

**BANK ZACHODNI WBK S.A.
WROCLAW, RYNEK 9/11**

**FINANCIAL STATEMENTS
FOR THE 2011 FINANCIAL YEAR**

**WITH
AUDITOR'S OPINION
AND
AUDIT REPORT**

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FOR THE 2011 FINANCIAL YEAR**

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**REPORT ON THE ACTIVITIES OF BANK ZACHODNI WBK S.A.
FOR THE 2011 FINANCIAL YEAR**

AUDITOR'S OPINION

To the Shareholders and Supervisory Board of Bank Zachodni WBK S.A.

We have audited the attached financial statements of Bank Zachodni WBK S.A. ("Bank") with its registered office in Wrocław, at Rynek 9/11, including statement of financial position prepared as of 31 December 2011, income statement and statement of comprehensive income, movements on equity, statement of cash flow for the financial year from 1 January 2011 to 31 December 2011 and additional notes comprising a summary of significant accounting policies and other explanatory information.

Preparation of financial statements and a report on the activities in line with the law is the responsibility of the Management Board of the Bank. The Management Board of the Bank and members of its Supervisory Board are obliged to ensure that the financial statements and the report on the activities meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2009, No. 152, item 1223, as amended), hereinafter referred to as the "Accounting Act". Our responsibility was to audit and express an opinion on compliance of the financial statements with the accounting principles (policy) adopted by the Bank and whether the financial statements present fairly and clearly, in all material respects, the financial and economic position as well as the financial result of the Bank and on the correctness of the underlying accounting records.

Our audit of the financial statements has been planned and performed in accordance with:

- section 7 of the Accounting Act,
- national auditing standards, issued by the National Council of Statutory Auditors in Poland.

We have planned and performed our audit of the financial statements in such a way as to obtain reasonable assurance to express an opinion on the financial statements. Our audit included, in particular, verification of the correctness of the accounting principles (policy) and material estimates applied by the Bank, verification – largely on a test basis – of the accounting evidence and records supporting the amounts and disclosures in the financial statements, as well as overall evaluation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the audited financial statements in all material respects:

- present fairly and clearly the information material to evaluate the economic and financial position of the Bank as of 31 December 2011 as well as its profit or loss in the financial year from 1 January 2011 to 31 December 2011,
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as Commission regulations and in all matters not regulated in the standards – in accordance with the provisions of the Accounting Act, secondary legislation to the Act and based on properly kept accounting records,
- comply with the provisions of law and the articles of association of the Bank, which affect the contents of the financial statements.

The Report on the activities of the Bank for the financial year 2011 is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states and consistent with underlying information disclosed in the audited financial statements.

Jacek Marczak
Certified Auditor
No. 9750

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Jacek Marczak
Key certified auditor
conducting the audit
No. 9750

Dariusz Szkaradek
Deputy Chairman of the Management Board
No. 9935

.....
represented by

Deloitte Audyt Sp. z o.o.
Al. Jana Pawła II 19
00-854 Warszawa

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entity authorized to audit
financial statements entered under
number 73 on the list kept by the
National Council of Statutory Auditors

Warsaw, 29 February 2012

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

**REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS
OF BANK ZACHODNI WBK S.A.
FOR THE 2011 FINANCIAL YEAR**

I. GENERAL INFORMATION

1. Details of the audited Bank

The Company operates under the business name Bank Zachodni WBK S.A. ("Bank"). The Bank's registered office is located in Wroclaw at Rynek 9/11.

The Bank operates as a joint stock company. The Company was recorded in the District Court in Wroclaw, VI Business Division of the National Court Register, based on the decision of 27 April 2001, under KRS number 00008723.

The Bank's tax identification number NIP is: 896-000-56-73.

The REGON number assigned by the Statistical Office is: 930041341.

The Bank operates based on the provisions of the Code of Commercial Companies and Bank's law.

In accordance with the Bank's by-laws articles of association, the scope of its activities includes:

- accepting term and on demand deposits and keeping their records of transactions; accepting money transfers from domestic and foreign banks,
- operating other bank accounts,
- granting loans,
- granting and confirming bank guarantees as well as opening and confirming letters of credit,
- issuing banking securities,
- financial settlements operations,
- issue of electronic money instrument,
- granting cash advances,
- concluding check and B/E transactions,
- issuing payment cards and processing card operations,
- performing term financial transactions,
- trading in receivables,
- safekeeping of objects and securities as well as providing access to safe deposit boxes,
- providing agency services in international funds transfers and settlements in international trade,
- purchasing, selling and intermediating in trade of receivables and liabilities,
- performing operations related to the issue of securities,
- acting as the representative of bond holders,
- purchase and sale of FX values.

In the audited period, the Bank conducted the business activities listed above.

As of 31 December 2011, the Bank's share capital amounted to PLN 730,760,130 and was divided into 73,076,013 ordinary shares with a face value of PLN 10 each.

As of 20 April 2011 (the date of the last Shareholders' Meeting) the Bank's shareholders included:

- Banco Santander S.A. - 95.67% shares,
- other shareholders - 4.33% shares.

During the financial year 2011 there were no changes in the share capital of the Bank.

On 10 September 2010 the Supervisory Board of Allied Irish Banks plc decided to sell to Banco Santander S.A. the entire block of shares of Bank Zachodni WBK S.A. and 50% of shares in BZ WBK AIB Asset Management S.A.

On 18 February 2011 Polish Financial Supervision Authority issued a decision of finding no grounds for appeal against planned direct purchase by Banco Santander S.A. of shares of Bank Zachodni WBK S.A. in a number which would result in exceeding 50% of votes at the General Meeting of Bank's Shareholders S.A. As of 1 April 2011 Banco Santander came into possession of 95.67% of the share capital of the Bank.

As a result of Banco Santander S.A. exceeding the threshold of 90% of the total number of votes at the General Meeting of Shareholders of Bank Zachodni WBK S.A., non-controlling shareholders were granted the law of requesting a buyout of their shares from the majority shareholder. On the basis of placed requests, Banco Santander came into possession of additional 421,859 shares of Bank Zachodni WBK S.A., which increased its share in the share capital and in the number of voices at the General Meeting of Shareholders to 96.25%.

During the audited period, the shareholding structure of the Bank's share capital did not undergo changes other than described above, among shareholders possessing at least 5% of the total number of votes at the General Meeting of Shareholders of Bank Zachodni WBK S.A.

After the balance-sheet date there were no changes in the Bank's share capital among shareholders possessing at least 5% of the total number of votes at the General Meeting of Shareholders of Bank Zachodni WBK S.A.

As of 31 December 2011, the Company's equity amounted to 6,824,056,000 PLN.

The Company's financial year is the calendar year.

The Company has the following related parties:

- BZ WBK Asset Management S.A. – 50% subsidiary,
- BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. – 100% subsidiary of BZ WBK Asset Management S.A.,
- BZ WBK Inwestycje Sp. z o.o. – 100% subsidiary,
- BZ WBK Faktor Sp. z o.o. – 100% subsidiary of BZ WBK Finanse Sp. z o.o.,
- BZ WBK Finanse & Leasing S.A. – 100% subsidiary of BZ WBK Finanse Sp. z o.o.,
- BZ WBK Leasing S.A. - 100% subsidiary of BZ WBK Finanse Sp. z o.o.,
- BZ WBK Nieruchomości S.A. – 99.99% subsidiary,
- Dom Maklerski BZ WBK S.A. – 99.99% subsidiary,
- POLFUND – Fundusz Poręczeń Kredytowych S.A. – associated company, in which the Bank has 50% of shares in capital,
- BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A. – joint venture, in which the Bank has 50% of shares in capital,
- BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. – joint venture, in which the Bank has 50% of shares in capital.

In addition, the companies in the Santander Capital Group are treated as related parties of Bank Zachodni WBK S.A. Up to the day of takeover of the Bank by Banco Santander S.A., the Bank treated the companies in the AIB Capital Group as related parties.

Composition of the Management Board as of the date of the opinion:

- Mateusz Morawiecki – CEO,
- Andrzej Burliga – Member of the Board,
- Michael McCarthy – Member of the Board,
- Justyn Konieczny – Member of the Board,
- Janusz M. Krawczyk – Member of the Board,
- Marcin Prell – Member of the Board,
- Mirosław Skiba – Member of the Board,
- Feliks Szyszkowiak – Member of the Board,
- Juan de Porras Aguirre – Member of the Board,
- Eamonn Crowley – Member of the Board.

Changes in the composition of the Management Board during the audited period:

- on 3 June 2011 Paul Barry handed in his resignation from being Board Member with the effect from 31 July 2011,
- on 6 December 2010 Declan Flynn handed in his resignation from being Board Member with the effect from 13 April 2011,
- Juan de Porras Aguirre was appointed to the Management Board as of 1 September 2011 on the basis of Supervisory Board act from 24 August 2011,
- Eamonn Crowley was appointed to the Management Board as of 1 September 2011 on the basis of Supervisory Board act from 24 August 2011

The above changes have been reported and registered at a relevant court register.

2. Information about the financial statements for the prior financial year

The activities of the Company in 2010 resulted in a net profit of PLN 916,855,435.98. The financial statements of the Company for 2010 were audited by a certified auditor. The audit was performed by authorized entity KPMG Audyt Sp. z o.o. On 1 March 2011 the certified auditor issued an unqualified opinion on those financial statements.

The General Shareholders' Meeting, which approved the financial statements for the 2010 financial year, was held on 20 April 2011. The General Shareholders' Meeting decided on the following distribution of the net profit for 2010:

- dividends to shareholders – PLN 584,608,104.00;
- loss from previous years coverage – PLN 19,083,267.90;
- reserve capital – PLN 313,164,064.08.

In accordance with applicable laws, the financial statements for the 2010 financial year were submitted to the National Court Register (KRS) on 21 April 2011 and filed for publication in Monitor Polski B on 21 April 2011. They were published in Monitor Polski B No. 1107 on 28 June 2011.

3. Details of the authorized entity and the key certified auditor acting on its behalf

The audit of the financial statements was performed based on the agreement of 6 June 2011 concluded between Bank Zachodni WBK S.A. and Deloitte Audyt Sp. z o.o. with its registered office in Warsaw, al. Jana Pawła II 19, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the financial statements was conducted under the supervision of Jacek Marczak, key certified auditor (No. 9750) in the registered office of the Company from 17 to 28 October 2011 and from 9 January to 8 February 2012 as well as outside the Company's premises until the date of this opinion.

The entity authorized to audit the financial statements was appointed by the resolution of the Supervisory Board of Bank Zachodni WBK S.A. from 22 June 2011 based on authorization included in Article 32 point 10 of the Bank's articles of association.

Deloitte Audyt Sp. z o.o. and Jacek Marczak, key certified auditor, confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on statutory auditors and their self-governing body, auditing firms and on public oversight (Journal of Laws of 2009, No. 77, item 649, as amended) to express an unbiased and independent opinion on the financial statements of Bank Zachodni WBK S.A.

4. Availability of data and management's representations

The scope of our audit was not limited.

During the audit, all necessary documents and data as well as detailed information and explanations, were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Management Board of 29 February 2012.

II. ECONOMIC AND FINANCIAL POSITION OF THE BANK

Presented below are the main items from the income statement as well as financial ratios describing the financial performance of the Bank and its economic and financial position compared to the prior years.

<u>Main items from the statement of financial position</u> <u>(PLN '000)</u>	<u>2011</u>	<u>2010</u>
Total assets	59,093,543	52,034,756
Cash and balances with central banks	1,425,537	2,534,458
Loans and advances to banks	1,238,467	601,637
Financial assets held for trading	5,803,575	2,200,930
Loans and advances to customers	37,422,196	31,952,688
Investments securities	11,637,455	13,355,858
Investments in subsidiaries, associates and joint ventures	264,599	248,999
Intangible assets	134,581	155,055
Property, plant and equipment	486,312	533,443
Deposits from banks	2,413,078	2,144,007
Financial liabilities held for trading	963,033	578,611
Deposits from customers	46,992,079	42,099,210
Other liabilities	936,337	619,287
Subordinated liabilities	441,234	395,230
Equity	6,824,056	6,107,773
<i>Share capital</i>	730,760	730,760
<u>Main items from the income statement (PLN '000)</u>	<u>2011</u>	<u>2010</u>
Interest income	3 291,718	2,971,648
Interest expense	(1,367,970)	(1,303,371)
Net fee and commission income	1,090,749	1,021,867
Dividend income	182,552	131,375
Net trading income and revaluation	261,618	263,972
Operating expenses	(1,752,359)	(1,594,230)
Impairment losses on loans and advances	(341,936)	(363,988)
Profit for the period	1,158,502	916,855
Total comprehensive income for the period	1,280,143	925,621
<u>Effectiveness ratios</u>	<u>2011</u>	<u>2010</u>
Total profitability ratio	23.3%	20.3%
Solvency ratio	14.6%	15.3%
Crediting ratio	63.3%	61.4%
Ratio of impaired credits	2.9%	3.9%
Deposit ratio	79.5%	80.9%
Equity ratio	11.6%	11.7%

An analysis of the above figures and ratios indicated the following trends in 2011:

- total profitability ratio as a relation of net profit to revenues from interest, provisions and dividends, trade result and revaluation and result on other financial instruments increased at the end of 2011, reaching 23.3% in comparison to 20.3% at the end 2010;
- solvency ratio as a relation of own funds to total capital requirement multiplied by 12.5 at the end of 2011 was 14.6%. At the end of 2010 solvency ratio was 15.3%. Required ratio by NBP is 8.0%;
- credit ratio as a relation of receivables from customers to total assets increased at the end of 2011 reaching 63.3% in comparison to 61.4% at the end of 2010;
- ratio of impaired credits as a relation of loans and advances from customers for which impairment loss was identified to total loans and advances from customers decreased from 3.9% at the end of 2010 to 2.9% at the end of 2011;
- deposit ratio as a relation of payables to customers to total liabilities and equity decreased from 80.9% at the end of 2010 to 79.5% at the end of 2011;
- equity ratio as a result of equity to total equity and liabilities at the end of 2011 was 11.6% in relation to 11.7% at the end of 2010.

Application of prudence principles

As of 31 December 2011 total exposure of the Bank due to credits, cash loans and off-balance sheet liabilities granted to one entity or entities having capital and organisational relationships did not exceed 20% and 25% of the Bank's equity respectively. During the audit we did not detect facts indicating that as of 31 December 2011 the Bank did not comply with prudence principles defined by provisions of the Banking Law, resolutions of the Management Board of the National Bank of Poland and resolutions of the Polish Financial Supervision Commission.

Capital adequacy ratio

During the audit we did not detect irregularities related to the calculation of the capital adequacy ratio as of 31 December 2011 in accordance with resolution No. 76/2010 of the Polish Financial Supervision Commission of 10 March 2010 on the scope and detailed principles for defining capital requirements due to individual types of risks including due to exceeding debt concentration limits methods and detailed principles for the calculation of the Bank's capital adequacy ratios with the consideration of relationships of banks with other subsidiaries or operating within the same holding and identifying additional balance sheet items of the bank disclosed jointly with equity in the capital adequacy statement as well as the scope and method of their calculation.

III. DETAILED INFORMATION

1. Evaluation of the accounting system

The Company has valid documentation required by the Accounting Act of 29 September 1994 (Journal of Laws of 2009, No. 152, item 1223, as amended), hereinafter referred to as the "Accounting Act" referring in particular to: definition of the financial year and reporting periods thereof, methods of measuring assets and liabilities and determining the financial result, method of keeping the accounting records and the system of data and file protection. The documentation of the accounting policy was developed in line with the Accounting Act and with respect to the measurement of assets and liabilities plus equity as well as presentation of the financial statements – in line with IFRS and approved for use by a resolution of the Management Board. Principal methods of measuring assets, liabilities and the financial result have been presented in the explanatory notes.

Accounting principles selected at the Company's discretion pursuant to IFRS have been selected in a manner that correctly reflects specifics of its business operations, its financial standing and performance. The accounting principles have been applied in a continuous manner and unchanged compared to those applied to the accounting records and financial statements in the preceding financial year.

The Company uses NGL computerized accounting system to record all business transactions, including ones recorded in supporting systems. The NGL system is password-protected against unauthorized access and has functional access controls. The description of the IT system complies with the requirements of Article 10.1.3c of the Accounting Act.

The opening balance resulting from the approved financial statements for the prior financial year has been properly introduced into the accounting records of the audited period. As regards the opening balance, we have performed the required procedures to ensure that the balances are free from material misstatements.

In the part we have audited, documentation of business transactions, accounting records and the relationships between accounting entries, documents and financial statements complied with the requirements of section 2 of the Accounting Act.

The accounting records and evidence, the documentation of the accounting system and the approved financial statements of the Company are stored in compliance with section 8 of the Accounting Act.

The Company performed a physical count of assets and liabilities within the scope, timing and frequency required by the Accounting Act. Identified differences have been recorded and settled in the accounting records for the audited period.

2. Information about the audited financial statements

The audited financial statements were prepared as of 31 December 2011 and include:

- statement of financial position prepared as of 31 December 2011, with total assets and liabilities plus equity of PLN 59,093,543 thousand,
- income statement for the period from 1 January 2011 to 31 December 2011, with a net profit of PLN 1,158,502 thousand,
- statement of comprehensive income for the period from 1 January 2011 to 31 December 2011, with a total comprehensive income of PLN 1,280,143 thousand,

- movements on equity for the period from 1 January 2011 to 31 December 2011, disclosing an increase in equity of PLN 716,283 thousand,
- statement of cash flow for the period from 1 January 2011 to 31 December 2011, showing a cash inflow of PLN 2,956,376 thousand,
- additional notes, comprising a summary of significant accounting policies and other explanatory information.

The structure of assets and liabilities plus equity as well as items affecting the profit or loss has been presented in the financial statements.

3. Information about selected material items of the financial statements

Financial assets and liabilities

The bank classifies its financial instruments into the following categories:

- financial assets or financial liabilities measured at fair value through profit or loss,
- held-to-maturity investments,
- loans and receivables,
- available-for-sale financial assets,
- other financial liabilities.

Bank Zachodni WBK S.A. has changed its intention regarding a portfolio of government bonds, which so far have been classified as 'held-to-maturity', and has reclassified them into the 'investment financial assets available for sale' category as a result of adapting the Bank's investment policy to the strategy, investment rules and risk management rules of Santander Group. The abovementioned change was introduced on the last business day of 2011 and pertained to financial instruments of a total carrying value of PLN 4,696,542 thousand, of which PLN 69,132 thousand was recognised measurement at fair value. The same amount of measurement less the deferred tax was referred to equity of the Bank during the current reporting period.

Ageing and types of financial assets and liabilities have been correctly presented in the respective explanatory note to the statement of financial position

Structure of loans and advances from banks and customers

Ageing of trade receivables has been correctly presented in the respective explanatory note to the statement of financial position.

In Bank Zachodni WBK S.A. charges updating impairment are recognised in accordance with the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS). The charges reflect credit impairment, which is recognised if the Bank presents objective evidence that such amounts cannot be recovered in line with the signed loan agreement. Objective evidences of impairment were defined in accordance with recommendation of Basel Committee and with the International Accounting Standards (IAS 39), which were described in the section on accounting policies concerning valuation of assets carried at amortised cost. The impairment is calculated on the basis of the estimated recoverable amount. Impairments are analysed using both the individual (for individually significant exposures with objectively evidenced impairment) and collective approach (individually insignificant exposures with objectively evidenced impairment, and exposures of incurred but not reported losses).

The Bank systematically compares the assumptions and parameters used for loss calculations with the actual situation. The comparison includes changes of economic conditions, amendments to Bank's credit policies and recovery process. The process provides assurance that impairments are recognized correctly. The responsibility for adequate level of charges rests with the Provisions Committee.

Credit risk management and credit risk exposure were presented in explanatory note to the statement of financial position.

Structure of deposits from banks and customers

Ageing and types of liabilities have been correctly presented in the respective explanatory note to the statement of financial position.

Repayments, accruals and provisions for liabilities

The explanatory notes to prepayments, accruals and provisions for liabilities correctly present the structure of the items. Deferred expenses and income have been correctly classified with respect to the audited financial year. Provisions for liabilities have been determined at reliably estimated amounts. The items have been recognized completely and correctly in all material respects in relation to the financial statements as a whole.

4. Completeness and correctness of drawing up notes and explanations and the report on the activities of the Bank

The Bank confirmed the validity of the going concern basis in preparation of the financial statements. The explanatory notes give a correct and complete description of measurement principles regarding assets, liabilities, profit or loss and principles of preparation of the financial statements.

Limitations imposed on individual assets disclosed in the statement of financial position arising from security granted to creditors have been described.

The explanatory notes comprehensively describe the reporting items and clearly present the remaining data required by the IFRS.

The financial statements have been supplemented with the Management Board's report on the activities of the Bank in the 2011 financial year. The report contains all information required under Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member states. We have audited the report with respect to the disclosed information derived directly from the audited financial statements.

IV. CLOSING COMMENTS

Management Board's Representation

Deloitte Audyt Sp. z o.o. and the key certified auditor received a representation letter from the Bank's Management Board, in which the Board stated that the Bank complied with the laws in force.

Jacek Marczak
Certified Auditor
No. 9750

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Jacek Marczak
Key certified auditor
conducting the audit
No. 9750

Dariusz Szkaradek
Deputy Chairman of the Management Board
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Warsaw, 29 February 2012