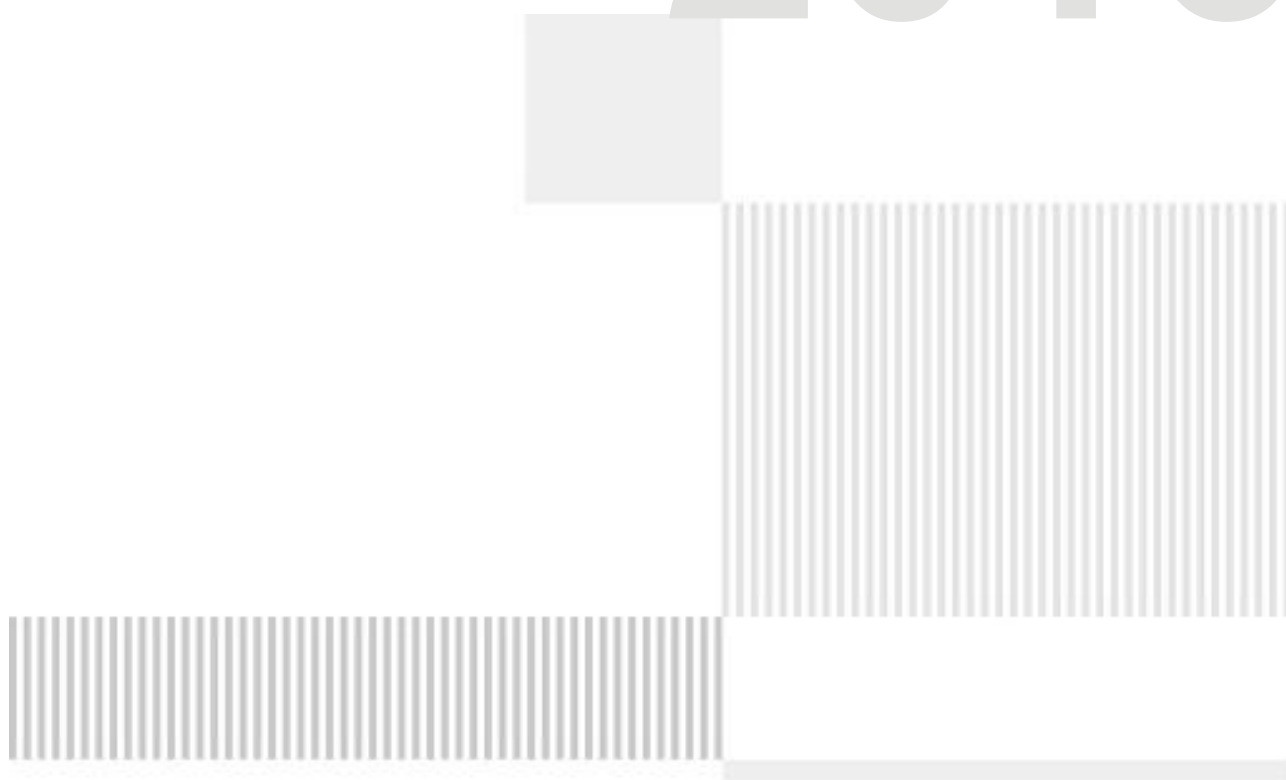


**INFORMATION ON
CAPITAL ADEQUACY
OF BANK ZACHODNI WBK GROUP
as at 30th June 2016**

2016



Bank Zachodni WBK

 Grupa Santander

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1. Introduction

This document is issued under the Bank Zachodni WBK Group Disclosure Strategy formulated based on Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CCR") and the European Banking Authority Guidelines EBA/GL/2014/14 of 23 December 2014 on materiality, proprietary and confidentiality and on disclosure frequency under Articles 432(1), 432(2) and 433 of Regulation (EU) No 575/2013.

Starting from January 1st, 2014 by the decision of the European Parliament and of the Council the new regulations of the CRD IV/CRR package come into force. The CRD IV/CRR package consist of two parts, the CRD IV Regulation and CRR Directive. The Directive requires transposition to the specific country law while the Regulation is binding without any transposition in all the member countries of the EU.

Bank Zachodni WBK is the significant subsidiary of Banco Santander S.A. with its seat in Spain, which is the EU parent institution. Bank Zachodni WBK S.A. discloses information about the capital adequacy on a consolidated basis – at the highest local level of prudential consolidation – i.e. based on the data of Bank Zachodni WBK.

The purpose of the report is to present information about capital adequacy of BZ WBK Group pursuant to the requirements laid down in point 26b of European Banking Authority Guidelines EBA/GL/2014/14. In accordance with the Guidelines the disclosure includes:

- information on own funds and relevant ratios
- information on the amounts of risk weighted assets and capital requirements by type of risk and by the exposure classes
- information on the leverage ratio.

The data presented in the report were prepared as at 30 June 2016.

Bank Zachodni WBK forms a Group with 13 subsidiaries which are fully consolidated in accordance with IFRS 10 and associates which are accounted for using the equity method.

The scope of consolidation used by Bank Zachodni WBK Group for the purpose of capital adequacy assessment in accordance with CRR is different than the scope of consolidation adopted for the published consolidated financial statements of the Group made in compliance with IAS/IFRS. The subsidiaries BZ WBK Nieruchomości S.A. and Geldokracja Sp. z o.o. are excluded from prudential consolidation.

As at 30 June 2016, Bank Zachodni WBK formed a Group with the **following subsidiaries**:

- Santander Consumer Bank S.A. (SCB S.A.)
- Santander Consumer Finanse Sp. z o.o. (subsidiary of SCB S.A.)
- AKB Marketing Services Sp. z o.o. w likwidacji (subsidiary of SCB S.A.)
- Santander Consumer Multirent Sp. z o.o. (subsidiary of SCB S.A.)
- SC Poland Consumer 2015-1 Sp. z o.o. (subsidiary of SCB S.A.)
- BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.
- BZ WBK Finanse Sp. z o.o.
- BZ WBK Faktor Sp. z o.o. (subsidiary of BZ WBK Finanse Sp. z o.o.)
- BZ WBK Leasing S.A. (subsidiary of BZ WBK Finanse Sp. z o.o.)
- BZ WBK Lease S.A. (subsidiary of BZ WBK Finanse Sp. z o.o.)
- BZ WBK Inwestycje Sp. z o.o.
- BZ WBK Nieruchomości S.A.¹
- Geldokracja Sp. z o.o.²

¹ BZ WBK Nieruchomości S.A. manages „Training Centre – Palace in Zakrzewo”

² Geldokracja Sp. z o.o. leads educational services related to the capital market, advertising and communication services, and maintenance of internet portals.

Associated companies

In the consolidated financial statements of Bank Zachodni WBK for the 6-month period ended 30 June 2016, the following companies are accounted for using the equity method:

- BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. (BZ WBK-Aviva TUO S.A.)
- BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. (BZ WBK-Aviva TUnŻ S.A.)
- POLFUND – Fundusz Poręczeń Kredytowych S.A.

For the purpose of prudential consolidation and calculation of the capital adequacy ratio, significant investments in financial and insurance sector entities (incl. BZ WBK – Aviva TUO S.A. and BZ WBK – Aviva TUŻ S.A.) which exceed 10% of the Common Equity Tier 1 instruments are recognised as a significant investment in accordance with Article 36 and 48 of the CRR.

Details about subsidiaries and associates are presented in Note 1 to the Consolidated Financial Statements of BZ WBK Group for the 6-month period ended 30 June 2016.

2. Capital Adequacy

The level of own funds of the Bank Zachodni WBK Group is adjusted to the Group's business.

Own funds are calculated in accordance with the Banking Law (Journal of Laws of 2016, item 128) and legislative package of the Capital Requirements Regulation and the Capital Requirements Directive IV ("CRDIV/CRR").

The capital requirements of Bank Zachodni WBK Group are set in accordance with part III of Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CRR"), which was the official legal basis as at 30 June 2016.

The table below presents a details of own funds, risk weighted assets and capital adequacy ratios as at 30 June 2016.

**Own funds, risk weighted assets and capital ratios
as at 30 June 2016 (PLN k)**

	AMOUNT AT DISCLOSURE DATE [PLN k]
Common Equity Tier 1 capital: instruments and reserves	
6 Common Equity Tier 1 (CET1) capital before regulatory adjustments	18 254 726
Common Equity Tier 1 (CET1) capital: regulatory adjustments	
28 Total regulatory adjustments to Common Equity Tier 1 (CET1)	(2 526 241)
29 Common Equity Tier 1 (CET1) capital	15 728 486
Additional Tier 1 (AT1) capital: instruments	
36 Additional Tier 1 (AT1) capital before regulatory adjustments	-
Additional Tier 1 (AT1) capital: regulatory adjustments	
43 Total regulatory adjustments to Additional Tier 1 (AT1) capital	-
44 Additional Tier 1 (AT1) capital	-
45 Tier 1 capital (T1 = CET1 + AT1)	15 728 486
Tier 2 (T2) capital: instruments and provisions	
51 Tier 2 (T2) capital before regulatory adjustment	509 515
Tier 2 (T2) capital: regulatory adjustments	
57 Total regulatory adjustments to Tier 2 (T2) capital	(5 460)
58 Tier 2 (T2) capital	504 055
59 Total capital (TC = T1 + T2)	16 232 541
60 Total risk-weighted assets	112 449 219
Capital ratios and buffers	
61 Common Equity Tier 1 (as a percentage of total risk exposure amount)	13,99%
62 Tier 1 (as a percentage of total risk exposure amount)	13,99%
63 Total capital (as a percentage of total risk exposure amount)	14,44%

On 20 April 2016, the General Meeting of Bank Zachodni WBK Shareholders agreed on the distribution of net profit of PLN **1,756,210,107.36** for the accounting year ended 31 December 2015 as follows:

- PLN **702,484,042.94** was allocated to the dividend for shareholders for 2015;
- PLN **878,105,053.68** was allocated to capital reserves;
- PLN **175,621,010.74** was left undistributed.

In addition, the dividend included PLN **587,564,899.06** worth of undistributed net profit for 2014. The total dividend paid was PLN **1,290,048,942** i.e. PLN 13 per share.

The total capital ratio as at 30 June 2016 vs. 31 December 2015 was impacted by the following:

- increase in capital reserves as a consequence of profit distribution;
- allocation of the undistributed profit for 2015 to Tier 1 capital;
- payment of the portion of the retained profit for 2014 in the form of dividend;
- amendment of the terms and conditions of issue of subordinated bonds allocated to Tier 2 supplementary capital;
- settlement of the acquisition of Visa Europe Limited by Visa Inc.;

- increase in the value of risk weighted assets for credit risk arising from the business activity and reduction of capital requirements for counterparty risk and CVA through the recognition of contractual netting in accordance with Articles 295-298 of the CRR.

The minimum capital ratios set by the Polish Financial Supervision Authority (KNF) for BZ WBK Group are as follows:

- a Tier 1 capital ratio of 10.78%;
- a total capital ratio of 13.96%.

The above-mentioned capital ratios include a conservation buffer and a buffer for an additional capital requirement due to risk attaching to foreign currency home mortgages. The capital ratios of BZ WBK Group calculated in accordance with the CRR requirements and an individual capital decision of the supervisory body are above the minimum requirements.

In H1 2016, Bank Zachodni WBK applied the standardised approach to the calculation of capital requirement for credit, market and operational risk. Under this approach the total capital requirement for credit risk is calculated as a sum of risk-weighted assets multiplied by 8%. To calculate risk-weighted exposures, risk weights are allocated to all exposures in accordance with the CRR.

As at 30 June 2016, the total capital requirements of Bank Zachodni WBK Group calculated in line with the CRR was **PLN 8 995 937k**, including:

- for credit risk and counterparty credit risk **PLN 7 883 308k**
- for market risk **PLN 106 520k**
- for credit valuation adjustment risk **PLN 39 115k**
- for operational risk **PLN 966 994k**.

The table below presents a specification of capital requirements and risk weighted assets for different risks.

**Capital requirements and risk weighted assets of the Bank Zachodni WBK Group
as at 30 June 2016 (PLN k)**

No.	RISK TYPES	CAPITAL REQUIREMENT	RISK WEIGHTED ASSETS
1.	Credit risk and Counterparty risk*	7 883 308	98 541 356
2.	Risk of exceeding the exposure concentration limit and the large exposure limit	-	-
3.	Market risk including:	106 520	1 331 500
3.1	FX risk	-	-
3.2	commodity prices risk	-	-
3.3	risk of positions of equity instruments, including: :	2 682	33 525
3.3.1	specific risk	2 497	31 213
3.3.2	general risk	68	850
3.3.3	Specific approach to the risk of positions in collective investment undertakings (CIUs)	117	1 463
3.4	risk of debt instrument positions, including:	103 838	1 297 975
3.4.1	specific risk	120	1 500
3.4.2	general risk	103 718	1 296 475
4.	Supply settlement risk	-	-
5.	Credit valuation adjustment risk (CVA)	39 115	488 938
6.	Operational risk	966 994	12 087 425
		8 995 937	112 449 219

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

The biggest item is the total capital requirement of Bank Zachodni WBK Group is the capital requirement for credit risk, including counterparty credit risk, which on 30 June 2016 accounted for **87.63%** of the total capital requirement.

**Capital requirement of Bank Zachodni WBK Group for credit risk and counterparty credit risk
as at 30 June 2016 (PLN k)**

No.	Exposure Class	Capital requirement	Risk weighted assets
1.	Exposures to central governments or central banks	6 456	80 696
2.	Exposures to regional governments or local authorities	2 034	25 429
3.	Exposures to public sector entities	54	678
4.	Exposures to multilateral development banks	-	-
5.	Exposures to institutions*	170 532	2 131 654
6.	Exposures to corporates	1 760 080	22 000 999
7.	Retail exposures	2 200 615	27 507 682
8.	Exposures secured by mortgages on immovable property	2 787 004	34 837 551
9.	Exposures in default	257 408	3 217 602
10.	Exposures associated with particularly high risk	3 048	38 106
11.	Exposures in the form of units or shares in collective investment undertakings	61	763
12.	Equity exposures	240 676	3 008 452
13.	Other items	455 340	5 691 744
	Total exposures covered by the standardised approach	7 883 308	98 541 356

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

3. Leverage ratio

In December 2010, the BCBS published guidelines (Basel III: A global regulatory framework for more resilient banks and banking system) defining the methodology for calculating the leverage ratio. Those rules provide for an observation period that will run from 1 January 2013 until 1 January 2017 during which the leverage ratio, its components and its behavior relative to the risk-based requirement will be monitored. Based on the results of the observation period the BCBS intends to make any final adjustments to the definition and calibration of the leverage ratio in the first half of 2017, with a view to migrating to a binding requirement on 1 January 2018 based on appropriate review and calibration. The BCBS guidelines also provide for disclosure of the leverage ratio and its components starting from 1 January 2015.

Considering the above and having regard to the legal aspects of the introduction of a leverage ratio, ie. Articles 511 CRR, the European Commission will present to the European Parliament and the Council a report on the impact and effectiveness of the leverage ratio. Where appropriate, the report shall be accompanied by a legislative proposal on the introduction of an appropriate number of levels of the leverage ratio that institutions following different business models would be required to meet.

The leverage ratio of Bank Zachodni WBK Group is set in accordance with Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 ("CRR") and Commission delegated Regulation (EU) 2016/62 of 10 October 2014 amending Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to the leverage ratio.

The leverage ratio (LR) shall be calculated as an institution's capital measure divided by that institution's total exposure measure and shall be expressed as a percentage.

Leverage ratio of Bank Zachodni WBK Group as at 30 June 2016 (PLN k)

Choice on transitional arrangements			
EU - 23	Choice on transitional arrangements for the definition of the capital measure	Fully phased in	Transitional
Capital and Total Exposures			
20	Tier 1 capital	16 090 110	15 728 486
21	Total Exposures	148 239 183	147 877 559
Leverage Ratios			
22	End of quarter leverage ratio	10,85%	10,64%
EU - 22a	Leverage ratio (avg of the monthly leverage ratios over the quarter)	NA	NA

4. Remuneration Informations

Information on the variable components of remuneration is the fulfillment of the obligations in accordance with Part eighth CRR and complements the information in the annual report Information on Capital Adequacy of Bank Zachodni WBK SA as at December 31, 2015.

Summary information on the remuneration of the Bank Zachodni WBK employees covered by the variable remuneration policy, presented by areas of activity and executives concerned (PLN k)

Area	Management Board*	Retail Banking	Business and Corporate Banking	Global Corporate Banking	Business Support	Subsidiaries	Total
Fixed remuneration**	12 799	3 996	2 560	4 248	8 888	6 727	39 218
Variable remuneration***	12 018	1 496	1 650	3 394	4 922	2 840	26 320
TOTAL	24 817	5 492	4 210	7 642	13 810	9 567	65 538

* The "Management Board" line shows the aggregated data for periods during which the persons acted as the Management Board members. The remaining part of the remuneration payable to the persons who did not sit on the Management Board for 12 months was included in a relevant group.

** Fixed remuneration of Management Board takes account of payment in lieu of annual leave at PLN 1 056.3k, but does not include additional benefits.

*** Variable remuneration granted for 2015.

Data also refer to the former employees covered by the policy on variable components of remuneration.

The amounts of remuneration for 2015 split into fixed and variable remuneration (PLN k)

	Headcount	Fixed remuneration for 2015****	VARIABLE REMUNERATION 2015						
			Deferred bonus for 2012**	Deferred bonus for 2013**	Deferred bonus for 2014**	VARIABLE REMUNERATION FOR 2015*			
						Headcount	Deferred bonus for 2015	Non-redeemed phantom shares (number of phantom shares)	Long-term performance share programme completed in 2014 (number of BZ WBK shares)
Management Board***	13	12 799	1 367	1 343	3 764	12	12 018	22 810	8 027
Other persons holding managerial positions	65	26 419	650	669	5 204	55	14 302	24 623	9 245
including number of individuals being remunerated between 1,5- 2 million EUR	0	-	-	-	-	0	-	-	-
TOTAL	78	39 218	2 017	2 012	8 968	67	26 320	47 433	17 272

* Variable remuneration granted for 2015.

** Deferred bonus paid in 2015. The portion paid for 2014, not deferred, contains phantom shares cashed in the financial year.

*** The "Management Board" line shows the aggregated data for periods during which the persons acted as the Management Board members. The remaining part of the remuneration payable to the persons who did not sit on the Management Board for 12 months was included in a relevant group.

**** Fixed remuneration of Management Board takes account of payment in lieu of annual leave at PLN 1,056.3k, but does not include additional benefits.

Data also refer to the former employees covered by the policy on variable components of remuneration.

**The amount of variable remuneration from previous years
not payable yet (PLN k)**

	BONUS DEFERRED (2012/2013/2014/2015) remuneration not payable yet		
	In cash	In phantom shares (number of phantom shares)	Long-term performance share programme launched in 2014 (number of shares) *
Management Board**	11 172	37 513	16 315
Other persons holding managerial positions	11 068	41 122	16 783
TOTAL	22 240	78 635	33 098

* Maximum amount, subject to meeting business criteria during the programme.

** The "Management Board" line shows the aggregated data for periods during which the persons acted as the Management Board members. The remaining part of the remuneration payable to the persons who did not sit on the Management Board for 12 months was included in a relevant group.

Data also refer to the former employees covered by the policy on variable components of remuneration.

5. Events which occurred subsequently to the end of the interim period

On 6 July 2016 the Bank received information from KNF about the commencement of supervision assessment in relation to identification of Bank Zachodni WBK as other systematically important institution and introduction of a relevant buffer in accordance with Article 39 (1) of Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial system.

As at the publication date of this document, the Bank has not received the relevant decision related to the level of the above buffer.