

**REPORT
ON THE SUPERVISORY BOARD ACTIVITY IN 2014**

Warsaw, March 2015

Contents

	Page
I. Operations of the Supervisory Board and Supervisory Board Committees in 2014	3
II. The Supervisory Board report on examination of Financial Statements of Bank Zachodni WBK for 2014, the Management Board report on operations of Bank Zachodni WBK in 2014, Consolidated Financial Statements of Bank Zachodni WBK Group for 2014, the Management Board report on the operations of Bank Zachodni WBK Group in 2014 and the Bank's Management Board motion re. distribution of profit for 2014	15
III. Report on Bank Zachodni WBK Group performance in 2014	17
1. Bank Zachodni WBK Group performance in 2014	
2. Assessment of internal control system	
3. Assessment of risk management system	
4. Summary	

I. SUPERVISORY BOARD ACTIVITY IN 2014

1. BOARD COMPOSITION & MANNER OF DISCHARGE FROM DUTIES & RESPONSIBILITIES

1.1. As at 1 January 2014, the Supervisory Board (SB) had the following composition:

- | | |
|--|---------------------------|
| ▪ Supervisory Board Chairman | - Mr Gerry Byrne |
| ▪ Deputy Chairman of the Supervisory Board | - Mr Jose Manuel Varela |
| ▪ Members of the Supervisory Board: | - Mr Jose Antonio Alvarez |
| | - Mr David Hexter |
| | - Mr Witold Jurcewicz |
| | - Mr Jose Louis De Mora |
| | - Mr John Power |
| | - Mr Jerzy Surma |

1.2. Changes in the Supervisory Board composition:

On 16 April 2014, given the end of the Supervisory Board's term of office, the General Meeting of Bank Zachodni WBK Shareholders established the following composition of the Board:

- Mr José Antonio Alvarez,
- Mr. Gerry Byrne,
- Ms Danuta Dąbrowska,
- Mr José Louis de Mora,
- Mr David Hexter,
- Mr Witold Jurcewicz,
- Mr. John Power,
- Mr Jerzy Surma,
- Ms Marynika Woroszyńska-Sapieha,
- Mr José Manuel Varela.

The General Meeting of Shareholders appointed Mr Gerry Byrne to the position of the Supervisory Board Chairman.

Pursuant to Par. 26 of the Bank's Statutes, the Bank's Supervisory Board appointed the Deputy-Chairman out of its members and vested the function in Mr José Louis de Mora.

1.3. Independence of the Supervisory Board Members

All Members of the Supervisory Board submitted written statements on their independence as well as on their personal, factual and organizational connections with the Bank's shareholders.

In line with the submitted statements, as at 31 December 2014, the status of an independent Supervisory Board Member was held by the following individuals:

- Ms Danuta Dąbrowska
- Ms Marynika Woroszyńska-Sapieha
- Mr David Hexter,
- Mr Witold Jurcewicz,
- Mr Jerzy Surma.

1.4. The Supervisory Board activities and manner of discharging its duties and responsibilities are governed by the Supervisory Board's Terms of Reference available on the Bank's Internet site.

2. STATISTICAL DATA ON THE SUPERVISORY BOARD'S ACTIVITY IN 2014

From 1 January until 31 December 2014, the Supervisory Board held 7 meetings and passed 59 resolutions. The Board Members' average attendance rate was 91%.

3. INTEGRATION WITH KREDYT BANK S.A.

The Supervisory Board exercised an independent oversight of the integration of Bank Zachodni WBK with Kredyt Bank, which was put in place given the process scale and significant impact on the combined organization, market, shareholders, including minority shareholders, and employees. The oversight of the merger process was exercised by the Board Member, Mr John Power, seconded by the Board to perform this task. While performing the task, Mr John Power informed the Board about progress in work at the individual stages of the Merger Program and provided the Board Members with full explanation on all matters related to the merger process.

In 2014, the Bank successfully completed the integration process. The last stage comprised the integration of IT systems and migration of data from former exKB systems to the operational platform of Bank Zachodni WBK. The Integration Program was completed on time, as set out in the schedule presented to the Polish Financial Supervision Authority two years ago.

The Supervisory Board monitored the process of achieving synergies generated by the harmonization of the business model, product offering, operational procedures and technological processes. In particular, the Board monitored the effectiveness of and current trends in sales and financial results of in the former Kredyt Bank branch network.

4. INCORPORATION OF SANTANDER CONSUMER BANK S.A. INTO BANK ZACHODNI WBK GROUP

As of 1 July 2014, the transaction of acquiring shares of Santander Consumer Bank S.A. (SCB S.A.) by Bank Zachodni WBK S.A. was finalized given the fulfilment of all conditions precedent to closing the transaction set out in the investment agreement of 27 November 2013 concluded by BZ WBK S.A., Santander Consumer Finance S.A. (SCF S.A.) and Banco Santander S.A. on acquisition by BZ WBK S.A. of SCB S.A. shares representing 60% of the share capital and 67% of votes at the General Meeting.

While waiting for the KNF approval for Bank Zachodni WBK to acquire a stake in Santander Consumer Bank by BZ WBK, the Supervisory Board was informed about the progress in adjusting processes and procedures to ensure effective supervision, consolidated reporting and risk management in the area of Finance, Risk Management, Internal Audit, Legal and Compliance.

In connection with the incorporation of SCB into Bank Zachodni WBK Group as of 1 July 2014, the Supervisory Board, as part of the consolidated supervision reviewed the Santander Consumer Bank's activity.

5. MAJOR AREAS OF THE SUPERVISORY BOARD'S ACTIVITY IN 2014

The Supervisory Board carried out its activities based on the adopted schedule of meetings and the general work plan. The agenda of each meeting was extended (if required) by current business matters, issues submitted by the Bank's Management Board for consideration and any other issues the Board deemed necessary to be covered by the agenda. The Supervisory Board requested and received from the Bank's Management Board comprehensive materials and reports on issues covered by the agenda of meetings as well as those pertaining to other matters important to the Bank's operations.

In 2014, the Supervisory Board focused both on strategic matters as well as on the supervision of the Bank's day-to-day business. Apart from the abovementioned independent oversight of Bank Zachodni WBK and Kredyt Bank merger, the key areas of the Supervisory Board's activity were as follows:

- In the pursuit of its duties arising from Par. 32 of the Bank's Statutes, the Supervisory Board conducted ongoing assessment of the financial performance of Bank Zachodni WBK and its Group as well as current projections prepared on that basis, taking account of the business and operational trends in place, opportunities and threats, variances against the Plan and management actions taken by the Management Board. The assessment was based on financial reports presented by the Bank's Management Board.
- The Supervisory Board kept track of the current macroeconomic and market forecasts and their impact on the Polish economy as well as operations, financial and business performance of Bank Zachodni WBK and its Group.
- The Supervisory Board was regularly advised on key forecasts emerging in the banking sector and the performance of competitive banks as well as on BZ WBK's position against them along with tendencies projected for the sector.
- In line with the applicable procedure of strategic, business and financial planning, the Supervisory Board analysed the implementation of the Business Strategy. Conclusions from those analyses became the basis for the revision of Bank Zachodni WBK Group strategic targets and strategic plans of Business Segments. As a result of the analysis conducted in February 2014, The Supervisory Board approved the revised Strategy for 2014-2016. During the 2015 planning process, conclusions arising from the Strategy review were reflected in the Bank Zachodni WBK Business strategy for 2015-2017 which was approved by the Supervisory Board in December 2014.
- The Supervisory Board approved the updated Financial Plan for 2014 and for 2014-2016 which takes account of the fact that as of 1 July 2014 Santander Consumer Bank SA (SBC) became a member of Bank Zachodni WBK Group. As part of the 2015 planning process, the Supervisory Board approved the Financial Plan for 2015 and the years 2015-2017 at its meeting on 17th December 2014.
- The Supervisory Board requested information and was kept up-to-date by the Bank's Management Board about current priorities and approach to challenges related to funding, liquidity, capital management, risk management, primarily credit risk management and cost management.
- Due to the key importance of liquidity and funding to the merged Bank, the Supervisory Board was informed by the Management Board about the development of various scenarios and actions taken with respect to raising additional funding.
- The Supervisory Board was informed about the works on the Mortgage Bank concept that stemmed from the need to diversify funding sources and to meet Basel III requirements with regard to the long-term liquidity norm. Thanks to the amendment of the Act on Mortgage Bonds and Mortgage Banks the works on the Mortgage Bank concept entered the project preparation stage. The formal project structure was set up in order to launch the Mortgage Bank operations by the end of 2016 at the latest, after the required consents to issue a banking licence and an operating licence are granted by the Financial Supervision Authority (KNF).
- As part of the overall supervision of the internal capital adequacy assessment processes, the Supervisory Board approved ICAAP policies and regular reports, based on Audit and Compliance Committee reviews and recommendations.

The Supervisory Board approved the updated Capital Policy that specifies the capital targets and regulates key aspects of capital management in BZ WBK, including the capital planning and capital allocation.

- The Supervisory Board was updated on the current status of the IRB Method implementation as regards the calculation of capital requirements for the credit risk using the advanced approach.
- As part of the supervision exercised over the risk management process, the Supervisory Board reviewed the main risk areas, focusing on the manner of exercising oversight of individual risks, compliance with applicable policies and internal procedures, KNF recommendations, the EU and EBA regulations, relevant risk identification procedures and setting management actions adjusted to the Bank's needs and its scale of operations.

Based on the conducted review, the Supervisory Board approved the acceptable risk level, expressed as limits set out in the Risk Appetite Statement. Based on the global measures of Santander Bank that were reviewed in terms of adequacy and suitability for Bank Zachodni WBK risk management, specific limits were agreed at the Bank Zachodni WBK Group level to be applied in the daily Bank's management to assess such components as the level of loss or capital and liquidity element. Supplementary measures were also agreed. In addition, relevant watch levels were set in order to identify material phenomena which, after exceeding specific levels, should be subject to particular supervision and reporting. In line with the agreed process, the Supervisory Board supervised and monitored the level of internal limit utilization.

The Supervisory Board approved the updated Risk Appetite Statement to reflect regulatory requirements (e.g. introduction of new limits arising from Recommendation S) and business needs (e.g. including Santander Consumer Bank in Bank Zachodni WBK Group, completion of the Kredyt Bank merger) need to be taken into account,.

In the Supervisory Board's opinion, the risk appetite defined by the Bank is kept up-to-date and matches the current market environment. The risk analysis is supported by stress testing and scenario analysis which are to ensure that Bank Zachodni WBK will continue as a stable and well-capitalized bank even amid adverse market conditions.

- The Supervisory Board approved Bank Zachodni WBK Recovery Plan drafted in accordance with the EU Bank Recovery and Resolution Directive (the so-called Living Will) for the bank as part of the Santander Group. Santander Group was designated as a systematically important financial institution by the Financial Supervision Board which means an obligation for the Group to draft and update (annually) a Recovery Plan for the Group and its subsidiaries. There is no requirement to draft such a document under the Polish law, but the paper was forwarded to the Polish Financial Supervision Authority (KNF).
- As part of the supervision of the credit risk, the Supervisory Board was updated on the current lending strategy and key credit risk factors. The Board conducted regular reviews of the loan portfolio, also in terms of compliance with the Regulator's Recommendations. In addition, the Supervisory Board was provided with information about individual loan portfolios by products/ customer segments with a special focus on their quality and profitability. In line with Recommendation S and Recommendation T, the Supervisory Board received current evaluations referring to the execution of the Personal Lending Policy made by the Bank's Management Board and approved the results of those evaluations.
- The Supervisory Board was updated on the asset quality review (AQR), its results as well as stress tests that were run by the Polish Financial Supervision Authority (UKNF) in the Polish banks (also BZ WBK). Bank Zachodni WBK achieved one of the best results in the Polish banking sector, both in the case of the assets quality review as well as in the stress tests. The Supervisory Board reviewed the KNF recommendations provided in relation to AQR.

- The Supervisory Board adopted the recommendation of the Risk Oversight Committee for the Board to approve the assessment of the Management Board Members' knowledge and skills for 2014 that was conducted in line with the Recommendation M. The results of the said assessment indicated that the Bank's Management Board had adequate knowledge and skills to ensure effective operational risk management framework.
- In line with the applicable "Policy on compliance risk management in Bank Zachodni WBK", the Supervisory Board assessed the effectiveness of the compliance risk management in BZ WBK. On this basis, the Supervisory Board stated that the compliance risk management was effective and adjusted to the Bank's scale of operations & needs and did not expose the Bank to the risk of sanctions imposed by the supervisory bodies, financial losses or loss of reputation due to a breach of the applicable provisions of law, regulatory guidelines, standards and codes referring to its operations.
Apart from that, the Supervisory Board carries out the assessment of the compliance risk management each time the Audit & Compliance Committee presents its report on current operations of the Compliance Area.
- The Supervisory Board was informed about the general assumptions of the rebranding process. In line with the Banco Santander's commitments, the change would be consulted with KNF. Consultation will be possible after the research completion and development of solutions that could be presented to the Financial Supervision Authority (KNF), including the name, logo, schedule changes, and the estimated costs.
- The Supervisory Board reviewed the KNF recommendations issued in connection with the KNF comprehensive inspection carried out in the Bank in September 2013. The Board was also updated on the BION examination (as at 31 December 2013) carried out at the KNF request in accordance with the new methodology.
- The Supervisory Board approved a modification in the Bank's Organizational Regulations reflecting the change of the name of the existing Human Resources Management Division into the Business Partnership Division to reflect its extended scope of duties & responsibilities covering the Bank's overall cost management, contract, purchase and property management.
- The Supervisory Board adopted a relevant resolution on the full application (as of 1 January 2015) of the Principles of corporate governance for supervised institutions, issued by KNF on 22 July 2014 regarding the goal expressed by the KNF on ensuring common standards of corporate governance for all supervised entities and the fact that the Principles do not breach the rights and obligations arising from the laws and the rule of proportionality stemming from the Bank's specific activities. The Principles will be adopted at the Bank's next Annual General Meeting.
- The Supervisory Board conducted a review of the Strategy and performance of the Bank's various areas and its subsidiaries, including actions and projects aimed at improving their functioning, providing opportunities to deliver high, stable and diversified income and the market share increase, including:
 - The Next Generation Bank – the Supervisory Board was updated on the progress in the program, including the progress made in the various business segments and other areas of the Bank.
 - The Supervisory Board approved the division of Dom Maklerski and the transfer of the organized part of the enterprise which will allow the Bank to conduct brokerage business as per the consent issued by the Polish Financial Supervision Authority (KNF) on 10 June

2014. The organized part of Dom Maklerski enterprise dealing with advertising was moved to a newly incorporated company.

6. OPERATIONS OF THE SUPERVISORY BOARD COMMITTEES

Independently of the Supervisory Board's meetings, Supervisory Board Members sat on the following Board's committees:

- Nominations and Remuneration Committee
- Audit and Compliance Committee,
- Risk Oversight Committee

The scope and mode of the Committees' operations is set out in their Terms of Reference, introduced by relevant resolutions of the Supervisory Board. The Terms of Reference are available in the Supervisory Board Secretariat.

The Members of individual Committees have knowledge and experience appropriate for their roles and adequate fulfilment of their responsibilities.

The Committees contribute a lot to improving the effectiveness of the Board's work by supporting it in the discharge of its statutory duties as well as by preparing recommendations and proposed decisions relating to the Board's motions as well as those submitted by the Bank's Management Board. In order to enable the Supervisory Board to appraise in full the Committees' work, their Chairmen present relevant reports at the meetings of the Supervisory Board and the Board Members are provided with copies of the minutes of each meeting of the Committees. Individual Committees received sufficient, reliable and timely information from the Management Board allowing them to fulfil their responsibilities in 2013.

▪ NOMINATIONS & REMUNERATION COMMITTEE

One of the key duties of the Supervisory Board is the introduction of remuneration policies and practice which are both fair and competitive that is highly important given their impact on the effectiveness of the organisation and its capability to recruit, retain and motivate the Management Board Members and senior management. The task of the Nominations and Remuneration Committee is to support the Supervisory Board in attaining these objectives as well as to ensure the consistency of the remuneration policy with the Bank's corporate culture, objectives, strategy, competitive behaviours as well as recommendation of regulators with regard to remuneration in the banking sector. Dealing with such matters, the Committee Members have no personal financial interest other than that of the Bank's shareholders and are driven by the best interest of the Bank and its shareholders.

The Committee assists the Supervisory Board in:

1. Succession planning at the Bank's Management Board level;
2. Issuing recommendations for the Supervisory Board with regard to the composition of the Management Board;
3. Overall monitoring of the market practices with regard to remuneration and its levels;
4. Preparing recommendations for the Supervisory Board decisions as to fair and competitive Remuneration policies and practices, ensuring adequate motivation for the Management Board Members and senior management to constantly improve the Bank's performance.

The Nominations & Remuneration Committee's composition in 2014 was:

- a) in the period from 1 January – 16 April 2014:
 - Mr Gerry Byrne – the Chairman,

- Mr José Antonio Alvarez
- Mr José Luis de Mora

b) in the period from 16 April – 31 December 2014:

- Mr Gerry Byrne – the Chairman,
- Ms Danuta Dąbrowska
- Mr José Luis de Mora
- Mr Witold Jurcewicz
- Mr Jerzy Surma

The Committee usually invites the President of the Management Board, whereas the Business Partnership Division supports the Committee in preparing materials representing grounds for recommendations submitted to the Supervisory Board and sourcing external reports.

In 2014, the Committee focused on the following issues:

- Preparing a recommendation concerning the 2013 bonus payment to the Management Board Members based on the adopted bonus regulations and the Policy on variable components of remuneration applicable in the Bank.
- Performing an annual review of the bonus scheme for the Management Board Members and submitting recommendations to the Supervisory Board re. conditions of awarding the bonus and setting bonus pools for 2014 which were to support the achievement of relevant targets set in the Business Plan and Financial Plan for 2014 and which, at the same time, comply with the provisions of KNF Resolution No. 258/2011 as regards the variable components of remuneration for individuals holding managerial positions.
- Considering the fulfilment of conditions underlying Incentive Scheme IV set out in the AGM Resolution no. 36 of 20 April 2011 (the AGM Resolution) taking into account the assessment of the delivery of the Scheme assumptions, including in particular:
 - The long-term objective of the Scheme confirmed by the consistent profit growth throughout the analysed period,
 - Delivery of the Scheme during the merger with Kredyt Bank – excellent results generated, while ensuring the execution of the merger process as planned,
 - Contribution made by the Scheme’s beneficiaries, key employees of the Group.

On this basis, the Committee recommended to the Supervisory Board that Bank Zachodni WBK AGM recognized the fact that the criteria allowing to exercise the Award were met, including the circumstances justifying the allocation of the Total Award to the scheme participants in the maximum amount referred to in the AGM resolution. In addition, in order to carry out the obligations arising from the AGM resolution and the agreements concluded with the participants of Incentive Scheme IV the Committee recommended to the Supervisory Board to issue a positive opinion on the AGM draft resolution in this respect.

- Recommending to the Supervisory Board that it seeks a revision of the AGM powers to approve a higher – than that specified in the Directive of the European Parliament and of the Council of Europe on 26 June 2013 – maximum level of the fixed components of the remuneration relative to the variable ones at the level of 200% of the fixed component of the total remuneration for all individuals categorized as “holders of managerial positions in Bank Zachodni WBK Group” in line with the list defined in the Ordinance of the Management Board President.

- Given the new term of the Supervisory Board, preparing recommendations for the Strategic Shareholder on presenting to the General Meeting of Bank Zachodni WBK Shareholders candidates for new members of the Bank's Supervisory Board.
- Recommending to the Supervisory Board the introduction of a new Long-Term Incentive Schemes that will motivate and encourage retention in the organization, in the long time horizon, of key employees who have knowledge and skills relevant to the Bank and who make an outstanding contribution to performance of their units.
 - Three-year Incentive Scheme V to be pursued in 2014-2017 continues and builds upon the experience of the earlier incentive programs operated by the Bank. Its purpose is to retain and motivate key employees in the longer time horizon in connection with the Bank's long-term financial performance and expectations of shareholders, while complying with the so-called CDRIV and CRR Package and the European Banking Authority guidelines. On 16th April 2014, the General Meeting of Bank Zachodni WBK Shareholders adopted resolutions which enabled the commencement of Incentive Scheme V. The Committee developed and presented to the Supervisory Board for approval the templates of the Participation Agreement along with the list of recommended Scheme participants that included representatives of the senior executives and management from all divisions and areas of the Bank, 484 people in total;
 - One-year Incentive Scheme for individuals covered by the CRDIV Directive. The scheme was based on the assumptions of the Santander Group Incentive Scheme - the aim is to harmonize a coherent and consistent approach to this group of employees in all geographies.
- Presenting to the Supervisory Board recommendations on changes to the Policy on variable components of remuneration for individuals holding managerial positions in Bank Zachodni WBK Group, based on the conducted annual review which took into account in particular:
 - New EBA standards on the selection of persons holding managerial positions (risk takers) who have a significant impact on the bank's risk profile;
 - The AGM Resolution re. defining the ratio of the fixed components of the total remuneration to the variable components of remuneration paid to persons holding managerial positions in Bank Zachodni WBK Group
- Consideration of draft remuneration policies for the Supervisory Board and Management Board members, as well as of Management Board's request to approve the remuneration policy for persons holding managerial positions and presenting recommendations regarding their adoption to the Supervisory Board. The Remuneration policy for the Supervisory Board members will be submitted for approval at the next AGM.
The remuneration policies, referred to above, have been prepared in line with the Principles of Corporate Governance for Institutions Supervised by the Polish Financial Supervision Authority (KNF) and the obligations arising from the CRDIV Directive.
- Succession planning for the Management Board functions and senior management positions - as in the previous years, this issue was one of the Committee's and Supervisory Board's priorities in 2014; actions in this area involved the provision of adequate development programs for individuals covered by succession planning, both in the Bank and its subsidiaries.

When preparing recommendations for the Supervisory Board, the Committee used current results of the banking sector's remuneration survey carried out by an independent agency.

▪ **AUDIT & COMPLIANCE COMMITTEE**

The Audit & Compliance Committee's role is to assist the Board in discharging its oversight responsibilities to shareholders and other stakeholders in relation to:

1. The quality and integrity of the accounting policies, financial statements and disclosure practices and satisfying itself that any significant financial judgements made by management are sound;
2. The monitoring of compliance with relevant laws and regulations, taxation obligations and relevant Codes of Conduct and good business ethics;
3. The monitoring of independence and performance of the internal and external Auditors; and
4. the assessment of the effectiveness of the system of internal controls and management of financial and non-financial risks.
5. The on-going discussions with the Head of Internal Audit, Chief Risk Officer, Head of Legal and Compliance and the External Audit Partner.

Both the Audit & Compliance Committee's scope of duties and composition are in accordance with the Polish Chartered Auditors Act of 7 May 2009.

The Committee operates under a written Terms of Reference, which was updated and approved by the Supervisory Board on the 16th April 2014. The updated Terms of Reference incorporated changes resulting from KNF Recommendations, Capital Requirements Directive 4 (CRD4) and the best practice guidelines from the Institute of Internal Auditors.

The Audit & Compliance Committee composition in 2014 was:

- Mr John Power (Chairman)
- Mr Witold Jurcewicz (to 16th April 2014)
- Mr Jose Manuel Varela (to 16th April 2014)
- Mr Jerzy Surma
- Mr David Hexter
- Ms Danuta Dąbrowska (joined 16th April 2014)

Attendance:

- | | |
|----------------------------|-----|
| - Mr John Power (Chairman) | 8/8 |
| - Mr Witold Jurcewicz | 3/3 |
| - Mr Jose Manuel Varela | 1/3 |
| - Mr Jerzy Surma | 7/8 |
| - Mr David Hexter | 8/8 |
| - Ms Danuta Dąbrowska | 5/5 |

2014 Activities

The Committee undertakes its duties in line with an agreed annual work programme that allows the Committee to monitor (and seek assurance on) the management of the financial risks and non-financial risks identified in the company's business plan.

The Audit Committee continued their work programme against the background of the on-going merger of the Bank with Kredyt Bank which was completed on the 27th October and the consolidation of Santander Consumer Bank on the 1st July. The changing regulatory environment, in particular the European Central Bank (ECB) comprehensive assessment of credit institutions and the Polish Financial Supervision Authority (KNF) Asset Quality Review also shaped our discussions around internal controls, regulatory compliance and Santander Group regulatory reporting requirements.

The Committee members met privately either before or after the meetings to assess particular issues that individual members may want to further review.

The Committee met 8 times during the course of the 2014 and the members' attendance record is set out above. The Committee reviewed key areas of material controls, including financial, operational, regulatory compliance and risk management systems. On a regular basis it receives reports on risk management, fraud, anti money laundering, legal, regulatory and corporate governance matters in order to assess the effectiveness of the risk management and control frameworks.

In 2014, these reports included the following:

- material/significant notifications arising under Policy on "Whistle Blowing",
- updates on significant projects in the Bank,
- detailed analysis of capital ratios,
- assessment of the Asset Quality Review,
- adequacy of provisioning including IBNR provisions,
- the implementation of EU Directives specifically the amended Directive on Statutory Audits,
- IT Risk Framework,
- Internal Capital Adequacy Assessment Process (ICAAP)
- Implementation of the Santander Internal Control Model

Some of the specific matters the Committee reviewed in 2014:

- Technology Controls & Information Security continued to be an area of specific focus in 2014, particularly in view of a number of integration projects ongoing in the Bank and the publicized IT attacks on individuals and businesses. We received an update on cyber-security developments and the resilience Bank Zachodni WBK has in place against cyber-attacks. We also monitored progress in preparation of the Bank for Recommendation D issued by the KNF.
- Specific control environment reviews from some the following businesses:
 - ✓ Treasury Risk Management
 - ✓ Direct Banking
 - ✓ Customer Compliant Management
 - ✓ Global Banking Markets Division
 - ✓ Business Support Division
 - ✓ Human Resource Division
- Committee also received a number of updates on Anti Money Laundering and Code of Conduct for Securities markets,

In order to ensure effective communication between all relevant parties, the independent Auditor, Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., the Bank's Internal Auditor, the Chief Risk Officer, the Head of Legal & Compliance, the Head of Accounting & Financial Control and Head of Financial Management were invited to attend all the Committee meetings. Other members of the Management Board are also invited to attend as appropriate in order to present reports. In addition, the Committee held separate meetings with members of senior management and the external auditors to discuss issues relevant to the committee.

Financial Reporting

The Committee has reviewed and discussed the Bank's and Bank Zachodni WBK Group's audited Financial Statements with Management, which has primary responsibility for preparing the Financial Statements. It placed particular emphasis on their fair presentation and the reasonableness of the judgmental factors in particular the level of IBNR provisions for each loan portfolio and the appropriateness of significant accounting policies used in their Polska Spółka z ograniczoną odpowiedzialnością Sp. k. their preparation. In particular we considered the consolidation of Santander Consumer Bank and the impact of one-off items that were of a significant nature in the

preparation of the year-end financial statements. The Committee also reviewed and discussed with Deloitte independent review of the financial statements and issues raised with management.

In addition, the Committee continued its detailed review of the Group's capital, liquidity and risk frameworks against the requirements of the KNF Asset Quality Review, Basel II and the requirements of Basel III. The Committee considered the proposed assumptions, methodology and process followed in determining the amount of capital and liquidity required to support the Group's business plans and the adequacy of its capital resources.

In reliance of these reviews, challenges and debates, the Committee concluded that it could recommend that the Supervisory Board approve the audited financial statements for inclusion in the Company's annual report for the year ended 31st December 2014, and the Board accepted the Committee's recommendations.

Internal Audit

The Committee, through the Group Internal Auditor, receives objective independent reports on the operation of internal controls in the Group. The Committee reviewed the Audit Plan and work undertaken during the year, the level of training and skills of the resources of the internal audit function and changes to the internal audit methodology. During 2014 the Group continued its Internal Audit Quality Assurance reporting in accordance with the International Auditing Standards.

External Audit

The Committee recommended to the Board, subject to shareholder approval, the election of Deloitte Audyt as the Company's independent accountants. There is a process in place by which the Audit & Compliance Committee reviews and, if considered appropriate, approves, within parameters approved by the Supervisory Board, any non-audit services undertaken by the Auditors, and the related fees. This ensures that the objectivity and independence of the Auditors is safeguarded.

In addition, the Group paid Pln 3 487 700,00 to Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. for audit services in 2014, relating to the statutory audit of the Group and Company financial statements and the audit of Group subsidiaries (including Santander Consumer Bank) and associates pursuant to legislation. The fees for other services which included advice on accounting, regulatory matters and the fees directly relating to work mentioned above were Pln 1 930 000,00 giving a total fee to Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. of Pln 5 417 700,00 .

The Committee is satisfied that the Group's external auditor provides effective, independent challenge to management and that their comprehensive management letter provides valuable recommendations for improvement of internal controls. In 2014, Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. Polska Spółka z ograniczoną odpowiedzialnością Sp. k. provided to the Committee information on the arrangements it has in place to maintain its independence and objectivity.

Other matters

The Committee conducts a continuous review of its process and performance. The form of the review involved a discussion on the format of the meetings and the effectiveness of the reporting processes. Areas where we could enhance our performance include the form and content of information presented and briefing sessions on industry developments that will impact the scope of work for the Committee.

Focus for 2015

For 2015 the Committee's areas of focus will be continue to be influenced by the changing regulatory environment both in Poland and Europe, the continuous improvement of the Bank's IT Risk framework and increased oversight of the operational risk framework.

▪ RISK OVERSIGHT COMMITTEE

The Risk Oversight Committee is appointed by the Supervisory Board of Bank Zachodni WBK to assist the Board in discharging its oversight responsibilities to shareholders and other stakeholders and to protect the Group from future events that impede the sustainable achievement of its strategic objectives in relation to:

- Appropriate Risk philosophy, as articulated in Risk Principles;
- Risk appetite, as reflected in policies and risk limits;
- A sharpened focused oversight on the more significant business risks undertaken by the bank and;
- The appropriateness of the overall risk governance framework
- Assessment of potential future risks which may impact on the achievement of strategic objectives

The Risk Oversight Committee composition in 2014 was:

- Mr John Power (Chairman)
- Mr Witold Jurcewicz
- Mr Jose Manuel Varela
- Mr Jerzy Surma (to 16th April 2014)
- Mr David Hexter
- Ms Marynika Woroszylska-Sapieha (joined 16th April 2014)

Attendance:

- | | |
|--|-----|
| - Mr John Power (Chairman) | 6/6 |
| - Mr Witold Jurcewicz | 6/6 |
| - Mr Jose Manuel Varela | 3/6 |
| - Mr Jerzy Surma (to 16 th April 2014) | 1/2 |
| - Mr David Hexter | 6/6 |
| - Ms Marynika Woroszylska-Sapieha (joined 16 th April 2014) | 4/4 |

The Committee is conscious, when undertaking its duties that the Bank is in the business of taking risk but at a level that is appropriate relative to the scale and type of business undertaken. The Committee focused on the oversight of forward looking risk issues and the key risk management indicators prepared in accordance to the business strategy.

The Committee operates under a written Terms of Reference updated and approved by the Supervisory Board on 16th April 2014. The Committee undertakes its duties in line with an agreed annual work programme that allows the committee to review the effectiveness of the risk philosophy and the appropriateness of the overall risk governance framework.

The independent Auditors, Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., Head of Bank Zachodni WBK Internal Audit, the Chief Risk Officer, the Head of Legal & Compliance, Head of Accounting and Financial Control, Head of Finance Management and the President were invited to attend all meetings. Other members of the Management Board are also invited to attend as appropriate in order to present reports.

2014 Activities

The Committee met 6 times during the course of the 2014. The key activities reviewed were:

- Review and evaluation the Group's Risk Appetite Statements.
- Review and evaluation the Internal Capital Adequacy Assessment Process (ICAAP).
- Reviewed the Group's actual risk profile against the Risk Dashboard and addressed limit amendments in light of the growth of the business.
- Comprehensive review of risk arising in Bank Zachodni WBK Aviva following the acquisition of a controlling shareholding, the Recommendation U issued by KNF and regulatory proceedings in the insurance industry.
- Comprehensive assessment of the credit portfolio including comparison to peers in the market and the assessment of future risks in the mortgage market.
- Assessment of the Credit Recovery process and the future challenges with the implementation of the amendment Bankruptcy law.
- Overview of the product commercialization process which approves and monitors new products

On a regular basis the Committee receives reports on the Group's risk profile and key performance indicators, particular in relation to (i) performance vs. risk appetite and tolerance, (ii) risk trends, (iv) risk concentrations.

A key element of the Risk Oversight Committee's work is the oversight of the stress testing undertaken by the bank in accordance with its own assumptions and benchmarked against the requirements set by the KNF. The results of the stress testing are linked closely with the Committee's review of the Group's Risk Appetite Statement and policies appropriate to the overall strategy adopted by the Supervisory Board. As in previous years, the stress testing exercises demonstrated that Bank Zachodni WBK remains well capitalized and profitable in a stress scenario.

The Committee recommended approval to the Supervisory Board, the Group's economic capital framework, the governance over the Internal Capital Adequacy Assessment Process (ICAAP) and the effective implementation of this process by Management.

Other Matters

The Committee conducts a continuous review of its process and performance. The form of the review involved a discussion on the format of the meetings and the effectiveness of the reporting processes. In 2014 the Committee initiated a learning programme on new trends and developments in the financial industry. Outside facilitators provided an insight into the new developments in Cyber risk, future developments in CRD IV and developments in Internal governance & control.

Focus for 2015

In 2015 the Committee will review amendments to the Group Risk Appetite and continue its comprehensive review of the emerging risks in both the core business of the Group and the overall banking industry.

II. REPORT OF THE SUPERVISORY BOARD ON THE EXAMINATION OF BANK ZACHODNI WBK FINANCIAL STATEMENTS AND THE MOTION RELATED TO THE PROFIT DISTRIBUTION

This report was produced based on the conducted examination and includes the opinion of the Supervisory Board on the following documents presented by the Bank's Management Board to the Annual General Meeting of Shareholders of Bank Zachodni WBK, convened for 16th April 2014:

- Financial Statements of Bank Zachodni WBK S.A. for 2014,
- Management Board Report on Bank Zachodni WBK S.A. Performance in 2014,
- Consolidated Financial Statements of Bank Zachodni WBK Group for 2014,
- Management Board Report on Bank Zachodni WBK Group Performance in 2014,
- Management Board motion on the 2014 profit distribution.

The obligation to review the above documents is imposed on the Supervisory Board by § 32 clause 1 and clause 6 of the Bank's Statutes.

1. Examination of Financial Statements and Reports on operations for 2014

By force of resolution no. 27/2014, adopted on 11th June 2014, the Supervisory Board, based on the recommendation of the Audit & Compliance Committee, selected Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. as the Bank's auditor and vested it with a task of auditing the Financial Statements for 2013. The above audit covered the following documents produced by the Bank's Management Board:

1.1. Financial Statements of Bank Zachodni WBK S.A. for 2014:

- Statement of Financial Position as at 31 December 2014,
- Income Statement for the accounting year ended 31 December 2014,
- Statement of Comprehensive Income for the accounting year ended 31 December 2014,
- Movements in Equity for the accounting year ended 31 December 2014,
- Cash Flow Statement for the accounting year ended 31 December 2014,
- Additional Notes.

1.2. Management Board Report on Bank Zachodni WBK S.A. Performance in 2014.

1.3. Consolidated Financial Statements of Bank Zachodni WBK Group for 2014:

- Consolidated Statement of Financial Position as at 31 December 2014,
- Consolidated Income Statement for the accounting year ended 31 December 2014,
- Consolidated Statement of Comprehensive Income for the accounting year ended 31 December 2014,
- Movements in consolidated equity for the accounting year ended 31 December 2014,
- Consolidated Cash Flow Statement for the accounting year ended 31 December 2014,
- Additional Notes.

1.4. Management Board Report on Bank Zachodni WBK Group in 2014.

Based on the findings of the audit conducted by Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., presented in the following documents:

- Opinion of the Independent Auditor and Report supplementing the Auditor's opinion on the separate Financial Statements of Bank Zachodni WBK S.A. for the financial year ended 31 of December 2014,
- Opinion of the Independent Auditor and Report supplementing the Auditor's opinion on the consolidated Financial Statements of Bank Zachodni WBK Group for the financial year ended 31 of December 2014,

the Supervisory Board stated that the 2014 Financial Statements presented by the Management Board, have been prepared, in all material respects, and give a true and fair view of the financial position of the Bank and the Group as at 31 December 2014 and of their financial performance and their cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the Bank's unconsolidated financial statements and the consolidated financial statements applicable.

The Supervisory Board decided with resolution no. 5/2015, dated 5th March 2015, to submit to the AGM for approval:

- Financial Statements of Bank Zachodni WBK for 2014,
- Management Board Report on Bank Zachodni WBK Performance in 2014,
- Consolidated Financial Statements of Bank Zachodni WBK Group for 2014,
- Management Board Report on Bank Zachodni WBK Group Performance in 2014.

2. Review of the Bank's Management Board motion related to the 2014 profit distribution

The Supervisory Board examined the Bank's Management Board motion related to the 2014 profit distribution, and with resolution no. 8/2015, dated 23rd March 2015 decided to recommend approval of the above motion to the Annual General Meeting of Shareholders.

3. Summary

The Supervisory Board stated that it acted with due care with regard to comprehensive examination of the documents presented by the Bank's Management Board and in line with its resolution no. 9/2015, dated 23rd March 2015, the Supervisory Board presents this report to the Annual General Meeting of Shareholders of Bank Zachodni WBK.

III. ASSESSMENT OF BANK ZACHODNI WBK STANDING INCLUDING AN EVALUATION OF THE INTERNAL CONTROL SYSTEM AND THE SIGNIFICANT RISK MANAGEMENT SYSTEM

1. BANK ZACHODNI WBK PERFORMANCE IN 2014

Merger of Bank Zachodni WBK and Kredyt Bank

On 4 January 2013 (date of merger) the Bank registered the business combination of Bank Zachodni WBK and Kredyt Bank. The transaction was settled through the issue of merger shares. As a result, eligible shareholders of Kredyt Bank S.A. were entitled to take up shares in accordance with the agreed exchange ratio of 6.96 Merger Shares for every 100 shares of the Kredyt Bank. This represents a total of 18 907 458 ordinary shares with a nominal value of PLN 10 each, with a total nominal value of PLN 189 074 580. For the purposes of the settlement, the price of the new shares was determined in the amount of PLN 240.32.

As at the date of publication of the consolidated report of Bank Zachodni WBK Group for 2014, the acquisition of Kredyt Bank was closed and accounted for.

Acquisition of the controlling stake in Santander Consumer Bank S.A.

On 1 July 2014, Bank Zachodni WBK completed the acquisition of the controlling stake in Santander Consumer Bank S.A. ("Group SCB") following the execution of the Investment Agreement of 27 November 2013 by Bank Zachodni WBK, Santander Consumer Finance S.A. (SCF) and Banco Santander S.A. (Santander) pursuant to which Bank Zachodni WBK agreed to acquire 3 120 000

shares (i.e. 1 040 001 preferred shares and 2 079 999 ordinary shares) with a nominal value of PLN 100 each in Santander Consumer Bank S.A. (SCB) with its registered office in Wrocław, constituting 60% of the share capital of SCB and ca.67% of the votes at the General Meeting of SCB SA. The shares were acquired by way of a private placement and an in-kind contribution. Following the completion of the transaction the bank holds 60% of the share capital of SCB and 60% of the votes at its General Meeting.

Bank Zachodni WBK Group's Financial Standing in 2014

In 2014, the Polish economy was growing by more than 3%YoY, yet the economic activity lost momentum in the second half of the year due to considerable changes in the external economic environment - the euro zone slid into stagnation and Russia introduced counter-sanctions against the European Union. This undermined the external demand for Polish products and weighed on the country's economic prospects.

The main driver of GDP growth was domestic demand. Private consumption growth was improving steadily, supported by favourable situation on the labour market and decent growth of households' income, but it kept at a moderate level. A healthy growth was also recorded in fixed investment, which rose at a nearly double-digit pace. Stronger domestic demand and slower growth of external demand resulted in deterioration of net exports contribution to GDP growth, which was most likely negative. However, a further deterioration of economic prospects of the main Poland's trade partners negatively affected, among others, domestic exports and industrial output, which significantly slowed in the second half of 2014.

Inflationary pressure was really low throughout 2014 under the impact of still relatively weak economic growth and deflationary tendencies outside Poland. The Russian embargo on food from the European Union was another factor supporting a decline in prices, as it caused an oversupply of food products in the Polish and the wider EU market. At the end of the year oil prices plunged, which translated into a decline of fuel prices in the domestic market. In July CPI inflation fell below zero, reaching -0.9% YoY at the year-end. Annual average CPI inflation was equal to 0.0%, core inflation, excluding food and energy prices, was at 0.6% YoY and PPI inflation at -1.5%YoY.

The downside risk for growth, much-lower inflation and monetary easing combined to support a rally on the Polish fixed income market, with yields falling to all-time lows. In the FX market, the EURPLN rate was relatively stable throughout the year, fluctuating between 4.10 and 4.25 per euro.

In 2014, the situation on the loan market improved. Corporate investment loan growth accelerated from 1.6% YoY at the beginning of the year to ca. 6% YoY at the end (after FX adjustment). Loans in the household sector also rebounded quite visibly (increasing by ca. 5% YoY on average), but the pace of growth was slower as compared with corporate loan growth.

The second half of 2014 brought some termination in positive tendencies in this sector, but the pace of growth remained slightly above 4% YoY. The growth rate of household deposits was relatively slower than in the previous year, but gradually improved over 2014. At the same time the growth rate of corporate deposits was higher than in 2013 and was characterized by high volatility.

Profit and Loss Account

Since December 2013, Bank Zachodni WBK has acquired direct control over three subsidiaries: BZ WBK-Aviva TUO, BZ WBK-Aviva TUnŻ and Santander Consumer Bank and included them in its consolidated accounts, which resulted in significant increases in the individual income and cost items of the consolidated income statement, with a moderate impact on the profit before tax for 2014.

The BZ WBK-Aviva insurance companies, that have been consolidated in the financial statements since 1 January 2014, met the definition of associates and were recognised using the equity method in 2013.

Since 1 July 2014, the consolidated pre-tax profit of Bank Zachodni WBK Group had also contained the results of Santander Consumer Bank and its connected entities: the SCB Group, which for the second half of 2014 was PLN 268.6m (after consolidation and intercompany adjustments).

In 2014 r. Bank Zachodni WBK Group earned the gross profit of PLN 2 640,0 m, higher by 5,0% than in 2013.

The profit attributable to the shareholders of Bank Zachodni WBK for the year was PLN 1,914.7m, i.e. down by 3.4% YoY.

Income

The total income for 2014 was PLN 6,579.0m and increased by 8.0% YoY. Adjusting for the gains on subordinated entities (Krynicki Recykling in 2014 and BZ WBK-Aviva companies in 2013), the respective income increased by 15.8% YoY.

The interest income for 2014 was PLN 3,996.8m and increased by 22% YoY.

The YoY increase in the net interest income was achieved in the falling interest rate environment as a combined result of: increase in the Group's interest income (+9.7% YoY to PLN 5,723.0m) on the back of the half-yearly interest income of Santander Consumer Bank S.A., and the fast decrease in interest expense, which decelerated over the year as a result of incorporation of SCB and a deposit sales campaign conducted by Bank Zachodni WBK during H2 (-11.0% YoY to PLN 1,726.2m).

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

In Q3 2014, the quarterly net interest margin climbed from 3.72% to 4.07% due to incorporation of the gross credit receivables (PLN 13.5bn) and the net interest income of SCB Group (PLN 259.8m) in the consolidated financial statements.

Over the last three months of 2014, the net interest margin slid from 4.07% to 3.55% as a result of the October rate cuts, which lowered the cap on the maximum interest rate on consumer loans and exerted a negative pressure on WIBOR rates. This caused erosion of interest income from credit portfolios while constraining the growth of interest expenses generated by the enlarged deposit base.

In 2014, the net fee and commission income was PLN 1,847.8m an increase of 3.9% YoY.

The most pronounced growth on a year-on-year basis was noted in the net credit card fee income (+37.9% YoY), which was primarily attributed to the developing credit card base, increase in credit card transaction volumes and revision of selected credit card fees and charges.

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

The bancassurance fee income grew by 18% YoY due to the six-month contribution of PLN 61.9m from Santander Consumer Bank. Viewed on a stand-alone basis, the underlying insurance fee income of Bank Zachodni WBK went up by 14.4% YoY, driven mainly by the sale of cash loan and card insurance.

Costs

In 2014, the total expenses of the Group amounted to PLN 3,103.8m, and were 8.4% higher YoY.

Excluding the integration and other non-recurring costs (PLN 205.8m in 2014 and PLN 264.4m in the corresponding period), the operating costs of SCB Group, BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ, and the depreciation of PLN 84.4m arising from allocation of the purchase price of the two insurance companies, the total underlying costs dropped by 2.8% YoY.

It should be noted that this result was achieved by continuing intensive development initiatives geared towards improvement of the Group's product range, customer service and corporate culture in accordance with the "Next Generation Bank" strategic programme.

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

Assets

As at 31 December 2014, total assets of Bank Zachodni WBK Group amounted to PLN 134,501.9m, and increased by 26.8% YoY. The value and structure of the Group's statement of financial position is mainly affected by the parent company, which accounts for 90.4% of the consolidated total assets vs. 88.3% at the end of September 2014 and 97.5% at the end of December 2013. The lower share of Bank Zachodni WBK reflects the assumption of control over and consolidation of Santander Consumer Bank effective from 1 July 2014.

Basing on NBP statistics market share of Bank Zachodni WBK Group in the end of 2014 was 8.9% for loans and 9.5% for deposits.

Credit portfolio

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

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

Compared with the end of 2013, loans and advances to individuals increased by 40.4% YoY to PLN 47,784.1m at the end of December 2014, including PLN 12.5bn contributed by SCB Group. Home mortgages, which represent the major portion of loans and advances to individuals, increased by 22% YoY to PLN 30,860.8m. Cash loans, grew by 72.5% to PLN 9,741.6m.

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

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

The loan to deposit ratio was at the level of 90.4% as at 31 December 2014 in comparison to 86.7% as at 31 December 2013.

Equity and Liabilities

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

programme guaranteed by Santander Consumer Finance, and the bonds issued as part of the securitisation of the retail loans portfolio of Santander Consumer Bank.

The growth in the portfolio of financial liabilities held for trading and hedging derivatives (+145.6% YoY and 39.6% QoQ) was driven by IRS and FX swaps.

An increase in deposits from banks (+33.1% YoY and 7.3% QoQ) reflects the Group's stronger trading in the repo market, including the contribution of PLN 1.4bn from SCB Group.

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

Deposits

The retail deposits base increased by 21.4% YoY to PLN 58,257.0m due to a rapid growth in term deposits from individuals (+38.5% YoY) driven by consolidation of SCB Group and strong acquisition activity pursued by the bank in Q3 and Q4, mainly by means of the attractively priced New Easy Earning Deposit, which attracted approx. PLN 5bn of new funds from its launch in mid-August 2014 to the end of October. In Q4 2014, the focus was placed on strengthening the relations with new customers by offering them deposits combined with other active products, retaining maturing deposits and building long-term co-operation.

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

Diversification of Funding Sources for the Core Business

Issue of Own Bonds

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

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

Agreement with the European Investment Bank

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

Credit Agreement

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

Share Price of Bank Zachodni WBK

In 2014, the share price of Bank Zachodni WBK continued to trend sideways. Despite strong fluctuations of up to 20% during the year, the bank's share price closed down 3.4% (from PLN 387.60 as at 30 December 2013 to PLN 375.00 as at 30 December 2014) in line with WIG20 (-3.5% YoY).

The upward trend in the share price of Bank Zachodni WBK reported in 2013 reversed by 3.5% on account of factors beyond the bank's control, such as the reform of open-end pension funds, conflict in Ukraine and interest rate cuts.

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

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

Rating

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

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

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

The support and viability ratings were reaffirmed.

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

2. ASSESSMENT OF INTERNAL CONTROL SYSTEM

As required by the Statutes, the bank operates an internal control system which supports the decision-making processes and contributes to the bank's efficient operation, reliability of financial reporting as well as compliance with the law and internal regulations.

The bank's internal control system is adequately adjusted to the bank's organisational structure and risk management system as well as to the size and complexity of the bank's business. It covers all units across the bank as well as its subsidiaries.

The bank's Management Board is responsible for designing, implementing and functioning of the system of internal control. The internal control system includes: risk controls, monitoring and testing of Bank's compliance with external and internal regulations, and internal audit.

Internal control and risk management systems are structured into three lines of defense. Control measures under the first line check compliance with procedures and they are an ad hoc/on-going response to any identified deficiencies or shortcomings.

The second line of defense is formed by specialized units performing control functions which support the bank's management in risk identification and management and serve assessment of the first line controls.

The third line of defense is the Internal Audit Area, which activity is supervised by the Audit and Compliance Committee of the Supervisory Board. IAA provides independent and objective examination as well as assurance on the first and second tier controls as well as on the bank's management system, including the effectiveness of managing the risk related to the bank's business. For that matter, Internal Audit verifies the adequate coverage of the Group's risks, in compliance with top management policies, applicable procedures and internal and external regulations. Using its own risk matrix and knowledge, IAA performs a regular assessment of the present and future risk across the bank and Bank Zachodni WBK Group, developing annual audit plans to cover them. Also, priorities highlighted by the bank's management, the Audit and Compliance Committee, the external auditor, and banking supervision institutions are taken into account.

The Supervisory Board is responsible for the supervision over the implementation of the internal control system and for assessing its adequacy and effectiveness. It receives current and accurate information on compliance with the law and internal regulations, identified irregularities and efficient management actions undertaken to remove these issues, completeness and correctness of accounting procedures as well as adequacy, functionality and security of the IT system. The Risk Management Committee and the Audit and Compliance Committee are updated on a regular basis on the operation of the internal control system from the units of the second and third lines of defense which facilitates the on-going monitoring of the system's effectiveness.

The control findings are taken account of and used to improve the existing processes and safety by making relevant changes to internal processes and regulations. The implementation of a necessary new process is regularly verified by Internal Audit Area.

3. ASSESSMENT OF THE RISK MANAGEMENT SYSTEM

Bank Zachodni WBK has an integrated risk management framework ensuring that all risks having material impact on the bank's operations are identified, measured, monitored and controlled. In the Supervisory Board's opinion, this framework is appropriately matched to the bank's size and risk profile. The Bank optimizes the risk management framework on a regular basis, adapting it to the changing environment and risk profile associated with the planned strategy.

The responsibility for the management of individual risks was split between the Bank's organizational units that are supported by relevant Committees. The risk management strategy is set by the Risk Management Committee (RMC) overseeing the activity of other Committees having risk management authority. The fact that Members of Management Board and senior management sit on key Committees ensures senior management engagement in the risk management of the Bank.

One of the basic elements of the risk management framework of Bank Zachodni WBK is setting the levels of risk that the Bank is ready to accept in its day-to-day business. The acceptable risk level is expressed in the form of quantifiable limits set out in the "Bank Zachodni WBK Group Risk Appetite Statement" approved by the Management Board and the Supervisory Board. The Bank conducts a detailed review of the limits with regard to the existing and potential risks, market conditions as well as the financial and capital plan at least once a year. Stress-testing and scenario analyses represent the key tool used to analyse the limits and ensure that the bank retains an adequate capital position even in extreme and severe circumstances.

The Bank has methodologies and processes in place to identify and assess risks to determine their potential impact on the Bank's operations now and in the foreseeable future. With a view to identifying and assessing risks for the entire organisation, the review of material risks is carried out as part of the ICAAP process. Identified risks are managed using policies and best practices to keep them at an acceptable level. The Bank uses various risk assessment and measurement techniques depending on risk type and materiality, including:

- Customer and/or transaction grading models - for credit risk assessment purposes;
- VAR methodology for market risk; and
- Operational risk self-assessment methodologies.

The comprehensive risk management framework is supported by a consistent and transparent system aimed at monitoring and reporting risk levels and excesses against defined limits. The reporting system covers key management levels. The Supervisory Board receives regular reports assessing the level of identified risks and reports assessing the effectiveness of actions taken by the Bank's Management Board.

The Bank aims to keep the right risk/reward balance. Support for the Bank's development strategy, while retaining best in class risk management standards and compliance with the regulatory environment, is amongst the key assumptions underlying the risk management process.

In 2014, higher growth of the credit portfolio was observed. This was a consequence of both the improvement of macroeconomic situation and of the optimisation of the credit policy resulting from full unification of internal credit regulations of the former Kredyt Bank and Bank Zachodni WBK . The Bank also thoroughly analysed the macroeconomic market fluctuations and closely monitored the risk exposure, thus adjusting, on an ongoing basis, the risk management policy parameters to reflect the changing market climate.

The Bank continued its ongoing work aimed at strengthening the risk assessment tools, in particular by introducing innovative data sources in risk analysis. With regard to the lending process, it is worth pointing to the fact that the Bank launched the I-Risk Programme, which is aimed at implementing over the next few years the Advanced IRB method for calculation of internal capital as well as the optimization of credit processes for all customer segments through deployment of appropriate workflow tools (to accelerate and simplify the process by replacing multiple IT applications used for credit process with a single tool).

In 2014, the Bank continued to adjust the Bank to the requirements of *CRD 4 / CRR*, in particular adequate liquidity risk monitoring and reporting system was implemented. Based on the assumptions behind the *Bank Union (Single Supervisory Mechanism)*, especially the *Recovery and Resolution Regime*, the Bank developed its own *Recovery Plan*, the so-called "*Living Will*", which describes the actions that the Bank would take to maintain adequate capital and liquidity position in the event of a crisis or a severe stress event.

One of the key tasks accomplished by the Bank in 2014 was also the effective merger with Kredyt Bank SA regarding complete integration of IT systems supporting the risk management process among others.

To reinforce the supervision over the risk management, the Internal Control Model Department was included in organisational structures of Risk Management Division. As far as risk governance framework is concerned, the Restructuring Committee was established. The Committee takes decisions concerning the relationship management strategy for corporate borrowers in distress whose exposure does not exceed PLN 25m, debt –reductions and sales of receivables.

4. SUMMARY:

The Supervisory Board assesses the situation of the Bank as good and stable. The assessment is justified by:

1. The execution of the Kredyt Bank merger plan on time and achieving benefits ahead of target, incorporation Santander Consumer Finance into Bank Zachodni WBK Group,
2. Good financial results in a challenging economic environment,
3. Excellent cost management,
4. Effective risk management,
5. Strong capital and funding position, and
6. Strong internal control system.