

**Supervisory Board
Bank Zachodni WBK**

**REPORT
ON THE SUPERVISORY BOARD ACTIVITY IN 2011**

February 2012, Warsaw



WBK

Bank Zachodni WBK



Bank Zachodni WBK jest członkiem Santander Group.

I. BOARD COMPOSITION & MANNER OF DISCHARGE DUTIES & RESPONSIBILITIES

1. As at 1 January 2011, the Supervisory Board (SB) had the following composition:

- | | |
|--|---------------------------|
| ▪ Chairman of the Supervisory Board | - Mr Aleksander Szwarc |
| ▪ Deputy Chairman of the Supervisory Board | - Mr Gerry Byrne |
| ▪ Members of the Supervisory Board: | - Mr Waldemar Frąckowiak |
| | - Mr Aleksander Galos |
| | - Mr Maeliosa OhOgartaigh |
| | - Mr John Power |
| | - Mr Jacek Ślotała |

2. Changes in the Supervisory Board composition

On 21 April 2010, given the end of the Supervisory Board's term in office, BZWBK Annual General Meeting established the following composition of the Board:

- Mr Jose Antonio Alvarez,
- Mr. Gerry Byrne,
- Mr Jose Louis De Mora,
- Mr Witold Jurcewicz,
- Mr Piotr Partyka,
- Mr. John Power,
- Mr Jose Manuel Varela.

The AGM appointed Mr Gerry Byrne to the position of the Supervisory Board Chairman. Pursuant to § 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 Jose Manuel Varela.

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 submitted statements, the following Supervisory Board Members have the independence status:

- Mr Witold Jurcewicz,
- Mr Piotr Partyka,
- Mr John Power (Chairman of the Audit Committee and Chairman of the Risk Oversight Committee).

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

II. CHANGE OF BZWBK S.A. MAJORITY SHAREHOLDER

On 1 April 2011, in relation to the completion by Banco Santander S.A. of the Bank Zachodni WBK S.A. acquisition process in the form of a public tender for its shares, BZ WBK became part of Santander Group.

III. STATISTICAL DATA ON THE SUPERVISORY BOARD'S ACTIVITY IN 2011

From 1 January until 31 December 2011, the Supervisory Board held 7 meetings and passed 48 resolutions. The Board Members' average attendance rate was 92.7%.

III. MAJOR AREAS OF THE SUPERVISORY BOARD'S ACTIVITY IN 2011

In 2011, the Board focused both on strategic matters as well as on the supervision of the Bank's day-to-day business:

- The Supervisory Board carried out its activities based on the adopted schedule of meetings and the annual work programme. The agenda of each meeting was extended (if appropriate) by current business matters, issues submitted for the Management Board's 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.
- The Supervisory Board was updated on an on-going basis about progress in the process of integrating BZWBK's key business streams with the Santander Group with a view to achieving maximum synergies by applying best practice and leveraging expertise and tested solutions of the new strategic investor. Relevant organisational structure, management of relationships with the largest corporate customers as well as the containment of risks and cost base were among the topics considered.
- The Supervisory Board approved a change to the Bank's Organisational Regulations whereby a new Global Banking & Markets Division was established as a business unit dedicated to servicing corporate customers who given their size, sophisticated structure and operations require adequately customised service and products. The Division operates within the Global Banking & Markets model applied by the Santander Group and will leverage the Group's potential as regards the acquisition and service of Polish corporate customers operating on the international scale and cross-border companies conducting operations in Poland.
- The Supervisory Board was updated on an on-going basis about actions taken to curtail system dependencies with AIB with a view to ensuring business continuity following the date of selling BZ WBK shares to Banco Santander and, additionally, about progress in the process of transferring licenses from AIB to BZ WBK as well as system solutions implemented by the new strategic investor.
- Discharging its duties arising from §32 of the Bank's Statutes, the Supervisory Board conducted on-going assessment of the financial performance of the Bank and BZ WBK Group as well as current projections prepared on that basis, taking account of the business and operating tendencies in place, opportunities and challenges as well as variances against the Plan. The evaluation was based on financial reports presented by the Management Board.
- The Supervisory Board followed current macroeconomic and market forecasts and their impact on the Polish economy as well as operations, financial and business performance of the Bank and BZWBK Group.

- The Supervisory Board was regularly advised on key trends emerging in the banking sector and performance generated by competitive banks as well as on BZWBK's benchmarking and tendencies projected for the sector.
- The Supervisory Board requested information and was advised on an ongoing basis by the Bank's Management Board about current priorities and approach to challenges relating to funding, capital management, risk management, in particular credit risk management and cost management.
- As part of the overall supervision of the internal capital assessment processes, the Supervisory Board approved, based on Audit Committee reviews and recommendations, ICAAP policies and regular reports.
- As part of the supervision exercised over the risk management process, the Supervisory Board undertook reviews of the main risk areas, focusing on the oversight of individual risks, compliance with applicable policies and internal procedures as well as KNF's recommendations, relevant risk identification mode and agreeing of management action plans.
- Based on the conducted reviews and Audit Committee recommendations, the Supervisory Board approved the acceptable risk level expressed as limits set out in the "Risk Appetite Statement". In line with the agreed process, the Supervisory Board supervised and monitored the level of internal limit utilization.
In the Supervisory Board's opinion, the Bank's has an updated and acceptable risk level that matches the current market conditions.
- As part of the supervision of the credit risk management process, the Supervisory Board was informed about the current lending strategy and performed quarterly reviews of the loan portfolio to ensure compliance with the Regulatory Recommendations, changes in credit policies and key credit risk factors.
In addition, the Supervisory Board was provided with information about individual credit portfolios broken down by products/ customer segments with a special focus on their quality and profitability.
- The Supervisory Board undertook a review of the strategy and different areas of the Bank and its subsidiaries paying particular attention to areas requiring improvement, high and steady income streams, their diversification and market share growth.
- The Supervisory Board approved the Business Strategy for the BZ WBK Group for the years 2012-2014. The document alludes to the BZ WBK Group's strategy for the years 2009-2011 and reflects the change of the strategic investor.

IV. OPERATIONS OF THE SUPERVISORY BOARD COMMITTEES

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

- Nominations & Remuneration Committee,
- Audit & Compliance Committee,
- Risk Oversight Committee.

In relation to its new term of office, by force of Resolution no. 21/2011 dated 20 April 2011, the Supervisory Board approved the composition of individual committees as well as respective terms of reference setting out their scope of duties and manner of operation. The terms of reference are available at the Supervisory Board Secretariat.

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 submitted 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 2011.

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

▪ **THE 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 ensuring 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 SB with regard to the composition of the Management Board;
3. overall monitoring of the market remuneration practices and 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 2011 was:

- Mr Gerry Byrne (Chairman),
- Mr Aleksander Szwarc – retired on 20 April 2011,
- Mr Jacek Ślotała – retired on 20 April 2011
- Mr Jose Antonio Alvarez – joined the Committee on 20 April 2011,
- Mr Jose Luis de Mora – joined the Committee on 20 April 2011.

The Committee usually invites the President of the Management Board, the Head of the HR Management Division and other persons, as deemed relevant to considered matters, to its meetings.

In 2011, the Committee focused on the following issues:

- Preparing recommendations for the Supervisory Board with regard to:
 - a) 2010 bonus for the Management Board members based on adopted bonus policies,

- b) Performance Bonus for the Bank's Management Board Members given the closure of the BZ WBK sale transaction by AIB Group and the shares taken up by Banco Santander.
- Filing a motion with Komisja Nadzoru Finansowego (KNF) with regard to the adjustment of the Bank's Statutes in the scope related to KNF's consent for appointment of the Bank's Management Board Member in charge of risk management.
In response to the Supervisory Board's motion, on 20 December 2011, Komisja Nadzoru Finansowego took a decision whereby it gave consent for appointing Mr Andrzej Burliga Bank Zachodni WBK Management Board Member in charge of risk management.
- Proceeding with open vacancy competitions and presenting to the Supervisory Board recommendations as regards filling in the following positions on the Bank's Management Board:
 - a) Management Board Member in charge of Finance Division given Mr Paul Barry's decision to retire from this position as of the end of July 2011.
 - b) Management Board Member in charge of the Global Banking & Markets Division given the establishment of the new division in the Bank's organisational structure.
- Recommending to the Supervisory Board the adoption of Incentive Scheme IV addressed to senior managements of BZ WBK to be executed in years 2011-2013. The programme is a continuation of the three-year Incentive Schemes that were launched annually in the years 2006-2008.
The Annual General Meeting held on 20 April 2011 adopted resolutions that allowed to launch Incentive Scheme IV.
The Committee developed and presented to the Supervisory Board for approval the templates of the Participation Agreement along with the list of recommended Programme participants that included representatives of the senior executives and management from all divisions and areas of the Bank, 496 people in total.
- Carrying out the annual review of the operation of the bonus scheme for Management Board Members and the senior management and submitting to the SB of a recommendation re. 2012 bonus allocation and bonus pool determination ensuring an adequate level of motivation in the current market environment and reflecting the 2012 Financial Plan targets.
- the Committee considered and recommended to the Supervisory Board changes to the bonus schemes for some business units in the Bank and subsidiaries to more effectively motivate staff to achieve agreed targets and reflect the specific business profile and market standards;
- Presenting to the Supervisory Board a recommendation as regards approval of Policy on variable components of remuneration paid to individuals holding managerial positions in Bank Zachodni WBK Group pursuant to KNF's resolution no. 258/2011. The policy defines the rules of granting variable components of remuneration as well as the rules of defining the list of managerial positions subject to this Policy. The policy aims at
 - a) supporting correct and effective risk management, eliminating at the same time behaviours leading to taking up excessive risks, going beyond the approved risk appetite of the Bank,
 - b) supporting the execution of the bank's strategy,
 - c) limiting potential conflicts of interests.
- Succession planning for the Management Board functions and senior management positions - as in the previous years, this issue was one of the Committee and Supervisory Board's priorities in 2011; actions in this area involved the provision of adequate development programs for individuals covered by succession planning, both at the Bank and its subsidiaries.

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

▪ **AUDIT AND 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:

- the quality and integrity of the accounting policies, financial statements and disclosure practices;
- compliance with relevant laws and regulations, taxation obligations and relevant Codes of Conduct and good business ethics;
- the monitoring of independence and performance of the internal and external Auditors; and
- the system of internal control and management of financial and non-financial risks.

The Audit and Compliance Committee is composed of the following members:

- John Power (Chairman),
- Mr Waldemar Frąckowiak – retired on 20 April 2011,
- Mr Aleksander Galos – retired on 20 April 2011,
- Mr Maeliosa OhOgartaigh – retired on 20 April 2011,
- Mr Piotr Partyga,
- Mr Witold Jurcewicz – joined the Committee on 20 April 2011,
- Mr Jose Manuel Varela – joined the Committee on 20 April 2011,

Attendance

Number of meetings held:	8
- John Power (Chairman),	8/8
- Mr Waldemar Frąckowiak – retired on 20 April 2011,	2/2
- Mr Aleksander Galos – retired on 20 April 2011,	1/2
- Mr Maeliosa OhOgartaigh – retired on 20 April 2011,	2/2
- Mr Piotr Partyga,	8/8
- Mr Witold Jurcewicz – joined the Committee on 20 April 2011,	6/6
- Mr Jose Manuel Varela – joined the Committee on 20 April 2011,	5/6

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

The Audit and Compliance Committee operates under a written Terms of Reference approved by the Supervisory Board and 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 identified in the Bank's business plan.

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 2011, these reports included some notifications arising under the Group policy on "whistle blowing", updates on significant projects in the Bank, detailed analysis of capital ratios, adequacy of provisioning including IBNR provisions, the implementation of EU Directives, Sarbanes Oxley compliance, Basel II compliance and IT system implementations.

In view of the shareholder change, whereby BZ WBK became part of Santander Group, the Supervisory Board entrusted the Audit and Compliance Committee with the task of appointing Deloitte Audyt, the auditor of Santander Group as BZ WBK's Auditor. The Committee performed a detailed review of the Deloitte proposal to perform the audit of the Bank's accounts for 2011. It reviewed the independence, effectiveness and objectivity of Deloitte, assessing the audit firm in Poland, the audit partner and audit teams. The Committee recommended to the Supervisory Board the appointment of Deloitte Audyt Sp. z o.o. as the Bank's auditors subject to majority shareholder approval, and the recommendation was approved by force of the Supervisory Board's resolution of 17 May 2011.

The independent Auditors, Deloitte Audyt & KPMG Audyt sp. z o.o. sp. komandytowa (the Auditor of the Bank's financial statements for 2010), the Bank's Internal Auditor, the Chief Risk Officer, the Head of Legal and Compliance Division and the President were invited to attend all meetings. Other members of the Supervisory Board and Management Board are also invited to attend as appropriate in order to present reports. In addition, the Committee held separate meetings with members of the senior management and the external auditors to discuss issues relevant to the committee.

During 2011 the Committee worked closely with the Management Board on the appointment of a new Internal Auditor. In line with the Audit and Compliance Committee's recommendation, on 1 May 2011 the Management Board's President appointed Mr. Carlos Polaino-Izquierdo as Bank Zachodni WBK Group Internal Auditor. The Committee, through the Group Internal Auditor, receives objective independent reports on the operation of internal controls in the Group. The Committee reviewed the plans and work undertaken during the year in addition to the level and skills of the resources of the internal audit function. During 2011 the Group continued its Internal Audit Quality Assurance reporting in accordance with the International auditing standards. The Committee's members expressed their satisfaction that where areas requiring improvement were identified, they were incorporated into future reports and reflected in the audit processes.

The Committee reviewed and discussed the Bank's audited financial statements with the Management Board, 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 accounting policies used in their preparation. The Committee also reviewed and discussed with KPMG Audyt Sp. z o.o. sp. their independent review of the financial statements and issues raised with the Management Board.

In addition, the Committee continued its detailed review of the Group's capital, liquidity and risk frameworks against the requirements of the KNF stress test scenarios, Basel II and the volatility in the global financial markets. The Committee analysed the proposed assumptions, methodology and process followed in determining the amount of capital and liquidity required to support the delivery of the Group's business plans and its capital adequacy.

In reliance of these reviews and discussions, the Committee recommended the Supervisory Board the approval of the audited financial statements for inclusion in the Company's annual report for the year ended 31 December 2011. The Supervisory Board accepted the Committee's recommendation.

There is a process in place by which the Audit & Compliance Committee reviews and, if appropriate, signs off, 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 are safeguarded.

In 2011, the Group did not record expenses related to KPMG Audyt audit services. The fees for other services which included advice on accounting and regulatory matters were PLN 1.97 mln.

In addition, the Group recorded expenses of PLN 2.16 mln for Deloitte Audyt audit services, which related to the statutory audit of the Group and Bank's financial statements and the audit of Group's subsidiaries and associates for 2011 pursuant to legislation. The fees for other services which included advice on accounting and regulatory matters were PLN 0.08 mln giving a total fee to Deloitte of Pln 2.24m.

In the Committee's opinion, the Group's external auditor provides effective, independent challenge to Management and that their management letter provides valuable recommendations for improvement of internal controls.

The Committee conducts a continuous review of its work and performance. The form of the review involved a discussion on the format of the meetings and the effectiveness of the reporting process.

▪ **RISK OVERSIGHT COMMITTEE**

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

1. Appropriate Risk philosophy, as articulated in Risk Principles;
2. Risk appetite, as reflected in policies and risk limits;
3. A focused oversight on the more significant business risks undertaken by the bank, and
4. The appropriateness of the overall risk governance framework,

The Risk Oversight Committee is composed of the following members:

- John Power (Chairman),
- Mr Waldemar Frąckowiak – retired on 20 April 2011,
- Mr Aleksander Galos – retired on 20 April 2011,
- Mr Maeliosa OhOgartaigh – retired on 20 April 2011,
- Mr Piotr Partyga,
- Mr Witold Jurcewicz – joined the Committee on 20 April 2011,
- Mr Jose Manuel Varela – joined the Committee on 20 April 2011,

Attendance

Number of meetings held:	4
- John Power (Chairman),	4/4
- Mr Waldemar Frąckowiak – retired on 20 April 2011,	1/1
- Mr Aleksander Galos – retired on 20 April 2011,	1/1
- Mr Maeliosa OhOgartaigh – retired on 20 April 2011,	1/1
- Mr Piotr Partyga,	4/4
- Mr Witold Jurcewicz – joined the Committee on 20 April 2011,	3/3
- Mr Jose Manuel Varela – joined the Committee on 20 April 2011,	2/3

The Committee is aware, when undertaking its duties that the Bank is in the business of taking risk but at a level that is appropriate relative to the Group's scale and type of business undertaken. The Risk Oversight Committee operates under a written Terms of Reference approved by the Supervisory Board and in line with 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 Committee met 4 times during the course of 2011 and reviewed key areas of the business including Treasury, Corporate Banking, Retail Banking and the Investment Banking Divisions. On a regular basis it receives reports on the Group's risk profile and key performance indicators, in particular in relation to (a) the Top 5 risks, (b) performance vs. risk appetite and tolerance, (c) risk trends, (d) risk concentrations. The Risk Oversight Committee continued to take a forward looking risk assessment approach in each of these business lines and sought to identify the risks associated with their respective five year strategies. In managing its' responsibilities the committee focused on:

- Strengthening risk management across the Group.
- Preparing Basel III guidelines for implementation.
- Risk monitoring.
- Group risk management policies.
- Future capacity of the business units to meet the business needs.

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.

The independent Auditors, Deloitte Audyt, the Bank's Internal Auditor, the Chief Risk Officer, the Head of Legal and Compliance Division and the President were invited to attend all meetings. Other members of the Supervisory Board and Management Board are also invited to attend as appropriate in order to present their reports.

The Committee conducts a continuous review of its work and performance. The form of the review involved a discussion on the format of the meetings and the effectiveness of the reporting process.

V. ASSESSMENT OF THE SUPERVISORY BOARD ACTIVITY IN 2011

The Supervisory Board assessed its performance for 2011 in accordance with point 1, sub-point 2, section 3 of the "Best practice for the WSE listed companies".

Accordingly, the Supervisory Board states that it has discharged its duties & responsibilities set out in the Commercial Companies Code and the BZWBK Statutes with due care holding meetings at a frequency ensuring that all matters within the Board's remit were addressed. In their actions, the Supervisory Board Members were guided by the interest of the Bank and the independence of judgements and opinions. Both the composition of the Supervisory Board as well as the knowledge and experience of its Members ensured adequate and efficient performance of the Board and its effective supervision of the Bank's operations in 2011.