INFORMATION ON CAPITAL ADEQUACY OF BANK ZACHODNI WBK GROUP

as at 31th December 2015

2015

Bank Zachodni WBK

Grupa Santander

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Grupa Santander

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 which formed the legal basis of the reporting date i.e. 31 December 2015.

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 regulation is directly applicable in all EU member states. The Act of 5 August 2015 on macroprudential supervision over the financial system and crisis management in the financial system transposes CRD IV into the Polish law.

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 Group.

The purpose of the report is to present information about the capital adequacy of the Bank Zachodni WBK Group pursuant to the requirements laid down in Article 13 of CRR (i.e. disclosure of information laid down in Articles 437, 438, 440, 442, 450, 451 and 453 of CRR).

The data presented in the report were prepared as at 31 December 2015 and include:

- Risk management principles
- Own funds
- Value of Risk Weighted Assets
- Information on capital adequacy
- Remuneration policy for those categories of staff whose professional activities have a material impact on its risk profile
- Leverage ratio
- Encumbered assets and unencumbered assets.

Bank Zachodni WBK forms a Group with 15 subsidiaries which are 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 Giełdokracja Sp. z o.o. are excluded from prudential consolidation.

As at 31 December 2015, 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. – a subsidiary of SCB S.A.
- AKB Marketing Services Sp. z o.o. in liquidation – a subsidiary of SCB S.A.
- Santander Consumer Multirent Sp. z o.o.– a subsidiary of SCB S.A.
- SC Poland 2014-1 Limited – a subsidiary of SCB S.A.
- SC Poland Consumer 2015-1 Sp. z o.o. – a subsidiary of SCB S.A.
- BZ WBK Asset Management S.A.
- WBK Towarzystwo Funduszy Inwestycyjnych S.A. – a subsidiary of BZ WBK Asset Management S.A.
- BZ WBK Finanse Sp. z o.o.
- BZ WBK Faktor Sp. z o.o. – a subsidiary of BZ WBK Finanse Sp. z o.o.
- BZ WBK Leasing S.A. – a subsidiary of BZ WBK Finanse Sp. z o.o.
- BZ WBK Lease S.A. – a subsidiary of BZ WBK Finanse Sp. z o.o.
- BZ WBK Inwestycje Sp. z o.o.
- BZ WBK Nieruchomości S.A.*
- Giełdokracja Sp. z o.o.*

Compared with 31 December 2014, the list of related entities of Bank Zachodni WBK was changed as a result of the following changes:

* Company excluded from prudential consolidation in accordance with CRR

- Loss of control over BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie (TUnŻ) and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych (TUO).

On 18 September 2014, Bank Zachodni WBK received a notification from Aviva Ltd. 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 pursuant to the agreement of 1 August 2013 between Bank Zachodni WBK, Aviva International Insurance Ltd. (Aviva Ltd.), BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO. After fulfilling the conditions precedent, i.e. obtaining a decision of KNF confirming the absence of grounds for objecting to the direct acquisition by Aviva Ltd of the above-mentioned shares, on 27 February 2015 the bank concluded an agreement on the sale of the shares and effected a transfer of the ownership title to these shares to Aviva Ltd. After the transfer, the bank holds a 49% stake in the share capital and the voting power of each of the insurance companies, with the remaining 51% of the shares and votes being held by Aviva Ltd.

- Formation of S.C. Poland Consumer 15-1 Sp. z o.o.

S.C. Poland Consumer 15-1 Sp. z o.o. is a subsidiary of SCB S.A. registered on 7 July 2015. It was establihed for the purpose of securitisation of instalment loans of SCB. Its shareholder is a foreign legal person that has no connections with SCB Group. However, since 23 September 2015 the entity has been controlled by SCB due to fulfilment of the control conditions laid down in IFRS 10.7.

- Disposal of a shareholding in BZ WBK Lizar Sp. z o.o.

On 29 October 2015, BZ WBK Lease entered into an agreement regarding the sale of the total stake in Lizar, as a result of which the latter company ceased to be a member of Bank Zachodni WBK Group.

Associated companies

In the consolidated financial statements of Bank Zachodni WBK for the 12 months ended 31 December 2015, the following companies are accounted for using the equity method in accordance with IAS 28:

- POLFUND – Fundusz Poręczeń Kredytowych S.A.
- BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. (BZ WBK-Aviva TUO)
- BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. (BZ WBK-Aviva TUnŻ)
- Metrohouse Franchise S.A. – associated undertaking of BZ WBK Inwestycje Sp. z o.o.
- MH - Usługi Wspólne S.A. – subsidiary of Metrohouse Franchise S.A.
- Metrofinance Sp. z o. o. – subsidiary of Metrohouse Franchise S.A.
- MH Warszawa Sp. z o.o. – subsidiary of Metrohouse Franchise S.A.
- MH Kraków Sp. z o.o. – subsidiary of Metrohouse Franchise S.A.

Compared with the end of December 2014, the list of associates changed as a result of the following ownership and organisational changes:

- Loss of control over BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ by Bank Zachodni WBK on 27 February 2015 and change of the classification of the companies from subsidiaries to associates (see the “Subsidiaries” section above for more details).

- The organisational transformations continued in 2015 in Metrohouse Franchise Group, which as at 31 December 2015 included the following subsidiaries: MH - Usługi Wspólne S.A. (formerly Metrohouse S.A. now trading under the new name), Metrofinance Sp. z o. o. (financial advisor), MH Warszawa Sp. z o.o. and MH Kraków Sp. z o.o. (intermediary in real property trading).

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2. Risk Management

Bank Zachodni WBK Group monitors and manages a number of risks, the key ones being credit risk, market risk, liquidity risk and operational risk. The purpose of risk management is to ensure that Bank Zachodni WBK Group takes risk in a conscious and controlled manner while increasing value for shareholders.

As part of the strategic risk management the Group creates policies that define the approach to the identification and measurement of risks and the optimal risk-to-reward ratio. The Group also determines and reviews its risk appetite. Bank Zachodni WBK Group regularly reviews and develops its risk management tools taking into account changes in the Group's risk profile, changes in the financial services sector, legislation and best market practices.

Management Board and Supervisory Board set the business direction and actively support the risk management strategies. This is achieved by approving the key risk management policies, participation of the Management Board Members in the risk management committees, reviewing and signing off on the key risks and risk reports.

Detailed principles, roles and responsibilities of the BZ WBK Group have been described in relevant internal policies on the management of the particular risks.

BZ WBK Group pays special attention to the consistency of risk management processes across the Group, which allows for adequate control of the risk exposure. The subsidiaries implement risk management policies and procedures reflecting the principles adopted by the BZ WBK Group.

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.

Details about managing different risk types, the structure of corporate governance and roles of selected units in risk management oversight are presented in **Note 4** of the Consolidated Financial Statements of Bank Zachodni WBK Group for 2015.

2.1. Credit risk

BZ WBK Group's credit activities focus on growing a high quality loan book with a good yield and customer satisfaction.

Credit risk is defined as the possibility of suffering a loss as a result that a borrower will fail to meet its credit obligation, including interest and fees. Credit risk arises from the impairment of credit assets and contingent liabilities, resulting from worsening of the borrower's 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 given default of the borrower.

Credit risk in BZ WBK Group 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 on the basis of the adopted credit procedures as well as on the basis of discretionary limits allocated to individual credit officers based on their knowledge and experience. The Group's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan book. Additionally the Group uses large set of credit risk mitigation tools, both collaterals (financial and non-financial) and specific credit provisions and clauses (covenants).

The Group continues to develop and implement risk based methods of grading loans, allocating capital and measuring returns. Risk valuation models are used for all credit portfolios.

One of the Group's priorities in 2015 was to amend the internal risk management regulations in accordance with the new regulatory requirements in order to further enhance security in the areas exposed to risk. In addition, the Group introduced a number of changes to optimise the processes and tools, with a particular focus on the quality of customer service (improvements in the lending process for retail and corporate customers).

The Group continues to develop and implement processes and procedures of managing and monitoring of credit portfolio risk adjusting them to the revised regulatory requirements, especially to Recommendations of KNF.
The Group is closely looking at the macroeconomic environment and analysing its credit exposure to particular customer segments and economic sectors to respond with an adequate and prompt action and adjust its credit policy parameters accordingly. The Bank also introduced changes to its pricing policy in response to falling reference rates.

Risk Management Forum

The credit risk oversight in BZ WBK Group is performed by **Credit Policy Panel** (CPP) operating within the **Risk Management Forum**. Its key responsibilities include development and approval of the best sectoral practice, industry analyses, credit policies as well as implementation of grading and assessment systems aimed at ensuring sustainable growth of the credit portfolio. To align the Group's management processes with the current strategic goals, three sub-committees were established within the CPP with a responsibility for the key customer segments: retail segment, SME segment and the business/corporate segment.

The oversight over the credit risk models is the responsibility of the **Models and Methodology Panel**.

Risk Management Division
The Risk Management Division is responsible for a consolidated credit risk management process, including management and supervision of credit delivery, defining credit policies, providing decision-making tools and credit risk measurement tools, quality assurance of the credit portfolio and provision of reliable management information on the credit portfolio.

Credit Policies

Credit policies refer to particular business segments, loan portfolios and banking products. They contain guidelines for the identification of the areas where specific types of risks manifest themselves, specifying the methods of their measurement and mitigation to the level acceptable to the bank (e.g. "Loan-to-Value" ratios, FX risk in the case of foreign currency loans).

The Group reviews and updates its credit policies on a regular basis, aiming to bring them in line with the Group's strategy, current macroeconomic situation, legal developments and changes in regulatory requirements.

Credit Decision Making Process

The credit decision-making process as a part of the risk management policy is based upon Individual Credit Discretions vested in credit officers, commensurate with their knowledge and experience within the business segments. Credit exposures in excess of PLN 25m are referred to the Credit Committee composed of senior management and top executives.

The BZ WBK Group continually strives to ensure best quality credit service while satisfying the borrowers' expectations and ensuring security of the credit portfolio. To this end, the credit risk approval function has been segregated from the sales function.

Credit Grading

Intensive work has been undertaken to further develop credit risk assessment tools to conform to the recommendations of the Polish Financial Supervision Authority, the International Accounting Standards/International Financial Reporting Standards and the best practice in the market.

The BZ WBK Group uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, home loans, property loan, cash loans, credit cards and personal overdrafts.

The Group regularly monitors its credit grading using the rules specified in its Lending Manuals. Additionally, for selected models, automated process of credit grade verification is carried out based on the number of overdue days or an analysis of the customer's behavioural data. 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, confirm that adequate credit grading and provisioning processes are in place, verify compliance with the procedures and credit decisions and to objectively assess professionalism in credit management. The reviews are performed by the two specialised units: Credit Review Department and the Control & Quality Assessment Department, which are independent of the risk-taking units.

Collateral

In the Group's security model, the **Securities and Credit Documentation Centre** is the central unit responsible for creation and maintenance of securities.

The role of the 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 perfecting and maintaining validity of collateral** as well as ensuring that establishment, monitoring and release of security covers is duly effected.
Furthermore, the Securities and Credit Documentation Centre provides assistance to credit units in credit decision making and development of credit policies with respect to collateral. The unit gathers data on collateral and ensures appropriate management information.

The tables below show types of collateral that can be used to secure loans and advances to customers from non-banking sector.

Retail customers

Type of loan	Type of collateral
Cash loan	bills, guarantees, credit insurance
Credit on liquid assets	guaranty deposit, amounts frozen on account, investment funds
Student loan	sureties
Housing loan	mortgage, credit insurance, transfer of claim
Leasing	bills, guarantees, transfer of rights to bank’s account; court registered pledge on movables; transfer of ownership, open mortgage, obligation of the leased asset supplier to buy the asset back (buy-back guarantee)

Business customers

Type of loan	Type of collateral
Commercial credit	guaranty deposit, registered pledge, bills
Revolving credit	assignment of credit, bills, guarantees, registered pledge
Building credit	mortgage
Investment credit	mortgage, sureties, warranty
Granted and with supplements	guarantees, warranty
Leasing	bills, guarantees, transfer of rights to bank’s account; court registered pledge on movables; transfer of ownership, open mortgage, obligation of the leased asset supplier to buy the asset back (buy-back guarantee)

Collateral management process

Before a credit decision is approved, the Securities and Credit Documentation Centre assesses the collateral quality, a process that includes:

- verification of the security valuation – assessment of the security value,
- assessment of the legal status of the security,
- assessment of the investment process for the properties,
- seeking legal advises on the proposed securities.

The Securities Centre actively participates in credit processes, executing tasks including:

- providing draft credit documentation,
- verification and assessment that the signed documentation is accurate and compliant,
- verification of the data in information systems,
- collateral monitoring and reporting,
- releasing of the security.

In managing its receivables, BZ WBK Group carries out the process of collateral execution. Selection of proper action towards execution of specific collateral depends on the type of the collateral (personal or tangible). In principle the Group aims at voluntary proceedings in the course of collateral execution. When there is no evidence of cooperation with a collateral provider, the Group's rights are fulfilled in compliance with the law and internal regulations in the bankruptcy and enforcement proceedings.

Credit risk stress testing

Stress testing is a part of the credit risk management process used to evaluate potential effects of specific events or movement of a set of financial and macroeconomic variables or change in risk profile on BZ WBK Group's condition. Stress tests are composed of assessment of potential changes in credit portfolio quality when faced with adverse conditions. The process also delivers management information about adequacy of agreed limit and internal capital allocation.

Calculation of impairment

In BZ WBK Group, charges updating impairment are recognised in accordance with the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS). The charges reflect credit impairment, which is recognised if the Group presents objective evidence that such amounts cannot be recovered in line with the signed loan agreement. Objective evidences of impairment were defined in accordance with recommendation of Basel Committee, with the International Accounting Standards (IAS 39) and Recommendation R.

The impairment is calculated on the basis of the estimated recoverable amount. Impairments are analysed using both the individual (for individually significant exposures with objectively evidenced impairment) and collective approach (individually insignificant exposures with objectively evidenced impairment, and exposures of incurred but not reported losses).

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

Details about impairment charges are presented in **Note 4** of the Consolidated Financial Statements of Bank Zachodni WBK Group for 2015.

Forbearance Policy

Pursuant to the definition set out in the draft Implementing Technical Standards of the European Banking Authority, a forbearance measure (i.e. customer debt restructuring) consists of a concession towards a debtor facing financial difficulties or will face financial difficulties, which threaten the repayment of debt towards BZ WBK Group on the existing contractual terms. The concession may involve a modification of the previous terms and conditions of a debt contract or its total or partial refinancing. The purpose of debt restructuring is to better align repayment terms with the current and projected financial standing of the customer, minimise default risk and/or maximise recovery.

Restructuring does not refer to a technical or operational modification of contractual terms, or changes attributable to other factors than payment difficulties (business or market conditions).

The decision on granting a concession towards a customer with insufficient debt service ability is based on an analysis of its financial standing, assessment of repayment capacity under the new terms, analysis of existing collateral, assessment of the willingness to repay and the relationship history. The concessions depend on the results of the assessment and may involve in particular: moratorium on payments, modification of repayment schedule (reduced payments), interest capitalisation, extension of maturity etc. Such solutions may be applied to both personal and business customers.

In order to ensure a better quality of credit portfolio through early restructuring and facilitation of debt repayment by corporate customers:

- as part of the concessions granted, in 2014 the Recovery Committee was established to take decisions concerning the relationship management strategy for borrowers in distress whose exposure does not exceed PLN 25m. Decisions concerning corporate credit exposures above PLN 25m are left at the discretion of the Credit Committee,
- the Bank implemented the Early Restructuring Model which helps to identify high risk corporate customers and take relevant actions to mitigate the risk of loss of exposure through effective debt restructuring at an early stage. The responsibility for the management of credit exposures under restructuring rests with the Early Debt Restructuring Team.

The portfolio subject to restructuring is monitored on a regular basis. Each concession (debt restructuring) is adequately reflected in the systems to allow for identification of debt portfolio under restructuring. Debt/customer is classified as under restructuring throughout the restructuring period, i.e. until the bank establishes that the customer circumstances are sustainable, restructuring conditions have been met, there are no overdue payments above 30 days and the customer has a satisfactory repayment capacity. In accordance with a

prudent approach, customers are reported as "subject to restructuring" for the minimum period of two years. Restructuring is often a long process, therefore the bank assumes that with the available solutions the credit portfolio in restructuring will steadily grow going forward. Debt under restructuring is a separate (independent) category to the performing/non-performing status.
Accounting principles applicable to financial assets subject to forbearance are the same as in the case of other performing or non-performing assets in the Bank, that is loans and receivables are measured at amortised cost using the effective interest method.
If the terms of a loan, receivable or held-to-maturity investment are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, the exposure is measured using the original effective interest rate before the modification of terms (in accordance with IAS 39 AG 84).

Leasing and factoring

Bank Zachodni WBK Group has **leasing operations** that specialise in leasing machines, computer hardware and office equipment for business customers. The Group's leasing companies also finance vehicles for both business and retail customers. The Group's **factoring operations** are conducted by BZ WBK Faktor Sp. z o.o. Factoring is a short-term finance for the companies that provide trade credit (i.e. supply goods or services on extended payment terms) to their counterparties.

2.2. Market risk

Market risk is defined as an adverse earnings impact of changes in interest rates, FX rates, share quotations, stock exchange indices, etc. It arises in trading activity as well as in the ordinary course of transacting business (exchange rate products, interest rate products, equity linked trackers).

BZ WBK Group is exposed to market risk arising from its activity on money and capital markets and services provided to customers. Additionally the Group undertakes the market risk related to the active management of balance sheet structure (assets and liabilities management).

The activity and strategies on market risk management are directly supervised by the **Risk Management Forum**.

The key objective of the **market risk policy** pursued by the Group is to reduce the impact of interest and FX rate changes on the Group's profitability and market value as well as to grow income within the strictly defined risk limits while ensuring the Group's liquidity.
BZ WBK Group's market risk policies establish a number of measurement and risk limitation parameters in the form of limits, mandatory and monitoring ratios. Risk limits are periodically reviewed to align them with the Group's strategy and the current objectives of the Group.

Interest rate and FX risks linked to the banking business is managed centrally by the **Financial Management Division**. The Division is also responsible for acquiring funding, managing liquidity and making transactions on behalf of ALCO. This activity is controlled by the measures and limits approved from time to time by the Risk Management Forum, the bank's Management Board and the Supervisory Board.

The debt securities and the interest rate derivatives portfolio is managed by ALCO, which takes all decisions on the portfolio's value and structure.

The market risk on the trading portfolio is managed by the **Global Corporate Banking Division**, which is also responsible for the activities of the Brokerage Services Office. The Group's trading activity is subject to a system of measures and limits, including Value at Risk, stop loss, position limits and sensitivity limits. This limits are approved by the Risk Management Forum, the bank's Management Board and the Supervisory Board.

The Financial Risk Department within the **Risk Management Division** is responsible for ongoing assessment of the current risk, implementation of control procedures and risk monitoring and reporting. The Department is also responsible for shaping the market risk policy, proposing risk assessment methodologies and ensuring consistency of the risk management process across the Group. Owing to the fact that the Department is a part of the Risk Management Division, the risk assessment and monitoring processes are separate from the risk-taking units.

The market risk of equity instruments held by Brokerage Office (shares, index-linked securities) is managed by the brokerage house itself and supervised by BZ WBK Risk Management Forum.

Assessment methods

BZ WBK Group uses several methods to assess its market risk exposure. The methods employed for the banking portfolio are the MVE and NII sensitivity measures, while the methods used for the trading portfolio include: Value at Risk (VaR), stop loss, sensitivity measures (PV01) and stress tests. The risk assessment methodology is subject to an independent initial and periodic validation, the results of which are presented for approval to the Models and Methodology Panel (part of the Risk Management Forum).

VaR is determined by means of a statistical modelling process as a difference between the mark-to-market value of positions and the market values based on the most severe movements in market rates from a determined observation window. VaR is calculated separately for interest rate risk, FX risk and the repricing risk of the equity instruments portfolio of Brokerage Office.

Due to the limitations of the VaR methodology, the Group augments it by stress tests and by sensitivity measurement that shows how position value changes in reaction to price/profitability movements.

Interest rate position risk

Interest rate risk in the banking book

The interest rate risk in the banking book is the risk of adverse impact of interest rate changes on the Group's income and the value of its assets and liabilities. The main source of interest rate risk are transactions entered in the bank's branches and in the business and corporate centres, as well as the transactions made in the money market by the Financial Management Division. Additionally, interest rate risk can be generated by transactions concluded by other units, e.g. through acquisition of municipal/commercial bonds, or the bank's borrowings from the interbank market. However, all positions that generate a repricing risk are transferred for management to the Financial Management Division, where the bank's dealers enter into transactions in the interbank markets so as to manage the overall interest rate risk profile according to the approved risk strategy and in compliance with the allocated risk limits.

The bank's subsidiaries also mitigate their exposure to the interest rate risk. If there is a mismatch between the repricing of assets and liabilities, the company enters into appropriate transactions via the standard bank accounts held with the bank or makes derivative transactions with the bank, which from the transaction date manages the risk as part of the global limit of BZ WBK Group.

The interest rate risk in the banking book is managed based on the following limits:
- 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).

In 2015, the global NII and MVE limits for the banking book were not exceeded.

Interest rate risk in the trading book

The trading book contains securities and derivatives held by the Global Corporate Banking Division for trading purposes. The instruments are marked to market each day, and any changes in their value are reflected in the profit and loss.

The key methods of measurement of the interest rate risk in the banking books include the VaR methodology, stop loss, PV01 sensitivity measurement and stress tests.

The VaR is calculated for the open positions of the Global Corporate Banking by establishing the difference between the market valuation of the interest rate transactions based on the current yield curves, and the valuation based on the "worst case" yield curve, which is calculated based on the fluctuations in the interest rates.

The "stop-loss" mechanism is used for managing the risk of losses on the items covered by the rules of fair valuation through profit and loss.

Stress tests are used in addition to these measures by providing an estimate of the potential losses in the event of materialisation of the stressed conditions in the market. The assumptions of stress scenarios are based on sensitivity reports and on extreme market rate movement scenarios set using the highest daily and monthly changes in interest rates.

The total regulatory capital requirement for the risk of debt instruments is calculated for the positions generated by transactions in the trading portfolio, using maturity ladders approach.

FX risk

FX risk is the risk that adverse movements in foreign exchange rates will have an impact on results (and result in losses). This risk is managed by the VaR limit for the open currency positions in the Group's trading portfolio and by Brokerage Office which has been granted an FX VaR limit, used for managing the open positions linked to the market maker activity. Stress tests are used in addition to this measure by providing an estimate of the potential losses in the event of materialisation of the stressed conditions in the market. Stress tests use the currency exposure and the scenarios of extreme movements in currency rates based on historical data. Furthermore, the stop loss mechanism is used for managing the risk of losses on the trading positions.

In accordance with its policy, the Group does not maintain open positions on currency options. Transactions made with clients are immediately closed in the wholesale market thus limiting the bank's exposure to the market risk on the currency options portfolio.

Open positions of subsidiaries are negligible and are not included in the daily risk assessment.

In 2015, the VAR limit has been exceeded. Positions for individual currencies were within established nominal limits, however, have exceeded the VaR limit. The next day, open position have been limited and VAR was in the prescribed limit. It was reported to the appropriate committees appointed by the Management Board and the Supervisory Board.

FX risk exposure is limited by different metrics to reduce potential loss caused by adverse market movement. VAR is ex-post control supplemented by stress scenarios and backtesting of model. BZWBK used two methods of VAR calculation to strengthen control especially during significant market movements. The notional positions monitoring on-line by dealers were kept in line with limits, however composition of position, last market movements and correlations caused limit excess. The escalation process was conducted by relevant Risk functions under Market Risk Panel oversight. Accordingly to procedures and policies exposure was immediately reduced by Front Office.

FX Balance Sheet

In 2015, the share of assets in foreign currencies in the bank's balance sheet remained at the level observed in 2014, alike the mismatch of assets and liabilities in particular currencies. Observed structural fx gap was funded mainly from FX swaps, FX interest rate swaps.

Equity investment risk

The unit responsible for equity price risk management is Brokerage Office which now operates within the Financial Markets Area. The source of this risk are transactions conducted on Brokerage Office own account via stock exchanges and MS CTO (shares, futures).

This risk is measured using a Value at Risk model based on the historical method.

The market risk management in Brokerage Office is supervised by BZ WBK Risk Management Forum. The Forum sets the VaR limit for the Brokerage Office, approves changes in the risk measurement methodology and oversees the risk management process.

2.3. Liquidity risk

Liquidity risk is the risk that the bank fails to meet its contingent and non-contingent obligations towards customers and counterparties as a result of a mismatch of financial cash flows.

The BZ WBK Group Liquidity Management Policy is designed to:

- ensure the ability to finance assets and satisfy claims, both current and future, in a timely manner and at an economic price
- manage the maturity mismatch between assets and liabilities
- set a scale of the liquidity risk in the form of various internal limits
- ensure proper organization of the liquidity management process within the Group
- prepare the organization for emergence of adverse factors, either external or internal

- ensure compliance with regulatory requirements, both qualitative and quantitative.

The general principle adopted by the Group in its liquidity management process is that all expected outflows occurring within 1 month in respect of deposits, current funds, loan drawdowns, guarantee payments and transaction settlements should be at least fully covered by the anticipated inflows or Qualified Liquid Assets (QLA) assuming normal or predictable conditions for the bank's operations. The QLA category includes: cash on hand, cash deposited with NBP (National Bank of Poland), securities which may be sold or pledged under repo transactions or NBP lombard loans.

In addition, the policy's aim is to ensure an adequate structure of funding the growing scale of the Group's business by maintaining liquidity ratios at pre-defined levels. The Group uses a number of other limits and observation ratios (including the loans to deposits ratio, the ratio of dependence on funding in the wholesale market, and the ratios required by Basel 3: LCR and NSFR). As at 31.12.2015 LCR was 172,01%, NSFT was 85,23%. In terms of the long-term liquidity, in addition to the internal measures, the Group uses a limit corresponding to the regulatory limit, which requires that the equity and the stable sources of funding should fully cover the credit portfolio and non-liquid assets (e.g. fixed assets).

Management Process
The responsibility for supervision over the liquidity risk management process rests on the Assets and Liabilities Committee (ALCO), which also provides advice to the Management Board. ALCO prepares management strategies and recommends to the Management Board appropriate actions with regard to strategic liquidity management.

Day-to-day management of liquidity is delegated to the Financial Management Division. The Assets and Liabilities Management Department, which is a part of the Division, is responsible for developing and updating the relevant liquidity management strategies.

The Group has a scenario-based contingency plan approved by the Management Board to cater for unexpected liquidity problems, whether caused by external or internal factors. The plan also contains stress test with system and idiosyncratic scenarios. ALCO supervises liquidity risk management process in subsidiaries.

Risk Measurement and Reporting

The responsibility for assessment and reporting of the liquidity risk rests on the Risk Management Division, specifically the Financial Risk Department. The role of the Department is to draft liquidity management policies, carry out stress tests and to measure and report on risk.

In 2015 and in the comparable period, all key supervisory measures applicable to the Group were maintained at the required levels.

2.4. Operational risk

Bank Zachodni WBK Group adopted the operational risk definition of the Basel Committee on Banking Supervision, which says that **operational risk** is the risk of a loss resulting from inadequate or failed internal processes, people and systems or from external events[†].

The objective of the **operational risk management** is to minimise the likelihood and/or reduce the impact of unexpected adverse events.

Bank Zachodni WBK Group has implemented an integrated risk management framework to ensure that all risks which have a significant impact on Bank Zachodni WBK business are identified, measured, monitored and controlled. Operational risk management in Bank Zachodni WBK Group involves employees at all levels of the organisation and consists of a number of interrelated concepts. Operational risk is inherent in all the Group's business processes, including the outsourced functions or services delivered jointly with third parties.

Bank Zachodni WBK Group has defined the **Operational Risk Management Strategy** as well as relevant policies regulating issues concerning operational risk. 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 Bank Zachodni 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. Within

[†] This definition includes legal risk but excludes strategic and reputation Risk.

ORMCo, there are two Forums appointed, dedicated to specific aspects of Operational Risk – Fraud Prevention Forum and Insurance Forum.

The effects of ORMCo works are reported to the Risk Management Committee.

Bank Zachodni WBK Group uses 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 efficiency of the existing controls. In addition, action plans are devised to improve the efficiency of the existing and/or new controls.

Additionally, the operational risk identification and assessment process is supported by other tools, dedicated to specific aspects of risk, e.g. scenario analysis, business impact analysis (BIA), risk analysis in new innitiatives.

- Operational incidents management

Each organisational unit is required to report operational incidents identified in its area of activity. . A quick communication path to higher management is prepared for key operational incidents. The Group runs a database of operational incidents identified across the whole organization. The collected data are used to analyse the root cause and consequences of the incidents, capture lessons learned and take preventive and corrective measures.

The Group also participates in the external database of operational incidents run by Polish Bank Association and utilisez various sources related to external incidents. The analysis of external incidents enables benchmarking and learning lessons from incidents that occurred outside the Group.

Operational incidents in Bank Zachodni WBK Group in 2015
gross losses (PLN k)

Operational event class			
Event types	**Event category**	**PLN k**	**%**
1 Internal fraud	1.1. Unauthorised activity	429	0,61%
	1.2. Theft and fraud	830	1,18%
2 External fraud	2.1. Theft and fraud	23 468	33,42%
	2.2. Systems security	584	0,83%
3 Rules for employment and safety at work	3.1. Employee relations	616	0,88%
	3.2. Safe environment	15	0,02%
4 Customers, products and operating practices	4.1. Customer service, privacy breaches, obligations to customers	42	0,06%
	4.2. Improper trade / market practices	31 486	44,82%
	4.3. Product flaws	1 220	1,74%
5 Damage to tangible assets	5.1. Natural disasters and other incidents	2 975	4,24%
6. Business interruption and system errors	6.1. Systems	11	0,02%
7 Execution of transactions, delivery and management of operating processes	7.1. Transaction capture, execution and maintenance of transactions	4 704	6,70%
	7.3. Customer acquisition and preparation of documentation	3 246	4,62%
	7.4. Customer account management	39	0,06%
	7.5. Counterparties other that the Bank's clients (e.g. clearing chambers)	495	0,70%
	7.6. Vendors and suppliers	69	0,10%

In 2015 The operational loss level identified within category "Customer, product and business practices – Improper trades/market practices" (4.2.) was affected by:

- fine imposed by Consumer Protection & Competition Office (UOKiK) for the the use of unfair competition practices referring, amongst others, to BZWBK S.A. participation in the joint setting of the interchange fee by Polish sector banks. Decision regarding the fine was taken in 2006, but the appeal proceedings was lasting until 2015. At first, the Court of Competition and Consumer Protection decreased the imposed fine, but finally the Court of Appeal dismissed the ruling and validated the original UOKIK decision from 2006. As a result, Bank Zachodni WBK paid the fine in the amount of 26,4 m PLN. It should be emphasized that the value of fine was the effect of summing up the fines imposed on two banks, i.e. ex Kredyt Bank and Bank Zachodni WBK, which were separate banks at that time.

- Setting up the provision of 7,4 m PLN concerning investigation proceedings of Consumer Protection & Competition Office (UOKiK) opened in January 2015, in respect of establishing whether the business practices of Santander Consumer Bank breached the collective consumer interest regarding vindication fees, information duties and abusive clauses. The proceedings is related to practices which have been discontinued or modified in the previous period and did not result in imposing a fee in 2015.

In "External fraud – theft and fraud" (2.1), most losses are connected with the credit process.. It should be noted, though, that Bank Zachodni WBK Group adopted a very restrictive definition of external fraud. For example, in this category the Group includes situations where the customer used false employment or salary certificate/statement, or cases of business activity being conducted without due registration. To reduce fraud, Bank Zachodni WBK is constantly improving its vetting, control and monitoring of credit processes using advanced models and specialist IT systems. The observed absolute decrease of losses in this category in comparison with the previous year is the confirmation of effectiveness of the defined and implemented actions/ solutions.
The increased value of losses under "Execution of transaction, delivery and operartin process management – Customer acquisition and document prepration" (7.3) results froma provision set for potential losses connected to subsidies loans granted since 1990s, including the ones granted by banks acquired by Bank Zachodni WBK. . It should be emphasized that subsidy credit management process has been subject to complex review and the weaknesses in loan documentation management were eliminated in the previous years.

- Monitoring

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

Moreover, the Group defined a set of key measures and limits supporting the observation of the Group operational risk appetite.

- 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 financial risks, motor, property and professional indemnity insurance.

- Reporting

The aim of operational risk reporting is to provide up-to-date and adequate information to the management. Operational risk reports cover, inter alia: operational risk incidents and losses, risk indicators and risk mitigants.

The reporting proces also covers preparation of information for external supervisory and control bodies.

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

2.5. Legal and compliance risk

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

As an 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,
BZ WBK is exposed to the legal and compliance risk mainly in the following areas:

- generally applicable laws regarding the employment law, health and safety at work, taxes, accounting, personal data protection etc. which are binding for all enterprises operating in Poland;
- domestic and international (mainly: EU) trade regulations in the area of reporting, prudential standards, functioning on capital and investment market, prevention of money laundering and terrorist financing etc.;

- domestic an 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 in connection with membership in domestic or international trade associations.

In Bank Zachodni WBK Group, individual processes for the legal and compliance risk are managed by relevant units.

Responsibilities of the Legal and Compliance Division relate to the “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, conflict of interests management.

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:

- compliance with employment law – the Business Partnership Division
- compliance with taxation law and reporting requirements – Financial Accounting and Control Division
- compliance with prudential regulations – Risk Management Division
- compliance with health and safety regulations – the Business Partnership Division.

The bank’s Management Board adopted a policy statement on compliance with 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 effective management of the compliance risk. The Compliance Area escalates all issues to the Risk Management Committee and Audit and Compliance Committee of the Supervisory Board which ensure the fulfilment of regulatory obligations and approve the 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 as well as Anti-Money Laundering Department:

- as part of monitoring of new products;
- as part of compliance monitoring
- as part of the monitoring of proprietary transactions effected by employees
- based on the information on regulators’ activity
- as part of the review of upcoming legislative initiatives
- as part of the review of anti-money laundering initiatives
- as part of the review of ethical issues
- as part of the review of customers’ complaints.

The major responsibilities of the Compliance Area and Anti-Money Laundering Department include: prevention of legal and compliance risk, maintenance of appropriate relations with business units and market regulators, providing support to the Bank management and BZ WBK Group companies in the strategic decision-making process regarding compliance, coordination (under the applicable laws) of the implementation of compliance management standards by compliance units operating in the Group companies.

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 together with Anti-Money Laundering Department coordinate and support the work of individual committees which are chaired by the Management Board member in charge of the Legal and Compliance Division. These committees include:

- Compliance Committee
- Product Marketing and Monitoring Committee
- Volcker Local Steering Committee
- Anti-Money Laundering and Terrorism Financing Committee
- Business Ethics Commission.

2.6. Reputation risk Management

Reputation risk is defined as the risk arising from negative perception of the bank and other companies from Bank Zachodni WBK Group by customers, counterparties, shareholders or investors.

The potential sources of the risk are internal and external operational incidents, such as adverse publicity, dissemination of negative feedback from customers e.g. on the Internet, in social media and other mass media. They may refer directly to Bank Zachodni WBK Group and its products as well as the bank's shareholders and the entire banking and financial sectors (domestic and international ones).

The elements of the reputation 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, complexity of products, improper sales practices or loss of capital.

The owner of the reputation 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:

- BZ WBK Information Policy;
- Daily, constant 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 BZ WBK Group's image (Corporate Communication and Marketing Area);
- Keeping the representatives of nationwide and local media up to date about new products and changes to the regulations regarding the 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 the shareholders, the Polish Financial Supervision Authority (KNF) and the Warsaw Stock Exchange and 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 the regulations and the regulatory guidelines (Compliance Area);
- Participation in the process of handling customer complaints, especially those addressed to the regulators (Compliance Area)
- Supervision of the after-sales control of investment products (Compliance Area);
- Mystery shopping surveys for investment products (Compliance Area);
- Regular monitoring of the reputation 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).

The Legal and Compliance Committee that monitors the business and provided services in terms of reputation, legal and compliance risks is responsible for managing and monitoring the reputation risk in the subsidiary, Santander Consumer Bank.

Reputation risk is not and will not be quantified as this is a risk type that is hard to measure otherwise than in qualitative terms.

Bank Zachodni WBK
Grupa Santander

3. Own funds

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 and legislative package of the Capital Requirements Regulation and the Capital Requirements Directive IV ("CRDIV/CRR"):

According to CRR, own funds of the Group are a sum of:

- Tier I capital
- Tier II capital

Tier I capital consists of:

- Common Equity Tier I capital, which is a sum of items of Common Equity Tier I capital items after adjustments, deductions and inclusions
- Additional Tier capital

Tier II capital includes items of Tier II capital after deductions.

Common Equity Tier I consists of:

1) Share capital, fully paid and registered at its nominal value
2) Emission premium
3) Supplementary capital
4) Profit or loss eligible– pursuant to Art. 26 of CRR, the non-audited profit for the current period or the annual profit may be included in Common Equity Tier I capital, as long as the Bank is granted approval from a relevant authority (KNF in this case). Relevant authority shall issue the approval on conditions that:
    1. Profits have been verified by institution-independent persons responsible for analysing financial statements of the institution
    2. The institution has satisfactorily proved that the profit amount has been reduced by all forseeable encumbrances and dividends
5) Accumulated other comprehensive income
6) Other reserves
7) Funds for general banking risk
8) Minority interest recognised in Common Equity Tier I capital – calculated in line with the standards indicated in Art. 84 of CRR
9) Adjustment and deductions from Common Equity Tier I items:
    a) Additional value adjustments due to the requirements of prudent valuation – acc. to Article 34 and 105 of CRR
    b) Goodwill arising on acquisition
    c) Other intangible assets
    d) Surplus of deferred tax assets or liabilities exceeding 10% of Tier I - according to EBA's interpretation re. inclusion of assets and reserves under deferred tax, in line with the answer Q&A 2014_980 , the Bank nets deferred tax assets and deferred tax liabilities in order to determine the treshold value necessary to calculate the deductible amount
    e) Surplus of material exposure in financial sector institutions exceeding 10% of Tier I
    f) Portion of deferred income tax assets depending on future profitability and arising from temporary differences, as well as direct and indirect holdings in Common Equity Tier I instruments, where the institution has invested a considerable amount of funds, which shall be deducted
    g) Unrealised gains and losses related to assets or liabilities measured at fair value and recognised in balance sheet – disclosure in interim period in accordance with Article 467 (1) and 468 (1) of CRR
    h) Defined benefit pension fund assets

Tier II capital includes eligible subordinated loans of the bank and instruments issued by subsidiaries that are given recognition in Tier II Capital.

Reconciliation between balance sheet items used to calculate own funds and regulatory own funds, according to methodology described in Annex I to Commission Implementing Regulation (EU) No 1423/2013 and according to article 437 (1)(a) of CRR, is presented in the table below.

Differences in own funds items of Bank Zachodni WBK Group due to different scope of accounting and prudential consolidation (Disclosure according to Article 2 of Commission Implementing Regulation (EU) No 1423/2013) – in PLN k

ITEMS OF CONSOLIDATED STATEMENT OF FINANCIAL POSITION USED FOR CALCULATION OF OWN FUNDS	as at 31.12.2015	Adjustments for companies that are not covered by prudential consolidation	filters	Part of year-end profit, not eligible	Deferred tax provision	BALANCE SHEET ITEMS IMPACTING REGULATORY OWN FUNDS	item no. in the table 2
Assets							
Investments in subsidiaries, associates and joint ventures, and investment financial assets :	25 453 220	-	-	-	-	-	-
-including significant investments into financial sector entities – amount not exceeding the threshold set in Article 48(1)(b)	844 250	-	-	-	-	844 250	73
Intangible fixed assets	465 687	-33	-	-	-	465 654	8
Goodwill	1 688 516	-	-	-	-32 398	1 656 118	8
Deferred tax assets (net)	1 251 808	-	-	-	-	-	-
-including assets that do not exceed the threshold set in Article 48(1)(a)	*1 251 808*	*135 997*	-	-	*32 398*	*1 420 203*	*75*
Liabilities							
Subordinated obligations	526 634	-	-	-	-	-	-
- including loans eligible as instruments under Tier II	387 713	-	-	-	-	387 713	46
Equity attributable to shareholders of BZ WBK S.A. including:							
Share capital	992 345	-	-	-	-	992 345	1
Other capital items:	14 685 919	-	-	-	-	-	-
- share premium	7 035 424	-	-	-	-	7 035 424	1
- general banking risk fund	649 810	-	-	-	-	649 810	3a
- reserve capital	6 364 956	-357 631	-	-	-	6 007 325	3
- supplementary capital	635 729	9 562	-	-	-	645 291	3
Revaluation reserve:	776 914	-	-	-	-	776 914	3
- including unrealised gains on debt instruments	319 024	-	-191 414	-	-	127 610	26a
- including unrealised gains on equity instruments	975 873	-	-585 524	-	-	390 349	26a
Current year profit	2 327 273	347 743	-	- 2 146 527	-	528 489	5a

Table 1

As at 31 December 2015, the total own funds of the Bank Zachodni WBK Group amounted to PLN **15 980 363k**.

The amounts and nature of their specific items are presented in Table 2. The disclosure uses the template presented in Annex 6 to article 5 of Commission Implementing Regulation (EU) No 1423/2013, which states the disclosure requirement of own funds items during the transitional period. The table is limited to lines relevant for Bank Zachodni WBK Group.

References in the last column of Table 1 allow the mapping between individual elements of own funds with balance sheet items used for their calculation.

The nature and amounts of specific items on own funds of Bank Zachodni WBK Group during the interim period - as at 31.12.2015(Disclosure according to Article 5 of Commission Implementing Regulation (EU) No 1423/2013) – in PLN k

		(A) AMOUNT AT DISCLOSURE DATE	(B) REGULATION (EU) No 575/2013 ARTICLE REFERENCE	(C) AMOUNTS SUBJECT TO PRE-REGULATION (EU) No 575/2013 TREATMENT OR PRESCRIBED RESIDUAL AMOUNT OF REGULATION (EU) 575/2013
Common Equity Tier 1 capital: instruments and reserves				
1	Capital instruments and the related share premium accounts	8 027 769	26 (1), 27, 28, 29, EBA list 26 (3)	-
	of which: shares	8 027 769	EBA list 26 (3)	-
2	Retained earnings	952 652	26 (1) (c)	-
3	Accumulated other comprehensive income (and any other reserves)	7 429 530	26 (1)	-
3a	Funds for general banking risk	649 810	26 (1) (f)	-
5	Minority interests (amount allowed in consolidated CET1)	744 421	84, 479, 480	-
5a	Independently reviewed interim profits net of any foreseeable charge or dividend	528 489	26 (2)	-
6	**Common Equity Tier 1 (CET1) capital before regulatory**	**18 332 671**		-
Common Equity Tier 1 (CET1) capital: regulatory adjustments				
7	Additional value adjustments (negative amount)	-23 497	34, 105	-
8	Intangible assets (net of related tax liability) (negative amount)	-2 121 772	36 (1) (b), 37, 472 (4)	-
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to Articles 467 and 468	-776 938		-
	of which: filter for unrealised gains on debt instruments	*-191 414*	*468*	-
	of which: filter for unrealised gains on equity instruments	*-585 524*	*468*	-
28	**Total regulatory adjustments to Common Equity Tier 1 (CET1)**	**-2 922 207**		-
29	**Common Equity Tier 1 (CET1) capital**	**15 410 464**		-
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)**	**15 410 464**		-
Tier 2 (T2) capital: instruments and provisions				
46	Capital instruments and the related share premium accounts	387 713	62, 63	-
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interest and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third party	182 186	87, 88, 480	-
51	**Tier 2 (T2) capital before regulatory adjustment**	**569 899**		-
Tier 2 (T2) capital: regulatory adjustments				
57	**Total regulatory adjustments to Tier 2 (T2) capital**	**-**		-
58	**Tier 2 (T2) capital**	**569 899**		-
59	**Total capital (TC = T1 + T2)**	**15 980 363**		-
59a	Risk weighted assets in respect of amounts subject to pre-CRR treatment and transitional treatments subject to phase out as prescribed in Regulation (EU) No 575/2013 (i.e. CRR residual amount)	5 661 134		-
60	**Total risk-weighted assets**	**109 315 596**		-
Capital ratios and buffers				-
61	Common Equity Tier 1 (as a percentage of total risk exposure amount	14,1%	92 (2) (a), 465	-
62	Tier 1 (as a percentage of total risk exposure amount	14,1%	92 (2) (b), 465	-
63	Total capital (as a percentage of total risk exposure amount	14,6%	92 (2) (c)	-
Amounts below the thresholds for deduction (before risk-weighting)				-
73	Direct and indirect holdings of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions	844 250	36 (1) (i), 45, 48, 470, 472 (11)	-
75	Deferred tax assets arising from temporary difference (amount below 10 % threshold , net of related tax liability where the conditions in Article 38 (3) are met)	1 420 203	36 (1) (c), 38, 48, 470, 472 (5)	-

Table 2

3.1. Tier I

Common Equity Tier I

Share capital is stated in the nominal amount as shown in the Statutes and in the entry to the Court Register. The nominal value of a share is PLN 10. All the issued shares are fully paid-up. As at 31 December 2015, the share capital was PLN **992 345k**. Details of the instruments are presented in Table 3.

Supplementary capital is created from profit allocations and from share premium. By the Bank's Statutes, the supplementary capital is created from net profit allocations. Its purpose is to cover any balance sheet losses. The value of the allocations is determined by the General Meeting of Shareholders. As at 31 December 2015, the supplementary capital in own funds was PLN **7 680 715k**. incl. share premium of PLN **7 035 424k.**

Other reserves are created from net profit allocations in an amount approved by the General Meeting of Shareholders. Other reserve are used to cover balance sheet losses if they are greater than the supplementary capital. The decision to resort to the reserve capital is taken by the General Meeting of Shareholders. As at 31 December 2015, after including prudential consolidation adjustments, the other reserves in own funds was PLN **6 007 325k.**

Funds for general banking risk for unidentified banking business risk are created from net profit allocations in an amount approved by the General Meeting of Shareholders. The funds for general banking risk are used to cover costs and losses connected with unidentified banking risks that were not separately provided for. As at 31 December 2015, the general risk fund earmarked for unidentified risks of the banking business was PLN **649 810k.**

Net profit of Bank Zachodni WBK Group for year 2015 totaled PLN 2 534 551k, including PLN 207 278k of profit attributable to shareholders who do not exercise control. As at 31.12.2015, according to article 26 CRR and based on the consent received from Polish Financial Supervision Authority, Bank Zachodni WBK included the amount of PLN **528 489k** of current year profit on own funds elements.

Pursuant to the decision of the Polish Financial Supervision Authority (KNF), the profit generated between 1 January 2014 and 31 December 2014 was retained in 2015 by virtue of the resolution of the General Meeting of Shareholders.

Minority interests

As at 31 December 2015, the minority interests recognised in the consolidated Tier 1 capital totalled PLN **744 421k** and were attributed to the sub-consolidation of SCB Group.

Minority interest are no longer included in own funds based on the balance sheet value, but are calculated according to article 84 of CRR.

Adjustment and deductions from Common Equity Tier I

Bank Zachodni WBK Group has calculated the additional value adjustments due to the requirements for prudent valuation according to articles 34 and 105 of CRR. It amounted to PLN **(20 898)k.**

Adjustment due to goodwill amounted to PLN **(1 688 516)k**, and after including the associated deferred tax liabilities, the net adjustment was PLN **(1 656 118)k**. The goodwill arising on the merger with Kredyt Bank, represents a control premium, and arises from the possibility to generate additional benefits from the expected synergies, increase in revenues, achieved market share, combination of staff competencies and an increase in the effectiveness of processes, all of which is an excess over the fair value of the acquired assets.

As at 31 December 2015, deduction from Common Equity Tier I regarding other intangible assets amounted to PLN **(465 654)k.**

Unrealised gains related to assets or liabilities measured at fair value and recognised in balance sheet are excluded from own funds in the transitional period. In 2015, the Group deducted 60% of gains in the amount of PLN **(776 938)k**. Breakdown between debt and equity instruments is presented in Table 2.

Unrealised losses related to assets or liabilities measured at fair value and recognised in balance in sheet were fully excluded from Tier I capital in the amount of PLN **(97 643)k** according to Article 467(3).

3.2. Tier II

Subordinated liabilities

Liabilities arising from registered bonds bearing a floating interest rate (fully taken up and paid for by the EBRD), recognise in own funds under the Banking Law Act and KNF approval dd. 13 October 2010 in the amount of EUR 99m.

These items meet CRR requirements regarding eligible elements of Tier II capital and continue to be taken into account in the calculations of Bank Zachodni WBK Group's capital ratio. They will be depreciated using a straight-line method during the final 5 years of maturity according to art. 64 CRR.

Hence, as at 31 December 2015, own funds include subordinated liabilities of PLN **387 713k**.

Subordinated liabilities of the Bank Zachodni WBK Group eligible as Tier II capital as at 31 December 2015 (PLN k)

Entity	Nominal value [k]	Currency	Amount included in own funds [k]	Redemption date	Start date of amortization	Subordinated liabilities included in own funds [PLN k]
European Bank for Reconstruction and Development	100 000	EUR	99 000 EUR	05.08.2020	05.08.2015	387 713
						387 713

Instruments issued by subsidiaries that recognised in Tier II capital

As in 2014 the bank took over control over Santander Consumer Bank S.A., the entity's eligible own funds were recognised in the Group's Tier II capital in the amount of PLN **(182 186)k** in accordance with Article 88 of CRR.

More details about the subordinated liabilities are presented in **Note 32** to the Consolidated Financial Statements of the Bank Zachodni WBK Group for 2015.

Detailed description of capital instruments' main features is presented in Table 3.

Description of main features of Common Equity Tier I and Tier II instruments of Bank Zachodni WBK S.A. (Disclosure according to Article 3 Commission Implementing Regulation (EU) No 1423/2013)

	Capital instruments' main features		
1	Issuer	Bank Zachodni WBK S.A.	Bank Zachodni WBK S.A.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement	PLBZ00000044	XS0531310182
3	Governing law(s) of the instrument	polish	english/polish
	Regulatory treatment		
4	Transitional CRR rules	Common Equity Tier I	Tier II
5	Post-transitional CRR rules	Common Equity Tier I	Tier II
6	Eligible at solo/(sub-)consolidated/solo & (sub-)consolidated	solo and consolidated	solo and consolidated
7	Instrument type (types to be specified by each jurisdiction)	shares - Common Eqiuty Tier I as published in Regulation (EU) No 575/2013 article 28	Tier II as published in Regulation (EU) No 575/2013 article 63
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	PLN 992,345 m	PLN 387,71 m
9	Nominal amount of instrument	10 PLN	100 000 000 EUR
9a	Issue price	Series A: 10 PLN Series B: 10 PLN Series C: 10 PLN Series D: 102 PLN Series E: 102 PLN Series F: 40 PLN Series G: 10 PLN Series H: 10 PLN Series I: 212.60 PLN Series J: "Share Exchange Ratio" re. the merger of BZ WBK with Kredyt Bank, pursuant to Resoliution no. 2 of the Extraordinary Meeting of BZ WBK Shareholders, dd. 30.07.2012 r. Series K: 10 PLN Series L: 400.53 PLN	100% of nominal value
9b	Redemption price	N/A	100% of nominal value
10	Accounting classification	Shareholders' equity	Liability - amortised cost
11	Original date of issuance	Series A: 08.11.1991 Series B: 21.12.1996 Series C: 31.12.1996 Series D: 25.10.1999 Series E: 17.05.2000 Series F: 30.11.2000 Series G: 13.06.2001 Series H: 10.07.2009 Series I: 09.08.2012 Series J: 04.01.2013 Series K: 11.07.2014 Series L: 18.07.2014	05.08.2010
12	Perpetual or dated	N/A	Dated
13	Original maturity date	No maturity	05-08-2020
14	Issuer call subjet to prior supervisory approval	N/A	Yes
15	Optional call date, contingent call dates, and redemption amount	N/A	N/A
16	Subsequent call dates, if applicable	N/A	N/A
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Floating	Floating
18	Coupon rate and any related index	N/A	rate 3.8% per annum above three-month EURIBOR for each interest period
19	Existence of a dividend stopper	No	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing	Fully discretionary	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Mandatory
21	Existence of step up or other incentive to redeem	N/A	No
22	Noncumulative or cumulative	Noncumulative	Cumulative
23	Convertible or non-convertible	Nonconvertible	Nonconvertible
24	If convertible, conversion trigger (s)	N/A	N/A
25	If convertible, fully or partially	N/A	N/A
26	If convertible, conversion rate	N/A	N/A
27	If convertible, mandatory or optional conversion	N/A	N/A
28	If convertible, specifiy instrument type convertible into	N/A	N/A
29	If convertible, specifiy issuer of instrument it converts into	N/A	N/A
30	Write-down features	No	No
31	If write-down, write-down trigger (s)	N/A	N/A
32	If write-down, full or partial	N/A	N/A
33	If write-down, permanent or temporary	N/A	N/A
34	If temporary write-down, description of write-up mechanism	N/A	N/A
35	Position in subordination hierachy in liquidation (specify instrument type immediately senior to instrument)	N/A	the lowest priority of satisfaction and will rank only to the extent permitted by applicable laws raelating to creditors' right
36	Non-compliant transitioned features	No	No
37	If yes, specifiy non-compliant features	N/A	N/A

(1) 'N/A' inserted if the question is not applicable

Table 3

Bank Zachodni WBK
Grupa Santander

4. Capital requirements

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 31 December 2015.

In 2015, 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. The Group measures its balance sheet assets and liabilities in accordance with International Accounting Standards and International Financial Reporting Standards.

The Bank calculates and monitors capital requirements for all key risks, including:

- capital requirement for credit risk
- capital requirement for market risk, including:
  - capital requirement for positions risk, including:
    - specific and general risk of debt instruments
    - specific and general risk of equity instruments
  - capital requirement for FX risk
- capital requirement for the settlement, supplier and counterparty risk
- capital requirement for credit valuation adjustments
- capital requirement for the excess of large exposures limit
- capital requirement for the excess of capital concentration limit
- capital requirement for operational risk.

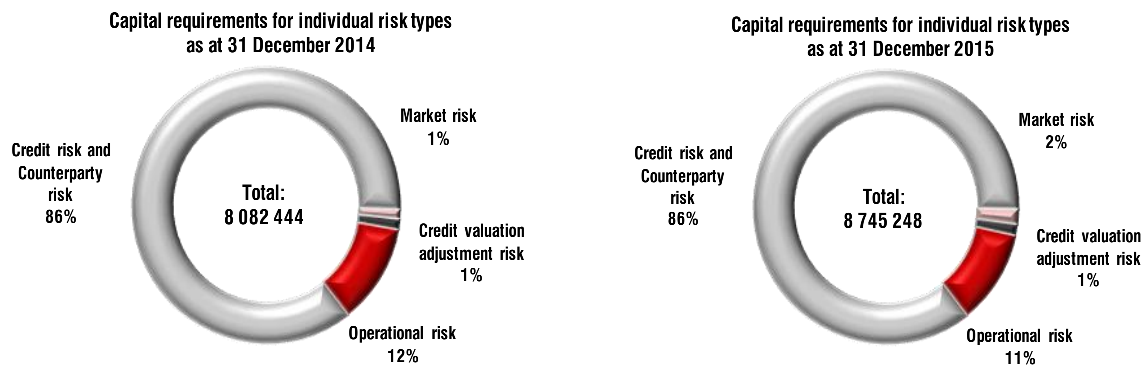
Bank Zachodni WBK Group calculates capital requirement separately for the exposures classified into the banking and trading book.

4.1. Capital requirements for individual risk types

As at 31 December 2015, the total capital requirements of Bank Zachodni WBK Group calculated in line with the CRR was PLN **8 745 248k**, including:

- for credit risk and counterparty credit risk: PLN **7 508 111k**
- for market risk: PLN **152 863k**
- for credit valuation adjustment risk: PLN **120 250k**
- for operational risk: PLN **964 024k.**

Percentage structure of the capital requirements in 2014 – 2015



Capital requirements of the Bank Zachodni WBK Group (PLN k)

No.	CAPITAL REQUIREMENTS FOR INDIVIDUAL RISK TYPES	as at 31.12.2015	as at 31.12.2014
1.	Credit risk and Counterparty risk	7 508 111	6 956 272
2.	Risk of exceeding the exposure concentration limit and the large exposure limit	-	-
3.	Market risk including:	152 863	84 493
3.1	FX risk	25 629	-
3.2	commodity prices risk	-	-
3.3	risk of positions of equity instruments, including: :	2 621	6 828
3.3.1	specific risk	1 879	6 033
3.3.2	general risk	140	110
3.3.3	Specific approach to the risk of positions in collective investment undertakings (CIUs)	602	685
3.4	risk of debt instrument positions, including:	124 613	77 665
3.4.1	specific risk	200	129
3.4.2	general risk	124 413	77 536
4.	Supply settlement risk	-	-
5.	Credit valuation adjustment risk	120 250	101 862
6.	Operational risk	964 024	939 817
	TOTAL CAPITAL REQUIREMENT (items 1+2+3+4+5+6+7)	**8 745 248**	**8 082 444**

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 31 December 2015 accounted for **85.85%** of the total capital requirement. Bank Zachodni WBK Group manages credit risk on a priority basis, using its internal rating systems, credit concentration limits and sectoral exposure limits, seeking to maintain the possible highest quality of the credit portfolio.

The table below present a specification of the capital requirement for credit risk and counterparty credit risk by exposure classes, in accordance with the CRR.

Capital requirement of Bank Zachodni WBK Group for credit risk and counterparty credit risk as at 31.12.2015 (PLN k)

No.	Exposure Class	Capital requirement for credit risk and counterparty risk
1.	Exposures to central governments or central banks	4 616
2.	Exposures to regional governments or local authorities	2 946
3.	Exposures to public sector entities	7 934
4.	Exposures to institutions*	219 676
5.	Exposures to corporates	1 693 604
6.	Retail exposures	1 994 962
7.	Exposures secured by mortgages on immovable property	2 662 397
8.	Exposures in default	263 433
9.	Exposures associated with particularly high risk	4 070
10.	Exposures in the form of units or shares in collective investment undertakings	62
11.	Equity exposures	257 778
12.	Other items	396 633
	Total exposures covered by the standardised approach	**7 508 111**
	of which: counterparty risk - trading portfolio	203 567

*including capital requirement for pre-funded contribution to the default fund of a qualifying central counterparty

4.2. Exposure structure

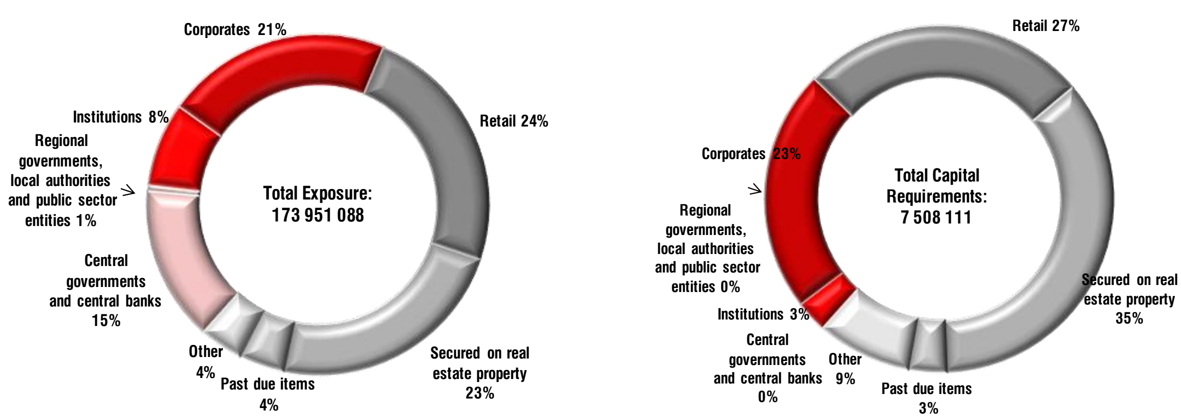
In the process of capital adequacy assessment, each type of exposure was classified in accordance with Article 112 of the CRR.

The original exposure before conversion factors represents the value of the exposure exclusive of value and provisioning adjustments, conversion factors and credit risk mitigation techniques.

Credit risk and counterparty credit risk exposures as at 31.12.2015 (PLN k)

No.	Exposure Class	Exposure Value	Average value of the exposure
1.	Exposures to central governments or central banks	25 513 148	24 482 112
2.	Exposures to regional governments or local authorities	296 088	282 215
3.	Exposures to public sector entities	647 653	609 150
4.	Exposures to institutions	13 814 535	15 430 585
5.	Exposures to corporates	37 280 560	34 760 104
6.	Retail exposures	41 662 827	39 731 705
7.	Exposures secured by mortgages on immovable property	40 213 207	39 320 207
8.	Exposures in default	7 465 271	7 851 482
9.	Exposures associated with particularly high risk	33 916	40 279
10.	Exposures in the form of units or shares in collective investment undertakings	778	741
11.	Equity exposures	1 955 846	1 731 077
12.	Other items	5 067 259	4 893 011
	Total exposures covered by the standardised approach	**173 951 088**	**169 132 668**

Percentage structure of exposures and the capital requirements by different asset classes in 2015



The structure of balance sheet and off-balance sheet exposures of the Bank Zachodni WBK Group by maturity is presented below. Exposures with residual maturity between 1-5 years represent the bulk of the exposures.

Credit risk and counterparty credit risk exposures
by maturities
as at 31.12.2015 (PLN k)

No.	Exposure Class	Residual Term to Maturity				
		<1 year	1-5 years	>5 years	without residual term to maturity	total
1.	Exposures to central governments or central banks	15,43%	56,63%	27,94%	-	25 513 148
2.	Exposures to regional governments or local authorities	61,81%	24,76%	13,43%	-	296 088
3.	Exposures to public sector entities	99,88%	0,12%	0,00%	-	647 653
4.	Exposures to institutions	57,63%	22,09%	20,28%	-	13 814 535
5.	Exposures to corporates	32,92%	57,35%	9,73%	-	37 280 560
6.	Retail exposures	23,71%	44,19%	32,09%	-	41 662 827
7.	Exposures secured by mortgages on immovable property	5,41%	24,59%	69,99%	-	40 213 207
8.	Exposures in default	73,08%	19,70%	7,21%	-	7 465 271
9.	Other items	-	-	-	100,00%	7 057 799
	Total exposures covered by the standardised approach	**24,44%**	**39,51%**	**31,99%**	**4,06%**	**173 951 088**

Credit risk concentration

Bank Zachodni WBK complies with the Banking Law requirements with regard to the limits of risk-bearing exposures to a single entity or to a group of connected entities. As at 31.12.2015, the maximum limit for the bank, pursuant to Article 71 of the Banking Law was:

- PLN 3 995 091k (25% of the Group's own funds).

The Group's policy is designed to minimise the exposure concentration risk bthrough its large exposures policy whose provisions are more stringent than the statutory requirements. This ensures that diversification of exposures to individual borrowers is maintained.

The analysis of concentration of exposures performed as at 31.12.2015, showed that the bank did not have any exposures that would exceed the statutory limits.

In line with its credit policy, Bank Zachodni WBK Group issues credit to enterprises from different sectors. Through diversification of its credit portfolio, Bank Zachodni WBK Group reduces the risk arising from excessive credit concentration. As at the end of December 2015, the highest concentration levels were recorded in the production and distribution sectors (excluding the public and retail sectors).

Credit risk and counterparty credit risk exposures by sectors as at 31.12.2015 (PLN k)

No.	Exposure Class	Industry Analysis											
		Public Sector	Detail (including mortgages)	Property	Manufacturing	Distribution	Construction	Agriculture	Transport	Financial	Energy	Other Secotrs	Total
1.	Exposures to central governments or central banks	25 513 148	-	-	-	-	-	-	-	-	-	-	25 513 148
2.	Exposures to regional governments or local authorities	296 088	-	-	-	-	-	-	-	-	-	-	296 088
3.	Exposures to public sector entities	647 653	-	-	-	-	-	-	-	-	-	-	647 653
4.	Exposures to institutions	-	-	-	-	-	-	-	-	13 814 535	-	-	13 814 535
5.	Exposures to corporates	-	-	3 560 792	10 865 265	9 258 597	2 107 485	188 610	755 583	2 632 410	3 351 698	4 560 120	37 280 560
5.1.	of witch SME	-	-	75 002	1 434 289	1 605 553	368 012	49 315	226 463	38 035	52 346	568 431	4 417 446
6.	Retail exposures	-	30 306 837	143 361	2 125 394	3 472 643	919 376	1 460 241	1 210 779	151 015	72 280	1 800 901	41 662 827
6.1.	of witch SME	-	40 023	100 966	2 125 393	3 472 643	918 897	1 460 241	1 210 779	151 015	72 279	1 792 989	11 345 225
7.	Exposures secured by mortgages on immovable property	-	23 728 010	7 420 194	3 246 886	3 545 845	289 208	407 280	479 242	90 544	338 324	667 674	40 213 207
7.1.	of witch SME	-	-	131 228	733 888	1 310 472	188 854	370 700	90 705	25 317	49 176	362 582	3 262 922
8.	Exposures in default	8	2 693 538	1 404 561	694 191	953 540	225 930	105 277	134 648	27 072	754 229	472 277	7 465 271
9.	Exposures associated with particularly high risk	-	-	-	-	-	-	-	-	8 548	-	25 368	33 916
10.	Exposures in the form of units or shares in collective investment undertakings	-	-	-	-	-	-	-	-	-	-	778	778
11.	Equity exposures	-	-	-	-	-	16 686	-	-	1 891 243	-	47 917	1 955 846
12.	Other items	-	-	-	-	-	-	-	-	-	-	5 067 259	5 067 259
	Total exposures covered by the standardised approach	**26 456 897**	**56 728 385**	**12 528 908**	**16 931 736**	**17 230 625**	**3 558 685**	**2 161 408**	**2 580 252**	**18 615 367**	**4 516 531**	**12 642 294**	**173 951 088**

Credit risk and counterparty credit risk exposures by countries as at 31.12.2015 (PLN k)

No.	Exposure Class	Geographic distribution*												
		Poland	Belgium	Spain	United Kingdom	France	Luxembourg	Austria	Germany	Finland	Denmark	Netherlands	Other countries	Total
1.	Exposures to central governments or central banks	25 481 377	-	-	-	-	-	-	31 771	-	-	-	-	25 513 148
2.	Exposures to regional governments or local authorities	296 088	-	-	-	-	-	-	-	-	-	-	-	296 088
3.	Exposures to public sector entities	647 653	-	-	-	-	-	-	-	-	-	-	-	647 653
4.	Exposures to institutions	5 368 043	2 656 457	1 679 005	1 611 438	917 115	-	718 027	157 025	254 376	222 795	145 215	85 039	13 814 535
5.	Exposures to corporates	35 638 780	44 342	581 986	268 370	-	491 818	-	54 714	-	-	19 985	180 565	37 280 560
6.	Retail exposures	41 644 546	59	1 255	4 367	152	-	78	322	-	1	887	11 160	41 662 827
7.	Exposures secured by mortgages on immovable property	39 779 922	862	5 103	19 814	664	283 291	1 848	50 372	-	-	1 748	69 583	40 213 207
8.	Exposures in default	7 426 602	5	17	5 735	100	2	273	217	-	1	93	32 226	7 465 271
9.	Exposures associated with particularly high risk	33 916	-	-	-	-	-	-	-	-	-	-	-	33 916
10.	Exposures in the form of units or shares in collective investment undertakings	778	-	-	-	-	-	-	-	-	-	-	-	778
11.	Equity exposures	1 947 323	-	-	8 523	-	-	-	-	-	-	-	-	1 955 846
12.	Other items	5 067 259	-	-	-	-	-	-	-	-	-	-	-	5 067 259
	Total exposures covered by the standardised approach	**163 332 287**	**2 701 725**	**2 267 366**	**1 918 247**	**918 031**	**775 111**	**720 226**	**294 421**	**254 376**	**222 797**	**167 928**	**378 573**	**173 951 088**

* Distribution by the country of the borrower

Delinquent and impaired positions

An exposure is considered as delinquent if the obligor is in arrears with capital and/or interest payments. In such circumstances, the entire exposure is considered as delinquent, regardless of whether or not the payment delay relates to the whole exposure or a part thereof.

An exposure is considered as impaired, if the Group has objective evidence that it will not be able to recover the exposure in accordance with the underlying credit agreement. Objective indications of impairment were defined in accordance with recommendations of the Basel Committee and the International Accounting Standards(IAS 39) and Recommendation R.

Impairment is calculated on the basis of the estimated recoverable amount. Impairment analysis is performed using both the 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, to facilitate proper calculation of impairment, the Group compares the assumptions and parameters used for impairment calculations with the actual situation, taking into account changes of economic conditions, modifications in the Group's credit policies and recovery strategies to ensure adequacy of provisions. The responsibility for ensuring adequacy of the impairment charges rests with the Provisions Committee.

Impaired and delinquent exposures by industries as at 31.12.2015 (PLN k)

Industry structure	Impaired Original Exposures	Overdue original exposures	Adjustment for specific and general credit risk*	including: for impaired exposures*
Public sector	8	11	1 517	6
Retail (including mortgages)	2 693 538	5 491 195	2 505 591	2 016 748
Facilities management	1 404 561	990 102	452 669	415 856
Production sector	694 191	820 301	506 918	470 614
Distribution	953 540	969 856	527 068	478 273
Budownictwo	225 930	246 363	171 003	163 045
Agriculture	105 277	279 608	83 773	70 014
Transport	134 648	221 586	100 137	91 416
Financial sector	27 072	66 878	21 148	17 156
Energy sector	754 229	345 760	350 272	344 812
Other sectors	472 277	679 875	836 768	636 119
Total	**7 465 271**	**10 111 535**	**5 556 864**	**4 704 059**

*Pursuant to Commission Delegated Regulation (EU) No 183/2014 (supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, with regard to regulatory technical standards for specifying the calculation of specific and general credit risk adjustments), in calculation of its capital adequacy the bank takes into account specific and general credit risk adjustments by which the bank's Common Equity Tier 1 capital has been reduced in order to reflect losses exclusively related to credit risk according to the applicable accounting framework and recognised as such in the profit or loss account, irrespective of whether they result from impairments, value adjustments or provisions for off-balance sheet items. After an independent overview of the financial statements as at 30 June 2015. and obtaining the necessary approval of the Bank included part of the profit of the current period in the amount of PLN 528 489k own funds. Accordingly, included in this report adjustments for specific and general credit risk are consistent with the date indicated above.

Impaired and delinquent exposures by countries as at 31.12.2015 (PLN k)

Country	Impaired Original Exposures	Overdue original exposures	Adjustment for specific and general credit risk*	including: for impaired exposures*
Poland	7 426 602	10 012 326	5 537 794	4 686 476
Italy	93	16 677	80	79
Ireland	10 198	17 591	5 596	5 287
China	14	20 785	3	2
Liechtenstein	19 233	19 233	8 544	8 544
United Kingdom	5 735	5 264	2 015	1 864
Spain	17	11 431	64	6
Austria	273	2 122	313	224
Germany	217	522	163	131
Sweden	1 568	1 570	868	867
Other countries	1 321	4 014	1 424	579
Total	**7 465 271**	**10 111 535**	**5 556 864**	**4 704 059**

*Pursuant to Commission Delegated Regulation (EU) No 183/2014 (supplementing Regulation (EU) No 575/2013 of the European Parliament and of the Council on prudential requirements for credit institutions and investment firms, with regard to regulatory technical standards for specifying the calculation of specific and general credit risk adjustments), in calculation of its capital adequacy the bank takes into account specific and general credit risk adjustments by which the bank's Common Equity Tier 1 capital has been reduced in order to reflect losses exclusively related to credit risk according to the applicable accounting framework and recognised as such in the profit or loss account, irrespective of whether they result from impairments, value adjustments or provisions for off-balance sheet items. After an independent overview of the financial statements as at 30 June 2015. and obtaining the necessary approval of the Bank included part of the profit of the current period in the amount of PLN 528 489k own funds. Accordingly, included in this report adjustments for specific and general credit risk are consistent with the date indicated above.

Reconciliation of changes to adjustments for impaired exposures as at 31.12.2015 (PLN k)

As at 31.12.2014	Provision charge	Claw-backs and adjustments	As at 31.12.2015
4 643 712	2 270 545	-2 210 198	4 704 059

*calculation of the exposure takes into account only those adjustments connected with general and specific risk which were applied to Tier 1 capital to reflect losses related to credit risk, in accordance with the applicable accounting standards, and disclosed accordingly in the income statement, regardless of whether they arise from impairment, value adjustment or provisions for off-balance sheet items.

4.3. Allocating risk weights to the credit portfolio

The risk weights used in the calculation of capital requirement for credit risk in the standardised approach are based on the provision of Chapter 2, Title II, Part III of the CRR. Risk weights are allocated in line with the category of the exposure and the credit quality of the exposure/entity.

The Group uses credit risk mitigation techniques both for funded credit protection and for unfunded credit protection. In the latter case, borrowers protected by guarantees are allocated a risk grade that corresponds to the risk grade of the guarantor. Most providers of unfunded credit protection are banks, including Bank Gospodarstwa Krajowego (with its "de minimis" guarantee programme) and the Ministry of Finance as a State unit.

In the case of funded credit protection, Bank Zachodni WBK Group recognizes exposures secured by financial collateral.

Defaulted exposures have their risk weight allocated in accordance with the rules laid down in Article 127of the CRR.

The Group has identified retail exposures that are fully secured on residential properties, applying a preferential risk weight of 35% to them (in accordance with Article 125(1) of the CRR). Bank Zachodni WBK has not identified exposures effectively secured by mortgage on a commercial property, to which preferential risk weights are applied in accordance with Article 126.

As at 31 December 2015, the Group's debt instruments portfolio included PLN **2 242 636k** worth of bonds of Bank Gospodarstwa Krajowego, which were fully guaranteed by the State Treasury. They were allocated a preferential risk weight of 0%.

Credit risk and counterparty credit risk exposures by type of collateral as at 31.12.2015 (PLN k)

No.	Exposure Class	Exposures secured by financial collateral	Exposures secured by guarantees
1.	Exposures to central governments or central banks	-	-
2.	Exposures to regional governments or local authorities	-	-
3.	Exposures to public sector entities	100 420	-
4.	Exposures to institutions	3 775 348	2 242 636
5.	Exposures to corporates	842 389	807 293
6.	Retail exposures	19 597	680 916
7.	Exposures secured by mortgages on immovable property	23 199	43 441
8.	Exposures in default	2 225	8 831
9.	Exposures associated with particularly high risk	-	-
10.	Exposures in the form of units or shares in collective investment undertakings	-	-
11.	Equity exposures	-	-
12.	Other items	-	-
	Total exposures covered by the standardised approach	**4 763 178**	**3 783 117**

In each asset class, appropriate risk weight is allocated depending on the available credit rating of external rating institutions or export credit agencies. The Bank accepts ratings of the following agencies:

- Fitch Ratings;
- Moody's Investors Service;
- Standard and Poor's Ratings Services.

If two credit ratings are available for an exposure and the ratings are linked to different risk weight of the particular exposure, the Bank uses the higher risk weight. If for an exposure 3 or more credit ratings are available, the Bank uses two ratings with the lowest risk weights and if the two are different, the higher risk weight is applied.

Credit risk and counterparty credit risk exposures by risk weights as at 31.12.2015 (PLN k)

		Risk Weightings								
No.	Exposure Class	0	0,2	0,35	0,5	0,75	1	1,5	2,5	Total
1.	Exposures to central governments or central banks	25 224 661	288 487	-	-	-	-	-	-	25 513 148
2.	Exposures to regional governments or local authorities	-	296 036	-	52	-	-	-	-	296 088
3.	Exposures to public sector entities	100 421	546 196	-	1 036	-	-	-	-	647 653
4.	Exposures to institutions	6 039 355	3 800 734	-	3 938 438	-	36 008	-	-	13 814 535
5.	Exposures to corporates	1 012 474	36 941	-	600 266	-	35 051 575	579 304	-	37 280 560
6.	Retail exposures	700 512	-	-	-	40 962 315	-	-	-	41 662 827
7.	Exposures secured by mortgages on immovable property	66 640	-	7 136 885	-	-	33 009 682	-	-	40 213 207
8.	Exposures in default	11 056	-	-	-	-	6 001 528	1 452 687	-	7 465 271
9.	Exposures associated with particularly high risk	-	-	-	-	-	-	33 916	-	33 916
10.	Exposures in the form of units or shares in collective investment undertakings	-	-	-	-	-	778	-	-	778
11.	Equity exposures	-	-	-	-	-	1 111 596	-	844 250	1 955 846
12.	Other items	2 026 206	120 406	-	-	-	1 500 444	-	1 420 203	5 067 259
	Total exposures covered by the standardised approach	**35 181 325**	**5 088 800**	**7 136 885**	**4 539 792**	**40 962 315**	**76 711 611**	**2 065 907**	**2 264 453**	**173 951 088**

There are not many companies on the Polish market which have a credit rating from the agencies listed above. As a result, 75.13% of the exposures presented below do not have a credit quality rating.

Credit risk and counterparty credit risk exposures by credit rating as at 31.12.2015 (PLN k)

		Credit quality step							
No.	Exposure Class	1	2	3	4	5	6	Brak	Total
1.	Exposures to central governments or central banks	-	25 481 377	-	-	-	-	31 771	25 513 148
2.	Exposures to regional governments or local authorities	-	-	-	-	-	-	296 088	296 088
3.	Exposures to public sector entities	-	-	-	-	-	-	647 653	647 653
4.	Exposures to institutions	548 527	10 647 724	1 953 995	96 165	-	-	568 124	13 814 535
5.	Exposures to corporates	-	-	2 474 308	750 902	629 303	1	33 426 046	37 280 560
6.	Retail exposures	-	-	-	-	-	-	41 662 827	41 662 827
7.	Exposures secured by mortgages on immovable property	-	165 432	-	507 525	-	-	39 540 250	40 213 207
8.	Exposures in default	-	1	24	-	-	-	7 465 246	7 465 271
9.	Exposures associated with particularly high risk	-	-	-	-	-	-	33 916	33 916
10.	Exposures in the form of units or shares in collective investment undertakings	-	-	-	-	-	-	778	778
11.	Equity exposures	-	-	-	-	-	-	1 955 846	1 955 846
12.	Other items	-	-	-	-	-	-	5 067 259	5 067 259
	Total exposures covered by the standardised approach	**548 527**	**36 294 534**	**4 428 327**	**1 354 592**	**629 303**	**1**	**130 695 804**	**173 951 088**

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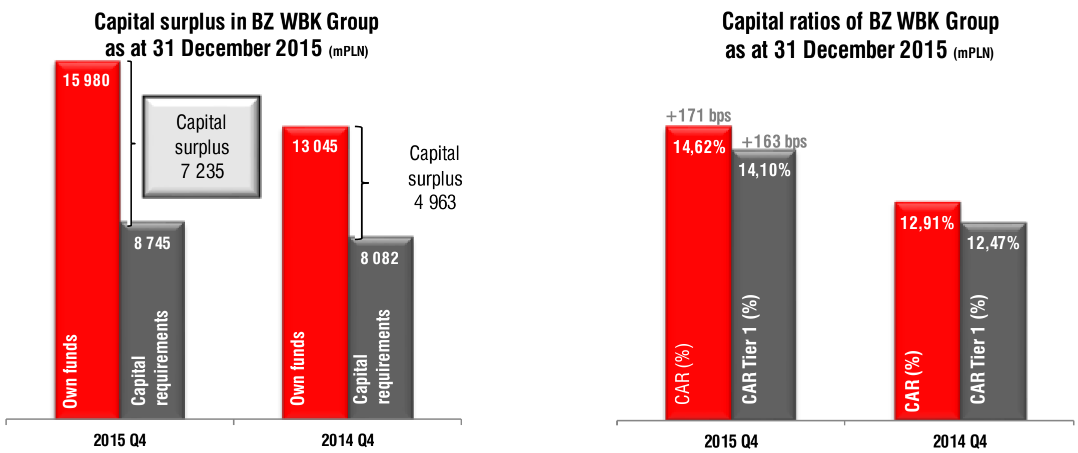
5. Capital adequacy

5.1. Regulatory capital adequacy

Pursuant of Article 92 of CRR, total capital ratio is determined on the basis of own funds and total capital requirements multiplied by 12.5.

Taking into account total capital requirements of PLN **8 745 248k** as at 31 December 2015 and own funds of PLN **15 980 363k**, the capital ratio of Bank Zachodni WBK Group is **14.62%.**

Capital adequacy of Bank Zachodni WBK Group in 2014 - 2015



5.2. Internal capital adequacy

Introduction

It is the policy of the 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 Bank Zachodni WBK Group and capital requirements estimated for the unexpected loss is determined in accordance with the CRD IV / CRR package plus KNF recommendations regarding national options.

The **Management Board** is accountable for capital management, calculation and maintenance processes, including assessment of capital adequacy vis a vis different economic conditions and evaluations of stress tests results and their impact on internal capital and capital adequacy. Responsibility for general oversight over estimation of internal capital rests with the Supervisory Board.

The Management Board delegated on-going capital management to Capital Committee. Capital Committee conducts regular assessment of capital adequacy of the Bank and the Group, also 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 Credit Committee is the first body in the bank to define capital policy and rules for assessment of capital adequacy both for the Bank and the Group. It also approves capital plans and sets out rules underpinning allocation of capital into individual segments when estimating profitability of the same. However, any ultimate decisions regarding increase or decrease of capital are taken by relevant authorities of the bank and subsidiaries in accordance with the applicable law and the Bank's Statutes.

Capital Policy

The capital management policy of BZ WBK Group stipulates the minimum capital ratios, taking into account regulatory requirements, applicable capital buffers and additional own fund requirements under Pillar 2.

Pursuant to CRR, institutions must at all times satisfy the following own funds requirements:

- a Common Equity Tier 1 capital ratio of 4.5%;
- a Tier 1 capital ratio of 6%;
- a total capital ratio of 8%.

Pursuant to the KNF requirement of 23 October 2015, selected financial institutions shall maintain own funds at the level sufficient to cover an additional capital requirement for risk attaching to foreign currency home mortgages.

Taking into account the above requirement, the minimum capital ratios of Bank Zachodni WBK are as follows:

- a Tier 1 capital ratio of 9.54%;
- a total capital ratio of 12.72%.

In the case of Santander Consumer Bank (member of Bank Zachodni WBK Group), the minimum capital ratios are as follows:

- a Tier 1 capital ratio of 9.80%;
- a total capital ratio of 13.07%.

The Act of 5 August 2015 on macroprudential oversight of the financial system and crisis management in the financial sector transposes CRD IV into the Polish law with regard to, among other things, additional capital buffers to be maintained by banks. As of 1 January 2016, the minimum capital ratios for the banking sector in Poland will be increased by 1.25 p.p. due to introduction of a conservation buffer.

Regulatory Capital

The capital requirement for Bank Zachodni WBK Group as at 31.12.2015 was determined in accordance with Regulation no. 575/2013 of the European Parliament and the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms as well as KNF recommendations regarding national options.

The capital requirements for credit, market and operational risks were calculated using a standardised approach. The capital requirement for credit risk is the most significant one.

The value of asset exposure is the carrying value of the asset after adjustments for specific credit risk, additional value adjustments and other own fund deductions related to a particular asset. The off-balance sheet exposure is the percentage of the nominal value less adjustments for specific credit risk.

Internal Capital

Independently 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 - process (ICAAP).

Under the ICAAP process, the Group estimates the required level of internal capital to ensure secure conduct of its banking business in accordance with the Group’s risk profile defined in the “Risk Appetite Statement”.

For the purpose of the ICAAP process, the Group uses statistical loss estimation models for measurable risks, such as credit risk, market risk or operational risk, and carries out qualitative assessment for other material risks not covered by the model, e.g. reputation risk or compliance risk.

The internal capital is estimated on the basis of risk parameters including the probability of default of Bank Zachodni WBK Group customers (PD - probability of default) and loss given default (LGD: Loss Given Default).

Results of the ICAAP process are an element of assessment of the 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 also in stressed conditions, taking into account different macroeconomic scenarios.

The 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 judgment.

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.

Return on assets

As at 31 December 2015 the ROA was 1.7%, calculated as profit attributable to shareholders of the parent for four consecutive quarters to the average value of assets (at the beginning and at the end of the current reporting period).

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6. Remuneration Policy

Bank Zachodni WBK Group has adopted the following remuneration policies:

- Remuneration Policies for BZ WBK Supervisory Board Members,
- Remuneration Policies for BZ WBK Management Board Members,
- Remuneration Policy for individuals holding managerial positions in Bank Zachodni WBK,
- Policy on variable components of remuneration paid to individuals holding managerial positions in BZ WBK Group.

The above-mentioned documents set out the provisions required by law, in particular the rules for calculation of fixed and variable remuneration components, the criteria for payment of variable remuneration, and the list of available remuneration components (fixed and variable, long-term incentive schemes etc.).

In Bank Zachodni WBK Group there are general regulations in place which apply to all employees, including material risk takers, and specific regulations which refer to the latter group only.

The material risk takers are also covered by the **Policy on variable components of remuneration paid to individuals holding managerial positions in BZ WBK Group** and the corresponding regulations adopted by subsidiaries. The Policy is reviewed annually or more frequently if any significant organisational changes take place.

Definition of remuneration policy: decision-making process

Regulations regarding payment of variable remuneration applicable to all employees of the bank are introduced by way of an ordinance of the Management Board Member in charge of the Business Partnership Division. The Policy on variable components of remuneration paid to individuals holding managerial positions in BZ WBK Group is adopted by the Management Board and approved by the Supervisory Board. The resolutions agreed by the Supervisory Board refer to fixed and variable components of remuneration for the Management Board Members. In the case of other employees, the bonus regulations are reviewed by the Remuneration and Nominations Committee and approved by the Management Board Member in charge of the Business Partnership Division.

The Remuneration and Nominations Committee of the bank's Supervisory Board is responsible for, among other things, reviewing the proposed regulations regarding remuneration.

The Remuneration and Nominations Committee supports the Supervisory Board with respect to:

- succession planning for Management Board Members;
- submission of recommendations to the Supervisory Board regarding the composition of the Management Board;
- overall monitoring of remuneration practices and levels;
- submission of recommendations to the Supervisory Board regarding fair and competitive remuneration policies and practices which effectively incentivise the Management Board Members and senior executives.

In 2015, the Remuneration and Nominations Committee convened 6 times.

In the period from 1 January to 31 December 2015, the composition of the Committee was as follows:

- Committee Chairman – Gerry Byrne;
- Committee Members: Danuta Dąbrowska, Witold Jurcewicz, José Luis de Mora, Jerzy Surma.

Three members held an independent status: Danuta Dąbrowska, Witold Jurcewicz and Jerzy Surma.

The remuneration policy of Bank Zachodni WBK satisfies the criteria for identification of persons who have a material impact on the bank's risk profile within the meaning of the Commission Delegated Regulation (EU) No 604/2014 of 4 March 2014 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards with respect to qualitative and appropriate quantitative criteria to identify categories of staff whose professional activities have a material impact on an institution's risk profile.

Relationship between remuneration and performance

All employees of the bank are covered by bonus schemes which determine the payment of variable remuneration. In each scheme, bonus payment and its amount depend on delivery of specific business objectives.

The business objectives are linked to the results of a given area or the bank as a whole in the case of support units. Variable remuneration paid to front-office units additionally takes into account individual performance of respective employees.

Characteristics of the remuneration system and performance criteria for vesting shares, share options or variable remuneration components

The remuneration system is composed of fixed and variable remuneration.

Fixed remuneration is linked to an employee's grade and the associated pay brackets defined on the basis of a payroll report prepared each year by HAY Group.

Variable remuneration depends on a bonus scheme relevant to a given employee. Bonus payment is conditioned upon delivery of specific business objectives (a stated gross or net profit growth rate or amount). Business units are additionally required to achieve a stated RoRWA ratio.

Variable remuneration components (including shares and phantom shares) are awarded in accordance with bonus regulations applicable to specific employees.

As regards employees with a material impact on the bank's risk profile, the bank applies a policy which satisfies the KNF guidelines, where at least 50% of variable remuneration is paid in the form of capital market instruments. In the case of the bank, these are phantom shares. In addition, at least 40% of variable remuneration is deferred for the period of three years, and payment of each deferred portion is determined by the absence of negative premises that would prevent from or reduce the amount of payment.

Variable remuneration components also include long-term (three-year) incentive schemes addressed to key employees of the bank. The award is granted in the form of BZ WBK shares (new issue) provided that certain business criteria defined in the terms of the Programme have been met.

Relationship between fixed and variable remuneration

The relationship between fixed and variable remuneration depends on a bonus scheme relevant to a given employee, delivery of business objectives and the awarded bonus amount. Another factor is whether an employee is covered by a long-term incentive scheme. If the minimum business objectives are not met, an employee may not be entitled to variable remuneration at all.

The total amount of variable remuneration for a given calendar year paid to staff whose professional activities have a material impact on the risk profile may not exceed 200% of fixed remuneration paid for a given calendar year in accordance with GM resolution of 16 April 2014.

Key parameters of variable remuneration

The overall objective of the remuneration system developed by the bank was to acquire and retain professionals who have the required qualifications to deliver all strategic processes.
As a consequence, a number of bonus schemes have been put in place in relation to specific staff categories, in particular front-office and back-office employees. Individual bonus schemes set out different criteria which determine bonus payment and amount. They also differ in terms of target bonus levels that a given employee is eligible for as well as frequency of payments.

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 in PLN

Area	Management Board*	Retail Banking	Business and Corporate Banking	Global Corporate Banking	Business Support	Subsidiares	Total
Fixed remuneration**	12 799	3 996	2 560	4 248	8 888	6 727	**39 218**
Variable Rremuneration***	6 474	880	393	1 440	2 048	1 762	**12 997**
TOTAL	**19 273**	**4 876**	**2 953**	**5 688**	**10 936**	**8 489**	**52 215**

*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 paid in 2015. As at the date of report preparation, data about variable remuneration components for the accounting year were not available.

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

The figures relating to variable remuneration components for 2015 will be published along with the information about the capital adequacy of BZ WBK Group for H1 2016.

The amounts of remuneration for 2015 split into fixed and variable remuneration

	Headcount	Fixed remuneration for 2015****	VARIABLE REMUNERATION PAID IN 2015*				
			Deferred bonus for 2012	Deferred bonus for 2013	Deferred bonus for 2014**	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	10 773	8 027
Other persons holding managerial positions	65	26 419	650	669	5 204	17 349	9 245
including number of individuals being remunerated between 1,5- 2 million EUR	0	-	-	-	-	-	-
TOTAL	**78**	**39 218**	**2 017**	**2 012**	**8 968**	**28 122**	**17 272**

* At the report preparation date, no data on variable components of remuneration for the financial year.

** The portion paid in 2015 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

	BONUS DEFERRED (2012/2013/2014) 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**	5 163	14 703	16 315
Other persons holding managerial positions	4 109	16 499	16 783
TOTAL	**9 272**	**31 202**	**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.

In 2015, no reductions were made in the deferred remuneration payable to persons holding managerial positions on account of the adjustment related to the results.

New sign-on and severance payments in 2015

	Area	Headcount	PAYMENT AMOUNT	Highest severance pay
Severance pay in 2015	Management Board*	1	1 108	1 108
	Other persons holding managerial positions	4	3 851	1 935

* 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.

In the reporting period, 0 employees of Bank Zachodni WBK Group received remuneration in the range of EUR 1.5-2m.

In 2015, the bank recruited two persons whose are classified as material risk takers. No payments were made in relation to the recruitment. Nine material risk takers terminated the employment agreement, five of whom were paid severance pay. No payments were made in relation to awards for the above-mentioned beneficiaries.

Detailed information regarding the remuneration paid to the Management Board Members is presented in Note 45 of the Consolidated Financial Statements of Bank Zachodni WBK Group for 2015.

5th Incentive Scheme

The Extraordinary General Meeting of 30 June 2014 introduced a three-year 5th Incentive Scheme for bank and subsidiary employees that have a key contribution to the value of the organisation. The main objective of the programme starting in 2014 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 Group 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. Between 1 January 2015 - 31 December 2015, one of analysed employees lost his participant status.

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7. 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) 2015/62 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.

The bank calculates the leverage ratio based on the quarter-end figures, i.e. as at December 2015. The leverage ratio is calculated in relation to both Tier 1 capital and Tier 2 capital as per the interim definition. The bank does not exclude custody exposures from the total exposure included in the leverage ratio.

The bank has the Leverage & Excessive Leverage Risk Policy in place which defines the objectives and addresses the key aspects of measurement, monitoring and reporting the leverage ratio and its compliance with the regulatory requirements as well as identification, management and monitoring of excessive leverage risk. The document sets out the roles and responsibilities of the parties involved in the relevant processes.

As at 31 December 2015, the leverage ratio of Bank Zachodni WBK Group totalled 10.62% and was three-fold higher than the minimum requirement of 3%. The factors determining the financial leverage were PLN 528 489k worth of profit generated in the current period which was taken to own funds while increasing of total assets and off- balance low risk position.

Leverage ratio of Bank Zachodni WBK Group as at 31.12.2015 (PLN k)

Total Exposures		
SFTs Exposure	320 564	
SFTs Add-on	6 681	
Derivatives Exposure	2 205 353	
Derivatives Add-on	2 595 497	
Off-balance sheet items adjusted for preferential treatment for the purpose of financial leverage	5 744 101	
Other assets	137 115 508	
Choice on transitional arrangements for the definition of the capital measure	**Fully phased-in definition**	**Transitional definition**
Tier 1 Capital	16 177 828	15 410 463
Regulatory adjustments - Tier 1	-2 152 243	-2 919 608
Leverage Ratio		
End of quarter leverage ratio	11,09%	10,62%
Leverage ratio (avg of the monthly leverage ratios over the quarter)	N/A	N/A
The reconciliation to the consolidated statement of financial position		
Total leverage ratio exposure	139 641 425	
Adjustment applied to companies which are not subject to prudential consolidation	-135 997	
Impact of the scope of consolidation on the provision	212 085	
Other adjustments	-8 813	
Total assets as per published financial statements	139 708 700	

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8. Encumbered assets and unencumbered assets

An asset is treated as encumbered if it has been pledged or if it is subject to any form of arrangement to secure or credit-enhance any on-balance-sheet or off-balance-sheet transaction from which it cannot be freely withdrawn (for instance, to be pledged for funding purposes).

Assets of Bank Zachodni WBK Group as at 31.12.2015 (PLN k)

	Carrying amount of encumbered assets*	Fair value of encumbered assets	Carrying amount of unencumbered assets*	Fair value of unencumbered assets
Assets of the reporting institution	11 480 845		128 228 679	
Equity instruments	-		1 183 368	1 183 368
Debt securities	7 784 750	7 784 750	18 957 506	18 957 506
Other assets	3 696 095		108 087 805	

* Total assets is presented in accordance with the prudential consolidation (CRR 575/2013).

Collateral received as at 31.12.2015 (PLN k)

	Fair value of encumbered collateral received or own debt securities issued	Fair value of collateral received or own debt securities issued available for encumbrance
Collateral received by the reporting institution	-	1 194
Equity instruments	-	-
Debt securities	-	-
Other collateral received	-	1 194
Own debt securities issued other than own covered bonds or ABSs	-	-

Encumbered assets/collateral received and associated liabilities as at 31.12.2015 (PLN k)

	Matching liabilities, contingent liabilities or securities lent	Assets, collateral received and own debt securities issued other than covered bonds
Carrying amount of selected financial liabilities	10 948 863	11 480 845