
Credit Decision Making Process	<ul style="list-style-type: none"> Discretionary limits applied across the bank are governed by the guidelines on “Discretionary Limits in Bank Zachodni WBK”. The guidelines define roles and responsibilities of individual units and staff members involved in the credit delivery process. The credit decision-making process is based upon individual credit discretions vested in credit officers, commensurate with their knowledge and experience relating to particular activities (branch banking, business banking and corporate banking). Credit exposures in excess of PLN 25m are referred to the Credit Committee composed of senior management and top executives. The existing system of credit discretions ensures segregation of the credit risk approval function from the sales function.
Credit grading	<ul style="list-style-type: none"> The Group has been developing credit risk assessment tools which conform to KNF guidelines, International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) and best market practice. The Group uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, home loans, income-producing real estates, cash loans, credit cards and personal overdrafts. The Group runs regular monitoring of credit grading pursuant to the rules described in the lending manuals. Additionally, for selected models, automated process of credit grade verification is carried out based on the number of overdue days or an analysis of behavioural factors. Credit grade is also verified at subsequent credit assessments.
Credit Reviews	<ul style="list-style-type: none"> The Group performs regular reviews to determine the actual quality of the credit portfolio, and to ensure adequate credit grading and provisioning as well as compliance with procedures and credit decisions. These reviews also allow for an objective assessment of the Group’s professionalism in credit management. They are carried out by two dedicated departments (the Credit Review Department and the Control & Quality Assessment Department), which are independent of the risk-taking units.
Collateral	<ul style="list-style-type: none"> The Securities and Credit Documentation Centre is a central unit responsible for ensuring that security covers are duly established and held effective in line with the lending policy for all business segments. The unit develops standardised internal procedures with respect to collateral and ensures that establishment, monitoring and release of security covers is duly effected. In addition, the Securities and Credit Documentation Centre provides assistance to credit units in credit decision making and development of credit policies, collects data on security covers and ensures adequate management information.
Credit Risk Stress Testing	<ul style="list-style-type: none"> Stress testing is a part of the credit risk management process used to evaluate potential effects of specific events, movements in financial and macroeconomic ratios or changes in the risk profile on the Group’s condition. Stress tests assess potential changes in credit portfolio quality in the event of adverse conditions. The process also provides management information about the adequacy of the limits agreed and internal capital allocation.
Calculation of Impairment	<ul style="list-style-type: none"> At Bank Zachodni WBK and its subsidiaries impairment charges are recognised in accordance with IAS/IFRS. They reflect credit impairment which is recognised if the Group presents objective evidence that such amounts cannot be recovered in accordance with a signed loan agreement. Objective indications of impairment were defined in accordance with recommendation made by the Basel Committee and International Accounting Standards (IAS 39). Impairment is calculated on the basis of the estimated recoverable amount. Impairment analysis is performed using both an individual (for individually significant exposures with objectively evidenced impairment) and collective approach (individually insignificant exposures with objectively evidenced impairment, and incurred but not reported losses). Twice a year, the Group compares the assumptions and parameters used for impairment calculations with the actual situation, including changes of economic conditions, and amendments to the Group’s credit policies and recovery process. This process provides an assurance that impairment charges are recognised correctly. The responsibility for ensuring the adequacy of impairment charges rests with the Provisions Committee.
Forbearance Practices	<ul style="list-style-type: none"> As part of pro-active management of credit risk and credit portfolio quality, Bank Zachodni WBK Group takes measures aimed at the early implementation of debt restructuring (forbearance solutions) with respect to customers in financial difficulties. The purpose of debt restructuring is to better align repayment terms with the current and projected financial standing of the customer, minimise default risk and/or maximise recovery. Decisions concerning the relationship management strategy for corporate borrowers in distress whose exposure does not exceed PLN 25m are taken by the Recovery Committee established in 2014. Decisions concerning corporate credit exposures above PLN 25m are left at the discretion of the Credit Committee. In 2015, the bank implemented the Early Debt Restructuring Model for the corporate segment, which helps to identify high-risk customers and take relevant actions to mitigate the risk of loss of exposure through effective debt restructuring at an early stage. The responsibility for the management of credit exposures under restructuring rests with the Early Debt Restructuring Team. The portfolio subject to restructuring is monitored on a regular basis. The debt is classified as restructured until the customer’s circumstances stabilise. More information on forbearance practices is provided in Note 4 “Risk Management” in “Consolidated Financial Statements of BZ WBK Group for 2015”.

Credit Portfolio Quality

Value and structure of debt subject to forbearance

Structure of Gross Loans and Advances Subject to Forbearance Arrangements by Customer Type as at 31.12.2015



Loans and Advances to Customers Subject to Forbearance Arrangements (PLN m)	31.12.2015	31.12.2014
Loans and advances to customers in the gross amount	4 348,6	4 139,7
Allowance for impairment	(1 363,7)	(1 330,9)
Loans and advances to customers in the net amount	2 984,9	2 808,8

Loans and advances to customers by impaired and non-impaired loan portfolios

Loans and Advances to Customers by Impaired and Non-Impaired Loan Portfolios	PLN m	
	31.12.2015	31.12.2014
Individually impaired (gross amount)	3 286,4	3 961,4
Allowance for impairment	(1 487,1)	(1 771,3)
Net amount (individually impaired)	1 799,3	2 190,1
Collectively impaired (gross amount)	3 981,8	3 648,6
Allowance for impairment	(2 984,5)	(2 675,3)
Net amount (collectively impaired)	997,3	973,3
IBNR portfolio (gross amount)	92 664,1	83 234,0
- non-past due	88 021,5	78 385,4
- past due	4 642,6	4 848,6
IBNR provisions	(659,5)	(679,9)
Net amount (non-impaired)	92 004,6	82 554,1
Other receivables	129,6	103,1
Total net loans and advances to customers	94 930,8	85 820,6
Impaired loan ratio	7,3%	8,4%
Impaired loan coverage ratio	61,5%	58,4%

3. Market Risk and Liquidity Risk Management

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

The market risk associated with the Group's operations results mainly from customer service operations, transactions effected to maintain liquidity on the money market and capital markets as well as proprietary trading in debt, FX and equity instruments.

Market Risk

Market Risk Management

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

The Management Board takes its strategic decisions on the basis of recommendations put forward by the Risk Management Forum, to which direct supervision of market risk management has been delegated.

ALCO – supported by the Financial Management Division – is responsible for managing market risk in the banking book, while the market risk in the trading book is managed by the bank's Global Corporate Banking Division.

Identification and Assessment of Market Risk

Interest rate and FX risks associated with the banking book are managed by the Financial Management Division, which is also responsible for managing the open positions in interest rate and FX risks of companies within BZ WBK Group.

The Global Corporate Banking Division, which includes the Brokerage Office of Bank Zachodni WBK, is responsible for managing market risk on the trading book.

The responsibility for measurement, monitoring and reporting of market risk and compliance with risk limits is vested in the Risk Management Division, which is responsible for regular reviews of market risk exposure and reporting results to the Risk Management Forum.

With the division of roles, management of risk in the banking book is fully separate from the management of risk in the trading book, and the risk measurement and reporting functions are separate from the risk management and risk-taking units.

The Group's market risk management policies set out a number of measures in the form of obligatory watch limits and ratios. Limits are reviewed and risk appetite is updated on an annual basis. The process is co-ordinated by the Financial Risk Department in the Risk Management Division.

To control the banking book risk, the following maximum sensitivity limits have been set for the risk of interest rate changes:

- NII sensitivity limit (i.e. sensitivity of the net interest income to a parallel shift of the yield curve by 100 bp);
- MVE sensitivity limit (i.e. sensitivity of the market value of equity to a parallel shift of the yield curve by 100 bp).

Sensitivity of banking book to interest rate movements as at 31.12.2015 and 31.12.2014

PLN k 1 day holding period	NII Sensitivity		MVE Sensitivity	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Maximum	118	109	215	154
Average	97	100	186	99
As at the end of period	116	90	215	154
Limit	170	130	220	200

In 2015, the global NIM and MVE limits for the banking book were not exceeded.

BZ WBK Group uses the following measures and limits to mitigate and control its exposure to market risk in the trading book:

- Daily VaR limit for the interest rate risk, FX risk and the repricing risk of equity instruments held by the Brokerage Office;
- PV01 limit set for individual currencies and transactions repricing dates;
- Stop-loss mechanism used to manage the risk of loss on trading positions subject to fair value measurement through profit or loss;
- Maximum limit of the total position and an open position for individual currencies.

As these measures relate to the calculation of a potential loss under normal market conditions, BZ WBK Group also uses stress tests to indicate estimated potential losses in the event of adverse market conditions materialising.

VAR as at 31.12.2015 and 31.12.2014 for interest rate, currency and equity risk in the trading book of Bank Zachodni WBK Group

PLN k	Interest Rate Risk VAR		FX Risk ¹⁾ VAR		Equity Securities Risk VAR	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
1 day holding period						
Average	1 643	1 402	636	646	429	281
Maximum	5 534	4 656	3 411	2 676	1 057	1 294
Minimum	375	285	52	88	90	81
as at the end of the period	837	921	846	369	230	810
Limit	5 852	5 261	1 951	1 754	4 057	3 647

1) In 2015, the VAR limit was exceeded. Positions for individual currencies were within established nominal limits but they exceeded the VaR limit. The next day open positions were reduced and VAR was back within the prescribed limit. The occurrence was reported to the appropriate committees appointed by the Management Board and the Supervisory Board.

Financial instruments used for management of market and other risks

The Group uses the following financial instruments in relation to repricing risk, credit risk, cash flow risk and liquidity risk:

- Derivative instruments held for trading – proprietary transactions in connection with treasury services rendered to bank customers in order to mitigate market risk, maintain liquidity or as part of the issue underwriting service;
- Other financial instruments, including investment securities held for sale, hedging derivatives and equity instruments.

The market risk associated with open positions in financial instruments is mitigated through a set of limits (defined separately for the trading book and the banking book). The credit risk of such positions is curbed using concentration limits in respect of individual counterparties. In order to mitigate the liquidity risk, the Group keeps an adequate level of liquid financial assets bearing low credit risk (in particular treasury bonds and NBP money market bills) in line with the liquidity risk appetite defined by the Group.

No derivative instruments to hedge credit risk were used by the Group, while FX options, interest rate options and commodity derivatives were executed on a back-to-back basis and therefore did not expose the Group to market risk.

The market risk of the balance sheet is managed by the Group using, inter alia, derivative instruments and hedge accounting with respect to:

- Mortgage loans bearing 3M WIBOR rate – the Group uses interest rate swaps to receive fixed interest and pay floating interest thus hedging the risk of movements in cash flows relating to floating interest loans;
- Mortgage loans in CHF and EUR – basis swaps are used to hedge the risk of movements in interest rates (CHF LIBOR, EURIBOR) and exchange rates (CHF/PLN and EUR/PLN);
- Fixed interest cash loans – the Group uses interest rate swaps to receive floating interest and pay fixed interest thus hedging the fair value of positions;
- Selected fixed coupon bonds – interest rate swaps are used to hedge the fair value of bonds whereby the Group receives floating interest and pays fixed interest.

Liquidity Risk

Liquidity risk is the risk of failure to meet contingent and non-contingent obligations made to customers and counterparties.

The Liquidity Management Policy adopted by the Group is to ensure that all outflows expected in the short term are fully covered by anticipated inflows or liquid assets. In addition, the aim of the policy is to ensure an adequate structure of funding for the Group's operations by maintaining medium- and long-term liquidity ratios at a pre-defined level and monitoring stress testing results. The policy covers all assets and liabilities as well as off-balance sheet items impacting the liquidity level.

Liquidity Risk Management

ALCO and the Risk Management Forum have overall responsibility for the supervision of liquidity risk on behalf of the Management Board. As part of their roles, they make recommendations to the Management Board on appropriate strategies and policies for strategic liquidity management. Liquidity risk reports and stress test results are regularly reviewed by senior management.

ALCO also supervises the liquidity management process in subsidiaries.

Liquidity management is the role of the Financial Management Division, which is responsible for the development and maintenance of appropriate strategies. The Risk Management Division is responsible for the independent measurement and reporting of liquidity risk and shaping liquidity risk management policies. The Financial Risk Department in the Risk Management Division is also responsible for the regular performance of stress-tests with respect to liquidity, and for the review of the Contingency Liquidity Plan approved by the Management Board and Supervisory Board.

The bank complies with KNF Resolution no. 386/2008 on liquidity management, in respect of, inter alia, liquidity monitoring, measurement and reporting.

Identification and Assessment of Liquidity Risk

Liquidity risk is identified and measured daily, mainly using modified liquidity gap reports and regulatory reports. These reports include a number of internal and regulatory limits. Cyclical liquidity measurement reports are supported by stress test results. The bank regularly calculates the measures laid down in CRD IV/CRR (LCR and NSFR) and KNF Resolution no. 386/2008. As at 31 December 2015, LCR ratio was at 172.0% and NSFR ratio was at 85.2%.

Liquidity gap analysis as at 31.12.2015 and 31.12.2014 (excluding SCB Group)

in PLN m

Liquidity Risk	31.12.2015		31.12.2014	
	GAP	Cumulative GAP	GAP	Cumulative GAP
<1T	21 340,3	21 340,3	14 810,1	14 810,1
<1M	(7 907,2)	13 433,1	(12 781,7)	2 028,4
>1M	(8 374,4)	5 058,7	(3 616,0)	(1 588,0)

According to the Group's policy, the bank should have sufficient funds to fully cover outflows expected over a one-month horizon, including that of the selected stress test scenarios. The liquidity position over a longer time horizon and the level of qualified liquid assets are also monitored.

In 2015, the bank's funds significantly exceeded the level required to cover the expected outflows. The bank met the regulatory quantitative requirements for liquidity. Key regulatory indicators (i.e. the short term liquidity ratio, the ratio of coverage of non-liquid assets and assets of limited liquidity with own funds and core external funds, and the relationship between liquid assets and net inflows/LCR) comfortably exceeded the required levels.

4. Operational Risk Management

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

The objective of operational risk management is to minimise the likelihood and/or reduce the impact of unexpected adverse events.

Employees across Bank Zachodni WBK Group are involved in operational risk management – this process covers a number of interrelated concepts. Operational risk is inherent in all Group business processes, including outsourced functions or services delivered jointly with third parties.

Bank Zachodni WBK Group has developed an "Operational Risk Management Strategy" and "Operational Risk Management Policy and Principles". In addition, detailed procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated.

The Operational Risk Management Committee (ORMCO) established by the Management Board is responsible for setting operational risk management standards for BZ WBK Group and is the Group’s principal forum for discussions on operational risk. It sets out the strategic direction for operational risk management, and determines and monitors objectives for managing operational risk, including business continuity, information security, outsourcing/insourcing and money laundering risk in all business areas of Bank Zachodni WBK. As part of ORMCO, there are dedicated forums which deal with specific operational risk aspects: an Anti-Money Laundering Forum and an Insurance Forum. The results of ORMCO’s work are reported to the Risk Management Committee.

Operational Risk Management Tools	
Identification and Assessment of Operational Risk	<ul style="list-style-type: none"> In the self-assessment process, Bank Zachodni WBK Group identifies the risks it may be exposed to when delivering its functions, assesses inherent and residual risks in terms of their likelihood and impact, and evaluates the efficiency of existing controls. In addition, action plans are devised to improve the efficiency of the existing and/or new controls. The process of identification and assessment of operational risk is additionally supported by such tools as: scenario analyses, business impact analyses, and the analysis of risk in new initiatives.
Reporting on Operational Incidents and Lessons Learned	<ul style="list-style-type: none"> Each organisational unit is required to report operational incidents identified in its area of responsibility. Material operational events are escalated to senior management using a fast-track procedure. The Group runs a database of operational events identified across the organisation with data utilised to analyse the root cause and consequences of incidents, capture lessons learned and take preventive and corrective measures. The Group also makes inputs to the external database of operational events run by the Polish Banks Association and uses information about external events from a number of sources. The analysis of external events allows for benchmarking and lesson learning from events identified outside the Group.
Analysis of Risk Indicators	<ul style="list-style-type: none"> Bank Zachodni WBK Group monitors both financial and operational risk indicators. Risk indicators provide an early warning of emerging threats and operational losses and also support the monitoring of risk in the Group’s operations.
Business Continuity Management (BCM)	<ul style="list-style-type: none"> Each organisational unit is required to develop and update its business continuity management plans to ensure that critical business processes remain uninterrupted following an unplanned disruption. BCM plans are tested on a regular basis to provide assurance to Bank Zachodni WBK Group that critical business processes may be restored at the required service level and within the agreed timeframe. The Group has backup locations in place where critical processes can be restored and continued should an incident occur.
Insurance	<ul style="list-style-type: none"> For the purpose of operational risk mitigation, Bank Zachodni WBK Group has an insurance scheme in place which covers various financial risks, plus motor, property and professional indemnity insurance.
Reporting to the Risk Management Committee and Supervisory Board	<ul style="list-style-type: none"> The aim of operational risk reporting is to provide up-to-date adequate information to the management team. Operational risk reports record details on operational events and losses, information security and IT security incidents, risk indicators and defined mitigants. The Group’s Information Security Management System has a certificate of compliance with the ISO 27001:2013 standard.

Legal and Compliance Risk Management

As a universal bank, a parent company in a group providing a wide array of specialist financial services, and an important member of the Polish banking system, Bank Zachodni WBK is exposed to legal and compliance risks mainly in the following areas:

- Generally applicable laws regarding labour law, taxes, accounting, personal data protection;
- Domestic and international (mainly: EU) trade regulations in the area of reporting, prudential standards, prevention of money laundering and counter-terrorism financing etc.;
- Domestic and international regulations concerning the type of products offered and service delivery methods applied by the bank and the BZ WBK Group (in particular: the legislation on consumer and competition protection, capital markets, financial markets etc.);
- Good practice codes and other regulations implemented by the Group, including membership of domestic or international trade associations.

At Bank Zachodni WBK Group, individual processes for legal and compliance risk are managed as part of a number of processes, coordinated and executed by relevant organisational units:

- Responsibilities of the Legal and Compliance Division relate to “conduct of business” compliance obligations, in particular with regard to: protection of consumer rights, implementation and sale of new products, prevention of money laundering, ethical issues, protection of sensitive information, protection of personal data and conflict management.

- The identification, interpretation and communication roles relating to other legal and regulatory obligations for the bank as a legal entity (non-conduct of business) have been assigned to functions with specialist knowledge in those areas as follows:
 - ✓ Compliance with employment law – Business Partnership Division;
 - ✓ Compliance with taxation law and reporting requirements – Financial Accounting and Control Division;
 - ✓ Compliance with prudential regulation – Risk Management Division.

The bank's Management Board adopted a policy statement on compliance with its legal and regulatory obligations, which was approved by the Supervisory Board. The policy provides the Compliance Area operating within the Legal and Compliance Division, with the relevant mandate to support managers in the effective management of compliance and reputational risks. The Compliance Area escalates all issues to the Risk Management Committee and Audit and Compliance Committee of the Supervisory Board which ensures the fulfilment of regulatory obligations and approves internal control principles and the framework of compliance policy. The Audit and Compliance Committee regularly reviews key compliance issues identified by the Compliance Area and Anti-Money Laundering Department.

The Compliance Area and the Anti-Money Laundering Department are responsible for prevention of legal and compliance risks, the maintenance of appropriate relationships with business units and market regulators, providing support to the bank's management and BZ WBK Group companies in the strategic decision-making process regarding compliance, and coordination (under applicable laws) of the implementation of uniform standards regarding compliance risk management and anti-money laundering in Group companies. These responsibilities are delivered through:

- Independent identification, monitoring and assessment of compliance risk that the Group is exposed to (with particular focus on new products and services, prevention of money laundering and terrorist financing, protection of confidential information, conflicts of interest or private account share dealing by employees);
- Prevention of use of financial system for money laundering and terrorist financing;
- Providing advice and reporting to the Risk Management Committee, the bank's Management Board and Audit and Compliance Committee on the effectiveness of processes established to ensure compliance with laws and regulations;
- Communication of policies and procedures, providing the management and staff with guidance on compliance risk management;
- Coordination of contacts with market regulators (KNF, UOKiK, GIIF, GIODO);
- Coordination of the approval of new products;
- Coordination and support for compliance processes regarding a model for the sale of investment products and the MiFID Directive;
- Strengthening of the principles regarding ethical business conduct and building the corporate governance culture in the organisation.

In addition to the above-mentioned operational units, BZ WBK Group also has specialised committees supporting the management of compliance risk in specific areas. They include the Compliance Committee, Local Marketing and Monitoring Committee, Local Volcker Steering Committee, Anti-Money Laundering and Counter-Terrorism Financing Committee and Business Ethics Commission.

Reputational Risk Management

Reputational risk is defined as the risk arising from any negative perception by customers, counterparties, shareholders, investors or regulators of the bank and other members of Bank Zachodni WBK Group.

Potential sources of this risk are internal operational incidents and external events such as adverse publicity or dissemination of negative feedback from customers via, for example, the Internet, social media and other forms of mass media. They may refer directly to BZ WBK Group and its products as well as the bank's shareholders and the entire banking and financial sectors (both domestic and international).

The elements of reputational risk include customer complaints and claims related to the process of offering banking products, including complaints about the lack of sufficient (i.e. complete, true, reliable and non-misleading) information about products and related risks, the complexity of products, improper sales practices or loss of capital.

The owner of reputational risk is the Corporate Communication and Marketing Area and Compliance Area.

The objective of the reputational risk management process is to protect the image of Bank Zachodni WBK Group and to limit and eliminate negative events which affect the image and financial results of Bank Zachodni WBK Group.

Key risk mitigation measures:

- Information policy of Bank Zachodni WBK;
- Monitoring of local, nationwide and certain international mass media sources (Corporate Communication and Marketing Area);
- Daily monitoring of social media sources (in particular: Facebook, Twitter) in the context of references to BZ WBK (Corporate Communication and Marketing Area);
- Analysis of image-sensitive information by the Press Office (Corporate Communication and Marketing Area);
- Response to information which poses a threat to public perception of the bank's image (Corporate Communication and Marketing Area);
- Keeping the representatives of national and local media up to date about new products and changes to the regulations regarding existing products;
- Customer satisfaction index (Corporate Communication and Marketing Area);
- Preparation and control by relevant Bank Zachodni WBK units of all important communiqués and reports for shareholders, the Polish Financial Supervision Authority (KNF) and the Warsaw Stock Exchange, and ensuring the timely publication of such communiqués and reports;
- Evaluation of new products or their modifications, procedures, commercial materials, processes and other bank initiatives (promotions, contests), training materials for sales staff in respect of their compliance with regulations and regulatory guidelines (Compliance Area);
- Participation in the process of handling customer complaints, especially those addressed to the regulators (Compliance Area);
- Supervision of after-sales control of investment products (Compliance Area);
- Mystery shopping surveys for investment products (Compliance Area);
- Regular monitoring of reputational risk associated with products offered by Bank Zachodni WBK Group through the analysis of customer complaints, sales volumes, number of customers and rate of return (Compliance Area).

5. Capital Management

It is the policy of Bank Zachodni WBK Group to maintain a level of capital adequate to the type and scale of operations and the level of risk. The level of own funds required to ensure the safe operation of the bank and capital requirements estimated for any unexpected loss is determined in accordance with the CRD IV / CRR package implemented on 1 January 2014 by the European Parliament and EBA, plus KNF recommendation regarding the use of national options.

The Management Board is accountable for capital management, calculation and maintenance processes, including the assessment of capital adequacy vis-à-vis different economic conditions and evaluations of stress test results and their impact on internal capital and capital adequacy. Responsibility for the general overseeing internal capital estimation rests with the Supervisory Board.

The Management Board has delegated on-going capital management to the Capital Committee which conducts a regular assessment of the capital adequacy of the bank and the Group (including stress scenarios), monitors the actual and required capital levels and initiates transactions affecting these levels (by recommending the value of dividends to be paid, for example). The Capital Committee is the first body that defines capital policy, principles of capital management and principles of capital adequacy assessment. However, ultimate decisions regarding any increase or decrease in capital are taken by the relevant authorities within the bank and its subsidiaries in accordance with the applicable law and the bank's Statutes.

Capital Policy

The capital management policy of BZ WBK Group stipulates minimum capital ratios taking into account regulatory requirements, applicable capital buffers and additional own funds requirements under Pillar 2.

Pursuant to CRR, institutions must at all times satisfy the following own funds requirements:

- Common Equity Tier 1 capital ratio of 4.5%;
- Tier 1 capital ratio of 6%;
- Total capital ratio of 8%.

As at 31 December 2015, the minimum capital ratios of the bank and BZ WBK Group satisfying the regulatory recommendations and additional own funds requirements under Pillar 2 were as follows:

- Tier 1 capital ratio of 9.54%;
- Total capital ratio of 12.72%.

The above-mentioned capital ratios take into account the KNF recommendation on an additional capital requirement related to home mortgages.

In accordance with the decision of the Polish Financial Supervision Authority (KNF) of 23 October 2015, Bank Zachodni WBK and Santander Consumer Bank maintain own funds at the level that ensures coverage of additional capital requirement of 0.72 p.p. and 1.07 p.p., respectively, to secure the risk arising from foreign currency mortgage loans for households.

The Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial system transposed CRD IV into the Polish law with regard to, among other things, additional capital buffers to be maintained by banks. With effect from 1 January 2016, the minimum capital ratios for the banking sector in Poland increased by 1.25 p.p. due to the introduction of the conservation buffer.

Regulatory Capital

The capital requirement for Bank Zachodni WBK Group as at 31.12.2015 was determined in accordance with Regulation no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms as well as the KNF recommendation on options and national discretions.

Bank Zachodni WBK adopted the standardised approach to calculate the capital requirement for credit risk, market risk and operational risk, the capital requirement for credit risk being the most significant. According to the standardised approach, the total capital requirement for credit risk is calculated as the sum of risk-weighted exposures multiplied by 8%. The exposure value for these assets is equal to the balance sheet total, while the value of off-balance sheet liabilities corresponds to their balance sheet equivalent. Risk-weighted exposures are calculated by means of risk weights applied in line with the above-mentioned Regulation.

Calculation of capital ratio for Bank Zachodni WBK Group as at 31.12.2015 and 31.12.2014

BZ WBK Group (including SCB S.A.)		in PLN m	
		31.12.2015	31.12.2014
I	Total capital requirement (Ia+Ib+Ic+Id), of which:	8 745,2	8 082,4
Ia	- due to credit risk	7 508,1	6 956,3
Ib	- due to market risk	152,9	84,5
Ic	- due to settlement / counterparty risk	120,3	101,8
Id	- due to operational risk	964,0	939,8
II	Total own funds	18 902,6	16 482,6
III	Reductions	2 922,2	3 437,7
IV	Own funds after reductions (II-III)	15 980,4	13 044,9
V	Capital Ratio [IV/(I*12.5)]	14,62%	12,91%
VI	Tier 1 Ratio	14,10%	12,47%

Calculation of capital ratio for Santander Consumer Bank as at 31.12.2015 and 31.12.2014

Santander Consumer Bank S.A.		31.12.2015	31.12.2014
I	Capital Ratio	16,31%	13,12%
II	Tier 1 Ratio	16,16%	12,81%

Internal Capital

Independent from the regulatory methods for measuring capital requirements, Bank Zachodni WBK Group assesses both current and future capital adequacy based on internal methods and models of risk measurement – the ICAAP process.

Under the ICAAP process, the Group estimates the required level of internal capital to ensure the secure conduct of its banking business in accordance with the Group's risk profile as defined in the bank's "Risk Appetite Statement".

The Group uses assessment models based on the statistical loss estimation for measurable risks, such as credit risk, market risk and operational risk and its own assessment of capital requirements for other material risks not covered by the model, e.g. reputational risk and compliance risk.

The internal capital assessment process uses the risk parameters of probability of default of BZ WBK Group customers and the potential loss size given default.

Results of the ICAAP process are an element of the assessment of current and future capital requirements, and are the basis for assessment of risk appetite and the Group's strategy.

Bank Zachodni WBK Group performs an internal assessment of capital requirements, including under stressed conditions, taking into account different macroeconomic scenarios.

Internal capital estimation models are assessed and reviewed annually to adjust them to the scale and profile of the Group's business and to take account of any new risks and managerial judgement.

Review and assessment is the responsibility of the Group's risk management committees, including: the Capital Committee and the Models and Methodology Panel, which is part of the Risk Management Forum.

Subordinated Liabilities

Until 31 December 2013, subordinated liabilities arising from 10-year registered bonds bearing a floating interest rate issued on 5 August 2010 (fully taken up and paid for by the EBRD) were recognised in the Group's own supplementary funds under the Banking Law Act and KNF approval dated 13 October 2010.

Since 1 January 2014, these items have been included in the calculations of Bank Zachodni WBK Group's capital ratio as they meet CRR requirements regarding eligible elements of Tier II capital.

XI. Statement on Corporate Governance in 2015

1. Legal Basis

The corporate governance framework applicable in Bank Zachodni WBK is based on existing laws (in particular the Commercial Companies Code, Banking Law and capital market regulations) as well as recommendations included in the following documents: "Code of Best Practice for WSE Listed Companies" and "Rules of Corporate Governance for Supervised Institutions".

This Statement on Corporate Governance in 2015 was prepared in accordance with § 91 section 5 point 4 of the Finance Minister's Ordinance of 19 February 2009 on current and financial reports published by the issuers of securities and the rules of equal treatment of information required by the laws of a non-member state.

The information included in this chapter fulfils the requirements of the corporate governance report set out in § 29 section 5 of the Terms of Reference of Warsaw Stock Exchange (WSE) and § 1 of the WSE Management Board Resolution no. 1013/2007 of 11 December 2007. In relation to the above and pursuant to WSE Management Board Resolution no. 718/2009 of 16 December 2009, incorporation of this Statement on Corporate Governance in 2015 into the annual report ensures fulfilment of the requirement to provide WSE with a corporate governance report.

2. Code of Best Practice

Code of Best Practice for WSE Listed Companies

Corporate governance rules applicable to Bank Zachodni WBK in 2015 are conveyed in the "Code of Best Practice for WSE Listed Companies" which constitutes an appendix to WSE Supervisory Board Resolution no. 19/1307/2012 of 21 November 2012. This version of the code applied to listed companies in the period from 1 January 2013 to 31 December 2015. The code has been approved for use by Bank Zachodni WBK by virtue of the decision of the Management Board (resolution no. 9/2013 of 18 January 2013) accepted by the Supervisory Board. The full text is available at WSE website (www.gpw.pl), "Best Practice of Companies" tab, and the bank's website (www.bzwbk.pl), "Investor Relations" tab.

"Code of Best Practice for WSE Listed Companies in 2016", i.e. the amended rules implementing higher corporate governance standards in Poland, became effective from 1 January 2016 pursuant to WSE Supervisory Board Resolution no. 26/1413/2015 of 13 October 2015. The new set of corporate governance rules, attached to the above-mentioned resolution (published at the WSE website, "Best Practice for Companies" tab), was approved for use by Bank Zachodni WBK by virtue of Management Board Resolution no. 160/2015 of 2 December 2015 and Supervisory Board Resolution no. 61/2015 of 16 December 2015.

Bank Zachodni WBK has complied with the official corporate governance rules since 2002 when the first version of the code of best practice was published ("Best Practice for Public Companies in 2002").

Corporate Governance Rules for Supervised Institutions

Bank Zachodni WBK also abides by "Rules of Corporate Governance for Supervised Institutions" published by the KNF on 22 July 2014. The document describes internal and external relations of supervised institutions, including relations with shareholders and customers, their organization, corporate governance framework and key internal systems and functions, as well as statutory bodies and rules concerning their cooperation. The aforementioned Rules are available at the KNF website (www.knf.gov.pl), "About the market" tab, and at the bank's website (www.bzwbk.pl), "Investor Relations" tab.

"Rules of Corporate Governance for Supervised Institutions" were adopted by Bank Zachodni WBK as of 1 January 2015 by virtue of Management Board Resolution no. 116/2014 of 9 October 2014 and Supervisory Board Resolution no. 58/2014 of 17 December 2014. Since the above guidelines are also applicable to shareholders, they were submitted to and approved by the General Meeting (GM) of Bank Zachodni WBK on 23 April 2015.

3. Management Board's Statement on Corporate Governance

In 2015, Bank Zachodni WBK duly complied with all the corporate governance rules set forth in the existing version of "Code of Best Practice for WSE Listed Companies". In this period, no corporate governance breaches were reported.

4. Equity Securities of the Issuer

Structure of Share Capital

Ownership structure of share capital of Bank Zachodni WBK as at 31.12.2015 and 31.12.2014

Shareholder	Number of Shares Held		% in the Share Capital & Voting Power at AGM	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Banco Santander S.A.	68 880 774	68 880 774	69,41%	69,41%
ING OFE	5 110 586	5 110 586	5,15%	5,15%
Others	25 243 174	25 243 174	25,44%	25,44%
Total	99 234 534	99 234 534	100,0%	100,0%

According to the information held by the BZ WBK Management Board as at 31 December 2015, the shareholders having minimum 5% of the total number of votes at the BZ WBK General Meeting of Shareholders were Banco Santander and ING Otwarty Fundusz Emerytalny (ING OFE) with shareholdings of 69.41% and 5.15%, respectively.

Compared with 31 December 2014, there were no changes to the amount and structure of the share capital.

Structure of share capital of Bank Zachodni WBK as at 31.12.2015 by share series

Date of change	Series /issue	Type of share	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue (in PLN)
from 4.01.2013	A	bearer	none	none	5 120 000	51 200 000
	B	bearer	none	none	724 073	7 240 730
	C	bearer	none	none	22 155 927	221 559 270
	D	bearer	none	none	1 470 589	14 705 890
	E	bearer	none	none	980 393	9 803 930
	F	bearer	none	none	2 500 000	25 000 000
	G	bearer	none	none	40 009 302	400 093 020
	H	bearer	none	none	115 729	1 157 290
	I	bearer	none	none	1 561 618	15 616 180
	J	bearer	none	none	18 907 458	189 074 580
	K	bearer	none	none	305 543	3 055 430
	L	bearer	none	none	5 383 902	53 839 020
		Total				99 234 534

Rights and Restrictions Attached to the Issuer's Securities

The shares of Bank Zachodni WBK S.A. are ordinary bearer shares. Each share carries one vote at the General Meeting of Shareholders. The nominal value is PLN 10 per share. All the shares issued have been fully paid up.

The bank did not issue any series of shares that would give their holders any special control rights or would limit their voting power or other rights. Neither are there any restrictions on the transfer of title to the issuer's shares.

The control rights of Banco Santander as a parent entity of Bank Zachodni WBK arise from the number of shares and the resulting share of the voting power at the General Meeting of Shareholders of Bank Zachodni WBK.

5. Governing Bodies

General Meetings of Shareholders

Annual General Meeting of 2015

The Annual General Meeting of Shareholders of Bank Zachodni WBK held on 23 April 2015 (AGM) approved the unconsolidated and consolidated financial statements of Bank Zachodni WBK for 2014 as well as the Supervisory Board's report on its activities in 2014 along with the assessment of the financial statements and reports of the bank and BZ WBK Group for 2014. The AGM granted discharge to members of the Management and Supervisory Boards for the performance of their duties in the previous year and agreed on the distribution of the net profit for 2014, i.e. the allocation of its part to capital reserves, with the remaining part left undistributed as per the recommendation of the KNF to retain the entire profit for 2014 until the regulator determines an additional capital requirement for the bank. The AGM appointed a new member of the Supervisory Board (Mr. José Garcia Cantera), determined the remuneration of the Supervisory Board members and adopted the Rules of Corporate Governance for Supervised Institutions published by the KNF on 22 July 2014. In addition, the AGM approved the interim financial statements of Dom Maklerski BZ WBK for the 10-month period ending 31 October 2014 and gave discharge to members of the Management and Supervisory Boards of the above company.

Organisation and Powers of the General Meeting of Shareholders

The General Meeting of Bank Zachodni WBK Shareholders (GM) is held as provided for in the Commercial Companies Code of 15 September 2000, BZ WBK Statutes and Terms of Reference for BZ WBK GM. The Statutes as well as the Terms of Reference are available at the bank's website.

The GM agrees on the issues within its remit, as defined by the above laws and internal regulations.

Resolutions are voted on using an electronic voting system which returns the number of votes ensuring that they correspond to the number of shares held, and in the case of a secret ballot allows shareholders to remain anonymous. Each share carries one vote.

Candidates for the Supervisory Board attain votes on an individual basis, in alphabetical order.

The General Meeting is broadcast live online to all interested parties and the recording is available at the bank's website for later review.

Shareholders' Rights

The rights of shareholders of Bank Zachodni WBK are set out in the Terms of Reference of BZ WBK GM in line with the Commercial Companies Code.

In particular, shareholders have the following rights with respect to GM:

- Each shareholder may request that a list of shareholders be e-mailed free-of-charge to a valid address. Each shareholder may have access to the list of shareholders in the bank's MB office and request a copy of the list at their own expense.
- Shareholders may:
 - ✓ a week before the GM, demand copies of requests included in the GM agenda;
 - ✓ have access to the GM's minutes and request copies of resolutions confirmed by the bank's Management Board as true copies;
 - ✓ request voting by secret ballot;
 - ✓ appeal against resolutions made by the GM in cases permitted in the Commercial Companies Code;
 - ✓ seek information from the Management Board regarding issues on the GM agenda, as provided for by the Commercial Companies Code;
 - ✓ exercise their voting rights (each share gives one vote at the GM).
- Shareholders may attend the GM and vote personally or through proxies. In line with the Terms of Reference, shareholders may also participate in the GM via electronic communication channels.

Method of Changing the Statutes

Bank Zachodni WBK changes its Statutes in a method prescribed by the applicable law.

Supervisory Board

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

Role in the Supervisory Board	Ref.	Composition as at 31.12.2015	Ref.	Composition as at 31.12.2014
Chairman of the Supervisory Board:	1.	Gerry Byrne	1.	Gerry Byrne
	-	-	2.	José Antonio Alvarez
Members of the Supervisory Board:	2.	Danuta Dąbrowska	3.	Danuta Dąbrowska
	3.	David R. Hexter	4.	David R. Hexter
	4.	José Garcia Cantera	-	-
	5.	Witold Jurcewicz	5.	Witold Jurcewicz
	6.	José Luis de Mora	6.	José Luis de Mora
	7.	John Power	7.	John Power
	8.	Jerzy Surma	8.	Jerzy Surma
	9.	Marynika Woroszyńska-Sapieha	9.	Marynika Woroszyńska-Sapieha
	10.	José Manuel Varela	10.	José Manuel Varela

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

As at 31 December 2015, the following members of the Supervisory Board held independent status: Danuta Dąbrowska, David R. Hexter, Witold Jurcewicz, Jerzy Surma and Marynika Woroszyńska-Sapieha.

In the period from 1 January to 31 December 2015, eleven Supervisory Board meetings were held at which sixty eight resolutions were passed. The average attendance level was 92.2%.

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

Role of the Supervisory Board

The Supervisory Board of Bank Zachodni WBK operates strictly under the Banking Law of 29 August 1997, the Commercial Companies Code of 15 September 2000, the bank's Statutes and the Terms of Reference of the Supervisory Board, available at the bank's website.

The Supervisory Board consists of at least five members appointed for a joint, three-year term of office. The Supervisory Board members, including the Chairman of the Supervisory Board, are appointed and removed by General Meeting of Shareholders. The Management Board notifies the Polish Financial Supervisory Authority (KNF) about Supervisory Board membership.

Pursuant to the bank's Statutes, at least half the members of the Supervisory Board should be of independent status.

The Supervisory Board exercises on-going supervision over all aspects of the bank's activities. The Supervisory Board takes decisions in the form of resolutions which are adopted by an absolute majority of votes in open voting. Resolutions are voted upon in a secret ballot in cases stipulated by law, in personal matters or at the request of any Supervisory Board member accepted by the Supervisory Board in a secret vote. The Supervisory Board's meetings are held as and when required and at least three times in any financial year. The Supervisory Board's Members convene in a single location or in different locations communicating via telephone or video links.

Supervisory Board Committees

The Supervisory Board may establish committees and designate individuals responsible for managing the work of such committees. These committees are designed to facilitate the current activities of the Supervisory Board by preparing draft Supervisory Board recommendations and decisions with regard to their own motions or the motions presented by the Management Board.

The following Supervisory Board committees operate at Bank Zachodni WBK: Audit and Compliance Committee, Risk Oversight Committee and Remuneration and Nominations Committee. The responsibilities of the Committees are set out in their respective Terms of Reference introduced by virtue of Supervisory Board resolutions.

Supervisory Board Committees as at 31.12.2015					
Role in the Supervisory Board	Ref.	Composition as at 31.12.2015	Audit and Compliance Committee	Risk Oversight Committee	Nominations & Remuneration Committee
Chairman of the Supervisory Board:	1.	Gerry Byrne			●
	2.	Danuta Dąbrowska	●		●
	3.	David R. Hexter	●	●	
	4.	José Garcia Cantera			
	5.	Witold Jurcewicz		●	●
	6.	José Luis de Mora			●
	7.	John Power		●	
	8.	Jerzy Surma			●
	9.	Marynika Woroszyńska-Sapieha		●	
	10.	José Manuel Varela		●	

● Chairman
● Members

The **Audit and Compliance Committee** evaluates the adequacy, scope and effectiveness of the accounting and internal control systems. Together with the Management Board and internal auditors, it reviews the Group's internal financial controls, and the internal control and (financial and non-financial) risk management systems. The Committee monitors the bank's financial reporting process, ensuring the adequate quality of financial reports and compliance of disclosure practices with the law, KNF requirements and accounting principles. Furthermore, the Committee reviews the work performed by the statutory auditor, ensuring that the entity is independent and effective. Also, it reviews the actions undertaken by the Management Board in terms of their compliance with legal and regulatory requirements and the bank's by-laws. The majority of the Audit and Compliance Committee is comprised of independent Supervisory Board members.

The **Risk Oversight Committee** presents the Supervisory Board with conclusions and recommendations on the general risk management framework and risk appetite, in accordance with applicable policies and limits. The Committee supervises stress tests against own assumptions and KNF requirements. It reviews the Risk Appetite Statement, assesses business strategy in terms of its adequacy for risk exposure, the goals and financial plans of the organisation, verifies the risk profile and KPIs, and monitors internal controls. The majority of the Committee is comprised of independent Supervisory Board members.

The Audit and Compliance Committee and Risk Oversight Committee convene at least four times per year at dates corresponding to the reporting and audit cycle. Additional meetings are held if the Chairman or members consider it necessary.

The **Remuneration and Nominations Committee** presents the Supervisory Board with recommendations with regard to the composition and succession plans for the Management Board. It monitors the remuneration market and recommends fair remuneration policies and practices in order that it may incentivise senior management to deliver better results. It defines the remuneration policy and the individual pay packages for Management Board members and performs annual reviews of the remuneration payable to the Management and Supervisory Board members. The Committee also has oversight of the bonus scheme for Management Board members, and analyses incentive solutions and other remuneration schemes proposed for implementation at the bank and its subsidiaries.

The Remuneration and Nominations Committee convenes at least three times a year. Additional meetings are held at the request of the Chairman.

The Annual Reports on activities of the Supervisory Board and its Committees, the Supervisory Board's reports on examination of the bank's and the Group's Annual Report along with an assessment of the Group's operations, including internal control and risk management system, are included in materials submitted to shareholders before the General Meeting of Bank Zachodni WBK and published in current reports containing the resolutions passed by this body.

Management Board

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

Role in the Management Board	Ref.	Composition as at 31.12.2015	Reporting Areas as at 31.12.2015	Ref.	Composition as at 31.12.2014	Reporting Areas as at 31.12.2014
President	1.	Gerry Byrne *	Units reporting directly to the President: Internal Audit Area, Corporate Communications & Marketing Area, Central Operations Area, Board Office	1.	Mateusz Morawiecki	Units reporting directly to the President: Internal Audit Area, Corporate Communications & Marketing Area, Mobile & Internet Banking Area, Board Office
Board Members:	2.	Andrzej Burliga	Risk Management Division	2.	Andrzej Burliga	Risk Management Division
	3.	Eamonn Crowley	Financial Management Division	3.	Eamonn Crowley	Financial Management Division
	4.	Beata Daszyńska-Muzyczka	Business Partnership Division	4.	Piotr Partyga	Business Partnership Division
	5.	Michael McCarthy	Business & Corporate Banking Division	5.	Michael McCarthy	Business & Corporate Banking Division
	6.	Carlos Polaino Izquierdo	Financial Accounting & Control Division	6.	Marco Antonio Silva Rojas	Financial Accounting & Control Division
	7.	Juan de Porras Aguirre	Global Corporate Banking	7.	Juan de Porras Aguirre	Global Banking & Markets Division
	8.	Marcin Prell	Legal & Compliance Division	8.	Marcin Prell	Legal & Compliance Division
	9.	Mirosław Skiba	Retail Banking Division	9.	Mirosław Skiba	Retail Banking Division
	10.	Feliks Szyszkowski	Small & Medium Enterprise Banking Division	10.	Feliks Szyszkowski	Business Support Division
	11.	Paweł Wiczorek	Technology Division	-	-	-

* Chairman of the Supervisory Board performing duties of the President of the Management Board until the appointment of a new President following resignation of Mateusz Morawiecki

The Management Board of Bank Zachodni WBK as at 31 December 2015 was appointed for a new term of office by the bank's Supervisory Board on 23 April 2015. The composition changed as follows: Mr. Marco Antonio Silva Rojas in charge of the Financial Accounting and Control Division and Mr. Piotr Partyga in charge of the Business Partnership Division ceased to be members of the Management Board and were replaced by Mr. Carlos Polaino Izquierdo and Ms. Beata Daszyńska-Muzyczka, respectively. In relation to changes in the organisational structure, the former Head of the Business Support Division, Mr. Feliks Szyszkowski, took charge of the newly created SME Banking Division, while Mr. Paweł Wiczorek was appointed as the Head of the transformed Business Support Division, which now operates as the Technology Division.

On 9 November 2015, Mr. Mateusz Morawiecki resigned with immediate effect as the President of the bank's Management Board due to his appointment as Deputy Prime Minister in the newly created Polish government. As a consequence, on 9 November 2015, the bank's Supervisory Board delegated its Chairman – Mr. Gerry Byrne – to serve as the President of the Management Board until a successor is appointed.

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

Appointment and Removal of Executives

Members of the Bank Zachodni WBK Management Board are appointed and removed in accordance with the Commercial Companies Code, Banking Law and the bank's Statutes.

The bank's Management Board consists of at least three persons (including the Management Board President) appointed by the Supervisory Board for a joint three-year term of office. At least half of the Management Board's members, including the President, are required to have completed higher education, be permanent residents of Poland, speak Polish, have good knowledge of the Polish banking market and sufficient experience of the home market to manage a Polish banking institution. Two Management Board members, including the Management Board President, are appointed with the approval of the Polish Financial Supervision Authority (KNF). Management Board members may be removed by the Supervisory Board or a General Meeting at any time.

Powers of Executives

The Bank Zachodni WBK Management Board manages and represents the bank. The Management Board possesses comprehensive powers that are not otherwise governed or stipulated by law or Statutes within the remit of other governing bodies of the bank.

The Management Board takes decisions to raise obligations or transfer assets where the total value for one entity exceeds 5% of the bank's own funds. The Management Board can also, by way of resolution, delegate its powers to refer such decisions to other committees or persons in the bank. The Management Board's members run the bank's affairs jointly, and in particular: define the bank's mission, set long-term action plans and strategic objectives, prepare assumptions for the bank's business and financial plans, approve proposed plans and monitor their performance, regularly report to the Supervisory Board on the bank's position in the scope and at the dates agreed with the Supervisory Board, appoint permanent or ad hoc committees and designate individuals responsible for managing the work of such committees. The committees are composed of both Management Board members and persons from outside the Management Board.

Permanent committees functioning in the bank include: Risk Management Committee, Credit Committee, Provisions Committee, Risk Management Forum, Credit Policy Forum for Retail Portfolios, Credit Policy Forum for SME Portfolios, Credit Policy Forum for Business and Corporate Portfolios, Assets and Liabilities Committee (ALCO), Operational Risk Management Committee, Deposit Working Group, CRM Committee, Settlement Committee, Anti-Money Laundering and Counter-Terrorism Financing Committee, Urban Regeneration Fund Investment Committee, Procurement Investment Forum, Procurement Investment Committee, Compliance Committee, Local Marketing and Monitoring Committee, Monitoring Committee and Public Policy Committee.

Management Board members acting severally do not have any specific powers and cannot take decisions on issuing or redeeming shares.

Role of the Management Board

The Management Board's operations are primarily governed by Banking Law, the Commercial Companies Code, the bank's Statutes and the Terms of Reference of the Management Board, available at the bank's website.

The Management Board is responsible for running the bank's affairs of and representing the bank. According to the bank's Statutes, the following individuals are authorized to represent and bind the bank: a) the Management Board President acting individually, and b) two members of the Management Board acting jointly, or a member of the Management Board acting jointly with a commercial representative (proxy), or two commercial representatives acting jointly (proxies). Representatives may be appointed and authorized to act individually or jointly with any of the persons indicated in b) or with another appointed and authorized representative.

The Management Board deals with all issues which have not been restricted to the remit of a General Meeting of Shareholders or the Supervisory Board. The Management Board takes decisions in the form of resolutions which are adopted by an absolute majority of votes in open voting. Secret ballots may be held in cases stipulated by law, in personal matters or at the request of any Management Board member accepted by the Management Board in a secret voting. Management Board meetings are held as required. Management Board members convene at the same time in a single location or in different locations communicating via telephone or video links.

Other Information on Management and Supervisory Boards

Remuneration of Supervisory and Management Board Members

Pursuant to the Statutes of Bank Zachodni WBK the remuneration of Supervisory Board members is set by a General Meeting of Shareholders of Bank Zachodni WBK. As at 31 December 2015, the remuneration for the Supervisory Board of Bank Zachodni WBK was set by virtue of Resolution no. 53 of the General Meeting of Shareholders of Bank Zachodni WBK of 16 April 2014.

Pursuant to the Statutes of Bank Zachodni WBK, the remuneration of the President and members of the Management Board is set by the Supervisory Board, having due regard to recommendations of the Remuneration and Nominations Committee. The Remuneration and Nominations Committee defines the remuneration policy in respect of Management Board members and individual terms and conditions as part of remuneration packages for each Management Board member. It also performs annual reviews of the remuneration of Management Board members. In 2015, the remuneration of the Management Board members remained unchanged.

The prevailing Bank Zachodni WBK remuneration policy for the governing bodies and the management defines the form, structure and method of determining remuneration for their members. It is linked with strategic goals of the organisation, its long and short-term operational objectives, interests and performance, and incorporates solutions preventing discrimination of any kind. Incentive programmes make remuneration contingent on actual long-term financial standing of the bank and assessment of its stability.

In view of the upcoming implementation of Directive no. 2013/36/EU in Poland, the AGM of Bank Zachodni WBK held on 16 April 2014 conditionally agreed that the variable component of the remuneration of persons holding managerial positions shall not exceed 200% of the fixed component of the total remuneration of each person.

Information on remuneration for BZ WBK Supervisory and Management Board members for 2015 and the comparable period is presented in Note 45 to the Consolidated Financial Statements of Bank Zachodni WBK Group for 2015.

Agreements between Bank Zachodni WBK and its Executive Directors

Bank Zachodni WBK Management Board members signed agreements prohibiting competition after termination of their role on the Management Board. A Management Board member who is not appointed for a new term of office or is removed from the Board is entitled to a one-off severance payment. The severance payment does not apply if the Management Board member accepts a new role in the bank, is removed due to gross negligence, resigns or is not granted discharge.

Shares and Conditional Rights Held by Supervisory and Management Board Members

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

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

Management Board members	31.12.2015		31.12.2014	
	No. of BZ WBK shares	Rights	No. of BZ WBK shares	Rights
Mateusz Morawiecki *			13 711	3 857
Andrzej Burliga	4 888	2 204	4 888	2 204
Eamonn Crowley	-	2 094	1 003	2 094
Beata Daszyńska-Muzyczka **	923	700		
Michael McCarthy	1 075	2 424	1 075	2 424
Carlos Polaino Izquierdo **	-	1 000		
Juan de Porras Aguirre	-	2 217	-	2 217
Piotr Partyga ***			2 855	2 094
Marcin Prell	-	1 983	-	1 983
Marco Antonio Silva Rojas ***			-	2 704
Miroslaw Skiba	3 257	2 248	5 857	2 248
Feliks Szyszowskiak	3 704	2 248	4 704	2 248
Pawel Wieczorek **	-	800		
Total	13 847	17 918	34 093	24 073

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

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

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

Pursuant to Bank Zachodni WBK AGM Resolution of 16 April 2014 regarding satisfaction of the criteria for the exercising of awards under the three-year 4th Incentive Scheme, the bank allotted 38,570 out of 305,543 series K shares to members of the Management Board.

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

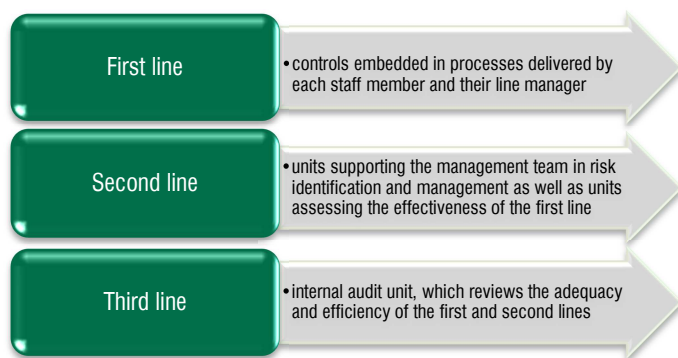
6. Control System of Financial Statements

Internal Control System and Risk Management

Bank Zachodni WBK Group operates an internal control system which supports decision-making processes and contributes to efficient operation of the organisation, the reliability of financial reporting and compliance with laws, international standards, internal regulations and best practice. The internal control system is tailored to the Group's organisational structure and risk management system and covers the Business Support Centre, branches, Partner outlets and subsidiaries. Development, implementation and maintenance of the written strategies and procedures of the internal control system is the responsibility of the bank's Management Board. Oversight of the internal control and risk management system is exercised by the Audit and Compliance Committee of the Supervisory Board of Bank Zachodni WBK.

The bank has adopted an Internal Control Policy in Bank Zachodni WBK which defines, inter alia, the structure, purpose and scope of internal control and lists related roles and responsibilities. In particular, the Policy and other regulations describe the bank's Internal Control Model (ICM), defining the rules and organisation of the process of identifying the risks that are material from the point of view of the control environment, along with their controls. The ICM includes monitoring, testing and reporting to ensure an effective control environment, both in terms of design and operation of the controls, and to strengthen the control culture at all levels within the organisation. The elements of the Internal Control Model include: risk models, controls, sub-processes, processes and activities.

The internal control and risk management systems are based on three lines of defence:



Each organisational unit operates in line with their Terms of Reference approved by the head of the division. The document defines the roles and responsibilities within each business area, including the quality and processing of financial data. The internal control model in place allows for a systematic verification of controls in terms of their effectiveness. The results are regularly escalated to and reviewed by the bank's Management Board and the Audit and Compliance Committee of the Supervisory Board of Bank Zachodni WBK Group.

One of the key objectives of the internal control framework is to ensure full credibility of financial reporting.

Financial data preparation for the purpose of reporting is automated and based on the consolidated General Ledger and Data Warehouse. The underpinning IT systems are strictly controlled in terms of integrity and security of information.

Data inputs in the source systems are subject to formal operational and approval procedures which state responsibilities of individual staff members. Data processing for the purpose of financial reporting is subject to a suite of specialist controls. Any manual corrections or management overrides are also under strict control. BZ WBK Group has a BCM plan in place, which covers all IT systems used to prepare financial reports. The plan is updated on an ongoing basis.

In order to manage risk associated with the preparation of financial statements, the bank follows legal and regulatory changes related to reporting obligations and updates its accounting rules and disclosures accordingly. The bank, through its representatives sitting on the supervisory boards of individual subsidiaries, exercises oversight of its consolidated subsidiaries.

Financial statements are approved by the Disclosure Committee, which is responsible for ensuring that the financial disclosures of BZ WBK Group comply with all legal and regulatory requirements before they are released.

The bank's management confirms that the controls in place effectively mitigate the risk of any failure to identify material error in the financial statements.

The effectiveness of controls in financial reporting is additionally assessed by an independent external auditor as part of the annual certification process for compliance with the Sarbanes-Oxley Act.

Internal Control Compliant with the Sarbanes-Oxley Act

In the light of the Sarbanes-Oxley Act, Bank Zachodni WBK Group operates as a material and independent organisation within the structure of Santander Group and as such is required to implement, maintain and assess the effectiveness of the internal control environment pursuant to the above-mentioned act.

The certification process for compliance with the Sarbanes-Oxley Act in 2015 covered all key business areas of Bank Zachodni WBK and was carried out using solutions and methodology based on Santander Group's approach. The scope of testing included risk factors which were particularly significant for the reliability and accuracy of financial statements, taking into account the local control environment. The design and effectiveness of controls were tested by a dedicated second line unit. The effectiveness tests covered processes and key controls in the business and IT areas as well as entity level controls (Global Framework).

In view of the requirements arising from external regulations, Bank Zachodni WBK took measures to adjust the internal control system accordingly. Specifically, the bank modified and extended existing controls to satisfy the Volcker Rule (section 619 of Dodd-Frank Wall Street Reform and Consumer Protection Act) and ensure compliance with RDA/RRF (Basel Committee on Banking Supervision 239: Principles for effective risk data aggregation and risk reporting).

The assessment of the design and effectiveness of the internal control system covers all available information and related recommendations, including those concerning audit and post-inspection. Results of assessments and tests form the basis for the bank's management to make representations on the effectiveness of the control environment.

As part of the SOX certification process for 2015, the bank's management confirmed that no incidents were identified in Bank Zachodni WBK Group which could significantly affect the relevant processes and threaten the effectiveness of the internal control over financial reporting.

Selection of Auditor

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

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

Retaining the same auditor for both 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. Banco Santander selects auditors for a fixed period of time, i.e. from three to nine years, commencing with the beginning of the first financial year.

Remuneration of Auditor

The table below shows the remuneration paid to Deloitte Polska for audit/review of the financial statements of Bank Zachodni WBK Group pursuant to agreements concluded in 2015 and 2014.

Remuneration of External Auditors	PLN k	
	Reporting Year ended on 31.12.2015	Reporting Year ended on 31.12.2014
Audit fees in respect of the parent bank ¹⁾	1 544	1 813
Audit fees in respect of the subsidiaries ²⁾	1 161	1 069
Audit fees related to assurance services, including the review of the parent bank ³⁾	2 029	2 048
Audit fees related to assurance services, including the review of the subsidiaries ⁴⁾	664	468
Fees for non-assurance services ⁵⁾	320	20

1) Remuneration for services performed in 2015 based on the agreement with BZ WBK on review and audit of financial statements (including consolidation package) of 29 May 2015.

2) Remuneration for audit of financial statements and consolidation package performed based on agreements with subsidiaries, including that of SCB dated 30 November 2015 r.

3) Remuneration for the review and other assurance services performed in 2015 based on:

- Agreement on review and audit of financial statements of 29 May 2015 regarding the review of financial statements, Pillar 3 disclosures and assets held.
- Annex of 19 October 2015 regarding the internal control system (to the agreement on the audit of consolidation package of 29 May 2014).

4) Remuneration for the review and other assurance services performed in 2015 for members of SCB Group based on the agreement on the review and audit of financial statements and annex to the agreement with SCB on the audit of the consolidation package regarding the internal control system.

5) Remuneration for services rendered in 2015 based on agreements with BZ WBK on accounting advisory services and the execution of agreed procedures regarding the Jessica Project, and an agreement with BZ WBK Leasing on advisory services within the scope of MSR 39.

7. Pending Court Proceedings

As at 31 December 2015, no case was pending before any court or state administration agencies with relation to any claims made by or against Bank Zachodni WBK or its subsidiaries amounting to a minimum of 10% of the Group's equity.

	PLN m	
Court Proceedings with BZ WBK Group as a Party	31.12.2015	31.12.2014
Amounts claimed by the Group	256,5	176,7
Claims against the Group	211,8	182,3
Receivables due to bankruptcy or arrangement cases	15,2	5,1
Value of all litigation	483,5	364,1
Share [%] of all litigation in equity	2,4%	2,0%
Completed significant court proceedings	80,0	187,3

XII. Representations of the Management Board

True and Fair Presentation of the Financial Statements

According to the Management Board's best knowledge, the financial figures and the comparable data presented in the financial statements incorporated in the "Annual Report 2015 of Bank Zachodni WBK Group" were prepared in keeping with the applicable accounting policies and give a true and fair view of the state of affairs and earnings of Bank Zachodni WBK Group. The Management Board's Report contained in this document shows a true picture of the development, achievements and position of Bank Zachodni WBK Group (including the underlying risks) in 2015.

Selection of Auditor

The auditing firm responsible for auditing the "Consolidated Financial Statements of Bank Zachodni WBK Group for 2015" was selected in compliance with the applicable legislation. The auditing firm and its auditors satisfied the necessary conditions to ensure they provide an unbiased and independent report compliant with Polish law and professional standards.

Signatures of the Management Board Members			
Date	Name	Function	Signature
09.02.2016	Gerry Byrne	Acting President of the Board	
09.02.2016	Andrzej Burliga	Member	
09.02.2016	Eamonn Crowley	Member	
09.02.2016	Beata Daszyńska-Muzyczka	Member	
09.02.2016	Michael McCarthy	Member	
09.02.2016	Carlos Polaino Izquierdo	Member	
09.02.2016	Juan de Porras Aguirre	Member	
09.02.2016	Marcin Prell	Member	
09.02.2016	Mirosław Skiba	Member	
09.02.2016	Feliks Szyszkowski	Member	
09.02.2016	Paweł Wieczorek	Member	