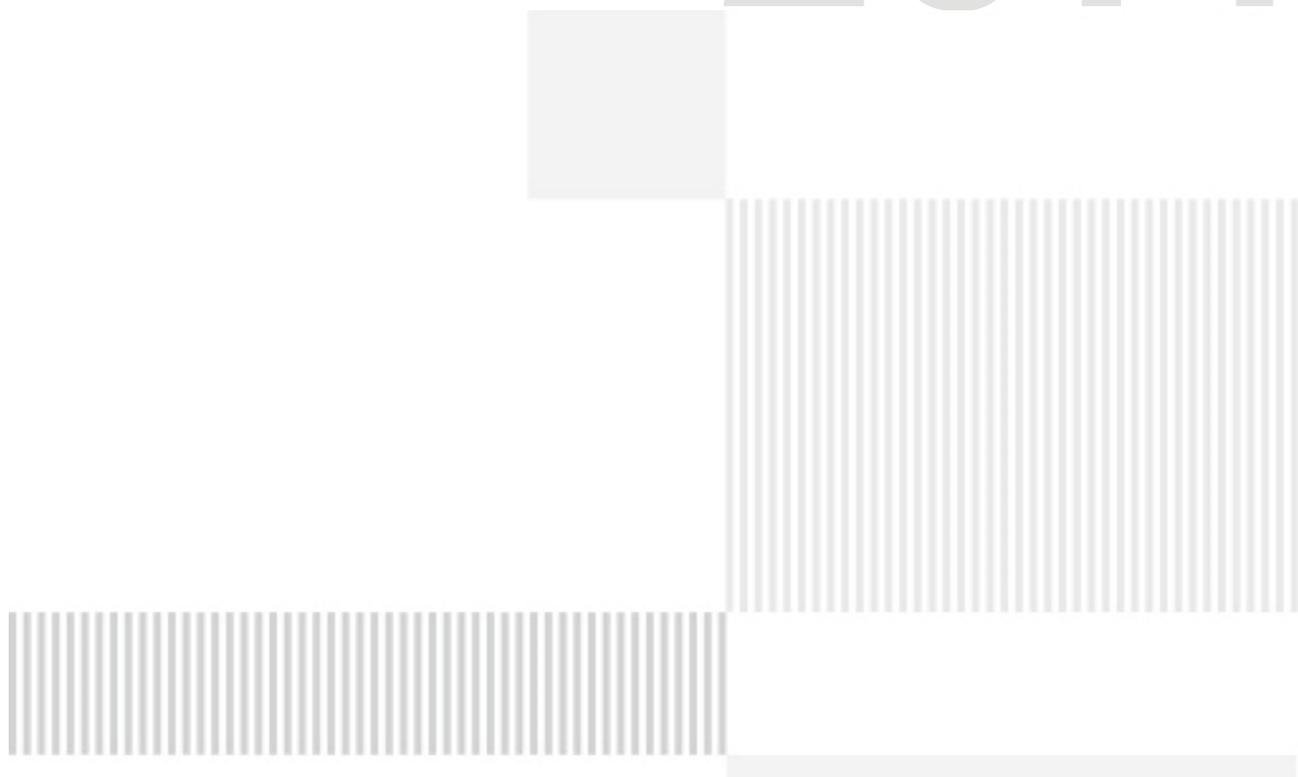


# MANAGEMENT BOARD REPORT ON BANK ZACHODNI WBK GROUP PERFORMANCE IN 2014

2014



Bank Zachodni WBK

 Grupa Santander

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# I. Overview of Bank Zachodni WBK Group Performance in 2014

This section provides an overview of the activity of Bank Zachodni WBK Group (BZ WBK Group) in 2014. 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

- Total income of Bank Zachodni WBK Group for 2014 increased by 8.0% YoY to PLN 6,579.0m. Excluding gains on investments in subordinate entities, the underlying total income grew by 15.8% YoY.
- Total costs went up by 8.4% YoY to PLN 3,103.8m.
- Profit before tax was PLN 2,640.0m and up 5.0% YoY.
- Profit attributable to the shareholders of Bank Zachodni WBK was PLN 1,914.7m and 3.4% lower YoY.
- Capital ratio stood at 12.91% as per the new calculation methodology defined in CRD IV/CRR package (13.92% as at 31 December 2013 as per the previous methodology laid down in KNF Resolution of 10 March 2010).
- Return on Equity was 14.4% (16.6% as at 31 December 2013), and 15.5% excluding the cost of integration with Kredyt Bank (18.4% as at 31 December 2013). In Q3 2014, the Group's capital base was increased through the issue of two series of Bank Zachodni WBK shares for the total amount of PLN 2,159.5m.
- Cost to income ratio was 47.2% (47.0% in 2013), and 44.5% after exclusion of the cost of integration with Kredyt Bank (42.7% in 2013).
- Net impairment losses on loans and advances amounted to PLN 836.6m compared with PLN 729.3m in 2013.
- NPL ratio was 8.4% (7.9% as at 31 December 2013), while the ratio of impairment losses to the average gross credit volumes was 1% (no changes compared to 31 December 2013).
- Loan to Deposit ratio was 90.4% as at 31 December 2014 compared with 86.7% as at 31 December 2013.
- Gross loans to customers increased by 27.0% YoY to PLN 90,947.1m due to the expansion of personal loans (+40.4% YoY) and loans to enterprises and the public sector (+14.1% YoY) to PLN 47,784.1m and PLN 39,340.7m, respectively.
- Deposits from customers increased by 20.9% YoY to PLN 94,981.8m as a combined effect of the expansion of personal deposits (by 21.4% YoY to PLN 58,257.0m) and enterprises & the public sector (by 20.2% YoY to PLN 36,724.8m).
- Net value of assets in mutual funds and private portfolios grew by 13.6% YoY to PLN 13.2bn.
- The number of customers using BZWBK24 electronic banking services exceeded 3m (+2.7% YoY), the number of customers with access to mobile services stood at 0.5m (+102.1% YoY), while the BZ WBK Group payment card base totalled 4.3m debit cards (+15.8% YoY) and 1m credit cards (+57.3% YoY), including the cards of Santander Consumer Bank customers as at 31 December 2014.
- The Group's banking customer base of 6.3m held 4.6m of personal and business current accounts as at 31 December 2014.

## Key Developments and Achievements

Review of Major Corporate Developments in 2014	
January	<ul style="list-style-type: none"> <li>Introduction of three-year variable-rate bearer bonds with a total value of PLN 500m issued by Bank Zachodni WBK on 19 December 2013 to the Catalyst alternative trading system (28 January 2014).</li> </ul>
February	<ul style="list-style-type: none"> <li>Proposed dividend payment for BZ WBK shareholders of PLN 10.70 per share (27 February 2014).</li> </ul>
March	<ul style="list-style-type: none"> <li>Notice (17 March 2014) of BZ WBK Annual General Meeting (AGM) to be convened on 16 April 2014.</li> </ul>
April	<ul style="list-style-type: none"> <li>Convening of BZ WBK Shareholders' AGM (16 April 2014), which, inter alia, approved the proposed dividend pay-out from 2013 profit, agreed an increase in the bank's share capital by way of issue of 305,543 series K ordinary bearer shares (under the 4th Incentive Scheme) and appointed the Supervisory Board for the next term of office.</li> </ul>
May	<ul style="list-style-type: none"> <li>Payment of the dividend to BZ WBK shareholders (16 May 2014) pursuant to AGM Resolution of 16 April 2014.</li> <li>Registration of amendments to BZ WBK Statutes in the National Court Register (KRS), as approved by the AGM, including extension of the bank's activities (to include, inter alia, brokerage activities).</li> <li>Completion of the subscription for series K shares (29 May 2014) under the 4th Incentive Scheme pursuant to the resolution of BZ WBK AGM of 16 April 2014 relating to the increase in the bank's share capital.</li> </ul>
June	<ul style="list-style-type: none"> <li>Ratings upgraded for BZ WBK by Fitch Ratings as of 2 June 2014, i.e.: <ul style="list-style-type: none"> <li>✓ long-term foreign currency IDR: from "BBB" to "BBB+", outlook stable</li> <li>✓ short-term foreign currency IDR: from "F3" to "F2"</li> <li>✓ national long-term rating: from "A+(pol)" to "AA-(pol)", outlook stable</li> </ul> </li> <li>KNF consent for BZ WBK to conduct brokerage activities (10 June 2014).</li> <li>Notice (3 June 2014) of BZ WBK Extraordinary General Meeting (EGM) to be convened on 30 June 2014 to, inter alia, approve the increase in the bank's share capital through the issue of series L ordinary bearer shares, and to adopt the 5th Incentive Scheme.</li> <li>Selection of Deloitte Polska to audit and review BZ WBK unconsolidated and consolidated financial statements (11 June 2014).</li> </ul>
July	<ul style="list-style-type: none"> <li>Completion of the acquisition of shares in Santander Consumer Bank (SCB) by BZ WBK (1 July 2014) in connection with the satisfaction of all conditions precedent to the transaction as provided for in the Investment Agreement of 27 November 2013 and signed by BZ WBK, Santander Consumer Finance (SCF) and Banco Santander regarding the acquisition of shares in SCB by BZ WBK representing 60% of share capital and 67% of voting power.</li> <li>Completion of a private placement of 5,383,902 series L ordinary bearer shares (3 July 2014) with SCF, resulting in SCF's share in the total voting power exceeding 5%.</li> <li>Registration of amendments to BZ WBK Statutes in the National Court Register (11 July 2014 and 18 July 2014) relating to the increase in the bank's share capital: <ul style="list-style-type: none"> <li>✓ by PLN 3,055,430 to PLN 938,506,320 – issue of series K shares</li> <li>✓ by PLN 53,839,020 to PLN 992,345,340 – issue of series L shares</li> </ul> </li> <li>Decrease in the stake of Banco Santander in the share capital and total number of votes at the General Meeting of BZ WBK to 65.99% as a result of an increase in the bank's share capital through the above-mentioned issues of shares.</li> <li>Private placement (17 July 2014) of 475k three-year variable-rate bearer bonds with a nominal value of PLN 1k each (PLN 475m in total).</li> <li>First notification (24 July 2014) of the proposed division of Dom Maklerski BZ WBK (Brokerage House) ("Division Plan of BZ WBK Brokerage House") by way of transfer of its assets to BZ WBK (to the extent related to the provision of brokerage services) and the newly created company – Gieldokracja (to the extent related to the advertising business and communication and educational services).</li> </ul>
August	<ul style="list-style-type: none"> <li>Resolution of the Management Board of the Warsaw Stock Exchange (WSE) on admission (6 August 2014) and introduction (8 August 2014) of series K and series L ordinary bearer shares issued by BZ WBK to trading on the main floor of the Warsaw Stock Exchange.</li> <li>Increase in the stake of Banco Santander in the share capital and total number of votes at the General Meeting of BZ WBK from 65.99% to 71.41% as a result of the acquisition of shares in BZ WBK from SCF (13 August 2014) representing 5.42% in the bank's share capital and voting power.</li> </ul>

## Review of Major Corporate Developments in 2014 contd..

<b>September</b>	<ul style="list-style-type: none"> <li>Disbursement of funds under the agreement of 17 June 2014 between BZ WBK and the European Investment Bank (EIB) regarding a credit line of EUR 100m (8 September 2014).</li> <li>Notification from Aviva International Insurance Ltd (Aviva) regarding the execution of a call option for the acquisition of a 17% stake in BZ WBK-Aviva TUŻ and BZ WBK-Aviva TUO (18 September 2014), with the completion of the share transfer being subject to the relevant regulatory consents.</li> <li>Resolution of the EGM of BZ WBK of 30 September 2014 approving the division of BZ WBK Brokerage House pursuant to the "Division Plan" of 24 July 2014.</li> </ul>
<b>October</b>	<ul style="list-style-type: none"> <li>Reduction in Banco Santander's stake and in the total number of votes at the General Meeting of BZ WBK from 71.41% to 69.41% (6 October 2014) as a result of the sale of 1,984,691 shares in BZ WBK by way of accelerated book-building.</li> <li>Acquisition of BZ WBK shares by the open-ended pension fund ING OFE in an amount exceeding 5% of the total number of votes at the bank's General Meeting.</li> <li>Release (26 October 2014) of the results of the Asset Quality Review (AQR) and stress tests as at the end of 2013, confirming that the bank operates with capital ratios significantly exceeding the requirements of the regulator, is financially stable and has very high resilience to adverse economic conditions.</li> <li>Completion of the migration of accounts and products from the systems of former Kredyt Bank to the target systems of the merged bank.</li> <li>Deregistration of BZ WBK Brokerage House from the National Court Register (31 October 2014) and its incorporation into the bank's structure as a separate unit conducting brokerage activity (brokerage office); registration of Geldokracja.</li> </ul>
<b>November</b>	<ul style="list-style-type: none"> <li>Affirmation of BZ WBK ratings by Fitch Ratings (26 November 2014): long-term foreign currency IDR (BBB+/stable), Viability Rating (bbb), short-term foreign currency IDR (F2) and Support Rating (2).</li> </ul>
<b>December</b>	<ul style="list-style-type: none"> <li>Inclusion of BZ WBK in the Respect Index published on 18 December by the Warsaw Stock Exchange for yet another year in row.</li> <li>Execution of a credit agreement with a foreign bank (18 December 2014) regarding USD 50m worth of funding with two-year maturity for the bank's working capital purposes (funds disbursed in H2 2015).</li> </ul>

## External Factors Impacting the Results

- The economic slowdown in the euro zone; the Russia-Ukraine conflict and a strong deterioration in the economic growth of both countries.
- Year-on-year increase in the growth rates of industrial output, construction, assembly output and retail sales, losing momentum during the year.
- Favourable trends in the labour market supporting private consumption prospects (a gradual rise of employment in the corporate sector, lower unemployment rate and relatively strong wage growth).
- Low inflationary pressure, inflation rate kept well below the official NBP target (2.5%).
- NBP's cut in interest rates and a narrowing of the interest rate corridor.
- Swings in financial market sentiment amid uncertainty about the policy direction of the main central banks (Federal Reserve and ECB) and upcoming macroeconomic releases as well as concerns over armed conflicts and economic sanctions.
- Volatility of the zloty against the main currencies; a decrease in yields on Polish bonds.
- Visible growth in investment loans vs. a moderate overall increase in lending across the banking sector.

## II. Basic Information

### 1. History, Profile and Competitive Position

#### History and Profile

##### Background

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 the control of the same investor, i.e. AIB European Investments Ltd. from 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 with its registered office in Santander, Spain.

##### Banco Santander as the Majority Shareholder

On 1 April 2011, Banco Santander finalised the purchase of Bank Zachodni WBK in the 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. The stake increased to 96.25% due to the acquisition of additional shares from interested shareholders, and decreased to 94.23% on 9 August 2012 following an increase in the bank's share capital through the issue of series I ordinary shares taken up by EBRD in a private placement.

##### Merger of Bank Zachodni WBK and Kredyt Bank

Pursuant to the Investment Agreement of 27 February 2012 signed by Banco Santander and KBC Bank NV and the plan of merger of Bank Zachodni WBK and Kredyt Bank of 11 May 2012 approved by the Management Boards of both banks upon the receipt of the legally required authorisations and consents, on 4 January 2013, the legal merger of the two banks was recorded in the court register. The merger was effected 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. As a result of an increase in the share capital of Bank Zachodni WBK, the stake held by Banco Santander dropped to 75.19%.

The operational merger was completed in October 2014 upon full integration of the IT systems.

##### Further Changes in the Structure of Share Capital of Bank Zachodni WBK

As part of a secondary offering announced by KBC Bank NV and Banco Santander on 22 March 2013 for the total amount of PLN 4.9bn, on 28 March 2013 KBC Bank NV ceased to be a shareholder of Bank Zachodni WBK and Banco Santander's stake was reduced to 70%. The total number of BZ WBK shares in free float on GPW increased to 30% and consequently the bank was re-incorporated into the key stock indices.<sup>1)</sup>

In 2014, the share capital of Bank Zachodni WBK was increased twice, i.e. on 11 July 2014 by PLN 3.1m through the issue of series K ordinary bearer shares under the 4th Incentive Scheme and on 18 July 2014 by PLN 53.8m through the issue of series L shares offered to and taken up by Santander Consumer Finance in exchange for an in-kind contribution of ordinary and preferred shares in Santander Consumer Bank representing 60% of share capital and 67% of votes at the General Meeting of Shareholders.

<sup>1)</sup> From April 2011 to June 2013 Bank Zachodni WBK was excluded from Stock Exchange indices due to insufficient free float

As a result of the above-mentioned issues and acquisition of the entire stake in Bank Zachodni WBK from SCF on 13 August 2014, the shareholding and voting power of Banco Santander in the bank amounted to 71.41%. In order to keep the free float of the bank's shares at a minimum level of 30%, on 6 October 2014, the majority shareholder sold nearly two million shares in Bank Zachodni WBK by way of accelerated book-building and reduced its interest to 69.41%.

### **Extension of the Scope of Business**

On 31 October 2014, an organised part of the enterprise of Dom Maklerski BZ WBK (Brokerage House) connected with the provision of brokerage services was incorporated into the bank's structure.

## **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. The bank's offering is modern, comprehensive and satisfies diverse customer needs 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 Asset Management, BZ WBK Leasing, BZ WBK Lease, BZ WBK Faktor, BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych and BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie. In co-operation with all these companies, the bank offers its customers access to mutual fund, 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 2014, Bank Zachodni WBK Group provided services to 6.3m banking customers, including customers of Santander Consumer Bank.

## **Business Model of Bank Zachodni WBK Group**

Bank Zachodni WBK provides services to customers through its Retail Banking Division, Business & Corporate Banking Division and Global Banking & Markets Division. The above units, together with co-operating subsidiaries, form separate business segments and their results are disclosed under a segment reporting framework.

The operating segments of BZ WBK Group also include the ALM and Central Operations segment which covers funding for other segments, unallocated transactions and management of the Group's strategic investments.

Santander Consumer Bank, which specialises in consumer finance, is the only subsidiary undertaking of Bank Zachodni WBK which forms a separate business segment.

Retail Banking offers services and solutions to personal customers and small and micro companies. The responsibility for relationships with retail customers rests mainly with branches. As at 31 December 2014, Bank Zachodni WBK operated country-wide through 788 outlets (830 as at 31 December 2013). The bank's distribution network also included 115 partner outlets (113 as at 31 December 2013) and 1,365 ATMs (1,385 as at 31 December 2013).

The Wealth Management Department provides services to high net worth customers through dedicated advisers operating from 14 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, and two departments: the Large Corporate Department and the Corporate Property Department (central units operating across Poland).

The Global Banking & Markets Division is responsible for a 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.

Bank Zachodni WBK offers a modern platform of electronic banking services called BZWbK24, which gives retail and business customers convenient and safe access to their accounts and products via the Internet, telephone or mobile telephone. Mobile banking is provided via mobile web and dedicated applications for key operating systems. 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.

Through its Telephone Banking Centre equipped with a technologically advanced specialist ITC infrastructure, the bank provides customers with information on its products and services, sells selected products and renders after-sales service.

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, 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.

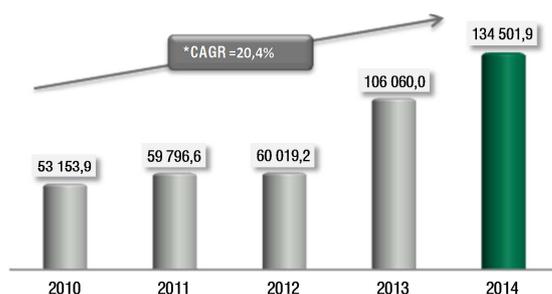
## Development of Bank Zachodni WBK Group in Years 2010-2014

Selected data illustrating performance of BZ WBK Group in years 2010-2014

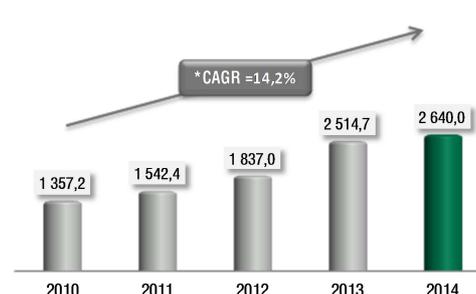
Selected Financial Data (PLN m)	2014	2013	2012	2011	2010
Total Assets	134 501,9	106 060,0	60 019,2	59 796,6	53 153,9
Loans and Advances to Customers	85 820,6	68 132,1	39 867,6	38 017,2	32 838,4
Deposits from Customers	94 981,8	78 543,0	47 077,1	46 829,5	41 970,5
Total Equity	18 051,7	14 482,9	8 977,7	7 483,0	6 773,6
Profit Before Tax	2 640,0	2 514,7	1 837,0	1 542,4	1 357,2
Profit Attributable to Owners of BZ WBK	1 914,7	1 982,3	1 433,8	1 184,3	974,2
Selected Ratios	2014	2013	2012	2011	2010
Cost to Income Ratio	47,2%	47,0%	43,9%	50,2%	49,9%
Capital Adequacy Ratio	12,9%	13,9%	16,5%	15,1%	15,8%
NPL Ratio	8,4%	7,9%	5,4%	5,5%	6,8%
Earnings per Share (PLN)	19,9	21,2	19,4	16,2	13,3
Net Book Value per Share (PLN)	181,9	154,8	120,3	102,4	92,7
Selected Non-Financial Data	2014	2013	2012	2011	2010
Number of Branches	788	830	519	526	527
Number of FTEs	14 835	12 612	8 835	9 383	9 840
Dividend (PLN)	n/a <sup>1)</sup>	10,7	7,6	8,0	8,0
Number of Shares at the Year-End	99 234 534	93 545 089	74 637 631	73 076 013	73 076 013
Closing Share Price at the Year-End (PLN)	375,0	387,6	241,9	226,0	214,9

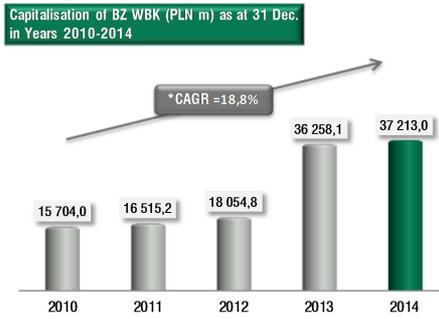
1) As at the release date of this report, the Management Board of Bank Zachodni WBK has not completed the analysis leading to the issuance of recommendation on dividend pay-out for 2014.

Total Assets of BZ WBK Group (PLN m) as at 31 Dec. in Years 2010-2014



Profit Before Tax of BZ WBK Group (PLN m) in Years 2010-2014





\* CAGR – Compound Annual Growth Rate

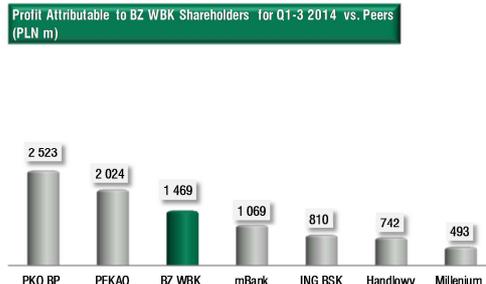
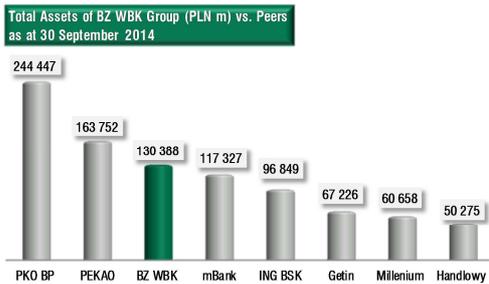
## Position of BZ WBK Group in the Polish Banking Sector

Bank Zachodni WBK Group has stable sources of funding and a solid capital and liquidity position. This strong position 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 and a large Poland-wide branch network increases 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.

According to the financial information as at the end of Q3 2014, which at the date of approval of this Management Board report (5 March 2015) was 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, deposits, loans and PBT as well as being the market leader in terms of consolidated ROE (15.9% as at 30 September 2014).

According to NBP statistics, as at the end of December 2014 the Group’s share of the market was 8.9% for loans and 9.5% for deposits.

The Group continued to strengthen its presence in the factoring and leasing markets via its subsidiaries, generating 13% and 7.5% of annual sales, respectively (as per 2014 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 11.0% (as at 31 December 2014 according to Analizy Online) while in the equity and futures markets it held 6.9% and 8.6%, respectively (according to the Warsaw Stock Exchange).



## Position of Banco Santander

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. According to data as at the end of December 2014, it was one of the largest banks in Europe and the second largest bank in terms of capitalisation. On a consolidated basis, the bank managed EUR 1,266.3bn worth of customer assets, provided services to over 100 million customers via a distribution network of 12,951 branches, and employed 185.4 thousand people. In 2014, the net profit attributable to Banco Santander's shareholders came in at EUR 1,455m. Santander is the leading financial group in Spain and South America. It also enjoys a strong market position within selected segments in the UK, the north-eastern coast of the US as well as in Germany and Poland.

On 3 December 2014, Banco Santander debuted on the Warsaw Stock Exchange to fulfil the commitment made to the Polish Financial Supervision Authority (KNF) following the merger of Bank Zachodni WBK and Kredyt Bank. 12,584,414,659 ordinary shares of the bank with a nominal value of EUR 0.50 each were listed. In addition to WSE, Banco Santander shares are traded on stock exchanges in Madrid, Milan, Lisbon, London, New York, Buenos Aires and in other cities.

## 2. Entities Related with Bank Zachodni WBK

### Subsidiaries

As at 31 December 2014, Bank Zachodni WBK formed a Group with the following subsidiaries:

1. Santander Consumer Bank S.A. (SCB S.A.)
2. Santander Consumer Finance S.A. – subsidiary of SCB S.A.
3. AKB Marketing Services Sp. z o.o. – subsidiary of SCB S.A.
4. Santander Consumer Multirent Sp. z o.o. – subsidiary of SCB S.A.
5. S.C. Poland 2014-1 Limited – subsidiary of SCB S.A.
6. BZ WBK Asset Management S.A.
7. BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. – subsidiary of BZ WBK Asset Management S.A.
8. BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.
9. BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.
10. BZ WBK Finance Sp. z o.o.
11. BZ WBK Faktor Sp. z o.o. – subsidiary of BZ WBK Finance Sp. z o.o.
12. BZ WBK Leasing S.A. – subsidiary of BZ WBK Finance Sp. z o.o.
13. BZ WBK Lease S.A. – subsidiary of BZ WBK Finance Sp. z o.o.
14. Lizar Sp. z o.o. – subsidiary of BZ WBK Lease S.A.
15. BZ WBK Inwestycje Sp. z o.o.
16. BZ WBK Nieruchomości S.A.
17. Gieldokracja Sp. z o.o.

Compared with 31 December 2013, Bank Zachodni WBK Group added four companies as a result of the following:

- Acquisition by Bank Zachodni WBK of 3,120,000 ordinary and preferred shares in SCB with its registered office in Wrocław and with a nominal value of PLN 100 each, representing 60% of the share capital and approximately 67% of votes at the General Meeting of SCB pursuant to the Investment Agreement of 27 November 2013 between Bank Zachodni WBK, Santander Consumer Finance and Banco Santander on the acquisition of shares in Santander Consumer Bank by way of a private placement and an in-kind contribution.

- Removal of Dom Maklerski BZ WBK (Brokerage House) from the business register (KRS) without a formal liquidation on 31 October 2014 and its division in accordance with the Division Plan of 24 July 2014 through:
  - ✓ the transfer to Bank Zachodni WBK of an organised part of the enterprise of the Brokerage House connected with the provision of brokerage services and other services which do not constitute the advertising business;
  - ✓ set-up of Gieldokracja, a limited liability company, which took over a part of the enterprise connected with the provision of educational services related to the capital market, advertising and communication services, and the maintenance of internet portals (all shares were taken up by Bank Zachodni WBK as the sole shareholder of the former Brokerage House).
- Removal of BFI Serwis in liquidation from the business register (KRS) on 20 November 2014.

Detailed information about changes in the structure of Bank Zachodni WBK Group is given in Chapter VII "Organisational and Technological Development", section 1 "Organisational Changes".

As a result of the above-mentioned changes, the Brokerage House is now a unit of the bank which meets the definition of a brokerage office and conducts brokerage activity in accordance with the clearance issued by the Polish Financial Supervision Authority (KNF) on 10 June 2014.

Currently, the largest subsidiary in Bank Zachodni WBK Group is Santander Consumer Bank, which forms the SCB Group with four subsidiaries: 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), Santander Consumer Multirent (leasing) and S.C. Poland 2014-1 Limited (SPV set up for the purpose of the securitization transactions).

With the exception of one company, all the entities within Bank Zachodni WBK Group are consolidated with the bank in accordance with IAS 27 as at 31 December 2014. Lizar has been excluded from the consolidation given its small business size and immaterial financial performance.

## Associates

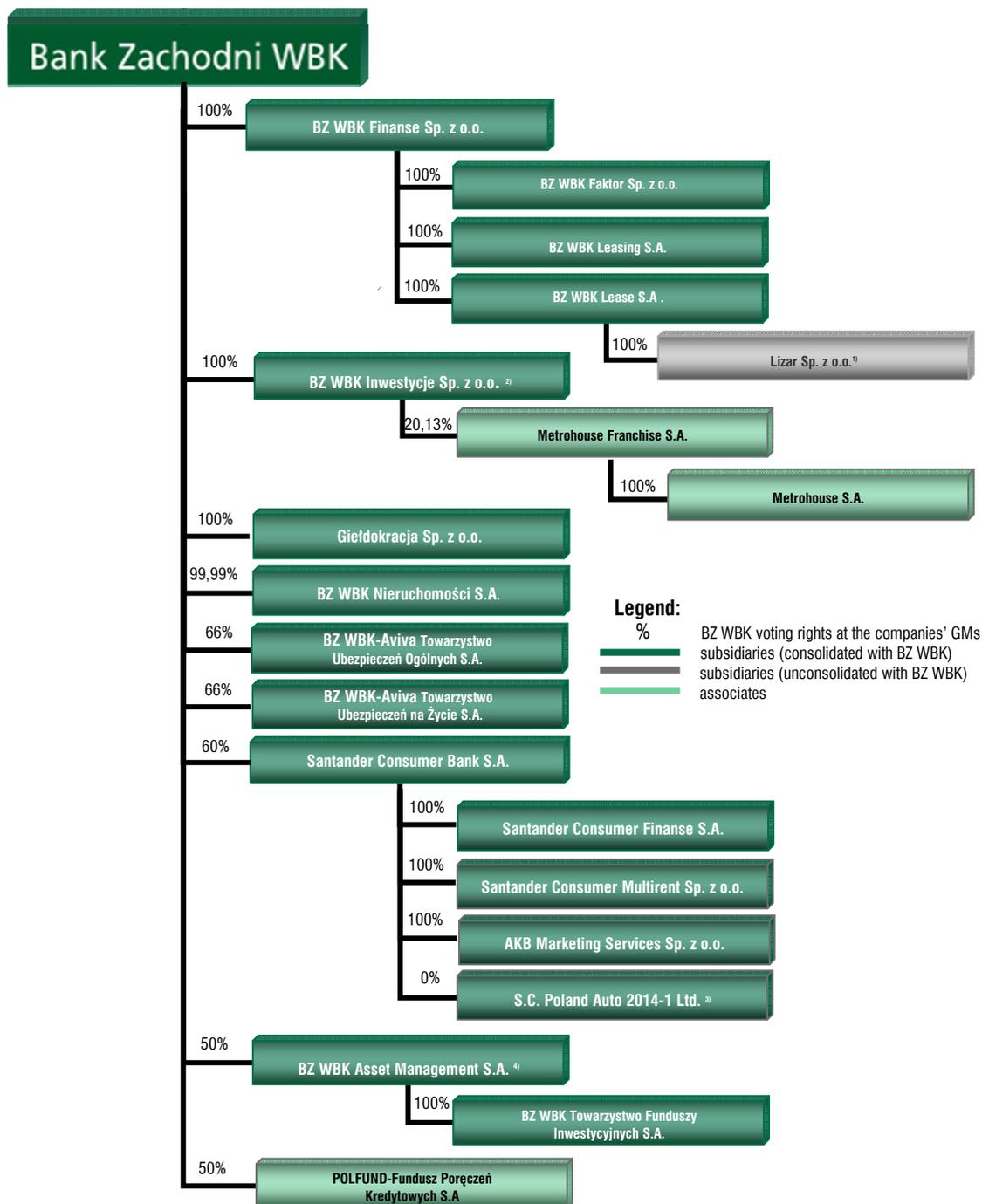
In the consolidated financial statements of Bank Zachodni WBK for the 12-month period ended 31 December 2014, the following companies are accounted for using the equity method in accordance with IAS 28:

1. Metrohouse Franchise S.A. – associated undertaking of BZ WBK Inwestycje Sp. z o.o.
2. Metrohouse S.A. – subsidiary of Metrohouse Franchise S.A.
3. POLFUND – Fundusz Poręczeń Kredytowych S.A.

As part of organisational changes in Metrohouse Group, in September 2014, BZ WBK Inwestycje transferred all shares of Metrohouse to Metrohouse Franchise (registered on 1 July 2014) in exchange for 41,630k shares in Metrohouse Franchise representing a stake of 20.58% in the share capital and voting power of the company. As a result of another increase in the share capital of Metrohouse Franchise, the share of BZ WBK Inwestycje in the above company was 20.13% as at 31 December 2014.

In December 2014, BZ WBK Inwestycje sold 320,000 shares in Krynicki Recycling, reducing its stake in the share capital to 19.96%. Accordingly, the company was removed from the list of associates as at 31 December 2014.

## Organisational Chart of Entities Related with BZ WBK Group as at 31.12.2014



1) Lizar is not consolidated with Bank Zachodni WBK given the immaterial nature of its business and financial performance.

2) The subsidiaries of BZ WBK Inwestycje, i.e. Metrohouse Franchise and Metrohouse were classified as associates since the bank has a significant impact on their operations. The respective shareholdings were acquired as part of the bank's strategy to build a portfolio of pre-IPO investments.

3) S.C. Poland Auto 2014-1 Limited is an SPV set up for the purpose of securitization of part of SCB credit portfolio. Shares in the company are held by foreign individuals who are 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 31.12.2014, Bank Zachodni WBK was a co-owner of BZ WBK Asset Management together with Banco Santander. Both owners 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.

### 3. Other Equity Investments

As at 31 December 2014 and 31 December 2013, Bank Zachodni WBK Group owned more than 5% of share capital or voting power in the following companies:

Ref.	Company	31.12.2014		31.12.2013	
		% 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. <sup>1)</sup>	21,09%	12,21%	21,09%	12,21%
4.	Krynicki Recycling S.A.	19,96%	19,96%	22,41%	22,41%
5.	Masterform S.A. <sup>1)</sup>	19,88%	11,72%	19,88%	11,72%
6.	Chronos Film Sp. z o.o.	16,67%	16,67%	16,67%	16,67%
7.	Polski Standard Płatności Sp. z o.o.	16,66%	16,66%	-	-
8.	i3D S.A. <sup>1)</sup>	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%	13,08%	13,08%	5,00%
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%	7,71%	7,72%	7,71%
16.	Infosystems S.A. <sup>1)</sup>	7,50%	7,50%	7,50%	7,50%
17.	Hortico S.A. <sup>1)</sup>	6,71%	6,71%	6,71%	6,71%
18.	AWSA Holland II B.V.	5,44%	5,44%	5,44%	5,44%
19.	Gorzowski Rynek Hurtowy S.A. <sup>1)</sup>	4,10%	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 2014

### Economic Growth

In 2014, the Polish economy grew by more than 3% YoY, yet economic activity slightly slowed in the second half of the year due to considerable changes in the external economic environment as the euro zone slid into stagnation and Russia introduced counter-sanctions against the European Union. This undermined external demand for Polish products and weighed on the country's economic prospects. It is estimated that the output gap stayed negative over the past year. The main driver of GDP growth was domestic demand. Growth in private consumption improved steadily, supported by the favourable situation in the labour market and decent growth in household incomes, but nevertheless remained at a moderate level. Healthy growth was also recorded in fixed investments, which rose at a nearly double-digit pace. Stronger domestic demand and slower growth in external demand resulted in deterioration of net exports as a contribution to GDP growth, which was most likely negative. However, a further deterioration of economic prospects of Poland's main trade partners negatively affected, among others, domestic exports and industrial output, which significantly slowed in the second half of 2014. Notwithstanding, the Polish external trade imbalance was relatively low - according to the bank's estimation the current account deficit accounted for ca.1.3% of the GDP at the end of 2014, similar to 2013.

### Labour Market

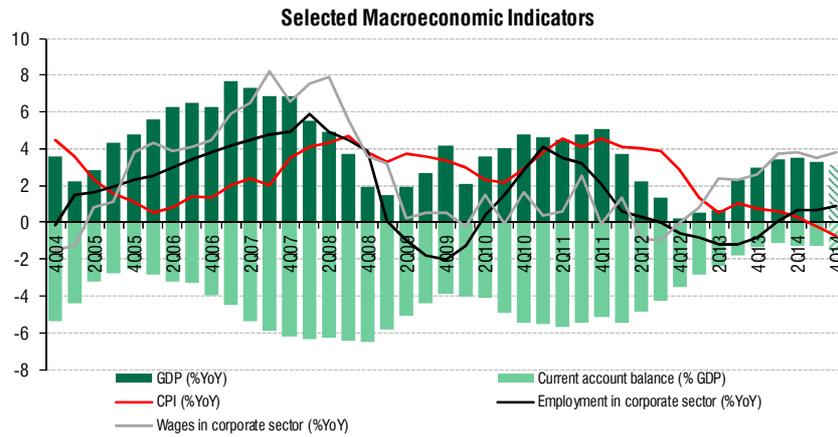
In 2014, the labour market continued to enjoy the improvement that had started in the previous year. Average employment in the corporate sector increased gradually, and a greater demand for employees was generated mostly by industrial manufacturing and retail sales. The trend in other sectors remained weak. The official unemployment rate reached 11.5% at the end of the year, i.e. was by 1.9 p.p. lower than a year earlier. It was the most pronounced decline in annual terms since 2008. To date, the pace of improvement in the labour market continues and is even strengthening, but a deterioration of prospects for exports and industrial manufacturing may negatively affect the situation within the labour market. Corporate sector wages increased in nominal terms by 3.7% YoY, which together with very weak growth in consumer prices and a positive increase in employment caused a significant rise in disposable incomes in real terms. According to the Bank's estimation, the real wage bill in the corporate sector increased by ca. 4.5% YoY – the highest pace since 2008.

### Inflation

Inflationary pressure was very low throughout 2014 due to still relatively weak economic growth and deflationary tendencies outside Poland. A Russian embargo on food from the European Union was another factor supporting a decline in prices, as it caused an oversupply of food products in both the Polish market and the wider EU market. Towards the end of the year oil prices plunged, translating into a decline of fuel prices in the domestic market. In July, CPI inflation fell below zero for the first time since the economic transformation and declined steadily, reaching -0.9% YoY by the year-end. Annual average CPI inflation was equal to 0.0%, while core inflation, excluding food and energy prices, was at 0.6% YoY and PPI inflation at -1.5%YoY.

### Monetary Policy

In the first part of 2014, the Monetary Policy Council acted in line with the forward guidance policy started back in 2013, i.e. to keep interest rates flat and state that they would remain stable until at least the end of Q3 2014. The change in the external economic environment encouraged the MPC to drop this declaration in July and interest rates were cut in October, with the reference rate going down by 50 basis points (to 2.00%), the lombard rate by 100 basis points (to 3.00%) and the deposit rate staying flat. Thus, the MPC decided to narrow the corridor between the NBP's interest rates. In the months that followed the Council suggested that further rate cuts would be possible, but no subsequent changes were made.

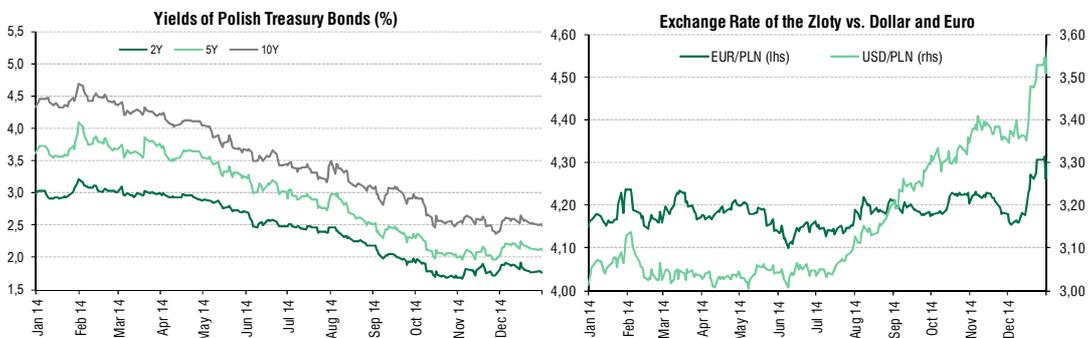


### Credit and Deposit Markets

In 2014, the situation on the loan market improved. Companies' investment loans accelerated from 1.6% YoY at the beginning of the year to ca. 6% YoY at the end (after FX adjustment). Investment loans for corporates showed high, double-digit growth, while current loans and real estate loans were underperforming, but showing significant acceleration and a positive growth rate. Loans in the household sector also rebounded quite visibly (increasing by ca. 5% YoY on average), but the pace of growth was slower as compared with corporates. The second half of 2014 brought some termination to the positive trends in this sector, but the pace of growth remained slightly above 4% YoY. The growth rate of households' deposits was relatively slower than in the previous year, but gradually gathered pace over the course of 2014. At the same time the growth rate of corporate deposits was higher than in 2013 and characterized by high volatility. In general, low interest rates in Poland did not really encourage depositors to search for alternative investment opportunities.

### Financial markets

2014 was very turbulent in global financial markets. The Federal Reserve's decision to start tapering its quantitative easing program triggered worries over emerging markets which rely on external financing. This affected asset values in those countries and also in Poland (at the beginning of the year). Consequently, the Polish zloty and bonds weakened. Later, the market was influenced by concerns over the Russia-Ukraine conflict and this too had a negative impact on Polish assets. Over the course of the year, investor moods were also adversely affected by worries over the unstable situation in Iraq and the results of the Scottish independence referendum. However, expectations regarding future ECB and the Federal Reserve policy actions were the main market driver with suggestions that rates in the US could be hiked earlier than the market expected, having a negative impact on investor sentiment. At the same time, markets were supported by ECB monetary policy easing after the asset purchase programme was introduced. In late 2014, market sentiment was further supported by stronger expectations for an extension of the programme to include corporate and government bonds, while worries over the situation in Russia, a significant plunge in oil prices and the ruble's depreciation weighed on emerging market assets.



Falling yields in the core markets, dovish rhetoric from the MPC and low inflation were supporting Polish debt and money markets, and consequently interest rates and bond yields reached fresh all-time lows. In early 2014, some uncertainty persisted in the debt market that the transfer of bond holdings of private pension funds (OFE) to the state pension fund (ZUS) would adversely influence liquidity and that this would be reflected in prices. However, these fears proved unfounded. In June Polish assets were temporarily hit by the “tape scandal” fuelling concerns that earlier elections could be called – this had a stronger impact on the FX market than the FI market. At the end of 2014, 2Y bond yields were at 1.77% (123 bp lower than a year ago), 10Y reached 2.51% (181 bp lower than a year earlier).

At the beginning of 2014 the zloty depreciated on the back of concerns regarding the looming monetary policy tightening in the US. EUR/PLN surged to 4.25 from 4.15. Later, after some recovery, the domestic currency depreciated again due to worries over the conflict in Ukraine. Later in the year, the zloty was supported by expectations for the ECB to begin its asset purchases programme and this dragged EUR/PLN down to c.4.09, its lowest level in 2014. As the year-end approached, the zloty came under pressure due to the situation in Russia and EUR/PLN reached 4.34, its highest level over the year. Meanwhile, USD/PLN was relatively stable at around 3.0 in H1 2014 but rose significantly in the following six months amid the euro’s depreciation vs. the dollar. It was close to 3.55 at the year-end.

## Stock Market

Similarly to the previous year, 2014 did not bring any significant changes on the Warsaw Stock Exchange. At the end of 2014, the main stock indices held fairly steady year-on-year. The mWIG40 mid-cap index performed best (relatively speaking), yielding as much as 4.1%. Blue chips traded much worse, with the WIG20 losing 3.5% per annum. The highest losses were reported by small-cap companies, as confirmed by a 16.8% drop in the WIG250. The WIG broad market index declined slightly by 0.3% as opposed to the world stock indices which continued an upward trend. The situation in the Warsaw stock market was largely impacted by the conflict between Russia and Ukraine and structural changes in the open-end pension fund system. Another reason was the bullish treasury debt market which attracted investments away from the stock exchange. An initially subdued inflow of domestic and foreign capital turned into a slow but stable outflow from the equity market, which gradually resulted in a fall-off in trading, limited volatility and lower activity, in particular among individual investors.

## Regulatory Environment of Banking Sector

### Key Developments in Polish Legislation

On 1 January 2014, the amendment to Payment Services Act of 30 August 2013 became effective. It defined the maximum amount of the interchange fee charged by card issuers from merchants via acquirers for the acceptance of domestic payment transactions (0.5% as of 1 July 2014) and set out the obligations and requirements for participants in the domestic payment services market. The law was subsequently amended on 28 November 2014 by reducing the maximum interchange fee to 0.2% for debit cards and 0.3% for credit cards (effective from January 2015).

In order to reinforce the protection of consumer rights, the following legislation was introduced: the amendment of 23 October 2013 to the Act on supervision of the financial market and certain other laws (effective from 17 January 2014) and the Consumer Rights Act of 30 May 2014 (effective from 25 December 2014). In addition, the existing consumer bankruptcy regulations were liberalized by virtue of the amendment of 29 August 2014 to the Bankruptcy and Reorganisation Law, National Court Register Act and Act on court fees in civil lawsuits, which entered into force on 31 December 2014.

Pursuant to the Reverse Mortgage Act of 23 October 2014 (effective from 15 December 2014), a reverse mortgage was introduced into the Polish legal system.

### Impact of EU and Third Countries’ Legislation

The banks’ operations in 2014 were significantly impacted by EU regulations and the US Foreign Account Tax Compliance Act (FATCA).

On 12 February 2014, the legally binding European Market Infrastructure Regulation (EMIR) became effective, imposing a set of obligations on financial and non-financial counterparties related to the execution of derivative transactions outside the regulated market. The legal entities which conclude such transactions have an obligation to clear them via a central counterparty, report derivatives to a trade repository, and mitigate the associated risk.

On 27 June 2013, the Capital Requirements Regulation (CRR) and the CRD IV Directive applicable from 1 January 2014 were published in the Official Journal of the European Union. The Regulation is directly applicable across EU member states but the Directive must be transposed to the Polish legal system through an amendment to the Banking Law.

The main objective of the CRD IV/CRR package was to reinforce the resilience of the financial system by way of, among other things, an improvement of the quality and value of own funds, expansion of capital requirements to include additional risks, reduction of the leverage ratio, introduction of liquidity requirements, refinement of risk management issues, additional requirements for members of the management body and limitation of variable remuneration components for persons holding managerial positions.

On 7 October 2014, Poland and the United States signed an intergovernmental agreement to expand tax cooperation and implement FATCA in Poland. FATCA requires foreign financial institutions to report to the US Internal Revenue Service certain information about financial accounts held by US taxpayers. Failure to comply with FATCA requirements will result in a 30% withholding tax on financial transfers from the US to foreign financial institutions.

### **Recommendations of the Polish Financial Supervision Authority (KNF)**

KNF recommendations which significantly affect the operations of banks include Recommendation S, U and D.

KNF Recommendation S of 18 June 2013 regarding best practice in the management of mortgage-secured credit exposures (effective as of 1 January 2014) promotes sustainable mortgage-backed lending while ensuring its security. KNF recommended rules that curtailed FX mortgage lending and introduced more stringent requirements relating to the LtV ratio, minimum down payment and lending period.

The objective of Recommendation U issued on 24 June 2014 is to provide regulation to the bancassurance market. The regulation is aimed to prevent conflicts of interest by forbidding banks to combine the role of an intermediary and that of an insuring party. Furthermore, it makes recommendations on fees to be charged by banks for offering insurance products. Focus is also placed on the freedom of customers to choose an insurer and on reliable information to be provided in the process. The Recommendation is set to come into effect on 31 March 2015.

On 31 December 2014, an amendment of 8 January 2013 to KNF Recommendation D on IT management and security of IT infrastructure in banks became effective. The amendment was necessary in view of the advanced development of information technologies and banks' increasing dependence on IT solutions.

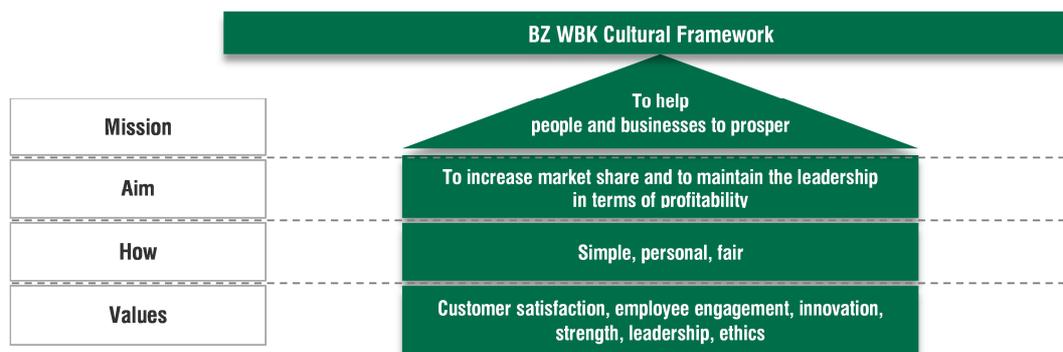
## IV. Development Strategy

### 1. Strategy of Bank Zachodni WBK Group

In 2014, Bank Zachodni WBK Group pursued its strategy for 2013-2015 with the support of the Next Generation Bank Programme, under which new solutions are steadily implemented with the primary focus placed on the needs and expectations of customers and effective cooperation between the bank's units ensuring a superior customer experience.

The existing strategy of Bank Zachodni WBK Group was verified in order to formulate a new three-year concept (2015-2017), taking account of new challenges emerging in the external environment and arising from the evolution of the Group's structure and its development objectives. The new strategy is a continuation of the previous course of action, based on the same values and assumptions. The fundamental element of the strategy is the Next Generation Bank Programme which promotes a customer centric culture in business management.

### Vision and Mission



In line with its vision, Bank Zachodni WBK seeks to increase its market share and maintain its leadership in terms of profitability, while becoming the bank of satisfied customers and people working with passion.

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

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

As part of its strategic vision, the Group intends to:

- provide unparalleled customer service to build customer loyalty and satisfaction, with an increased focus on affluent personal customers
- significantly diversify its income sources, while maintaining a sound capital and liquidity position
- continue the prudent management of risk and asset quality
- improve efficiency on the back of top-notch IT systems and fast-track customer service
- achieve best-in-class profitability ratios
- grow a highly profitable and top quality credit portfolio
- maintain its leadership position in the mobile banking market and continue the development of products and services available via electronic channels

- increase operational synergies within Bank Zachodni WBK Group in connection with the incorporation of Santander Consumer Bank
- set up BZ WBK mortgage bank
- achieve the highest level of employee satisfaction on the basis of robust corporate culture and support from the strong management team.

To deliver its vision, Bank Zachodni WBK Group will pursue the following goals:

- enhance its presence in the Polish banking sector and strengthen its market position as the third largest bank in Poland
- expand the range of products and services offered and improve customer service and the overall customer experience
- maintain strong profitability ratios on the back of diversified income sources, an effective cost management policy and revenue synergies
- gradually improve its total assets, ensure stable funding sources, and maintain a solid capital position, as evidenced by a comfortable capital ratio
- achieve best-in-class efficiency and productivity ratios by leveraging Santander Group's economies of scale
- build a reputation as the best employer in the Polish banking sector by continuously developing staff expertise and engagement
- maintain the loan-to-deposit ratio below 100%
- further reduce the cost-to-income ratio through the active management of revenues and expenses.

The key measures of success for the Group's 2015-2017 strategy are as follows:

- completed transformation of the bank into a customer-centric institution focused on customer needs
- achievement of higher rates of return than the competition
- maintenance of net profit growth on a year-on-year basis from 2015 to 2017
- increase in ROE and continued rigid cost management policy
- delivery of the vision of the bank of satisfied customers and people working with passion.

## 2. Next Generation Bank Programme

### Main 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 the adopted strategy. To that end, intensive efforts had to be taken to transform the Group towards a customer-centric organisation (focused on customer needs) which employs well-motivated, engaged and collaborating people.

The main features of the Programme:

- 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.
- A customised proposition with 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 preference.
- A way of pricing that is fair and transparent to the customer, based on the value of the relationship; the proactive communication of alternatives.
- Using knowledge of the customer (consolidated across multiple interactions) to define, meet and exceed expectations, especially in key moments of their lifetime cycle.
- IT solutions designed and optimised around the needs of the customer, making critical processes fast.
- The customer perspective as a key factor in organisational design, by hardwiring customer satisfaction into incentives throughout the organisation.

## Initiatives delivered in the key streams of the Next Generation Bank

### Retail Banking

The initiatives delivered by Retail Banking in 2014 included modification of retail customer segmentation criteria, expansion of the product proposition and streamlining of the customer service model for VIP and SME customers (dedicated products; set-up of the Affluent Clients Service Centre; specialist branch services for individual segments; access to the SantanderTrade portal for business customers). An important change was the implementation of an innovative measure in the Polish market – "linkage" (strength of relationship) – which looks at the number of products held by customers, their activity and transactions made. As part of the NGB Programme, the bank increased the effectiveness of service quality improvement techniques and tools. An example of this are more diversified forms of service quality assessment and the implementation of new service quality standards and training tools. For the first time in the bank's history, over sixty thousand customers provided their feedback on different products and services, and this was used to modify the bank's offer and procedures.

Changes were introduced to the branch work schedule to focus on the development of long-term customer relationships, customer excellence and multi-channelling, and also to increase the accountability of advisors in all their dealings with customers (in line with the Advisor-Entrepreneur model).

Lastly, the bank implemented changes recommended by branch employees during focus meetings, including centralisation of selected branch processes, optimisation of credit delivery for business customers and new support tools for advisors (over 260 ideas in total).

### Business & Corporate Banking and Global Banking & Markets

The Business & Corporate Banking Division delivered a number of initiatives aimed at transforming its services and processes so that they better suit customers' needs. This transformation programme was delivered via four streams: Sales Force Efficiency, Cross-Selling Tools, Service Quality and Incentive Schemes. The first roll-out phase included, inter alia, changes to the work schedule of Corporate Banking Centres, process streamlining, development of cross-selling tools and staff selling skills as well as modification of the incentive schemes to further support business growth and customer acquisition. The second phase focused on process simplification and efficiency based on an end-to-end approach and included, among other things, the facilitation of customer contact with the Business Service Centre, streamlining and harmonising the credit delivery process on the basis of the best practice developed by individual Corporate Banking Centres, simplification of key operational processes (e.g. central management of cash processes, central monitoring of deposits, services to key deposit customers) and launching processes to lay the foundations for the self-learning organisation model (service standard assessment, collection of customer and employee feedback, knowledge database, information management).

The Global Banking & Markets Division focused on an expansion of the collaboration with Retail Banking and Business & Corporate Banking. The divisions agreed on a co-operation model and began regular joint meetings of sales teams. As part of this collaboration with the Business & Corporate Banking Division, a series of meetings were held with customers, which resulted in joint deals. A number of initiatives were also completed with a view to streamlining the processes in the Global Banking & Markets Division.

In the longer term, initiatives delivered as part of the Next Generation Bank Programme should increase service quality, enhance customer experience, support continuous development of processes and staff competencies and boost the efficiency of sales management.

### Other Streams

In 2014, the HR stream focused on the promotion of a culture of dialogue, collaboration and development of staff engagement and competencies. The initiatives implemented by the bank were related to the recruitment and induction of new employees, plus the improvement of training activities and standards for the provision of knowledge regarding products and services.

Particularly noteworthy is the development of a model for the Next Generation leader, introduction of changes in the performance review process and defining the roles of regional and branch directors.

In Q3 2014, as part of the Next Generation Bank Programme, a Multichannel CRM project was launched to develop a business approach and technology to support delivery of the customer-centric strategy of the bank. Some of the ideas include: effective campaign models based on customers' preferences for products and sales channels, automated selection of customers for campaigns and the launch of event-triggered and multi-stage campaigns. Also, solutions are being developed in terms of customer activation and onboarding processes.

### 3. Economic Outlook for 2015

- The economic slowdown observed in Q4 2014 is likely to continue in Q1 2015. However, it is expected to be both slight and temporary with some pick-up in GDP growth from Q2 onwards. The GDP growth is likely to accelerate from 2.8% YoY in Q1 to 3.5% YoY at the year-end.
- 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 will positively affect exports to those countries. Nevertheless, there is still a lot of uncertainty regarding the euro zone's economy and the situation in Ukraine and Greece, which may considerably weigh on economic sentiment.
- Domestic demand will continue to be an important driver of growth in 2015. The improvement in the labour market should continue with job creation and significant growth in real wages (supported by productivity increases). Nominal wage growth of ca. 3%-4% should be maintained, but low or negative inflation will support disposable incomes in real terms. At the same time, unit labour costs are expected to increase by a mere 1%-2% in 2015. Household budgets should also enjoy support through favourable rules on indexation for pensioners, higher tax allowances for families with children and low interest rates. Private consumption should be an important driver and stabilizer of the GDP growth in 2015. The biggest question mark concerns investment.
- The zloty may gradually appreciate throughout the year due to an improving economic climate. However, temporary periods of depreciation are possible in times of turbulence in the world's financial markets. At the end of the year the EUR/PLN rate is expected to be close to 4.05. The appreciation of the zloty against the Swiss franc is anticipated with the CHF/PLN rate closing the year 2015 at 3,75.
- 2015 started with deflation nearing -1.5% YoY in the first quarter, caused mainly by low global food and fuel prices. In the months to follow inflation will probably gradually increase. However, it is expected to stay below zero until Q3 or Q4 and much below the NBP target until the end of the year. The output gap remains negative, which is why a strong surge of inflationary pressure should not be expected in the near term. Weak or negative inflation growth will be favoured by sluggish price growth in the world economy and low pressure from commodity prices.
- Decelerating economic growth, negative inflation and an accommodative monetary policy from central banks across the world should encourage the Polish Monetary Policy Council to trim its interest rates by 50bps, bringing the reference rate to a record-low of 1.50%.

# V. Human Resources and Corporate Culture

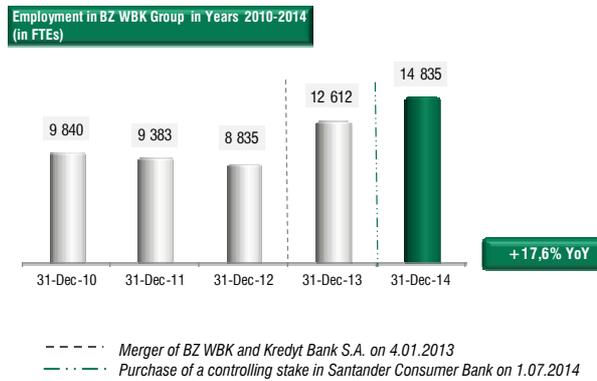
## 1. Human Resources Management

### Human Resources

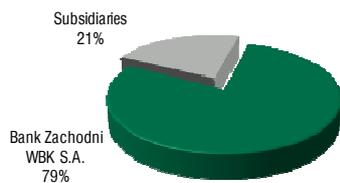
As at 31 December 2014, the number of FTEs in Bank Zachodni WBK Group was 14,835 vs. 12,612 as at 31 December 2013.

Excluding 2,720 FTEs of Santander Consumer Bank, the underlying headcount in Bank Zachodni WBK Group (members of the Group prior to the acquisition of shares in Santander Consumer Bank) was 12,115 FTEs, i.e. 497 lower YoY. This decrease is due to the continued optimisation of organisational structures within the Business Support Centre and Branch Banking, taking account of current business needs and prevailing market conditions.

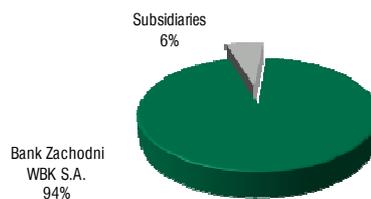
Human capital of Bank Zachodni WBK Group is created by highly-qualified, experienced and committed specialists, experts and managers who successfully deliver on their business goals, with a continuous focus on personal and professional development.



**Employment Structure in BZ WBK Group as at 31.12.2014**



**Employment Structure in BZ WBK Group as at 31.12.2013**



### HR Policy and Its Delivery

#### Recruitment

In 2014, a new recruitment model was introduced consisting of proactive recruitment in the labour market based on social media (GoldenLine, LinkedIn), career fairs, events organised by universities, science clubs and career services. In 2015, the bank plans to launch its Referral Programme, foster cooperation with universities and high schools and deliver new employer branding initiatives to increase awareness of the Bank Zachodni WBK brand among students, graduates and prospective employees.

In 2014, the Induction Programme for customer and business advisors was revamped to facilitate the induction of new recruits into their job.

## Remuneration and Incentive System

Bank Zachodni WBK pursues a transparent remuneration policy based on sector best practice and payroll reports prepared by leading advisory companies. Remuneration is composed of a base salary and additional benefits governed by relevant internal policies.

In order to support the delivery of the bank's strategic objectives and to ensure that staff are adequately motivated, bonus schemes have been put in place. They are linked to the results of respective units as well as the performance and delivery of individual objectives.

Management Board members are covered by a separate bonus system which is related to the financial and operational performance.

In 2014, a new edition of the long-term (three-year) share-based incentive scheme was launched (see below for more details).

### Performance Share Programme

#### *Awards under the three-year 4th Incentive Scheme*

Pursuant to AGM Resolution no. 40 of 16 April 2014, confirming achievement of the stated vesting targets under the three-year 4th Incentive Scheme approved by the AGM of 20 April 2011, the bank's share capital was increased through the issue of 305,543 series K ordinary bearer shares with a nominal value of PLN 10 each. The shares were issued via a private placement and were offered to 468 eligible participants of the 4th Incentive Scheme indicated in the Supervisory Board's resolution. The subscription period was from 18 April 2014 to 19 May 2014 and the shares were allocated on 21 May 2014. The capital increase was registered in the National Court Register on 11 July 2014.

#### *Adoption of the 5th Incentive Scheme*

On 30 June 2014, an Extraordinary General Meeting of Bank Zachodni WBK introduced a three-year 5th Incentive Scheme beginning in 2014 and addressed to 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 the top-performing executives.

The Incentive Scheme covers all Management Board members of the bank and no more than 500 key employees of Bank Zachodni WBK (as at 31 December 2014) indicated by the Management Board and approved by the Supervisory Board. 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 monitored to check if any of 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. As at 31 December 2014, no participant in the 5th Incentive Scheme lost their participant status.

### Perception of the Bank as an Employer

Bank Zachodni WBK was included among Poland's top 30 employers in the "business" category Ideal Employer Ranking based on a global Universum Student Survey. It is the biggest survey among students in Poland of their future career plans and employer expectations. The purpose of the survey is to evaluate how employers are perceived in Poland's labour market and what factors make them attractive to students.

## Training and Development Programmes

The Training, Development and HR Communication Area provides top-quality development programmes and business-as-usual training (both traditional and remote) which support the development of employees and executives of Bank Zachodni WBK and contribute to the delivery of the bank's strategic goals and key business projects.

Compliance with strategic and training objectives is ensured through the central planning and co-ordination of training – a process actively supported by branch banking and key business areas. Training and development processes are delivered in stages, starting from the analysis of the individual needs of employees (in the context of business tasks within particular units) through to planning, delivery and assessment of the results.

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 team.

### **Strategic Training Programmes and Ongoing Training Courses**

As part of training activities for Branch Banking, 329 initiatives were delivered, including three strategic training programmes:

- “Quality first” – a programme for branch managers focused on the customer centricity strategy and service quality (including “5 Customer Service Principles” formulated to support customer advisors in their day-to-day tasks).
- “Practice makes perfect” – a programme for branch managers giving an insight into sales coaching for advisors as per the New Branch Energy agenda.
- 5 credit training sessions – a programme for branch employees designed to induct them into the SME lending process. The participants received certificates and were granted lending discretions.

The workshops for the Business Support Centre covered such issues as security, accounting and finance, operational risk, audit, sales strategies, law, IT and interpersonal skills development.

The number of training hours came to a total of 443.4k i.e. 37.4 hours or nearly 5 working days on average per each employee. The number of attendees totalled 108.4k, 15% 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 (66 training groups and 679 attendees).

### **Periodic Development Programmes for Existing and Future Managers**

In 2014, Bank Zachodni WBK continued its development programmes for existing and future managers, including: Leaders of the Future programme designed for employees that will prospectively take on management and expert roles, a support programme for employees who received top performance ratings, a programme for newly appointed managers and local development initiatives responding to the specific needs of divisions and regions.

### **New Management Style Programme**

The purpose of the New Management Style Programme is to develop managers’ leadership skills so as to enable them not only to deliver business objectives but also to encourage high commitment, co-operation and innovative ideas from employees.

#### ***Leadership Styles and Organisational Climate Surveys***

In line with programme objectives, in the first half of 2014, leadership styles and organisational climate surveys were carried out in the bank. Managers’ skills were evaluated on the basis of feedback provided anonymously by the employees participating in the survey. In addition, the directors in charge of more complex functions took part in a survey designed to see how employees perceive the organisational climate and how it impacts the quality of their work. After the surveys were completed, individual reports on leadership styles and organisational climate were sent to managers. Managers also took part in follow-up sessions where survey results were summarised, enabling the preparation of individual plans for the development of their management skills.

In the second half of 2014, workshops were organised to develop the long-term leadership styles of middle and senior managers (to be continued in 2015). In addition, senior executives were covered by individual coaching schemes.

#### ***Engagement Survey***

The assessment of leadership styles was supplemented by an engagement survey. All employees of Bank Zachodni WBK with at least six months’ service in the organisation could participate in the survey by completing an anonymous questionnaire. The results for the entire organisation and individual units were released in the autumn, providing the leaders, particularly the Management Board members and the Business Partnership Division managers, with feedback on employee engagement in respective organisational units and the basis for setting and prioritising the main directions for Human Resources management.

## 2. Business Ethics

Bank Zachodni WBK Group endeavours to maintain the highest ethical standards across all its activities.

For many years, codified ethical standards have been the fundamental element of the Group's corporate culture. Initially, they were included in the Code of Business Ethics. In 2013, the General Code of Conduct was implemented across Bank Zachodni WBK Group which promotes such values as: equal opportunities, respect, work-life balance, health and safety at work, environmental protection and collective rights. Compared to the previous Code, the new one includes not only general ethical standards but also specific rules on relations with employees, customers and suppliers, conflicts of interests, information security and fraud. It is supplemented with detailed guidelines to facilitate its interpretation.

In 2014, new regulations were introduced which supplement and extend the General Code of Conduct. They include the Anti-Corruption Programme designed to eliminate gaps in the bank's controls and promote the Zero Tolerance for Corruption policy applied across Santander Group.

A number of training initiatives have been developed and addressed to all employees with the specific aim of protecting the Group's reputation. The ethics and compliance e-learning programme launched a few years ago helps reinforce the best ethical behaviours among employees.

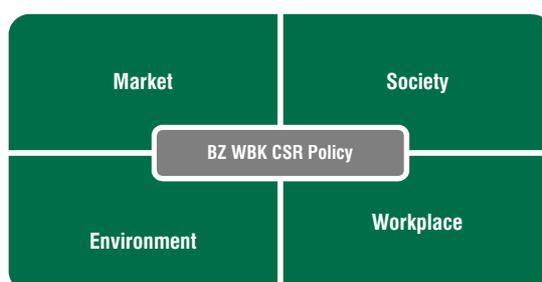
The Group also promotes open and sincere communication, encouraging all staff to voice any issues of concern. To that end, the bank maintains dedicated communication channels for staff to raise any matters, such as breach of ethical standards.

## 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.

The bank's commitment to social responsibility is confirmed by its Respect Index membership of the most socially responsible companies.

Areas of corporate social responsibility of Bank Zachodni WBK



Bank Zachodni WBK pursues a policy of corporate social responsibility focusing on:

- support for universities, academic research and entrepreneurship,
- support for local communities,
- environmental protection,
- active two-way communication with stakeholders: customers, employees, business partners, local communities and investors,
- charity initiatives and financial support for socially important projects via Bank Zachodni WBK Foundation.

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 which join the project benefit from a special curriculum, including economics lectures delivered by the bank's experts.
- Santander Universidades – a flagship project dedicated to students, PhD students, academics, administrative staff and graduates. The Santander Universidades Programme was launched in Poland in 2011 as part of the global initiative of Banco Santander delivered over the past 17 years. The idea behind the programme was 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 17 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 “Bank of Ambitious Youth” initiative designed to help young people who are in the process of developing their social attitudes to understand the needs of local communities, define objectives, create task forces, solve problems and deliver projects at a local level.

In 2014, Bank Zachodni WBK and BZ WBK Foundation ran a Poland-wide grant project addressed to local communities: “Here I live, here I make changes”. Media partners included: TVN and Polskapsresse (a nationwide local newspaper publisher). As part of the project, 160 events were held in 160 cities. In all, the bank awarded 305 grants to the winning local initiatives aimed to improve the quality of life in the municipality, district or city.

In May 2014, Bank Zachodni WBK published the first CSR Report for 2013, which had been prepared in accordance with GRI (Global Reporting Initiative) Guidelines including a sector supplement. The report covers four areas which are fundamental from the bank's perspective, namely: employees, market environment, local communities and environment. The report presents in detail the initiatives and projects delivered by Bank Zachodni WBK such as: Santander Universidades, School Card, Barrier-Free Banking programmes, the activity of BZ WBK Foundation and measures taken with regard to environmental protection and improvements to the accessibility of services for customers. The next CSR Report for 2014 will be released in May 2015.

## 4. Relationship with Customers

### 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.

#### Customer Expectations and Feedback

In 2014, the overall customer satisfaction index of Bank Zachodni WBK held steady on 2013. However, contrary to the previous year, it was measured continually from January to October, whereas the results were broken down into the periods of January-May 2014 and June-October 2014. 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.

A significant change in the approach to the management of customer satisfaction and service quality in Bank Zachodni WBK was the implementation and delivery of a customer experience management programme. The programme, which covers both personal and business customers, was designed to assess the customer experience on an ongoing basis, from customer onboarding, the selection of an offer, teller operations, the purchase of services in individual distribution channels, to the assessment of the complaint procedure. Customer opinions are used by the bank to adjust the products and service model accordingly.

The results of customer satisfaction surveys and customer feedback are available in real time. More than 1.3k 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.

### **New Customer Service Quality**

In 2014, new customer service standards were implemented across the bank's branches, Partner outlets, helpline and VIP and SME segments. The rules were formulated on the basis of best practice and experience of the bank's staff as well as the results of customer surveys. In relation to the above, regular communication initiatives were delivered, a series of training sessions were organised for front-line staff and appropriate tools were provided to employees and managers.

The implementation of these new standards was supported by a team of macroregional service quality managers appointed in February 2014 as part of Branch Banking, who were responsible for delivery of corrective actions in respect of services and satisfaction of branch customers, implementation of the training programme to build up branch staff competence in relation to customer needs analysis and development of sales skills.

In 2014, the bank implemented more than 60 initiatives designed to improve service quality and customer satisfaction in the multi-channel approach.

### **Barrier-Free Banking**

In 2014, the bank continued the "Barrier-free Banking" programme to enhance disabled customers' experience with BZ WBK in all contact channels (branch, phone, Internet or ATM). The bank systematically breaks down barriers and introduces facilities for disabled customers.

The standards of services for disabled customers include the opportunity to arrange an advisor's visit at the customer's home or workplace, and dedicated points in branches certified for availability where disabled customers are served first. In 2004, branch employees delivered a number of local initiatives for the disabled, including banking education projects.

In pursuance of the Barrier-Free Banking idea, in 2014 Bank Zachodni WBK adjusted selected advertising and educational contents to the needs of hearing-impaired customers and those using sign language to communicate. BZ WBK was also the first bank in Poland to launch a video chat facility for hearing-disabled individuals who use Polish sign language (September 2014). Lastly, technical audits of branches were carried out in order to improve the accessibility of disabled customers.

### **Marketing and Communication Campaigns**

In 2014, Bank Zachodni WBK reinforced its position as the third most recognised brand in Poland with a spontaneous awareness level of 39%. Effective advertising campaigns enabled the bank to substantially increase the awareness of the bank's ads (from 24% in 2013 to 33% in 2014), securing third position in the market.

Concurrently, Bank Zachodni WBK strengthened its leadership position in social media. At present, BZ WBK is the most-liked Polish bank on Facebook, with more than 194k followers. The bank was also awarded the Socially Devoted certificate by the prestigious analytical company Socialbakers, in recognition of its effective campaign on Facebook.

In 2014, Bank Zachodni WBK continued advertising campaigns featuring famous actors to promote personal accounts, SME loans and cash loans.

The bank also took measures to strengthen cooperation with business and corporate customers, including periodic meetings to support sales, build relationships and improve the image of Santander Group as a business partner. Lastly, the bank organised 12 road shows for prospective corporate customers in 12 corporate banking centres.

Moreover, eight dedicated marketing projects were delivered to communicate with a large audience in a non-standard way. They included, in particular, advertisements designed for retail and SME customers published in Interia web portal, as well as periodicals and dailies. The purpose of the above projects was to inform customers and promote loans for individuals and SMEs as a way to fulfil one's dreams and increase one's advantage.

In 2014, as part of the 6th edition of the Poland-wide programme "Academy of Entrepreneur" Bank Zachodni WBK continued with the series of free education and information workshops for company owners. The theme of this year's workshops was "Winning strategy on the business battlefield". In the period from February to June 2014, 50 workshops were delivered across Poland and these were attended by nearly six thousand entrepreneurs from SME and corporate sectors.

## 5. Awards, Recognitions and Position in rankings

Bank Zachodni WBK S.A. (BZ WBK)	
<b>BZWBK24 mobile named the best mobile application of 2014</b>	<ul style="list-style-type: none"> <li>The bank took the second position in the awards for bank applications conducted by Money.pl (February 2014) in recognition of the innovative, unparalleled functionalities of the BZWBK24 mobile app.</li> </ul>
<b>Wprost Innovator 2014</b>	<ul style="list-style-type: none"> <li>BZ WBK was awarded the Innovator title in the Finance category, in recognition of its mobile banking line.</li> </ul>
<b>Company of the Year from WIG20 Index</b>	<ul style="list-style-type: none"> <li>BZ WBK was honoured by the stock market daily Parkiet as Company of the Year from the WIG 20 Index (19 March 2014). The award was given in recognition of a 63% return on the bank's shares and a smooth merger that positioned the bank among the top three banks in Poland with a substantially increased balance sheet total.</li> </ul>
<b>Banking Leader</b>	<ul style="list-style-type: none"> <li>At the Grand Gala of Banking and Insurance Leaders accompanying the 7th edition of the annual Banking and Insurance Forum (2-3 April 2014), BZ WBK received banking world leader awards in the following categories: Best Large Bank, Fastest Growing Bank, the Manager of the Year 2013 title bestowed on the Management Board President of BZ WBK - Mateusz Morawiecki.</li> </ul>
<b>Golden Banker – Personality of the Year 2013</b>	<ul style="list-style-type: none"> <li>In the "Golden Banker" competition (March 2014) organised by the web portal, Bankier.pl, and internet payment operator, PayU, Mateusz Morawiecki was hailed as Personality of the Year 2013 for his instrumental role in the successful merger of Bank Zachodni WBK and Kredyt Bank, creating the third largest bank in Poland and reporting record-high profits and an impressive increase in the bank's share price in 2013.</li> </ul>
<b>Eagle Award from Rzeczpospolita daily</b>	<ul style="list-style-type: none"> <li>Evidence of a solid and ever stronger market position and trust from investors, customers and economists came when the bank achieved the top position in the Financial Institutions category in a prestigious ranking of Poland's 500 largest institutions.</li> </ul>
<b>Large Commercial Bank 2013</b>	<ul style="list-style-type: none"> <li>Top position in the Large Commercial Bank category awarded by Gazeta Bankowa in recognition of the best performance results in the banking sector (May 2014).</li> </ul>
<b>Rose without a Thorn 2013</b>	<ul style="list-style-type: none"> <li>BZ WBK received the main award from Home&amp;Market, in recognition of the smooth handling of the merger and the noticeable growth of fee and interest income.</li> </ul>
<b>Golden Share Biznes.pl</b>	<ul style="list-style-type: none"> <li>BZ WBK was recognised as the best bank in 2011-2013 (with TSR at 91%) and the best banking company listed on the WSE whose shares have tripled in value over the past 10 years.</li> </ul>
<b>Investor Relations Survey</b>	<ul style="list-style-type: none"> <li>BZ WBK S.A. ranked second in the prestigious survey of investor relations organised by Parkiet (November 2014).</li> </ul>
<b>Responsible Listed Company</b>	<ul style="list-style-type: none"> <li>BZ WBK ranked fifth among the 18 listed companies recognised by Dziennik Gazeta Prawna, with the top position in the "responsible leadership" and "responsible management" categories.</li> </ul>
<b>Marketing Director of the Year – Rebranding of the Year</b>	<ul style="list-style-type: none"> <li>The Director of the Corporate Communication and Marketing Area received an award by Mediarun in recognition of outstanding marketing strategies, the smooth merger of two banks and "rebranding process imperceptible to customers".</li> </ul>
<b>Leopard 2014 Award</b>	<ul style="list-style-type: none"> <li>Leopard 2014 Award for the most impressive banking brand creation process, award by professionals from the banking and insurance sector in recognition of successful marketing, creating a customer-friendly image, consistent brand promotion, a clear marketing message and communication with customers as well as an excellent choice of world-class actors to build a positive reputation.</li> </ul>
<b>Best in Sales Award for structured products</b>	<ul style="list-style-type: none"> <li>Best in Sales Award for the largest distributor of structured products in Poland in 2013 (with a 20% market share) granted at the 11th Annual European Structured Products Conference (February 2014).</li> </ul>
<b>TOP Brand 2014</b>	<ul style="list-style-type: none"> <li>The bank was ranked second in a contest held by PRESS monthly and PRESS SERVICE, in the Strongest Polish Brand category.</li> </ul>
<b>Best cash loan</b>	<ul style="list-style-type: none"> <li>Cash loans offered by Bank Zachodni WBK gained second place in the "Best Cash Loan" category in the fifth edition of the Golden Banker 2013 Awards organised by a web portal, Bankier.pl, and an online payment operator, PayU.</li> </ul>
<b>Mobile Banking for Companies 2014</b>	<ul style="list-style-type: none"> <li>The BZWBK24 mobile application was awarded third place from the jury at Money.pl, for the functionalities which allow ATM cash withdrawals, money transfers to a mobile phone and invoice payments simply by scanning QR codes.</li> </ul>
<b>Crystal Dragon of Success</b>	<ul style="list-style-type: none"> <li>Mateusz Morawiecki received the main award from the Polish Market jury in recognition of his modern approach to management, consistent strategy and business success.</li> </ul>
<b>Polish Brands in the Banking Sector</b>	<ul style="list-style-type: none"> <li>The bank took the third position in the ranking from Rzeczpospolita daily, in recognition of a 62% rise in brand value.</li> </ul>
<b>Innovation 2013 Award for Mobile Shopping Service</b>	<ul style="list-style-type: none"> <li>The Mobile Shopping service – available via BZWBK24 mobile - won the Innovation 2013 award granted by representatives of the Business Forum and Technological Science Faculty of the Polish Academy of Sciences(PAN).</li> </ul>

<b>Dom Maklerski BZ WBK S.A./Brokerage Office (DM BZ WBK)</b>	
<b>Accolade for analysts</b>	<ul style="list-style-type: none"> <li>DM BZ WBK analysts were placed second in the overall ranking of brokerage analysts published by Parkiet daily, and took the first position in the chemical, fuel and financial sectors and second position among technical analysts (January 2014).</li> </ul>
<b>Best Analyst Team in 2013</b>	<ul style="list-style-type: none"> <li>DM BZ WBK analyst team topped the annual ranking of Parkiet daily published in January 2014, with the highest score achieved in the Corporate Access category.</li> </ul>
<b>2nd place in the ranking of the best brokerage accounts for private investors</b>	<ul style="list-style-type: none"> <li>DM BZ WBK came second in the ranking of Best Brokerage Accounts published by Puls Biznesu daily in recognition of the high quality of customer service (mobile application, long call centre business hours, availability of customer service points and the AmiBroker program for technical analysis).</li> </ul>
<b>Third Top Performance in the Sector</b>	<ul style="list-style-type: none"> <li>Third position in the ranking of domestic brokerage houses reporting the highest net profit (Parkiet, April 2014).</li> </ul>
<b>BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. (BZ WBK TFI)</b>	
<b>Alfa 2013</b>	<ul style="list-style-type: none"> <li>In 2014, Analizy Online established the Alfa Awards to honour the achievements reported in the mutual funds market in 2013: the manager of Arka Prestiż Obligacji Korporacyjnych (corporate bonds sub-fund) received the Alfa 2013 award for the Best Corporate Bonds Fund.</li> </ul>
<b>Four stars for Arka Prestiż Obligacji Korporacyjnych</b>	<ul style="list-style-type: none"> <li>The rating of Arka Prestiż Obligacji Korporacyjnych was upgraded to four stars by Analizy Online (August 2014), in recognition of the fund's above-average performance.</li> </ul>
<b>BZ WBK – AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. BZ WBK – AVIVA Towarzystwo Ubezpieczeń na Życie S.A.</b>	
<b>Customer Friendly Company</b>	<ul style="list-style-type: none"> <li>BZ WBK-Aviva companies received the Customer Friendly Company award for the fourth time in a row (June 2014) based on the results of an independent audit conducted to reward companies committed to customer satisfaction. BZ WBK-Aviva companies were recommended by customers for their services, short turnaround times and insurance products.</li> </ul>
<b>BZ WBK Faktor Sp. z o.o.</b>	
<b>Gold Customer Accolade (Złoty Laur Klienta)</b>	<ul style="list-style-type: none"> <li>BZ WBK Faktor again received the Gold Customer Accolade in the Factoring Services category (April 2014), which confirms the top quality of services and popularity of the brand among customers.</li> </ul>
<b>Santander Consumer Bank S.A. (SCB)</b>	
<b>Operational Efficiency</b>	<ul style="list-style-type: none"> <li>SCB received the main award in the Operational Efficiency category, granted by Bank monthly as part of the ranking of the 50 biggest banks operating in Poland.</li> </ul>
<b>Good brand 2014</b>	<ul style="list-style-type: none"> <li>SCB was recognised for its cash loan product in a ranking announced by the Rzeczpospolita daily (Biznes Trendy section) and Dziennik Gazeta Prawna (Forum Biznesu section) under the patronage of PAN.</li> </ul>
<b>Customer Friendly Company</b>	<ul style="list-style-type: none"> <li>SCB was awarded this accolade following an independent customer satisfaction survey organised by the Management Observatory Foundation.</li> </ul>

## VI. Business Development

### 1. Retail Banking

#### Personal Customers

##### New Segmentation of Personal Customers

In 2014, Bank Zachodni WBK modified the segmentation criteria for personal customers in line with the objectives of the Next Generation Bank Programme. Apart from the existing Private Banking segment handled by the Wealth Management Department, a VIP segment was created to provide tailored products and services to affluent customers on the basis of a dedicated customer service model. Proactive portfolio management supported by a suite of relevant tools is expected to enhance customer loyalty and brand awareness in this segment.

##### Initiatives Aimed at Standard Customers

###### *Personal Accounts*

In 2014, Bank Zachodni WBK attracted new business on the basis of its existing range of personal accounts. Throughout the year, the bank sold 492k PLN and FX accounts, which placed it among the market leaders in terms of new personal accounts opened. The flagship products in the bank's portfolio of personal accounts were the Account Worth Recommending (Konto Godne Polecenia), Account 1|2|3 and Active 50+ Account. In 2014, all of these accounts were covered by marketing campaigns and promotional initiatives.

The Account Worth Recommending was particularly popular among young people. The account bundled with a student credit card and BZWBK24 mobile services was the core element of the Student Starter package rolled out across Polish universities.

The account 1|2|3 package continued to be a unique selling proposition within the Polish marketplace thanks to its attractive interest rate and a money back mechanism for bills settled with funds accumulated in the account.

###### *Savings and Investment Products*

###### *Deposits*

Bank Zachodni WBK has a comprehensive range of deposit accounts consisting of standard and progressive term deposits, structured deposits and savings accounts.

In 2014, the bank adjusted its products and pricing in response to changing market conditions, and in accordance with its own liquidity management objectives and the target time structure of liabilities. These changes were designed to strengthen and stabilise its deposit base and to expand and add value to the relationship with its deposit customers. A particular focus was placed on an expansion of the deposits supporting cross-selling and linkage.

In the first half of 2014, in order to strengthen the deposit business with loyal customers, the bank implemented a new negotiated deposit model taking account of the strength of each customer relationship. The bank also continued its efforts to increase the average tenors of term deposits and introduced long-term deposit products, such as the attractively priced 12-month Mobile Deposit launched in February 2014 via the BZWBK24 mobile application or the 12-month Deposit with a Card, which supports the sale of credit cards (June 2014).

In Q3 2014, Bank Zachodni WBK undertook intensive efforts to acquire new customers and deposit funds, and to increase the strength of the relationship with its customers. In August 2014, the bank launched an attractively-priced, four-month New Easy Earning Deposit (Nowa Lokata Swobodnie Zarabiająca) for customers who deposit new funds. To enhance its relations with customers, the bank was offering this deposit with selected products under a sales promotion initiative ("4% Guarantee"), rewarding transactional activity of customers. To enhance its relations with depositors, the bank was offering this deposit with selected products under a sales promotion initiative ("4% Guarantee"), rewarding transactional activity of customers. Changes in the deposit offer were accompanied by a marketing campaign delivered by bank branches, and using mesh banners or ATM screens. In effect, in the period from August to October 2014, more than PLN 5bn of new funds and 30k new customers were acquired.

Starting from November 2014, focus turned to the retention of maturing bank deposits and the development of long-standing relationships with customers. Bonus Deposits were added to incentivise customers to actively use BZ WBK products, both settlement and savings/investment products, and earn adequately high interest in return.

Throughout 2014, the total balance of retail deposits increased by PLN 5.5bn or 11.5% YoY to take up a market share of 9.2% at the end of 2014.

### **Structured Deposits**

In 2014, Bank Zachodni WBK continued to sell structured deposits with a wide variety of tenors and underlying instruments to suit customers' needs. The bank was the first in Poland to introduce structured deposits with yields linked to the FTSE100 stock exchange index and structured deposits whose interest rates depend on EUR/PLN or USD/PLN rates.

The bank maintained its leading position in the Polish market of structured products, both in terms of subscription numbers and acquired cash volumes, which was affirmed by the Best in Sales award received during the European Structured Products Conference (6 February 2015). In 2014, eighty-two subscriptions were held in total, providing customers with 152 products of various tenors (6 to 24 months) and yields linked to currency exchange rates or stock indices. All these products ensured 100% capital protection at the end of the deposit term. These subscriptions brought in more than PLN 1.8bn, including PLN 1.5bn from the segment of standard personal customers.

54 subscriptions were prepared for standard personal customers, including:

- ✓ In 24 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 26 subscriptions, the yield was linked to stock indices: FTSE100, S&P500, SX5E, IBEX35, SX7E and DAX
- ✓ 4 subscriptions of FX structured deposits paid interest depending on EUR/PLN or USD/PLN rate.

Other subscriptions were dedicated to the segment of personal VIP customers (24) and the Wealth Management segment(4).

### **Personal Lending**

#### *Cash Loans*

Cash loans offered by Bank Zachodni WBK are individually priced on a case-by-case basis, with a competitive minimum pricing of 7.99% p.a. The bank's cash loan proposition is distinctive by its efficient processes, especially the short turnaround times.

In the Golden Banker Awards 2013, a consumer competition held by Bankier.pl and PayU S.A. in March 2014, the bank's cash loan was ranked second in the Best Cash Loan category.

In 2014, Bank Zachodni WBK optimised its cash loan sales process while strongly focusing on promotional and advertising campaigns.

From February to October 2014, the bank's promoted the DUET loan, a seasonal cash loan bearing a dual interest rate (12% p.a. and 6% p.a.) depending on whether it is granted to one borrower or two co-borrowers. Sales of this loan were supported with two multimedia campaigns, taking place between February and March 2014, and between August and September 2014.

The advertising campaign for cash loans held in May and June 2014 was run under the slogan "Cash at High Tide in Summer", emphasising short turnaround times (10 minutes) and promoting cash loans available "by click" in BZWBK24 electronic banking ("0% fee by click loan"). Due to a wider awareness of internet banking functionalities, CRM campaigns and modified process for the construction of pre-approved offers, in 2014 "buy by click" sales of cash loans increased by 56% YoY.

Between November and December 2014, a multimedia Christmas campaign was held, with an advertising message focused on promoting the Christmas Lottery. The campaign was targeted at customers availing of a cash loan with Worry-Free Loan insurance.

With the aid of this campaign, in 2014, Bank Zachodni WBK achieved cash loan sales of PLN 3.7bn, which is 7% higher than a year before.

### ***Mortgage Loans***

In accordance with the bank's long-established lending policy (brought in line with the amended KNF Recommendation S on best practice in management of mortgage-backed credit exposures), mortgage loans are provided exclusively in the currency of the customer's income. In consequence, the bank's mortgage lending proposition includes loans mainly in PLN. 2014 saw the following new products and solutions launched:

- In March, the bank implemented housing loans with subsidies from the National Fund for Environmental Protection and Water Management towards partial principal repayment; in this way the bank became involved in the efforts designed to support energy-efficient construction.
- In July, the bank's mortgage loans portfolio was expanded to include a loan product offered under the "Home for the Young" programme with down payment subsidies within the rules laid down in the Act on State aid for first-time home buyers of 27 September 2013.
- Borrowers who have loans denominated in CHF or indexed to the CHF rate were offered a special prepayment option (September-November 2014) or an option of currency conversion into PLN based on the mean NBP rate (from 1 January 2014) with no extra fees.
- In early June 2014, a Mortgage Sales and Service Team was set up in the Telephone Banking Centre as a contact point for existing and prospective customers inquiring about Bank Zachodni WBK mortgage loans or applying for a preliminary credit decision. Thus the range of distribution channels in which customers may get a credit decision without leaving home was expanded.

In 2014, the bank was selling mortgage loans through its own branch network and through credit agents. The adopted sales model combines high customer service standards with an efficient underwriting process characterised by short turnaround times.

Owing to the bank's strong competitive position in the home mortgage market and with support from a favourable macroeconomic environment, in 2014, the sale of mortgages, measured by the value of positive credit decisions, was PLN 3.8bn and increased by 27% YoY. In 2014, the bank's share in the home mortgage market was around 7.5%.

### **Initiatives Aimed at VIP Customers**

#### ***Personal Accounts***

In March 2014, the bank's product range was expanded to include a new VIP Account which is offered free of charge to customers with minimum monthly inflows of PLN 10k. Likewise, no fees are charged for the associated products and services, including: Visa Electron VIP with its Safe Money Financial Insurance Package, cash withdrawals with Visa Electron VIP cards from any ATM in Poland and abroad, transfers to accounts with Bank Zachodni WBK or other banks, and standing orders. VIP Account holders may also avail of other free-of-charge facilities, such as a brokerage account, Gold credit card or a card and ATM withdrawals world-wide available for their children.

#### ***Savings and Investment Products***

In order to reinforce the bank's relationships with its deposit customers, in February 2014 the negotiated deposit model was modified to take into account the customer linkage information. In March 2014, Rentier Deposit was launched, allowing customers to earn a regular interest income from quarterly compounding. In June 2014, the bank introduced a Term Deposit with Card for customers who deposit new funds and actively use their credit card. In the second half of the year, VIP customers were offered the New Easy Earning Deposit account (the main tool in the acquisition campaign started in August 2014), Deposits for Investors and Bonus Deposits available from December 2014 for customers who actively use transactional banking or savings & investment products.

In addition, VIP customers were offered structured deposits (46 products as part of 24 subscriptions) with an interest rate linked to movements in USD/PLN and EUR/PLN rates and the 6M WIBOR rate.

In October, the following subfunds with three different strategies and investment risk profile were made available to VIP customers: Arka Platinum Konserwatywny (Arka Platinum Conservative subfund), Arka Platinum Stabilny (Arka Platinum Stable subfund) and Arka Platinum Dynamiczny (Arka Platinum Dynamic subfund).

To foster long-term relationships with affluent individuals, the bank offered to them “My Future” Regular Savings Plan for any purpose, charging reduced distribution fees, provided the monthly contributions are declared at an adequate level. Other investment solutions offered to VIP customers include facilities such as the In Plus BZ WBK Programme and equity investments via the Brokerage Office.

### **Consumer Loans**

The bank standardised its cash loan offer for affluent customers in terms of an interest rate (now 10.99%). In addition, a fast track credit delivery procedure was introduced for customers with a minimum income of PLN 10k. Furthermore, work was underway to develop a uniform application procedure for all VIP customers.

### **Priority Pass Programme**

On 15 September 2014, Bank Zachodni WBK started a Priority Pass Programme for the VIP segment, whereby the holders of platinum credit cards (Visa Platinum and Visa Platinum Porsche) received an additional Priority Pass card for access to VIP lounges at airports across the world.

### **New Distribution Channel**

In April 2014, the bank launched the Affluent Clients Service Centre – a telephone banking unit with a dedicated telephone number, which provides sales and after-sales support to VIP customers.

### **Initiatives Aimed at Private Banking Customers**

Bank Zachodni WBK renders wealth management services to high net worth customers based on relevant agreements. The Wealth Management Department operates from 14 offices located across Poland and offers comprehensive products and services, including brokerage, mutual funds, asset management, custodian services and a wide array of term deposits. In 2014, the investment proposition was expanded to include over-the-counter traded corporate bonds that meet specific criteria. Term deposits, whose value grew by more than PLN 500m YoY, were the most popular among Private Banking customers.

As at the end of 2014, the Wealth Management Department provided services to more than 3k customers whose investments totalled PLN 8bn. In the structure of assets managed by the Group on behalf of Private Banking customers, equities represented the biggest proportion at 74%, followed by mutual funds and term deposits.

In 2014, the Wealth Management Department focused on strengthening its cooperation with Bank Zachodni WBK Group members and increasing customer awareness about the Wealth Management offer.

## **Small and Medium Enterprises**

The segment of small and medium companies includes business customers with an annual turnover of less than PLN 40m and a maximum bank debt of PLN 5m.

In 2014, the bank implemented a comprehensive strategy of building a large base of SME customers with high cross-selling and transaction volumes. The strategy was reflected in the increased activity of the bank in terms of CRM, acquisition and sales, as well as business priorities set for customer advisors. In effect, the number of highly profitable transactional customers increased by 16.3% YoY. Loan sales hit an all-time high, climbing by 30% on 2013. The number of customers effecting currency exchange went up by 26%, with the number of transactions rising by as much as 36% compared to the previous year. This strategy will also be pursued in years to come.

A number of initiatives were implemented in relation to the SME segment, which helped to improve internal lending procedures, increase access to finance (lending and leasing) and enhance the attractiveness of the bank's products and services. In addition, from early March to mid-April 2014, the bank ran a TV campaign to promote credit facilities for SMEs under the banner “We'll advise you on the best ways to finance your company”. These commercials presented a wide array of financing solutions for SME customers, including business loans, lease and factoring.

In early 2014, small and medium-sized enterprises were provided with access to iBiznes24 - a high-tech electronic banking platform.

The bank also expanded its range of current accounts dedicated to this customer segment:

- Since January 2014, business customers may apply for the Business Package with Terminal, which includes a PLN account and a merchant services agreement with Elavon, indicating Bank Zachodni WBK as a settlement bank. It also offers bundled products and services such as payment cards and electronic banking services.

- In May 2014, the bank launched the MOBI Business Package for new customers who are sole traders. This includes a current account on special offer term for 18 months, coming with additional products and services such as access to the electronic banking platform and a Visa Business Electron BZ WBK payment card.

In 2014, the bank made improvements to its internal processes for international settlements, thus contributing to an increase in transaction volumes and the number of active users of trade finance and currency exchange services. In May 2014, BZ WBK provided business customers with access to SantanderTrade.com, a global platform of Santander Group which offers comprehensive information about foreign markets, applicable trade and customs regulations, prospective trade partners and business environments. The portal also allows the bank to establish direct contacts with Santander Group customers from across the world.

In September 2014, the bank was granted a credit line of EUR 100m by the European Investment Bank (EBI) for financing the SME sector (for more details, see section VIII “Financial Performance in 2014”, part 2 “Financial Position in 2014”. These loans are already very popular among entrepreneurs due to their comparatively low pricing.

At a conference organised on 15 September 2014 by Bank Gospodarstwa Krajowego to sum up the first 18 months of the “de minimis” state guarantee programme, Bank Zachodni WBK received an award for achieving second place in sales of this product in the market. The bank has a 20% share in the number of “de minimis” guarantees and a 15% share in the total value of such guarantees granted to date.

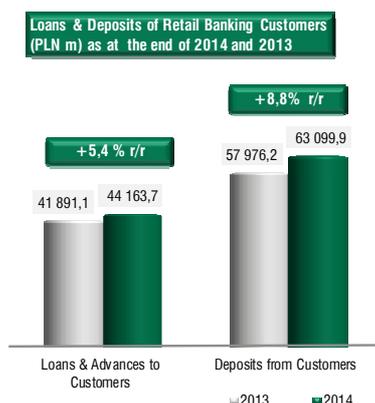
In 2014, the bank organised a series of 50 conferences Poland-wide as part of the Entrepreneur Academy entitled “A Strategy for Success on the Business Battlefield”, attracting 6 thousand participants.

### Leasing Business

Throughout 2014, BZ WBK Leasing and BZ WBK Lease financed PLN 2,825.9m worth of total net assets, which represents a 30% growth YoY and makes the company one of the largest players on the leasing market. A particularly pronounced degree of growth was recorded in the vehicles segment, where the sales of cars, trucks and large vehicles reached PLN 1,315.6m (+41% YoY). Sales of machines and equipment went up by 27% YoY to PLN 1,465.5m, mainly on the back of a very good performance in the agriculture sector (+42% YoY). With this result, the leasing companies kept their leadership position in the segment of financing machines and equipment.

These strong sales were supported by promotional campaigns run by the leasing companies, including a campaign under the slogan “Vehicles are waiting. Take a farming loan”, and a special proposal for financing KUBOT and ZETOR-branded equipment.

In November 2014, a new external sales network was launched in cooperation with agents and authorised dealers. Furthermore, the leasing companies started cooperation with the bank to sell selected bank products as part of an outsourcing of banking functions.



### 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 its products and functionalities to suit the requirements of its customers and gradually expands its offering.

In 2014, Bank Zachodni WBK started co-operation with a new bank and expanded the scope of its relationship with its existing partners. As at 31 December 2014, Bank Zachodni WBK co-operated with more than 20 banks, managed a network of over 664 third-party ATMs and handled 3.2m Visa/MasterCard cards for third party institutions. The bank continues to extend the network of POS terminals in co-operation with its partner merchant (Elavon) to foster the growth of the Polish card payment market.

## Other Elements of the Retail Banking Offer

### Investment Funds

Given the sustained bond market rally, in 2014, customers of BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI) were particularly interested in sub-funds with debt securities component such as treasury bonds and corporate bonds. Consequently, the strongest net sales were posted by the following sub-funds: Arka Prestiż Obligacji Korporacyjnych and Arka BZ WBK Obligacji Korporacyjnych (corporate bond sub-fund), Platinum Konserwatywny (stable growth fund), Arka BZ WBK Obligacji Skarbowych (treasury bond sub-fund) and Arka Prestiż Gotówkowy (cash sub-fund).

As at 31 December 2014, the total net assets managed by BZ WBK TFI were PLN 12.8bn and increased by 14.7% YoY, driven by positive net sales and the growth in value of participation units.

The portfolio of mutual funds managed by BZ WBK TFI as at 31 December 2014 excludes Arka BZ WBK Fundusz Rynku Nieruchomości FIZ in liquidation (closed-end property market fund), which on 29 June 2014 was taken over by the liquidator. Its total net assets as per the last valuation of 30 April 2014 amounted to PLN 219.6m.

On 13 October 2014, changes to the Statutes of Arka BZ WBK FIO, which were announced on 12 July 2014, became effective. Consequently, three subfunds were renamed (Arka BZ WBK Obligacji Plus to Arka Platinum Konserwatywny, Arka BZ WBK Fundusz Akcji Zagranicznych to Arka Platinum Stabilny, Arka BZ WBK Energii to Arka Platinum Dynamiczny) and their investment policies were modified.

In 2014, TFI managed funds with a stock component improved their performance results. At the end of 2014, the majority of equity and mixed funds reported one-year and three-year rates with a return above the median. Amid an upturn in the Turkish equity market, Arka BZ WBK Akcji Tureckich (Turkish equity fund) was ranked second on the list of top 10 retail funds (by rate of return in the period from January to December 2014) published by Analizy Online on 7 January 2015, with a yield of 34.3% (in PLN). Also, two subfunds of Arka BZ WBK FIO: Arka BZ WBK Zrównoważony (balanced fund) and Arka BZ WBK Stabilnego Wzrostu (stable growth fund) were among the six funds recognised by Analizy Online for their steadily increasing performance (ranking of funds in the review of their November 2014 performance). Both subfunds were placed in the first quartile in terms of 6-month, annual and 10-year results.

### Payment Cards

In 2014, Bank Zachodni WBK incentivised customers to make card transactions through the promotion of non-cash payments among the selected customer groups as well as total population. In addition, the cards' functionality and security was increased. Among other things, the bank offered an option to disable contactless payments on credit and debit cards and implemented other recommendations of the Payment System Council pertaining to the security of contactless cards. Card holders were also given the option of managing their limits, i.e. may set daily and monthly limits for cash, non-cash and online transactions.

#### Debit Cards

In 2014, Bank Zachodni WBK expanded its debit cards proposal for companies by implementing MasterCard Business PayPass debit and charge cards and Visa Business Electron card as part of the new Business Package with Terminal.

In July 2014, the bank's proposition was expanded to include MasterCard Smartcard card, i.e. student/PhD student/academic ID card with payment functionality issued at the universities as part of Santander Universidades Programme.

The Santander Universidades Package prepared for Smartcard users includes the Account Worth Recommending (and that can be accessed with the Smartcard), BZWBK24 Internet electronic banking services and MasterCard Omni card. The MasterCard Smartcard may also be used as a public transport pass or ticket, a library card or a parking card. In addition, it offers access to various bonus programmes.

In Q3 2014, debit cards of retail and business customers of the former Kredyt Bank were replaced with cards handled by the target systems of Bank Zachodni WBK.

### Prepaid Cards

In 2014, Bank Zachodni WBK added new prepaid cards to its product range, including “My First Card” for the youth market and the “Holiday Card”. The bank continued the simplification of its branch sales process and the issuance of electronic Urban cards under the PEKA projects realised in conjunction with the City Transport Office of Poznań. The bank became involved in a number of large media initiatives (Open'er Festival in Gdynia and Orange Warsaw Festival) as a co-organiser of events and an issuer of cards used for payments at these events. Pre-paid cards were included in further cross-sell campaigns. In addition, the bank entered into an agreement with a new partner to issue online cards sold via POS terminals.

These activities form a part of the bank's strategy in the pre-paid cards market, whereby the bank wishes to increase the recognition of its product and consolidate its position as a leader in innovation.

As at 31 December 2014, the portfolio of Bank Zachodni WBK comprised 968.3k pre-paid cards, up by 42.2% YoY. The total number of active debit cards (including pre-paid cards) reached 4.3m, an increase of 15.8% YoY.

### Credit Cards

In 2014, Bank Zachodni WBK ran a number of initiatives (including PAYBACK and Ratio) to encourage greater use of non-cash payments and promote additional credit card features.

In addition, credit card functionality was extended to include new services such as the transfer of part of the credit card limit to any bank account and top-up of the available credit card limit via the Telephone Banking Centre.

The number of Bank Zachodni WBK credit cards increased by 9% YoY to 694.3k.

### Bancassurance

In H1 2014, Bank Zachodni WBK focused on the sale of insurance products from the bancassurance offer an increase in the retention of active insurance policies.

Sales grew from the main lines of insurance products connected with banking facilities, including: “Worry-Free Loan” (“Spokojny Kredyt”), Safe Money (“Pewne Pieniądze”), insurance package for debit cards, “Biznes Gwarant” insurance for business borrowers and credit card insurance.

Commercial activities in the bancassurance area were supported by two marketing campaigns the ran in cooperation with BZ WBK-Aviva companies (including “Family Care”/“Opiekun Rodziny” life insurance and “Locum” property insurance and “Worry Free Loan” cash loan insurance). In addition, a number of sales campaigns, price promotion initiatives and lotteries were held.

In 2014, Bank Zachodni WBK worked on the finalisation of its merger with Kredyt Bank. During the the last phase of the migration, in October 2014, all the bank's customers and their insurance products were served by the merged IT system. Also, measures were taken to implement Recommendation U for best practice in bancassurance.

## 2. Business & Corporate Banking

### Development of Business and Banking Offer

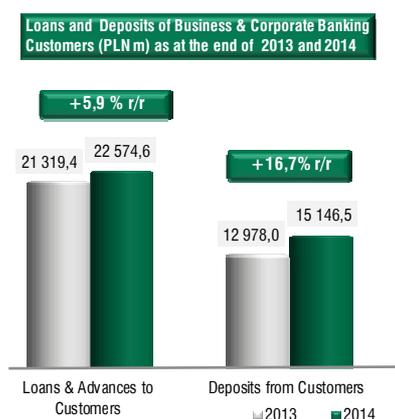
The Business & Corporate Banking Division provides services to business customers with a turnover of more than PLN 40m and a credit exposure exceeding PLN 5m. The customer base was divided into three basic segments by turnover volume:

- ✓ Corporate segment with turnover of PLN 40m–PLN 500m
- ✓ Large corporate segment with turnover over PLN 500m (except for customers meeting the GBM segment definition)
- ✓ Property finance segment.

As at the end of December 2014, the Business & Corporate Banking Division provided services to the customer base of 9,000 entities from all the business sectors, supporting them in building and growing their business. Advisors from the Corporate Banking Centres in cooperation with credit partners and product specialists delivered customised solutions to these customers and comprehensive services in the area of loans, deposits, transactional banking, treasury, leasing, factoring and capital markets.

In 2014, the Business & Corporate Banking Division strengthened its market position on the back of strong business growth and an enhanced service quality proposition in line with the customer-centric strategy of the bank.

The bank's ambition is to be perceived by business clients as an institution that delivers the best solutions to them. The bank's main objectives are to achieve a growth across all business lines with a focus on increasing non-interest income, increasing its market share and consolidating its position as the third largest bank in Poland. These objectives are to be achieved by the diversification of credit portfolios and income sources while maintaining the best corporate governance practices, strengthening relations with clients, increasing cross-selling, acquiring customers from high-potential sectors (food processing, retail, healthcare), developing leasing and factoring as preferred financing methods, improving service quality and developing trade finance, deposit and transactional banking business.



## Target customer segments

### Corporate Customers

In 2014, Business & Corporate Banking continued its endeavours to consolidate the bank's image as a reliable and cooperative business partner that provides finance to a wide range of customers' working capital needs and investment projects. The primary focus was on building long-term relationships with customers by supporting their current operations and offering a rich variety of products, both credit and non-credit.

In 2014, loan volumes in Corporate Banking Centres increased by 14%, significantly outperforming the market. At the same time, by expanding its offer of transaction products, the bank systematically increased its deposit base. The deposit portfolio increased by 17% vs. 9.4% market growth in 2014. One of the main focus areas in 2014 was customer acquisition – 469 new corporate customers were won with PLN 28.7m revenue in 2014, which is 96% higher than 2013. A comprehensive set of customer service initiatives were implemented in the following key areas: operational client service, credit process efficiency, quality measurement and management. This was accompanied by a continued investment in people, products and processes. In 2014, Business & Corporate Banking continued to improve cross-sell growth especially in a number of key products with high potential such as foreign trade finance, factoring, leasing and interest rate products.

### Property

The bank's Corporate Property Department is a specialised team that manages relationships throughout Poland, additionally acting as product specialist for corporate and GBM clients with property activity. Their strategy focuses on three sectors: residential development, commercial development and commercial investment. Good dynamics in revenue and volume growth result from a number of activities: concentration on balance sheet volumes, new development deals and prime deals (100% success rate in winning targeted prime deals), and increasing visibility in the market (funding projects for the majority of top developers).

### Large Corporate

The Large Corporate segment delivers tailor-made solutions through a complete and comprehensive customer proposition covering loans, deposits, transactional banking, treasury, leasing, factoring and capital markets products. The department manages relationships with some of market's key players. A new long-term strategy has been prepared for this segment to ensure further growth in volumes, revenues and market share.

## Optimisation Process

The Business & Corporate Banking Division delivered over 300 optimisation initiatives as part of the Next Generation Bank Programme. In the longer term, they are expected to increase service quality, enhance the customer experience, support the continuous development of processes and staff competences and boost efficiency in sales management (for details, see the “Next Generation Bank” section, Chapter IV “Development Strategy”).

Furthermore, as part of the constant improvement of the products and systems for business customers, a number of new solutions were implemented, including:

- Implementation of a credit line with capped pricing – an innovative solution that mitigates the risk of higher interest rates through a relevant clause in the credit agreement.
- Increase in the BGK (Bank Gospodarstwa Krajowego) limit for de minimis guarantees (from PLN 1.2bn to PLN 2.2bn) that can be utilised by the bank in the corporate and SME segments. De minimis guarantees provide security cover for working capital and term loans under the BGK Portfolio Guarantee Line.
- A simplified credit delivery process for existing customers applying for up to PLN 3m, resulting in reduction of the decision time to one day.
- Expansion of the range of products and services to include a payroll account to handle salary payments for the company’s employees in a fast, timely and confidential manner.
- Modification of cash service procedures and processes, including implementation of an “autowypłata” money order service for entities which make frequent cash payments to beneficiaries that do not hold a bank account or opt for cash as a form of payment.
- Increasing the ergonomics and functionality of iBiznes24, mainly in relation to the authorisation processes and transaction batch management. Giving the users of iBiznes24 access to SantanderTrade Portal.
- Introducing after-sales support for documentary credits and collections for SME, corporate and GBM customers.
- Improving the quality of remote distribution channels by implementing an alternative customer identification method in phone banking, introducing remote signatures for non-credit documentation and establishing e-mail as a legitimate communication channel between the bank and its customers.
- Continuing to develop and promote the Business Service Centre as a point of contact for customers in relation to standard and electronic banking products.

## Enhanced Importer/Exporter Proposition

In 2014, the trade finance offer was extended in liaison with Banco Santander to include access to a specialist portal - SantanderTrade.com – which is designed to facilitate the growth and trading expansion of customers. In addition, importers and exporters can get expert advice from the bank’s Trade Finance Team, apply for multi-purpose and multi-currency credit lines or make operations related to cash collections, letters of credit or guarantees in a fully automated mode via iBiznes24. The enhanced offer, along with Treasury and International Desk services, ensures comprehensive support for companies involved in international trade.

As part of International Desk services, the bank organised a number of meetings (some of them in co-operation with Banco Santander) aimed at helping companies which already operate or seek to invest/find trading partners in Spain or other markets where Santander Group is present.

## Factoring Business

In 2014, the turnover of BZ WBK Faktor came in at PLN 14,427.9m (including PLN 4.4bn for non-recourse factoring) and increased by 33% YoY, which is much higher than the market, which grew at 17% YoY. The vast majority of factoring turnover was generated by BZ WBK customers. This gave the company a market share of 13% and a stable third position in the ranking of the members of the Polish Association of Factoring Companies. At the end of December 2014, the company’s credit exposure was PLN 2,299.6m and higher by 36% YoY.

In view of the dynamic growth of Polish exports, in 2014 BZ WBK Faktor expanded its product proposition by two-factor export factoring including a correspondent factor in a foreign country. In order to facilitate co-operation on the international factoring market, the company joined Factor Chain International (FCI), a global organisation of factoring companies from 75 countries. In addition, BZ WBK Faktor became a member of the International Factors Group (IFG).

### 3. Global Banking & Markets

In 2014, as in previous years, the GBM Division focused on providing end-to-end support to the bank's largest customers based on turnover. As at the end of December 2014, the active GBM customer base included nearly 150 largest companies and groups from the energy, financial, FMCG, pharmaceutical, retail, mining, chemical, household appliance and other sectors. 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.

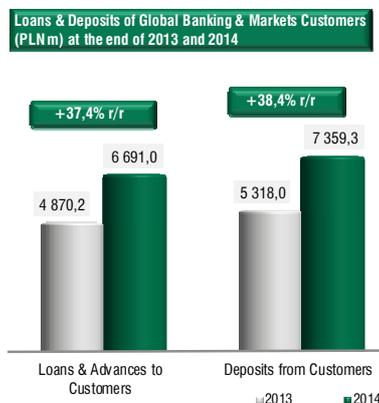
In 2014, Bank Zachodni WBK participated in one of the largest club deals of the Polish market, acting as a global coordinator, arranger and bookrunner for a large steel and mining group. The bank also participated in the five-year extension of a bond issue programme for a gas group in Poland, acted as a co-book runner in the eurobond issue of a company from the chemical sector and closed several major FX and IR hedging transactions with key clients.

The Division exploited the opportunities coming from the global presence of Santander Group and was offering its customers relevant products available across the Group. In addition, the Division rendered services to corporations within international GBM structures and cooperated with several Santander Group units (Santander Chile, Santander USA, Santander Mexico, Santander UK and Santander Madrid) on large financing projects for groups of companies.

For example, the Division participated in financing a large acquisition in the infrastructure sector undertaken by one of its key customer. Global cooperation with Santander Group also resulted in the bank's participation in the refinancing of working capital loans (in Poland and Mexico) for an international financial services provider.

As a result of the steady expansion of the credit portfolio, as at 31 December 2014, the value of credit receivables increased by 37.4% YoY to 6.7bn while customer deposits were PLN 7.4bn, up 38.4% YoY. The Division's credit delivery was fully financed with customer deposits, with a loan to deposit ratio of 90.9%.

In addition to dealing with customers from its own segment, GBM conducted the bank's activity on financial markets, providing specialist financial products (including brokerage ones) to retail and corporate customers.



In January 2014, changes were introduced to the organisational structure of GBM and the key business lines. The main organisational structures of the Division include:

- Global Transactional Banking Department
- Financing Solutions and Advisory which comprises GBM Credit Markets and Corporate Finance, including Capital Markets Area and BZ WBK Inwestycje
- Financial Markets which comprises the Treasury Services, the Structured Products Bureau and the Brokerage Office.

## Global Transactional Banking

Global Transactional Banking provides support to GBM customers in respect of cash management in current accounts and deposits, and financing of working capital needs. The offer also includes trade finance, guarantees, factoring, leasing and custodian services.

In 2014, the bank provided financing to companies from the energy, pharmaceutical, shipbuilding and financial sectors. It also actively cooperated with companies from the fuel, retail, food, mining and construction sectors in relation to other products and services.

Revenues under this business line grew by 50% YoY.

## Financial Solutions and Advisory

The Corporate Finance Department provides advisory and analytical services in the area of mergers and acquisitions and securities issue.

Under an agreement with the European Investment Bank, the Department manages the Urban Regeneration Fund for Greater Szczecin (JESSICA Programme). As at the end of Q4 2014, nearly 66% of the committed credit line was used.

The GBM Credit Markets Department provides funding towards medium and long-term investment projects delivered by GBM customers through loans and debt issue.

In 2014, the Department provided funding for customers from the telecom, mining, power, fuel and financial sectors. The Department also worked closely 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 Q4 2014, the Corporate Finance Department successfully sold shares in Krynicki Recycling.

Revenues generated by this business line increased by 31% YoY.

## Financial Markets

### Treasury

In 2014, 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 corporate customers. Also, intensive efforts were taken to expand the scope of interest rate hedges for SME customers and mortgage borrowers. Foreign exchange continued to be the main source of revenues. The bank offered a number of new solutions to customers to hedge against currency risk in the long term. Additional tools were also introduced to facilitate foreign currency transactions made in the bank's branches.

In 2014, Bank Zachodni WBK acted as a Treasury Securities Dealer.

### Brokerage Office

On 31 October 2014, brokerage activity was formally incorporated in the structure of the bank, which formerly acted as an agent for Dom Maklerski BZ WBK (Brokerage House) in respect of brokerage services. As a result, retail, corporate and business customers were presented with a comprehensive range of products and services. Brokerage services are now also offered in branches by fully trained and certified VIP Advisors.

In 2014, the Brokerage Office launched the first product targeted at BZ WBK customers, i.e. VIP Investment Account. Particularly noteworthy is the sale of Bank Zachodni WBK shares through accelerated book-building and agency services related to the IPO of Banco Santander on the WSE. The Brokerage House also participated in the IPO of Skarbiec and a rights issue of shares in LOTOS.

In 2014, the BZ WBK Brokerage Office was the third largest player in the equity and futures markets, with a 6.9% and 8.6% share, respectively.



## BZWBK24

### Mobile Banking

In 2014, Bank Zachodni WBK continued to deliver its strategy of mobile banking development, with the goal of becoming the market leader of this segment in Poland. The bank also contributed to industry-wide efforts to develop and promote mobile banking services and define relevant standards. Together with other signatories to the Polish Payment Standard agreement, in Q1 2015 the bank launched the BLIK mobile payments system, which is independent of international payment systems. The new system allows users to pay for goods and services in stores, make online payments and withdraw cash from ATMs.

In order to develop a distinctive offer, the bank offered upgrades and new features to BZWBK24 mobile customers, namely:

- a travel insurance product ("Na Podróż") which provides medical coverage and covers the risk of lost luggage or sports equipment while abroad
- new solutions offered as part of the Mobile Shopping ("Zakupy Mobilne") service: Sky Cash public transport tickets available in 120 Polish cities, MySafety free-of-charge protection for mobile devices and other commercial protection packages, fast track procedure for purchases via Przelew24 up to PLN 50 (no need to enter NIK or PIN), SkyCash pay and display tickets, and charitable giving via the Siepomaga portal
- new simplified procedure for device registration and log-in using PIN
- access to credit (e.g. cash loans, overdrafts and overdraft limit increases) for customers with a pre-defined credit limit arranged
- Online Advisor services available via the BZWBK24 mobile application for smartphones and tablets – enables contact with a BZ WBK advisor (via video call, audio call or internet chat).

On 23 February 2014, users of BZWBK24 Mini Firma were granted access to BZWBK24 mobile application. Previously, they could use the browser-based version of BZWBK24 mobile (phone with a mobile browser). In early April 2014, the bank introduced a fast track procedure for purchases up to PLN 50 and credit card transfers to Mini Firma users' own accounts. Starting from 14 June 2014, customers with a Moja Firma plus profile can use the dedicated mobile application BZWBK24 Moja Firma plus mobile.

From December 2014, the bank offered a BZWBK24 mobile application for tablets which run the Android operating system (the app is downloadable free of charge from Google Play).

In the reporting period, BZWBK24 mobile users could take advantage of a number of special offers and competitions, including a high-paying, non-renewable mobile deposit, MySafety Mobile free-of-charge protection for mobile devices, cash loans with a reduced arrangement fee, plus competitions and special offers for customers using the BZWBK24 mobile application to do mobile shopping or make transactions.

In 2014, BZWBK24 mobile application won a number of prestigious accolades (detailed information is presented in section 5 "Awards, Recognitions, Position in Rankings" in Chapter V "Human Resources and Corporate Culture").

At the end of December 2014, the bank's mobile banking applications had 483.5 thousand users, 102.1% more than the year before.

### Internet Banking

In 2014, the bank launched upgraded versions of the BZWBK24 Internet platform with a set of improvements for customers including:

- an optimised transfer procedure and an opportunity to make credit card transfers to the customer's own account
- a faster application procedure for credit facilities available "by click" and an extended period of time (7 days a week from 8.00 a.m. to 8.00 p.m.) during which the facility is sanctioned and disbursed on the application date
- an opportunity to set daily and monthly limits for cash, non-cash and online transactions with debit and credit cards and enable/disable withdrawals from ATMs that are not EMV-compliant (via the reading of data from the card's chip)
- other functional and optimisation changes, including a new account history browser and active access to Arka Prestiż registers
- opportunity to unblock a PIN by contacting an advisor in the Telephone Banking Centre (no need to visit the branch)

- new website for BZWBK24 internet providing easy access to basic information about a selected account, most frequent operations, easy re-direction to other Group sites, pre-populated forms
- Online Advisor services (also accessible via BZWBK24 mobile).
- video chats in the sign language designed to make the bank's services available to hearing impaired customers.

In 2014, Internet banking customers could avail of a number of special offers, including phone top-ups via electronic banking, Przelew24 services, lower fee on cash loans, seasonal discounts with selected partners (Special Offers) and the Christmas Card Lottery (Losomania).

## Telephone Banking Centre (CBT)

In 2014, the Telephone Banking Centre focused on the following initiatives:

- implemented and delivered sales campaigns for selected products based on information about customer payment behaviour patterns
- launched sales processes regarding credit card limit top-ups, mortgage loans and Locum insurance
- promoted business and corporate banking products and services as part of outbound campaigns (information about the offer added to the sales campaigns)
- extended its range of after-sales services available via the 1 9999 helpline including: cash loans, overdrafts, acceptance of direct debit instructions, the option to disable contactless payments, change of credit card limit, repayment of credit card and consumer loans
- ran a campaign supporting the Programme for regular bank customers
- managed instructions placed by sole traders for the management of cash limits, non-cash and online transactions as well as the activation and deactivation of features
- extended the scope of support available to mobile banking customers in view of the upgraded functionality and wider access.

In 2014, the quality of services rendered by BZ WBK Telephone Banking Centre has improved, which is confirmed by the achievement of fifth position (a 7 notch improvement) in the banking helpline survey carried out by the ARC Rynek i Opinia polling institution.

## 5. Santander Consumer Bank Group

### Profile

Santander Consumer Bank is a financial institution with many years' experience and a strong position in the consumer finance sector, focused on providing households with innovative products and banking services, including deposits and insurance products.

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 Finanse (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 (SPV set up for the purpose of securitisation transaction).

The bank is constantly looking to improve its service quality and increase the satisfaction of its customers. The bank operates in pursuit of the sustainable and safe growth of the business, based on transparent procedures and economic analysis. 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 2014

During 2014, 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.

### Loans

#### *Lending Proposition*

Santander Consumer Bank offers mainly instalment and cash loans, credit cards and car finance solutions.

Instalment loans, which are an important customer acquisition tool, are available countrywide from Santander Consumer Bank partners. In 2014, Santander Consumer Bank strengthened its position in this segment on the back of its presence in retail chains and stores, winning new business partners and growing online purchases by instalments. Cash loans are offered either as a regular cash loan or a consolidation loan. Santander Consumer Bank is one of the top 10 credit card issuers in Poland and offers the following cards: Visa Comfort, Visa Comfort Plus, TurboKARTA as well as co-branded cards which enjoy a growing share in the bank's portfolio. 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 as well as BBbusiness loans and guarantees for dealers and importers to foster lending.

#### *Credit Portfolio*

As at 31 December 2014, gross loans and advances to Santander Consumer Bank Group amounted to PLN 13,913.9m. H2 2014 saw steady growth in cash loans (+6% QoQ), credit card receivables (+12% QoQ) and instalment loans (+10% QoQ). Increased demand for cash loans is the result of reduced interest rates in the market and an intensive marketing campaign. Credit card receivables increased on the back of co-branded cards, while the increase in instalment loans was driven by stronger activity from the bank's key customers. As the credit portfolio was growing, its structure was improved with a higher share of high-margin products.

### Deposits

Deposits from customers increased by PLN 5% QoQ to PLN 6,867.6m, mainly driven by business term deposits.

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

With regard to retail deposits, in 2014, 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 31 December 2014, Santander Consumer Bank sold its products through the following distribution channels:

- own network of 173 branches (including two Customer Service Points that are being converted into regular branches) and 106 franchise outlets
- a structure for mobile sales of car loans
- a structure for mobile sales of corporate deposits
- remote channels, including call centre and the Internet
- a network of 588 partners selling the bank's car loans and 14,019 active partners selling the bank's instalment loans and credit cards.

## VII. Organisational and Technological Development

### 1. Organisational Changes

#### Business Support Centre of Bank Zachodni WBK

A continuation of optimisation processes and delivery of the bank's strategic objectives brought about further organisational changes.

The Human Resources Management Division was renamed Business Partnership Division and took over from Business Support Division units responsible for cost management and organisational developments. The Business Partnership Division now combines tasks related to the professional development of staff with duties to enhance organisational effectiveness, which is consistent with the corporate culture transformation process.

After certain responsibilities of the Change Management, Process and Cost Area in the Business Support Division were taken over by the Business Partnership Division, the Procurement Department, Expense Management Office and Headcount & Organisation Office were removed from the organisational structure. Furthermore, the Change Management, Process and Cost Area was renamed the Change Management and Process Area.

Following the review of the operating model of the Business & Corporate Banking Division in terms of the current needs of customers and the organisation, the Product and Sales Strategy Area was set up in January 2014 to devise a sales and product strategy towards corporate customers.

Effective from 31 October 2014, Dom Maklerski BZ WBK (BZ WBK Brokerage House) was incorporated into the Financial Markets Area of the Global Banking & Markets, where it operates as the Brokerage Office (for more details, please refer to the section "Key changes to the structure of Bank Zachodni WBK S.A.>").

#### Key Changes to the Structure of Bank Zachodni WBK Group

##### Acquisition of 60% of Share Capital in Santander Consumer Bank S.A.

Pursuant to the Investment Agreement of 27 November 2013 between Bank Zachodni WBK, Santander Consumer Finance (SCF) and Banco Santander, and the agreement of 1 July 2014 between Bank Zachodni WBK and SCF on the acquisition of shares in Santander Consumer Bank (SCB), on 1 July 2014 Bank Zachodni WBK acquired 3,120,000 ordinary and privileged shares in SCB, registered in Wrocław, with a nominal value of PLN 100 each, representing 60% of the share capital of SCB and 67% of votes at the General Meeting of SCB. In exchange for SCB shares contributed in kind, the bank issued 5,383,902 series L shares with a nominal value of PLN 10 each for the total sum of PLN 2,156,414,268. The share issue price was set at PLN 400.53.

The transaction was concluded following the fulfilment of the conditions precedent as stipulated in the abovementioned Investment Agreement, as presented in current reports published by Bank Zachodni WBK.

The transaction was executed to fulfil the commitment made by Banco Santander to the Polish Financial Supervision Authority (KNF) to use all endeavours to enable SCB to become a subsidiary of the bank.

The acquisition of SCB shares is a long-term investment of the bank which will strengthen the position of BZ WBK as the third largest bank in Poland and a provider of high-quality solutions for diverse segments of the banking market in Poland.

SCB forms a capital group with four subsidiaries referred to in Chapter VI „Business Development”, part 5 “Santander Consumer Bank Group” and in Chapter II „Basic information”, part 2 “Entities related with Bank Zachodni WBK”.

### **Incorporation of Dom Maklerski BZ WBK into the Structure of Bank Zachodni WBK and Set-up of a New Company: Gieldokracja**

On 30 September 2014, the Extraordinary General Meeting of Shareholders of Bank Zachodni WBK adopted a resolution on the division of Dom Maklerski BZ WBK (Brokerage House), pursuant to the Division Plan of 24 July 2014.

The division has been completed by transferring to Bank Zachodni WBK an organised part of the enterprise of the Brokerage House, whose business is the provision of stockbroking services and other services that do not constitute advertising activity. At the same time, a limited liability company has been formed – Gieldokracja – which took over the part of the Brokerage House business connected with provision of educational services related to the capital market, maintenance of internet portals and advertising and communication services.

On 31 October 2014, the Court registered the removal of the Brokerage House from the business register (KRS) without a liquidation procedure and on the same day Gieldokracja was registered.

The Brokerage House is now a unit of the bank which meets the definition of a brokerage office and conducts brokerage activity in accordance with the clearance issued by the Polish Financial Supervision Authority (KNF) on 10 June 2014.

As Bank Zachodni WBK was the sole shareholder of the Brokerage House, the bank's share capital was not increased through the issue and allocation of shares in exchange for the transferred part of the company's assets.

The bank took up all the stake in the newly formed company Gieldokracja, i.e. 1,000 shares with a nominal value of PLN 100 per share and a total nominal value of PLN 100k.

### **Exercise of a Call Option to Acquire 17% Stake 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 Limited (Aviva), BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie (BZ WBK Aviva TUŻ) and BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych (BZ WBK Aviva TUO), on 20 December 2013, Bank Zachodni WBK received from Aviva International Insurance Limited 16% stake in BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ, respectively. As a result of the transaction, the bank had 66% shareholding and 66% voting power in the two insurance companies, while the remaining 34% voting power is held by Aviva. Aviva was granted a call option pursuant to which it was entitled to purchase from the bank 17% of the share capital held by the bank in each of the abovementioned insurance companies.

In view of the above agreement, on 18 September 2014, Bank Zachodni WBK received a notification from Aviva 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. Aviva and the bank obtained required consents from the supervisory authorities for execution of the share transfer.

On concluding the transaction on 27 February 2015, BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO changed their status from subsidiaries to associates.

## **2. IT Development**

### **Completion of Integration with the former Kredyt Bank**

In 2013, the bank successfully implemented the first three stages of the UNO Programme launched in 2012 to integrate Bank Zachodni WBK with Kredyt Bank via legal merger, branch network integration and brand migration. Therefore, in 2014 the bank had fully integrated organisational structures, offered a uniform range of products and services, provided standardised customer service levels in terms of quality and procedures, and placed operations under a single brand of "Bank Zachodni WBK".

Integration process of Bank Zachodni WBK with the former Kredyt Bank



Bank Zachodni WBK became fully integrated with the former Kredyt Bank after completion of the last stage of the UNO Programme planned for 2014, i.e. the merging of IT systems. To that end, the Target Architecture Landscape was devised and migration of data from the Kredyt Bank systems to the operating platform of Bank Zachodni WBK was launched. The process was delivered in streams corresponding to individual customer segments.

The last major stage of the migration process was the migration weekend (25-26 October) during which the final and largest batch of information was transferred, including the portfolio of personal and SME products and customers from the former Kredyt Bank (ca. 1.33m customers and 3m products in total).

As a result, since 27 October 2014, Bank Zachodni WBK has been rendering standardised services in terms of quality and procedures to all the bank's customers enjoying a full array of products and services without the need for any changes. Former Kredyt Bank customers have kept their account numbers unchanged and have been granted access to BZ WBK electronic and mobile banking services (BZWBK24, BZWBK Mini Firma, BZ WBK Moja Firma+ and iBiznes24).

## Development of IT Systems

Along with the IT integration, other changes were also implemented in the central IT systems of Bank Zachodni WBK. The bank took adequate measures in response to business needs and external developments, while ensuring uninterrupted business growth. Both the implementation of new business solutions as well as the continuous upgrade of the IT infrastructure and associated software were completed as planned.

### Development of Infrastructure

In 2014, Bank Zachodni WBK was working on extending its IT infrastructure to handle a growing number of transactions and create an environment that will facilitate future system development. The bank increased the capacity and performance of its central systems and expanded its hardware resources, including servers and disc arrays, to ensure better resilience and scalability for its new projects. It also increased its license resources.

Data Centres were extended, network devices were installed and launched in a new server room, and the core infrastructure was upgraded. In addition, Wrocław and Poznań DMZ networks were expanded, ensuring full redundancy, high resilience and accessibility for business applications. The bank also introduced the monitoring of business processes and real traffic in applications.

### Selected Business Projects

One of the major projects delivered in 2014 was the set-up of mobile zones across Bank Zachodni WBK's branches and Partner outlets. Infokiosks were put in place to provide customers with access to key information, standard and special offers as well as mobile and online banking applications (BZWBK24 mobile or BZWBK24 Internet). Concurrently, the bank offered free wi-fi in all branches through 800 hotspots – the largest network of its kind provided by a financial institution in Poland.

Bank Zachodni WBK continued a mobile banking development programme, as part of which over half of its 60 projects were completed in 2014.

In line with the strategy adopted by the bank, intensive efforts were taken in relation to the migration of new processes to non-branch service channels. At the same time, research and development works were underway to analyse the possibility of using biometrics for customer authentication purposes.

### Selected Regulatory Projects

In 2014, the bank introduced changes arising from KNF Recommendation D on IT infrastructure in banks.

In accordance with Recommendation J on the rules of gathering and processing of real estate information by banks, a database was created to store information about properties mortgaged in favour of the bank (including in respect of mortgage loans, SME loans and commercial loans).

Bank Zachodni WBK also successfully completed preparations for the launch of identification and reporting processes under FATCA (Foreign Account Tax Compliance Act), which shall apply following the relevant implementing acts are introduced into the Polish law.

The bank and its subsidiaries took steps to ensure compliance (to the required extent) with the European Market Infrastructure Regulation on OTC derivatives. In 2014, all regulatory requirements were implemented as regards reporting of the transactions at the dates set by the supervisory body. Works are underway in relation to clearing of transactions in a foreign currency and Polish zloty by the Central Clearing Chamber, which are set to be completed by 31 July 2015. The bank also plans to launch a project related to collateral for derivative transactions.

31 March 2015 is the deadline for banks to implement Recommendation U on best practice in bancassurance. In 2014, measures were taken to adjust the architecture and operations of the underpinning systems.

Bank Zachodni WBK launched a project on liquidity risk monitoring and reporting under the Capital Requirements Regulation which requires banks to conduct a thorough analysis of the stability of the deposit base on a daily basis. This project is delivered in phases.

### 3. Capital Expenditures

In 2014, Bank Zachodni WBK Group spent PLN 307.8m (compared to PLN 173.8m in 2013) on the delivery of investment projects, mainly on projects related to the integration of Bank Zachodni WBK and Kredyt Bank, development and management of IT systems, IT equipment, Branch Banking development, Internet and mobile banking and ATMs and cash-deposit machines.

In 2014, the bank completed new projects as part of the integration of IT systems, while extending its IT infrastructure (for more details see section above "IT Development"). Efforts were also underway to harmonize the image of branches under one brand and enhance security by way of the modernisation of security mechanisms.

In the second half of 2014, mobile zones were set up in BZ WBK branches, providing access to free wi-fi, banking products and services as well as BZWbK24 mobile and BZWbK24 Internet applications (for more details see section above "IT Development"). In order to ensure top customer service, the branch network was subject to major refurbishment, which included replacement of air-conditioning and ventilation systems and the purchase of additional IT hardware and office equipment.

In terms of investments, a special focus was placed on the development of mobile and Internet banking. The functionality of iBiznes24 was further improved to make it more intuitive and user friendly.

To enhance the customer experience, a virtual advisor functionality was introduced, which allows customers to contact an advisor online via audio, video or chat channels.

In 2014, 49 new ATMs and 131 cash deposit machines were acquired to extend the existing network in line with a strategy of migration of cash operations to self-service channels.

In 2014, the bank was working on the development of phone banking (extension of the call centre infrastructure), personnel and payroll systems, risk management systems, credit and financial systems and telecom networks, and implemented a number of obligatory projects related to the amendment or introduction of new legal regulations (for more details see section above "IT Development").

## VIII. Financial Situation in 2014

### 1. Income Statement of Bank Zachodni WBK Group

The table below illustrates changes in the key items of the Group's consolidated income statement in 2014 compared with the previous year.

PLN m			
Condensed Income Statement (for analytical purposes)	2014	2013	YoY Change
<b>Total income</b>	<b>6 579,0</b>	<b>6 089,9</b>	<b>8,0%</b>
- Net interest income	3 996,8	3 276,6	22,0%
- Net fee & commission income	1 847,8	1 778,6	3,9%
- Other income	734,4	1 034,7	-29,0%
<b>Total costs</b>	<b>(3 103,8)</b>	<b>(2 862,1)</b>	<b>8,4%</b>
- Staff, general and administrative expenses	(2 719,5)	(2 607,6)	4,3%
- Depreciation/amortisation	(308,0)	(219,3)	40,4%
- Other operating expenses	(76,3)	(35,2)	116,8%
<b>Impairment losses on loans and advances</b>	<b>(836,6)</b>	<b>(729,3)</b>	<b>14,7%</b>
Profit/loss attributable to the entities accounted for using the equity method	1,4	16,2	-91,4%
<b>Profit before tax</b>	<b>2 640,0</b>	<b>2 514,7</b>	<b>5,0%</b>
Tax charges	(592,7)	(500,1)	18,5%
<b>Net profit for the period</b>	<b>2 047,3</b>	<b>2 014,6</b>	<b>1,6%</b>
- Net profit attributable to BZ WBK shareholders	1 914,7	1 982,3	-3,4%
- Net profit attributable to non-controlling shareholders	132,6	32,3	310,5%

In 2014, Bank Zachodni WBK Group posted a profit before tax of PLN 2,640.0m, up 5.0% YoY. Profit attributable to the shareholders of Bank Zachodni WBK was PLN 1,914.7m and decreased by 3.4% YoY.

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

Bank Zachodni WBK acquired direct control over three new subsidiaries (BZ WBK-Aviva TUO, BZ WBK-Aviva TUnž and Santander Consumer Bank) and included them in its consolidated accounts, which resulted in significant increases in the individual income and cost items of the consolidated income statement, with a moderate impact on the profit before tax for 2014.

- The BZ WBK-Aviva insurance companies that have been consolidated in the financial statements since 1 January 2014 in the comparable period met the definition of joint ventures and were recognised using the equity method. Consolidation of the abovementioned entities had an impact on the structure of the income statement through several major items, increasing on the revenue side the other operating income (constituent of "other income" item in the table above) by PLN 178.1m at the cost of the net insurance fee income and adding on the expense side the amortisation from the purchase price allocation of PLN 84.4m. The insurance companies contributed PLN 29.1m to Bank Zachodni WBK Group profit before tax.

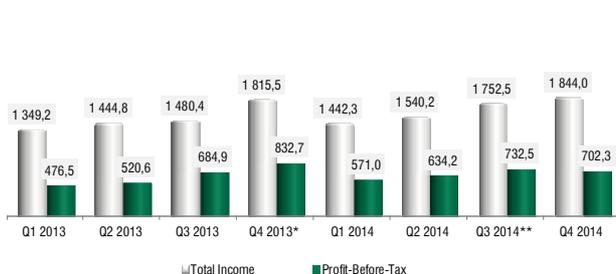
As the Group assumed control over BZ WBK-Aviva companies, in December 2013, the bank's pre-existing shareholding in both entities was restated to fair value, which increased the Group's profit before tax by PLN 419m and caused a high base effect in the consolidated income statement for 2014.

- Since 1 July 2014, the consolidated pre-tax profit of Bank Zachodni WBK Group has also contained the results of Santander Consumer Bank and its connected entities (SCB Group), which for the second half of 2014 was PLN 268.6m (after consolidation and intercompany adjustments). SCB Group contributed primarily to the net interest income (PLN 512.3m) and net fee and commission income (PLN 76.2m) of the consolidated income of Bank Zachodni WBK Group. The share of SCB Group in the total costs and impairment losses amounted to PLN 256.8m and PLN 78.5m, respectively.

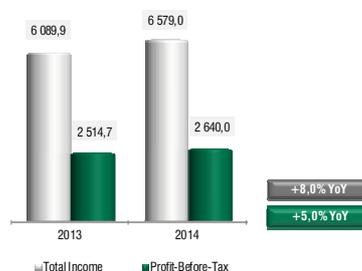
## Key Factors Affecting the Profit of Bank Zachodni WBK Group in 2014

- Increase in net interest income of PLN 720.2m YoY, reflecting growth in the quarterly net interest margin, which increased steadily over three consecutive quarters of the year (from 3.60% in Q1 2014 to 4.07% in Q3 2014) and slid to 3.55% in Q4. The interest margin increased YoY in the lower interest rate environment due to the harmonisation of the post-merger deposit offer, continued optimisation of deposit and credit product parameters, favourable directions in business development, and the first-time consolidation of SCB Group in the financial statements. The decline in the net interest margin in the last quarter of the year is mainly attributable to the interest rate cut in October, which negatively affected interest income on loans, in particular the retail portfolio.
- Moderate growth in fee and commission income (+PLN 69.2m YoY) driven by the development of the Polish economy and financial markets, regulatory changes, competitive pressure and the extended scope of consolidation of Bank Zachodni WBK Group's financial statements. An increase in the fee income from credit facilities, foreign exchange transactions and credit cards was accompanied by a decline in brokerage fees and fees for e-business and payment transactions. The inclusion of SCB in the consolidated accounts resulted in higher fee and commission income of Bank Zachodni WBK Group, mainly in the segment of credit cards and insurance, whereas the consolidation of BZ WBK-Aviva companies triggered a change in the recognition of insurance income generated by the Group, which reduced insurance fee income and expanded other operating income.
- Decrease of PLN 300.3m in other income is due to a high-base effect arising from recognition of the gross profit from restatement to fair value (as at the date of gaining control) of the bank's pre-existing stake in BZ WBK-Aviva companies (PLN 419m) in Q4 2013 and also to the lower gains on the trading portfolio and other financial instruments (-PLN 85.1m and -PLN 72m YoY), realised in the management of the Group's financial assets structure in accordance with the pursued strategic objectives and in view of the conditions prevailing in the bonds, IRS and FX markets. The resulting income decline was partly offset by the net insurance income of PLN 178.1m generated by BZ WBK-Aviva TUO and BZ WBK Tunž.
- Increase of PLN 107.3m YoY in loan impairment losses (including SCB Group) as a result of a close monitoring of the credit risk attached to individual credit portfolios of Bank Zachodni WBK Group.
- Effective cost management by Bank Zachodni WBK Group amid the delivery of diverse development projects and continued integration. Excluding the integration and other non-recurring costs, operating expenses of SCB Group and BZ WBK-Aviva companies along with the amortisation arising from allocation of the purchase price of the insurance entities, the underlying cost base of Bank Zachodni WBK Group decreased by 2.8% YoY.

Total Income and Profit-Before-Tax by Quarters in 2013 and 2014 (PLN m)



Total Income and Profit-Before-Tax for 2013 and 2014 (PLN m)



\* As Bank Zachodni WBK acquired additional 16% stake in BZ WBK-Aviva TUO and 16% stake in BZ WBK-Aviva Tunž, its previous shares in both entities (50% in each) were re-stated to fair value as at the acquisition date, which increased the Group's PBT for Q4 2013 by PLN 419m.

\*\* On 1 July 2014, Bank Zachodni WBK acquired ordinary and preference shares in SCB, representing 60% of the share capital and ca. 67% of votes at the General Meeting of SCB. In this way, SCB became a subsidiary and together with its connected entities became a part of Bank Zachodni WBK Group.

## 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 2014 compared with 2013.

PLN m

Components of Bank Zachodni WBK Group Profit-Before-Tax by contributing entities	2014	2013	YoY Change
<b>Bank Zachodni WBK S.A.</b>	<b>2 478,4</b>	<b>1 969,4</b>	<b>25,8%</b>
<b>Existing subsidiary undertakings:</b>	<b>500,1</b>	<b>186,4</b>	<b>168,3%</b>
Santander Consumer Bank and its subsidiaries <sup>1)</sup>	268,6	-	-
BZ WBK Asset Management S.A. and BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. <sup>2)</sup>	75,4	78,6	-4,1%
BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A., BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. <sup>3)</sup>	29,1	-	-
BZ WBK Leasing S.A., BZ WBK Lease S.A. and Finanse Sp. z o.o. <sup>4)</sup>	72,8	48,4	50,4%
Dom Maklerski BZ WBK S.A. <sup>5)</sup>	24,7	41,2	-40,0%
Faktor Sp. z o.o.	21,2	16,7	26,9%
Other subsidiary undertakings <sup>6)</sup>	8,3	1,5	453,3%
<b>Equity method valuation</b>	<b>1,4</b>	<b>16,2</b>	<b>-91,4%</b>
<b>Elimination of dividends received by BZ WBK <sup>7)</sup></b>	<b>(338,7)</b>	<b>(75,5)</b>	<b>348,6%</b>
<b>Other intercompany and consolidation adjustments <sup>8)</sup></b>	<b>(1,2)</b>	<b>418,2</b>	<b>-</b>
<b>Profit before tax</b>	<b>2 640,0</b>	<b>2 514,7</b>	<b>5,0%</b>

1) On 1.07.2014, Bank Zachodni WBK acquired ordinary and preference shares in Santander Consumer Bank (SCB), representing 60% of the share capital of SCB and 67% of votes at the SCB General Meeting. The following SCB subsidiaries are also subject to consolidation: AKB Marketing Services Sp. z o.o., Santander Consumer Multirent Sp. z o.o., Santander Consumer Finanse S.A. and S.C. Poland Auto 2014-1 Limited. The amounts provided above represent profit before tax of SCB Group after intercompany and consolidation adjustments.

2) Combined profit before tax of these entities excludes dividend received by BZ WBK Asset Management from BZ WBK Towarzystwo Funduszy Inwestycyjnych in the amount of PLN 30.3m in 2014 and PLN 23.2m in 2013.

3) BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ changed their status from joint ventures to subsidiary undertakings at the end of 2013. Throughout 2013, both entities were accounted for using the equity method. As at 31 December 2013 only their statements of financial position were consolidated with Bank Zachodni WBK. The amount provided above represents profit before tax of both companies after consolidation adjustments and post-audit profit adjustments.

4) Effective from 31 January 2014, Kredyt Lease changed the company's name to BZ WBK Lease.

5) BZ WBK Brokerage House SA was removed from the Court Register on 31.10.2014. Part of the company which had been involved in brokerage activities was incorporated into the structure of BZ WBK S.A., and the rest was transferred to the newly created company Gieldokracja Sp. z o.o which is responsible for advertising and information.

6) The amount for 2014 includes BZ WBK Inwestycje, BZ WBK Nieruchomości and BFI Serwis in liquidation (de-registered on 20 November 2014). In 2013, there was also Kredyt Trade included under this line (de-registered on 22 August 2013).

7) The amount for 2014 includes dividend income of PLN 229.5m received by Bank Zachodni WBK from SCB.

8) Intercompany and consolidation adjustments (other than dividends) for 2013 include the impact of restatement to fair value of the pre-existing BZ WBK shareholding in BZ WBK-Aviva companies as at the date of gaining control over them (PLN 419m).

The unconsolidated PBT of Bank Zachodni WBK increased by 25.8% YoY on the back of higher net interest income (+PLN 191.2m YoY) and net commission income (+PLN 63.2m YoY) and the recognition of much higher dividend income (+PLN 285.9m YoY, including PLN 229.5m from Santander Consumer Bank). The increase in dividend income more than compensated for lower gains on other financial instruments (-PLN 66.2m YoY) and net trading income and revaluation (-PLN 89.8m). The growth in profit before tax was also aided by a reduction in operating expenses (-PLN 114.8m YoY) and net credit impairment losses (-PLN 29.7m YoY).

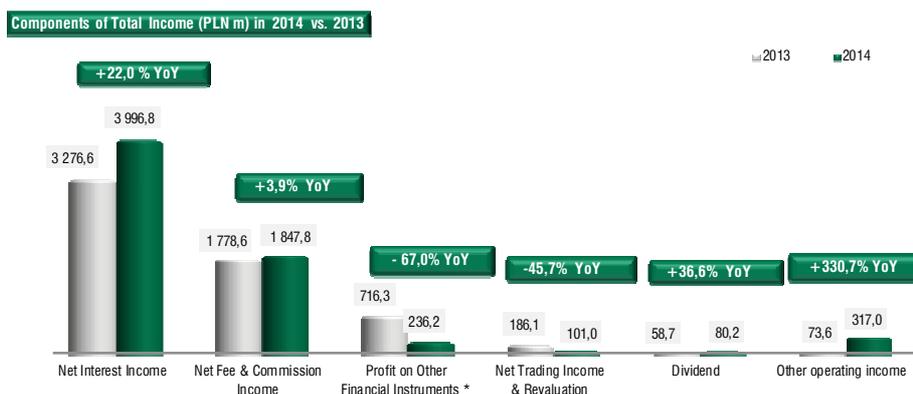
In 2014, the subsidiaries consolidated by Bank Zachodni WBK reported an increase of 168.3% YoY in their total profit before tax as a result of inclusion in the Group structure of Santander Consumer Bank and BZ WBK-Aviva companies, whose total contribution was PLN 297.7m. On exclusion of these entities, the underlying total profit before tax of the subsidiaries of Bank Zachodni WBK increased by 8.5% YoY, reflecting the higher PBT figures reported by the leasing companies and the factoring company (+50.4% YoY and +26.9% YoY, respectively) as a result of the high growth of the respective business lines throughout 2014.

The profit before tax of BZ WBK Asset Management and BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI) declined by 4.1% YoY despite the reduction of the cost base and an increase in the average value of assets under management. The decrease in profitability is attributed, among other things, to changes in the structure of assets towards lower margin funds/low risk portfolios and increasing funds management costs incurred by BZ WBK TFI (with accompanying income increase). In addition, the income from proprietary investments fell in parallel with interest rates and the value of funds available for placements.

The gain realised by Inwestycje on the partial sale of the stake in Krynicki Recykling substantially increased the profit before tax of companies referred to as "other subsidiaries". The performance of Dom Maklerski BZ WBK is not subject to a comparative analysis as the entity was struck off the register of companies on 31 October 2014.

## Total Income

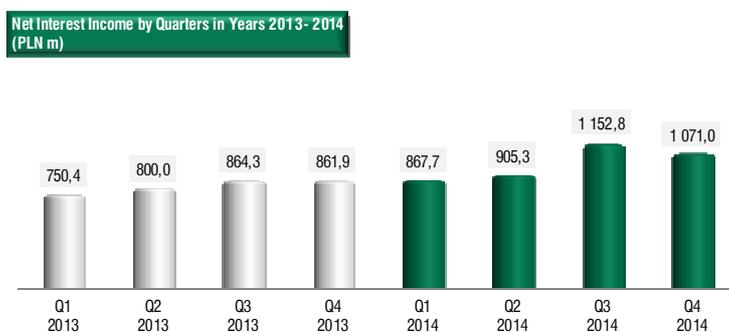
The total income achieved by Bank Zachodni WBK Group in 2014 was PLN 6,579.0m and up 8.0% YoY. Adjusting for the gains on the sale and revaluation of subordinate entities (Krynicki Recykling in 2014 and BZ WBK-Aviva companies in 2013), the respective income went up by 15.8% YoY.



\* includes gains on the sale/revaluation of subordinate entities

## Net interest Income

Net interest income amounted to PLN 3,996.8m, increasing by 22% YoY.



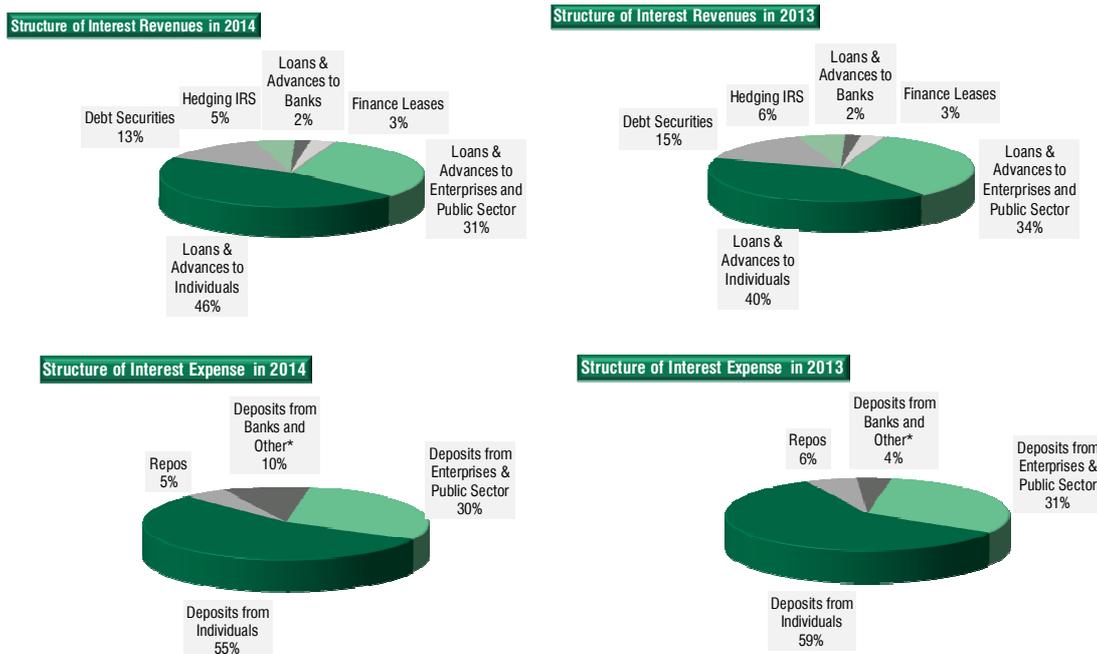
The net interest income of Bank Zachodni WBK Group includes the net interest income from CIRS transactions designated as hedging instruments under cash flow hedge accounting, totalling PLN 231.8m in 2014 vs. PLN 254.4m in 2013, which is disclosed in the line item "Interest income from IRS hedges" (Note 6 "Net interest income"), showing PLN 300.6m in 2014 vs. PLN 314.7m in 2013.

Taking into account the net income from non-hedging CIRS/IRS transactions (PLN 21.5m for 2014 vs. PLN 13.9m for 2013), which are used for the purpose of liquidity management and reported under "Net trading income and revaluation", the underlying net interest income increased by 22.1% YoY.

The YoY increase in the net interest income was achieved in the falling interest rate environment (discounting the expected cuts in the NBP interest rates) as a combined result of:

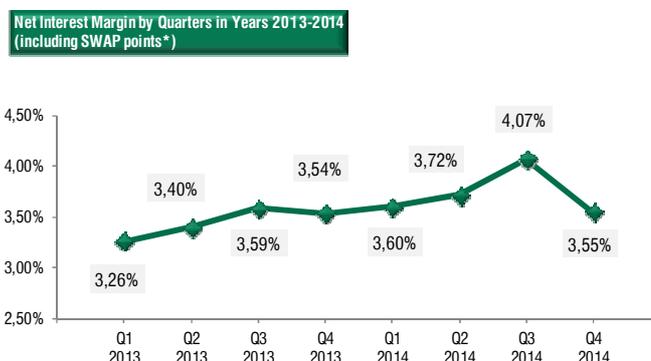
- an increase in the Group’s interest income (+9.7% YoY to PLN 5,723.0m) on the back of consolidation of the half-yearly interest income of Santander Consumer Bank S.A., and
- a rapid decrease in interest expenses, which decelerated over the year as a result of incorporation of the SCB expenses and the deposit sales campaign conducted by Bank Zachodni WBK (-11.0% YoY to PLN 1,726.2m).

Loans to customers brought a yearly average nominal interest income of 5.7% compared with 5.6% in 2013. Customer deposits carried a yearly average nominal interest cost of 1.8% compared with 2.3% a year before.



\* includes deposits from banks, subordinated liabilities and security issues

Prior to the end of June 2014, the net interest margin of Bank Zachodni WBK Group gradually increased (from 3.26% in Q1 2013 to 3.72% in Q2 2014) amid sharp declines in reference interest rates (ending in July 2013) and their relative stabilisation in the subsequent periods. This upward trend in the net interest margin is a combined effect of the harmonisation of the bank’s post-merger offer, effective management of the schedule of interest rates and also expanding business volumes.



\* The calculation of adjusted net interest margin of Bank Zachodni WBK takes account of swap points allocation from derivative instruments used for the purpose of liquidity management but excludes interest income from the debt trading portfolio since Q1 2014.

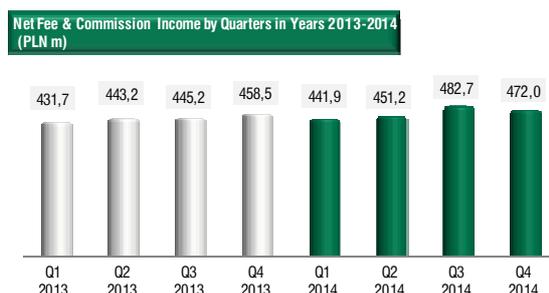
In Q3 2014, the quarterly net interest margin climbed from 3.72% to 4.07% due to the incorporation of gross credit receivables (PLN 13.5bn) and the net interest income of SCB Group (PLN 259.8m) in the consolidated financial statements. Excluding the contribution of SCB Group, the underlying net interest margin of Bank Zachodni WBK Group declined to 3.59%, reflecting the market expectations of reference rates trends and intensive measures taken by the bank to build a strong and stable deposit base through the acquisition and retention of new deposits. In the reporting period, the New Easy Earning Deposit – with a fixed 4% rate of interest – was a key product in attracting new customers.

Over the final three months of 2014, the net interest margin slid from 4.07% to 3.55% as a result of October's rate cuts, which lowered the cap on the maximum interest rate on consumer loans and exerted a negative pressure on WIBOR rates. This caused erosion of interest income from credit portfolios while constraining the growth of interest expenses generated by the enlarged deposit base. The decline in the net interest income was accompanied by an increasing volume of retail loans, balances in current accounts and loans to the central bank and other banks.

## Net Fee and Commission Income

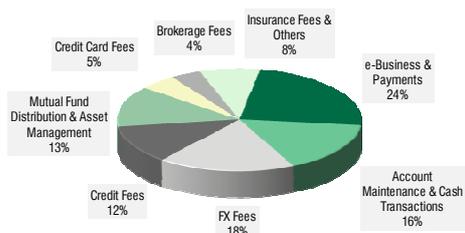
PLN m			
Net Fee and Commission Income	2014	2013	YoY Change
E-Business and payments <sup>1)</sup>	436,6	455,3	-4,1%
FX fees	332,6	296,7	12,1%
Account maintenance and cash transactions <sup>2)</sup>	302,2	303,3	-0,4%
Asset management and distribution	237,4	233,5	1,7%
Credit fees <sup>3)</sup>	228,1	211,4	7,9%
Insurance fees <sup>4)</sup>	125,1	106,0	18,0%
Credit cards	101,2	73,4	37,9%
Brokerage fees	70,6	89,3	-20,9%
Other <sup>5)</sup>	14,0	9,7	44,3%
<b>Total</b>	<b>1 847,8</b>	<b>1 778,6</b>	<b>3,9%</b>

- 1) Fees for foreign and mass payments, Western Union transfers, trade finance, debit cards, services for third party institutions as well as other electronic & telecommunications services.
- 2) Fee income from account maintenance and cash transactions has been reduced by the corresponding expenses which in Note 7 "Net Fee and Commission Income" of the consolidated financial statements are included in the line item "Other".
- 3) Fees related to lending, leasing and factoring activities which are not amortised to interest income.
- 4) Following the acquisition of control over BZ WBK-Aviva companies, the presentation of insurance income has been changed. At present, the major part of income from the insurance business is disclosed in "Other operating income" instead of "Net fee and commission income". In 2014, the respective income contributed PLN 178.1m to the Group's "Other operating income".
- 5) Guarantees & sureties, issue arrangement fees and others.

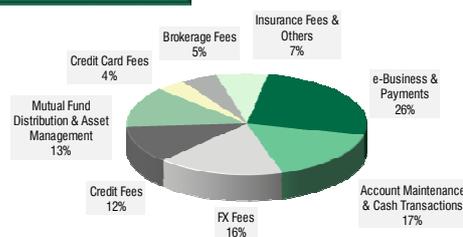


In 2014, the net fee and commission income was PLN 1,847.8m and increased by 3.9% YoY.

Net Commission Income Structure in 2014



Net Commission Income Structure in 2013



The most pronounced growth on a year-on-year basis was noted in net credit card fee income (+37.9% YoY), which was primarily attributed to the developing credit card base, increase in credit card transaction volumes and the revision of selected credit card fees and charges. The growth rate under this product line was accelerated by half yearly net fee and commission income contributed by Santander Consumer Bank.

The rapid increase in net credit fee income, resulting from the robust acquisition of large corporate finance deals as well as the factoring business, slowed down to 7.9% due to credit intermediation costs of Santander Consumer Bank S.A.

The high growth in FX fees (+12.1% YoY) stems from increased FX customer trading volumes and volatility in the currency market.

Bancassurance fee income grew by 18% YoY due to the six-month contribution of PLN 61.9m from Santander Consumer Bank. Excluding the respective amount from the consolidated income statement, underlying net insurance fee income decreased, reflecting a changed presentation of the Group's net insurance income implemented upon gaining control over BZ WBK-Aviva companies. Currently, the majority of the relevant net income (PLN 178.1m for 2014) is disclosed under other operating income. Viewed on a stand-alone basis, the underlying insurance fee income of Bank Zachodni WBK rose by 14.4% YoY, driven mainly by the sale of cash loan and card insurance.

The net fee and commission income aggregated under the "eBusiness and payments" line item decreased by 4.1% YoY. The growth in total net fees as reported in a number of significant areas of this business line was offset by lower income from debit cards driven by statutory reduction of interchange fees (since the beginning of July 2014).

The decline in the net brokerage fees (-20.9% YoY) was due to lower income earned by Dom Maklerski BZ WBK in the secondary market, mainly on account of remuneration recognised in 2013 for the sale of Bank Zachodni WBK shares held by Banco Santander and KBC Bank NV. Net brokerage fee income was also adversely affected by the equity market downturn observed in 2014 and continued pressure on margins across all segments of the domestic stock exchange market.

## Other Net Income

### Gains on Other Financial Instruments

In 2014, the gains on other financial instruments plus the gains on the sale and revaluation of subordinate entities decreased by 67% YoY to PLN 236.2m as in 2013 gains of PLN 419m were recognised upon the acquisition of control over BZ WBK-Aviva insurance companies.

Gains on the sale of treasury bonds were PLN 217.9m, down by PLN 81.4m YoY. The measures taken as part of duration management on the available-for-sale debt securities portfolio were kept in line with market conditions and took into account the Group's objectives with regard to risk and liquidity management.

The Group's gains from other financial securities in 2014 also include a realised gain on the sale of the bank's equity investments, including a stake in Kuźnia Polska (PLN 14.1m) and PKM Duda (PLN 2.7m).

The gains on subordinate entities of PLN 10.5m reflect the disposal of 320k shares of Krynicky Recykling by Inwestycje in December 2014, which decreased the indirect shareholding of Bank Zachodni WBK to below 20% and induced re-classification of the company out of the category of associated undertakings.

### Net Trading Income and Revaluation

After four quarters of 2014, net trading income and revaluation ("net trading income") was PLN 101.0m, down 45.7% YoY.

The Group generated a profit on derivatives and interbank FX and derivative trading of PLN 31.8m vs. PLN 180.7m a year before, which means a decrease of 82.4% YoY. At the same time, the profit on other FX transactions increased from a loss of PLN 3.2m in 2013 to PLN 62.2m in 2014.

The above-mentioned result on interbank FX and derivative trading includes the net interest-related income of PLN 21.5m on the non-hedging CIRS/IRS transactions vs. PLN 13.9m for 2013. It excludes, however, the net interest income from the CIRS transactions designated as hedging instruments under the cash flow hedge accounting (PLN 231.8m for 2014 vs. PLN 254.4m in 2013), which is disclosed in Note 6 "Net interest income" under "Interest income from IRS hedges".

Debt securities trading brought in a profit of PLN 5.8m for 2014 compared to PLN 6.8m in the previous year.

This performance largely reflects developments on the interest rate and currency markets. In 2014, the yield curves on domestic bonds and IRS rates were trending downwards, causing the spread in the segment of 2-10 years to narrow down YoY. In Q4 2014 alone, these yields/rates hit all-time lows with occasional short-lived rebounds.

In 2014, the situation in the currency market was much more volatile compared to the interest rate market. Movements were particularly strong in December 2014. During the year, the zloty fell against the US dollar (16%), the British pound (10%), the euro (3%) and the Swiss franc (5%).

### Other Income Items

In 2014, dividend income reached PLN 80.2m and exceeded the level reported in 2013 by PLN 21.5m due to higher dividend payouts from Aviva Group non-controlled entities.

In 2014, other operating income grew by 330.7% YoY to PLN 317.0m, which mostly resulted from the acquisition of control over BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ and their inclusion in the Group's consolidated income statements starting from 1 January 2014. Consequently, the line incorporates the net income of PLN 178.1m from the insurance activities of the above-mentioned entities, which is composed of the gross premiums written, reinsurers' share of premium written, net claims and benefits, and other net insurance income. The other operating income also comprises PLN 15.2m representing the write-down of the legal risk provision related to interchange fees collected in the past (both by the former Kredyt Bank and Bank Zachodni WBK), PLN 12.4m in respect of a public liabilities refund to BZ WBK Lease, PLN 16.9m of gains on the disposal of Bank Zachodni WBK properties and PLN 15.0m representing the contribution of SCB Group to consolidated other operating income.

## Impairment Charges

	PLN m		
Impairment Losses on Loans and Advances	2014	2013	YoY Change
Collective and individual impairment charge	(975,4)	(890,8)	9,5%
Impaired but not reported losses charge	98,8	174,6	-43,4%
Recoveries of loans previously written off	12,0	3,3	263,6%
Off-balance sheet credit related facilities	28,0	(16,4)	-
<b>Total</b>	<b>(836,6)</b>	<b>(729,3)</b>	<b>14,7%</b>

In 2014, the loan impairment charge to the income statement of Bank Zachodni WBK Group was PLN 836.4m, up 14.7% YoY. The contribution of SCB Group to that figure was PLN 78.5m.

The negative balance of provisions for incurred and reported losses (on individual and collective exposures) was PLN 975.4m and up 9.5% YoY as a result of increased impairment charges on individually and collectively assessed business loans, partly offset by decreased impairment charges on retail exposures.

The decline of 43.4% YoY in the positive balance of charges for the incurred by not reported losses (IBNR) is due to the transfer of selected credit exposures from this category (mainly exposures towards business customers) to the portfolio of evidenced impairment, effected in 2013.

In 2014, Bank Zachodni WBK Group sold overdue personal, mortgage and business receivables in the principal amount of PLN 698.2m vs. PLN 693.9m in the corresponding period. The net result on this transaction was negative at PLN 24.4m.

The changes in the value and structure of impairment charges reflect the Group's prudential approach to credit risk management.

As at 31 December 2014, Bank Zachodni WBK Group's NPL ratio was 8.4% compared with 7.9% at the end of December 2013. The cost of credit was 1.0% vs. 1% twelve months before. Excluding the impact of Santander Consumer Bank, the underlying NPL ratio and the cost of credit ratio as at 31 December 2014 were 8.1% and 1.0%, respectively.

## Total Costs

PLN m			
Total costs	2014	2013	YoY Change
Staff, general and administrative expenses, of which:	(2 719,5)	(2 607,6)	4,3%
- Staff expenses	(1 449,6)	(1 375,5)	5,4%
- General and administrative expenses	(1 269,9)	(1 232,1)	3,1%
Depreciation/amortisation	(308,0)	(219,3)	40,4%
Other operating expenses	(76,3)	(35,2)	116,8%
<b>Total costs</b>	<b>(3 103,8)</b>	<b>(2 862,1)</b>	<b>8,4%</b>
Integration costs and other non-recurring costs <sup>1)</sup>	(205,8)	(264,4)	-22,2%
<b>Underlying costs</b>			-
Total costs of subsidiaries consolidated effective from 2014 <sup>2)</sup>	(374,1)	-	-
<b>Underlying total costs</b>	<b>(2 523,9)</b>	<b>(2 597,7)</b>	<b>-2,8%</b>

1) Integration costs are composed of staff, general & administrative expenses (PLN 162.2 m in 2014 and PLN 261.8 m in 2013) and amortisation (PLN 15.1 m in 2014 and PLN 2.6 m in 2013).

2) Costs of BZ WBK-Aviva TUnż and BZ WBK-Aviva TUO (including amortisation from purchase price allocation and after intercompany adjustments) and SCB with subsidiaries (after intercompany adjustments).

In 2014, the total expenses of the Group amounted to PLN 3,103.8m, and were 8.4% higher YoY. Excluding the integration and other non-recurring costs (PLN 205.8m in 2014 and PLN 264.4m in the corresponding period), the operating costs of SCB Group, BZ WBK-Aviva TUO and BZ WBK-Aviva TUnż, and the depreciation of PLN 84.4m arising from allocation of the purchase price of the two insurance companies, total underlying costs fell by 2.8% YoY. It should be noted that this result was achieved by continuing intensive development initiatives geared towards the improvement of the Group's product range, customer service and corporate culture in accordance with the "Next Generation Bank" strategic programme.

As the Group's costs and income grew at a similar pace YoY (+8.4% and +8%, respectively), the Group's cost-to-income ratio was 47.2%, which is nearly the same as the year before (47.0% in 2013). Adjusted for the integration costs, the cost-to-income ratio was 44.5% vs. 42.7% in the corresponding period.

### Staff Expenses

The Group's staff expenses increased by 5.4% YoY to PLN 1,449.6m. The growth reported under the "salaries and bonuses", "statutory deductions from salaries" and "training costs" (6.5% YoY, 6.0% YoY and 7.8% YoY, respectively) results from consolidation of Santander Consumer Bank Group and BZ WBK Aviva companies with their staffing levels at 2,720 and 68 FTEs, respectively at the end of December 2014. Excluding the impact of new subsidiaries included in the consolidation scope since 2014, the above line items showed a steady decline resulting from the continued employment optimisation process in Bank Zachodni WBK Group.

Underlying staff expenses (i.e. excluding the subsidiaries incorporated in the consolidated financial statements in 2014 and integration costs) fell by 3.9% YoY.

### General and Administrative Expenses

General and administrative expenses of the enlarged Bank Zachodni WBK Group increased by 3.1% YoY to PLN 1,269.9m.

A major year-on-year increase was reported under the cost of marketing and entertainment (+63.6% YoY) driven by a larger number of extensive advertising campaigns for the products of Bank Zachodni WBK (e.g. 1|2|3 Account, Duet cash loan, SME lending proposition, Account Worth Recommending, seasonal cash loan, New Easy Earning Deposit – New Funds) and the contribution of SCB Group and BZ WBK-Aviva companies to the expenses incurred for 2014. The costs paid by the Group to market regulators also rose (+26.3% YoY) following the implementation of the revised Banking Guarantee Fund Act in October 2013, which set up a stabilisation fund created from the prudential fees paid by the banks participating in the guarantee system. In 2014, the total fees payable to the Banking Guarantee Fund were PLN 104.3m vs. PLN 82.7m in 2013. A notable increase was also noted in IT usage costs (+19.3% YoY), mainly due to the contribution of subsidiaries. The cost of external services increased by 36.7% YoY as a result of extended outsourcing of selected functions. Costs generated by consumables, cards and cheques accelerated by 8.8% YoY as a result of increased demand for plastic cards arising from higher sales and replacement of debit and credit cards.

At the same time, a decrease was noted in the cost of consultancy and advisory services (-18.1% YoY) due to a high base effect resulting from the launch or acceleration of new development projects in 2013 (including the Next Generation Bank programme, incorporation of Dom Maklerski BZ WBK and the purchase of a controlling stake in Santander Consumer Bank), which required specialist knowledge and independent expert opinions. At the same time, there was a drop in the costs of data transmission (-5.2% YoY) and the costs of maintenance and rental of premises (-1.2% YoY).

Excluding the contribution of SCB Group, BZ WBK-Aviva companies, integration and other non-recurring costs, the underlying consolidated general and administrative expenses decreased by 2.2% YoY.

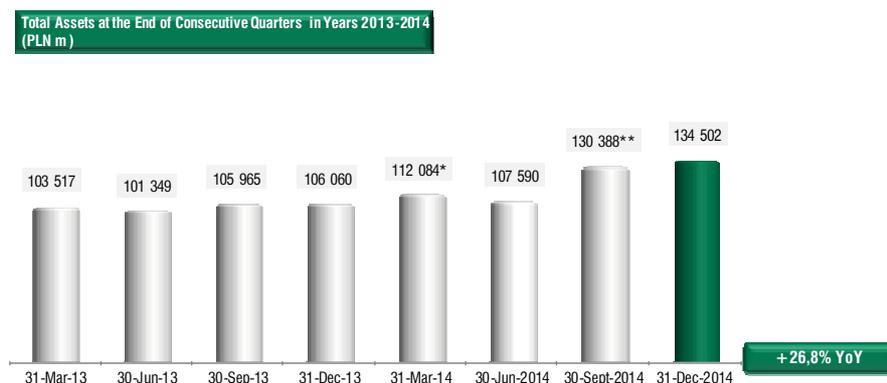
## Effective tax rate

The effective tax rate of the Group (22.5%) was impacted by the sale of receivables and the costs of prudential fees which are not tax deductible.

## 2. Financial Position

### Assets

As at 31 December 2014, total assets of Bank Zachodni WBK Group amounted to PLN 134,501.9m, and increased by 26.8% YoY. The value and structure of the Group's statement of financial position is mainly affected by the parent company, which accounts for 90.4% of the consolidated total assets vs. 97.5% as at 31 December 2013. The lower share of Bank Zachodni WBK reflects the assumption of control over and consolidation of Santander Consumer Bank effective from 1 July 2014.



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

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

The table below presents major developments in the key categories of the consolidated assets of Bank Zachodni WBK Group as at 31 December 2014 vs. 31 December 2013.

Assets (condensed presentation for analytical purposes)	PLN m				
	31.12.2014	Structure 31.12.2014	31.12.2013	Structure 31.12.2013	Change YoY
	1	2	3	4	1/3
Loans and advances to customers *	85 820,6	63,8%	68 132,1	64,2%	26,0%
Investment securities	27 057,1	20,1%	22 090,8	20,8%	22,5%
Cash and operations with Central Banks	6 806,5	5,1%	5 149,7	4,9%	32,2%
Fixed assets, intangibles and goodwill	5 477,6	4,1%	2 666,8	2,5%	105,4%
Financial assets held for trading and hedging derivatives	3 804,7	2,8%	3 681,8	3,5%	3,3%
Loans and advances to banks	2 523,1	1,9%	2 212,7	2,1%	14,0%
Other assets	3 012,3	2,2%	2 126,1	2,0%	41,7%
<b>Total</b>	<b>134 501,9</b>	<b>100,0%</b>	<b>106 060,0</b>	<b>100,0%</b>	<b>26,8%</b>

\* Includes impairment write-down.

The movements in the statement of the consolidated financial position of Bank Zachodni WBK Group reflect the business's development tendencies, acquisition efforts and the Group's management of its balance sheet structure and liquidity. Another contributing factor was the consolidation of SCB Group (BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŽ have been consolidated in the statement of financial position of Bank Zachodni WBK Group since 31 December 2013).

Compared with the end of December 2013, the fastest growth was noted in the financial assets held for trading and hedging derivatives, which increased by 105.4% YoY. This is due to higher turnover in state treasury bonds from the trading portfolio effected as part of the Group's liquidity management amid reduced yields of treasury securities. The Group's goals in balance sheet management combined with a favourable situation on the debt securities market resulted in an increase in investment securities (+22.5% YoY) following expansion of the portfolio of treasury bonds available for sale (to PLN 20bn), commercial bonds (to PLN 2.2bn), and NBP bills (to PLN 4 bn). SCB contributed PLN 2.2bn to the investment portfolio, mainly in the form of treasury bonds and NBP bills.

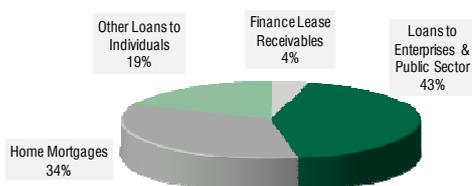
Pronounced growth was reported under loans and advances to banks (+32.2% YoY), which takes into account, among others, the mandatory reserve requirements in the context of deposit base growth.

Net loans and advances to customers were PLN 85,820.6m, increasing by 26% YoY. SCB Group contributed PLN 12.3bn to the consolidated net loans and advances to customers (after intercompany adjustments).

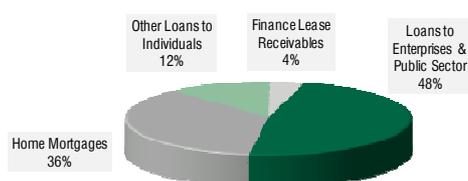
## Credit Portfolio

Gross Loans and Advances to Customers	PLN m		
	31.12.2014	31.12.2013	YoY Change
	1	2	1/2
Loans and advances to individuals	47 784,1	34 041,4	40,4%
Loans and advances to enterprises and public sector customers	39 340,7	34 478,3	14,1%
Finance lease receivables	3 815,8	3 052,1	25,0%
Other	6,5	50,1	-87,0%
<b>Total</b>	<b>90 947,1</b>	<b>71 621,9</b>	<b>27,0%</b>

Structure of Loans & Advances to Customers as at 31.12.2014

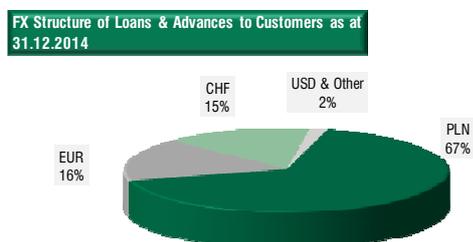


Structure of Loans & Advances to Customers as at 31.12.2013



As at 31 December 2014, gross loans and advances to customers were PLN 90,947.1m, increasing by 27% on the end of 2013.

As a result of the consolidation of SCB Group (a gross credit portfolio of PLN 13.9bn), which specializes in retail banking, the main item in the structure of gross loans and advances of Bank Zachodni WBK Group are loans and advances to individuals, followed by loans and advances to enterprises and public sector customers.

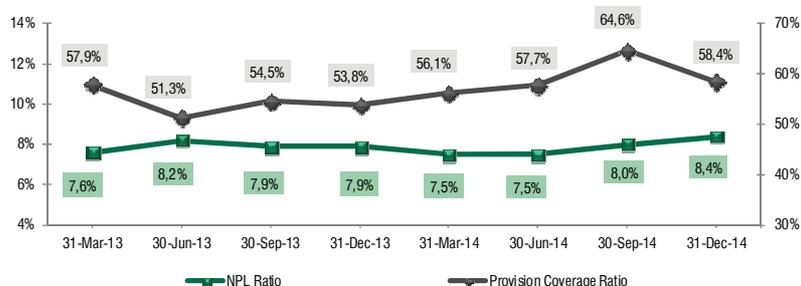


Compared with the end of 2013, loans and advances to individuals increased by 40.4% YoY to PLN 47,784.1m at the end of December 2014, including PLN 12.5bn contributed by SCB Group. Home mortgages, which represent the majority of loans and advances to individuals, increased by 22% YoY to PLN 30,860.8m. The second significant constituent item, i.e. cash loans, grew by 72.5% to PLN 9,741.6m.

Loans and advances to enterprises and public sector companies amounted to PLN 39,340.7m, up 14.1% YoY due to the strong business lending activity of Bank Zachodni WBK, particularly in the segment of corporate and GBM customers.

As at 31 December 2014, finance lease receivables, including among others the portfolio of BZ WBK Leasing and BZ WBK Lease, totalled PLN 3,815.8m, increasing by 25% YoY amid robust sales of vehicles, machines and equipment. Loans granted by the leasing companies to finance machines and vehicles, which totalled PLN 1,207.2m as at 31 December 2014 (vs. PLN 846.2m as at 31 December 2013) are disclosed outside the leasing portfolio as loans and advances to enterprises.

**Credit Quality Ratios by Quarters in 2013 and 2014**



As at 31 December 2014, non-performing (impaired) loans to customers accounted for 8.4% of the gross portfolio vs. 7.9% twelve months before. The provision coverage for NPLs was 58.4% vs. 53.8% as at 31 December 2013.

Excluding the impact of SCB Group, non-performing loans to customers represented 8.1% of the gross portfolio, while the provision coverage for NPLs was 51.4%.

The Group maintains an appropriately diversified credit portfolio. As at 31 December 2014, the highest concentration level was recorded in “distribution” (12% of BZ WBK Group exposure), “production” (10%) and “property” (10%).

## Equity and Liabilities

The table below presents major developments in the key categories of the consolidated liabilities and equity of Bank Zachodni WBK Group as at 31 December 2014 vs. 31 December 2013.

Liabilities & Equity (condensed presentation for analytical purposes)	PLN m				
	31.12.2014	Structure 31.12.2014	31.12.2013	Structure 31.12.2013	Change YoY
	1	2	5	6	1/5
Deposits from customers	94 981,8	70,6%	78 543,0	74,1%	20,9%
Deposits from banks	8 359,9	6,2%	6 278,8	5,9%	33,1%
Subordinated liabilities and debt securities in issue	4 913,3	3,7%	1 885,4	1,8%	160,6%
Financial liabilities held for trading and hedging derivatives	4 039,9	3,0%	1 644,7	1,6%	145,6%
Other liabilities	4 155,3	3,1%	3 225,2	3,0%	28,8%
Total equity	18 051,7	13,4%	14 482,9	13,6%	24,6%
<b>Total</b>	<b>134 501,9</b>	<b>100,0%</b>	<b>106 060,0</b>	<b>100,0%</b>	<b>26,8%</b>

In the consolidated liabilities and equity as at 31 December 2014, the highest YoY growth was observed in the subordinated liabilities and debt securities in issue (+160.6% YoY), which was due to the latest issue of bonds by Bank Zachodni WBK with a nominal value of PLN 475m and the contribution of SCB Group of PLN 2.5bn made up of the bonds issued as part of the debt securities programme guaranteed by Santander Consumer Finance, and the bonds issued as part of the securitization of the retail loans portfolio of Santander Consumer Bank.

The growth in the portfolio of financial liabilities held for trading and hedging derivatives (+145.6% YoY) was driven by IRS and FX swaps.

An increase in deposits from banks (+33.1% YoY) reflects the Group's stronger trading in the repo market, including the contribution of PLN 1.4bn from SCB Group.

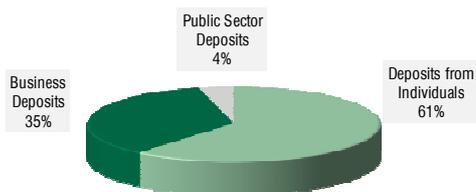
Deposits from customers increased by 20.9% YoY under the impact of higher balances in term deposits of personal and business customers with an accompanying moderate increase in current account balances.

Total equity increased by 24.6% YoY, mainly as a consequence of a two-fold increase in the share capital of Bank Zachodni WBK by a total of PLN 2,159.5m. In Q3 2014, the bank issued 305,543 series K ordinary bearer shares (registered on 11 July 2014) with a nominal value of PLN 3.1m under the 4th Incentive Scheme for the Group employees and 5,383,902 series L ordinary shares totalling PLN 2,156.4m (registered on 18 July 2014), which were placed with Santander Consumer Finance in exchange for an in-kind contribution of shares in Santander Consumer Finance. The nominal value of series L shares of PLN 53.8m increased the share capital, while the share premium of PLN 2,102.6m was recognised in the supplementary capital.

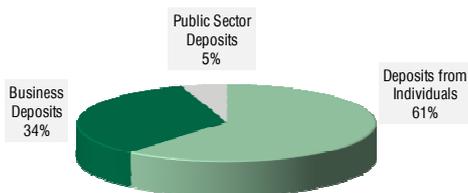
## Deposit Base

Deposits from Customers	PLN m		
	31.12.2014	31.12.2013	Change YoY
	1	3	1/3
Deposits from individuals	58 257,0	47 999,1	21,4%
Deposits from enterprises and public sector customers	36 724,8	30 543,9	20,2%
<b>Total</b>	<b>94 981,8</b>	<b>78 543,0</b>	<b>20,9%</b>

Structure of Customer Deposits as at 31.12.2014

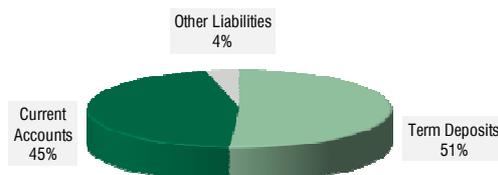


Structure of Customer Deposits as at 31.12.2013



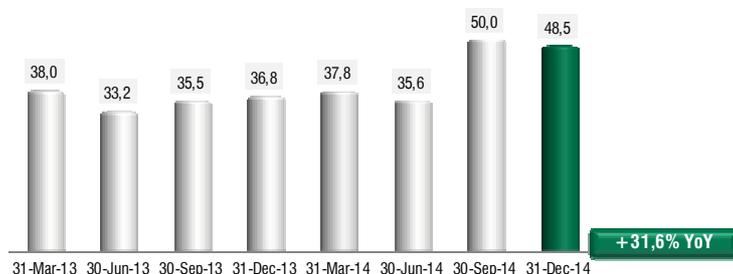
Deposits from customers, which represent 70.6% of the Group's liabilities, are the primary source of funding its lending business. The deposits increased by 20.9% YoY to PLN 94,981.8m at the end of 2014, including a contribution of PLN 6.9bn by SCB Group.

Structure of Customer Deposits as at 31.12.2014

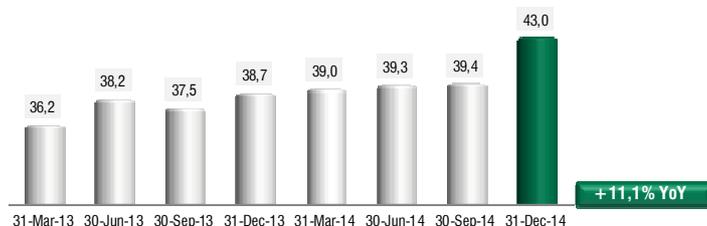


Term deposits from Group customers increased by 31.6% YoY to PLN 48,474.9m; current account balances increased by 11.1% to PLN 43,047.9m, while the Group's other liabilities increased by 16.7% to PLN 3,459.0m. The latter item includes loans from the European Investment Bank (EUR 350m, CHF 256.5m and PLN 196.7m) to finance the bank's lending activity and disclosed as loans and advances under deposits from enterprises. The reported increase results from the disbursement of a new line of EUR 100m in Q3 2014 to finance loans to SME and corporate customers.

Term Deposits at the End of Consecutive Quarters of 2013 and 2014 (PLN bn)



Current Accounts\* at the End of Consecutive Quarters of 2013 and 2014 (PLN bn)

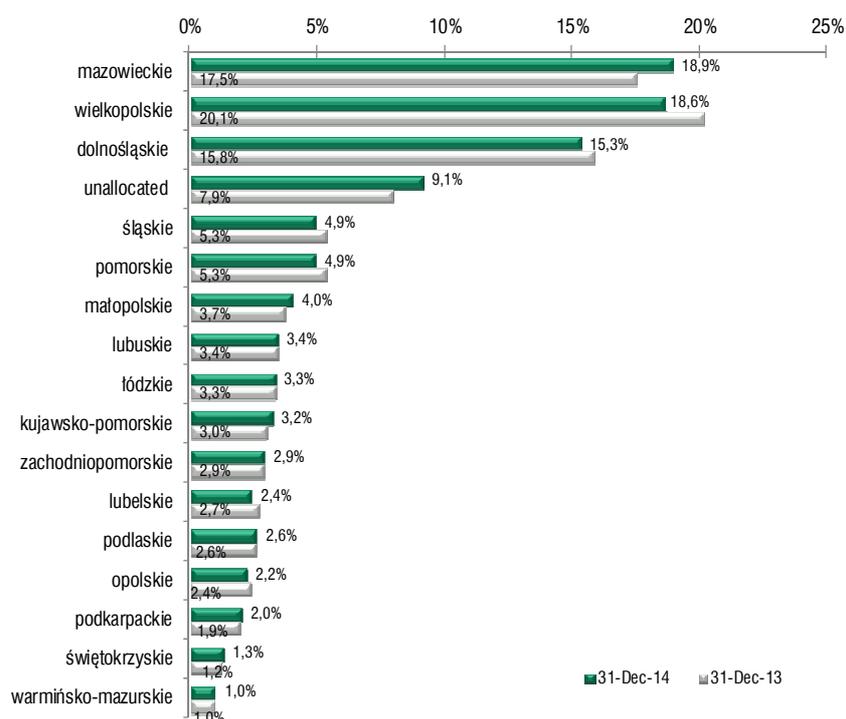


\* including savings accounts

The retail deposits base increased by 21.4% YoY to PLN 58,257.0m due to the rapid growth in term deposits from individuals (+38.5% YoY) driven by consolidation of SCB Group and strong acquisition activity pursued by the bank in H2 2014, mainly by means of the competitively priced New Easy Earning Deposit, which attracted ca. PLN 5bn of new funds from its launch in mid-August 2014 to the end of October. In Q4 2014, the focus was placed on strengthening relationships with new customers by offering them deposits combined with other active products, retaining maturing deposits and building long-term co-operation. In effect, the Group stabilised its deposit base when viewed on a quarterly basis.

Similar initiatives were taken with respect to enterprises and public sector customers. In particular, the bank launched new attractive products (e.g. one-month Business Impet Deposit for new funds), increased interest rates on negotiated deposits, enhanced service quality and a strengthened customer relationships. Deposits from this segment grew by 20.2% YoY to PLN 36,724.8m under the impact of higher term deposits (+21.0% YoY) and current accounts balances (+20.5% YoY).

#### Geographical Structure of Customer Deposits (by province) as at 31.12.2013 and 31.12.2014



## Diversification of Funding Sources for the Core Business of the Bank and Subsidiaries

### Bank Zachodni WBK S.A.

#### Issue of Own Bonds

On 17 July 2014, Bank Zachodni WBK issued 475,000 bearer bonds with a nominal value of PLN 1,000 each. The bonds were issued in a private placement with a variable interest rate (WIBOR + 1.0% p.a.) and a 3-year maturity. All the bonds with a total value of PLN 475m were taken up by bondholders.

On 29 July 2014, the Management Board of the Warsaw Stock Exchange adopted Resolution no. 862/2014 on introducing the bonds to the Catalist alternative trading system.

#### Agreement with the European Investment Bank

On 8 September 2014, a drawdown was made under the agreement of 17 June 2014 between Bank Zachodni WBK and European Investment Bank (EIB). The agreement provided for a EUR 100m worth of credit line to be used for financing credit delivery to SME and corporate clients. The facility is to be repaid in bullet within seven years.

### Credit Agreement

On 18 December 2014, Bank Zachodni WBK signed an agreement with a foreign bank for USD 50m worth of general purpose financing. The funds were disbursed on 16 January 2015. Pursuant to the agreement, the loan bears a variable interest rate based on the 6M Libor and is to be repaid within 728 days of the date of the agreement.

### Santander Consumer Bank S.A.

#### Issue of Debt Securities of Santander Consumer Bank (SCB)

In 2014, SCB continued its issue of bonds as part of the debt securities issue programme, guaranteed by Santander Consumer Finance.

In the second half of 2014, bonds with a nominal value of PLN 670m were issued, with maturities ranging from 6 months to 5 years. The bonds bear a variable interest rate based on 6M/3M WIBOR, while the interest rate on short-term instruments is fixed. All the securities have been issued in a private placement.

#### Securitization of SCB assets

In June 2014, SCB completed the securitization of a car and hire purchase loan portfolio of PLN 1,751.4m involving the transfer of securitized receivables to SC Poland Auto 2014-1 Limited (SCV), a special purpose vehicle registered in Ireland. Based on the securitized assets, SPV issued two classes (A, B) of bonds of PLN 1,367m in total secured by a registered pledge on SPV assets. The bonds were taken up by SCB in full and subsequently were sold to third parties in unconditional and repo transactions. As a result of the securitization scheme, SCB acquired funding while giving up future cash flows from the securitized loan portfolio.

## 3. Selected Ratios

Selected Financial Ratios	2014	2013
Total costs/Total income <sup>1)</sup>	47,2%	47,0%
Net interest income/Total income	60,8%	53,8%
Net interest margin <sup>2)</sup>	3,7%	3,5%
Net commission income/Total income	28,1%	29,2%
Customer loans/Customer deposits	90,4%	86,7%
NPL ratio	8,4%	7,9%
NPL coverage ratio	58,4%	53,8%
Credit risk ratio <sup>3)</sup>	1,0%	1,0%
ROE <sup>4)</sup>	14,4%	16,6%
ROA <sup>5)</sup>	1,6%	1,9%
Capital ratio <sup>6)</sup>	12,9%	13,9%
Book value per share (in PLN)	181,9	154,8
Earnings per share (in PLN) <sup>7)</sup>	19,9	21,2

1) Excluding integration costs, the adjusted cost-to-income ratio was 44.5% for 2014 and 42.7% for 2013.

2) Net interest income for 4 quarters (excluding interest income from the debt trading portfolio) to average interest-bearing assets (excluding debt trading portfolio), net of impairment write-down.

3) Impairment losses on loans and advances (for 4 quarters) to average gross loans and advances to customers.

4) Net profit attributable to BZ WBK shareholders (for 4 quarters) to average equity calculated based on total equity (as at the beginning and end of the reporting period), net of the current period profit and non-controlling interests. Excluding the impact of integration costs, adjusted ROE was 15.5% as at 31.12.2014 and 18.4% as at 31.12.2013.

5) Net profit attributable to the BZ WBK shareholders (for 4 consecutive quarters) to average total assets.

6) The calculation of a capital ratio as at 31.12.2014 takes account of the equity and total capital requirements for relevant risks using the standardised approach in line with CRD IV/CRR package, effective from 1 January 2014 by virtue of the decision of the European Parliament and European Banking Authority. If the total own funds used in the capital ratio calculation included the annual net profit for 2014 (after deducting expected charges and dividends), the respective ratio would be at 13.4%. The calculation of a capital ratio as at 31.12.2013 takes account of the equity and total capital requirements for relevant risks, using the standardised approach in line with KNF (Polish Financial Supervision Authority) Resolution no. 76/2010 of 10 March 2010 (as amended).

7) Net profit for the period attributable to shareholders of BZ WBK divided by the number of ordinary shares. Adjusted for the impact of BZ WBK-Aviva revaluation, the underlying EPS was 17.7%

## 4. Additional Financial Information

### Selected Transactions with Related Entities

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 represent mainly loans, bank accounts, deposits, guarantees and leases.

As at 31 December 2014, the bank's total exposure on loans to subsidiaries (e.g. BZ WBK Leasing, BZ WBK Lease, BZ WBK Faktor) amounted to PLN 7,938.4m compared with PLN 4,947.8m as at 31 December 2013.

As at 31 December 2014, the deposits held with the bank by subsidiaries (e.g. BZ WBK Faktor, BZ WBK Finanse, BZ WBK Lease, BZ WBK Inwestycje, BZ WBK Asset Management, BZ WBK Towarzystwo Funduszy Inwestycyjnych, Santander Consumer Multirent) totalled PLN 2,127.1m vs. PLN 985.2m as at 31 December 2013.

Guarantees to subsidiaries amounted to PLN 65.1m versus PLN 270.1m as at 31 December 2013.

These intercompany items have been eliminated from the consolidated accounts.

The bank's receivables from the parent entity (Santander Group) amounted to PLN 0.7m compared with PLN 706.2m at 31 December 2013, while obligations amounted to PLN 155.5m compared with PLN 71.5m as at 31 December 2013. A full disclosure on related party transactions, including those with senior management, is available in Note 46 of the "Consolidated Financial Statements of Bank Zachodni WBK Group for 2014" and in Note 45 of the "Financial Statements of Bank Zachodni WBK for 2014".

### 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	31.12.2014	31.12.2013
<b>Financial commitments:</b>	<b>19 959,9</b>	<b>17 592,8</b>
- credit lines	17 047,1	15 229,8
- credit cards debits	2 367,1	1 875,1
- import letters of credit	413,6	441,5
- term deposits with future commencement term	132,1	46,4
<b>Guarantees</b>	<b>4 383,1</b>	<b>3 822,2</b>
<b>Total</b>	<b>24 343,0</b>	<b>21 415,0</b>

	PLN m	
Nominal Value of Derivatives	31.12.2014	31.12.2013
Derivatives - Forward (hedging)	35 207,4	29 792,1
Derivatives - Forward (trading)	178 576,9	128 272,0
Current FX transactions	4 653,2	2 076,9
Trading in equities	934,1	302,3
<b>Total</b>	<b>219 371,6</b>	<b>160 443,3</b>

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

Lease payments by maturity	PLN m	
	31.12.2013	31.12.2013
less than 1 year	281,8	252,0
between 1 and 5 years	602,4	615,4
over 5 years	345,4	373,9
<b>Total</b>	<b>1 229,6</b>	<b>1 241,3</b>

## 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 2014 compared with 2013.

Facility	31.12.2014		31.12.2013	
	Number	Value	Number	Value
Loans to individuals	47 455	269,1	66 705	363,8
Loans to enterprises	3 570	972,7	3 987	884,9
<b>Total</b>	<b>51 025</b>	<b>1 241,8</b>	<b>70 692</b>	<b>1 248,7</b>

As at 31 December 2014, the value of the borrowers' accounts, assets or leased objects pledged as collateral coverage to the Group amounted to PLN 72,817.1m compared with PLN 60,783.1m as at 31 December 2013.

## 5. Factors Which May Affect Financial Results in 2015

The following factors are expected to impact the financial performance and operations of the Bank Zachodni WBK Group in 2015:

- Concerns about slower global economic growth, particularly in the euro-zone, meaning a poorer outlook for Polish exports.
- Economic growth slow-down in Poland at the beginning of 2015 with likely acceleration in the subsequent quarters.
- Growth in real disposable income of households on account of low inflation, higher employment and a gradual acceleration of salary growth. Fiscal policy incentives in the form of higher tax allowances for families with children and a minimum indexation rate for old age and disability pensions.
- Notable depreciation of the zloty against the Swiss franc as the Swiss National Bank decided to scrap the EUR/CHF peg of 1.2, and the fall of 3M LIBOR rates for CHF below zero and the related fall of 3M CHF LIBOR interest rates below zero.
- Expected further relaxation of national monetary policy. Low financing costs for households and businesses should stimulate demand for bank debt. At the same time, the low interest rates on deposits may encourage bank customers to seek alternative savings/investment options.
- Changes in the approach taken by the ECB to monetary policy.

- Changes in asset funding costs depending on the pace and degree of changes in base rates, movements in the PLN exchange rate, the 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 or growing concerns about potential monetary policy tightening by the Federal Reserve.
- Further developments in the global equity markets and their impact on demand for mutual fund units or safe bank deposits.

## IX. Investor Relations

### 1. Investor Relations in Bank Zachodni WBK

Bank Zachodni WBK is strongly committed to ensuring open, effective and high-quality communication with shareholders and investors. The main objective of the Investor Relations Office is to maintain relationships with institutional investors and stock market analysts, informing them proactively of Group developments and other relevant aspects that may affect them, as well as satisfying requests for information. The primary purpose of this is to enhance presentation and improve the image of Bank Zachodni WBK Group in capital markets.

In 2014, the bank continued its 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. Bank Zachodni WBK was present at eight international conferences. In June 2014, the Investor Relations Office promoted the company at the annual Wall Street Conference held by the Individual Investor Association, the largest event of this type in Poland. In all, the Investor Relations Office held more than 200 meetings with investors and analysts during the year.

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](http://www.inwestor.bzwbk.pl)).

Up-to-date information on key developments regarding Bank Zachodni WBK is published at [www.inwestor.bzwbk.pl](http://www.inwestor.bzwbk.pl).

In October 2014, Bank Zachodni WBK came second in Poland's largest Polish investor relations survey of WIG30 companies published by *Parkiet* daily in liaison with the Chamber of Brokerage Houses. The winning companies were voted for by investors online in recognition of firms' best dealings with the market.

### 2. Share Capital, Ownership Structure and Share Price

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

As at 31 December 2014, the share capital of Bank Zachodni WBK totalled PLN 992,345,340, divided into 99,234,534 ordinary bearer shares at a nominal value of PLN 10 each. For details of the share series, please refer to Chapter XI "Statement on Corporate Governance in 2014", section 4 "Equity Securities Issued by the Bank".

The shareholders retaining over the minimum 5% of the total number of votes at the BZ WBK General Meeting of Shareholders were Banco Santander with a controlling stake of 69.41% and ING OFE with 5.15% of shares.

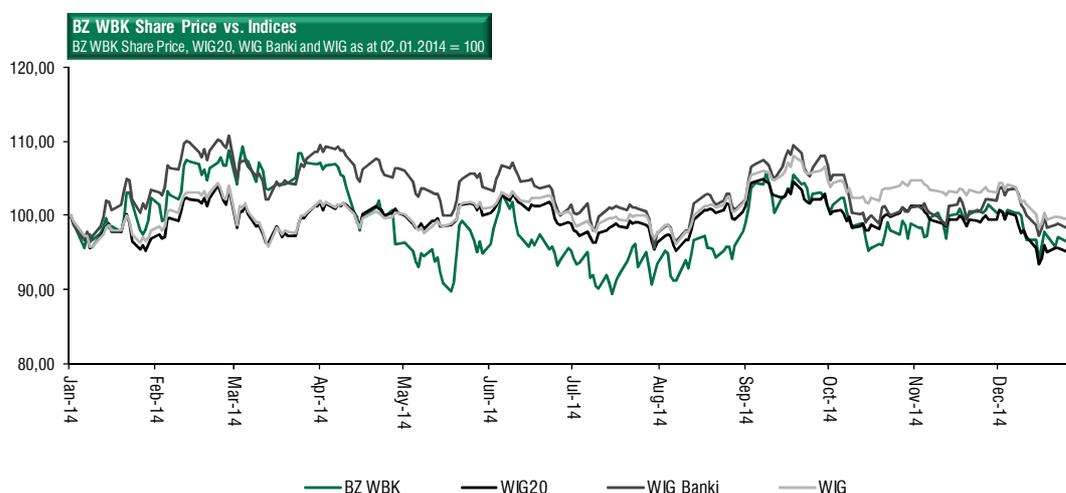
The table below presents changes in the structure of the share capital of Bank Zachodni WBK in 2014 based on the data registered as at the dates of release of consecutive interim reports starting from the Q4 2013 report published on 30 January 2014. The underlying developments are described in Chapter II "Basic Information on Bank Zachodni WBK Group", section 1 "History, Profile and Competitive Position" and in Chapter XI "Statement on Corporate Governance in 2014", section 4 "Equity Securities Issued by the Bank".

Shareholders Holding over 5% of Voting Rights at AGM	Number of Shares and Votes at AGM as at the Release Dates of Consecutive Periodic Reports			% in the Share Capital & Voting Power at AGM as at the Release Dates of Consecutive Periodic Reports		
	*4.11.2014		**30.01.2014	4.11.2014		**30.01.2014
	3.02.2015	31.07.2014	29.04.2014	3.02.2015	31.07.2014	29.04.2014
Banco Santander	68 880 774	65 481 563	65 481 563	69,41%	65,99%	70,00%
ING OFE	5 110 586			5,15%		
SCF	-	5 383 902			5,42%	
Others	25 243 174	28 369 069	28 063 526	25,44%	28,59%	30,00%
<b>Total</b>	<b>99 234 534</b>	<b>99 234 534</b>	<b>93 545 089</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>

\* valid as at 31.12.2014

\*\* valid as at 31.12.2013

## Share Price of Bank Zachodni WBK vs. Indices



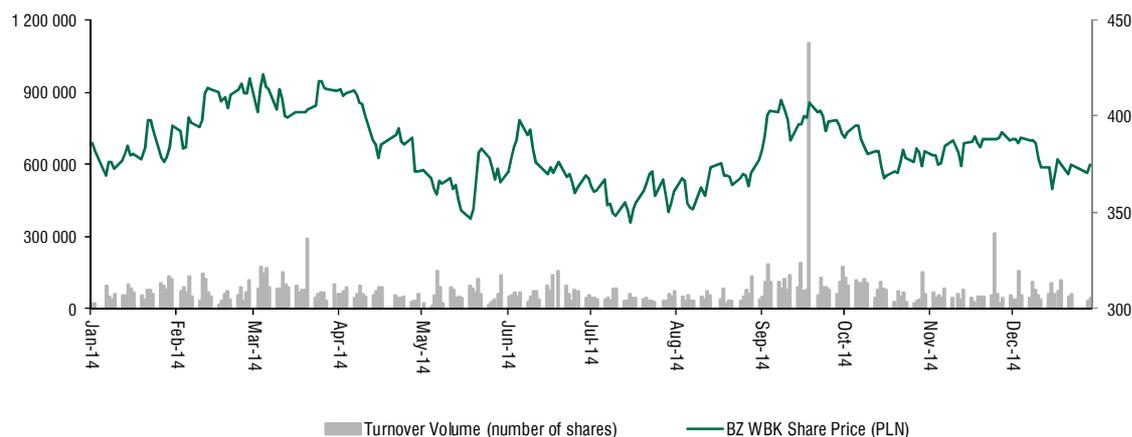
In 2014, the share price of Bank Zachodni WBK continued to trend sideways. Despite considerable fluctuations of up to 20% during the year, the bank's share price closed down 3.4% (from PLN 387.60 as at end-December 2013 to PLN 375.00 as at end-December 2014) in line with the WIG20 (-3.5% YoY). WIG and WIG Banks remained relatively flat YoY.

The upward trend in the share price of Bank Zachodni WBK reported last year reversed on account of factors beyond the bank's control, such as the reform of open-end pension funds, the conflict in Ukraine and interest rate cuts.

In 2014, the closing price ranged from PLN 422 on 5 March to PLN 345 on 16 July. In May, the bank paid out a dividend of PLN 10.70 per share out of the profit earned in 2013.

As at 31 December 2014, market capitalisation of Bank Zachodni WBK was PLN 37,213.0m compared to PLN 36,258.1m a year before, with the number of shares growing by 5,689,445 on account of an increase in the bank's capital occurring twice during 2014.

BZ WBK Share Price and their Stock Exchange Trading Volumes in 2014



Key Data on BZ WBK Shares	2014	2013
Share price at the year-end (in PLN)	375,0	387,6
Maximum closing share price over the year (in PLN)	422,0	410,0
Date of maximum closing share price	05-03-2014	27-11-2013
Minimum closing share price over the year (in PLN)	345,0	241,0
Date of minimum closing share price	16-07-2014	2-01-2013
Price per earning ratio (P/E) at the year-end	18,7	22,5
Number of shares at the year-end (items)	99 234 534,0	93 545 089,0
Market capitalisation at the year-end (PLN m)	37 213,0	36 258,1
Average turnover over the year (PLN m)	29,2	25,9
Dividend per share (PLN m)	n/a <sup>1)</sup>	10,7

1) Please refer to the information provided in the section below.

## Dividend per Share

As at the release date of this report, the Management Board of Bank Zachodni WBK has not completed its analysis leading to the issuance of recommendation on dividend pay-out for 2014.

The Bank Zachodni WBK Annual General Meeting of Shareholders held on 16 April 2014 agreed on the distribution of PLN 1,000.9m from 2013 net profit for dividend to shareholders. A dividend of PLN 10.70 per share was paid on 16 May 2014.

See the table in Chapter II "Basic Information on Bank Zachodni WBK Group", section 1 "History and Profile of Bank Zachodni WBK Group" for details of dividends paid from 2010 to 2014.

## 3. Bank Zachodni WBK Rating

Bank Zachodni WBK has a bilateral credit rating agreement with Fitch Ratings Ltd.

On 2 June 2014, Fitch Ratings upgraded the following ratings of Bank Zachodni WBK:

- long-term foreign currency IDR: from "BBB" to "BBB+", outlook stable;
- short-term foreign currency IDR: from "F3" to "F2";
- national long-term rating: from "A+(pol)" to "AA-(pol)", outlook stable.

The support and viability ratings were reaffirmed.

The above rating actions and key drivers were confirmed by Fitch Ratings in its release of 26 November 2014.

The rating actions on IDRs are based on Fitch's view of a high probability that Bank Zachodni WBK would be supported, if required, by its controlling entity. Fitch believes that Poland is a strategically important market for Banco Santander, which ensures a relevant position of Bank Zachodni WBK in the Group.

The agency expects that support from Banco Santander will ensure the affirmation of the bank's long-term IDRs at one notch below that of its majority shareholder.

The VR of the bank reflects its strong standalone credit risk profile, underpinned by healthy internal capital generation, solid performance, good asset quality, strong liquidity and stable funding base.

The agency states that Bank Zachodni WBK VR could be upgraded by one notch, to "bbb+" if it continues to perform strongly after the integration of the other banks, if key financial metrics remain sound and if there is no significant deterioration in Poland's economy.

The rating actions on Bank Zachodni WBK as at 31 December 2014 and 31 December 2013 are summarised below.

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

<sup>1)</sup> BZ WBK ratings valid as at 31.12.2014

<sup>2)</sup> BZ WBK ratings valid as at 31.12.2013

# 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 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 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 measurement, monitoring and controlling 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.

One of the key priorities during 2014 was to finalise the migration of customer data from the former Kredyt Bank in order to fully standardise the policies, procedures and risk management tools. A number of changes were also implemented to optimise processes and tools, with particular focus on the quality of customer service (e.g. improvements to the credit process for SME and corporate customers).

As part of pro-active credit risk management, in 2014 the bank established a Restructuring Committee to further improve the quality of the loan portfolio through the early implementation of debt restructuring actions. The Committee undertook decisions concerning the relationship management strategy for corporate borrowers in distress (whose exposure does not exceed PLN 25m), debt reduction and the sale of receivables. Decisions concerning corporate borrowers in distress (whose exposure exceeds PLN 25m) are left at the discretion of the Credit Committee.

In 2015, the Group will proceed with the development of innovative risk management solutions which support a safe and sustainable growth of business volumes while ensuring compliance with regulatory requirements in the area of advanced methods of risk management.

### Risk Management Structure in Bank Zachodni WBK Group

The bank's Management Board is responsible for implementing an effective risk management structure 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 adjusted to the size and profile of the risks taken, segregate responsibilities to make risk assessment and control functions independent from operational functions, introduce risk management policies 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.

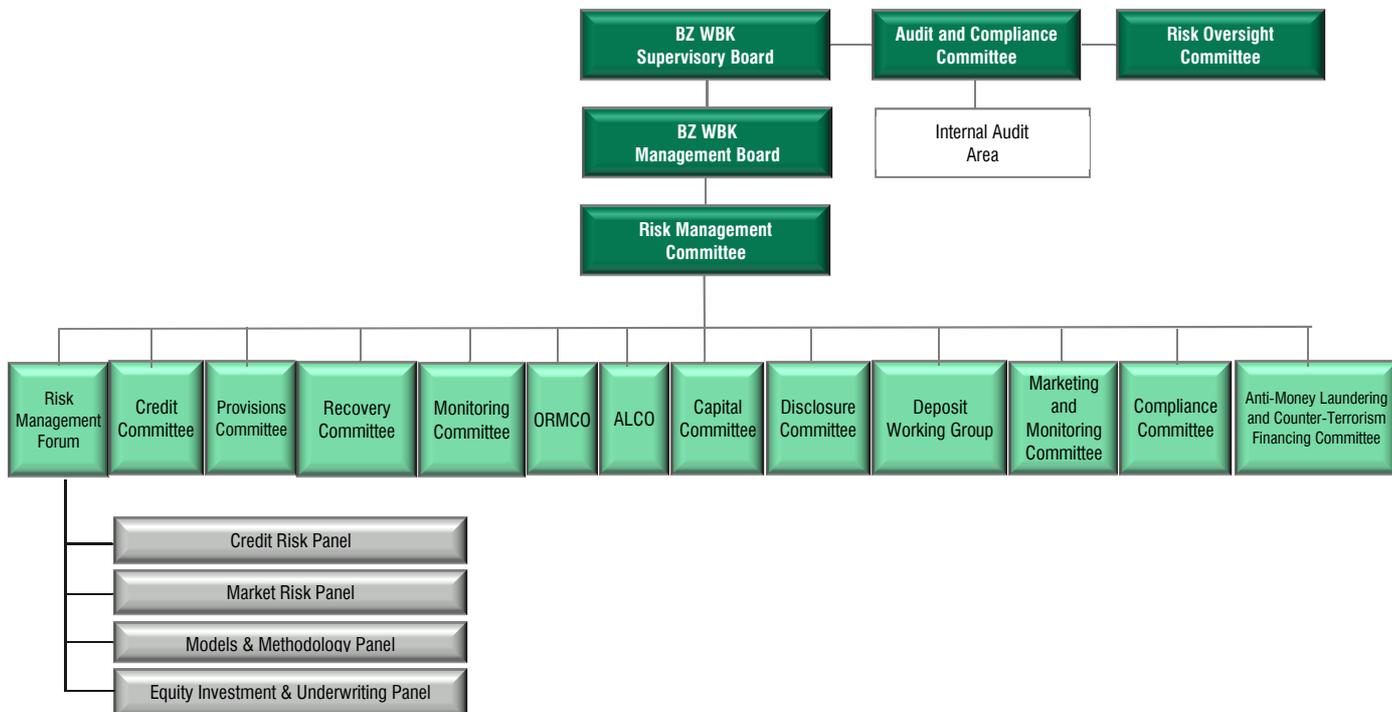
The Risk Management Committee supervises the activities of the different risk management committees set up by the bank's Management Board. These committees, acting within the respective remits defined by the Management Board, are directly responsible for developing risk management methods and monitoring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

The RMC supervises the following risk committees:

- Risk Management Forum
- Credit Committee
- Restructure Committee
- Provisions Committee
- Monitoring Committee
- Operational Risk Management Committee/ORMCO
- Assets and Liabilities Management Committee/ALCO
- Capital Committee
- Disclosure Committee
- Deposit Working Group
- Marketing and Monitoring Committee
- Compliance Committee
- Anti-Money Laundering and Counter-Terrorism Financing Committee

Corporate Governance Structure for Risk Supervision and Management



## 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. Credit risk arises also from 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 taken in response to the first signals of any change in the portfolio's quality or structure.

### Credit Policy

In 2014, the Group continued its credit risk management policy, keeping credit risk at a safe level while still ensuring the dynamic growth of loan portfolio profitability, business volumes and 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 regulation. High quality customer service is also treated as 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.

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. All staff members involved in credit delivery are assigned specific discretionary limits which are reviewed on a regular basis. 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 Decision Making Process

Discretionary limits applied across the bank are governed by the guidelines on "Discretionary Limits in Bank Zachodni WBK S.A." The guidelines define the roles and responsibilities of individual units and staff members involved in the credit delivery process.

The credit decision-making process as part of the risk management policy 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 comprised 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

Intensive work has been undertaken by the Group for the further development of credit risk assessment tools to conform to regulatory guidelines and regulations, taking account of the best market practice in risk management and accounting. 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 behavioural factors analysis. Credit grade is also verified at subsequent credit assessments.

## Credit Reviews

The Group performs regular reviews to determine the actual quality of the credit portfolio, to confirm that adequate credit grading and provisioning processes are in place and to objectively assess professionalism in credit management. The reviews are carried out by the Credit Review Department and the Control & Quality Assessment Department, which are independent of the risk-taking units.

## Collateral

The role of the Securities and Credit Documentation Centre is to ensure that security covers are duly established and held effective in line with the lending policy for all business segments. The unit is also responsible for developing standardised internal procedures with respect to collateral as well as ensuring that establishment, monitoring and the 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 with respect to collateral, data collection on security covers and ensures adequate management information.

## Credit Risk Stress Testing

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 of 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 agreed limits and internal capital allocation.

## Calculation of Impairment

In Bank Zachodni WBK and its subsidiaries credit impairment charges are recognised in accordance with IAS/IFRS. The charges 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 recommendations 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, amendments to the Group's credit policies and recovery process. This process provides assurance that impairment charges are recognized correctly. The responsibility for ensuring the adequacy of impairment charges rests with the Provisions Committee.

## Loans and Advances to Customers by Impaired &amp; Non-Impaired Loan Portfolios

	PLN m	
Loans and Advances to Customers by Impaired and Non-Impaired Loan Portfolios	31.12.2014	31.12.2013
Individually impaired (gross amount)	3 961,4	3 325,2
Allowance for impairment	(1 771,3)	(1 525,5)
<b>Net amount (individually impaired)</b>	<b>2 190,1</b>	<b>1 799,7</b>
Collectively impaired (gross amount)	3 648,6	2 315,4
Allowance for impairment	(2 675,3)	(1 511,0)
<b>Net amount (collectively impaired)</b>	<b>973,3</b>	<b>804,4</b>
IBNR portfolio	83 234,0	65 770,5
- non-past due	78 385,4	62 015,6
- past due	4 848,6	3 754,9
IBNR provisions	(679,9)	(453,2)
<b>Net amount (non-impaired)</b>	<b>82 554,1</b>	<b>65 317,3</b>
Other receivables	103,1	210,7
<b>Total net loans and advances to customers</b>	<b>85 820,6</b>	<b>68 132,1</b>

### 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 well as proprietary trading in debt, FX and equity instruments.

#### Market Risk

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 makes 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 Banking & Markets 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 from BZ WBK Group.

The Global Banking & Markets Division, which includes the Brokerage Office, 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 also responsible for regular reviews of market risk exposure and reporting results to the Risk Management Forum.

With the division of roles, management of the 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 managing and taking units.

The Group's market risk management policies set out a number of measures in the form of obligatory and 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 measures for 2014 and 2013

PLN k 1 day holding period	NII Sensitivity		MVE Sensitivity	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Maximum	109	114	154	94
Average	100	76	99	45
As at the end of period	90	84	154	92
<b>Limit</b>	<b>130</b>	<b>130</b>	<b>200</b>	<b>200</b>

In 2014, 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 the 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;
- maximum limit of the total position and an open position for individual currencies;
- stop-loss mechanism.

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

Risk measures for Bank Zachodni WBK as at 31.12.2014 and 31.12.2013

PLN k 1 day holding period	Interest Rate Risk VAR		FX Risk VAR	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Average	1 402	1 958	646	534
Maximum	4 656	4 369	2 676	1 647
Minimum	285	547	88	65
as at the end of the period	921	3 741	369	428
<b>Limit</b>	<b>5 261</b>	<b>7 530</b>	<b>1 754</b>	<b>1 506</b>

Risk measures for the Brokerage Office as at 31.12.2014 and 31.12.2013

PLN k 1 day holding period	FX Risk VAR		Equity Securities Risk VAR	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Average	10	6	281	664
Maximum	83	18	1 294	2 135
Minimum	1	1	81	53
as at the end of the period	4	9	810	312
<b>Limit</b>	<b>104</b>	<b>104</b>	<b>3 647</b>	<b>4 111</b>

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

- Derivative instruments offered to bank customers to mitigate market risk or held for trading – proprietary transactions in connection with treasury services rendered to bank customers in order to mitigate their 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.

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.

### 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 Basel III / CRR (LCR and NSFR).

## Liquidity gap analysis as at 31.12.2014 and 31.12.2013

Liquidity Risk	PLN m			
	31.12.2014		31.12.2013	
	GAP	Cumulative GAP	GAP	Cumulative GAP
<1T	14 810,1	14 810,1	9 750,4	9 750,4
<1M	(12 781,7)	2 028,4	392,9	10 143,3
>1M	(3 616,0)	(1 587,6)	(10 143,3)	-

According to the Group's policy, it should have sufficient funds to cover in full 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 2014, the bank's funds significantly exceeded the level required to cover the expected outflows.

At the same time, the bank complies with Resolution no. 386/2008 of the Polish Financial Supervision Authority (KNF) on liquidity management, in respect of, inter alia, liquidity monitoring, measurement and reporting.

In 2014, the bank met the regulatory quantitative requirements for liquidity. Key regulatory indicators (i.e. short term liquidity ratio and ratio of coverage of non-liquid assets and assets of limited liquidity with own funds and core external funds) comfortably exceeded the required levels.

## 4. Operational Risk Management

Bank Zachodni WBK Group adopted the operational risk management definition as agreed by the Basel Committee whereby operational risk management is understood as an exposure to losses arising from inadequacy or failure of internal processes, human resources, systems or external factors (this definition recognises the legal risk but does not include the strategic risk or reputational risk).

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 the Group's business processes, including outsourced functions or services delivered jointly with third parties.

Bank Zachodni WBK Group developed the "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. ORMCO is the main forum for discussions on operational risk. It sets out the strategic direction for operational risk management, 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. The results of ORMCO's work are reported to the Risk Management Committee.

Bank Zachodni WBK Group manages operational risk using the following tools:

### Identification and Assessment of Operational Risk

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.

### Reporting on Operational Incidents and Lessons Learned

Each organisational unit is required to report operational incidents identified in its area of responsibility. The Group runs a database of operational incidents identified across Bank Zachodni WBK Group with data utilised to analyse the root cause and consequences of incidents, capture lessons learned and take preventive and corrective measures.

## Analysis of Risk Indicators

Bank Zachodni WBK Group monitors both financial and operational risk indicators. Risk indicators provide an early warning of emerging threats and operational losses and depict the risk level present in the Group.

## Business Continuity Management (BCM)

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. Bank Zachodni WBK Group has backup locations in place where critical processes can be restored and continued should an incident occur.

## Insurance

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.

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 incidents and losses, information security and IT security incidents, risk ratios and defined mitigants.

The Group's Information Security Management System has a certificate of compliance with the ISO 27001:2013 standard.

# 5. Management of Other Risks

## Insurance Risk Management

As a result of gaining control over BZ WBK-Aviva TUO (BZ WBK-Aviva General Insurance Company) and BZ WBK-AVIVA TUnŻ (Life Insurance Company) on 20 December 2013, Bank Zachodni WBK Group is exposed to insurance risk.

Insurance risk entails the possibility of a loss or adverse changes in the value of liabilities, resulting from changes in the value, trend or fluctuations of the measures used for the estimation of such liabilities, or from unforeseen/exceptional circumstances.

Insurance risk is also understood as the risk of materialisation of an insurance event and the related uncertainty about the claim value.

In the process of developing an insurance product and the calculation of insurance premiums, the key risk is seen as a situation where the claims ratio, i.e. the claims paid (including changes in the balance of provisions for unpaid claims) to the premium earned, is higher than the value planned when determining the amount of insurance premiums.

The risk factors affecting the accuracy of estimated claims ratios include the possibility of differences between historical data, which underlie the estimates, and the actual values. Such differences may arise in particular due to the short operational history of these insurance companies and a relatively small insurance portfolio that does not permit the application of the Law of Large Numbers and that does not provide sufficient statistical information helpful in managing the insurance risk.

When managing the insurance risk, BZ WBK-Aviva companies mainly focus on increasing their insurance portfolios while using reinsurance to limit the volatility of their risk shares.

In 2014, BZ WBK-Aviva companies offered property insurance and casualty products, both in the model of individual and group insurance. Under individual contracts, customers of both companies could join the investment program, purchase travel insurance or insurance against accidents. Other products were offered under group contracts with the bank. Insurance products were delivered to customers through the bancassurance channel and also directly.

The insurance companies performed an analysis of the adequacy of reserves and this indicated that the technical provisions (net of deferred acquisition costs) as at 31 December 2014 have been established at a level sufficient to cover liabilities arising from insurance contracts issued as of 31 December 2014.

The purpose of these insurance companies is to maintain a constant solvency at the level necessary to enable the dynamic of their development. To fulfill this, the insurance companies continuously monitor the value of equity in relation to the solvency margin and guarantee capital in accordance with the capital requirements imposed by the regulations in force in Poland (Insurance Act and the Act on accounting together with appropriate regulations). Throughout 2014 all statutory requirements were met.

## Legal and Compliance Risk

Legal and regulatory (compliance) risk is defined in line with the Basel Committee recommendation.

As a universal bank providing a wide array of financial services to retail and business customers, a parent company in a capital group providing a number of additional specialised financial services, and as 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 employment law, taxes, accounting, personal data protection etc. binding for all enterprises operating in Poland;
- 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 offered products 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 by the relevant 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 of new products, prevention of money laundering, ethical issues, protection of sensitive information and protection of personal data.

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 – the 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 senior managers in the effective management of compliance risk. 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 compliance policy framework, so that the Compliance Area may operate independently from business units and has relevant resources to perform its tasks.

The Audit and Compliance Committee regularly reviews key compliance issues identified by the Compliance Area.

The Compliance Area’s major responsibilities include (subject to the specific responsibility of Financial Accounting and Control Division, Risk Management Division and Business Partnership Division): prevention of legal and compliance risk, 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 compliance management standards by compliance units operating in Group companies. These tasks are delivered through:

- independent identification, assessment and monitoring 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);
- 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 within its area of responsibility;
- publication of policies and procedures, providing the management and staff with guidance on compliance risk and adequate risk management policies and procedures;

- centralisation of contacts with market regulators (KNF, UOKiK, GIIF, GIODO),
- centralisation 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.

Beside the above-mentioned operational units, BZ WBK Group also has specialised committees supporting the management of the compliance risk in specific areas. These committees consist of the representatives of key business units and risk management units who are competent and duly authorised to make informed decisions and provide high-quality advice. The Compliance Area coordinates and supports the work of individual committees which are chaired by the Management Board member in charge of the Legal and Compliance Division. These committees include the Compliance Committee, Product Marketing and Monitoring 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 or investors of the bank and other members of Bank Zachodni WBK Group.

Potential sources of this risk are internal and external operational incidents, such as adverse publicity, dissemination of negative feedback from customers, e.g. via the Internet, in social media and other mass media and 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 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 the reputational risk is the Corporate Communication and Marketing Area (CC&MA) and Compliance Area (CA).

The objective of the reputation 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:

- 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);
- Collection and 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 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 the reputational risk associated with the products offered by Bank Zachodni WBK Group through the analysis of customer complaints, sales volumes, number of customers and rate of return (Compliance Area).

## 6. Capital Management

It is the policy of Bank Zachodni WBK Group to maintain the level of capital adequate to the type and scale of operations and the level of risk. The level of own funds required to ensure safe operations 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 recommendations regarding stricter criteria for mortgage-backed exposures.

The Management Board is accountable for capital management, calculation and maintenance processes, including 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 general oversight of 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 capital adequacy of the Bank and the Group (including in extreme conditions), monitors the actual and required capital levels and initiates transactions affecting these levels (e.g. by recommending the value of dividends to be paid). The Capital Committee is the first body that defines the capital policy, principles of capital management and principles of capital adequacy assessment. However, ultimate decisions regarding any increase or decrease of capital are taken by 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 a minimum capital ratio at 12% (calculated according to applicable regulations and directives of the European Parliament and of the Council), both for the bank and the Group.

At the same time, the Tier 1 capital ratio (core equity capital to risk weighted assets for credit, market and operational risk) should be maintained at a minimum level of 9%, both for the bank and the Group.

The regulatory capital ratio is 8%.

### Regulatory Capital

The capital requirement for Bank Zachodni WBK Group as at 31.12.2014 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 stricter criteria for mortgage-backed exposures.

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 is the most significant one. 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.

The tables below illustrate capital requirements for the Group as of 31 December 2014 and 31 December 2013.

		PLN m	
		31.12.2014 <sup>1)</sup>	31.12.2013 <sup>2)</sup>
<b>I</b>	<b>Total Capital requirement (Ia+Ib+Ic+Id+Ie), of which:</b>	<b>8 082,4</b>	<b>6 693,7</b>
Ia	- due to credit risk	6 956,3	5 830,0
Ib	- due to market risk	84,5	51,0
Ic	- due to settlement / counterparty risk	101,8	-
Id	- due to operational risk	939,8	761,6
Ie	- due to other risks	-	51,1
II	Total own funds	16 482,6	14 739,5
III	Reductions	3 437,7	3 092,5
<b>IV</b>	<b>Own funds after reductions (II-III)</b>	<b>13 044,9</b>	<b>11 647,0</b>
<b>V</b>	<b>CAD [IV/(I*12.5)]</b>	<b>12,91%</b>	<b>13,92%</b>

1) As at 31 December 2014, the capital ratio was calculated based on own funds and total capital requirements established for individual risk types using the standardised approach, in line with the CRD IV/CRR package (the Capital Requirements Directive IV and Capital Requirements Regulation), which became effective on 1 January 2014 by virtue of the decision of the European Parliament and the European Banking Authority.

Total own funds as at 31 December 2014 include part of the current year profit in the amount of PLN 370.9m under KNF consent granted on 30 October 2014.

If the annual net profit for 2014 (after deducting expected charges and dividends) were included in the total own funds used in the calculation of the capital ratio for the Group, which is permissible under CRR/CRD IV provided certain formal conditions are met to occur later in the year, the capital ratio would reach 13.4%.

2) The calculation of consolidated capital ratio of Bank Zachodni WBK Group as at 31 December 2013 takes account of the equity and total capital requirements for credit, market and operational risks, using standardised approach in line with Annex no. 4 of the Polish Financial Supervision Authority (KNF) Resolution no. 76/2010 of 10 March 2010 (as amended).

## 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 bank estimates the required level of internal capital to ensure 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 under the ICAAP process 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 Bank Zachodni WBK 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 the management judgement.

The review and assessment is the responsibility of the Group's risk management committees, including: 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.

Following the legal merger with Kredyt Bank, BZ WBK has acquired the right to include in supplementary funds subordinated loans granted by KBC NV Dublin. Subordinated liabilities to KBC NV amounted to CHF 265m and PLN 75m. The Group did not use the contractual option to repay these liabilities on their effective maturity. Under Art. 490(5) of CRR, the bank excluded the foregoing liabilities from its own funds and calculations of the capital ratio as at 31 December 2014.

# XI. Statement on Corporate Governance in 2014

## 1. Introduction

The Statement on Corporate Governance in 2014 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 the information required by the laws of a non-member state. The information included in this chapter fulfils the requirements of 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 2014 into the annual report ensures fulfilment of the requirement to provide WSE with a corporate governance report.

## 2. Code of Best Practice

Corporate governance rules applicable to Bank Zachodni WBK in 2014 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 and is available at the WSE website (<http://corp-gov.gpw.pl/>) and the bank's website ([www.inwestor.bzwbk.pl](http://www.inwestor.bzwbk.pl)). It is an updated code of best practice which became effective on 1 January 2013. The changes are related mainly to general meetings held by public companies via electronic channels. The original code was introduced by virtue of WSE Supervisory Board Resolution no. 12/1170/2007 of 4 July 2007 on introduction of the "Code of Best Practice for WSE Listed Companies".

The updated code of best practice was approved for use in Bank Zachodni WBK by virtue of BZ WBK Management Board Resolution no. 9/2013 of 18 January 2013, and accepted by the BZ WBK Supervisory Board.

Bank Zachodni WBK has complied with 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").

## 3. Management Board's Statement on Corporate Governance

In 2014, Bank Zachodni WBK duly complied with all the corporate governance rules conveyed in the binding version of the "Code of Best Practice for WSE Listed Companies" and no corporate governance breaches occurred.

## 4. Equity Securities Issued by the Bank

### Ownership Structure of Share Capital

Shareholder	Number of Shares Held		% in the Share Capital & Voting Power at AGM	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Banco Santander S.A.	68 880 774	65 481 563	69,41%	70,00%
ING OFE	5 110 586	-	5,15%	-
Others	25 243 174	28 063 526	25,44%	30,00%
<b>Total</b>	<b>99 234 534</b>	<b>93 545 089</b>	<b>100,0%</b>	<b>100,0%</b>

According to the information held by BZ WBK Management Board as at 31 December 2014, the shareholders having minimum 5% of the total number of votes at the BZ WBK General Meeting of Shareholders were Banco Santander and ING Otworthy Fundusz Emerytalny (ING OFE) with shareholdings of 69.41% and 5.15%, respectively.

The majority shareholder's interest in the share capital decreased by 0.59 p.p. YoY as a result of the following:

- Increase in the share capital of Bank Zachodni WBK through two issues of ordinary bearer shares with a nominal value of PLN 10.00 each:
  - ✓ 305,543 series K shares were offered in a private subscription to eligible participants of the 4th Incentive Scheme for 2011-2013 (the share capital increase was registered on 11 July 2014);
  - ✓ 5,383,902 series L ordinary shares were issued pursuant to the Investment Agreement of 27 November 2013 between Bank Zachodni WBK, Santander Consumer Finance (SCF) and Banco Santander. The shares were taken up in full by SCF in exchange for the in-kind contribution of a controlling stake in SCB (the share capital increase was registered on 18 July 2014).
- Acquisition by Banco Santander of the total stake in Bank Zachodni WBK held by SCF, i.e. 5,383,902 shares representing 5.42% of voting power at the bank's General Meeting (13 August 2014).
- Sale of 1,984,691 shares of Bank Zachodni WBK by Banco Santander (6 October 2014) through an accelerated book building in order to fulfil the commitment to the Polish Financial Supervisory Authority (KNF) made in connection with obtaining KNF approval for the merger of Bank Zachodni WBK and Kredyt Bank to keep the free float of the bank's shares at a level not lower than 30%.

The shares offered in the last transaction were taken up, inter alia, by ING OFE, which increased its interest in Bank Zachodni WBK to the total of 5,110,586 shares, exceeding the threshold of 5% of voting power at the bank's General Meeting.

## Rights and Restrictions Attached to the Issuer's Securities

The shares of Bank Zachodni WBK 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 issued shares have been fully paid up.

The structure of share capital of Bank Zachodni WBK as at 31.12.2014 denoted 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 from 11.07.2014 from 18.07.2014	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
	<b>Total</b>					<b>99 234 534</b>

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 2014

The Annual General Meeting of Shareholders of Bank Zachodni WBK held on 16 April 2014 (AGM) approved the 2013 reports submitted by the Management Board and Supervisory Board, granted discharge to members of the Management and Supervisory Boards of Bank Zachodni WBK and Kredyt Bank for the performance of their duties in the previous year and agreed on distribution of the net profit for 2013 and a dividend payment of PLN 10.70 per share. In addition, the AGM agreed on changes in the bank's statutes including:

- extension of the scope of the bank's activity to include brokerage services, maintenance of share registers for companies pursuant to the agreements in place and payment agent services for foreign mutual funds;
- an increase in the share capital by PLN 3,055,430 to PLN 938,506,320 through the issue of 305,543 series K ordinary bearer shares under the 4th Incentive Scheme.

The pre-emptive rights of the bank's existing shareholders with respect to series K shares were excluded. The AGM decided that the bank would seek the admission and introduction of the shares to trading on the regulated market operated by the Warsaw Stock Exchange. In relation to the upcoming implementation of the Directive of the European Parliament and of the Council 2013/36/EU of 26 June 2013, the AGM resolved 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. The AGM appointed the BZ WBK Supervisory Board for the next term of office (full composition shown below in the "Supervisory Board" section) and agreed the remuneration for Supervisory Board members.

#### Extraordinary General Meeting of 2014

On 30 June 2014, an Extraordinary General Meeting of Bank Zachodni WBK (EGM) was convened to adopt the resolution on an increase in the bank's share capital by PLN 3,839,020 to PLN 992,345,340 through the issue of 5,383,902 series L ordinary bearer shares with the nominal value of PLN 10 each, and the introduction of relevant changes in the bank's Statutes. In view of the purpose of the issue (placement of shares with Santander Consumer Finance in exchange for an in-kind contribution of 3,120,000 of Santander Consumer Bank shares), the EGM excluded the pre-emptive rights of the bank's existing shareholders with respect to the above shares and decided that the bank would seek the admission and introduction of the shares to trading on the regulated market operated by the Warsaw Stock Exchange. In addition, the EGM approved a three-year long 5th Incentive Scheme starting in 2014 and aimed at employees of Bank Zachodni WBK and its subsidiaries who make a material contribution to the organisation's growth in value.

On 30 September 2014, the Extraordinary General Meeting of Shareholders of Bank Zachodni WBK adopted a resolution on the division of Dom Maklerski BZ WBK, pursuant to the Division Plan of 24 July 2014 agreed by the two parties. For more details please refer to chapter VII "Organisational and Technological Development", section 1 "Organisational Changes".

#### 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.

The 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 are voted upon 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 the 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, the 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 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.

In 2014, three changes to the Statutes of Bank Zachodni WBK were introduced, including two changes by virtue of AGM resolutions of 16 April 2014 and one change by virtue of an EGM resolution of 30 June 2014. The changes were as follows:

- extension to the scope of the bank's activity to include brokerage services, maintenance of share registers for companies pursuant to the bilateral agreements in place and payment agent services for foreign mutual funds (effective as of 16 May 2014);
- increase in the share capital by PLN 3,055,430 to PLN 938,506,320 through the issue of 305,543 series K ordinary bearer shares in relation to the 4th Incentive Scheme (effective as of 11 July 2014);
- increase in the share capital by PLN 53,839,020 to PLN 992,345,340 through the issue of 5,383,902 series L ordinary bearer shares (effective as of 18 July 2014).

## Supervisory Board

Below is the composition of the Bank Zachodni WBK Supervisory Board as at 31 December 2014 and 31 December 2013.

Role in the Supervisory Board	Ref.	Composition as at 31.12.2014	Ref.	Composition as at 31.12.2013
Chairman of the Supervisory Board:	1.	Gerald Byrne	1.	Gerald Byrne
	2.	José Antonio Alvarez	2.	José Antonio Alvarez
	3.	Danuta Dąbrowska	3.	-
	4.	David R. Hexter	4.	David R. Hexter
	5.	Witold Jurcewicz	5.	Witold Jurcewicz
Members of the Supervisory Board:	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.	-
	10.	José Manuel Varela	10.	José Manuel Varela

As at 31 December 2014, the Supervisory Board was appointed for a new term of office by the Annual General Meeting of 16 April 2014. Since the previous composition, two new members were nominated, namely: Ms Danuta Dąbrowska and Ms Marynika Woroszyńska-Sapieha.

As at 31 December 2014, the following members of the Supervisory Board held independent status: Danuta Dąbrowska, David R. Hexter, Witold Jurcewicz, Jerzy Surma and Marynika Woroszyńska-Sapieha.

Following the period covered by the Annual Report of Bank Zachodni WBK Group for 2014, Mr José Antonio Alvarez resigned as a member of the Supervisory Board with immediate effect on 5 February 2015.

In the period from 1 January to 31 December 2014, 7 Supervisory Board meetings were held at which 59 resolutions were passed. Average attendance was 91%.

### 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 the 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 voting. The Supervisory Board's meetings are held as needed and at least three times in any financial year. The Supervisory Board's Members convene at the same time 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 in 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.

#### Composition of Supervisory Board Committees as at 31.12.2014

Supervisory Board Committees as at 31.12.2014					
Role in the Supervisory Board	Ref.	Composition as at 31.12.2014	Audit and Compliance Committee	Risk Oversight Committee	Nominations & Remuneration Committee
Chairman of the Supervisory Board:	1.	Gerald Byrne			●
	2.	José Antonio Alvarez			
Members of the Supervisory Board:	3.	Danuta Dąbrowska	●		●
	4.	David R. Hexter	●	●	
	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 disclosure practices and their compliance 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 the risk appetite, in accordance with applicable policies and limits. The Committee reviews the Risk Appetite Statement, assesses business strategy in terms of its adequacy for risk exposure as well as 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 independent Supervisory Board members.

Each year, the Audit and Compliance Committee and Risk Oversight Committee convene at least four times 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 about remuneration policies and practices. 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 over the bonus scheme for Management Board members, and analyses incentive solutions and other remuneration schemes proposed for implementation in 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 the assessment of the Group's operations, including internal control and risk management system, are published in current reports which contain the resolutions passed by the AGM of Bank Zachodni WBK.

## Management Board

The table below presents the composition of the Bank Zachodni WBK Management Board as at 31.12.2014 together with the roles and responsibilities of its members. No changes were made from 31 December 2013.

Role in the Management Board	Ref.	Composition as at 31.12.2014 and 31.12.2013	Reporting Areas as at 31.12.2014
President	1.	Mateusz Morawiecki	Units reporting directly to the President: Internal Audit Area, Corporate Communications & Marketing Area, Mobile & Internet Banking Area
Board Members:	2.	Andrzej Burliga	Risk Management Division
	3.	Eamonn Crowley	Financial Management Division
	4.	Michael McCarthy	Business & Corporate Banking Division
	5.	Piotr Partyga	Business Partnership Division
	6.	Juan de Porras Aguirre	Global Banking & Markets Division
	7.	Marcin Prell	Legal and Compliance Division
	8.	Marco Antonio Silva Rojas	Financial Accounting & Control Division
	9.	Miroslaw Skiba	Retail Banking Division
	10.	Feliks Szyszkowiak	Business Support Division

### Appointment and Removal of Executives

Members of the Bank Zachodni WBK Management Board are appointed and removed in accordance with the Commercial Companies Code, the 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 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 the 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 the General Meeting at any time.

### Powers of Executives

The Bank Zachodni WBK Management Board manages and represents the bank. The Management Board has all the powers that are not restricted by law or Statutes to the remit of other governing bodies of the bank.

The Management Board takes decisions to raise obligations or transfer assets whose 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 take such decisions to other committees or persons in the bank. The Management Board 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 and 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 Product Marketing and Monitoring Committee, Monitoring Committee and Public Policy Committee.

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

## Role of the Management Board

The Management Board 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 on the bank's website.

The Management Board is responsible for running the 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. Representatives authorized to act severally or jointly with any of the persons listed in b) or with another authorized representative can be appointed.

The Management Board resolves on all issues which have not been restricted to the remit of the General Meeting of Shareholders or Supervisory Board. The Management Board takes decisions in the form of resolutions which are adopted by an absolute majority of votes in an 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 the General Meeting of Shareholders of Bank Zachodni WBK. As at 31 December 2014, 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 relation to 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 (Resolution no. 41).

Information on remuneration for BZ WBK Supervisory and Management Board members for 2014 and the comparable period is presented in Note 46 to the Consolidated Financial Statements of Bank Zachodni WBK Group for 2014.

### 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 the Supervisory and Management Board Members

As at the date of release of the Annual Report of Bank Zachodni WBK Group for 2014 and Annual Report for 2013, none of the members of the Supervisory Board held any shares in Bank Zachodni WBK.

Under the 1st BZ WBK Performance Share Programme launched in 2006, members of the Management Board were allocated 23,084 out of 115,729 series H shares issued as part of the conditional increase in the share capital. Under the 2nd and 3rd Incentive Scheme, which expired in 2010 and 2011, respectively, no rights were exercised. Pursuant to BZ WBK AGM Resolution no. 40 of 16 April 2014 regarding satisfaction of the criteria for exercising the award 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. Below are the shares of Bank Zachodni WBK and attached conditional rights held by the Management Board members as at 31 December 2014, 30 June 2014 and 31 December 2013.

Shares and the attached conditional rights held by Management Board members as at the release date of the reports for the periods ending 31.12.2014 and 31.12.2013

Management Board Members	31.12.214		31.12.2013	
	No. of BZ WBK shares	Rights	No. of BZ WBK shares	Rights
Mateusz Morawiecki	13 711	3 857	3 591	10 120
Andrzej Burliga	4 888	2 204	606	4 282
Eamonn Crowley	1 003	2 094	-	4 003
Michael McCarthy	1 075	2 424	-	4 875
Juan de Porras Aguirre	-	2 217	-	-
Piotr Partyga	2 855	2 094	-	2 855
Marcin Prell	-	1 983	2 530	3 704
Marco Antonio Silva Rojas	-	2 704	-	-
Miroslaw Skiba	5 857	2 248	1 575	4 282
Feliks Szyszkowiak	4 704	2 248	1 755	4 449
<b>Total</b>	<b>34 093</b>	<b>24 073</b>	<b>10 057</b>	<b>38 570</b>

## 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, reliability of financial reporting and compliance with laws, international standards, internal regulations and best practice. The internal control system is adjusted to the 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 the 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 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 system and risk management system are based on three lines of defence:

- first line – controls embedded in processes delivered by each staff member and their line manager
- second line – units supporting the management team in risk identification and management as well as units assessing the effectiveness of the first line
- third line – internal audit unit, which reviews the adequacy and efficiency of the first and second lines.

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 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.

The bank follows legal and regulatory changes related to reporting 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.

The bank's management confirms that the controls in place effectively mitigate the risk of failure to identify material errors 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 abovementioned act.

As agreed with the Internal Control Department of Santander Group and the External Auditor, the certification process for compliance with the Sarbanes-Oxley Act in 2014 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, including the final integration of IT systems of former Kredyt Bank and incorporation of Dom Maklerski BZ WBK – an independent subsidiary until the end of October 2014 – into the bank's structure. 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). A particular challenge for the assessment of the control environment in 2014 were the abovementioned developments: completion of the integration process (in particular the migration of data of the former Kredyt Bank to BZ WBK's systems) and incorporation of Dom Maklerski into the bank's structure. The assessment did not show any negative impact from these changes on the effectiveness of the bank's internal control system.

Results of the assessments and tests are 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 2014, 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 of financial reporting.

## Selection of Auditor

In accordance with § 32 (10) of the Statutes of Bank Zachodni WBK, applicable regulations and industry practice, on 11 June 2014, the bank's Supervisory Board passed a resolution appointing Deloitte Polska as an entity to review and audit the bank's unconsolidated and consolidated financial statements for H1 2014 and the entire year 2014. The bank signed agreements with Deloitte Polska for the terms required to carry out the specified works.

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 both by 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, from three to nine years, starting from 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 2014 and 2013.

Remuneration of External Auditors	PLN k	
	Reporting Year ended on 31.12.2014	Reporting Year ended on 31.12.2013
Audit fees in respect of the parent bank <sup>1)</sup>	1 813	2 620
Audit fees in respect of the subsidiaries <sup>2)</sup>	1 069	650
Audit fees related to assurance services, including the review of the parent bank <sup>3)</sup>	2 048	920
Audit fees related to assurance services, including the review of the subsidiaries	468	-
Fees for non-assurance services <sup>4)</sup>	20	2 804

- 1) Remuneration for the services performed in 2014 based on the following agreements with Bank Zachodni WBK:
- Agreement on the review and audit of financial statements of 27 June 2014;
  - Agreement on the audit of consolidation package of 27 June 2014.
- Remuneration for the services performed in 2013 based on the following agreements with Bank Zachodni WBK
- Agreement of 13 June 2013 on the audit of interim condensed unconsolidated and consolidated financial statements for 6 months, and unconsolidated and consolidated financial statements for 12 months;
  - Agreement of 13 June 2013 on the audit of consolidation package for 6 and 12 months.
- 2) Includes remuneration for the services performed in 2014 for SCB Group based on Agreement of 19 December 2014 on audit of financial statements and audit/review of the consolidation package.
- 3) Remuneration for the review and other assurance services performed in 2014 based on:
- Annex of 17 December 2014 regarding the audit of Pillar 3 disclosure report and assets to Agreement on the review and audit of financial statements of 27 June 2014;
  - Annex of 12 December 2014 regarding the internal control system to Agreement on the audit of consolidation package of 27 June 2014.
- The fee for 2013 contains the remuneration for the audit of the internal control system under Annex to the agreement of 13 June 2013 and for the review of Pillar 3 disclosure and assets under Annex agreement dated 13 June 2013.
- 4) Remuneration for the services rendered in 2014 based on Agreement of 15 December 2014 on execution of the agreed procedures regarding the Jessica Project in 2014. The amount for 2013 refers to the agreement on support of the intended acquisition.

## 7. Pending Court Proceedings

As at 31 December 2014, no case was pending before any court or state administration agencies with relation to any claims made by or against the bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

Court Proceedings with BZ WBK Group as a Party	PLN m	
	31.12.2014	31.12.2013
Amounts claimed by the Group	176,7	79,4
Claims against the Group	182,3	200,2
Receivables due to bankruptcy or arrangement cases	5,1	60,8
<b>Value of all litigation</b>	<b>364,1</b>	<b>340,4</b>
<b>Share [%] of all litigation in equity</b>	<b>2,0%</b>	<b>2,4%</b>
Completed significant court proceedings	187,3	91,2



## 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 2014 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 2014.

### Selection of Auditor

The auditing firm responsible for auditing the "Consolidated Financial Statements of Bank Zachodni WBK Group for 2014" 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
05.03.2015	Mateusz Morawiecki	President of the Board	
05.03.2015	Andrzej Burliga	Member	
05.03.2015	Eamonn Crowley	Member	
05.03.2015	Michael McCarthy	Member	
05.03.2015	Piotr Partyga	Member	
05.03.2015	Juan de Porras Aguirre	Member	
05.03.2015	Marcin Prell	Member	
05.03.2015	Marco Antonio Silva Rojas	Member	
05.03.2015	Miroslaw Skiba	Member	
05.03.2015	Feliks Szyszkowiak	Member	