

CORPORATE GOVERNANCE IN BANK ZACHODNI WBK GROUP IN 2011

2011



WBK

| Bank Zachodni WBK S.A.

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I. Statement on Corporate Governance in 2011

1. Introduction

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 dated 11 December 2007.

In relation to the above and pursuant to WSE Management Board Resolution no. 718/2009 dated 16 December 2009, preparation of "Statement on Corporate Governance Compliance in 2011" in line with the Ordinance of the Minister of Finance dated 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 (§ 91 section 5 point 4) and its publishing as part of the annual report is tantamount to the 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 2011 are set forth in "Code of Best Practice for WSE Listed Companies" which constitutes an appendix to WSE Supervisory Board Resolution no. 17/1249/2010 dated 19 May 2010 and is available at WSE website (<http://corp-gov.gpw.pl/>) and the bank's website (www.inwestor.bzwbk.pl). It is an updated code of best practice which was applied from 1 July 2010 until the end of 2011. The original code was introduced by virtue of WSE Supervisory Board Resolution no. 12/1170/2007 dated 4 July 2007 on introduction of "Code of Best Practice for WSE Listed Companies".

The updated code of best practice, which was effective until the end of 2011, had been approved for use in Bank Zachodni WBK by virtue of BZ WBK Management Board Resolution dated 30 June 2010 and accepted by the BZ WBK Supervisory Board. In connection with the obligation to comply with all the rules set out in the applicable best practice document, the bank's Statutes were amended accordingly.

Bank Zachodni WBK has complied with formal corporate governance rules since 2002 when the first version of best practice document was published by the Warsaw Stock Exchange ("Code of Best Practice of Public Companies in 2002"). In 2011, the bank took measures to implement the updated versions of "Code of Best Practice for WSE Listed Companies" which were introduced by virtue of WSE Supervisory Board Resolutions no. 15/1282/2011 dated 31 August 2011 and no. 20/1287/2011 dated 19 October 2011. Both resolutions became effective on 1 January 2012. The new changes are related mainly to factors shaping the information governance in public companies and reflect expectations of market participants as well as international trends in corporate governance.

3. Management Board's Statement on Corporate Governance

In 2011, Bank Zachodni WBK duly complied with all the corporate governance rules set forth in the binding version of "Code of Best Practice for WSE Listed Companies". During that period, no corporate governance breaches occurred.

4. Equity Securities Issued by the Bank

Ownership Structure of Share Capital

According to the information held by BZ WBK Management Board as at 31 December 2011, the shareholder having minimum of 5% the total number of votes at the BZ WBK Annual General Meeting of Shareholders was Banco Santander S.A. with its registered office in Santander. The company's interest in the share capital and the voting power of Bank Zachodni WBK is 96.25%. The remaining shares are in free float.

Shareholder	Number of Shares Held		% in the Share Capital		Number of Votes at AGM		Voting Power at AGM	
	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010	31.12.2011	31.12.2010
Banco Santander S.A.	70 334 512	-	96,25%	-	70 334 512	-	96,25%	-
AIB European Investments Ltd.	-	51 413 790	-	70,36%	-	51 413 790	-	70,36%
Others	2 741 501	21 662 223	3,75%	29,64%	2 741 501	21 662 223	3,75%	29,64%
Total	73 076 013	73 076 013	100,0%	100,0%	73 076 013	73 076 013	100,0%	100,0%

To the best knowledge of BZ WBK Management Board, the ownership structure presented in the table above has not changed as at the date of BZ WBK 2011 annual report approval for release (23 February 2012).

Change of the Majority Shareholder

On 10 September 2010, the Board of Allied Irish Banks decided to sell the Polish assets of AIB, i.e. 70.36% of share capital in Bank Zachodni WBK and 50% stake in BZ WBK AIB Asset Management S.A. On 7 February 2011, Banco Santander announced that it had launched a tender offer for 100% of the share capital of Bank Zachodni WBK offering PLN 226.89 per share. On 18 February 2011, the Polish Financial Supervision Authority (KNF) issued a decision stating that there were no grounds to object to the intended direct acquisition by Banco Santander of Bank Zachodni WBK shares representing more than 50% of voting rights at the General Meeting of Shareholders.

On 1 April 2011, Banco Santander finalised the purchase of Bank Zachodni WBK in the tender for the bank's shares. As a result, Banco Santander acquired a 95.67% stake in the bank. Consequently, Bank Zachodni WBK joined Santander Group. The acquisition price totalled EUR 3,989 m. Furthermore, Banco Santander acquired 67,500 shares of BZ WBK AIB Asset Management S.A. from AIB Capital Markets p.l.c. representing 50% of voting power at the General Meeting of Shareholders for EUR 150 m.

As a consequence of Banco Santander's exceeding a 90% share in the total voting power at the General Meeting of Shareholders of Bank Zachodni WBK, the non-controlling shareholders were entitled to demand that their shares be acquired by the majority shareholder. Based on the requests from the shareholders, Banco Santander acquired additional 421 859 shares of Bank Zachodni WBK, this way increasing its share in the share capital and voting power at the General Meeting of Shareholders to 96.25%.

Rights and Restrictions Attaching to the Issuer's Securities

The shares of Bank Zachodni WBK S.A. 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.

Structure of the share capital of Bank Zachodni WBK as at 31.12.2010 and 31.12.2011

Series /issue	Type of share	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue (in PLN)
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
				73 076 013	730 760 130

The bank did not issue any series of shares that would give the holders any special control rights or would limit their voting power or other rights. Likewise, there are no restrictions on the transfer of title to the Issuer's shares.

The control rights of Banco Santander S.A. as a parent entity of Bank Zachodni WBK arise from the number of shares and the resulting share in the voting power at the General Meeting of Shareholders of Bank Zachodni WBK.

5. Governing Bodies

General Meeting of Shareholders

The last General Meeting of Shareholders of Bank Zachodni WBK S.A.

The Annual General Meeting of Shareholders of Bank Zachodni WBK held on 20 April 2011 (AGM) approved the 2010 financial statements submitted by the Management Board and the Supervisory Board, granted discharge to the Management and Supervisory Board members for the performance of their duties in the previous year, appointed the Supervisory Board for the next term of office and resolved on distribution of the net profit and dividend payment of PLN 8 per share. AGM also launched the 4th Incentive Scheme for employees of Bank Zachodni WBK Group who significantly contributed to the growth of the parent entity (a three year Incentive Scheme IV). Furthermore, the AGM approved changes to the bank's Statutes regarding requirements for governing bodies and conditional increase of share capital and adopted its consolidated version. On 11 May 2011, the changes to the bank's Statutes were entered into the National Court Register.

Organisation and Powers of the General Meeting of Shareholders

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.

GM resolves 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 secret ballot - allows shareholders to stay anonymous. Each share carries one vote.

Candidates for the Supervisory Board are voted upon on an individual basis, in an 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 use.

Shareholders' Rights

The rights of the shareholders of Bank Zachodni WBK S.A. 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 the list of shareholders be e-mailed free-of-charge to the indicated 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 expense.
- Shareholders may:
 - ✓ a week before GM, demand copies of requests included in the GM agenda;
 - ✓ have access to minutes of GM 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 GM in cases permitted in the Commercial Companies Code;
 - ✓ seek information from the Management Board on issues on the GM agenda, as provided for by the Commercial Companies Code;
 - ✓ exercise their voting rights (each share carries one vote at GM).
- Shareholders may attend GM and vote personally or through proxies. In line with the Terms of Reference, shareholders may also participate in GM via electronic communication channels.

Method of Changing the Statutes

Bank Zachodni WBK changes its Statutes in a method prescribed by the applicable law.

The last GM resolved on the following changes to the bank's Statutes:

- §10a of the Status re. conditional increase of the share capital was deleted.
- The requirement that at least half of the Supervisory Board members should have Polish citizenship was replaced with a new criterion. Half of the Supervisory Board members, including independent members, should have an adequate experience in the Polish market to ensure a relevant oversight. Furthermore, at least two independent Supervisory Board members should be permanent residents of Poland and speak Polish.
- The requirement that at least half of the Management Board members should be of Polish citizenship was waived. New requirements were introduced which must be met by at least half of the Management Board members, including the President. They relate to higher education, knowledge of the Polish banking market, permanent place of residence, command of Polish and sufficient experience.
- The split of responsibilities within the Management Board was changed as follows – in particular, the President is in charge of the internal audit function while the Management Board member the appointment of whom requires an approval of the Polish Financial Supervision Authority is in charge of the risk management function.

Supervisory Board

Composition of the Supervisory Board

As at 31.12.2011, compared to 31.12.2010, the composition of Bank Zachodni WBK Supervisory Board was as follows:

Composition of the Supervisory Board as at 31.12.2011 and 31.12.2010

Role in the Supervisory Board		Composition as at 31.12.2011		Composition as at 31.12.2010
Chairman of the Supervisory Board:	1.	Gerry Byrne	1.	Aleksander Szwarc
	2.	Jose Antonio Alvarez	2.	Gerry Byrne
	3.	Witold Jurcewicz	3.	Waldemar Frąckowiak
	4.	Jose Luis De Mora	4.	Aleksander Galos
Members of the Supervisory Board:	5.	Piotr Partyga	5.	Anne Maher
	6.	John Power	6.	Maeliosa OhOgartaigh
	7.	Jose Manuel Varela	7.	Piotr Partyga
	-	-	8.	John Power
	-	-	9.	Jacek Ślotała

The members of the Supervisory Board as at 31 December 2011 were appointed for a joint 3-year term of office by the GM held on 20 April 2011. The former members of the Supervisory Board were appointed by the GM on 18 April 2008, except for Anne Maher and Piotr Partyga who were appointed by the GM held on 21 April 2010.

As at 31 December 2011, the following members of the Supervisory Board held an independent status: Witold Jurcewicz, Piotr Partyga and John Power.

In the period from 1 January to 31 December 2011, 7 Supervisory Board meetings were held at which 48 resolutions were passed. Average attendance was 92.7%.

Role of the Supervisory Board

The Supervisory Board of Bank Zachodni WBK operates particularly 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 is composed of at least 5 members who are appointed for a joint 3-year term of office. The members of the Supervisory Board, including the Chairperson, are appointed and dismissed by General Meeting of Shareholders. The Management Board advises the Polish Financial Supervision Authority (KNF) of the Supervisory Board's composition.

Three members of the Supervisory Board confirmed in writing their independent status of the bank and its connected entities. Pursuant to the bank's Statutes, at least two members should have an independent status.

The Supervisory Board exercises on-going supervision over all the aspects of the bank's activities. The Supervisory Board takes decisions in the form of resolutions which are adopted by absolute majority of votes in an open voting. Resolutions are voted upon in a secret ballot in the 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 meetings are held as needed, however, at least 3 times in any financial year. The Supervisory Board 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. The role of the committees is to facilitate the work of the Supervisory Board, i.e. prepare draft resolutions of the Supervisory Board with respect to own requests or requests submitted by the Management Board for approval.

The following Supervisory Board committees operate in Bank Zachodni WBK: Audit and Compliance Committee, Risk Oversight Committee and Remuneration and Nominations Committee.

Composition of Supervisory Board Committees as at 31.12.2011

Supervisory Board Committee	Role	Ref.	Composition
Audit and Compliance Committee	Chairman:	1.	John Power
	Members:	2.	Witold Jurcewicz
		3.	Jose Manuel Varela
		4.	Piotr Partyga
Risk Oversight Committee	Chairman:	1.	John Power
	Members:	2.	Witold Jurcewicz
		3.	Jose Manuel Varela
		4.	Piotr Partyga
Remuneration and Nominations Committee	Chairman:	1.	Gerry Byrne
	Members:	2.	Jose Antonio Alvarez
		3.	Jose Luis de Mora

The Audit and Compliance Committee oversees the financial reporting in the bank, ensuring top quality of financial reports and disclosure practice and its compliance with the accounting policies. Furthermore, the Committee assesses the effectiveness of internal control system and financial and non-financial risk management frameworks and ensures that the chartered auditor and the entity authorised to audit the financial statements are independent. The Committee members receive reports from an external auditor and participate in regular meetings with the representatives of Internal and External Audit, which are not attended by the bank's Management Board members, as well as with the Management Board member in charge of the Legal and Compliance Division and Risk Management Division. The Audit and Compliance Committee is composed mostly of independent Supervisory Board members.

The Risk Oversight Committee presents the Supervisory Board with the conclusions and recommendations on the existing risk exposure (review of the Risk Appetite Statement), general risk management framework and the most effective strategy in this regard.

Throughout a year, the Audit and Compliance Committee and Risk Oversight Committee convene at least four times at the dates adjusted to the reporting and audit cycle. Additional meetings are held if the Chairperson or the members find it necessary. The quorum is two.

The Remuneration and Nominations Committee develops succession plans for the Management Board, recommends Management Board members and performs annual reviews of their remuneration. The Committee reviews and monitors the policies and practices governing the remuneration system in the bank and its subsidiaries. It also recommends incentive solutions for Management Board members and senior executives.

The Remuneration and Nominations Committee convenes at least three times a year. Additional meetings are held at the request of the Chairperson. The quorum is two.

The annual reports on activities of the Supervisory Board and its Committees as well as 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 convey the resolutions passed by the AGM of Bank Zachodni WBK. As of the approval date of this report, such information was last published in the current report no. 12/2011 which referred to AGM held on 20 April 2011 and operations of the bank, Bank Zachodni WBK Group as well as Supervisory Board in 2010. Furthermore, the Supervisory Board's assessment of the performance of Bank Zachodni WBK Group in 2010 was included in the 2011 Annual Report published in the paper-based form and available on the bank's website.

Management Board

The table below presents the composition of Bank Zachodni WBK Management Board as at the end of 2010 and 2011 together with the roles and responsibilities of its members.

Composition of the Management Board and role of MB members as at 31.12.2010 and 31.12.2011

Role in the Management Board	Ref.	Composition as at 31.12.2011	Reporting Areas as at 31.12.2011	Ref.	Composition as at 31.12.2010	Reporting Areas as at 31.12.2010
President of the Board:	1.	Mateusz Morawiecki	Reporting units: Credit Division, Internal Audit Area, Corporate Communications & Marketing Area, Wealth Management Department, Bancassurance Office	1.	Mateusz Morawiecki	Reporting units: Treasury Division, Internal Audit Area, Corporate Communication Area, Brand Management and Investor Relations Area
	2.	Andrzej Burliga	Risk Management Division	2.	Andrzej Burliga	Risk Management Division
	3.	Eamonn Crowley	Finance Division	3.	Paul Barry	Finance Division
	-	-	-	4.	Declan Flynn	Credit Division
	4.	Justyn Konieczny	Equity Area	5.	Justyn Konieczny	Investment Banking Division
Members of the Board:	5.	Janusz Krawczyk	Human Resources Management Division	6.	Janusz Krawczyk	Human Resources Management Division
	-	-	-	7.	Jacek Marcinowski	Private Banking Department, Bancassurance Office, Partner Outlets Office
	6.	Michael McCarthy	Business and Corporate Banking Division	8.	Michael McCarthy	Business and Corporate Banking Division
	7.	Juan de Porras Aguirre	Global Banking & Markets Division	-	-	-
	8.	Marcin Prell	Legal and Compliance Division	9.	Marcin Prell	Legal and Compliance Division
	9.	Mirosław Skiba	Retail Banking Division	10.	Mirosław Skiba	Retail Banking Division
	10.	Feliks Szyszkowiak	Business Support Division	11.	Feliks Szyszkowiak	Business Support Division

Except for Mr. Eamonn Crowley and Mr. Juan de Porras Aguirre, all Management Board members as at 31.12.2011 were appointed by the Supervisory Board of Bank Zachodni WBK on 21 April 2009 for a joint 3-year term of office.

Compared with 31 December 2010, the composition of the Management Board changed as follows:

- On 16 December 2010, Mr. Jacek Marcinkowski tendered his resignation from the Management Board effective from 31 December 2010, in connection with his appointment as President of the Management Board of BZ WBK Towarzystwo Funduszy Inwestycyjnych effective from 1 January 2011. Mr. Jacek Marcinkowski was in charge of the Private Banking Department, Bancassurance Office and Partner Outlet Development Office which, following his resignation, were incorporated into other organisational structures within Bank Zachodni WBK Group.
- On 6 December 2010, Mr. Declan Flynn submitted his decision to step down from his position as Management Board member for personal reasons (effective as of 13 April 2011). Following the resignation of Mr. Declan Flynn, the oversight over the Credit Division was delegated to Mr. Piotr Mazur who reports directly to the Chairman of the Management Board.
- On 3 June 2011, Mr. Paul Barry – in charge of the Finance Division – tendered his resignation from the Management Board for personal reasons, effective from 31 July 2011.
- By virtue of the bank's Supervisory Board resolution dated 24 August 2011 Mr. Eamonn Crowley was appointed as member of the Management Board in charge of the Finance Division effective from 1 September 2011.
- On 24 August 2011, the Supervisory Board also appointed Mr. Juan de Porras Aguirre as a member of the Management Board entrusted with establishment and management of the Global Banking and Markets Division, effective from 1 September 2011.

Appointment and Removal of Executives

The members of 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 Management Board is composed of at least 3 members (including the President) who are appointed for a joint 3-year term of office by the Supervisory Board. At least half of the Management Board members, including the President, should be permanent residents of Poland, speak Polish, have higher education, good knowledge of the Polish banking market and sufficient experience of the home market to manage the Polish banking institution. Two members of the Management Board, including the President, are appointed subject to approval from the Polish Financial Supervisory Authority (KNF). The Management Board members may be dismissed by the Supervisory Board or General Meeting of Shareholders at any time.

Powers of Executives

The Bank Zachodni WBK Management Board manages and represents the bank. The Management Board has all 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 the 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 operative in the bank include: Risk Management Committee, I and II degree Credit Committees, Provisions Committee, Credit Policy Forum, Credit Risk Measurement Committee, Assets and Liabilities Management Committee (ALCo), Operational Risk Management Committee (ORMCo), Market Risk Committee, Deposit Working Group (DWG), Equity Investment and Underwriting Committee, CRM Committee, Settlement Committee, Anti-Money Laundering and Counter Terrorist Financing Committee (AML 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 the 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 manages and represents 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 (prokurent), or two commercial representatives acting jointly. Representatives authorized to act severally or jointly with any of the persons listed in letter 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 absolute majority of votes in an open voting. Secret ballot is held in the 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. The Management Board meetings are held as needed. The 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 the Management and Supervisory Boards

Remuneration of the Supervisory and Management Board Members

Pursuant to the Statutes of Bank Zachodni WBK the remuneration of the Supervisory Board members is set by the General Meeting of Shareholders of Bank Zachodni WBK. As at the date of approval of this report for release (23 February 2012), the remuneration for the Supervisory Board of Bank Zachodni WBK was set by virtue of Resolution no. 35 of the General Meeting of Shareholders of Bank Zachodni WBK dated 20 April 2011. Exhaustive information in this respect is included in the current report no. 12/2011 dated 20 April 2011 conveying the resolutions passed by the last GM which is available on the bank's website.

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 the 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.

Information on the remuneration of the BZ WBK Supervisory and Management Board members for 2011 and the comparable period is presented in Note 45 to the "Consolidated Financial Statements of Bank Zachodni WBK Group for 2011".

Agreements between Bank Zachodni WBK and its Executive Directors

The 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 once-off severance pay. The severance pay does not apply if the Management Board member accepts a new job role in the bank/Group.

Shares and Conditional Rights held by the Supervisory and Management Board Members

As at 31 December 2011 and 31 December 2010, none of the members of the Supervisory Board held any shares of Bank Zachodni WBK.

Under the 1st Bank Zachodni WBK Share Incentive Scheme launched in 2006, members of the Management Board were allocated 23,084 out of 115,729 of H series shares issued as part of the conditional increase of the share capital. Due to the expiry of the 2nd and 3rd Incentive Scheme in 2010 and 2011 respectively, under which no rights were exercised, the Management Board members have conditional rights to acquire shares under the 4th Incentive Scheme. Below are the shares of Bank Zachodni WBK and conditional rights held by the Management Board members as of 31 December 2011 and 31 December 2010.

Shares and Conditional Rights held by Management Board Members as at 31.12.2010 and 31.12.2011

Management Board Members	31.12.2011		31.12.2010	
	No. of BZ WBK shares	Rights	No. of BZ WBK shares	Rights
Mateusz Morawiecki	3 591	10 120	3 591	10 120
Andrzej Burliga	1 606	4 282	1 606	4 282
Eamonn Crowley	-	4 003	-	4 003
Justyn Konieczny	3 591	5 283	3 591	5 283
Janusz Krawczyk	3 397	3 854	3 397	3 854
Michael McCarthy	-	4 875	-	4 875
Juan de Porras Aguirre	-	-	-	-
Marcin Prell	2 530	3 704	2 530	3 704
Miroslaw Skiba	1 575	4 282	1 575	4 282
Feliks Szyszkowiak	3 438	4 449	3 438	4 449
Total	19 728	44 852	19 728	44 852

6. Control System of Financial Statements

Internal Control System and Risk Management

Bank Zachodni WBK Group operates an internal control system which supports the decision-making processes and contributes to efficient operation of the organisation, reliability of financial reporting and compliance with laws, internal regulations and best practice. The internal control system is adjusted to the organisational structure and risk management system and includes 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 over the internal control and risk management system is exercised by the Audit and Compliance Committee of the Supervisory Board of Bank Zachodni WBK Group.

The bank has adopted the Internal Control Policy in Bank Zachodni WBK which defines, inter alia, the structure, purpose and scope of the internal control and lists the related roles and responsibilities.

The internal control and risk management systems 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 heads of respective divisions and defining the roles and responsibilities within each business area, including quality and processing of financial data. The ongoing controls and management checks carried out in the bank enable to verify due delivery of the assigned tasks.

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 under strict control as well.

The bank follows any legal and regulatory changes related to reporting in the law and updates its accounting rules and disclosures accordingly. The bank, through its representatives sitting on supervisory boards of individual subsidiaries, exercises oversight of its consolidated subsidiaries.

The financial statements are formally approved by the Disclosure Committee which is responsible for ensuring that the data are true and compliant with law. The Disclosure Committee recommends the financial statements to the Management Board for ratification.

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

The effectiveness of controls in financial reporting is assessed annually as part of the certification process for compliance with 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 Banco 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, in the transition period, i.e. during the certification process for compliance with Sarbanes-Oxley Act in 2011, Bank Zachodni WBK will use the interim solutions and methodology based on the approach adopted in the previous years. The design and effectiveness of controls was 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. The scope of testing was agreed with the External Auditor of Bank Zachodni WBK Group, taking account of risk factors which were particularly significant for the 2011 SOX certification.

The test results 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 in 2011, 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 point 10 of the Statutes of Bank Zachodni WBK, applicable regulations and the industry practice, on 17 May 2011 the bank's Supervisory Board passed a resolution appointing Deloitte Audyt Sp. z o.o. as an entity to review and audit the bank's stand-alone and the Group's consolidated financial statements for H1 2011 and for 2011. The bank also contracted Deloitte Audyt Sp. z o.o and other companies from Deloitte Group for consulting and tax advisory services. In the bank's view, the above advisory services do not affect 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.

The bank's financial statements for the previous financial years were reviewed and audited by KPMG Audyt.

Remuneration of Auditor

The table below shows the remuneration paid to external auditors for audit/review of the financial statements of Bank Zachodni WBK Group pursuant to agreements concluded with Deloitte Audyt Sp. z o.o. in 2011 and KPMG Audyt in 2010.

Remuneration of External Auditors	PLN k	
	Reporting Year ended on 31.12.2011	Reporting Year ended on 31.12.2010
Audit fees in respect of the parent bank	* 860	** 1070
Audit fees in respect of the subsidiaries	365	437
Audit fees related to the assurance services, including the review of the parent bank	* 860	*** 432
Audit fees related to the assurance services, including the review of the subsidiaries	85	93

Remuneration based on the following agreements:

- * Agreement with Deloitte Audyt Sp. z o.o. on Audit and Review of Financial Statements of 6 June 2011 and Agreement with Deloitte Audyt Sp. z o.o. on Audit of the Consolidated Financial Statements of 6 June 2011
- ** Agreement with KPMG Audyt on Audit of Financial Statement and Group Report of 27 September 2010
- *** Agreement with KPMG Audyt on Review of Interim Financial Statement and Group Report of 14 June 2010

7. Pending Court Cases

As at 31 December 2011, 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 that would equal or exceed 10% of the Group's equity.

Court Proceedings with BZ WBK Group as a Party	in PLN m	
	31.12.2011	31.12.2010
Amounts claimed by the Group	101,0	103,4
Claims against the Group	132,1	130,9
Receivables due to bankruptcy or arrangement cases	10,2	4,3
Value of all litigation	243,3	238,6
Share [%] of all litigation in equity	3,3%	3,5%
Completed significant court proceedings	48,3	192,6