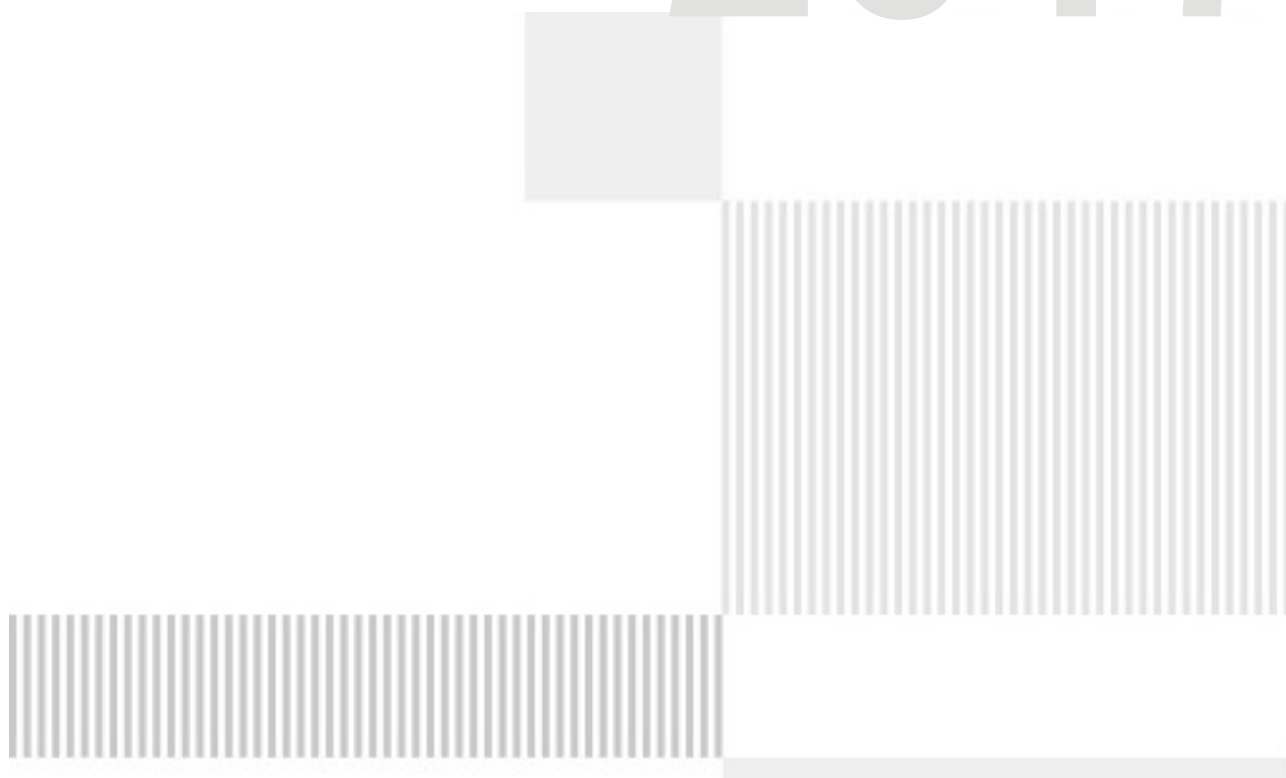


**INFORMATION ON
CAPITAL ADEQUACY
OF BANK ZACHODNI WBK GROUP
as at 30th June 2017**

2017



Bank Zachodni WBK

 Grupa Santander

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1. Introduction

This document is issued under the Bank Zachodni WBK Group Disclosure Strategy formulated based on Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CCR") and the European Banking Authority Guidelines EBA/GL/2014/14 of 23 December 2014 on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013.

Starting from January 1st, 2014 by the decision of the European Parliament and of the Council the new regulations of the CRD IV/CRR package come into force. The CRD IV/CRR package consist of two parts, the CRD IV Regulation and CRR Directive. The Directive requires transposition to the specific country law while the Regulation is binding without any transposition in all the member countries of the EU.

Bank Zachodni WBK is the significant subsidiary of Banco Santander S.A. with its seat in Spain, which is the EU parent institution. Bank Zachodni WBK S.A. discloses information about the capital adequacy on a consolidated basis – at the highest local level of prudential consolidation – i.e. based on the data of Bank Zachodni WBK Group.

The purpose of the report is to present information about capital adequacy of BZ WBK Group pursuant to the requirements laid down in point 26b of European Banking Authority Guidelines EBA/GL/2014/14. In accordance with the Guidelines the disclosure includes:

- information on own funds and relevant ratios
- information on the amounts of risk weighted assets and capital requirements by type of risk and by the exposure classes
- information on the leverage ratio.

The data presented in the report were prepared as at 30 June 2017.

Bank Zachodni WBK forms a Group with 15 subsidiaries which are fully consolidated in accordance with IFRS 10 and associates which are accounted for using the equity method.

The scope of consolidation used by Bank Zachodni WBK Group for the purpose of capital adequacy assessment in accordance with CRR is different than the scope of consolidation adopted for the published consolidated financial statements of the Group made in compliance with IAS/IFRS. The subsidiaries BZ WBK Nieruchomości S.A. and Gieldokracja Sp. z o.o. are excluded from prudential consolidation.

As at 30 June 2017, Bank Zachodni WBK formed a Group with the **following subsidiaries**:

- Santander Consumer Bank S.A. (SCB S.A.)
- Santander Consumer Finanse Sp. z o.o. (subsidiary of SCB S.A.)
- AKB Marketing Services Sp. z o.o. in liquidation (subsidiary of SCB S.A.)
- Santander Consumer Multirent Sp. z o.o. (subsidiary of SCB S.A.)
- SC Poland Consumer 2015-1 Sp. z o.o. (subsidiary of SCB S.A.)
- SC Poland Consumer 2016-1 Sp. z o.o. (subsidiary of SCB S.A.)
- PSA Finance Polska Sp. z o.o. (subsidiary of SCB S.A.)
- PSA Consumer Finance Polska Sp. z o.o. (subsidiary of PSA Finance Polska Sp. z o.o.)
- BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.
- BZ WBK Finanse Sp. z o.o.
- BZ WBK Faktor Sp. z o.o. (subsidiary of BZ WBK Finanse Sp. z o.o.)
- BZ WBK Leasing S.A. (subsidiary of BZ WBK Finanse Sp. z o.o.)
- BZ WBK Inwestycje Sp. z o.o.
- BZ WBK Nieruchomości S.A.¹
- Gieldokracja Sp. z o.o. in liquidation²

¹ BZ WBK Nieruchomości S.A. manages „Training Centre – Palace in Zakrzewo”

² Gieldokracja Sp. z o.o. leads educational services related to the capital market, advertising and communication services, and maintenance of internet portals.

Associated companies

In the consolidated financial statements of Bank Zachodni WBK for the 6-month period ended 30 June 2017, the following companies are accounted for using the equity method:

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

Compared with 30 June 2016, the list of associates did not change.

For the purpose of prudential consolidation and calculation of the capital adequacy ratio, significant investments in financial and insurance sector entities (incl. BZ WBK – Aviva TUO S.A. and BZ WBK – Aviva TUŻ S.A.) which exceed 10% of the Common Equity Tier 1 instruments are recognised as a significant investment in accordance with Article 36 and 48 of the CRR.

Compared with 31 December 2016, the list of related entities of Bank Zachodni WBK was expanded to include one more company as a result of the following ownership changes:

- Merger of BZ WBK Leasing S.A. and BZ WBK Lease S.A.

On 28.02.2017, BZ WBK Leasing SA and BZ WBK Lease SA merged. The companies merged by way of absorption of BZ WBK Lease S.A. (the absorbed entity) by BZ WBK Leasing S.A. (the absorbing entity). All the assets of BZ WBK Lease S.A. were transferred to BZ WBK Leasing S.A. In connection with the merger, BZ WBK Lease S.A. ceased to exist legally, while BZ WBK Leasing S.A., being the absorbing entity, assumed, under the law, all the rights and obligations of the absorbed entity. As a result, BZ WBK Leasing S.A. continues business operations which previously were carried out by BZ WBK Lease S.A. and assumed, under the law, all the rights and obligations of absorbed BZ WBK Lease S.A.

- Liquidation of AKB Marketing Services Sp. z o.o. in liquidation

On 28.03.2017, AKB Marketing Services Sp. z o.o. in liquidation, a subsidiary of Santander Consumer Bank S.A., was liquidated. The subsidiary's assets and liabilities were finally accounted for. Profit on liquidation of PLN 3,757 k was presented in the consolidated income statement under 'Net gains/(losses) on subordinated entities'. AKB Marketing Services Sp. z o.o. in liquidation carried out ancillary business operations in respect of banking services.

Details about subsidiaries and associates are presented in the Consolidated Financial Statements of BZ WBK Group for the 6-month period ended 30 June 2017.

2. Capital Adequacy

The level of own funds of the Bank Zachodni WBK Group is adjusted to the Group's business.

Own funds are calculated in accordance with the Banking Law (Journal of Laws of 2015, item 128 with subsequent amendments) and legislative package of the Capital Requirements Regulation and the Capital Requirements Directive IV ("CRDIV/CRR").

The capital requirements of Bank Zachodni WBK Group are set in accordance with part III of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CRR"), which was the official legal basis as at 30 June 2017.

The table below presents a details of own funds, risk weighted assets and capital adequacy ratios as at 30 June 2017.

**Own funds, risk weighted assets and capital ratios
as at 30 June 2017 (PLN k)**

	AMOUNT AT DISCLOSURE DATE [PLN k]
Common Equity Tier 1 capital: instruments and reserves	
6 Common Equity Tier 1 (CET1) capital before regulatory adjustments	19 840 743
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
28 Total regulatory adjustments to Common Equity Tier 1 (CET1)	(2 356 951)
29 Common Equity Tier 1 (CET1) capital	17 483 792
Additional Tier 1 (AT1) capital: instruments	
36 Additional Tier 1 (AT1) capital before regulatory adjustments	-
Additional Tier 1 (AT1) capital: regulatory adjustments	
43 Total regulatory adjustments to Additional Tier 1 (AT1) capital	-
44 Additional Tier 1 (AT1) capital	-
45 Tier 1 capital (T1 = CET1 + AT1)	17 483 792
Tier 2 (T2) capital: instruments and provisions	
51 Tier 2 (T2) capital before regulatory adjustment	1 101 762
Tier 2 (T2) capital: regulatory adjustments	
57 Total regulatory adjustments to Tier 2 (T2) capital	-
58 Tier 2 (T2) capital	1 101 762
59 Total capital (TC = T1 + T2)	18 585 554
60 Total risk-weighted assets	112 604 720
Capital ratios and buffers	
61 Common Equity Tier 1 (as a percentage of total risk exposure amount)	15,53%
62 Tier 1 (as a percentage of total risk exposure amount)	15,53%
63 Total capital (as a percentage of total risk exposure amount)	16,51%

On 17 May 2017, the General Meeting of Bank Zachodni WBK Shareholders agreed on the distribution of net profit of PLN **2,081,720k** for the accounting year ended 31 December 2016 as follows:

- PLN **1,040,860k** was allocated to capital reserves;
- PLN **1,040,860k** was left undistributed.

In addition, the General Meeting of Bank Zachodni WBK Shareholders agreed on the distribution of undivided net profit generated by the Bank:

- 1) in the accounting year commenced on 1 January 2014 and ended on 31 December 2014 and
- 2) in the accounting year commenced on 1 January 2015 and ended on 31 December 2015

in the amount of PLN **540,707k** in the following way:

- PLN **535,866k** shall be allocated to the dividend for shareholders;
- PLN **4,841k** shall be allocated to the reserve capital.

Dividend per share is PLN 5.4.

The total capital ratio as at 30 June 2017 vs. 31 December 2016 was impacted by the following:

- allocation of the profit for 2016 to Tier 1 capital;
- payment of the portion of the retained profit for 2014 - 2015 in the form of dividend;
- subordinated loan EUR 120m with maturity of 3 December 2026 were allocated to Tier II capital (Pursuant to the Decision of KNF of 24 February 2017; document DBK/DBK 2/7100/6/7/2016/2017)
- increase in the value of risk weighted assets for credit risk arising from the business activity.

On 22 May 2017, the bank issued EUR 137.1m worth of bonds as part of the strategy aimed at increasing the Tier 2 capital.

On 1 June 2017, the bank requested a consent from KNF to allocate the above bonds to the Tier 2 capital. As at 30 June 2017, the Bank doesn't take into account the above bonds to calculation the Tier 2 capital.

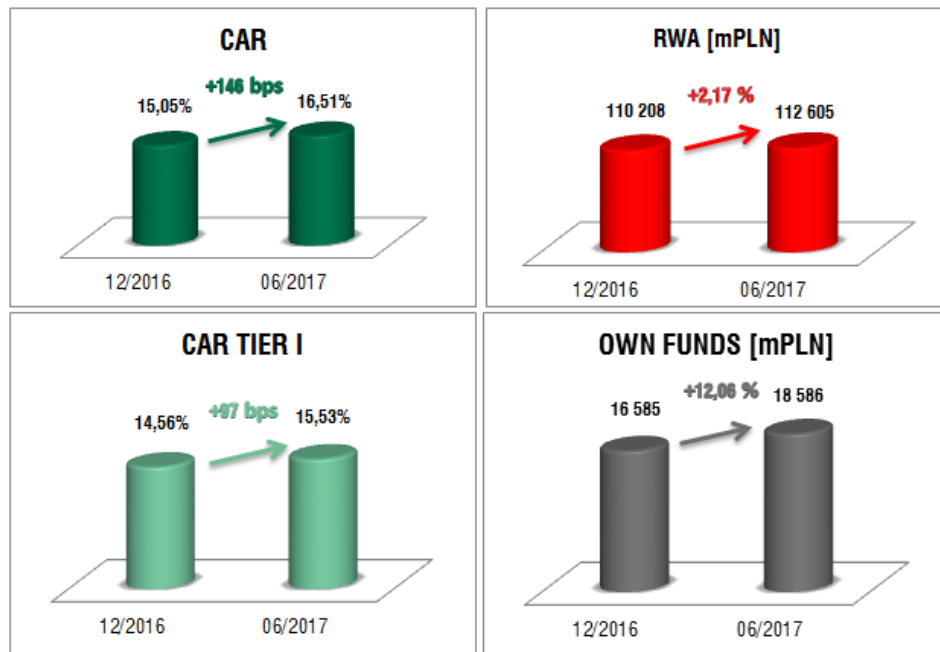
The minimum capital ratios set by the Polish Financial Supervision Authority (KNF) for BZ WBK Group are as follows:

- a Tier 1 capital ratio of 11.22%;
- a total capital ratio of 14.38%.

The above-mentioned capital ratios include a conservation buffer, buffer for an additional capital requirement due to risk attaching to foreign currency home mortgages and buffer for other systemically important institution (OSII). The capital ratios of BZ WBK Group calculated in accordance with the CRR requirements and an individual capital decision of the supervisory body are above the minimum requirements.

The charts below presents a details of own funds, risk weighted assets and capital adequacy ratios as at 30 June 2017 vs. 31 December 2016.

Own funds, risk weighted assets and capital ratios as at 30 June 2017 vs. 31 December 2016



In H1 2017, Bank Zachodni WBK applied the standardised approach to the calculation of capital requirement for credit, market and operational risk. Under this approach the total capital requirement for credit risk is calculated as a sum of risk-weighted assets multiplied by 8%. To calculate risk-weighted exposures, risk weights are allocated to all exposures in accordance with the CRR.

As at 30 June 2017, the total capital requirements of Bank Zachodni WBK Group calculated in line with the CRR was **PLN 9,008,378k**, including:

- for credit risk and counterparty credit risk **PLN 7,830,874k**
- for market risk **PLN 125,813k**
- for credit valuation adjustment risk **PLN 43,075k**
- for operational risk **PLN 1,008,616k**.

The table below presents a specification of capital requirements and risk weighted assets for different risks.

**Capital requirements and risk weighted assets of the Bank Zachodni WBK Group
as at 30 June 2017 (PLN k)**

No.	RISK TYPES	CAPITAL REQUIREMENT	RISK WEIGHTED ASSETS
1.	Credit risk and Counterparty risk*	7 830 874	97 885 919
2.	Risk of exceeding the exposure concentration limit and the large exposure limit	-	-
	Market risk		
3.	including:	125 813	1 572 663
3.1	FX risk	-	-
3.2	commodity prices risk	-	-
3.3	risk of positions of equity instruments, including: :	3 835	47 938
3.3.1	specific risk	3 527	44 088
3.3.2	general risk	174	2 175
3.3.3	Specific approach to the risk of positions in collective investment undertakings (CIUs)	134	1 675
3.4	risk of debt instrument positions, including:	121 978	1 524 725
3.4.1	specific risk	170	2 125
3.4.2	general risk	121 808	1 522 600
4.	Supply settlement risk	-	-
5.	Credit valuation adjustment risk (CVA)	43 075	538 438
6.	Operational risk	1 008 616	12 607 700
		9 008 378	112 604 720

*includes own funds requirements for the pre-funded contributions to the default fund of a QCCP

The biggest item is the total capital requirement of Bank Zachodni WBK Group is the capital requirement for credit risk, including counterparty credit risk, which on 30 June 2017 accounted for **86.93%** of the total capital requirement.

**Capital requirement of Bank Zachodni WBK Group for credit risk and counterparty credit risk
as at 30 June 2017 (PLN k)**

No.	Exposure Class	Capital requirement	Risk weighted assets
1.	Exposures to central governments or central banks	7 330	91 628
2.	Exposures to regional governments or local authorities	1 914	23 927
3.	Exposures to public sector entities	16	203
4.	Exposures to multilateral development banks	-	-
5.	Exposures to institutions*	139 385	1 742 318
6.	Exposures to corporates	1 431 713	17 896 407
7.	Retail exposures	2 256 600	28 207 504
8.	Exposures secured by mortgages on immovable property	3 065 590	38 319 869
9.	Exposures in default	208 162	2 602 017
10.	Exposures associated with particularly high risk	3 053	38 160
11.	Exposures in the form of units or shares in collective investment undertakings	-	-
12.	Equity exposures	242 122	3 026 528
13.	Other items	474 989	5 937 358
	Total exposures covered by the standardised approach	7 830 874	97 885 919

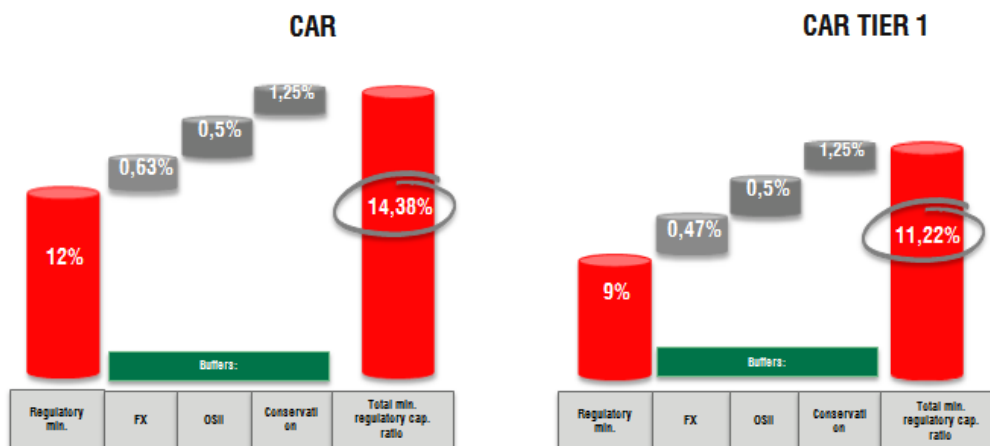
*includes own funds requirements for the pre-funded contributions to the default fund of a QCCP

On 10 February 2017, Bank Zachodni WBK signed a guarantee agreement with the European Investment Bank (EIB) providing for unfunded credit protection with respect to the portfolio of selected corporate loans. The maximum guarantee amount is PLN 1.250m. The guarantee payment is conditional upon the disbursement and execution of the financing scheme for small and medium-sized companies registered in the EU member states. The guarantee is planned to be used in whole or in part in H2 2017.

3. Capital buffers

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.

Capital buffers and ratios of the Bank Zachodni WBK Group as at 30 June 2017



On 1 January 2016, the minimum capital ratios for the banking sector in Poland were increased by 1.25 p.p. due to introduction of a conservation buffer.

On 4 October 2016, KNF identified Bank Zachodni WBK as other systemically important institution and imposed an additional capital buffer of 0.5 p.p.

According to the decision of the Financial Supervision Authority dated 15 December 2016 Bank Zachodni WBK S.A. Group keeps own funds in order to cover capital add-on requirements for the risk arising from foreign currency mortgages to households at 0.63 p.p. in excess of the total capital ratio, having the following composition: Tier 1 capital - no less than 75% (which corresponds to the capital requirement at 0.47 p.p. in excess of the Tier 1 capital ratio) and Common Equity Tier 1 capital - no less than 56% (which corresponds to the capital requirement at 0.35 p.p. in excess of Common Equity Tier 1).

Since 1 January 2016, the countercyclical capital buffer ratio of 0% has been applied to credit exposures in Poland. The ratio shall be effective until it is changed by way of an ordinance of the Finance Minister.

Bank Zachodni WBK Group calculates the bank-specific countercyclical capital buffer in accordance with the Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management.

The amount of the institution specific countercyclical capital buffer

	As at 30.06.2017
Total risk exposure amount [PLN k]	112 604 720
Institution specific countercyclical buffer rate [%]	0,00038
Institution specific countercyclical buffer requirement [PLN k]	425

4. Leverage ratio

In December 2010, the BCBS published guidelines (Basel III: A global regulatory framework for more resilient banks and banking system) defining the methodology for calculating the leverage ratio. Those rules provide for an observation period that will run from 1 January 2013 until 1 January 2017 during which the leverage ratio, its components and its behavior relative to the risk-based requirement will be monitored. Based on the results of the observation period the BCBS intended to make any final adjustments to the definition and calibration of the leverage ratio in the first half of 2017, with a view to migrating to a binding requirement on 1 January 2018 based on appropriate review and calibration. The BCBS guidelines also provide for disclosure of the leverage ratio and its components starting from 1 January 2015.

Considering the above and having regard to the legal aspects of the introduction of a leverage ratio, ie. Articles 511 CRR, the European Commission will present to the European Parliament and the Council a report on the impact and effectiveness of the leverage ratio. Where appropriate, the report shall be accompanied by a legislative proposal on the introduction of an appropriate number of levels of the leverage ratio that institutions following different business models would be required to meet.

The leverage ratio of Bank Zachodni WBK Group is set in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CRR") and Commission delegated Regulation (EU) 2016/62 of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio.

The leverage ratio (LR) shall be calculated as an institution's capital measure divided by that institution's total exposure measure and shall be expressed as a percentage.

Leverage ratio of Bank Zachodni WBK Group as at 30 June 2017 (PLN k)

Choice on transitional arrangements			
EU - 23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Transitional
Capital and Total Exposures			
20	Tier 1 capital	17 658 780	17 483 792
21	Total Exposures	153 170 791	152 995 803
Leverage Ratios			
22	End of quarter leverage ratio	11,53%	11,43%
EU - 22a	Leverage ratio (avg of the monthly leverage ratios over the quarter)	NA	NA

5. Remuneration Informations

Information on the variable components of remuneration is the fulfillment of the obligations in accordance with Part eighth CRR and complements the information in the annual report Information on Capital Adequacy of Bank Zachodni WBK SA as at December 31, 2016.

Summary information on the variable remuneration of the Bank Zachodni WBK employees covered by the variable remuneration policy, presented by areas of activity and executives concerned (PLN k)

Area	Management Board*	Retail Banking	Business and Corporate Banking	Global Corporate Banking	Business Support	Subsidiaries	Total
Variable remuneration***	8 760	2 791	1 175	1 868	6 714	7 206	28 514

*The "Management Board" line shows the aggregated data for periods during which the persons acted as the Management Board members. The remaining part of the remuneration payable to the persons who did not sit on the Management Board for 12 months was included in a relevant group.

** Variable remuneration granted for 2016.

Data also refer to the former employees covered by the policy on variable components of remuneration.

Variable remuneration (PLN k)

	VARIABLE REMUNERATION FOR 2016*			
	Headcount	Deferred bonus for 2016	Non-redeemed phantom shares (number of phantom shares)	Long-term performance share programme completed in 2016 (number of BZ WBK shares)
Management Board**	12	8 760	13 578	5 412
Other persons holding managerial positions	123	19 754	29 361	8 730
including number of individuals being remunerated between 1,5- 2 million EUR	0	-	-	-
TOTAL	135	28 514	42 939	14 142

* Variable remuneration granted for 2016.

** The "Management Board" line shows the aggregated data for periods during which the persons acted as the Management Board members. The remaining part of the remuneration payable to the persons who did not sit on the Management Board for 12 months was included in a relevant group.

Data also refer to the former employees covered by the policy on variable components of remuneration.

6. Regulatory changes

On 1 June 2017, the Regulation of the Minister of Economic Development and Finance dated 25 May 2017 was published, setting out a higher risk weight for exposures secured by mortgages on immovable property as referred to in Article 124(2) of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013. Accordingly, for exposures secured by mortgages on residential property, where the principal or interest instalment is linked to an exchange rate of a currency or currencies other than the currency of the debtor's revenue, the risk weight is set at 150%. Currently, the risk weight for the above category of exposures is set at 100%. The risk weight of 100% for exposures secured by mortgages on office property or other commercial property located in Poland is kept unchanged. The Regulation becomes effective as of 2 December 2017.

Pursuant to the draft Regulation of the Minister of Economic Development and Finance of 30 May 2017, a systemic risk buffer is planned to be introduced as of 1 January 2018. The buffer will be set at 3% of the total risk exposure amount calculated in accordance with Article 92(3) of the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013. The systemic risk buffer is to ensure the continued resilience of banks to shocks and to prevent long-term non-cyclical systemic risk.