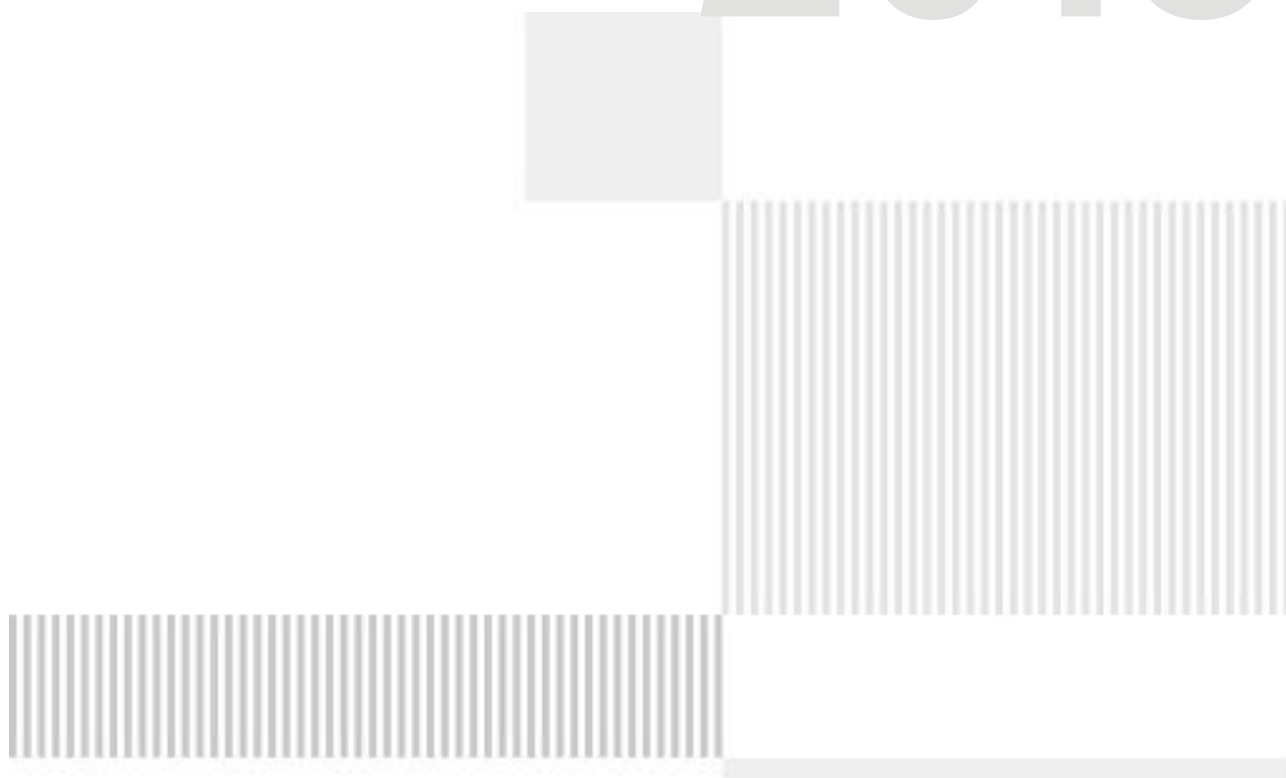


**INFORMATION ON
CAPITAL ADEQUACY
OF BANK ZACHODNI WBK GROUP
as at 30th June 2015**

2015



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.

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 2015.

Bank Zachodni WBK forms a Group with 14 subsidiaries which are consolidated in accordance with IAS 27 and one subsidiary which is not consolidated and associates which are accounted for using the equity method.

The subsidiaries are fully consolidated with Bank Zachodni WBK except for Lizar Sp. z o.o. which is excluded from consolidation due to the insignificant scale of its operations and reported financials.

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 2015, Bank Zachodni WBK formed a Group with the **following subsidiaries**:

- Santander Consumer Bank S.A. (SCB S.A.)
- Santander Consumer Finanse S.A. – subsidiary of SCB S.A.
- AKB Marketing Services Sp. z o.o. - subsidiary of SCB S.A.
- Santander Consumer Multirent Sp. z o.o.- subsidiary of SCB S.A.
- S.C. Poland 2014-1 Limited - subsidiary of SCB S.A.
- BZ WBK Asset Management S.A.
- BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. - subsidiary of BZ WBK Asset Management 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 Lease S.A. - subsidiary of BZ WBK Finanse Sp. z o.o.
- Lizar Sp. z o.o. - subsidiary of BZ WBK Lease S.A.
- BZ WBK Inwestycje Sp. z o.o.
- BZ WBK Nieruchomości S.A. ¹
- Gieldokracja Sp. z o.o. ²

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 2015, the following companies are accounted for using the equity method:

- Metrohouse Franchise S.A. – associated undertaking of BZ WBK Inwestycje Sp. z o.o.
- Metrohouse S.A. – subsidiary of Metrohouse Franchise S.A.
- POLFUND - Fundusz Poręczeń Kredytowych S.A.
- BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.
- BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.

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.

Details about subsidiaries and associates are presented in Note 1 to the Consolidated Financial Statements of BZ WBK Group for the 6-month period ended 30 June 2015.

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) 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 2015.

The table below presents a details of own funds, risk weighted assets and capital adequacy ratios as at 30 June 2015.

Own funds, risk weighted assets and capital ratios as at 30 June 2015 (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	17 539 290
Common Equity Tier 1 (CET1) capital: regulatory adjustments		
28	Total regulatory adjustments to Common Equity Tier 1 (CET1)	-2 678 909
29	Common Equity Tier 1 (CET1) capital	14 860 381
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)	14 860 381
Tier 2 (T2) capital: instruments and provisions		
51	Tier 2 (T2) capital before regulatory adjustment	533 488
Tier 2 (T2) capital: regulatory adjustments		
57	Total regulatory adjustments to Tier 2 (T2) capital	-6 685
58	Tier 2 (T2) capital	526 803
59	Total capital (TC = T1 + T2)	15 387 184
60	Total risk-weighted assets	107 734 704
Capital ratios and buffers		
61	Common Equity Tier 1 (as a percentage of total risk exposure amount)	13,8%
62	Tier 1 (as a percentage of total risk exposure amount)	13,8%
63	Total capital (as a percentage of total risk exposure amount)	14,3%

On 23 April 2015, the Bank Zachodni WBK Extraordinary Annual Meeting of Shareholders divided the net profit of **PLN 1 994 631 702.59** for the year from 1 January 2014 to 31 December 2014 as follows:

- **PLN 1 041 980 176.19** was allocated to the reserve capital
- **PLN 952 651 526.40** remained undistributed.

In connection with the restructuring of the Banco Santander S.A. Group in Poland aimed at incorporating Santander Consumer Bank S.A. (SCB) into the organizational structure of Bank Zachodni WBK, on 27 November 2013, Bank Zachodni WBK, Banco Santander and Santander Consumer Finance (SCF) signed an investment agreement whereby 3,120,000 SCB shares held by SCF was acquired by the bank in exchange for newly issued shares of the bank in the number of 5,383,902.

On 8 April 2014, KNF issued a decision confirming the absence of grounds to challenge the planned transaction whereby Banco Santander would purchase, through the Bank Zachodni WBK, such a number of SCB shares that would exceed 50% of votes at the General Meeting of Shareholders and a 50% stake in the SCB share capital.

The Bank received the decision of the Polish Financial Supervision Authority (KNF) of 24 June 2014 giving it a permission to amend the Statutes with respect to the share capital increase to PLN 992,345,340 and issue of 5,383,902 series L shares. In accordance with the previous consent of the Polish Financial Supervision Authority, Bank included series L shares into own funds for capital adequacy ratio as at 30 June 2015.

Additionally acting in accordance with art. 26(3) of the Regulation of the European Parliament and of the Council (EU) no. 575/2013 of 26 June 2013 on prudential requirements for credit institutions and investment firms, Bank Zachodni WBK S.A. sent to Polish Financial Supervision Authority the requests for a permission to classify capital instruments, i.e. series L shares of the Bank, as Common Equity Tier 1 capital for capital adequacy purpose. The Bank is in the process of obtaining the above-mentioned agreement.

The difference between the capital adequacy ratio reported at the end of June 2015 vs. 31 December 2014 is due to:

- an increase in the reserve capital resulting from distribution of profit
- recognition of verified and approved profit for 2014 as retained profit in Tier I capital
- recognition of a part of unrealised gains on valuation of debt and equity instruments in the calculation of own funds.

The Bank's capital adequacy ratio calculated in line with CRR is much above the minimum regulatory requirements.

In H/Y 2015, 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 2015, the total capital requirements of Bank Zachodni WBK Group calculated in line with the CRR was **PLN 8 618 776k**, including:

- for credit risk and counterparty credit risk **PLN 7 445 827k**
- for market risk **PLN 100 338k**
- for credit valuation adjustment risk **PLN 108 587**
- for operational risk **PLN 964 024k**.

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 2015 (PLN k)**

No.	RISK TYPES	CAPITAL REQUIREMENT	RISK WEIGHTED ASSETS
1.	Credit risk and Counterparty risk*	7 445 827	93 072 838
2.	Risk of exceeding the exposure concentration limit and the large exposure limit	-	-
3.	Market risk including:	100 338	1 254 219
3.1	FX risk	-	-
3.2	commodity prices risk	-	-
3.3	risk of positions of equity instruments, including: :	4 884	61 046
3.3.1	specific risk	2 705	33 812
3.3.2	general risk	1 566	19 580
3.3.3	Specific approach to the risk of positions in collective investment undertakings (CIUs)	612	7 653
3.4	risk of debt instrument positions, including:	95 454	1 193 174
3.4.1	specific risk	161	2 013
3.4.2	general risk	95 293	1 191 161
4.	Supply settlement risk	-	-
5.	Credit valuation adjustment risk (CVA)	108 587	1 357 344
6.	Operational risk	964 024	12 050 303
		8 618 776	107 734 704

*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 2015 accounted for **86.39%** of the total capital requirement.

**Capital requirement of Bank Zachodni WBK Group for credit risk and counterparty credit risk
as at 30 June 2015 (PLN k)**

No.	Exposure Class	Capital requirement	Risk weighted assets
1.	Exposures to central governments or central banks	7 401	92 511
2.	Exposures to regional governments or local authorities	3 121	39 007
3.	Exposures to public sector entities	5 945	74 307
4.	Exposures to multilateral development banks	0	-
5.	Exposures to institutions*	210 057	2 625 709
6.	Exposures to corporates	1 661 937	20 774 208
7.	Retail exposures	1 876 889	23 461 117
8.	Exposures secured by mortgages on immovable property	2 688 788	33 609 855
9.	Exposures in default	328 070	4 100 874
10.	Exposures associated with particularly high risk	5 086	63 575
11.	Exposures in the form of units or shares in collective investment undertakings	61	763
12.	Equity exposures	229 910	2 873 874
13.	Other items	428 563	5 357 038
	Total exposures covered by the standardised approach	7 445 827	93 072 838

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

3. 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 intends 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) 2015/62 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 2015 (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	15 399 946	14 860 381
21	Total Exposures	139 018 913	138 479 348
Leverage Ratios			
22	End of quarter leverage ratio	11,08%	10,73%
EU - 22a	Leverage ratio (avg of the monthly leverage ratios over the quarter)	NA	NA