

**Supervisory Board
of Bank Zachodni WBK**

I. REPORT OF THE SUPERVISORY BOARD ON THE EXAMINATION OF :

- FINANCIAL STATEMENTS OF BANK ZACHODNI WBK S.A. FOR 2011
- MANAGEMENT BOARD REPORT ON BANK ZACHODNI WBK PERFORMANCE IN 2011
- CONSOLIDATED FINANCIAL STATEMENTS OF BANK ZACHODNI WBK GROUP FOR 2011
- MANAGEMENT BOARD REPORT ON BANK ZACHODNI WBK GROUP PERFORMANCE IN 2011

II. ASSESSMENT OF BANK ZACHODNI WBK STANDING INCLUDING AN EVALUATION OF THE INTERNAL CONTROL SYSTEM AND THE SIGNIFICANT RISK MANAGEMENT SYSTEM

Warsaw, February 2012



WBK

Bank Zachodni WBK



Bank Zachodni WBK jest członkiem Santander Group.

I. REPORT OF THE SUPERVISORY BOARD

This report was produced based on the conducted examination and includes the opinion of the Supervisory Board on the following documents presented by the Bank's Management Board to the Annual General Meeting of Shareholders of Bank Zachodni WBK, convened for 18th April 2012:

- Financial Statements of Bank Zachodni WBK S.A. for 2011,
- Management Board Report on Bank Zachodni WBK S.A. Performance in 2011,
- Consolidated Financial Statements of Bank Zachodni WBK Group for 2011,
- Management Board Report on Bank Zachodni WBK Group Performance in 2011,
- Management Board motion on the 2011 profit distribution.

The obligation to review the above documents is imposed on the Supervisory Board by § 32 clause 1 and clause 6 of the Bank's Statutes.

1. Examination of Financial Statements and Reports on operations for 2011

By force of resolution no. 22/2011, adopted on 17th May 2011, the Supervisory Board, based on the recommendation of the Audit & Compliance Committee, selected Deloitte Audyt Sp. z o.o. as the Bank's auditor and vested it with a task of auditing the Financial Statements for 2011. The above audit covered the following documents produced by the Bank's Management Board:

1. Financial Statements of Bank Zachodni WBK S.A. for 2011:

- Statement of Financial Position as at 31 December 2011,
- Income Statement for the accounting year ended 31 December 2011,
- Statement of Comprehensive Income for the accounting year ended 31 December 2011,
- Movements in Equity for the accounting year ended 31 December 2011,
- Cash Flow Statement for the accounting year ended 31 December 2011,
- Additional Notes.

2. Management Board Report on Bank Zachodni WBK S.A. Performance in 2011.

3. Consolidated Financial Statements of Bank Zachodni WBK Group for 2011:

- Consolidated Statement of Financial Position as at 31 December 2011,
- Consolidated Income Statement for the accounting year ended 31 December 2011,
- Consolidated Statement of Comprehensive Income for the accounting year ended 31 December 2011,
- Movements in consolidated equity for the accounting year ended 31 December 2011,

- Consolidated Cash Flow Statement for the accounting year ended 31 December 2011,
- Additional Notes.

4. Management Board Report on Bank Zachodni WBK Group in 2011.

Based on the findings of the audit conducted by Deloitte Audyt Sp. z o.o., presented in the following documents:

- Opinion of the Independent Auditor and Report supplementing the Auditor's opinion on the separate Financial Statements of Bank Zachodni WBK S.A. for the financial year ended 31 of December 2011,
- Opinion of the Independent Auditor and Report supplementing the Auditor's opinion on the consolidated Financial Statements of Bank Zachodni WBK Group for the financial year ended 31 of December 2011,

the Supervisory Board stated that the 2011 Financial Statements presented by the Management Board, have been prepared, in all material respects, and give a true and fair view of the financial position of the Bank and the Group as at 31 December 2011 and of their financial performance and their cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the Bank's unconsolidated financial statements and the consolidated financial statements applicable.

The Supervisory Board decided with resolution no. 1/2012, dated 27th February 2012, to submit to the AGM for approval:

- Financial Statements of Bank Zachodni WBK S.A. for 2011,
- Management Board Report on Bank Zachodni WBK S.A. Performance in 2011,
- Consolidated Financial Statements of Bank Zachodni WBK Group for 2011,
- Management Board Report on Bank Zachodni WBK Group Performance in 2011.

2. Review of the Bank's Management Board motion related to the 2011 profit distribution

The Supervisory Board examined the Bank's Management Board motion related to the 2010 profit distribution, and with resolution no. 8/2012, dated 29th February 2012 decided to recommend approval of the above motion to the General Annual Meeting of Shareholders.

3. Wrap-up

The Supervisory Board stated that it acted with due diligence with regard to comprehensive examination of the documents presented by the Bank's Management Board and in line with its resolution no. 9/2012, dated 29th February 2012, the Supervisory Board presents this report to the General Annual Meeting of Shareholders of Bank Zachodni WBK.

II. ASSESSMENT OF THE BZWBK GROUP'S STANDING INCLUDING AN EVALUATION OF THE INTERNAL CONTROL SYSTEM AND THE SIGNIFICANT RISK MANAGEMENT SYSTEM

1. Assessment of the BZ WBK Group's operations in 2011

- *2011 macroeconomic environment*

Economic growth

In 2011 external conditions influencing the Polish economy altered considerably. The second half of the year saw a deterioration of global economic climate and a significant slowdown in economic growth of the euro zone and Germany. The euro zone's debt problems intensified, which triggered severe turmoil on the financial markets. The Polish economy proved quite resilient to weaker external demand, though an annual pace of growth of trade volume clearly declined over the year. The momentum of exports (denominated in euro) plunged from ca. 20% YoY at the beginning of the year to 5% YoY in Q4. The pace of growth of imports decreased even more. The current account deficit declined to ca. 4% of GDP, that is almost 1 percentage point lower compared to 2010.

The Polish economy performed quite well in 2011. The GDP increased during the past year by 4.3%, the most since the beginning of the world financial crisis in 2008. The main factors supporting the economic growth were rising household consumption (which advanced by 3.1% in 2011) and gross capital formation (8.7% gain in the whole year). While individual consumption was decelerating gradually towards the year end, among others due to the reversal of positive trends in the labour market and the rising cost of living, investments continued to accelerate through the year, reaching double-digit growth in Q4, the highest since mid-2008.

Labour market

The first half of 2011 saw an improvement of the situation in the Polish labour market. Average employment in the enterprise sector increased in H1 by ca. 4% YoY and the number of the employed according to LFS advanced by 1.5% YoY. The pace of wage growth was gradually accelerating, but it remained at a moderate level of nearly 5% in H1. Despite a higher number of job vacancies, unemployment rose in the first months of the year due to an increase in the total workforce. In H2 the positive trend reversed. The pace of employment growth in the enterprise sector decelerated to ca. 2% YoY and the pace of wage growth slightly declined. Weaker growth of wages and employment, offset only by a marginal increase of social benefits as well as rising inflation resulted in a lower growth of households' disposable income.

The registered unemployment rate stayed above the level from 2010 during the whole year and at the end of 2011 it reached 13.3%. The number of the registered unemployed approached again 2 million at the end of 2011. Also, the seasonally adjusted unemployment rate based on the LFS survey increased, reaching nearly 10% in H2 2011, the highest since March 2010.

Inflation

The increase of inflation in the first few months of 2011 was much faster and stronger than expected. In May, the CPI reached 5%, mainly due to higher prices of fuels and food in the global market. Last months of 2011 again showed higher inflation, which after a temporary decline to 3.9% YoY in September accelerated to 4.8% YoY in November and reached

4.6% YoY in December. Considerable depreciation of the zloty seen in H2 had a significant impact on higher retail prices through soaring prices of imported goods. Core inflation continued the upward trend observed since mid-2010. In December, CPI excluding food and energy prices reached 3.1% YoY, the highest since April 2002. Clear deterioration of economic outlook for Poland and global economy reduced the risk of materialisation of second round effects (resulting from the price-wage spiral).

Interest rates

The Monetary Policy Council increased interest rates four times during H1 2011 in response to rising inflationary pressure. Those hikes (each by 25bps) took place in January, April, May and June. Consequently, NBP's main reference rate increased to 4.5% at the end of Q2 from 3.5% at the end of 2010. Later in the year interest rates remained unchanged. Amid inflation persisting well above the NBP target and pressure on zloty's depreciation the MPC maintained its informal hawkish bias in the monetary policy.

Credit market

During 2011 companies demonstrated strong demand for bank loans. The pace of growth of business loans reached almost 20% YoY at the end of Q4 versus close to zero at the beginning of 2011. Investment loans showed a particularly strong increase (by ca. 25% YoY, even after elimination of an impact of exchange rate fluctuations). The pace of growth of loans for households stabilised at a pretty high level, mainly due to strong demand for mortgage loans, while consumer loans remained in stagnation. After adjustment for FX fluctuation, the value of total loans for households increased in 2011 by ca. 7% with mortgage loans contributing most to that increase (growth by ca. 10% YoY).

Financial markets

During 2011, high volatility dominated the financial markets. In Q1, market sentiment was influenced by, among others, political turmoil in the Middle East and North Africa as well as earthquake and tsunami in Japan. Later in the year, investors' attention focused on the euro zone's debt problems and deteriorating outlook of global economic growth amid disappointment after macro data publication. Consequently, the zloty's exchange rate was very volatile. In mid-December, the Euro/PLN surged to the highest level since June 2009 (ca. 4.56). Though interventions of the NBP and the BGK (Bank Gospodarstwa Krajowego) helped the zloty to pare some losses at the end of the year, 2011 was not favourable for the domestic currency as on an annual basis the zloty lost 11.5% versus the euro.

Rising inflation and expected monetary policy tightening pushed short-term interest clearly up. Yields on the long end of the curve were rising amid risk aversion persisting on the global financial market and despite positive information on better-than-expected actual budget levels and low supply of long-term bonds on debt auctions.

- ***BZ WBK Group's financial standing in 2011***

Sale of shares in Bank Zachodni WBK S.A.

On 1 April 2011, Banco Santander finalised the purchase of Bank Zachodni WBK in the tender for the bank's shares. As a result, Banco Santander acquired a 95.67% stake in the bank. Consequently, Bank Zachodni WBK joined Santander Group. The acquisition price totalled EUR 3,989 m.

AIB European Investments Limited sold 51,413,790 shares of Bank Zachodni WBK representing 70.36% of share capital and voting power in the tender. The transaction was settled on 1 April 2011. As a result, AIB European Investments Limited does not hold any shares of Bank Zachodni WBK or any voting rights attached to such shares. Other minority shareholders sold 18,498,863 shares of Bank Zachodni WBK representing 25.31% of share capital and voting power in the tender.

As a consequence of Banco Santander acquiring a 95.67% share in the total voting power at the General Meeting of Shareholders of Bank Zachodni WBK on 1 April 2011 (exceeding a 90% share), the non-controlling shareholders became entitled to demand for a further three months that their shares be acquired by the majority shareholder. Based on the requests from shareholders, Banco Santander acquired an additional 421 859 shares of Bank Zachodni WBK, thus increasing its share in the share capital and voting power at the General Meeting of Shareholders to 96.25%

Profit & Loss Account

In 2011, Bank Zachodni WBK Group generated a profit-before-tax of PLN 1,542.4 m, an increase of 13.6% y-o-y. The net profit attributable to Bank Zachodni WBK shareholders was PLN 1,184.3 m and 21.6% higher y-o-y.

Excluding the once-off adjustments of PLN 88.8 m, posted in the fourth quarter of 2011 to align the Group's operating practices with Santander Group, the PBT was PLN 1,631.2 m and up 20.2% y-o-y, while the net profit attributable to Bank Zachodni WBK shareholders increased by 30.7% y-o-y to PLN 1,273.1 m. The once-off adjustments apply entirely to the cost side of the consolidated profit and loss account.

The main driver of the profit growth for 2011 was net interest income which increased by PLN 246.4 m as a result of acceleration in the Group's core business volumes in a higher interest rate environment. The profit was also favourably impacted by higher dividend and net commission income as well as reduced loan impairment losses.

Income

The total income achieved by Bank Zachodni WBK Group in 2011 was PLN 3,823.0 m and up 8.1% y-o-y

Costs

Excluding the once-off adjustments of PLN 88.8 m, total costs increased by 4.1% y-o-y to PLN 1,835.8 m with staff costs up 1.9% y-o-y to PLN 976.8 m.

Assets & liabilities

Deposits

Deposits from customers went up by 11.6% on the end of 2010 as a result of higher balances in business and public sector (+17.8% y-o-y) as well as personal (+7.5% y-o-y) deposits adding up to PLN 19,718.2 m and PLN 27,111.3 m, respectively. Excluding the effect of FX movements, deposits from customers grew by 10.3% y-o-y.

Loans

Gross loans to customers increased by 15.1% on the end of 2010 driven by growth in the business and public sector loan portfolio (+20.5% y-o-y) to PLN 24,521.2 m and in the personal loan portfolio (+9.9% y-o-y) to PLN 12,572.6 m. Excluding the effect of FX movements, gross loans increased by 11.2% y-o-y.

Loans to deposits ratio was 81.2% as at 31 December 2011 compared with 78.2% as at 31 December 2010.

Bank Zachodni WBK share price

Bank Zachodni WBK share price as at 31 December 2010 amounted to PLN 214.90 and during the year increased by 5.2%. totalling PLN 226 on 30 December 2011.

On 29 July 2011 the share price was at its highest, reaching PLN 239 for a share.

It needs to be emphasised that during the year the indices of WIG 20, WIG and WIG banks fell down respectively by 21.9%, 20.8% and 21.7%.

Rating

Bank Zachodni WBK has a bilateral credit rating agreement with Fitch Ratings Ltd. In 2011, the agency made four announcements on the Bank.

- In the announcement dated 5 April 2011, Fitch Ratings upgraded Long-term Issuer Default Rating (IDR) of Bank Zachodni WBK from 'BBB+' to 'A+', removed the rating from Rating Watch Positive (RWP) and assigned a Stable Outlook. Fitch simultaneously upgraded Short-term Issuer Default Rating and Support Rating, and removed them from Rating Watch Positive.
- In the announcement dated 16 June 2011, Fitch Ratings affirmed all the above ratings.
- In the announcement dated 11 October 2011, Fitch Ratings affirmed its ratings for Bank Zachodni WBK (as announced on 5 April 2011, and confirmed on 16 June 2011) but changed the outlook on its long-term IDR from stable to negative. This was reflective of the downgrade of the long-term IDR rating of Banco Santander from "AA" to "AA-" due to increased sovereign risk of their home country (Spanish sovereign rating was downgraded from "AA+" to "AA-").
- On 22 December 2011, Fitch Ratings placed long-term and short-term IDR ratings of Bank Zachodni WBK on Rating Watch Negative following the same action towards its parent entity (announced on 20 December 2011) due to the likelihood of negative verification of the Spanish sovereign risk in the wake of the eurozone crisis.

Rating of Bank Zachodni WBK S.A. in 2012.

To supplement the information on the rating actions taken for Bank Zachodni WBK SA, on the 25th of January 2012, Fitch Ratings globally withdrew all individual ratings for banks and replaced them with viability ratings launched last year. Consequently, Bank Zachodni WBK individual rating of "C" was removed.

On the 13th of February 2012, Fitch Ratings further revised ratings of BZWBK as a result of rating actions taken towards Spanish sovereign rating and the rating of Banco Santander.

As of now the rating of Bank Zachodni WBK is as follows:

- Long-term IDR: 'A-', Outlook Negative
- Short-term IDR: 'F2'
- Viability Rating: 'bbb'
- Support Rating: '1'

2. Assessment of the Internal Control System and the Risk Management system

• *Assessment of Internal Control System*

As required by the Statutes, the bank operates an internal control system which supports the decision-making processes and contributes to the bank's efficient operation, reliability of financial reporting as well as compliance with the law and internal regulations.

The bank's internal control system is adjusted to the bank's organisational structure and risk management system as well as to the size and complexity of the bank's business. It covers all units across the bank as well as its subsidiaries.

Internal control and risk management systems are structured into three lines of defence. Control measures under the first line check compliance with procedures and ad hoc/on-going response to any identified deficiencies or shortcomings. It underlies reviews of procedures and effectiveness of controls across the organization.

The second line of defence is formed by specialist units performing control functions which support the bank's management in risk identification and management and serve assessment of the first line controls.

The third line of defence is the Internal Audit Area which provides independent and objective examination as well as assurance on the first and second tier controls as well as on the bank's management system, including the effectiveness of managing the risk related to the bank's business. For that matter, Internal Audit verifies the adequate coverage of the Group's risks, in compliance with top management policies, applicable procedures and internal and external regulations. Using its own risk matrix and knowledge, IAA performs a regular assessment of the present and future risk across the bank and BZ WBK Group, developing audit annual plans to cover them. Also, priorities highlighted by the bank's management, the Audit and Compliance Committee, the external auditor, and banking supervision institutions are taken into account.

The Audit and Compliance Committee of the Supervisory Board exercises oversight over the Internal Audit Area. The Audit and Compliance Committee approves an annual audit plan and is regularly updated on audit results and progress in management actions.

As a result of the third line activity, the Management Board and the Supervisory Board receive current and accurate information on compliance with the law and internal regulations applicable in the Bank, effectiveness of identifying errors and irregularities as part of the internal control system, efficient management actions, completeness and correctness of accounting procedures as well as adequacy, functionality and security of the IT system. The

Risk Management Committee and the Audit and Compliance Committee are updated on a regular basis on the operation of the internal control system from the units of the second and third lines of defence which facilitates the on-going monitoring of the system's effectiveness.

Findings of control are taken account of and used to improve the existing processes and safety by making relevant changes to internal processes and regulations. The implementation of a necessary new process is regularly verified by Internal Audit Area.

- *Assessment of risk management system*

Bank Zachodni WBK has an integrated risk management framework ensuring that all risks having material impact on the Bank's operations are identified, measured, monitored and controlled. In the Supervisory Board's opinion, this framework is appropriately matched to the Bank's size and risk profile. The Bank optimizes the risk management framework on a regular basis, adapting it to the changing environment and risk profile associated with the planned strategy.

The responsibility for the management of individual risks was split between the Bank's organizational units that are supported by relevant Committees. The risk management strategy is set by the Risk Management Committee (RMC) overseeing the activity of other Committees having risk management authority. The fact that Members of Management Board and senior management sit on key Committees ensures high quality of management and consistent risk strategy.

One of the basic elements of the risk management framework of Bank Zachodni WBK is setting the levels of risk that the Bank is ready to accept in its day-to-day business. The acceptable risk level is expressed in the form of quantifiable limits set out in the "BZWBK Group Risk Appetite Statement" approved by the Management Board and Supervisory Board. The Bank conducts a detailed review of the limits with regard to the existing and potential risks, market conditions as well as the financial and capital plan at least once a year. Stress-testing and scenario analyses represent the key tool used to analyse the limits and ensure that the Bank retains an adequate capital position even in extreme and severe circumstances.

The Bank has methodologies and processes that identify and assess risks to identify their potential impact on the Bank's operations now and in the foreseeable future. With a view to identifying and assessing risks for the entire organisation, the review of material risks is carried out as part of the ICAAP process. In 2011, the review of material risks was combined with the review of BZWBK Group key risks to ensure a uniform approach to the identification of most significant threats to the Bank's operations at a given time.

Identified risks are managed using policies and best practices to keep them at an acceptable level. The Bank uses various risk assessment and measurement techniques depending on risk type and materiality, including the following key ones:

- customer and/or transaction grading models - for credit risk assessment purposes,
- VAR methodology - market risk,
- operational risk self-assessment methodology.

In 2011, the Bank carried out work aimed at adjusting its risk management policies and tools to Santander Group's standards with a special focus on ensuring compliance with regulations applicable to the Polish banking sector.

The comprehensive risk management framework is supported by a consistent and transparent system aimed at monitoring and reporting risk levels and excesses against defined limits. The reporting system covers key management levels. The Supervisory Board receives regular reports assessing the level of identified risks and reports assessing the effectiveness of actions taken by the Bank's Management Board.

The Bank strives to keep the right risk/reward balance. Support for the Bank's development strategy, while keeping top risk management standards, is amongst the key assumptions underlying the risk management process.