

MANAGEMENT BOARD REPORT ON BANK ZACHODNI WBK GROUP PERFORMANCE IN 2011

2011



WBK

| Bank Zachodni WBK S.A.

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I. Overview of BZ WBK Group Performance in 2011

This section is an overview of the financial performance of BZ WBK Group in 2011 compared with the previous year and shows internal and external factors affecting the Group's profit and activity.

Financial Highlights

- Total Income increased by 8.1% y-o-y to PLN 3,823.0 m.
- Excluding once-off cost adjustments of PLN 88.8 m charged to the Q4 performance in connection with the alignment of BZ WBK Group operating procedures with Santander Group, the underlying total costs increased by 4.1% y-o-y to PLN 1,835.8 m. After once-off adjustments, total costs increased by 9.1% y-o-y to PLN 1,924.6 m with staff costs up 1.9% y-o-y to PLN 976.8 m.
- Underlying Profit-Before-Tax (excl. once-off adjustments) increased by 20.2% y-o-y to PLN 1,631.2 m. After once-off adjustments, Profit-Before-Tax increased by 13.6% to PLN 1,542.4 m.
- Underlying Profit-After-Tax attributable to shareholders of Bank Zachodni WBK was PLN 1,273.1 m and 30.7% higher y-o-y. After once-off adjustments, the profit increased by 21.6% y-o-y to PLN 1,184.3 m.
- Capital Adequacy Ratio at 15.10% (15.77% as at 31 December 2010).
- Based the underlying figures, Return on Equity was at 21.2% and at 19.7% after once-off adjustments (17.6% as at 31 December 2010).
- Based on the underlying figures, Cost/Income Ratio was 48.0% versus 50.3% after once-off adjustments charged in full to the operating costs (49.9% in 2010).
- Net impairment losses on loans and advances amounted to PLN 367.0 m versus PLN 420.8 m in 2010. NPL ratio decreased to 5.5% (6.8% as at 31 December 2010) with annual impairment losses to average credit volumes at 1.0% (1.2% as at 31 December 2010).
- Loans-to-Deposits ratio was 81.2% as at 31 December 2011 compared with 78.2% as at 31 December 2010.
- Gross loans to customers increased by 15.1% y-o-y driven by the growth in the business and public sector loan portfolio (+20.5% y-o-y) to PLN 24,521.2 m and personal loan portfolio (+9.9% y-o-y) to PLN 12,572.6 m. Excluding the impact of FX movements, the gross loans to customers increased by 11.2% y-o-y.
- Deposits from customers increased by 11.6% on the end of 2010 as a result of higher business and public sector deposits (+17.8% y-o-y) as well as personal deposits (+7.5 y-o-y), totalling PLN 19,718.2 m and PLN 27,111.3 m, respectively. Excluding the impact of FX movements, the deposits from customers increased by 10.3% y-o-y.
- Decline in the net value of assets held by mutual funds and private portfolios by 29.3% to PLN 8.6 bn in 2011, reflecting growing uncertainty among investors about political and economic developments around the world.
- The number of active bank accounts increased by 17.8% y-o-y and exceeded 3.5m.
- The number of customers using the BZWBK24 electronic banking services came close to 2 m and was stable y-o-y while the BZ WBK payment card base included ca. 2.5 m debit instruments and increased by 9.2% y-o-y.

Key Developments and Achievements

- Finalized sale of the entire shareholding of Bank Zachodni WBK and BZ WBK Asset Management held by subsidiaries of AIB, p.l.c. to Banco Santander.
- Gradual integration of Bank Zachodni WBK with Banco Santander, reflected by the alignment of certain organisational structures and operating procedures:
 - ✓ Creation of the Global Banking & Markets Division to manage the relationship with the largest customers as well as provide a wide array of credit, treasury and investment services.
 - ✓ Cost adjustments of PLN 88.8 m made in Q4 2011, resulting from the alignment of operating procedures.
- Extension of the list of associated companies accounted for using the equity method in the consolidated financial statements of BZ WBK Group, to include the Holicon Group S.A. from the equity portfolio of the subsidiary company Inwestycje Sp. z o.o.
- Removal of Bank Zachodni WBK shares from stock indexes portfolios on 1 April 2011, in the wake of changes in the shareholding structure (the number of free-floating shares fell below the 10% threshold).
- Approval of the recommended dividend of PLN 8 per share at the Annual General Meeting of Bank Zachodni WBK Shareholders convened on 20 April 2011.
- Changed composition of the boards of Bank Zachodni WBK S.A.: new seven-person Supervisory Board appointed; three members of the Management Board (Jacek Marcinowski, Declan Flynn, Paul Barry) stepping down; two new members of the Management Board appointed (Eamonn Crowley, Juan de Porras Aguirre).
- BZ WBK rating upgrade (5 April 2011): Long-term IDR (from “BBB+” to “A+”; Outlook Stable), Short-term IDR (from “F2” to “F1”) and Support rating (from “3” to “1”) in H1 2011, given the positive assessment of the consequences of the ownership change. In Q4 2011, long- and short-term IDR placed on Rating Watch Negative list (22 December 2011) and finally revised down to “A-” and “F2” respectively (13 February 2012) after the downgrade of the parent company’s (Banco Santander S.A.) rating, reflecting higher sovereign risk of Spain.
- Modification of organisational structures and the operating model for Business and Corporate Banking in order to improve the quality of service and generate larger business volumes in the main product lines. Launch of the infrastructure to support the transaction service for business and corporate customers (Business Operations Centre and iBiznes24 service).
- Considerable improvement of loan processes: shorter credit decision making in the retail area, wide application of scoring for the collection and recovery of retail receivables, customisation of the credit delivery service to meet the requirements of larger SME customers, extension of the scope of available data and further automation of the collection and recovery of SME receivables.
- Development of a dedicated offer (Avocado package) and its distribution via a new external channel (sales network owned by Polkomtel S.A., a telecommunications operator).
- A dynamic development of the product offering of the leasing subsidiaries and BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.
- Strengthened position of Dom Maklerski BZ WBK S.A. (BZ WBK Brokerage House) as the IPO leader.

External Factors Impacting the Group's Results

- Continuation of solid economic growth – according to flash estimates of the Polish Central Statistical Office, GDP growth in 2011 reached 4.3%, as compared to 3.9% in 2010.
- Clear deceleration of foreign trade turnover. More significant deceleration in the case of imports than exports, which resulted in narrowing of trade deficit.
- Maintenance of quite robust growth in industrial production (almost 8% in the whole year), despite clear signals of deceleration in the foreign demand growth.
- Sharp acceleration in the construction output growth, related not only to exceptionally good weather conditions, but also to the continued infrastructure projects and high activity in residential construction.
- Relatively high nominal growth in retail sales, mainly due to accelerating inflation. Real growth in private consumption quite high in the first half of the year, and weakening in the last quarters, due to a slowdown in household income growth.
- Improvement in the labour market situation in the first part of the year, stopped in the second half. Gradual decrease in employment in the enterprise sector (mainly in manufacturing) in the final quarter, with simultaneous slowdown in wages.
- High volatility in the global financial markets related to the unresolved European debt crisis.
- Rise in the yields of Polish bonds due to high global risk aversion. Increase in money market rates as a consequence of concerns over the European banking system.
- Continued moderate growth in household loans (mainly mortgage loans), and a clear revival in the sale of business loans (mainly investment and working capital loans).
- Continuation of the slight decline in prices of residential property in the majority of big cities, resulting from limited demand amid large supply of dwellings.
- High volatility in the global equity markets and high risk aversion, which resulted in sell-off in the domestic stock market.
- Strong rise in annual CPI inflation to 5% in May, and a slight decrease to 4.6% in December. Rise in net core inflation to 3.1% y-o-y, the highest level for ten years.
- Gradual interest rate hikes by the Monetary Policy Council in the first half of the year (NBP rate increased by 100 bp in January-June 2011), interest rates kept unchanged thereafter, amid informal hawkish bias in the monetary policy.

II. Basic Information

1. History and Profile of Bank Zachodni WBK Group

Background

Bank Zachodni WBK S.A. (Bank Zachodni WBK, BZ WBK) was established following the merger of Bank Zachodni with Wielkopolski Bank Kredytowy. The new Wrocław-based entity was entered into the business register in the National Court Registry on 13 June 2001 and on 23 June 2001 it debuted on the Warsaw Stock Exchange.

Both predecessors of Bank Zachodni WBK were spun off the National Bank of Poland in 1989. Subsequently, they were privatised and became members of the AIB Group under control of the same investor, i.e. AIB European Investments Ltd. from Dublin, a fully-owned subsidiary of the Allied Irish Banks, p.l.c. (AIB). After the merger, the AIB Group became owner of a 70.47% stake in Bank Zachodni WBK. The shareholding decreased to 70.36% following an increase in the share capital on 10 July 2009.

Change of the Majority Shareholder

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

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

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

Scope of Activities of Bank Zachodni WBK Group

Bank Zachodni WBK is a universal bank which provides a full range of services for personal customers, SMEs and large companies. The bank's offering is modern, comprehensive and satisfies diverse customer needs with regard to current/personal accounts, credit, savings, investment, settlement, insurance and card products.

The bank aligns its product structure with the requirements of individual customer segments and combines its products into packages around current/personal accounts to provide their users with a precisely defined, tailored and comprehensive service.

The financial services of Bank Zachodni WBK also include trade finance and transactions in the capital, FX and money markets as well as in derivatives. The bank's own product range is complemented by specialist products offered by its connected companies, including: Dom Maklerski BZ WBK S.A., BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., BZ WBK Asset Management S.A., BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A. and BZ WBK Faktor Sp. z o.o., BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A. In co-operation with all these companies, the bank offers its customers access to brokerage services, mutual funds, insurance, leasing and factoring products.

Distribution Network

As at 31 December 2011, Bank Zachodni WBK operated through 526 outlets, which is the third largest branch network in Poland. As a result of the rapid expansion of the branch network in 2007-2008, the bank's branches are present in all the provinces of Poland. The bank's distribution network also includes 96 BZ WBK Partner outlets.

High net worth individuals and business customers from all over Poland can use the comprehensive investment service of Wealth Management Offices based in 7 largest cities. The mobile advisors employed here ensure nationwide coverage.

Business customers are serviced through 3 Corporate Business Centres operating nationwide, 7 Business Banking Centres located across all key markets in Poland and 7 regional offices, as well as departments within the Business and Corporate Property Division.

Through its modern Telephone and Electronic Banking Centre equipped with specialist infrastructure, the bank provides customers with information on its products and services, sells selected products and renders after-sales service.

Bank Zachodni WBK offers a modern package of electronic banking services called BZWBK24 which gives retail and business customers a convenient and safe access to their accounts and products via the Internet, phone or mobile.

Position of Santander Group

Banco Santander – a new parent entity of Bank Zachodni WBK – is a retail and commercial bank with over a 150 year history, headquartered in Madrid, Spain. While it specialises in retail banking services, the bank also operates on the wholesale, asset management and insurance market. Banco Santander puts focus of geographic diversification of the business activity. It is currently present on 10 key markets – both developed and emerging ones. As of the end of 2011, Banco Santander was one of the leading banks in the eurozone and the 13th banking institution worldwide in terms of capitalization. It managed EUR 1,383 bn worth of customer funds, provided services to ca. 102 m customers via a distribution network of 14,756 branches, and employed 193 k people. In 2011, the net profit attributable to the Group's shareholders came in at EUR 5,351 m. Santander is the leading group in Spain and Latin America. It also enjoys a strong market position in the UK, Portugal, north-eastern coast of the US as well as in Germany and Poland.

Integration of Bank Zachodni WBK S.A. with Banco Santander S.A.

Bank Zachodni WBK is currently in the process of integrating key business streams with the standards applied by Santander Group. The ultimate objective is to maximize the synergy effect by sharing the best practice of the global financial organisation joined by the bank in April 2011.

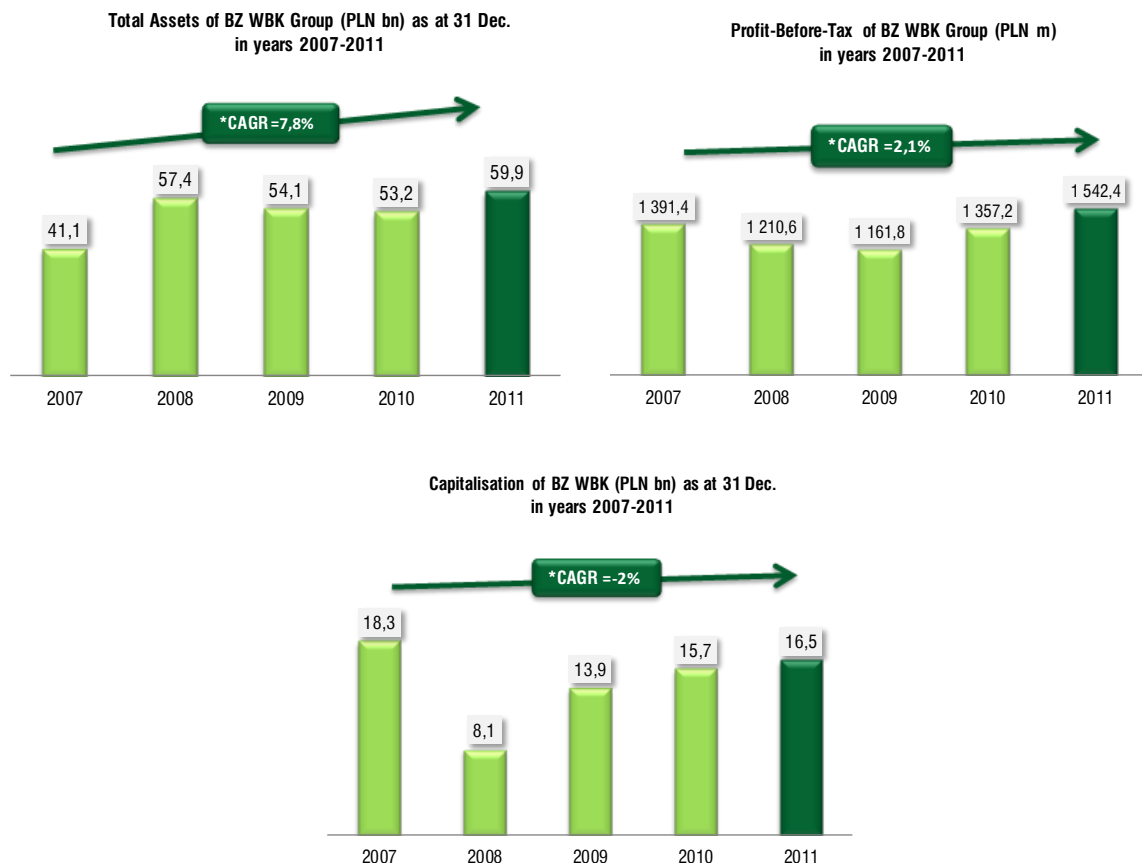
Bank Zachodni WBK may benefit from extensive experience of the Santander Group in the international market as well as implement business solutions already tested and proven by the new strategic investor. In 2011, BZ WBK adopted certain models and modified accordingly its organisational structures, management of relations with the largest corporate customers as well as risk mitigation and cost savings.

Development of Bank Zachodni WBK Group in Years 2007-2011

Selected Data Illustrating Performance of BZ WBK Group in Years 2007-2011

Selected Financial Data (PLN m)	2011	2010	2009	2008	2007*
Total Assets	59 873,3	53 153,9	54 065,0	57 433,1	41 116,0
Loans and Advances to Customers	38 017,2	32 838,4	34 569,5	35 136,6	23 949,7
Deposits from Customers	46 829,5	41 970,5	41 222,9	42 810,7	29 765,7
Total Equity	7 483,0	6 773,6	6 036,5	5 212,4	4 576,7
Profit Before Tax	1 542,4	1 357,2	1 161,8	1 210,6	1 391,4
Profit Attributable to Owners of BZ WBK	1 184,3	974,2	885,3	855,4	954,7
Selected Ratios	2011	2010	2009	2008	2007
Cost to Income Ratio	50,3%	49,9%	50,0%	51,6%	53,4%
Capital Adequacy Ratio	15,10%	15,77%	12,97%	10,74%	13,27%
NPL Ratio	5,5%	6,8%	5,5%	2,9%	2,8%
Earnings per Share (PLN)	16,21	13,33	12,11	11,72	13,09
Net Book Value per Share (PLN)	102,40	92,69	82,61	71,44	62,73
Selected Non-Financial Data	2011	2010	2009	2008	2007
Number of Branches	526	527	512	505	406
Number of FTEs	9 383	9 840	9 453	10 221	9 086
Dividend (PLN)	8	8	4	-	3
Number of Shares at the Year-End	73 076 013	73 076 013	73 076 013	72 960 284	72 960 284
Closing Share Price at the Year-End (PLN)	226,0	214,9	190,0	110,8	251,0

* total assets as reported by BZ WBK Group for 2007 have been adjusted by the amount of deferred tax liabilities due to the changed presentation of deferred tax assets and liabilities (both categories are now netted off)



* CAGR – Compound Annual Growth Rate

Position of BZ WBK Group in the Polish Banking Sector

According to financial information as at the end of Q3 2011 which as at the approval date of this report (23 February 2012) is the only source of comparable data on the banking sector in Poland, Bank Zachodni WBK is the fifth group in Poland in terms of total assets, fourth institution by equity and third in terms of net profit. The bank is also one of the leaders of the Polish banking sector in terms of ROE, credit portfolio quality, C/I ratio and loan-to-deposit ratio.

2. Companies Connected with Bank Zachodni WBK S.A.

Subsidiary Undertakings

Bank Zachodni WBK forms a Group with the following nine subsidiaries which are fully consolidated in accordance with IAS 27. These are:

1. BZ WBK Asset Management S.A.
2. BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. - subsidiary of BZ WBK Asset Management S.A.
3. BZ WBK Inwestycje Sp. z o.o.
4. BZ WBK Faktor sp. z o.o. - subsidiary of BZ WBK Finanse Sp. z o.o.
5. BZ WBK Finanse Sp. z o.o.
6. BZ WBK Finanse & Leasing S.A. - subsidiary of BZ WBK Finanse Sp. z o.o.
7. BZ WBK Leasing S.A. - podmiot zależny od BZ WBK Finanse Sp. z o.o.
8. BZ WBK Nieruchomości S.A.
9. Dom Maklerski BZ WBK S.A.

The entities connected with the bank are chiefly financial institutions which conduct specialised activities in securities trading, leasing, asset/fund management, factoring and trading in equity securities.

Compared with 31 December 2010, the structure of Bank Zachodni WBK Group did not change.

Joint Ventures and Associates

In the consolidated financial statements of Bank Zachodni WBK for the 12-month period ending 31 December 2011, the following companies are accounted for using the equity method in accordance with IAS 28 and 31:

Joint ventures:

1. BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.
2. BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.

Associates:

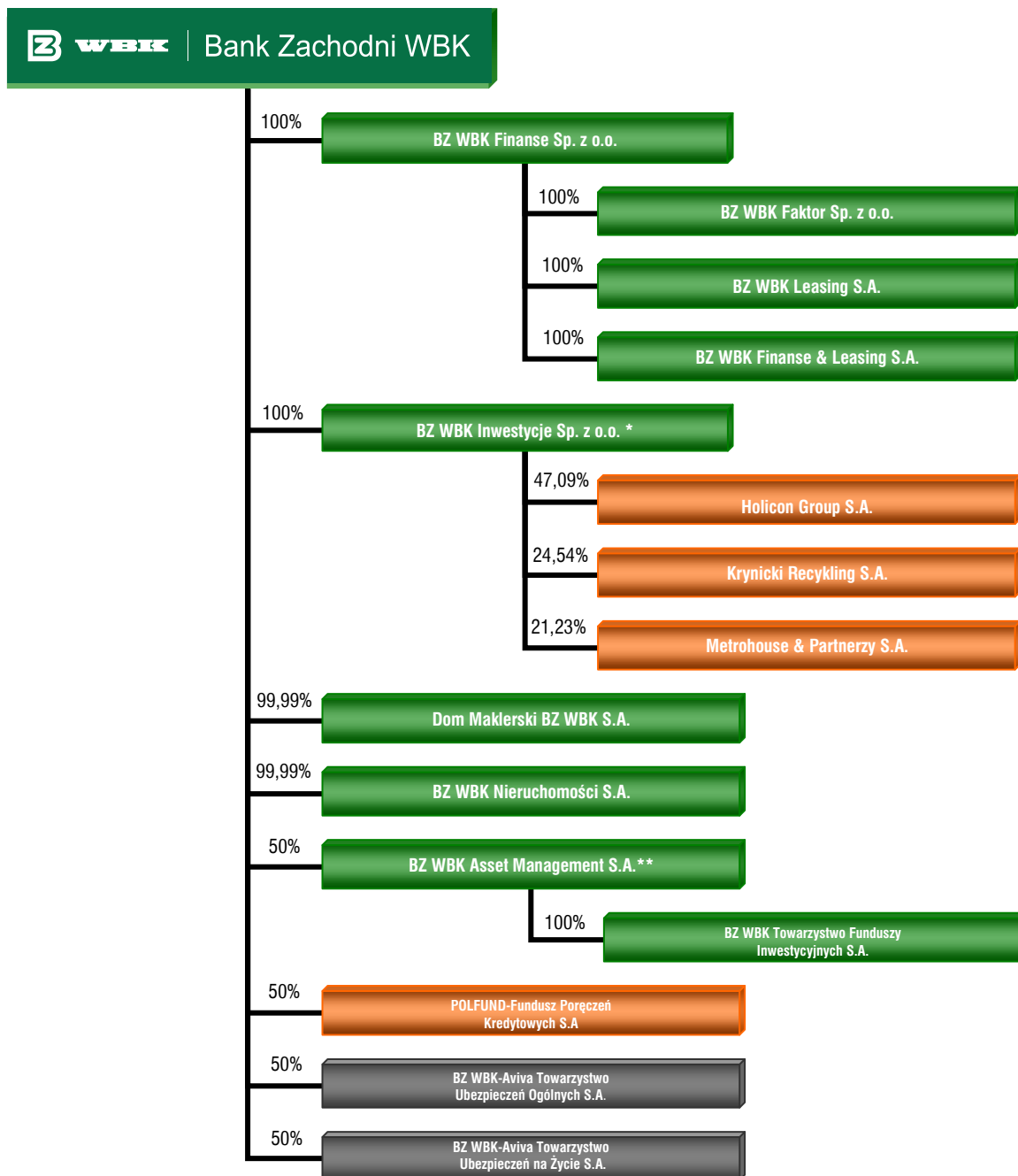
1. Holicon Group S.A. – associated undertaking of BZ WBK Inwestycje Sp. z o.o.
2. Krynicky Recykling S.A. - associated undertaking of BZ WBK Inwestycje Sp. z o.o.
3. Metrohouse & Partnerzy S.A. - associated undertaking of BZ WBK Inwestycje Sp. z o.o.
4. POLFUND - Fundusz Poręczeń Kredytowych S.A.

Compared with 31 December 2010, the list of associates and joint ventures of Bank Zachodni WBK S.A. was extended to include Holicon Group S.A.

On 16 April 2010, BZ WBK Inwestycje Sp. z o.o. acquired 753,853 shares of Holicon Group S.A. at PLN 1 per share. Concurrently, it entered into an investment agreement for the purchase of 3,296,147 bonds convertible to shares at PLN 1 each. As a consequence of the conversion of bonds into shares in April 2011, BZ WBK Inwestycje Sp. z o.o. holds 4,050,000 shares at the nominal value of PLN 1 each, which represents 47.09% of the total voting power at the General Meeting of Shareholders.

Holicon Group S.A. specialises in business outsourcing, including call and contact centre as well as HR management services.

Organisational Chart of Entities Connected with Bank Zachodni WBK S.A.



* Associated undertakings of BZ WBK Inwestycje Sp. z o.o., i.e. Holicon Group S.A., Metrohouse & Partnerzy S.A. and Krynicki Recykling S.A. are classified as BZ WBK associates since the bank has a significant impact on their operations. The respective shareholdings were acquired as part of the bank's strategy to build a portfolio of "pre-IPO" investments.

** As at 31 Dec. 2011, Bank Zachodni WBK was a co-owner of BZ WBK Asset Management S.A., together with Banco Santander S.A. Both owners are members of Santander Group and each holds an equal stake of 50% in the company's share capital. In practice, Bank Zachodni WBK exercises control over the company and its subsidiary, BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., because through it Banco Santander pursues its policy in Poland. Consequently, the company is treated as a subsidiary.

Legend:

- % Voting power
- Subsidiaries (fully consolidated with BZ WBK)
- Associates
- Joint ventures

3. Other Equity Investments

As at 31 December 2011, Bank Zachodni WBK Group owned more than 5% of share capital in the following companies (compared with 31 December 2010):

Ref.	Company	% in the Share Capital		% in the Share Capital	
		31.12.2011		31.12.2010	
			Voting Power at AGM		Voting Power at AGM
1.	Pragma Trade S.A. *	21,09%	12,21%	-	-
2.	Kuźnia Polska	16,67%	16,67%	16,67%	16,67%
3.	Krajowa Izba Rozliczeniowa S.A.	11,48%	11,48%	11,48%	11,48%
4.	Masterform Sp. z o.o. *	10,60%	10,60%	-	-
5.	i3D S.A. *	10,39%	10,39%	-	-
6.	Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A.	10,00%	10,00%	10,00%	10,00%
7.	Aviva Towarzystwo Ubezpieczeń na Życie S.A.	10,00%	10,00%	10,00%	10,00%
8.	Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	10,00%	10,00%	10,00%	10,00%
9.	Centrum Klima S.A. *	9,41%	9,41%	9,41%	9,41%
10.	Infosystems S.A. *	7,50%	7,50%	-	-
11.	Hortico S.A. *	6,71%	6,71%	6,71%	6,71%
12.	AWSA Holland II B.V.	5,44%	5,44%	5,44%	5,44%
13.	Biuro Informacji Kredytowej S.A.	5,14%	5,14%	5,14%	5,14%
14.	Gorzowski Rynek Hurtowy S.A. *	4,10%	6,53%	5,70%	5,70%

* companies from the equity investment portfolio of BZ WBK Inwestycje Sp. z o.o.

III. Macroeconomic Situation in 2011

Economic Growth

The Polish economy performed quite well in 2011. The GDP increased during the past year by 4.3%, the most since the beginning of the world financial crisis in 2008. The main factors supporting the economic growth were rising household consumption (which advanced by 3.1% in 2011) and gross capital formation (8.7% gain in the whole year). Individual consumption was decelerating gradually towards the year end, among others due to reversal of positive trends in the labour market and rising costs of living. Investments, however, continued to accelerate along the year, reaching a double-digit growth in Q4, the highest since mid-2008. It was not only public investment (fuelled by infrastructure projects and projects financed by the EU) that showed a clear improvement, but also private ones. The latter was confirmed by a strong increase of investment loans for companies.

During the year, external conditions influencing the Polish economy altered considerably. The second half of the year saw a deterioration of global economic climate and a significant slowdown in economic growth of the euro zone. The euro zone's debt problems intensified, which triggered severe turmoil on the financial markets. The Polish economy proved quite resilient to a weaker external demand, though an annual pace of growth of trade volume clearly declined over the year. The momentum of exports (denominated in euro) plunged from ca. 20% y-o-y at the beginning of the year to 5% y-o-y in Q4. The pace of growth of imports decreased even more. The current account deficit declined to ca. 4% of GDP, that is almost 1pp lower compared to 2010.

Labour market

The first half of 2011 saw an improvement of the situation in the Polish labour market. Average employment in the enterprise sector increased in H1 by ca. 4% y-o-y and the number of the employed according to LFS advanced by 1.5% y-o-y. The pace of wage growth was gradually accelerating, but it remained at a moderate level of nearly 5% in H1. Despite a higher number of job vacancies, unemployment rose in the first months of the year due to an increase in the total workforce. In H2 the positive trend reversed. The pace of employment growth in the enterprise sector decelerated to ca. 2% y-o-y and the pace of wage growth slightly declined. Weaker growth of wages and employment, marginal increase of social benefits as well as rising inflation resulted in a lower growth of households' disposable income.

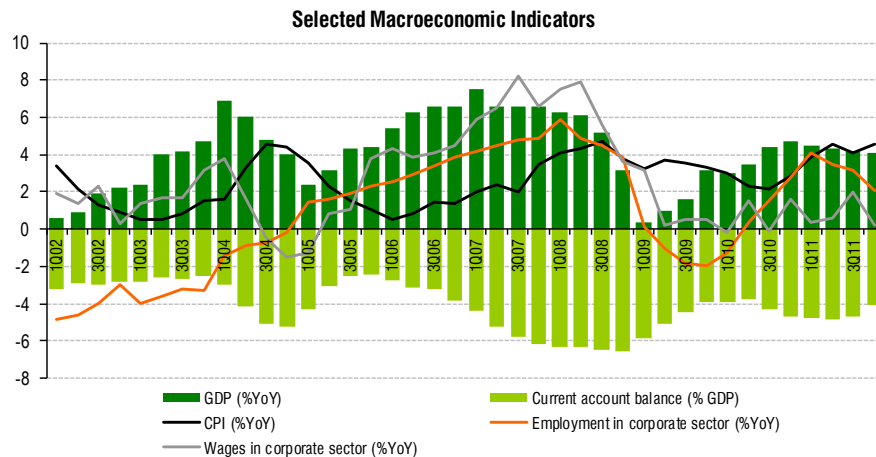
The registered unemployment rate stayed above the level from 2010 during the whole year and at the end of 2011 it reached 13.3%. The number of the registered unemployed approached again 2 million at the end of 2011. Also, the seasonally adjusted unemployment rate based on the LFS survey increased, reaching nearly 10% in H2 2011, the highest since March 2010.

Inflation

The increase of inflation in the first few months of 2011 was much faster and stronger than expected. In May, the CPI reached 5%, mainly due to higher prices of fuels and food in the global market. Last months of 2011 again showed higher inflation, which after a temporary decline to 3.9% y-o-y in September accelerated to 4.8% y-o-y in November and reached 4.6% y-o-y in December. Considerable depreciation of the zloty seen in H2 had a significant impact on higher retail prices through soaring prices of imported goods. Core inflation continued the upward trend observed since mid-2010. In December, CPI excluding food and energy prices reached 3.1% y-o-y, the highest since April 2002. Clear deterioration of economic outlook for Poland and global economy reduced the risk of materialization of second round effects (resulting from the price-wage spiral).

Interest Rates

The Monetary Policy Council increased interest rates four times during H1 2011 in response to rising inflationary pressure. Those hikes (each by 25bps) took place in January, April, May and June. Consequently, NBP's main reference rate increased to 4.5% at the end of Q2 from 3.5% at the end of 2010. Later in the year interest rates remained unchanged. Amid inflation persisting well above the NBP target and pressure on zloty's depreciation the MPC maintained its informal hawkish bias in the monetary policy.



Credit Market

During 2011 companies demonstrated strong demand for bank loans. The pace of growth of business loans reached almost 20% y-o-y at the end of Q4 versus close to zero at the beginning of 2011. Investment loans showed a particularly strong increase (by ca. 25% y-o-y, even after elimination of an impact of exchange rate fluctuations). The pace of growth of loans for households stabilized at a pretty high level, mainly due to strong demand for mortgage loans, while consumer loans remained in stagnation. After adjustment for FX fluctuation, the value of total loans for households increased in 2011 by ca. 7% with mortgage loans contributing most to that increase (growth by ca. 10% y-o-y).

Financial Markets

During 2011, high volatility dominated the financial markets. In Q1, market sentiment was influenced by, among others, political turmoil in the Middle East and North Africa as well as earthquake and tsunami in Japan. Later in the year, investors' attention focused on the euro zone's debt problems and deteriorating outlook of global economic growth amid disappointment after macro data publication. Consequently, the zloty's exchange rate was very volatile. In mid-December, the EUR/PLN surged to the highest level since June 2009 (ca. 4.56). Though interventions of the NBP and the BGK (Bank Gospodarstwa Krajowego) helped the zloty to pare some losses at the end of the year, 2011 was not favourable for the domestic currency as on an annual basis the zloty lost 11.5% versus the euro.

Rising inflation and expected monetary policy tightening pushed short-term interest clearly up. Yields on the long end of the curve were rising amid risk aversion persisting on the global financial market and despite positive information on better-than-expected actual budget levels and low supply of long-term bonds on debt auctions.

Equity Market

2011 saw the main indices of the Warsaw Stock Exchange plummeting. WIG and WIG20, the key market barometers, dropped by 20.8% and 21.9%, respectively. Likewise, mWIG40, an index of mid-cap companies, shrank by 22.5%. The worst performer, however, was the small-cap index, sWIG80, which weakened as much as 30.5% throughout the year. The bullish trend observed since early 2009 clearly abated, with the indices entering a medium-term downward trend. 2011 was not a vintage year for investors mainly due to sudden mass sell-offs of risky assets in late July/early August amid the crisis of confidence in over-indebted world's leading economies. The WSE indices also took a heavy blow and despite attempts in the second half-year they did not manage to pare losses suffered in the summer. A steady outflow of funds from the WSE accelerated towards the year end after the new government had announced its plans for tightening of the fiscal policy, including imposing a new mineral resources rent tax, which will significantly affect the performance of the ever increasing group of mining companies listed on the WSE.

IV. Business Development of BZ WBK Group in 2011

1. Key Directions of Bank Zachodni WBK Group Development

In 2011, Bank Zachodni WBK Group continued its strategy for 2009-2011, trying to be distinctive in the market with the range and quality of customer proposition and customer service. At the same time, the Group flexibly responded to the changing business environment with a focus on expanding its deposit base, developing its loan-book as well as mitigating and controlling risk in all aspects of its activity. Much attention was paid to integration with the new strategic investor, with modification of the selected elements of the bank's organisational structure and harmonisation of operational practice in key business areas.

Below is a summary of the key areas of business activity of Bank Zachodni WBK Group in the previous year:

- Development of the savings base by providing a comprehensive and customer-tailored range of deposit and investment products. Continued strategy of offering distinctive structured products.
- Continued strong focus on consumer finance products in the retail segment (cash loans, credit cards and overdrafts) and growth of the credit portfolio concurrent with an increase of non-interest income in the segments of small enterprises and business and corporate customers (domestic and foreign payment and clearing transactions, currency exchange, business insurance products).
- Adjustment of the credit policy to changes in the economic environment (easier access to credit) with continued conservative approach to credit risk management. Improvement of processes related to credit risk assessment and monitoring as well as collection and recovery.
- Implementation of the organisational solutions for the new corporate customer service model and delivery of two significant process and infrastructure projects aimed to centralize back-office functions and facilitate service (Business Service Centre – COB and new transaction platform for the business - iBiznes24).
- Enhancement of the sales performance of distribution channels:
 - ✓ introduction of new rules and tools to aid sales management in branches;
 - ✓ expansion of the proposition in the Partner outlets;
 - ✓ continued significant improvement of the functionality of BZWBK24 electronic banking services and Telephone and Electronic Banking Centre.
- Maximisation of the opportunities arising from increasingly stronger co-operation with Santander Group.
- Further efforts to increase cost efficiency through implementation of further cost optimisation solutions and maintenance of the cost discipline.
- Extension of Arka BZ WBK FIO umbrella fund to include three new subfunds, launch of two new subfunds of Arka Prestiz SFIO along with a new product - Arka Optima.
- Extension of the product offer of the leasing subsidiaries.
- Continued high activity of Dom Maklerski BZ WBK S.A. in the IPO market.

2. Business Development of Bank Zachodni WBK S.A.

Retail Banking

Segmentation and Customer Relationship Management (CRM)

Retail Banking in Bank Zachodni WBK includes the segment of personal customers, small companies and Wealth Management. The personal customers segment is further broken down into VIP, prestige and mass customers sub-segments.

Division of the customer base by stated criteria allows the bank to define customers' needs more accurately within particular segments, with customised product proposition and optimised communication and service processes. To increase customers' satisfaction with the bank's services, in 2011 a microsegmentation process was started whereby smaller and more uniform customer groups were built.

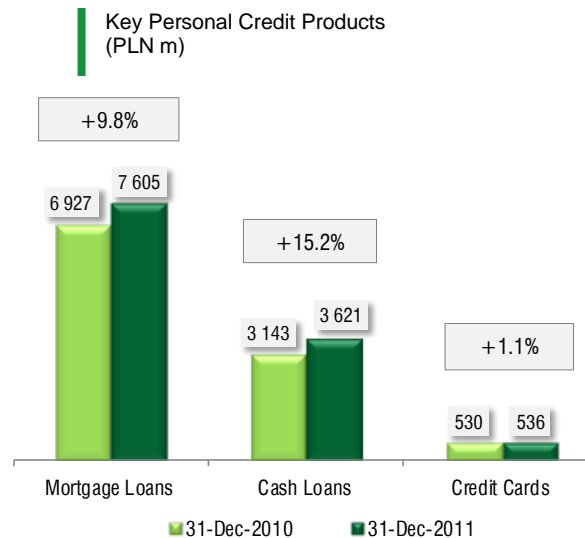
As required by the NEO Programme implemented in the bank's branch network in the first half of 2011, all retail customers are allocated to advisors. Furthermore, in the bank's key branches, a group of relationship and credit advisors were appointed, whose key role is to provide comprehensive service to the small companies segment.

As part of the CRM system, Bank Zachodni WBK takes pro-active efforts to enhance customers' satisfaction with the acquired products and services, increase product penetration and build long-term relations. In 2011, the bank improved its welcome programme ("Welcome Call"), which ensures that new customers receive appropriate attention and support when making their first purchase. Also, the effectiveness of the sales support tools has been increased, with an improvement of quality of the databases generated for the purpose of sales campaigns and a greater number of identified sales opportunities that are the basis for initiating a contact with the customer. During the previous year, the bank was developing statistical models to ensure selection of an offering that is best suited to customers' needs. The bank also constantly monitored pro-active contacts with customers by means of its new IT system supporting the contacts management process in the Telephone and Electronic Banking Centre.

The bank's retail customers are covered by the Customer Lifecycle Management Programme, which takes into account evolution of the customer's relationship with the bank throughout the whole business lifecycle. The CLM Programme seeks to position the bank as the best financial institution in terms of the level of customer satisfaction and loyalty. In 2011, CLM actions were put in place to encourage greater activity of the bank's customers. Particular emphasis was placed on the group of inactive customers, who were contacted using the available channels.

Personal Loans

In 2011, the bank aligned its personal lending policy to the changing environment and adjusted its product range accordingly. Like in the previous years, a strong focus was placed on effectiveness and quality of credit processes, short turnaround times and acceptable risk levels. Availability of credit products was increased through application of modern technological solutions in the credit delivery and distribution process. Sales campaigns were targeted mainly at the existing customer base. They were supported by the system of preferences for active users of accounts and other products and services. Compared with 2010, more actions were implemented to acquire new business, e.g. through numerous advertising messages. The bank's internal regulations and procedures were amended to reflect changes in the legal and regulatory environment.



Cash Loans

In 2011, the bank introduced changes to its cash loan proposition to increase its competitiveness and improve cross-selling. In January, a new, more favourable pricing grid was introduced, while in March the minimum interest rate for the borrowers with the best risk profile was reduced to 5.99%. In early February 2011, the bank launched the sale of a cash loan bundled with a personal account and/or credit card, which offered a bonus in the form of a reduced arrangement fee. As part of the package offer, the bank introduced MoneyBack Plus account with a different pricing compared with the standard version. In Q3 2011, the promotional package offer of cash loans was extended to include a package containing a cash loan, credit card, MoneyBack Plus account and cash loan insurance "Worry-Free Loan". Users of the package were exempt from the arrangement fee for the cash loan.

Last year, Bank Zachodni WBK prepared a special "PGNiG cash loan" to be used (in any part) for the purchase of equipment (gas-fired boilers and water heaters) offered by partners of PGNiG S.A. (Polish Gas and Oil) via the Internet platform e-Pasaż PGNiG.

In the period from March to December 2011, four editions of the cash loans campaign featuring Antonio Banderas took place. The campaign was conducted concurrently via TV, Internet and radio stations. In the last, November edition, a promotional message was used ("PLN 100 as a gift") to emphasise an extra sales incentive: a PLN 100 pre-paid card offered to the customers who borrowed in excess of PLN 3 k.

Mortgage Loans

In March 2011, the bank introduced an Individual Pricing model for its mortgage loans. The model, which has already proved effective for cash loans, enables the margin to be aligned with the customer's risk profile to ensure optimum pricing for a given exposure. As part of this process, in July 2011 an offer with a 0% fee for home loans and PLN-denominated equity releases was launched. A constant feature of the offer is a mortgage borrower insurance HIPOTEKA+, including the Work Package (insurance against temporary inability to work and loss of work), and the Life Package (insurance against death and full inability to work).

In the first quarter of 2011, full automation was introduced for the decision-making process related to the analysis of the repayment capacity of customers who have employment contracts and apply for mortgage loans of up to PLN 500 k. In the case of the customers who meet both criteria, this means reduction of the time-to-yes to only 15 minutes. In the period from March to June 2011, a home loan campaign was launched under the slogan "Move in quickly". The campaign emphasised the short decision-making process (15 minutes), easy access to financing (decision via phone) and low margins. At the end of the year, the bank implemented new scoring models for mortgage loans.

The bank's internal regulations and procedures for mortgage loans were brought in line with the legal requirements and the regulatory guidelines specified in the Consumer Loan Act, updated Recommendation S, Land & Mortgage Registers Act, and the BGK subsidised loans programme.

Credit Cards

Like in the previous years, in 2011 a particular focus was placed on increasing the number of credit card users and encouraging their greater activity. The incentives undertaken to this end included a promotional package offer where a credit card was bundled with a cash loan. In effect, last year the bank achieved a 14.8% increase in the credit card base y-o-y, despite the prevailing adverse market trend.

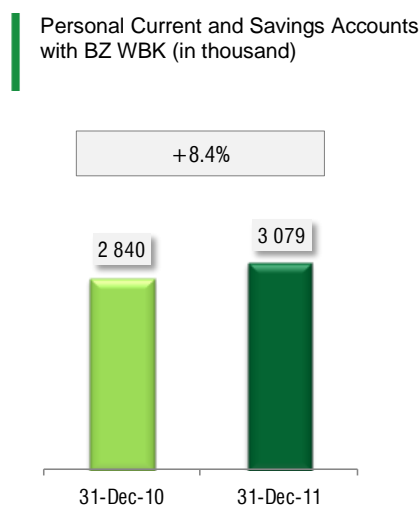
In July 2011, the bank's proposition was expanded with a World MasterCard credit card, which is included in the World MasterCard Rewards programme, offering points for non-cash transactions that can be exchanged for different types of activity (parachute jumps, balloon flights, horseback riding lessons, kitesurfing course, etc.). The card also provides free access to the MasterCard Travel Assistance service, and travel and shopping insurance. The bank launched a dedicated website for this product (www.world.bzwbk.pl) and started a sweeping promotional campaign.

In 2011, the bank changed the images of its credit cards Visa/MasterCard Silver and Gold. Concurrently, Visa credit cards were provided with a contactless payment functionality - Visa payWave.

Personal Accounts

In early April 2011, Bank Zachodni WBK simplified its personal accounts proposition by eliminating Konto24, Konto24 Prestiż and Konto24.pl accounts. Now the key personal accounts include: MoneyBack account, Konto<30 for the Young, Konto Aktywni 50+ (account for the customers older than 50 years of age) and Konto24 VIP for the persons who meet stated income criteria.

Under the strategic cooperation between Bank Zachodni WBK and Polkomtel, on 14 November 2011 Polkomtel outlets started selling Avocado packages. The package includes a personal account and a debit card, and allows for access to account through electronic, mobile and telephone banking. A portion of expenditure made with the Avocado card is discounted from the customer's subscription with Plus, thus reducing the mobile phone bills of Avocado package holders. The Avocado card comes with all the functionalities offered by Bank Zachodni WBK: free withdrawals from ATMs in Poland as well as contactless, cash back and e-payments through 3D Secure. Customers who avail of the Avocado offer may open a high-paying two-month deposit via electronic, mobile or phone banking channels. They may also enjoy the new functionality of SMS transfers, which enables to cash money from BZ WBK ATMs without a card or make transfers between the users by means of simple text messages.



In 2011, the bank sold 268.4 k personal accounts denominated in PLN, including more than 135.3 k Konto<30 accounts and 106.1 k MoneyBack accounts.

Deposit and Investment Products

Bank Zachodni WBK provides its customers with a wide range of deposit and investment products (term deposits, savings accounts, mutual funds, structured products) facilitating diversification of savings in accordance with the customer's preferences and investment goals.

In 2011, the bank continued the strategy of balanced growth of its investment and savings base in line with customer preferences, own needs for core business funding and market conditions. Deposit prices were shaped based on analysis of the structure of the funds, their sources and portfolio profitability.

The bank offered a number of investment products and services in close co-operation with subsidiaries, including structured bonds, mutual funds and asset management services.

Last year, key to the bank's deposit strategy were medium and long-term deposits. In response to the market demand, the bank also offered savings deposits ("Easy Earning Deposits") and short-term deposits ("Daily Earning Deposits").

Structured Products

In 2011, Dom Maklerski BZ WBK jointly with Bank Zachodni WBK offered structured bonds of six issues:

- The first five issues included instruments with a 2-year investment horizon, and a minimum unit value of PLN 1 k. They provide 100% capital protection on redemption and an opportunity to earn on attractive investment strategies. The individual subscriptions were as follows:
 - ✓ 13.12.2010-21.01.2011: subscription of the Market Giants Bonds 3, whose yield depends on the value of the shares of large listed companies that represent key sectors of the Polish economy.
 - ✓ 07.03.2011-08.04.2011 and 07.04.2011-13.05.2011: two subsequent editions of the Solid Brands Bonds, whose yield depends on changes in the share prices of 10 companies from the DAX index that are main pillars of the German economy.
 - ✓ 16.05.2011-01.07.2011: subscription of the Market Potentates Bonds whose yield depends on the growth of value of the shares of six international companies.
 - ✓ 04.07.2011-12.08.2011: subscription of the Market Potentates Bonds 2, whose yield depends on the growth of value of the shares of six international companies representing key business sectors.
 - ✓ 16.08.2011-30.09.2011: subscription of the Friendly Planet Bonds, whose yield depends on changes in the BNP Paribas Green Excess Return Index 12, based on quotations for companies from the four "green" industries.
- In the period from 24 October 2011 to 2 December 2011, Dom Maklerski BZ WBK S.A. completed a subscription of the WIG 20 Premium Bonds. This is a 2.5-year structured product that on maturity offers 100% return on the invested capital and a minimum yield of 5%. Its holder can also achieve an extra profit (maximum 20%), depending on changes in the WIG 20 index.

In 2011, Bank Zachodni WBK arranged forty five subscriptions of structured deposits for retail customers and twenty one separate subscriptions for high net worth customers. Most of these products offered a yield whose value was linked to the EUR/PLN or CHF/PLN exchange rate movements under three alternative investment strategies: appreciation, depreciation and stabilisation of the zloty against the foreign currency. The proposition for high-net-worth individuals was also expanded to include a strategy based on the EUR/PLN rate, whereby customer could obtain an interest coupon in the event of significant fluctuations of the rate, i.e. both at appreciation and depreciation of the zloty vs. euro.

The bank's many years' track record in providing structured products puts it among the top players in this market in Poland.

Investment Funds

Bank Zachodni WBK is a key distributor of open-ended Arka mutual subfunds managed by BZ WBK AIB Towarzystwo Funduszy Inwestycyjnych S.A.

In 2011, the bank expanded the offer of Arka Prestige subfunds available for affluent customers in the branch network. Arka Prestige SFIO fund includes 2 bonds subfunds and 3 equity subfunds, which invest in three geographical regions of Europe. Furthermore, Arka Optima fund was implemented for the beginner investors and those who favoured investing in safe funds. The solution combines investments into Arka BZ WBK Capital Protection fund with investments into an Arka equity subfund, and allows a gradual transfer of a part of the monies into an equity subfund chosen by the customer.

The bank was also active in the investment-linked insurance products. It continued the sale of the InPlus BZWBK Investment Programme in branches and in electronic channels, acting as the sole distributor of the product on behalf of BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. The program combines life assurance features with insurance-based equity funds.

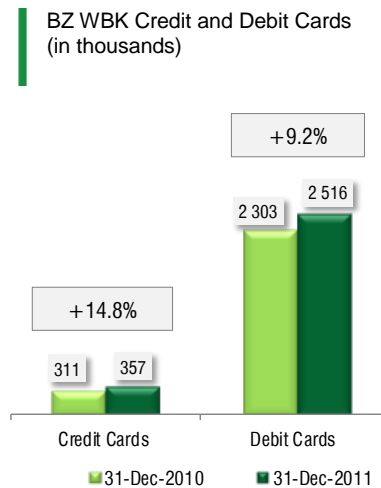
Debit Cards

Having achieved an advanced level of technology and high cards diversification, in 2011 Bank Zachodni WBK mainly focused on efficient card-related services and promoting more active use of such instruments.

To simplify and increase attractiveness of its debit card offer, effective from 1 April 2011, Bank Zachodni WBK introduced a number of changes in its Schedule of Fees and Charges. The changes included elimination of a cash withdrawal fee in the Cash-Back service, introduction of uniform charges for cash withdrawals from ATMs abroad and account balance checks in the ATMs of BZ WBK and other banks. Also, co-branded cards, except the PAYBACK cards, were removed from the offer.

In early August 2011, Bank Zachodni WBK joined the group of banks that give customers the option to select a PIN to their debit card via electronic banking (BZWBK24).

In 2011, a number of actions were taken to encourage customers to a more active use of their cards for traditional and Internet shopping. In July 2011, a campaign was launched to demonstrate to the existing and potential customers the full range of functionality and safety of the bank's debit cards with a particular focus on the benefits of card payments (free chargeback, contactless transactions, return of 1% of the transaction value and earning PAYBACK points). As part of the bonus sales "Take the best from Poland", customers were encouraged to apply over the Internet for an FX card with an account and the BZWBK24 electronic banking services. The campaign was supported through advertising on third-party websites, and the competition "Awards for FX Card Payments". Promotional actions were also continued in co-operation with the payment organisations (Visa and MasterCard) and retail networks, covering credit/debit and contactless cards, respectively.



PAYBACK Programme

In 2011, Bank Zachodni WBK introduced Superkarta MasterCard PAYBACK, a debit card covered by the PAYBACK loyalty programme and addressed to employees of financial institutions. The bank's customers were also offered the MasterCard PAYBACK sticker for contactless payments. This is a modern version of the contactless card tied to the personal account. It enables customers to make fast contactless payments and gather PAYBACK points.

In December 2011, the bank implemented an IT solution whereby PAYBACK points can be gathered for the purchase of any products and services offered by the bank, and not only for the use of MasterCard PAYBACK cards, as previously. PAYBACK points are an extra incentive for customers to increase their banking activity. Furthermore, the bank complemented its range of PAYBACK cards with the pre-paid PAYBACK card.

Pre-Paid Cards

In 2011, the bank launched a mass sale of prepaid cards with an activation code (that enable customers to assign individual PINs and ensure higher security of transactions) and pre-paid cards with contactless devices (that enable fast payments up to PLN 50).

The bank also introduced the "Pre-paid Holiday Card", which was promoted by offering discounts on the purchase of Ryanair tickets. In addition, the list of partners that offer discounts for the transactions made using the bank's prepaid and other cards has been expanded to more than 200.

Urban Cards

The functionality of the Wrocław Urbancard issued by the bank and used so far for coding electronic season tickets and for other payments, has been extended to include features of a contactless card.

In February 2011, Bank Zachodni WBK won a tender announced by the City Office of Poznań to issue personalised and non-personalised electronic cards as part of the Urban Card Project (PEKA), which was delivered to customers in September 2011. The project is carried out in close liaison with Mennica Polska S.A., which runs a dedicated PEKA website and delivers marketing campaigns.

Loans for Small Companies

Bank Zachodni WBK has a wide array of loans that will satisfy the current and long-term needs for business finance of small companies.

Early this year, the bank's credit proposition was expanded to include Business Express Hipoteka, a loan secured by a mortgage. This is another universal product that is addressed to SMEs and can be used for any business purpose. In addition, in May 2011, business borrowers were offered another product: Biznes Gwarant insurance. The insurance provides protection against different unexpected events that disrupt the customer's business activity.

On 21 September 2011, Bank Zachodni WBK entered into another EUR 100 m credit line agreement with the European Investment Bank (EBI) to finance small and medium-sized projects promoted by SMEs in the sectors of industry and services. The credit line is used to provide Business Express EBI loans. The loans, whose maximum value is PLN 500 k, can be used for a broad range of business purposes, including working capital finance, replacement investments or fixed asset purchases.

In May 2011, for the first time in its history, the bank launched a TV campaign for businesses, supported by advertisements concurrently appearing in other mass media. The advertisements featuring Antonio Banderas were a continuation of the cash loans campaign addressed to retail customers. They focused on two key elements of the bank's credit proposition for small companies: any credit purpose ("Take and don't say what for") and no need to present invoices ("Zerro invoices"). October 2011 saw another edition of the Poland-wide TV and Internet campaign endorsed by Antonio Banderas. Its purpose was to promote credit products for businesses under the slogan "Zerro invoices".

Business Accounts

The key pillars of the bank's offer for business customers are the MINI, OPTI and MAXI packages addressed to different companies, depending on the size of their business, and value and frequency of their transactions. Each package includes a current account and Visa Business Electron card, enables access to electronic banking services and offers attractive transaction fees. In addition, the bank offers packages for freelancers and farmers.

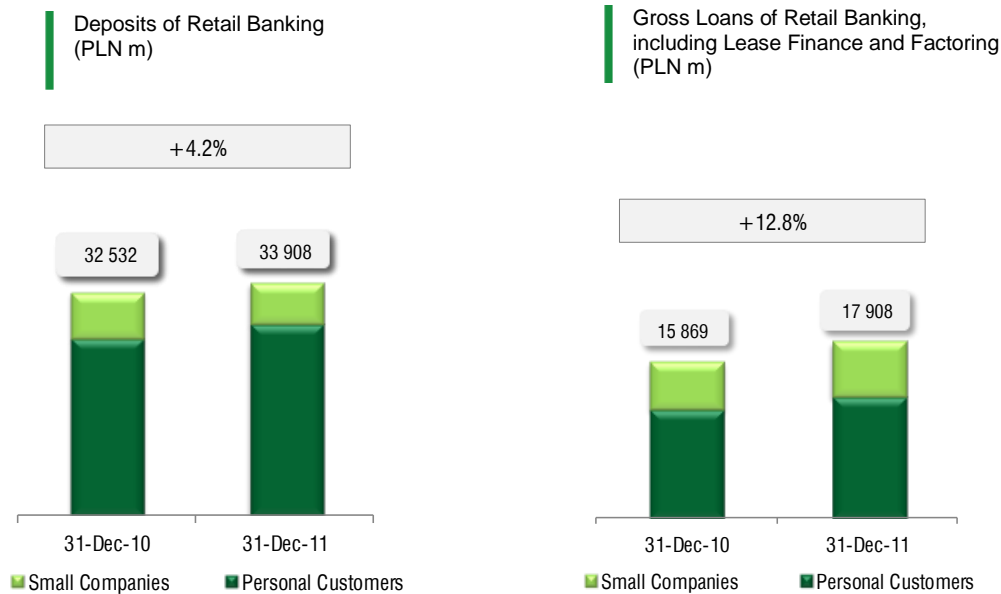
On 1 July 2011, the bank added the Currency Business Package to its offer. To use the package, a customer must open a current account with the bank, and sign an electronic banking agreement for BZWBK24 Moja Firma Plus (including e-FX services). The package allows business customers to use additional current accounts in PLN and foreign currency, and to use the services of a dedicated dealer to negotiate currency rates for transactions exceeding EUR 10,000 (or an equivalent amount in another currency). As part of this package, customers also have access to an economic news website.

Debit Cards for Businesses

From 1 September to 31 December 2011, the bank was promoting the Visa Business Electron debit cards under the slogan "A Precious Card". The holders and active users of this card will obtain 1% refund on all their non-cash transactions made using the card over a closed period of several months. The campaign brought the desired effect as it led to an increased activity of business customers.

Since September 2011, all the Visa Business Electron cards, both new and existing ones, have been equipped with a new functionality for Internet payments. The customers who use their cards for web transactions will enjoy discounts offered as part of the bank's programme wystarczysiec.pl.

Key Business Volumes of BZ WBK Group Retail Banking



Compared with the end of 2010, BZ WBK Group Retail Banking increased its deposit base by 4.2% y-o-y due to higher term deposits from personal customers. Gross retail loans and advances increased by 12.8% y-o-y, driven primarily by home mortgages, cash loans and business loans to small companies.

Insurance

Bank Zachodni WBK offers a broad range of insurance products, both for retail and business customers, developed in co-operation with its affiliates (BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.).

In 2011, the bank continued to expand its bancassurance proposal, increase effective distribution of insurance products and improve the IT solutions used for the sale and management of insurance policies.

In the period from January to March 2011, Bank Zachodni WBK arranged a subscription of the unit-linked endowment insurance policy PI 9 Giants of Europe. The coupon interest rate was tied to changes in the value of shares of large listed companies from the key sectors of the European economy. In September 2011, the bank launched another subscription of its endowment insurance in the form of "Solid Brands" Investment Policy, accompanied by an information campaign.

Since May 2011, the bank has offered a new product – "Biznes Gwarant" insurance for entrepreneurs and partners of unincorporated firms asking for an overdraft, working capital loan, term loan or Business Express loan. The insurance covers the death of the insured, and permanent or temporary inability to work as a result of an accident or a hospital treatment.

In June 2011, the bank introduced modified Hipoteka+ insurance for mortgage borrowers. The customers may choose between the following insurance packages: Life Package (covering death and full inability to work) or Work Package (covering temporary inability to work and a job loss).

To support the sale of insurance products, in July and August 2011, the bank held a competition titled "Cash for Holidays from BZ WBK-Aviva", which promoted travel insurance offered by BZ WBK-Aviva. In August 2011, a number of actions were started to support the sale of insurance products in the local markets, including In Plus, Locum and Biznes Gwarant. From October to November 2011, the bank carried out a pilot price promotion of credit card insurance.

Business and Corporate Banking

The Business and Corporate Banking is responsible for delivery of the bank's strategy of providing comprehensive service to medium and large enterprises (whose annual turnover exceeds PLN 30 m or whose bank debt exceeds PLN 3 m). The function manages individual relations with the bank's customers, recommending products and services, taking decision on credit exposures and coordinating comprehensive day-to-day banking service. It is also responsible for the sale of leasing and factoring products to all the bank's customers.

Changes in the Organisational and Business Model

In 2011, two new Business Banking Centres were set up (in Bydgoszcz and Rzeszów), and the Business Banking Centres were merged with the Corporate Centres in Poznań, Warsaw and Wrocław in order to align the service provided to both customer segments. Furthermore, two new Departments were formed (Large Corporate and Structured Finance Department, and Large Corporate Sectoral Department), with a responsibility for acquiring and maintaining relations with large corporations from strategic sectors.

As a result of these organisational changes, the Business and Corporate Banking Division operated through 7 Business Banking Centres located in the country's major economic areas (with 7 subordinated local offices), 3 Corporate Banking Centres and 4 Departments (Property Finance Department, Large Corporate and Structural Finance Department, Large Corporate Sectoral Finance Department and Corporate Banking Department), with a country-wide coverage. The Corporate Banking Centres dealt with the companies with annual turnover in the range of PLN 30-400 m or borrowings in excess of PLN 3 m, while the Business Banking Centres managed relations with the companies whose annual turnover was PLN 30-250 m or whose borrowings exceeded PLN 3 m.

In 2011, the bank introduced changes to the existing business and corporate banking model aimed to improve effectiveness of operations and increase the bank's presence in the business and corporate banking sector. Operating units were adjusted to the new turnover-based segmentation (min. PLN 30 m). In addition, administration and sales roles were separated and the front-line functions were strengthened. Advisors (Relationship Managers) became responsible for sales, and day-to-day and long-term relationship management, while Credit Relationship Managers focused on administrative tasks. Sellers were ensures specialist product support, and competence centres were set up, dedicated to financing the individual sectors.

Offering and Infrastructure Development

In 2011, the Business and Corporate Banking completed a number of initiatives aimed to expand the product offering and improve transactional banking, trade finance and treasury services. The initiatives helped increase customer satisfaction with the bank's services and ensured a greater diversity of the income streams generated by the business and corporate segments.

In June 2011, under the agreement with Bank Gospodarstwa Krajowego, the bank provided its customers with facilities under the Technological Loan Programme, whose aim is to support implementation of new technologies. As part of the financial aid for innovative entrepreneurs, a portion of the loan principal (provided on commercial terms) is repaid from the EU funds.

Furthermore, the bank implemented zero-balancing (with a physical transfer of funds) as an addition to notional pooling introduced in the bank several years ago. By netting balances and creating mutual debt arrangements, the product optimises liquidity management within groups of companies, providing additional interest benefits.

In 2011, the bank continued the process of automation and centralisation of transactional banking services for its business and corporate customers. Also, the Business Service Centre was set up, which was gradually taking over back-office tasks from branches. The Centre ensures centralised administrative service for current accounts and cards, opens and maintains all types of deposits (including negotiable ones), and executes the instructions received from the Treasury Services Department (including for FXD transactions). In 2011, further progress was achieved in the work on implementation of the new system for Internet-based remote service of medium and large-sized enterprises (iBiznes24). The solution will be offered to a wide groups of business and corporate customers to make their finance management even more effective.

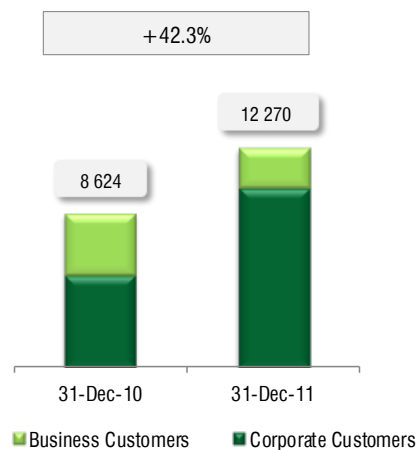
Last year, the bank started implementation of the CRM tool for sales service and support in the Business and Corporate Banking Division. The system will provide comprehensive information on the bank's customer in addition to improving relationship management and facilitating the advisors' work.

Significant Agreements

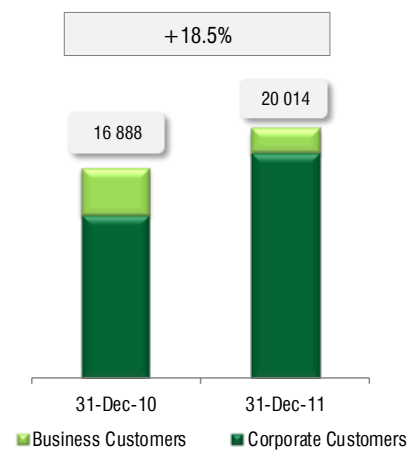
On 25 November 2011, Bank Zachodni WBK, as a participant of a banking syndicate, entered into a guarantee agreement, an agency agreement and a deposit agreement with Polskie Górnictwo Naftowe i Gazownictwo S.A., whereby a multiple bond issue of up to PLN 7 bn is provided for. Under the abovementioned agreements, the bank is one of the nine bond issue underwriters and one of the seven payment sub-agents and sub-depositories. The bank's total share in financing the company was set at PLN 616.5 m.

Key Business Volumes of BZ WBK Group Business & Corporate Banking

Deposits of Business & Corporate Banking (PLN m)



Gross Loans of Business & Corporate Banking including Leasing and Factoring (PLN m)



Total deposits gathered by Business and Corporate Banking (operating as part of Bank Zachodni WBK Group) increased by 42.3% y-o-y, reflecting successful delivery of strategy aimed to attract deposit funds from business and corporate customers. The gross credit portfolio increased by 18.5% y-o-y as a result of higher willingness of corporations to engage in fixed investment projects.

Global Banking & Markets

In Q4 2011, Global Banking & Markets Division, a unit responsible for relations with the largest corporate customers of BZ WBK Group, started its operations. The Division offers a wide range of products and services:

- specialised credit facilities,
- transactional products,
- Treasury products (foreign currency transactions and derivatives),
- Corporate Banking products,
- brokerage products.

GBM Division operates within the framework of the Global Banking & Markets model of Santander Group, which facilitates entering into and maintaining relationship with customers operating globally and offering to customers of the Division solutions which are available in Santander Group. GBM Division carries out its activities via units located in Warsaw, Poznań and Wrocław.

Investment Banking

Consultancy and Primary and Secondary Market Offering

In 2011, Bank Zachodni WBK acted as an advisor in eight public offerings effected with Dom Maklerski BZ WBK for a total amount of PLN 1.1 bn. The bank also provided analytical and advisory services to its customers in respect of other public offerings, valuations, mergers and acquisitions and was engaged as a financial/transactional advisor in a number of privatisation processes.

Under the agreement entered into with the European Investment Bank on 29 March 2011, the bank manages the Urban Regeneration Fund for Greater Szczecin (JESSICA Programme). Since 28 July 2011, the Fund has been accepting applications for financing local urban regeneration projects. The pool of funds which is at the disposal of Bank Zachodni WBK is earmarked for preferential loans to a diversified group of recipients: businesses, local government units, utility companies, tertiary institutions etc. The EU JESSICA programme is based on a different EU funds distribution structure, where subsidies are replaced by returnable instruments. The purpose is to incentivise investments using sophisticated financial solutions and to promote entrepreneurship of local government units.

Debt Securities

In 2011, Bank Zachodni WBK arranged 8 issues of non-treasury debt securities for 3 entities with a total value of PLN 114 m, which were placed with the entities indicated by the issuers.

An agency agreement was signed by the bank, in liaison with Dom Maklerski WBK S.A., to arrange the public offering of corporate bonds of MCI Management S.A. on a best effort basis. Bank Zachodni WBK acted as an equity advisor in the issue preparation and placement. In effect, PLN 35.4 m-worth of bonds were taken up.

The bank also participated, as a co-lead manager in the issue of USD 50 m-worth of Eurobonds of Agrotion.

Equity Portfolio Management

As part of equity portfolio management, the following actions were taken:

- Bank Zachodni WBK subscribed for the issue of J series shares of Bank Polskiej Spółdzielczości S.A. (BPS) under pre-emption scheme. Based on the subscription results, 434,268 J series shares were taken up (350,000 shares by exercising the pre-emptive rights and 84,268 shares under an additional subscription order). In consequence, once the capital increase is registered, the bank will hold 1,134,268 shares of BPS, representing 0.57% of share capital.
- Bank Zachodni WBK sold its entire stake in Visa Inc., Inter Groclin Auto S.A. and Cetrozap S.A., reporting a profit of PLN 4.8 m.
- Bank Zachodni WBK subscribed for shares of the following companies:
 - ✓ Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. within the framework of J and K series shares issue. The bank took up 268 new shares worth PLN 5.4 m. The shareholding structure did not change as a result of taking up the shares (the bank continues to exercise 10% of voting rights at AGM of the company).
 - ✓ BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. within the framework of B series shares issue. The bank took up 1,250 new shares worth PLN 5 m. The shareholding structure did not change as a result of taking up the shares (the bank continues to exercise 50% of voting rights at AGM of the company).

Treasury

In 2011, the bank's good results and an upward trend in respect of the Treasury business continued. A wide range of treasury products is offered to corporate, business and retail customers. The bank's Treasury business is well established, with strong foundations and a significant contribution to the bank's results, which is possible thanks to, inter alia, close cooperation with Business and Corporate Banking and SME and the implemented global relationship model, which facilitates provision of services for international customers. Also, a foreign exchange e-platform is of great importance. The platform is integrated with the electronic platform of the bank and is a key element of the Treasury business. In 2011, the experience of the parent entity was used by introducing the cooperation and service model corresponding to the strategy of Santander Group. It will allow the bank to respond more flexibly to the challenges of the markets in the near future.

The bank effectively managed its foreign currency position and the interest rate risk, while ensuring adequate asset financing and the required liquidity. The international Treasury business generated substantial income in 2011 despite difficult market environment caused by the global crisis. In 2011, the bank completed a project aimed at modifying its operations in the inter-bank market by segregating position management in the trading book from position management in the banking book. The bank's liquidity management and banking portfolio management were transferred to Finance Division. From the perspective of liquidity and funding, the bank has a robust liquidity position and manages its balance sheet structure in a conservative manner.

Services to Financial Institutions

Bank Zachodni WBK is one of the largest Polish providers of services to banks and financial institutions in respect of execution of domestic and foreign payments, cash services, card personalisation, card issuance and service, management of ATM networks and prevention of frauds. The bank uses its own experience to adapt its products and functionalities to the needs of its customers and gradually extends its product range. The bank has been implementing state-of-the-art solutions, including technologies that meet the requirements of payment organisations (MasterCard, Visa) and SEPA. The bank's partners are offered a modern IT infrastructure and a real-time access to transaction data as well as the high quality and security of services. Quality of stripe and chip card personalisation is confirmed by certificates from international payment organisations (MasterCard, Visa).

In 2011, Bank Zachodni WBK started cooperation in respect of card and ATM services with two cooperative banks and one commercial bank. Additionally, the bank entered into further two agreements for ATM and card services with cooperative banks.

As at 31 December 2011, Bank Zachodni WBK cooperated with more than 20 banks. The group of bank's customers also included a number of financial institutions using a wide range of available services. The bank managed a network of 1,389 ATMs of third party institutions and serviced 3.2 m Visa/MasterCard cards upon instruction of third parties.

International Cooperation

In 2011, new NOSTRO accounts were opened with foreign banks. Consequently, the bank's exchange rates table was extended to include the following currencies: Hungarian forint (HUF), Turkish lira (TRY), Romanian leu (RON), Russian rouble (RUB) and Mexican peso (MXN).

The bank submitted to KNF, the Polish Financial Supervision Authority, a request for withdrawal of a notification of cross-border activities in the following countries: the United Kingdom of Great Britain and Northern Ireland, Ireland and the Federal Republic of Germany.

Transfer Agent Services

Since 2011, the Transfer Agent of Bank Zachodni WBK has been operating under the business name of Financial Business Services.

In 2011, the unit launched a strategy focusing on two key areas:

- ✓ active support for products offered by BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.;
- ✓ establishment of cooperation with new entities including mutual funds, open-ended pension funds and insurance companies.

In H1 2011, the bank implemented the second phase of the project aimed at introducing an umbrella structure of BZ WBK Arka open-ended funds, thus successfully completing the undertaking which started in 2010. Also, the infrastructure of the Transfer Agent was adapted so as to provide services related to new Arka Optima and Arka Prestiż products.

In March 2011, the unit received the SAS 70 Type II Report by an independent auditor (a standard developed by the American Institute of Certified Public Accountants complying with the SOX Act), confirming that the controls designed for the Transfer Agent are adequate and effective.

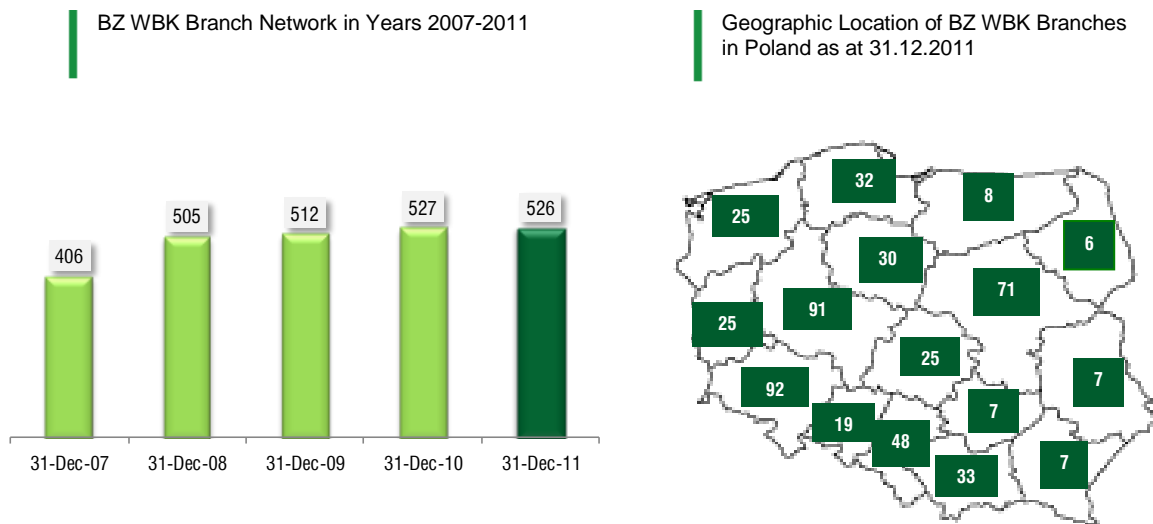
Distribution Channels

Branch Network

In 2011, Bank Zachodni WBK opened 8 new branches and 16 existing ones were relocated, reorganised or closed. Consequently, as at 31 December 2011, Bank Zachodni WBK operated through 526 branches (vs. 527 as at 31 December 2010).

As a result of the rapid expansion of the branch network in 2007-2008, the bank's branches are present in all the provinces of Poland. The heaviest concentration of branches is in the following regions: Wielkopolska, Lower and Upper Silesia and Mazowsze, as well as in large cities in other regions. Last year, the branch development process covered mainly Warsaw, Śląski and Pomorsko-Kujawski Regions. The branch network comprises 10 regions reporting to the Branch Banking Director.

In H1 2011, Bank Zachodni WBK started mass rollout of the New Branch Energy (NEO) project, which was designed to improve operational effectiveness of the branch network through a better use of the available tools and shaping appropriate behaviours among branch advisors and managers. Given the size of the initiative, implementation was split into 3 consecutive phases, the last of which ended in July 2011.



Partner Outlets

Bank Zachodni WBK branch network was supported by 96 Partner outlets (100 outlets as at 31 December 2010). Throughout 2011, Partner outlets were continued to be aligned with the bank in terms of organisation, procedures and the product range. Along with the bank, the Partner network implemented a new packaged offer containing cash loans, personal account and/or credit card, products under the PAYBACK Programme and loans towards heating equipment offered by the partners of PGNiG (Polish Oil and Gas). In addition, new deposit products (current accounts, term deposits) and payment cards were launched and the sales process for BZWBK24 services was streamlined.

Wealth Management

Wealth Management focuses on individuals and business entities with free cash at PLN 1 m. Irrespective of their location, these customers are handled by dedicated mobile relationship managers operating from Warsaw, Poznań, Wrocław, Katowice, Kraków, Gdańsk and Szczecin. The comprehensive savings and investment proposition includes a full array of term deposits (PLN and FX), structured products, treasury bonds, municipal and corporate bonds and participation units/certificates of the leading mutual funds in Poland and abroad. Additionally, the bank - as an agent of Dom Maklerski BZ WBK - provides full range of services available with the company. It also offers comprehensive services with respect to treasury transactions and other products and services available with Bank Zachodni WBK Group.

In 2011, the sales structures of BZ WBK Asset Management were merged with the Wealth Management Department. This change has led to the growth in the number of advisors, whereby the customer service standard improved even further. 2011 was the first year when the Wealth Management Department operated in its new organisational form.

Business and Corporate Banking

As at 31 December 2011, business customers were serviced by:

- 3 Corporate Banking Centres and departments within the Business and Corporate Banking Division (Property Finance Department, Large Corporate and Structured Finance Department, Large Corporate Sectoral Department) operating nationwide;
- 7 Business Banking Centres in the major cities and 7 regional offices.

Direct Banking

BZWBK 24 Transaction System

In August 2011, Bank Zachodni WBK launched another product in the “buy-by-click” channel for customers using the BZWBK24 e-banking platform, i.e. an overdraft that was distributed without a fee until the end of December 2011. Throughout the year, “buy-by-click” products were advertised at the BZWBK24 website, the educational website administered by the bank and within the branch network. Moreover, a communication campaign was delivered to encourage customers to update their BZWBK24 e-banking agreements so that they might use the buy-by-click functionality. The sale process regarding personal accounts was modified to ensure that each new customer would have access to the account via all electronic channels.

In November 2011, the bank launched the e-Invoice service which enabled customers to make invoice and bill payments via BZWBK24.

A simplified procedure for the sale of BZWBK24 services and a new version of the agreement have been in place since December 2011. The scope of self-service functionalities was extended to include modification of daily limits for transactions, assignment/unblocking of PIN for remote channels (BZWBK24 telephone, BZWBK24 sms, Teledysponent), PAYBACK and PAYBACK Multi debit cards available “by click”, and a number of other options.

To improve the availability of the bank’s services for foreign customers, the bank launched the Spanish version of the BZWBK24 platform, infoline and bzwbk.pl website.

Mobile Banking

In September 2011, a telephone banking application was introduced for BZWBK24 customers, compatible with the 5 most popular operating systems used in smartphones. This solution complements the existing mobile banking offer (available for all mobile phones with an internet browser) which was highly appreciated in Newsweek’s most recent “Friendly Bank” survey (09/2011) and ranked 2nd in the “Mobile Bank” category.

Telephone and Electronic Banking Centre (T&EBC)

Bank Zachodni WBK has been pursuing the Telephone Banking Development Programme aimed to improve T&EBC’s sales and customer service potential. Initiatives delivered in 2011:

- The customers can now receive a preliminary credit decision for a mortgage loan via phone.
- The bank launched a new IVR platform for phone services called BZWBK24telefon, which will help implement additional services to support sales and security. Coupled with the customer identification system, the new infrastructure will help shorten the service time and contribute to the progress in the automation of operations.
- The bank started a project that will enable T&EBC to encourage customers who make credit card payments to use other banking facilities and finalise their purchase via BZWBK24 internet.
- Nice Quality Management - a new system to monitor quality assurance processes - was implemented to improve the assessment of telephone conversations with customers and thus optimise the quality of telephone banking services.
- T&EBC advisors have been granted access to the basic version of the CRM system in the bank (at the first stage) that provides general information about the customer. A concept for the development of the advisor application (the target CRM and sale support system) has been defined and agreed-upon.

Bank Zachodni WBK was the first Polish institution whose phone service centre had been certified for compliance with EN 15838, a new EU quality standard for contact centres. The certification audit conducted by SGS Polska covered the sale and management of banking products for retail customers via phone and Internet channels, as well as phone service and support for business customers.

ATM Network

As at 31 December 2011, the bank’s ATM network included 1,045 machines (1,051 ATMs as at 31 December 2010). 50 machines were replaced with newer models as part of the ongoing modernisation of the ATM network that continued in 2011. The number of ATMs with the voice support functionality to assist the visually impaired customers increased to 105. In May 2011, the bank obtained a certificate issued by the Polish Association of the Blind, confirming that the solutions used in the BZ WBK ATM network are friendly to vision-impaired people.

The total number of transactions effected in ATMs operated by Bank Zachodni WBK increased by 5% y-o-y in 2011.

3. Business Development of Subsidiaries

BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.

In line with the BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI) strategy for 2011 assuming an increased share of funds investing in debt instruments (money-market bills and bonds), the debt funds managed by the subsidiary grew by 61% to PLN 2 bn as at 31 December 2011. The share of BZ WBK TFI in the Polish debt mutual funds market increased over this period by 1.3 p.p. to 5.1%.

Negative sentiment in the mutual funds market, reinforced by deep decreases of indices (especially in Q3 2011), strongly impacted BZ WBK TFI due to the structure of assets with predominant proportion of equity mutual funds. As a result, the value of net assets under management of BZ WBK TFI declined (by 26.3% y-o-y) to PLN 7.8 bn as at 31 December 2011.

In 2011, a number of changes were introduced to the proposition of BZ WBK TFI.

In May 2011, Arka Prestiż SFIO was extended to include two new subfunds: Arka Prestiż Obligacji Korporacyjnych (Corporate Bonds Subfund) and Arka Prestiż Akcji Rosyjskich (Russian Equity Subfund). Currently, Arka Prestiż SFIO consists of 2 bond subfunds and 3 equity subfunds, investing in companies from 3 different regions of Europe.

Also in May, changes to the prospectus and Articles of Association of Arka BZ WBK FIO fund became effective. They included transformation of the regional equity fund Arka BZ WBK Rozwoju Nowej Europy (New Europe Development Subfund) into Arka BZ WBK Akcji Tureckich (Turkish Equity Subfund).

Effective from 16 May 2011, a new mechanism was launched – Arka Optima. This solution combines investments in Arka BZ WBK Ochrony Kapitału (Capital Protection Fund) with investments into a selected equity Arka open-ended subfund. It enables investments in equity subfunds using the average price as the cash is contributed gradually to the sub-fund.

A two-stage transformation of ARKA funds was completed on 13 May 2011, whereby 10 independent Arka funds were transformed into subfunds, jointly forming one umbrella fund BZ WBK Arka Fundusz Inwestycyjny Otwarty (Open-Ended Investment Fund – Arka BZ WBK FIO). The second stage covered 3 funds, i.e. Arka BZ WBK Akcji Środkowej i Wschodniej Europy FIO (CEE Equity Fund), Arka BZ WBK Obligacji Europejskich FIO (European Bonds Fund) and Arka BZ WBK Funduszy Akcji Zagranicznych FIO (Foreign Equity Fund).

Due to Lukas' rebranding to Credit Agricole, on 23 September 2011, the name of "white label" fund managed on behalf of the above bank was changed from Lukas FIO to Credit Agricole FIO. The subfunds were renamed likewise.

BZ WBK Asset Management S.A.

As at 31 December 2011, the value of assets in the private portfolios managed by BZ WBK Asset Management was PLN 0.8 bn, i.e. 49.2% down on the end of 2010. A drop in the value of assets was driven by the bearish stock market, which adversely affected the price of financial instruments and customers' investment decisions. Other significant factors included the sustained risk aversion and growing competitiveness on the local market.

The structure of asset allocation to particular investment strategies reflects a decreased contribution of equity-oriented strategies and a growing share of other investment strategies, in particular bond-oriented ones.

Based on the consent obtained at the end of 2010 from the Polish Financial Supervision Authority to accept and transfer customers' instructions, in 2011 BZ WBK Asset Management expanded its proposition and offered participation units in Arka Prestiż SFIO. Since April 2011, BZ WBK Asset Management has been offering the participation units of Luxembourg-based Arka Emerging Markets SICAV SIF. Its investment policy assumes up to 100% capital allocation to Arka Prestiż SFIO and a yield in the form of a dividend.

Dom Maklerski BZ WBK S.A.

In 2011, the stock trading of Dom Maklerski BZ WBK (BZ WBK Brokerage House) was PLN 53.2 bn, i.e. up 36% y-o-y due to the handling of customer sell transactions for shares of Bank Zachodni WBK as part of a tender offer announced by Banco Santander. With this performance the company secured the third position in Poland and a 9.3% market share (an increase by 1 p.p. y-o-y).

In the futures market, which is the second most important stock market in Poland, Dom Maklerski BZ WBK acted as an agent for concluding 3,547.7 k transactions. The volume of transactions dropped by 7.2%, giving the company the third position in Poland and a 12.1% market share (a decrease by 1.5 p.p. y-o-y attributed to the institutionalization of the turnover on this market).

Due to an increasing presence of global brokers on the Polish secondary market, Dom Maklerski BZ WBK redefined its strategy, placing a stronger focus on arranging IPOs. Similarly to the previous year, the company earned a reputation of the IPO leader and a specialist in servicing Lithuanian and Ukrainian customers. In 2011, Dom Maklerski BZ WBK S.A. arranged nine IPOs as an offering party for a total value exceeding PLN 1.1 bn: Inpro S.A., Aviva Solution Group, PEP, Kruk S.A., KSG Agro, Westa, Ovostar, Coal Energy, Synektik. It was also the party accepting subscription orders under a pre-emptive offer of CPEnergia as well as an offering party for PLN 35 m worth of bonds of MCI Management S.A. As a result, Dom Maklerski BZ WBK was ranked the first among brokers in the IPO market (Forbes of 10/2011).

In cooperation with Bank Zachodni WBK S.A., the company also distributed structured bonds: Giganci Rynku 3 (Market Giants 3), Solidne Marki (Sound Brands), Solidne Marki 2 (Sound Brands 2), Potentaci Rynku (Market Potentates), Przyjazna Planeta (Friendly Planet) and WIG 20 Premium.

In July 2011, BZ WBK Brokerage House launched a unique social networking service dedicated to equity investments: gieldokracja.pl, which was called the "Facebook for investors" in an independent review at bankier.pl. Over 10 weeks of launch, the number of registered users exceeded 2 thousand.

Dom Maklerski BZ WBK came first in the ranking published by Parkiet daily (6.09.2011) in terms of net profit generated in H1 2011 (based on reports from brokerage houses). The business model catering for three market segments: personal customers, business customers and market making, proved to be the most effective.

For many years now, Dom Maklerski BZ WBK has been ranked top in terms of customer service quality. The company was voted second by both personal and business customers in the ranking published by Forbes (10/2011). The sales-traders team came third. Personal customers were most satisfied with analytical products (ranked 1st in the market) and the Investor online service, while the business customers highlighted the quality of service of the primary market (ranked 1st), analyses and recommendations, scope of the product offer, flexibility and professionalism of relationship management.

On 9 February 2012, the Warsaw Stock Exchange granted awards to the most active Polish equity market players for their achievements in 2011. Dom Maklerski BZ WBK was recognised in three categories: cooperation with the Stock Exchange as the market maker, the highest trading in the New Connect Market session and the largest number of debuts of foreign companies arranged.

BZ WBK Finanse & Leasing S.A. and BZ WBK Leasing S.A.

From 1 January to 31 December 2011, the companies financed net assets totalling PLN 1,535.7 m, i.e. 16.2% up y-o-y. A notable sales growth was recorded in plant & equipment (+30.5% y-o-y), while the sales in the vehicle category went up by 5.6% y-o-y.

The company's product offer was substantially expanded in 2011. In response to the market demand, in April 2011, the leasing companies prepared a new proposal for freelancers, including doctors, lawyers and architects. The customers are able to lease vehicles, machines and equipment and insure the leased asset at promotional prices starting from PLN 1. In June 2011, the proposition of BZ WBK Finanse & Leasing was expanded to include services tailored to customers from the construction industry (seasonal leasing payments and lease of a wide array of new and second-hand building machines). In July 2011, the proposition was expanded to include financing of energy efficient machines and equipment as part of the PolSEFF programme delivered in liaison with the European Bank for Reconstruction and Development. The offer is addressed to customers who seek funding towards technologically-advanced, energy-efficient and environmentally-friendly projects. It enables them to avail of the investment premium up to 15% of the facility amount. Other newly introduced items were: fixed-rate leasing products for SME customers, a loan to finance the inventories for selected providers of fixed assets, business loan to finance machines and equipment co-financed by the EU and a range of insurance products.

BZ WBK Finanse & Leasing was awarded the title of the Financial Brand of 2011 by readers and the panel of "Gazeta Finansowa" in recognition of its proposition which is best aligned with the customers' needs with regard to the financing of vehicles.

BZ WBK Inwestycje Sp. z o.o.

BZ WBK Inwestycje trades in the shares of commercial companies and other financial instruments, including convertible and ordinary bonds - these transactions are effected on behalf of third parties and as proprietary deals. Moreover, the company provides advisory and consultation service with regard to acquiring investors for these companies. This business profile does not require any additional licenses or permits.

In 2011, BZ WBK Inwestycje Sp. z o.o. acquired:

- 4 thousand shares in Masterform Sp. z o.o., representing 10.59% of the company's share capital;
- 175,796 shares in Krynicki Recykling S.A., thus increasing its stake in the company to 24.54%;
- 2,900,000 shares of Pragma Trade S.A. representing 21.09% of the company's share capital and 12.21% of the voting power.
- 923,077 shares in Infosystems S.A.; this transaction was followed by the sale of two shareholdings in October and December (426,829 and 188,261 shares, respectively), whereby the remaining shareholding represented 7.50% of the company's share capital;
- 965,000 shares in i3D S.A., representing 10.39% of the company's share capital, which was followed by the acquisition of another 500,00 shares in January 2012, which increased the total shareholding to 15.77%.

In H1 2011, BB Investment S.A. purchased 10,464 registered bonds for PLN 10.3 m.

As a result of conversion of bonds owned by the subsidiary into shares of Holicon Group S.A. in April 2011, BZ WBK Inwestycje Sp. z o.o. increased its share in the total voting power at the company's General Meeting of Shareholders to 47.09% (for more details see Chapter II "Basic Information", part 2 "Companies Connected with Bank Zachodni WBK S.A.", "Joint Ventures and Associates" section).

BZ WBK Faktor Sp. z o.o.

At the end of December 2011, the total credit portfolio of the factoring company amounted to PLN 435.8 m, which was by 28% higher than in the corresponding period of the previous year. The value of purchased invoices increased by 70% y-o-y to PLN 2.4 bn.

In 2011, the company added to its product range non-recourse factoring with a foreign debtor. The new product is provided based on an insurance policy concluded with KUKA S.A. and can be used in trading with partners from OECD countries. The company also introduced a factoring offer for local government units.

4. Service Quality Improvement

Quality Policy

Pursuant to the "BZ WBK Quality Policy", the bank's ultimate goal is to continually strive to build strong and lasting relationships with the existing and prospective customers by providing top quality products and services and continuously improving the organisation. This goal is pursued through:

- ✓ full commitment of the bank's management and staff to delivery of customer-focused strategy;
- ✓ unparalleled service to customers and non-customers;
- ✓ process-based and systemic approach to management;
- ✓ continuous improvement of staff;
- ✓ fostering a corporate culture which encourages cooperation, partnership, mutual respect and teamwork.

In 2011, Bank Zachodni WBK continued its efforts to deliver a superior and coherent experience to new and existing customers. The bank's ambition is to become a distinctive brand in the Polish market and a leader among its peer group.

High Customer Satisfaction Index

In 2011, the bank retained a high Customer Satisfaction Index (CIS) score. The global CSI, including 33 measured attributes, amounted to 88.7% in Q4 2011. Compared to 2010, the score improved in the segments of business and Premium customers.

Bank Zachodni WBK topped its peers in the segment of business customers, while CSI score in the retail segment was comparable.

The most spectacular score was recorded in face-to-face customer service with the branch index coming in at 90.4% , which ranked the bank among the leaders in the Polish banking market.

Net CSI for Bank Zachodni WBK computed on the basis of the Santander Group's methodology reached 74%, i.e. up 2% on 2010.

Customer Excellence

In 2011, Bank Zachodni WBK Group continued its strategy aimed to ensure top quality standardised services to all customers irrespective of the contact channel with BZ WBK brand. "Service Standards+" adopted by the Group are encapsulated in the strap-line "Be Ready to Go the Extra Mile". The Standards promote personal commitment in dealing with customers, giving more than expected and managing customer experience.

To ensure customer excellence, services rendered by all branches, points of service, subsidiaries and Partner outlets are monitored on a monthly basis in the form of a mystery shopping. In 2011, 6 mystery shopping exercises were carried out in each branch. Based on the results, corrective and improvement measures were taken in branches and other distribution channels.

Barrier-Free Banking

In 2011, Bank Zachodni WBK continued the Barrier-free Banking Programme aimed to enhance the disabled customers' experience with BZ WBK in all contact channels – branch, phone, Internet or ATM.

Special service standards were implemented in the bank's branches awarded with an accessibility certificate by the Integracja Association, including the opportunity to request the advisor's visit at the customer's place and dedicated points in branches where disabled customers are served first. Staff of certified branches attended workshops delivered by disabled trainers.

In addition, a number of features were introduced to improve day-to-day banking experience of disabled customers, including:

- barrier-free branches (100 branches were awarded accessibility certificates at the end of 2011);
- modern ATMs adapted to the needs of visually-impaired and blind customers (nearly 105 dedicated ATMs were operative as at the end of 2011);
- new BZWBK24 Internet services certified for accessibility to visually-impaired customers.

Position in Rankings

In recognition of its superior customer service, Bank Zachodni WBK received the Service Quality Award, taking the third position (out of 23 banks) in the nation-wide online customer service survey. This accolade is all the more important as it was voted for by consumers who shared their opinions on newly-purchased products and services on the social media website dedicated to service quality (over 2 m users).

Customer Excellence Forum

BZ WBK Customer Excellence Forum is responsible for ongoing oversight and optimum management of all aspects contributing to customer experience with the bank, including the quality of customer service, accessibility of bank systems and efficiency of distribution and contact channels. The Forum sets priorities and assigns accountability for delivery of the customer experience management policy which is aimed to enhance customer loyalty. The Forum convenes on a monthly basis to analyse the key quality metrics.

Customer Care Officer

The role of the Customer Care Officer adds to the competitive edge of Bank Zachodni WBK. Customer Care Officer is responsible for handling customer queries and setting customer service standards by: developing complaint management standards and procedures, assisting bank employees with particularly difficult complaints, regular reporting of the results of complaint analysis to senior executives, addressing customer dissatisfaction, liaising with the Banking Ombudsman of the Polish Banks Association (ZBP).

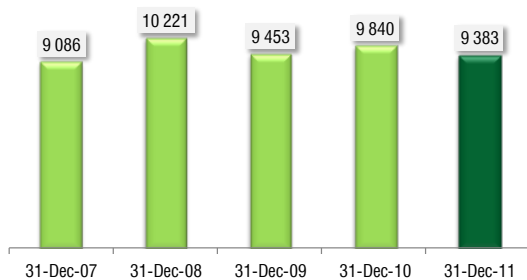
V. Human Resources and Corporate Culture

1. Human Resources Management

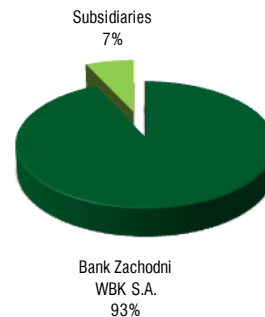
Human Resources

As at 31 December 2011, the number of FTEs in Bank Zachodni WBK Group was 9,383, i.e. 457 lower y-o-y. This reduction reflects natural staff turnover and continued streamlining of back-office functions in Branch Banking.

Employment in BZ WBK Group as at 31 December in Years 2007-2011 (in FTEs)



Employment Structure in BZ WBK Group as at 31 December 2011



HR Initiatives

In 2011, Bank Zachodni WBK Group focused on strengthening its corporate values, maintaining efficient operations of its HR management support systems, optimising incentive schemes and developing management staff at different levels.

In September 2011, SAP system (including e-HR Portal) was migrated from AIB Bank to BZ WBK as provided for in the agreement for the sale of Bank Zachodni WBK shareholding.

As in 2011, the Group gave high priority to initiatives aimed to keep staff motivated and engaged. The Group launched the fourth long-term Incentive Scheme for 2011-2013 (for more details see the section "Performance Share Programme" below). Throughout the year and in particular during the ownership change process, the Group strived to maintain top quality two-way communication to ensure a full understanding of the Group's situation and embed the sense of ownership and dedication among the staff.

New Branch Energy (NEO) programme was one of the new initiatives which required support from the HR Management Division. The programme sought to improve and reinforce effectiveness of sales in branches by enhancing pro-active attitude of advisors, making optimum use of sales campaigns and building strong and sustainable customer relations. HR Management Division was responsible for developing advisors' sales skills and helped branch managers make most of their managerial and coaching potential. A total of 2,978 people were trained. After each of the three rollout phases, feedback was taken (on a voluntary and anonymous basis) to identify areas for improvement.

The Group continues its Performance Management Process, based on objectives set in three performance areas: business focus, customer focus and people focus. The process includes individual objectives, performance monitoring and assessment. Thanks to regular performance reviews, the staff are aware of their role in the overall strategy and receive support and feedback. In the performance management process, a 5-rating scale is used and the staff whose performance much exceeds expectations have their personal development plans designed.

In September 2011, the Staff Attitude Survey was conducted for the seventh time among the employees of Bank Zachodni WBK Group. Each staff member had the opportunity to give their opinion (via an electronic questionnaire) regarding the corporate culture, training, remuneration system, management style, management team and other issues. The participation in the survey was voluntary, anonymous and confidential. The survey was aimed to provide feedback on the quality of management across the Group and set directions for further development and remedial actions, where required. In 2011, the staff gave their top ranking to such corporate values as: ethics, training and development.

The bank was recognised in the 11th edition of the Poland-wide competition "HR Management Leader" for "the strategic role of its HR Management Division in managing the bank".

Training

Bank Zachodni WBK Group places a great emphasis on the improvement of staff knowledge and skills. Training courses are organised in response to the business needs and in keeping with the bank's strategic priorities. Compliance with the strategic and training objectives is ensured through the central planning and co-ordination of training, a process actively supported by the branch banking and key business areas. The integrated training plan facilitates the logistics and monitoring of training quality and costs.

In 2011, the bank continued to invest in the development of management skills of its leaders by pursuing such programmes as Senior Executives Programme (15 senior executives from the Business Support Centre), TOP 10 (10 Regional Directors), TOP 100 (ca. 100 Branch Directors reporting to Regional Directors) and Development Academy (other selected Branch Directors). A new development initiative, Effective Leadership Programme, was launched to help 90 directors from the Business Support Centre improve their management skills during a change.

In order to ensure top quality management practice at all levels, the newly appointed managers participated in the Success Through People programme as well as specialist training courses aimed to induct them into their new role (including such aspects as staff support and development). The programme included training sessions on Performance Management, legal issues related to working time and the Group's policies: "Respect and Dignity at Work", "Speak up Policy" and "Mother-friendly BZWBK" (the policy supporting expectant and new mothers).

The bank also continued the Leaders of the Future programme addressed to top performers with leadership potential (8th and 9th edition).

Individual development programmes were delivered to the existing and future managers and specialists to enhance their interpersonal and managerial skills and build up their expertise. The bank also co-funded post-graduate studies, specialist certified training courses and language courses for the staff who look to build up their competence.

In 2011, the bank completed a two-year project "Professional sales – development of sales force and customer service in BZ WBK" financed by the European Social Fund. The project was designed to improve customer service in the Branch Network.

In 2011, the bank delivered 180 workshops (8% up on 2010) and 145 e-learning courses for the staff of the branch network and the Business Support Centre. The number of training hours came in to a total of 268,018, i.e. 30.5 hours or 3.8 days on average per each employee. The key issues addressed in the training courses included: flagship products, sales techniques, SME lending and hands-on training for the users of applications.

In addition, the bank supported development of agents running Partner outlets. 55 groups of 524 participants were trained. The sessions covered induction programme, a course for tellers, training in credit delivery, products sold by the bank, ARKA Subfunds, phone conversations and sales techniques.

Performance Share Programme

Every year from 2006 through to 2008, Bank Zachodni WBK launched a 3-year incentive scheme for the key employees of Bank Zachodni WBK Group, allowing them to purchase the bank's shares on preferential terms, subject to achievement of performance targets in the years covered by the scheme (2006-2008, 2007-2009, 2008-2010). The incentive schemes were designed to motivate the key employees of the bank and its subsidiaries to continue their efforts, inspire strong dedication to the organisation's strategic objectives and thus to ensure high competitiveness and financial efficiency of Bank Zachodni WBK Group in the long-term perspective as well as to bring benefit to the shareholders.

On 21 April 2009, the Supervisory Board of Bank Zachodni WBK passed a resolution confirming that conditions for the first Incentive Scheme of 2006 had been met. The 2nd and 3rd Incentive Scheme expired with no rights exercised based on the Supervisory Board's resolutions of 27 July 2010 and 17 May 2011, respectively, asserting that the pre-defined conditions had not been fulfilled.

On 20 April 2011, the Annual General Meeting of Shareholders launched a three year 4th Incentive Scheme, as a continuation and development of the existing Group's Performance Share Programme. The Programme was designed to attract, motivate and retain the best managers in the market to ensure a dynamic growth of the organisation going forward. On 22 June 2011, the list of 496 Programme participants recommended by the Management Board was approved by the Supervisory Board. Having executed an agreement with the bank, the participants will be eligible to subscribe for and acquire a defined number of shares at the nominal value (PLN 10) provided that certain economic criteria are met. Under the 4th edition of the Incentive Scheme, similarly to previous editions, the shares may be vested depending on the bank's performance in the years 2011-2013. To exercise the rights, the bank will issue up to 400,000 of incentive shares.

The long term programme is monitored to check if any of the employees might have lost their participant status.

2. Corporate Values

Code of Business Ethics

Bank Zachodni WBK Group follows the Code of Business Ethics, which sets out the general standards of behaviour which underpin the Group's corporate culture.

According to the Code, in all aspects of its activities, the Group will comply with the business ethics requirements, conform with the law and act in accordance with the best corporate governance and risk management models. The Group seeks to create a climate of trust in its dealings with customers, employees, shareholders and other stakeholders, promoting such values as integrity, professionalism, prudence and competence. The perception of being a dependable organisation is seen as a pre-requisite for further development and success, but the bank also has the ambition to be recognised for being engaging and pioneering. As a responsible corporate citizen, the Group supports corporate-giving and sponsorship programmes.

The Code of Business Ethics is supported by detailed policies and procedures which are regularly reviewed and updated.

Corporate Culture

The Group attaches a great importance to compliance with the law, internal regulations and best practice in all aspects of its activities.

The responsibility for implementing and monitoring the effectiveness of mechanisms mitigating the risk of non-compliance with general laws and regulatory regime rests with the Compliance Area. Also, the corporate culture developed and endorsed by the bank ensures that all activities conform to the laws, best practice and ethical standards. On top of that, the bank raises the awareness of the staff's impact on the bank's reputation.

The Group constantly seeks to reinforce the professional and ethical behaviour of its employees. Training on business ethics is mandatory for all new entrants. Also, an ongoing Compliance and Business Ethics training programme (COMeT) addressed to all employees from the Group has been continued. The programme is designed to raise awareness of the staff and to encourage proper behaviours should they be faced with a conflict of interest, suspected fraud or situations which may raise ethical dilemmas.

Bank Zachodni WBK Group places a great emphasis on quality and integrity of the product information communicated to customers, ensuring that the advertising materials are duly prepared, the sales staff are well qualified and the information available in the Intranet and branches is of top quality.

Corporate Responsibility

In line with the Code of Business Ethics, the bank is engaged in various programmes addressed to local communities.

Barrier-Free Banking

In 2010, Bank Zachodni WBK Group launched Barrier-Free Banking Programme aimed to enhance the disabled customers' experience with the bank in all distribution channels. As part of the Programme, in 2011, the number of ATMs adapted to the needs of visually impaired and blind customers increased to 105 while the number of branches offering barrier-free access went up to 100. Other actions aimed to reinforce the perception of the bank as being disabled-friendly include:

- local initiatives to prevent social exclusion of the disabled;
- joint projects with public organisations, NGOs and foundations as part of the Programme;
- Easier access to arts and culture for the disabled - as part of the bank's art patronage scheme.

The Foundation of Bank Zachodni WBK

The Foundation engages in various initiatives for the benefit of children and adolescents. It runs two major financial support programmes. The Bank of Children Smiles has been operating across Poland for a number of years. It provides financial support to organisations and institutions which take care of children from impoverished or dysfunctional families. The bank's funds secure the delivery of valuable educational programs. The Bank of Ambitious Youth is a new programme launched in 2010 to help finance projects which raise young people's awareness that their education, resourcefulness and personal involvement in community initiatives have a direct impact on their future both in the private and public sphere. This programme also aims to develop community-oriented attitudes among the youth as well as promote the spirit of volunteerism among high school and university students.

The Foundation also delivered a number of other projects for the youth, including: "Informaticus" - training and internships in IT; "Peers" competition, involving filmmaking workshops and organized in liaison with The Polish History Museum and The National School of Film, Television and Theatre in Łódź; "Business-Zone" on-line (together with the City of Wrocław).

Since 2009, the Foundation has been coordinating and supporting charity projects initiated and implemented by the bank staff. Employees form task teams and engage in charity projects agreed with the Foundation in respect of the target and finance. Corporate volunteering is increasingly popular and the number of projects is higher every year.

"Battle of Warsaw: 1920"

In 2011, the bank sponsored "Battle of Warsaw", Poland's most modern movie, directed by Jerzy Hoffman and depicting historical events in the 3D technology. The bank was involved in the making of the movie already at the time of writing the screenplay and then on the set. The bank also supported an educational campaign designed to raise awareness of the battle and its historical significance among the youth. As part of the campaign an educational brochure for primary and high school teachers was published.

Sponsoring Cultural and Community Events

Bank Zachodni WBK regularly supports projects of the Polish History Museum and the Warsaw Uprising Museum, for example city games which seek to raise awareness of milestones of the Polish history. In 2011, such projects included: "Destination Independence" picnics to celebrate the Independence Day (Polish History Museum), "Uprising Snaps" city game (Warsaw Uprising Museum). Under the joint patronage of the bank and Foundation of Banco Santander, "Treasures of the Spanish Crown" exhibition was organised in Kraków National Museum as part of the Polish Presidency in the EU.

BZ WBK Press Photo Competition

For seven years the bank has organised BZ WBK Press Photo competition, one of the key events of this type in Poland. In 2011, the organizers received over 8,600 photos and 30 photocasts from 393 photographers, a record high number. The best photos were then presented in 24 cities across Poland, including in Białystok, Łomża, Łódź, Gdańsk and Chełm, during exhibitions which turned out to be high-profile local events. The competition is organised under the auspices of *Rzeczpospolita* daily.

VI. Key Projects, Developments and Other Information

1. Organisational Changes

In 2011, the organisational structure of the Business Support Centre of Bank Zachodni WBK (BZ WBK Head Office) was reshaped and aligned with the operational framework of Banco Santander based on its extensive international track record. The organisational changes are aimed to facilitate business cooperation, exploit specific synergies and boost operational effectiveness.

In 2011, Bank Zachodni WBK set up the Global Banking and Markets Division, which became operational in Q4 2011. The Division manages relationships with the largest corporate customers and offers a wide array of products and services to them as part of the global customer relationship management framework of Santander Group. The unit is responsible for corporate, investment, transactional banking and treasury products. Through dedicated units, the bank may establish and develop relationships with customers operating in international markets and provide its customers with solutions worked out across Santander Group.

Following the set-up of the Global Banking and Markets Division, the Treasury Division and the Investment Banking Division ceased to operate as separate organisational units of the Business Support Centre.

Furthermore, the Brand Quality Management Department, Marketing Department and Customer Care Office were incorporated into the Corporate Communication and Marketing Area, as a result of which the Brand Management Area ceased to exist. These changes were aimed to integrate functions and activities related to external and internal communication.

Quality Assurance Department, which was part of Risk Management Division, is now included in the structures of Central Operational Services Area in Business Support Division. Operational Risk Management Department reports to the Management Board Members in charge of Risk Management Division and Business Support Division in the scope of consolidated, independent assessment and monitoring of operational risk.

2. Information Technology Development

Key Trends

In the uncertain economic environment it is becoming increasingly necessary for banks which pursue a service differentiation strategy to deliver new business initiatives with caution. In the current market, the business expectations for IT focus on adequate performance, reliability, security, business scalability (maximum parameterisation of processes) and keeping up with the business growth. At the same time, projects are delivered which focus on the social role of banking. They include launch of over 100 ATMs accessible to visually-impaired and blind customers, availability of e-banking services in new language versions and use of Polish diacritics for credit and debit cards.

IT Architecture

Following the latest trends, Bank Zachodni WBK looks to shift from the process-oriented business model to the model in which a complementary and then central role is played by information flow. To this end, efforts have been taken to develop a data bus in the Service Oriented Architecture Model – applications which offer sophisticated and universal business services based on extensive business parameterisation and facilitate handling of bank products tailored to customer needs and market trends. In addition to the above, the bank works to develop the central transactional system, leveraging the opportunities provided by the bank's new strategic investor.

IT System Maintenance and Security

All IT services available to users and customers of the bank are subject to comprehensive oversight as part of the IT Service Management System. The systems comply with IT service management requirements of ISO/IEC 20000-1:2005 and meet the guidelines and principles included in the "Information Technology Infrastructure Library" (ITIL).

The strategic goal of the bank's IT function is to continuously improve the quality of IT services at a lower unit cost and align them with the changing business needs and requirements.

Changes in the ownership structure of Bank Zachodni WBK Group created new development opportunities in terms of maintenance of IT systems.

Continuous investment in an upgrade of IT security systems ensures maximum protection against external and internal attacks.

3. Key Projects

Delivery of Key Projects

Below is the overview of key projects delivered by Bank Zachodni WBK Group in 2011.

Mass roll-out of a new sales channel – acquisition of new customers through the sale of the Avocado package in the strategic alliance network (Polkomtel S.A.) and exploitation of cross-selling opportunities.

Business continuity of SAP – purchase of the SAP licence to enable end-to-end management of human resources in BZ WBK including migration of data from the systems operating from AIB to the Poland-based environment.

Migration of IT platform supporting Treasury function from AIB to Santander Group – migration of IT systems from AIB, keeping the existing data processing framework. As part of the programme, the current IT platform is being migrated to BZ WBK systems and platform provided by Banco Santander (in progress).

New ICBS module – Corporate Lending – the module is dedicated to sophisticated credit facilities based on multicurrency maximum exposure limits, credit lines and sub-lines offered to corporate and business customers.

Automated mortgage loan delivery – introduction of automated decisions based on repayment capacity and pre-defined decision rules.

Customer identification in CC (via phone) – implementation of mechanisms which allow the Contact Centre staff to identify customers based on IVR and NIK/PIN (via phone).

Polish diacritics embossed into credit and debit cards – in response to customers' needs, the spelling of customer names was changed to include diacritics.

Inbound IVR in the arrears management process – availability of IVR functionality to support two-way, automated and interactive communication with customers with delinquency or unauthorised overdraft (credit card or personal account).

Expansion of the database in Debt Manager – data feed to the Debt Manager to facilitate SME/Leasing collection and recovery.

Monitoring of financial standing – implementation of monitoring of SME customers' standing in the NFE system (new integrated IT branch environment), which helped streamline and automate periodical and on-demand financial monitoring.

CRM CORPO in the Business Banking and Corporate Banking Division – the aim of the project was to devise and implement a CRM solution to support sales delivered by Business and Corporate Banking Division. The project is one of the steps taken to enhance IT support of services rendered to corporate and business customers.

Insurance cover for SME borrowers – a group insurance policy offered to SME borrowers to provide cover against fortuitous events, such as inability to work or hospitalization.

Sale of deposit products for business in BZ WBK Partner outlets – launch of the sale of deposit products (current accounts, term deposits), payment cards and BZWBK24 services for business in BZ WBK Partner outlets.

Scoring models and scorecards supporting recovery and collection – implementation of 10 scoring models designed to grade retail customers in arrears with respect to cash loans, credit cards or overdrafts. The score calculated by the models discriminates between specific subpopulations of delinquent customers, which aids collection and recovery.

4. Capital Expenditure

In 2011, Bank Zachodni WBK Group incurred PLN 118.6m (compared to PLN 69.5m in 2010) on the delivery of investment projects and initiatives.

Last year, a number of undertakings were delivered by Bank Zachodni WBK, with the key ones described in the section “Delivery of Key Projects” above.

Additionally, in 2011, Bank Zachodni WBK worked intensely on development of mobile banking, as a result of which an application was implemented to provide customers with an instant and easy access to bank accounts and products via mobile phone.

Bank Zachodni WBK continued expansion of its branches and Partner outlets. Eight branches were opened and five branches were moved to locations which were more convenient for customers.

To maintain a high service standard, the bank upgraded a number of its branches. The IT infrastructure was refreshed as PCs, terminals, printers, all-in-one devices and UPSs were replaced. Also, the bank modernised its heating, lighting, air-conditioning and security systems.

Bank Zachodni WBK continued efforts aimed to upgrade the ATM network. Cutting-edge ATMs were launched, combining user-friendliness, robust functionality and top security mechanisms. Replacement of the legacy ATM infrastructure helped maintain highly effective and technologically advanced network.

In 2011, a number of projects were completed to enhance the security, stability and resilience of bank systems. The implemented solutions helped maintain the high level of data security and ensured continuity of the services offered by the bank. Furthermore, efforts were taken to simplify and facilitate processes delivered in the bank in order to enhance customer experience.

VII. Awards, Recognitions, Position in Rankings

Awards, recognitions, positions in rankings	Bank Zachodni WBK S.A.
Bull and Bear Statuette for the quality of economic analyses	The analyst from BZ WBK Brokerage House and BZ WBK Chief Economist's Team were awarded by the "Parkiet" daily for the quality of their analyses. The Bull and Bear statuettes were granted for the 17th time to Polish listed companies and equity institutions (2 March 2011).
1st position in the Investor Relations category of the Listed Company of the Year ranking	BZ WBK and three other companies came joint first in the Investor Relations category of the Listed Company of the Year ranking published on 4 February 2011 by the "Puls Biznesu" daily.
1st position in the Total Money ranking of cash loans	On 28 March 2011, BZ WBK took the 1st position in the ranking of cash loans for non-customers published by TotalMoney.pl.
2011 Best IT Solutions Awards for "buy-by-click" products	"Buy-by-click" products of BZ WBK were recognized among products of financial institutions in "2011 Best IT Solutions" Awards organised by "Gazeta Bankowa".
2nd position in the ranking Residential Brand of the Year	In June 2011, BZ WBK came 2nd in the ranking "Residential Brand of the Year" in the category of home mortgage loans. The rank was awarded by customers themselves.
High place in the ranking of socially responsible companies	BZ WBK was awarded in the "Gazeta Prawna" ranking of responsible companies for its Corporate Social Responsibility activity. The bank took the second place in the category "Banking, Finance and Insurance".
Recognition in the "HR Management Leader" competition	BZ WBK was awarded in the HR Management Leader competition organised by the Institute for Labour and Social Affairs. The bank was recognised for the strategic role of the HR Management Division in managing the organisation.
Award in the competition Women's Activity in Lower Silesia in 2011	BZ WBK was awarded in the competition "Women's Activity in Lower Silesia in 2011" in the category "Business that Supports Women" for its "Mother-Friendly Bank" policy, which is designed to help women reconcile their professional and motherhood duties.
Recognition in the Best Banking ranking	BZ WBK was among the three banks recognised for their achievements in the 19th "Best Banking" ranking of "Gazeta Bankowa" in the category of large banks. The bank was awarded for its effectiveness, assessed on the basis of its financial performance.
Recognition in the competition "The Best Annual Report 2010"	The Panel of "The Best Annual Report 2010" competition recognised the annual report released by BZ WBK in 2011 for its utility to the recipients.
Awards, recognitions, positions in rankings	Subsidiaries
BZ WBK TFI among the leaders of the stable yield ranking by Forbes	BZ WBK TFI was one of the leaders of the stable yield ranking published by "Forbes", assessing an eight-year investment horizon ("Market Leaders" by "Forbes", March 2011). Arka Funds were one of the two brands recognised for strong performance enjoyed by all funds: equity, balanced, stable growth, bond and cash funds. In addition, BZ WBK Arka Equity Fund boasted the best yield over a ten-year horizon in its category.
1st position in Super Market Maker Awards in all the categories	BZ WBK Brokerage House (DM BZ WBK) was the winner of the 2nd Super Market Maker Awards held by the WSE (February 2011). The Brokerage House came first in all seven categories.
1st position in the the Warsaw Business Journal ranking in the category of brokerage houses	On 3 March 2011, DM BZ WBK came first in the category of brokerage houses in the "Book of Lists 2011" prepared by "Warsaw Business Journal".
1st position in "Broker's Market Strength Index" ranking	DM BZ WBK came top in the "Broker's Market Strength Index" ranking published on 8 March 2011 by "Puls Biznesu". The company was recognised for its leadership position in the equity and futures market as well as strong presence in the primary market.
Leading position of DM BZ WBK S.A. in the service quality ranking by Forebs	DM BZ WBK has been ranked top in terms of customer service quality in the ranking published by Forbes (October 2011). The company was voted second by both personal and business customers while the sales-traders team came third.
Warsaw Stock Exchange Award for DM BZ WBK for its activity in 2011	On 9 February 2012, DM BZ WBK was awarded by the Warsaw Stock Exchange for its activity in 2011 in the following areas: cooperation with the Stock Exchange as the market maker, the highest trading in the New Connect Market session and the largest number of debuts of foreign companies arranged.
Financial Brand of the Year for BZ WBK Finance & Leasing	BZ WBK Finance & Leasing was awarded the title of the Financial Brand of 2011 by readers and the panel of "Gazeta Finansowa" in recognition of its proposition and its alignment with the customers' needs with regard to the financing of vehicles.
Accolade of "Customer-Friendly Firm" for BZ WBK-Aviva	BZ WBK-Aviva insurance company was awarded with an accolade of the Poland-wide certification programme "Customer-Friendly Firm". The certificate is granted to the companies which are oriented towards customer needs and service quality.

VIII. Financial Situation of BZ WBK Group in 2011

1. Profit and Loss Account of Bank Zachodni WBK Group

Composition of the Profit Earned by Bank Zachodni WBK Group in 2011

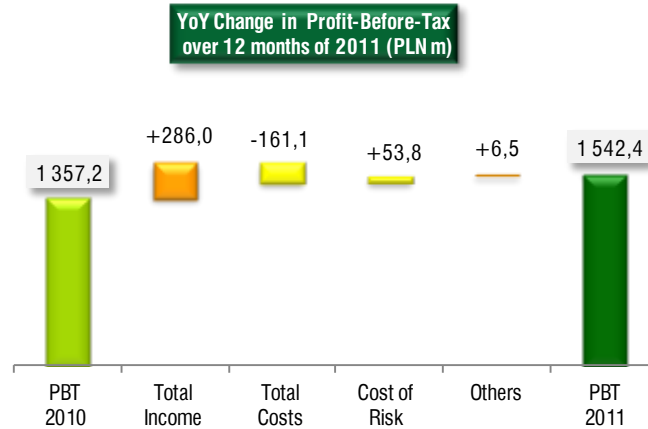
The table below shows changes in the key items of the Group's consolidated profit and loss account in 2011 compared with the previous year.

Condensed Profit & Loss Account (for analytical purposes)	PLN m				
	2011	2011 underlying data *	2010	Change y-o-y	Change y-o-y underlying data *
Total income	3 823,0	3 823,0	3 537,0	8,1%	8,1%
- Net interest income	2 068,6	2 068,6	1 822,2	13,5%	13,5%
- Net fee & commission income	1 357,7	1 357,7	1 343,2	1,1%	1,1%
- Other income	396,7	396,7	371,6	6,8%	6,8%
Total costs	(1 924,6)	(1 835,8)	(1 763,5)	9,1%	4,1%
- Staff, general and administrative expenses	(1 659,1)	(1 654,0)	(1 600,6)	3,7%	3,3%
- Depreciation/amortisation	(215,9)	(139,5)	(128,8)	67,6%	8,3%
- Other operating expenses	(49,6)	(42,3)	(34,1)	45,5%	24,0%
Impairment losses on loans and advances	(367,0)	(367,0)	(420,8)	-12,8%	-12,8%
Profit/loss attributable to the entities accounted for using equity method	11,0	11,0	4,5	144,4%	144,4%
Profit-before-tax	1 542,4	1 631,2	1 357,2	13,6%	20,2%
Tax charges	(315,5)	(315,5)	(316,6)	-0,3%	-0,3%
Net profit for the period	1 226,9	1 315,7	1 040,6	17,9%	26,4%
- Net profit attributable to BZ WBK shareholders	1 184,3	1 273,1	974,2	21,6%	30,7%
- Net profit attributable to non-controlling shareholders	42,6	42,6	66,4	-35,8%	-35,8%

* underlying data exclude once-off adjustments as described in Note 1 of the "Consolidated Financial Statements of Bank Zachodni WBK Group for 2011"

In 2011, Bank Zachodni WBK Group generated a profit-before-tax of PLN 1,542.4 m, an increase of 13.6% y-o-y. The net profit attributable to Bank Zachodni WBK shareholders was PLN 1,184.3 m and 21.6% higher y-o-y.

Excluding the once-off adjustments of PLN 88.8 m, posted in the fourth quarter of 2011 to align the Group's operating practices with Santander Group, the profit-before-tax was PLN 1,631.2 m and up 20.2% y-o-y, while the net profit attributable to Bank Zachodni WBK shareholders increased by 30.7% y-o-y to PLN 1,273.1 m. The once-off adjustments apply entirely to the cost side of the consolidated profit and loss account.



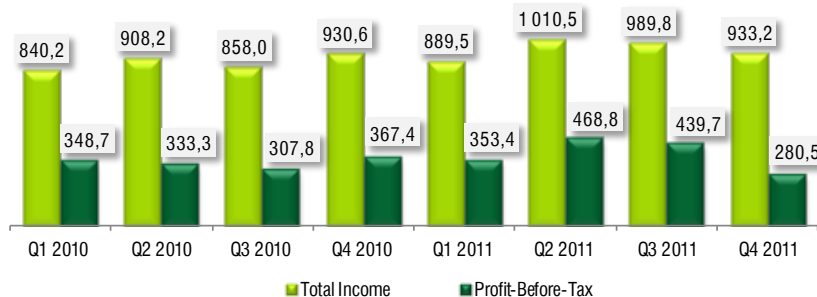
The main driver of the profit growth for 2011 was net interest income which increased by PLN 246.4 m as a result of acceleration in the Group's core business volumes in a higher interest rate environment. The profit was also favourably impacted by higher dividend and net commission income as well as reduced loan impairment losses.

This performance was achieved amid stable economic growth, reviving investment demand and high interest rates. These factors were accompanied by a heightened inflation, subdued positive trends in the labour market, depreciation of the Polish currency, declining sentiment among Polish businesses, volatility of financial markets and risk aversion due to fiscal imbalances and the weakening economic activity of Poland's main business partners.

Total Income and Profit-Before-Tax in 2010 and 2011 (PLN m)



Total Income and Profit-Before-Tax in Consecutive Quarters of 2010 and 2011 (PLN m)



Structure of PBT Earned by BZ WBK Group – by Contributing Entities

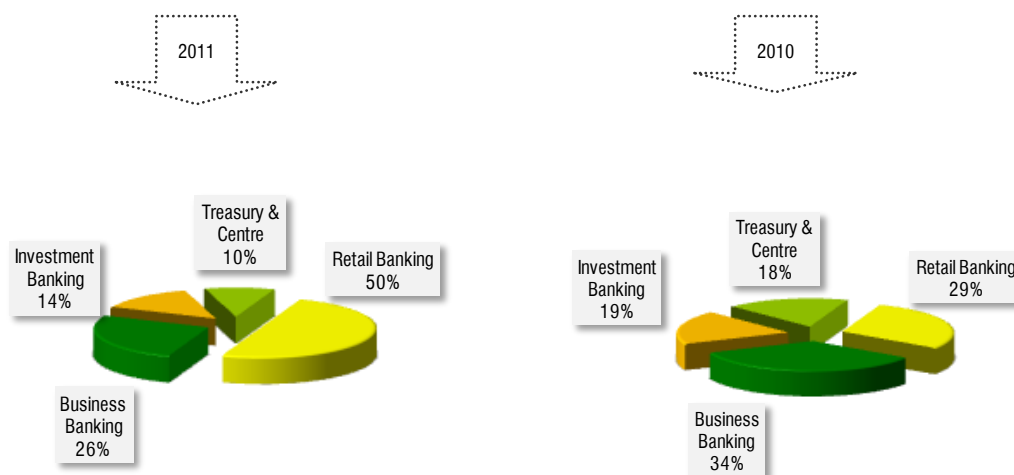
PLN m					
Structure of Profit-Before-Tax by Contributing Entities	2011	Structure 2011 *	2010	Structure 2010 *	Change y-o-y
Bank	1 427,1	81,8%	1 182,3	77,4%	20,7%
Subsidiaries, of which:	316,7	18,2%	345,3	22,6%	-8,3%
Dom Maklerski BZ WBK	61,2	3,5%	59,4	3,9%	3,0%
BZ WBK Leasing and BZ WBK Finanse & Leasing	41,7	2,4%	14,6	1,0%	185,6%
BZ WBK Asset Management and BZ WBK Towarzystwo Funduszy Inwestycyjnych	201,9	11,6%	258,8	16,9%	-22,0%
Other subsidiaries	11,9	0,7%	12,5	0,8%	-4,8%
Intercompany and consolidation adjustments	(201,4)	-	(170,5)	-	18,1%
Total	1 542,4	-	1 357,2	-	13,6%

* percentage share in BZ WBK Group profit before tax, intercompany and consolidation adjustments

In 2011, the stand-alone profit-before-tax of Bank Zachodni WBK was higher by 20.7% y-o-y, while the total gross profits of the subsidiaries decreased by 8.3% y-o-y. Lower profits earned by BZ WBK Asset Management and BZ WBK Towarzystwo Funduszy Inwestycyjnych were to some extent offset by the increased result reported by BZ WBK Leasing and BZ WBK Finanse & Leasing. Weaker performance observed in the area of mutual funds and asset management is an effect of adverse developments in the Polish and global financial markets, whereas the marked improvement of the leasing companies' profits is due to the high impairment charge for leasing receivables recognised in the comparable period. Other members of the Group closed the year 2011 with a profit-before-tax that was similar to the previous year's figure.

Structure of PBT Earned by BZ WBK Group – by Segments

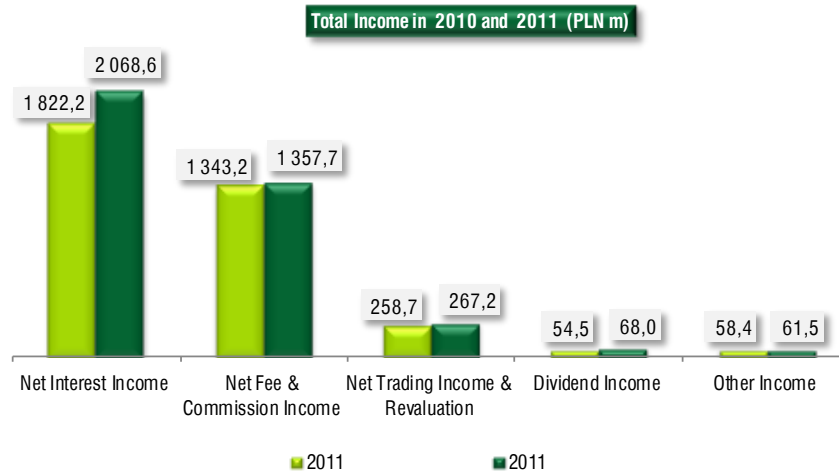
Structure of PBT of BZ WBK Group in 2010 and 2011 – by Segments



In 2011, Retail Banking increased its contribution to the consolidated profit-before-tax, while the input of Business Banking, Investment Banking and Treasury segments declined. The y-o-y changes result mainly from different levels of impairment charges reported in both reporting periods. The decline in impairment losses of Retail Banking amply compensated for the increase witnessed in Business Banking. The segmental profit structure evolution was also induced by business-driven developments, in particular: growth of interest income from customer deposits (Retail Banking), lower income from mutual funds and asset management market with concurrent growth of dividend income (Investment Banking), and also valuation of derivative transactions (Treasury and Centre).

Income

The total income achieved by Bank Zachodni WBK Group in 2011 was PLN 3,823.0 m and up 8.1% y-o-y.

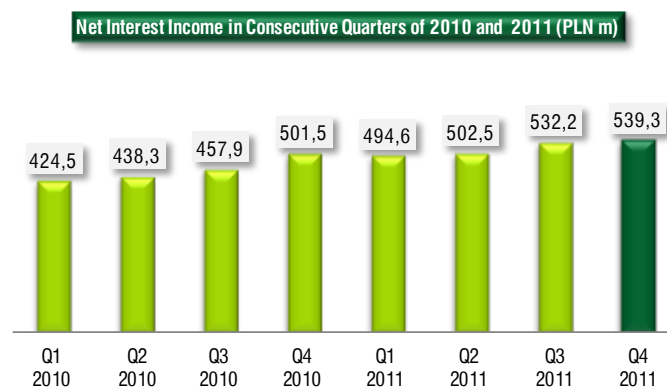


Net Interest Income

Net interest income increased by 13.5% y-o-y to PLN 2,068.6 m, which is a combined effect of positive net interest margin trends in the rising interest rate environment and strong growth of core business volumes. The Group's net interest income level was most strongly affected by higher deposit margins on retail products, supported by four official interest rate hikes during the first half of 2011 (by 100 b.p. in total). While deposit margins improved, credit margins narrowed under increased competitive pressure in the quality loan market.

Net interest income for 2011 includes PLN 10.1 m of interest income from CIRS transactions designated as hedging instruments under cash flow hedge accounting launched by Bank Zachodni WBK S.A. effective from 1 December 2011.

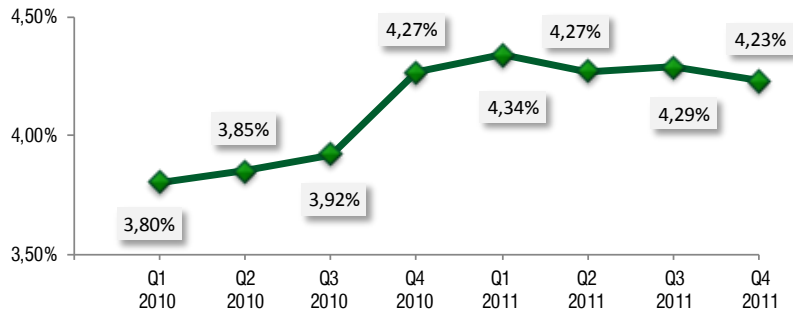
Taking into account the other interest-related income, which is generated by FX Swaps and Basis Swaps (PLN 178.1 m in 2011 and PLN 192.1 m in 2010) and disclosed under "Net trading income and revaluation", the underlying net interest income increased by 11.5% y-o-y.



In 2011, the annualised net interest margin of Bank Zachodni WBK Group was 4.28% compared with 3.98% a year before.

On a quarterly basis, the net interest margins were relatively stable in the range of 4.23-4.34% whose boundaries represent the last and the first quarter of 2011, respectively. The slight decline in margins observed in the second and the fourth quarter of 2011 reflects the Bank's efforts to increase the attractiveness of its deposit offer in response to the growing inflationary pressure and the revived competition in the short-term deposits market. The fourth quarter of 2011 also saw higher volume deposits from customers.

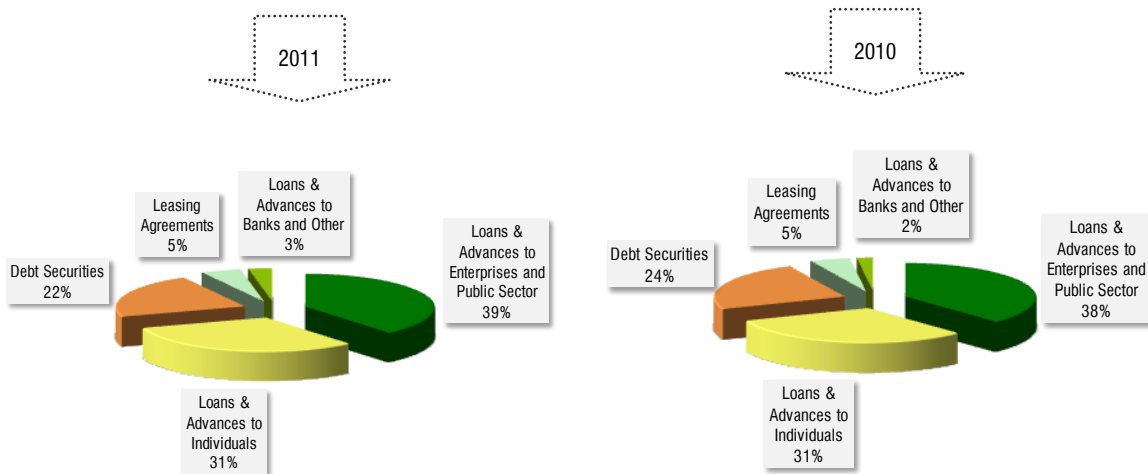
**Net Interest Margin in Consecutive Quarters of 2010 and 2011
(including SWAP points)**



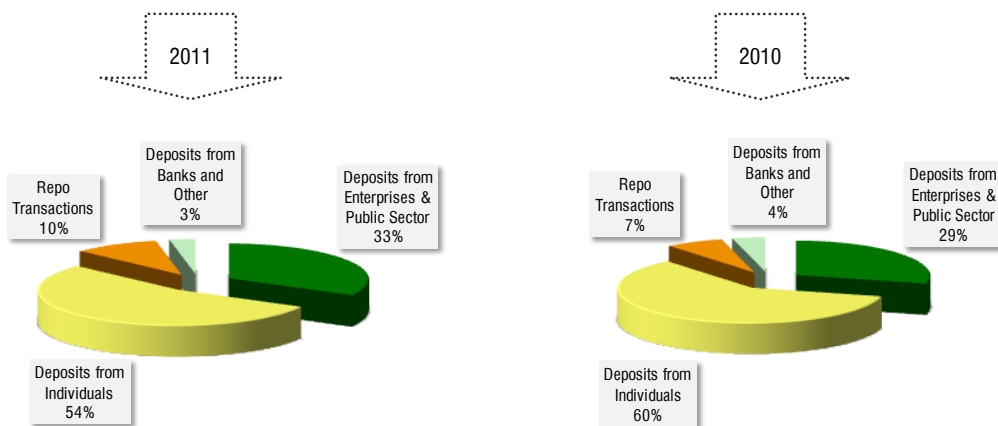
In 2011, interest income (PLN 3,413.7 m) increased by 9.1% y-o-y, which outpaced the 2.8% growth in interest expense (PLN 1,345.1 m). Interest income was driven by loans to business customers (+11.4% y-o-y), home mortgages (+21% y-o-y) and debt security trading portfolio (+45.6% y-o-y). The growth in interest costs was mainly attributable to business deposits (+20.2% y-o-y), subordinated liabilities (+168% y-o-y) and liabilities due to repo transactions (+37.2% y-o-y).

In 2011, banking loans and advances to customers generated an average nominal interest income at the rate of 6.46%. Deposits from customers produced nominal interest expense at the annual rate of 2.83%.

Structure of Interest Revenue Earned by BZ WBK Group in 2010 and 2011



Structure of Interest Expenses Payable by BZ WBK Group in 2010 and 2011



Net Fee and Commission Income

PLN m			
Net Fee and Commission Income	2011	2010	Change y-o-y
Direct banking *	313,6	280,3	11,9%
Account maintenance and cash transactions	243,9	251,2	-2,9%
Mutual fund distribution and asset management	241,9	297,1	-18,6%
FX fees	224,3	201,7	11,2%
Credit fees **	113,0	89,8	25,8%
Brokerage fees	100,3	100,2	0,1%
Insurance fees	68,8	70,3	-2,1%
Other ***	51,9	52,6	-1,3%
Total	1 357,7	1 343,2	1,1%

Includes:

* fees for foreign and mass payments, Western Union transfers, trade finance, debit cards, services for third parties as well as other electronic & telecommunications services

** selected fees related mainly to lending, leasing and factoring activities which are not amortised to interest income

*** credit card fees, issue arrangement fees and others

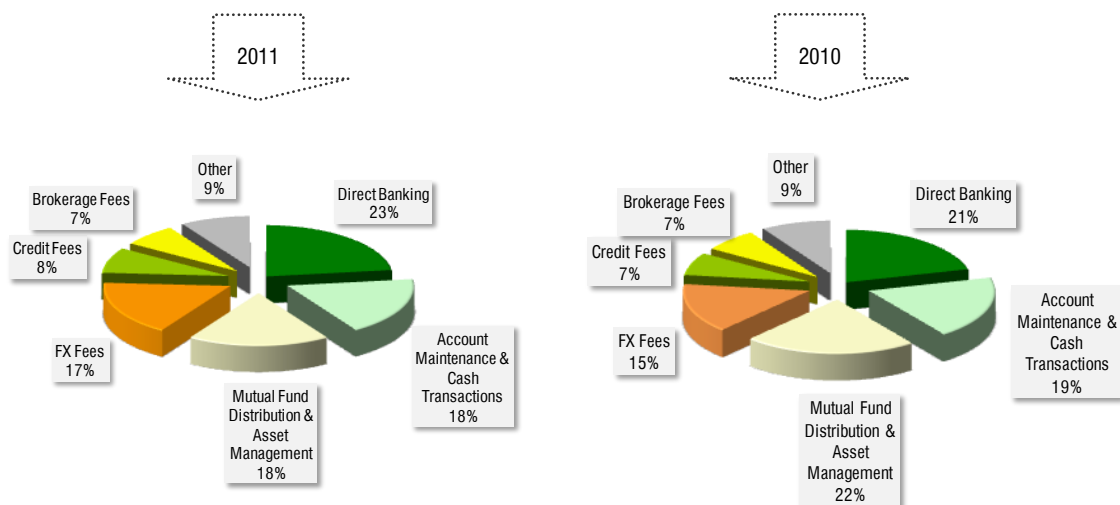
In 2011, net fee and commission income was PLN 1,357.7 m and increased by 1.1% y-o-y. The sharp decline in the Group's net fee income from asset management and distribution of mutual funds and structured products, which reflected the difficult situation in the capital markets, was more than offset by the increase in the net income from direct banking, lending and FX transactions driven by growing business volumes.

Major y-o-y movements in the key lines of the 2011 net fee and commission income are discussed in more detail below:

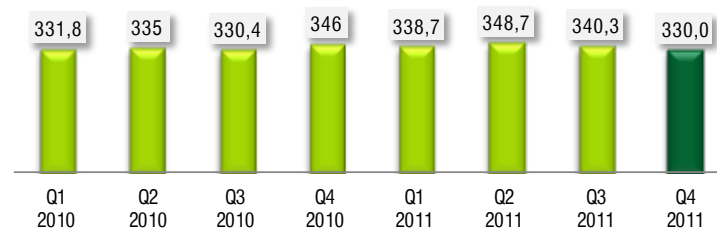
- Direct Banking services generated a net fee and commission income of PLN 313.6 m, an increase of 11.9% y-o-y. This growth was driven by the income from debit cards which was on the rise along with the higher number of cards (+9% y-o-y) and value of cashless transactions effected by debit card holders (+24% y-o-y). The debit card-related fees were also affected by revenues from card issues and cash transactions, particularly the increasing number of withdrawals from third party ATMs (+32% y-o-y) and the lower cost of such transactions as a result of interchange fee changes.
- FX fee income amounted to PLN 224.3 m and was 11.2% higher y-o-y amid the increase in the corporate customer FX trading processed by the Bank (+26 y-o-y), with a simultaneous narrowing of FX spreads (-9% y-o-y) caused by the situation in the FX market.
- Credit fee income amounted to PLN 113 m and was up 25.8% on 2010 as a result of increasing business overdrafts portfolio and declining agency costs with a modified settlement process in place.
- The Group's income from mutual funds and asset management decreased by 18.6% y-o-y to PLN 241.9 m. The direction and extent of this change was shaped by the situation on the WSE, heavily influenced by the global events (debt crisis of the eurozone and the USA, and concerns about the sustainability of economic recovery worldwide). Following the relative stabilisation of indices in the first half of 2011 (despite the gradual increase in risk-aversion among investors), in the third quarter the market slumped and saw investors retreat from risky assets, which continued into the fourth quarter, yet with lower intensity. In such circumstances, the average value of net assets of mutual funds and private portfolios declined by 14.8% y-o-y, which adversely affected the commission income.

Other net commission income remained stable y-o-y.

Structure of Net Commission Income of BZ WBK Group in 2010 and 2011 – by type



Net Fee & Commission Income in Consecutive Quarters of 2010 and 2011 (PLN m)



Net Trading Income and Revaluation

Net trading income and revaluation amounted to PLN 267.2 m, up 3.3% y-o-y. The increase was mainly attributable to the CIRS transactions funding the bank's EUR and CHF loan portfolio. Last year saw a higher volume of such transactions with a parallel increase in spreads and FX rates in relation to the zloty as a result of developments in the global markets.

Interest-related income from Basis Swap and FX Swap transactions, which make a significant portion of the net trading income and revaluation, totalled PLN 178.1 m in 2011 compared with PLN 192.1 m a year before. The value of Basis Swap transactions (PLN 93.1 m) for 2011 excludes PLN 10.1 m recognised as net interest income on the basis of cash flow hedge accounting (launched by Bank Zachodni WBK SA on 1 December 2011) which adopts CIRS transactions as a the main hedging instrument for floating interest rate financial assets and liabilities, primarily FX credit portfolios.

Under cash flow hedge accounting the net trading income and revaluation recognises the ineffective portion of fair value changes of hedging derivatives, which was negative for 2011 and amounted to PLN 1.1 m. The effective portion is disclosed in the revaluation reserve of equity (-PLN 4.8 m).

Net trading income and revaluation also includes the write-back of adjustments to the value of derivative instruments related to the counterparty risk, totalling PLN 14 m vs. PLN 6 m in 2011.

Dividend Income

Dividend income of PLN 68 m increased by 24.8% y-o-y due to higher dividend payment from Aviva Group companies which are a part of the Group's portfolio of non-controlling investments (PLN 61.6 m in 2011 vs. PLN 48.3 m in 2010). In 2010, Bank Zachodni WBK recognized lower dividend income from this source as a result of the interim dividend payout (PLN 20.3 m) in December 2009.

Impairment Charges

In 2011, the loan impairment charge to the profit and loss account was PLN 367 m compared with PLN 420.8 m in the corresponding period, a decrease of 12.8% y-o-y.

	PLN m	
Impairment Losses on Loans and Advances	2011	2010
Collective and individual impairment charge	(371,1)	(474,8)
Impaired but not reported losses charge	(4,7)	35,3
Recoveries of loans previously written off	12,8	20,4
Off-balance sheet credit related facilities	(4,0)	(1,7)
Total	(367,0)	(420,8)

The balance of provisions for identified losses (individual and collective) was PLN 371.1 m, down by PLN 103.7 m (-21.8%) y-o-y. Compared with the impairment charge recognised in 2010, there was evident improvement, particularly in the household sector. This is an effect of higher payment discipline of customers and the recognition of the result of PLN 43.7 m from the disposal of a portion of the retail loan portfolio. Relative stabilisation was also observed in the business sector, which maintained a robust financial standing in the favourable economic environment despite the growing concerns about weakening foreign economies. The only exception are some corporations from the commercial property sector, whose liquidity position deteriorated in 2011 contrary to the positive market trends.

In 2011, the balance of provisions for unidentified losses (IBNR) was negative at PLN 4.7 m, while a year before a positive result of PLN 35.3 m was posted due to the reversal of PLN 60 m for the IBNR provisions in the Business and Corporate Banking portfolio.

Bank Zachodni WBK Group maintains a conservative approach to recognition and valuation of credit risk. In 2011, the monitoring system was modified to ensure a more effective identification of negative changes in the customer risk profiles.

Costs

	PLN m				
Total costs	2011	2011 underlying data *	2010	Change y-o-y	Change y-o-y underlying data *
Staff, general and administrative expenses, of which:	(1 659,1)	(1 654,0)	(1 600,6)	3,7%	3,3%
- Staff expenses	(976,8)	(976,8)	(959,0)	1,9%	1,9%
- General and administrative expenses	(682,3)	(677,2)	(641,6)	6,3%	5,5%
Depreciation/amortisation	(215,9)	(139,5)	(128,8)	67,6%	8,3%
Other operating expenses	(49,6)	(42,3)	(34,1)	45,5%	24,0%
Total	(1 924,6)	(1 835,8)	(1 763,5)	9,1%	4,1%

* underlying data exclude once-off adjustments as described in Note 1 of "Consolidated Financial Statements of BZ WBK Group for 2011"

Total operating costs of Bank Zachodni WBK Group in 2011 were PLN 1,924.6 m, an increase of 9.1% y-o-y. This amount contains the once-off adjustments of PLN 88.8 m posted to align the operating practices within Santander Group. Excluding the impact of the adjustments, the operating costs were PLN 1,835.8 m and up 4.1% y-o-y. Total costs grew in the wake of higher obligatory fees, ownership changes, new business projects and development initiatives aimed to support the business and improve the organisational efficiency. The Group places an ongoing focus on cost control and continues administrative, technological and enablement efforts to reduce its cost base.

Excluding the once-off adjustments, the Group's cost effectiveness ratio (total costs to total income) improved y-o-y, falling from 49.9% in 2010 to 48.0% in 2011.

Staff Expenses

In 2011, staff expenses increased by 1.9% y-o-y to PLN 976.8 m due to recognition of the cost related to the launch of the 4th edition of the "Performance-Share Programme" (PLN 20.7 m) and the growth of the training costs, driven mainly by management and sales training initiatives. During the year, staff costs were under strict control, with close monitoring of divisional and regional salary budgets.

General and Administrative Expenses

The underlying general and administrative expenses of the Group (excluding the once-off adjustments) amounted to PLN 677.2 m and were higher by 5.5% y-o-y. The most pronounced growth (+73.8% y-o-y) was seen in fees payable to market regulators, mainly on account of the increase in the annual fee owed to the Banking Guarantee Fund (BFG). Other growth drivers were the marketing and entertainment costs (+5.8% y-o-y) associated with the Group's intensive marketing campaigns in the mass media. In 2011, the Group's marketing efforts were focused on promotion of cash loans, home mortgages, the 3-month Daily Earning Deposit and structured bonds. The projects related to the ownership changes induced higher business travel costs disclosed under the heading "cars, transport services, transport of valuables" (+10.5% y-o-y). There was also an increase (+3.4% y-o-y) in the cost of IT usage due to the need to improve the Group's IT infrastructure, secure extra licences in response to the change of the strategic shareholder, and to develop the tools that facilitate effective implementation of business projects. Maintenance and rentals of premises went up (+2.1% y-o-y) as a result of higher rental payments (indexation, EUR exchange rate) and running costs as well as qualitative development of the branch network.

The Group maintains a strong cost discipline. In 2011, a new corporate methodology for management of operating and capital expenses was put in place. The centralised procurement process ensured further cost savings, including those resulting from review and renegotiation of contracts with suppliers. The operating and capital expenses are subject to a stringent planning and progress vs. approved budget is closely monitored.

Other Costs

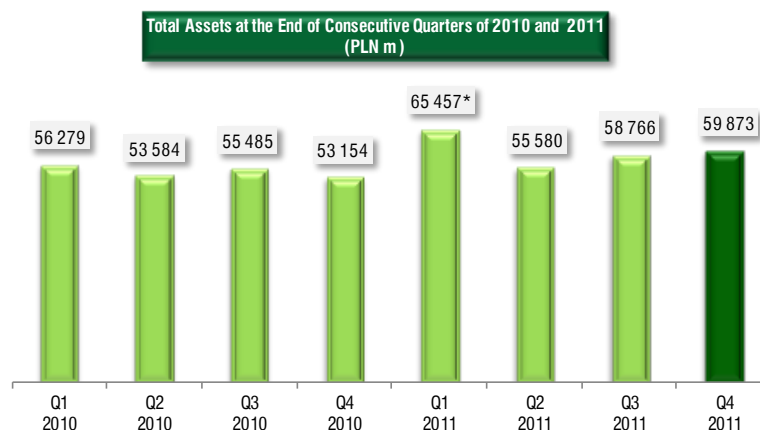
In compliance with the practice of Santander Group, in the fourth quarter of 2011 Bank Zachodni WBK Group adopted a shorter economic life for its intangible assets and selected properties, which increased the Group's accumulated amortisation/depreciation by a total of PLN 76.4 m.

Depreciation/amortisation (excluding the once-off adjustments) amounted to PLN 139.5 m, up 8.3% on 2010. Other operating costs were PLN 42.3 m and 24% higher than a year before due to a number of factors, including the cost of debt recovery (take-over of properties for debts, effective collection as part of service outsourcing).

2. Financial Position

Assets

As at 31 December 2011, total assets of Bank Zachodni WBK Group amounted to PLN 59,873.3 m, up 12.6% on 31 December 2010. The value and structure of the Group's financial position is determined by the bank (parent), which accounts for 98.7% of the consolidated total assets.



* The consolidated statement of financial position as at 31 March 2011 reports total assets of PLN 65.5 bn which includes short-term settlements of PLN 11.7 bn between BZ WBK Brokerage House and the National Depository of Securities regarding the sale of Bank Zachodni WBK through a public tender announced by Banco Santander.

The table below presents major developments in the key categories of the consolidated assets of Bank Zachodni WBK Group as at 31 December 2011 vs. 31 December 2010.

Assets (condensed presentation for analytical purposes)	PLN m				
	31.12.2011 1	Structure 31.12.2011 2	31.12.2010 3	Structure 31.12.2010 4	Change y-o-y 1/3
Loans and advances to customers *	38 017,2	63,5%	32 838,4	61,8%	15,8%
Investment securities	11 664,5	19,5%	13 395,4	25,2%	-12,9%
Financial assets held for trading	5 860,3	9,8%	2 239,0	4,2%	161,7%
Cash and operations with Central Banks	1 425,5	2,4%	2 534,5	4,8%	-43,8%
Loans and advances to banks	1 244,3	2,1%	619,7	1,2%	100,8%
Fixed and intangible assets	651,0	1,1%	720,1	1,3%	-9,6%
Hedging derivatives	141,6	0,2%	14,8	0,0%	856,8%
Other assets	868,9	1,4%	792,0	1,5%	9,7%
Total	59 873,3	100,0%	53 153,9	100,0%	12,6%

* including impairment write-down

In the consolidated statement of financial position as at 31 December 2011, the major change on the asset side (in percentage terms) was noted under "hedging derivatives", which increased by 856.8% y-o-y under the impact of newly designated relationships under cash flow hedge accounting implemented in Bank Zachodni WBK on 1 December 2011. Financial assets held for trading went up (+161.7% y-o-y) along with expanding portfolio of short-term NBP bills. The growth of loans and advances to banks (+100.8% y-o-y) was due to larger deposits lodged in the inter-bank market as part of the collateral mechanism established to manage risk in derivative transactions. Net loans and advances to customers increased by 15.8% y-o-y, which constitutes 81.2% of non-financial customer deposits funding them, compared with 78.2% at the end of December 2010. Other assets include assets classified as held for sale which increased as a result of initiatives launched by the Group to take over properties for debts (in 2011, BZ WBK Group took over four properties for a total value of PLN 80.1m).

Cash and operations with Central Bank decreased by 43.8% y-o-y due to the lower balance held by the bank in the NBP current account as part of the Group's on-going liquidity management. The decline in fixed and intangible assets of 9.6% y-o-y results from harmonisation of operating practices within Santander Group, i.e. adoption of a shorter amortization/depreciation period for intangible assets and selected fixed assets. The once-off adjustments increased the Group's accumulated depreciation/amortisation by PLN 76.4 m. In 2011, the value of investment securities decreased by 12.9% y-o-y, mainly due to the redemption of State Treasury bonds at their maturity. The mix of the portfolio was changed as well. On the last working day of 2011, Treasury bonds of total carrying value of PLN 4,696.5 m designated as "held-to-maturity assets" were reclassified as "financial assets available for sale", which reflects a shift in the Group's intentions about these instruments as part of the aligning of its investment strategy and risk management with Santander Group.

Credit Portfolio

PLN m			
Gross Loans and Advances to Customers	31.12.2011	31.12.2010	Change y-o-y
Loans and advances to business and public sector customers	24 521,2	20 352,6	20,5%
Loans and advances to personal customers	12 572,6	11 437,5	9,9%
Finance lease receivables	2 335,5	2 435,8	-4,1%
Other *	3,1	20,1	-84,6%
Total	39 432,4	34 246,0	15,1%

* other receivables include repo and other transactions

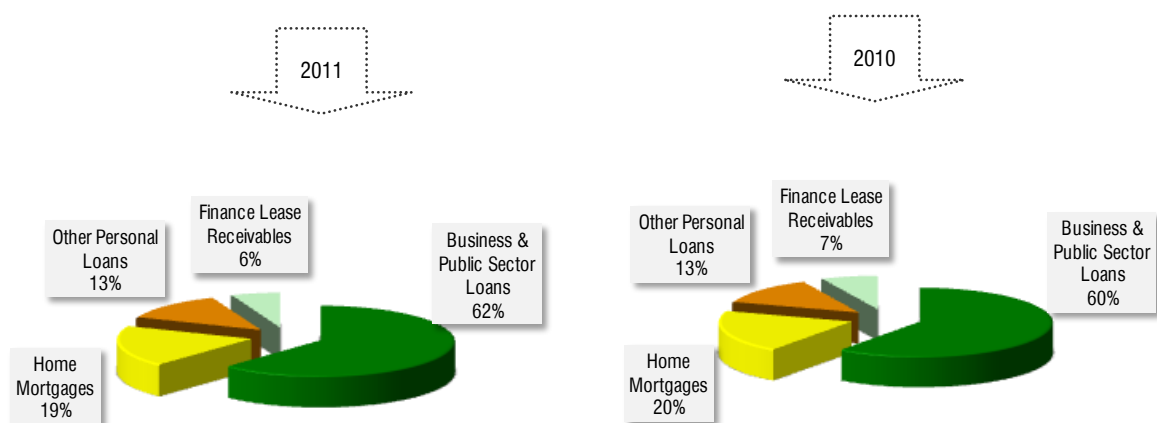
As at 31 December 2011, gross loans and advances to customers amounted to PLN 39,432.4, 15.1% up y-o-y. Excluding the impact of FX rates, the growth was 11.2%.

In 2011, loans and advances to business and public sector customers increased by 20.5% to PLN 24,521.2 m. This movement is attributable to the favourable economic situation in 2011, which led to higher demand of business customers for credit (especially large corporations), including long-term investment loans. Property loans, which make up a large portion of loans and advances to business and public sector customers, increased by 3.7% y-o-y to PLN 9,897.7 m. This increase reflects the scheduled credit repayments, depreciation of PLN vs. EUR and other currencies (part of the portfolio is denominated in foreign currency), and the gradual acquisition of new business on the back of the revival in the commercial property market.

In 2011, customer investments into the lease of plant and equipment were on the rise while the sales growth of passenger car leases was comparatively slow, which had an adverse impact on the Group's financial lease receivables and reduced them by 4.1% y-o-y to PLN 2,335.5 m.

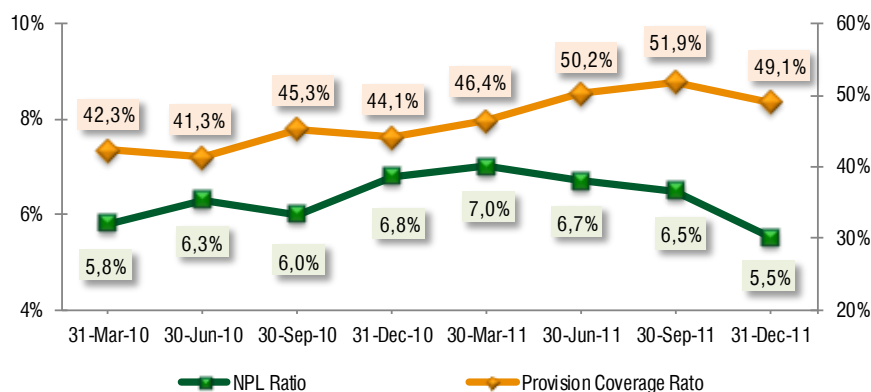
Loans to retail customers increased by 9.9% vs. the end of 2010 and amounted to PLN 12,572.6 m. Mortgage portfolio increased by 9.8% to PLN 7,605.1 m, and cash loans grew by 15.2% y-o-y to PLN 3,621.3 m. The rapid growth of home mortgage and cash loan sales is a result of the continuous improvement of the bank's product proposition (efficient credit delivery, competitive pricing, attractive product packages) and strong brand awareness enhanced by advertising campaigns. Mortgage loan-book was also impacted by the depreciation of PLN vs. CHF and EUR.

Loans and advances to customers of BZ WBK Group as at 31.12.2010 and 31.12.2011 – by entities



At the end of December 2011, non-performing loans to customers accounted for 5.5% of the gross portfolio vs. 6.8% at the end of December 2010. The provision cover for the non-performing loans was 49.1% compared with 44.1% a year before.

The Group's NPL and Provision Cover Ratio
 at the End of Individual Quarters in the Period from 31.03.2010 to 31.12.2011



The foregoing historical ratios for the period prior to 31 March 2011 do not include changes in the presentation of matured and unsettled derivatives, which starting from the second quarter of 2011 have been classified under "loans and advances to customers" rather than under "financial assets held for trading".

Equity and Liabilities

The table below presents major developments in key categories of the consolidated equity and liabilities of Bank Zachodni WBK Group at the end of December 2011 versus 31 December 2010.

PLN m

Liabilities & Equity (condensed presentation for analytical purposes)	Structure		Structure		Change y-o-y 1/3
	31.12.2011 1	31.12.2011 2	31.12.2010 3	31.12.2010 4	
Deposits from customers	46 829,5	78,2%	41 970,5	79,0%	11,6%
Deposits from banks	2 556,7	4,3%	2 526,1	4,8%	1,2%
Financial liabilities held for trading	956,8	1,6%	578,6	1,1%	65,4%
Hedging derivatives	523,7	0,9%	16,4	0,0%	3093,3%
Subordinated liabilities	441,2	0,7%	395,2	0,7%	11,6%
Other liabilities	1 082,4	1,8%	893,5	1,7%	21,1%
Total equity	7 483,0	12,5%	6 773,6	12,7%	10,5%
Total	59 873,3	100,0%	53 153,9	100,0%	12,6%

Compared with the end of 2010, in the statement of financial position as at 31 December 2011 there was a material increase under the financial liabilities held for trading (+65.4% y-o-y), mainly due to the impact of CIRS transactions. The derivative hedges grew up significantly following the launch of the hedge accounting based on CIRS transactions hedging cash flows from the bank's CHF and EUR credit portfolios. A material growth was also noted in the Group's deposits from customers (+11.6% y-o-y). The 10Y bonds with a nominal value of EUR 100 m - issued by the bank in August 2010 and paid in full by the European Bank for Reconstruction and Development - were recognised as subordinated liabilities. Deposits from banks were similar to the last year's figure as the increase in the liabilities on account of repo transactions offset the decrease in loans and deposits from the wholesale market.

Deposit Base

PLN m

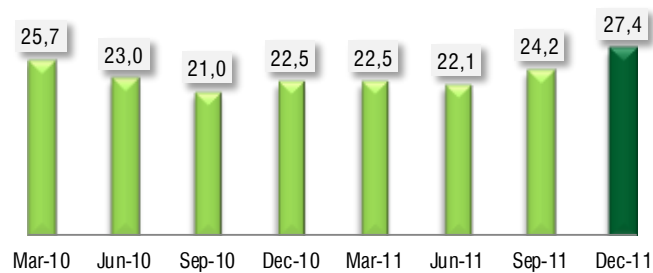
Deposits from Customers	31.12.2011	31.12.2010	Change y-o-y
Deposits from personal customers	27 111,3	25 230,8	7,5%
Deposits from business and public sector customers	19 718,2	16 739,7	17,8%
Total	46 829,5	41 970,5	11,6%

Deposits from customers, which represent 78.2% of the Group's total equity and liabilities are the primary source of funding the Group's lending business. As at 31 December 2011, deposits from customers amounted to PLN 46,829.5 m and were 11.6% higher y-o-y. Excluding the impact of FX rates, the growth was 10.3% y-o-y.

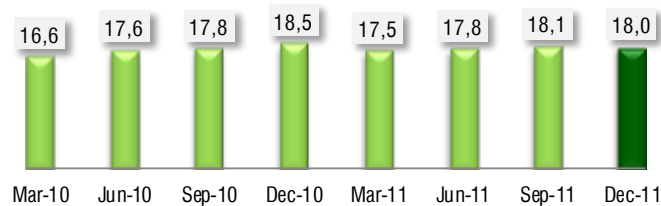
Deposits from retail customers totalled PLN 27,111.3, an increase of 7.5% y-o-y. Retail customers showed the highest demand for the attractively priced varieties of the Daily Earning Deposit. Deposits from business customers of PLN 19,718.2 m increased by 17.8% y-o-y as a result of implementation of effective strategy for acquiring deposits from corporate customers. In the reporting period, corporate clients opted mainly for negotiable short-term deposits.

In the total amount of deposits from customers, term deposits were PLN 27,415.3 m (+21.7% y-o-y), current accounts PLN 17,985.6 m (-2.9% y-o-y) and other liabilities PLN 1,428.5 m (+54.3% y-o-y). The latter item reflects utilisation of the credit lines from the European Investment Bank for SME funding in the total amount of EUR 200 m.

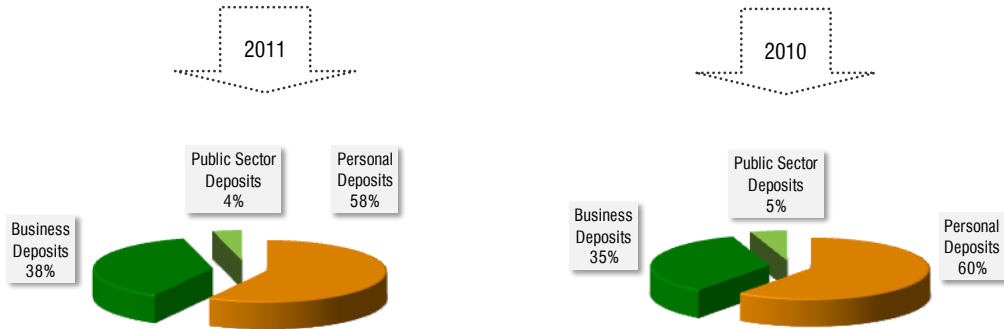
Term Deposits at the End of Consecutive Quarters of 2010 and 2011
(PLN bn)



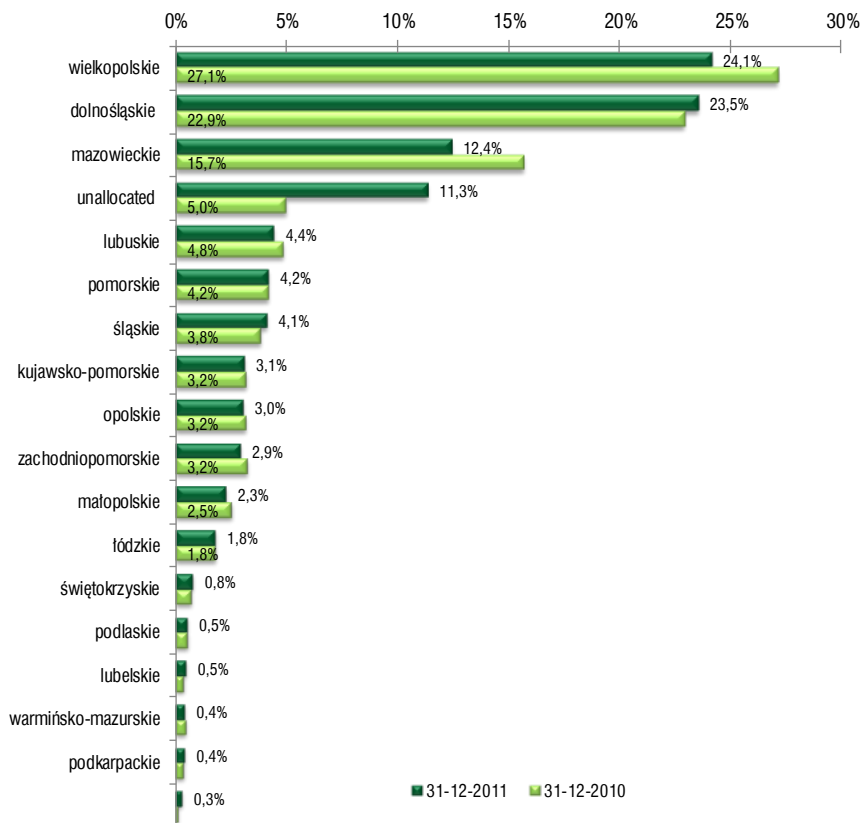
Current Accounts at the End of Consecutive Quarters of 2010 and 2011
(PLN bn)



Structure of Bank Zachodni WBK Group Customer Deposits by Sectors
as at 31.12.2010 and 31.12.2011



Geographical Structure of Bank Zachodni WBK Group Customer Deposits
as at 31.12.2010 and 31.12.2011



Selected Financial Ratios

Selected Financial Ratios	31.12.2011	31.12.2011 underlying data *	31.12.2010
Total costs/Total income	50,3%	48,0%	49,9%
Net interest income/Total income	54,1%	54,1%	51,5%
Net interest margin **	4,28%	4,28%	3,98%
Net commission income/Total income	35,5%	35,5%	38,0%
Customer loans/Customer deposits	81,2%	81,2%	78,2%
NPL ratio ***	5,5%	5,5%	6,8%
NPL coverage ratio ***	49,1%	49,1%	44,1%
Impairment losses on loans and advances/Average loans and advances	1,0%	1,0%	1,2%
ROE ****	19,7%	21,2%	17,6%
ROA *****	2,0%	2,2%	1,8%
Capital adequacy ratio	15,10%	15,10%	15,77%
Book value per share (in PLN)	102,40	103,61	92,69
Earnings per share (in PLN) *****	16,21	17,42	13,33

* underlying data exclude once-off adjustments as described in note 1 of "Consolidated Financial Statements of Bank Zachodni WBK Group for 2011"

** annualised interest income (including Swap points) to the quarterly average of interest-bearing assets (net of impairment write-down)

*** comparable data as at the end of 2010 have not been adjusted for the changed presentation of matured and past-due customer derivatives on grounds of immateriality

**** annualised net profit attributable to the shareholders of BZ WBK (4 consecutive quarters) to the quarterly average of equity calculated based on total equity at the end of five consecutive quarters, net of the current period profit, non-controlling interests and dividend due to BZ WBK shareholders (change of calculation method since Q1 2011)

***** annualised net profit attributable to the shareholders of BZ WBK (4 consecutive quarters) to the quarterly average of total assets calculated based on balances as at the end of five consecutive quarters (change of calculation method since Q1 2011)

***** net profit attributable to the shareholders of BZ WBK for the reporting period divided by the number of ordinary shares

3. Additional Financial Information

Selected Transactions with Connected Entities

Transactions between the bank and its connected entities are banking operations carried out on an arm's length basis as part of the ordinary business and represent mainly loans, bank accounts, deposits, guarantees and leases.

As at 31 December 2011, total exposure on loans to subsidiaries (mainly BZ WBK Leasing S.A., BZ WBK Finanse & Leasing S.A., BZ WBK Faktor Sp. z o.o., BZ WBK Inwestycje Sp. z o.o.) amounted to PLN 2,482.2 m compared with PLN 2,093.1 m as at 31 December 2010.

As at 31 December 2011, the deposits held by the subsidiaries (Dom Maklerski BZ WBK S.A., BZ WBK Finanse & Leasing S.A., BZ WBK Leasing S.A.) with Bank Zachodni WBK totalled PLN 974.2 m versus PLN 1,114.3 m a year before.

Guarantees to subsidiaries amounted to PLN 323.1 m versus PLN 246.2 m as at 31 December 2010.

These intercompany items have been eliminated from the consolidated accounts.

The bank's receivables from the parent entity amounted to PLN 81.7m (Santander Group) compared with PLN 93.4 m (AIB Group) at 31 December 2010, while the obligations amounted to PLN 0.2 m compared with PLN 325.8 m as at 31 December 2010.

A full disclosure on related party transactions, including those with senior management, is available in Note 45 of the "Consolidated Financial Statements of Bank Zachodni WBK Group for 2011" and in Note 44 of the "Financial Statements of Bank Zachodni WBK for 2011".

Selected Off-Balance Sheet Items

Commitments and Derivatives

Guarantees and commitments of Bank Zachodni WBK Group and nominal amounts of derivative transactions are as follows:

	PLN m	
Guarantees and Commitments	31.12.2011	31.12.2010
Financial commitments:	8 130,0	5 623,7
- credit lines	7 006,6	4 745,2
- credit cards debits	970,7	819,0
- import letters of credit	152,2	55,1
- term deposits with future commencement term	0,5	4,4
Guarantees	1 473,7	1 185,5
Total	9 603,7	6 809,2

	PLN m	
Derivatives by Nominals	31.12.2011	31.12.2010
Derivatives - Forward (hedging)	6 380,2	1 669,9
Derivatives - Forward (trading)	82 393,3	55 583,1
Current FX transactions	2 343,8	935,4
Trading in equities	47,4	1,0
Total	91 164,7	58 189,4

Description of Guarantees Issued

Bank Zachodni WBK guarantees obligations arising from customers' operating activities. These are: payment guarantees, performance bonds, warranty bonds, bid bonds, loan repayment guarantees and customs guarantees. In accordance with the Regulations on Non-Consumer Loans in Bank Zachodni WBK, the bank provides civil law guarantees (mainly: guarantees of payments for goods or services, advance payment guarantees, performance guarantees, customs guarantees) as well as guarantees under Bills of Exchange Law (mainly: loan repayment guarantees, guarantees of payment for goods or services).

The process and information required in the case of guarantees are similar to the lending process. The bank adopts the same approach to the credit risk here as in the case of lending exposures.

Operating Lease

Bank Zachodni WBK Group leases offices in compliance with operating lease agreements. As a standard, agreements are concluded for 5-10 years. Total payments of all the irrevocable operating leases (including the value of land perpetual usufruct) are as below:

	PLN m	
Lease payments by maturity	31.12.2011	31.12.2010
less than 1 year	153,9	146,2
between 1 and 5 years	518,3	446,4
over 5 years	211,3	306,3
Total	883,5	898,9

Writs of Execution and Value of Collateral

The table below shows the number and value of the writs of execution issued by Bank Zachodni WBK in 2011 compared with 2010.

Facility	31.12.2011		31.12.2010	
	Number	Value	Number	Value
Personal loans	27 435	205,1	40 781	331,3
Cash loans and overdrafts	18 966	162,5	26 796	248,5
Credit cards	8 381	30,1	13 885	54,1
Mortgage loans	88	12,5	100	28,7
Business loans	2 481	813,4	1 696	397,6
Total	29 916	1 018,5	42 477	728,9

PLN m

As at 31 December 2011, the value of collateral on customer's accounts or assets across the Group amounted to PLN 32,881.0 m compared with PLN 29,069.1 m as at 31 December 2010.

4. Factors Which May Affect Financial Results of the Bank in 2012

The most important factors which may affect financial results of the bank in the future are:

- Clear deceleration of the economic growth abroad, including Poland's major trading partners, which will weaken the rise in exports and industrial output; significant slowdown, or even fall in the external demand may limit investment activity of Polish entrepreneurs (especially in the case of new investments), which may also reduce the demand for business loans and other bank products for business customers.
- Further stagnation in the labour market, which will limit wage pressure, negatively affect the quality of the credit portfolio in the household segment, and decrease the demand for new consumer and mortgage loans.
- Stabilization of interest rates by the MPC in the first half of 2012 and possible rates cuts in H2, amid deterioration of economic outlook, growing chances for inflation's return to target, and some stabilization in financial markets.
- Changes of asset funding costs depending on the pace and scale of the main interest rates cuts, changes of the zloty exchange rate, liquidity situation of the banking sector and intensity of price competition between banks regarding deposits.
- Persisting high volatility in the financial markets due to uncertainty regarding debt problems of many economies and worries over global economic outlook.
- Further developments in the global stock market and their impact on the propensity to buy investment fund units or, alternatively, to keep savings as safe bank deposits.

IX. Investor Relations

1. Investor Relations in Bank Zachodni WBK S.A.

Bank Zachodni WBK is committed to ensuring effective communication with investors.

The main objective of the unit dedicated to investor relations is to provide information on the company's business and performance and to strengthen its position as a reliable and reputable market player.

In 2011, the bank continued standard activities in the scope of investor relations. Investors, shareholders and stock market analysts had the opportunity to meet the representatives of the bank's Management Board at numerous conferences in Poland and abroad, and at road-shows or individual meetings.

As each year, four conferences were held to present market analysts with the bank's quarterly performance. In line with best practice, they were broadcast online in Polish and English. The recording was available at the bank's website (www.inwestor.bzwbk.pl).

Bank Zachodni WBK was also involved in the investor relations activities undertaken by Santander Group. As an example, representatives of the bank's Management Board attended Santander Investor Day in London in late September 2011.

Up-to-date information on key developments regarding Bank Zachodni WBK is published on www.inwestor.bzwbk.pl.

The bank was awarded the first place in the Investor Relations category of the "Listed Company of the Year" ranking by "Puls Biznesu" (4 February 2011) ex aequo with three other large companies (the Bank scored 81.9 out of 100 points). Investor Relations is one of the five categories of the comprehensive "Listed Company of the Year" ranking which has been prepared by TNS Pentor for 12 years based on interviews with a large population of analysts, consultants and brokers from domestic financial institutions.

2. Share Capital, Ownership Structure and Share Price

Share Capital

As at 31 December 2011, the share capital of Bank Zachodni WBK totalled PLN 730 760 130, divided into 73 076 013 ordinary bearer shares at the nominal value of PLN 10 each. The share capital did not change as compared with the figure as at 31 December 2010. Individual series of shares are described in chapter XII "Statement on Corporate Governance in 2011".

Changes in the Ownership Structure of Bank Zachodni WBK S.A.

On 1 April 2011, Banco Santander acquired 69,912,653 shares of Bank Zachodni WBK representing 95.67% of the share capital and total voting power at the General Meeting of Shareholders, including the entire stake held by AIB European Investments, Ltd., i.e. 51,413,790 shares representing 70.36% of the bank's share capital.

Banco Santander acquired additional 421,859 shares of Bank Zachodni WBK through the purchase of non-controlling stakes at the demand of shareholders and held 70,334,512 shares in total, representing 96.25% in the total voting power at the General Meeting of Shareholders. Consequently, it was the only shareholder with at least 5% of the total voting power.

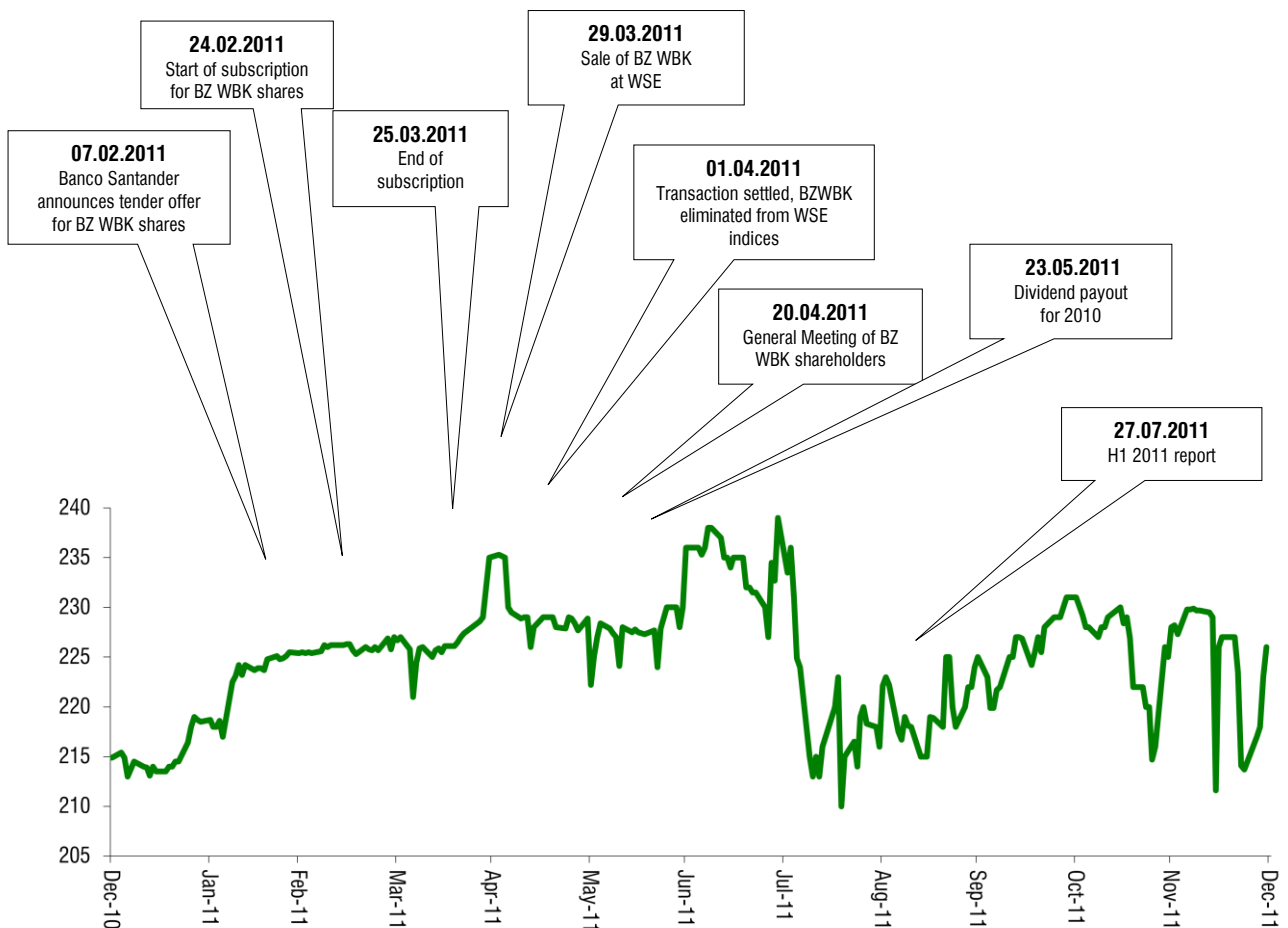
The ownership structure as at 31.12.2010 and 31.12.2011 is presented in Chapter XII "Statement on Corporate Governance in 2011".

3. Share price of Bank Zachodni WBK S.A. vs. Indices

2011 saw major decreases in the main WSE indices. WIG 20 ended the year 21.9% down while WIG and WIG declined by 20.8% and 21.7%, respectively. Despite growing concerns over the spreading eurozone debt crisis, investors' sentiments were much better during the first half of the year than in the second. The upward trend continued from February 2009 until April 2011. June saw the first peak of sales, followed in August by a strong outflow of capital from equity market and, as a consequence, a sudden fall in prices. August slump marked the beginning of growing volatility of stock markets, bringing about losses that were impossible to make up for in view of the increasingly difficult macroeconomic situation, persistent debt problems of the eurozone and the looming recession in the region. Capitalisation-wise, the banking and energy sectors were hit most in 2011.

Unlike WSE indices, BZ WBK shares yielded 8.9%, inclusive of the dividend at PLN 8 out of the profit earned in 2010. The strong upward trend in the bank's share price triggered by a positive market response to the ownership change and public call for shares was stopped by the summer selling wave. The share price of BZ WBK, as well as other banks, slumped during two stock exchange sessions (on 03/08 and 05/08) to lose temporarily almost 20%. Unlike other banks, BZ WBK shares returned to the growth path quickly and at the end of the year its share price was just below the level reported before the market depression.

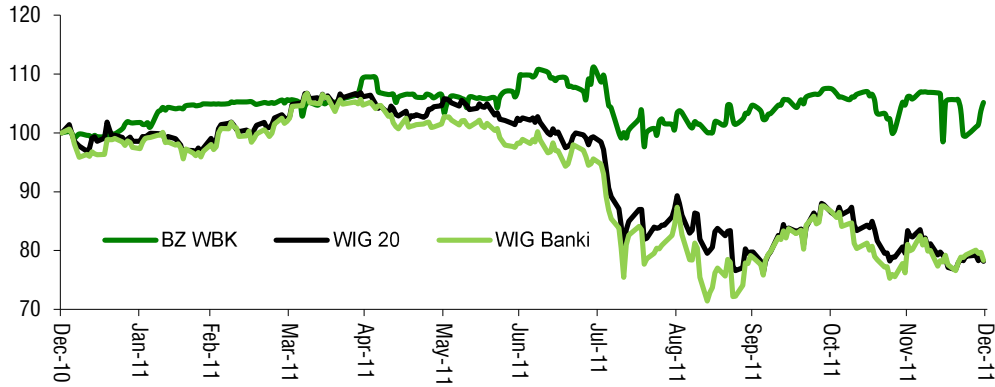
Price of Bank Zachodni WBK Shares in 2011



During the year, the share price increased from 5.2%, i.e. from PLN 214.90 as at 31 December 2010 to PLN 226 as at 30 December 2011. The maximum share price was PLN 239 (29 July 2011) versus the minimum of PLN 210 (18 August 2011).

As at 31 December 2011, capitalisation of Bank Zachodni WBK was PLN 16,515.2 m compared to PLN 15,704 m a year before. P/E ratio totalled 14.26 times vs. 17.13 times as at the end of 2010 whereas P/BV amounted to 2.42 times (vs. 2.57 times as at the end of 2010).

Share Price of Bank Zachodni WBK vs. Indices
BZ WBK Share Price, WIG-20 and WIG-Banki as at 31.12.2010 = 100



Following the change in the ownership structure, on 1 April 2011 the shares of Bank Zachodni WBK were excluded from stock exchange indices. Under the approach adopted by the Warsaw Stock Exchange, shares with free float below 10% must not be included in the indices.

4. Dividend Per Share

The Management Board of Bank Zachodni WBK S.A. will propose a dividend payout of PLN 8.00 per share. The final decision on dividend payment and amount will be made by the Annual General Meeting of Bank Zachodni WBK Shareholders.

The Annual General Meeting of Shareholders of Bank Zachodni WBK held on 20 April 2011 resolved on allocation of PLN 584.6m of the 2010 net profit for dividend to shareholders. The dividend of PLN 8 per share was awarded to shareholders of Bank Zachodni WBK as at 9 May 2011 COB (dividend registration date) and paid out on 23 May 2011.

See the table in Chapter II "Basic Information", section "History and Profile of Bank Zachodni WBK Group" for details of the dividend paid from 2007 to 2011.

5. Bank Zachodni WBK Rating

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

Ratings in 2011

BZ WBK Rating Actions by Fitch Ratings in the Period from 2010 to 2011

Rating type	Announcement of 22.12.2011	Announcement of 11.10.2011	Announcement of 05.04.2011	Announcement of 15.09.2010	Announcement of 12.05.2010
Long-term IDR	A+ (RWN*)	A+	A+	BBB+ (RWP**)	BBB+
Outlook for the long-term rating	RWN	negative	stable	RWP	stable
Short-term IDR	F1 (RWN)	F1	F1	F2 (RWP)	F2
Viability Rating	bbb	bbb	-	-	-
Individual Rating	C	C	C	C	C
Support Rating	1	1	1	3 (RWP)	3

* Risk Watch Negative

** Risk Watch Positive

In 2011, the agency made four announcements on the Bank.

In the announcement dated 5 April 2011, Fitch Ratings upgraded Long-term Issuer Default Rating (IDR) of Bank Zachodni WBK from 'BBB+' to 'A+', removed the rating from Rating Watch Positive (RWP) and assigned a Stable Outlook. Fitch simultaneously upgraded Short-term Issuer Default Rating and Support Rating, and removed them from Rating Watch Positive.

In the announcement dated 16 June 2011, Fitch Ratings affirmed all the above ratings.

Long and short-term IDRs and support rating reflect high potential support the bank could receive if needed from its majority shareholder, Banco Santander S.A. In Fitch's view, following BZ WBK acquisition, Santander's banking operations in Poland gained a critical mass and became strategically important. The rating actions also reflect the early stage of integration of BZ WBK with Santander Group and potential Polish country risk, given the sovereign long-term IDR of 'A-'/Stable.

The Individual Rating reflects the bank's resilience to the deterioration in the operating environment during the financial crisis and adequate capitalisation and internal capital generation, prudent risk management and better-than-market-average asset quality. Downside risk related to the bank's significant exposure to the vulnerable commercial property segment appears limited, given signs of recovery of the property market in Poland.

In the announcement dated 11 October 2011, Fitch Ratings affirmed its ratings for Bank Zachodni WBK. (as announced on 5 April 2011, and confirmed on 16 June 2011) but changed the outlook on its long-term IDR from stable to negative. This is reflective of the downgrade of the long-term IDR rating of Banco Santander (the bank's main shareholder) from "AA" to "AA-" due to increased sovereign risk of the home country in which they are domiciled (Spanish sovereign rating was downgraded from "AA+" to "AA-").

On 22 December 2011, Fitch Ratings placed long-term and short-term IDR ratings of Bank Zachodni WBK on Rating Watch Negative following the same action towards its parent entity, i.e. Banco Santander (announced on 20 December 2011) due to the likelihood of negative verification of the Spanish sovereign risk in the wake of the eurozone crisis.

Ratings in 2012

Until the approval of the annual report 2011 for publication on 23 February 2011, there were two changes in the Bank Zachodni WBK ratings.

On 25 January 2012, Fitch Ratings globally withdrew all individual ratings for banks and replaced them with viability ratings launched last year. As a result, Bank Zachodni WBK individual "C" rating has been removed.

In its announcement of 13 February 2012, Fitch Ratings downgraded BZWBK Long-Term Issuer Default Rating from „A+” to „A-”, removed it from Rating Watch Negative and revised its outlook to negative. The agency also cut the Short-Term IDR Rating to „F2” from „F1” and removed it from Rating Watch Negative. This action resulted from the downgrade of Banco Santander’s Long-term IDR rating to „AA-” from „A” and Viability Rating to „a” from „aa-”, and largely reflected the downgrade of the Spanish sovereign from „AA-” to „A”/Negative.

As a result of these actions, as at 23 February 2011 (when the report was approved) the ratings of Bank Zachodni WBK were as follows:

- **Long-term IDR:** „A-”; Outlook Negative
- **Short-term IDR:** „F2”
- **Viability Rating:** „bbb”
- **Support Rating:** „1”

X. Future Growth Prospects

1. Business Strategy of Bank Zachodni WBK Group for 2012-2014

Demanding Macroeconomic Environment

The slowdown of the Polish economy in 2009 was followed by recovery to 4% in 2010 and 2011. However, signs of deterioration of economic conditions are already visible in the global economy and they will have some impact on the Polish market. As global conditions are unprecedented in the world's economy, it is impossible to make assumptions around levels of specific economic indicators. It is obvious, however, that Bank Zachodni WBK Group should be prepared to face an environment that will be challenging in terms of achievement of ambitious aspirations as regards the growth in income and market share.

The years 2012-14 will require Bank Zachodni WBK to build competitive advantage with a stronger focus on new possibilities of revenue generation and maintaining sound cost and operational efficiency, securing the Bank's capital base and liquidity as well as efficient and effective risk management.

Vision: The Third Largest Banking Institution and a Premium Universal Brand in Poland

Bank Zachodni WBK Group intends to strengthen its market position as a universal institution, offering a full range of financial services in the retail, business and investment banking sectors. In its vision, Bank Zachodni WBK Group:

- is an institution with a growing market share;
- enjoys an attractive and recognised brand across Poland;
- is distinctive in terms of the competitive proposition and excellent customer service;
- has stable financial foundations, liquid balance sheet and strong capital position that enables development and growth in credit activity;
- operates based on numerous and diversified sources of income in three key segments: Retail, business and investment banking;
- meets the risk appetite requirements of its stakeholders;
- satisfies the shareholders' expectations as regards the level and stability of profits.

The Group's aspiration is to use the third largest distribution network in Poland to achieve a gradual market share growth in the banking market and the top-rank position in PBT, cost/income, solvency ratio and customer service.

Strategic Priorities for 2012-2014

The key priorities of Bank Zachodni WBK Group are still to:

- generate high and stable profits from diversified sources;
- grow market share;
- consistently build a strong country-wide brand.

The rapid change in the macroeconomic situation during the years 2008 to 2011 and the high uncertainty as regards future economic conditions make it necessary for the bank to focus on the following priorities in the coming years:

- to increase the ability to respond to customer needs and market requirements;
- to maintain high morale and employment commitment;
- to ensure multi-channel integration;
- to achieve a position that guarantees stable and recurrent revenues;

- to ensure active credit, operational and market risk management, and measurement in accordance with the BZWBK Risk Appetite Statement;
- to further diversify income streams;
- to maintain the solvency ratio above the agreed target a 10%;
- to aspire to double digit annual profit growth;
- to maintain the loan/deposit ratio below 100%;
- to ensure active income and cost management so that the cost/income ratio is reduced to below 45%;
- to generate the maximum return from the investments made in the years 2007-2011, and
- to increase efficiency, streamline procedures and reduce processing cost.

Actions:

- Retail: Increase product penetration and leverage global skills of Banco Santander S.A.;
- SME: gain market share in chosen sectors and extend Business Banking regional coverage;
- Corporate: leverage Santander international network and extend the product range;
- Efficiency: leverage Santander best practices and reduce Cost/Income ratio;
- Capital and Liquidity: Loan/Deposit and Total Capital ratios at surplus levels and attractive dividend policy;
- Customer service: maintain podium position and continue to build service standards.

Bank Zachodni WBK is well positioned and has all the necessary ingredients to deliver strong growth:

- investment in distribution over the past 5 years;
- comfortable liquidity and capital position;
- strong management team;
- ability to take advantage of a large international group;
- ability to leverage the emerging business opportunities.

Customer Acquisition and Retention Strategy

1) Retail Banking

A crucial priority of the Group will be to increase the base of active personal and SME customers on the basis of efficient acquisition and effective up-grade of the present customers. At the same time the Group intends to pro-actively recruit new customers from among the retail and business customer segments who already use banking services, leveraging its attractive product proposition and high customer service standards.

The major tool for recruiting customers will be a distinctive account proposition. In this product category, the bank's aspiration is to achieve and maintain the top position in the customer preference survey. The Group will consolidate its leading position on the market of pioneering saving products developed on the basis of deposits, investment banking and insurance products.

The bank will offer attractive prices to all retail, personal and SME customers while keeping the premium for the offered quality and security. In terms of personal loans, the Group aims to increase sales (including the cross-sale of insurance) and maintain portfolio quality, which is expected to bring a higher net income.

The best personal customers from the retail segment will be offered unique individual VIP, Wealth Management and SME Premium service standards.

The priority of Bank Zachodni WBK Group is to ensure full integration of delivery channels, which will enable customers to make their transactions using the preferred form of contact. The retail customers will be serviced by the country-wide own branch network supported by Partner outlets, the call centre, the Internet, mobile advisors and other delivery channels.

2) Global Banking & Markets (GBM)

Global Banking & Markets is a global business unit that covers those clients who, due to their size, complexity or sophistication, require a tailored service or products. Main areas in GBM remit are: Corporate & Investment Banking, Debt Capital Markets, Global Transactional Banking, Treasury and Equity Area.

Key driver of the GBM Division Strategy is the Global Management Model. As a result, BZ WBK GBM will benefit from being part of Banco Santander by being able to gain international business of Polish corporates. BZ WBK will also benefit from the Santander's global structuring and distribution, its solutions, businesses and global presence.

Brokerage House & Capital Markets

The main objectives of Brokerage House and Capital Markets are:

- to take the leading position both on the equity and futures market;
- search for new sources of income:
 - ✓ development of advisory services for Wealth Management clients;
 - ✓ acting as an agent on the FOREX market and the CFD market;
 - ✓ focus on IPOs / SPOs / private placements, corporate relationships, monitoring of potential privatizations from State Treasury - focus on big ticket deals;
 - ✓ development of new attractive structured product with Santander;
 - ✓ trading on international markets for local clients.
- Continuous improvement of service standards by continued quality research, development of Premium and Prestige service standards, use of CRM etc.

Investment Banking: Asset Management and Investment Funds

In recent years, assets under management suffered from the clients' withdrawals driven by turbulences on financial markets and the increase in risk aversion. In the following years the bank expects continuation of high volatility on financial markets and, in consequence, changes in clients' preferences towards fixed income products.

Despite the forthcoming economic slowdown that probably will be related with low level of inflows to investment products, the Group intends to improve its investment performance. The main objective is to achieve the products' investment performance over the median of the peer group and optimization of business processes, e.g. by rationalising the use of resources and modifying products to suit the changing customer preferences.

Membership of Santander Group will help Bank Zachodni WBK Group accomplish its income and optimisation objectives and improve management of both investment and operational risk. Cooperation with Santander Asset Management will also result in expansion of the product range with specialist products of Santander Asset Management and implementation of best practices in investment management (e.g. multimanager).

All those actions are expected to position AM/TFI as a competitive, effective and resource-efficient organization offering best quality investment products.

3) Business and Corporate Banking – Building Poland's Best Business Bank

To service business and corporate customers, the bank has developed a countrywide network of Business and Corporate centres which are located in the key Polish cities. Customers are offered tailor-made solutions by locally based relationship managers who work with product specialists to ensure a complete and comprehensive customer proposition covering loans, deposits, transactional banking, treasury, leasing, factoring, capital markets products etc.

By working closely with its customers to support them in building and growing their businesses, Bank Zachodni WBK aims to be the Best Business Bank in Poland.

Key strategic objectives in this segment are:

- continued diversification of the loan-book, income sources and customer base supported by strong risk governance and control;
- significantly grow the transactional banking and deposits business;
- maintain high visibility with customers and more broadly in the marketplace using a team of highly skilled and sales focused relationship managers to grow the business;
- leverage the Santander global franchise to deliver new international business opportunities;
- continued development and enhancement of the product range to ensure high competitiveness;
- be recognized for Service Excellence by customers – flexibility, time-to-yes and professionalism.

Efficiency and Innovation

Bank Zachodni WBK Group's aspiration is to maintain the cost/income ratio below 45%. The key objectives in the area of expenses management are:

- streamlining operational and customer service processes,
- centralisation and automation of control and back-office processes,
- managing expenses via integrated and comprehensive processes that allow for efficient monitoring of key indicators, continuous benchmarking, implementation of improvement initiatives as well as monitoring of key contracts with suppliers.

The Group will continue to concentrate on mobile and electronic banking to provide best in class access to banking services and to enable migration of transactions and sales to these channels, thus improving efficiency of service and allowing branch employees to concentrate on sales of more complex products and services.

Organisational Culture: Compliant with brand values

Bank Zachodni WBK Group is an organisation that focuses on delivering value to customers and promotes culture built on values consistent with brand values and the highest standards of regulatory compliance.

The internal culture is based on empowered and committed staff who can openly express their opinions and act in accordance with their values. Bank Zachodni WBK Group promotes teamwork, respects all staff, supports their personal and professional development needs and respects individuality. All staff have equal rights and responsibilities irrespective of their sex, age, nationality, etc. The following features are most respected in the organisation: professionalism and timely delivery of tasks, willingness to learn, respect for the done work and responsibility for the decisions and actions taken, compliance with ethical rules, law, internal regulations and decency.

2. Expected Developments in the Domestic Economy in 2012

Though at the end of 2011 the Polish economy was still in a good shape it is very likely that in 2012 we will no longer observe the relatively high pace of GDP growth. The euro zone has probably entered the year in recession, which is already reflected in the Polish data on external trade and economic activity indices. It is also clear that the gloomy economic outlook has already had a negative impact on the Polish labour market. It seems very likely that the tendencies observed so far will gain strength in the coming quarters. This will result in clear deceleration of the pace of domestic economic growth to 2-3% in 2012. Still, investments and credit should show a moderate increase.

The difficulties related to the euro zone's debt crisis that were present in 2011 remain in place. Consequently, higher risk aversion may return to the financial markets, putting negative pressure on the zloty and pushing yields of domestic bonds. Though along the year the Finance Ministry should not have problems with covering the borrowing needs, temporary outflows of capital from the Polish market (also stocks) cannot be excluded. Assuming that the situation in the euro zone stabilizes somewhat and some revival of the European economy takes place, some appreciation of the zloty is possible in H2 2012.

2011 ended with inflation well above not only the NBP inflation target but also the upper band of the tolerance range. The 2.5% target will not be hit this year, though the odds are that some months will bring inflation below 3.5%. The adverse effect of the zloty exchange rate on inflation should diminish, and in the later part of the year poor demand effect (along with some zloty appreciation) should translate into a more distinct inflation decrease. The inflation environment will continue to put the MPC in a dilemma: should a more expansive monetary policy be pursued when inflation is above the target amidst concurrent (evident) economic slowdown. It seems likely that there will be the required majority among the MPC members to respond to the signals of deteriorating economy (prophesying an inflation decrease in the following quarters) and two rate cuts of 25 bps each will be applied (though probably not earlier than in the second half of the year).

XI. Risk Management

1. Risk Management Principles

The main objective of risk management in Bank Zachodni WBK Group is to ensure effective operations to support development within the approved risk parameters. Risk management practice is in keeping with the industry benchmark, regulatory guidance and recommendations from supervisory authorities, and covers operational risk as well as the main financial risk areas: credit risk, market risk and liquidity risk.

Risk management in BZ WBK Group is consistent with the risk profile approved by the Risk Management Committee which corresponds to the general risk appetite defined by the Group. The risk appetite is expressed as quantitative limits and captured in "Risk Appetite Statement" approved by the Management Board and Supervisory Board. Global limits are used to set watch limits and shape risk management policies.

The applicable risk management policies govern the process of identifying, measuring and reporting the risk level and the process of setting limits for individual risks on a regular basis. The Group modifies and expands its risk management procedures on an ongoing basis, taking into account evolving good practice in the sector as well as changes to market conditions, product offer and regulatory environment.

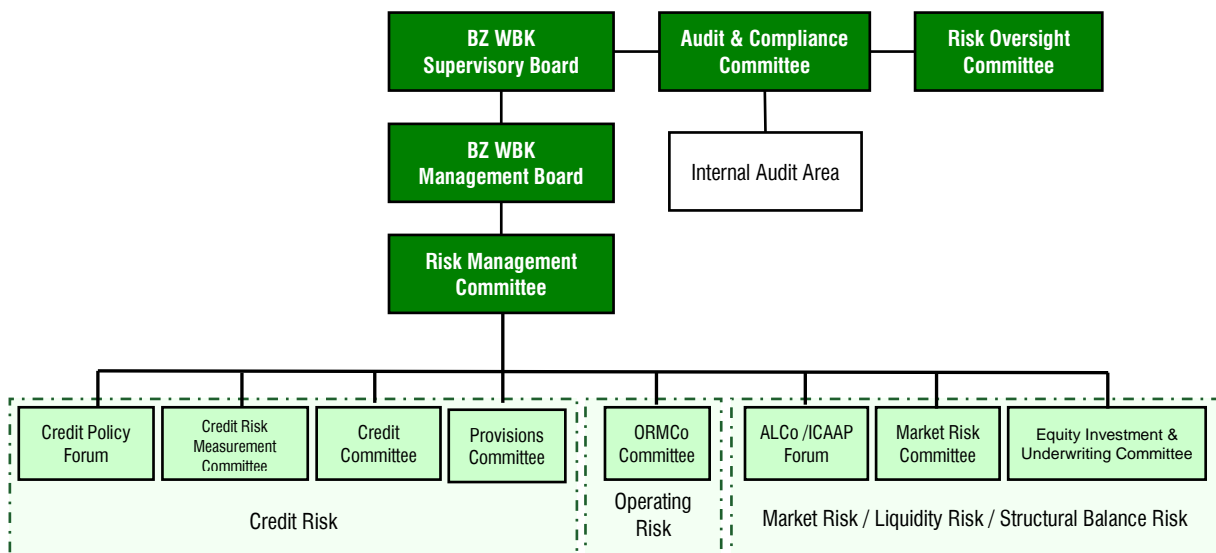
2. Risk Management Structure in Bank Zachodni WBK Group

The bank's Management Board, which is responsible for shaping and implementing the risk management structure, sets up committees, which are directly accountable for developing risk management methods and monitoring risk levels in specific areas.

The activities of these committees are supervised by the Risk Management Committee which defines the risk management strategy in Bank Zachodni WBK Group, in particular identifies key risks, specifies the risk appetite and methods of its measurement, controlling, monitoring and reporting.

The following Committees report to the Risk Management Committee: Credit Policy Forum, Credit Risk Measurement Committee, Credit Committee, Provisions Committee, Operational Risk Management Committee (ORMCo), Market Risk Committee, Assets and Liabilities Management Committee (ALCo), Equity Investment and Underwriting Committee, Disclosure Committee, DWG (Deposit Working Group) and Private Banking Investment Committee.

Corporate Governance Structure for Risk Supervision and Management



3. Credit Risk Management

Credit Risk

Credit risk is defined as the possibility of suffering a loss if the borrower fails to meet their credit obligation, including payment of interest and fees. Credit risk arises also from the impairment of credit assets and contingent liabilities as a consequence of the borrower's worsening credit quality. Credit risk measurement is based on the estimation of credit risk weighted assets, with the relevant risk weights representing both the probability of default and the potential loss given default of the borrower.

The Group's credit risk arises mainly from lending activities on the retail, corporate and inter-bank markets. This risk is managed as part of the policy approved by the Management Board on the basis of the adopted credit delivery procedures as well as on the basis of discretionary limits. The Group's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan portfolio. On top of that, the Group uses collateral (financial and tangible assets) and specific covenants and clauses in agreements to mitigate credit risk.

The Group's credit risk management involves actions taken as a result of the on-going analysis of the macroeconomic environment and the internal review of the particular credit portfolios. The advanced credit risk assessment tools allow quick remedial action to be taken in response to the first signals of changes in the portfolio quality or structure.

The Group continues to develop and improve risk based methods of pricing loans, allocating capital and measuring returns. For all significant portfolios, risk assessment models based on EVA have been or are being implemented.

In 2011, the Group continued its pro-active credit risk management and completed the following:

- Changes to credit policies were implemented to achieve full compliance with Recommendation S III and amended Consumer Loan Act;
- The decision-making framework based on risk assessment underpinned by scoring/rating systems and measurement of transaction profitability was enhanced, i.a.:
 - ✓ individual pricing was implemented for retail loans, based on the risk assessment of mortgage loans;
 - ✓ risk assessment models were further developed for SME loans, supported by wide use of external data, including new source of data on business customers;
- Effectiveness of credit processes in all portfolios was enhanced, including increased automation of decisions on retail portfolios;
- The bank continued prudent management of income-producing real estate portfolio, abiding by the strict credit risk limits and focusing on the portfolio quality;
- The bank took steps to align its policies and processes with the Santander Group's standards, in keeping with regulations applicable to the Polish sector.

In 2011, the bank pursued a conservative risk management policy, with close monitoring of the external environment, due regard to regulatory requirements and efforts taken to optimise credit delivery in order to minimize costs and human error. The above priorities will be kept unchanged in 2012.

Credit Policy

In 2011, the bank continued its credit risk management, ensuring an adequate level of credit risk and sustainable growth of business volumes and market share. In response to a changing macroeconomic environment, the bank gradually optimised credit policies, keeping them better aligned with the expected economic growth, and monitoring closely the associated risk.

The policy pursued by the bank focuses on a balanced growth of a high quality profitable loan book. The bank carries out its lending activity having full regard to applicable prudential regulations and the top quality of customer service. In 2011, a number of projects were delivered to enhance customer experience.

Group credit policy is a set of principles and guidelines included in credit policies and procedures which are reviewed on a regular basis. Internal limits are crucial components of the bank's lending policy as they facilitate monitoring of exposure concentration within individual sectors, geographical regions and foreign currencies.

The credit decision making system in place matches the profile and requirements of respective customer segments. Individuals engaged in credit risk approval are vested with powers which are commensurate with their skills and experience as well as risk associated with a given credit transaction. All staff members involved in credit delivery are assigned specific discretionary limits which are reviewed on a regular basis. Highest credit exposures are referred to Credit Committees composed of senior management and top executives.

The lending activity of the leasing subsidiaries is modelled on the bank's credit policies. Credit decision making across BZ WBK Group is based on a consistent approach to credit risk, underpinned by a single IT platform used to grade/score credit exposures. The subsidiaries have credit risk management procedures in place which have been approved by the bank.

Credit Decision Making Process

Discretionary limits applied across the bank are governed by the guidelines on "Discretionary Limits in Bank Zachodni WBK S.A.". The guidelines define roles and responsibilities of individual units and staff members involved in the credit delivery process.

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

Bank Zachodni WBK Group continually strives to ensure best quality credit services to meet the borrowers' expectations and relevant risk policy standards. To this end, the credit risk approval function has been separated from the sales function. Credit decision making functions and sales functions are combined only at the Branch Banking level and these are limited to exposures up to a pre-defined ceiling. The responsibility for credit decision making lies with the Chief Credit Officer and reporting managers.

Credit Grading

Intensive work has been undertaken by the Group for further development of the credit risk assessment tools to conform to the Basel requirements and IAS/IFRS. The Group uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, home loans, income-producing real estates, cash loans, credit cards and personal overdrafts.

The Group runs regular monitoring of credit grading pursuant to the rules described in the lending manuals. Additionally, for selected models, automated process of credit grade verification is carried out based on the number of overdue days or behavioural factors analysis. Credit grade is also verified at subsequent sanctions.

Credit Reviews

The Group performs regular reviews to determine the actual quality of the credit portfolio, to confirm that adequate credit grading and provisioning processes are in place and to objectively assess professionalism in credit management. The reviews are performed by the Credit Review Department and the Quality Assurance Department which are independent of the risk-taking units.

Collateral

Monitoring of collateral perfection and validity in BZ WBK Group is centralised in the Securities Centre.

The role of the Securities Centre is to ensure that security covers are duly established and held effective in line with the lending policy for all business segments. The Securities Centre is also responsible for developing standardised internal procedures with respect to perfecting and maintaining validity of collateral as well as ensuring that establishment, monitoring and release of security covers is duly effected. In addition, the Securities Centre provides collateral-related assistance to credit units in credit decision making and development of credit policies, gathers data on security covers and ensures adequate management information.

Credit Risk Stress Testing

Stress testing is a part of the credit risk management process used to evaluate potential effects of specific events, movements in financial and macroeconomic ratios or changes in the risk profile on the Group's condition. Stress tests assess potential changes in credit portfolio quality when faced with adverse conditions. The process also provides management information about adequacy of agreed limits and internal capital allocation.

Calculation of Impairment

In Bank Zachodni WBK and its subsidiaries impairment charges are recognised in accordance with IAS/IFRS. The charges reflect credit impairment which is recognised if the Group presents an objective evidence that such amounts cannot be recovered in line with the signed loan agreement. Objective indications of impairment were defined in accordance with recommendation of Basel Committee and with the International Accounting Standards (IAS 39).

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

Each year, the Group compares the assumptions and parameters used for impairment calculations with the actual situation, including changes of economic conditions, amendments to the Group's credit policies and recovery process. The process provides assurance that impairment charges are recognized correctly. The responsibility for ensuring an adequate level of charges rests with the Provisions Committee.

Loans and Advances to Customers by Impaired & Non-Impaired Loan Portfolios

	PLN m	
Loans and Advances to Customers by Impaired and Non-Impaired Loan Portfolios	31.12.2011	31.12.2010
Individually impaired (gross amount)	960,2	1 041,9
Charge due to impairment losses	(412,7)	(393,4)
Net amount (individually impaired)	547,5	648,5
Collectively impaired (gross amount)	1 218,6	1 331,8
Charge due to impairment losses	(656,6)	(676,2)
Net amount (collectively impaired)	562,0	655,6
Non-impaired portfolio	37 175,0	31 788,8
- non-past due	35 829,3	30 590,2
- past due	1 345,7	1 198,6
Charge due to impairment losses	(345,9)	(338,0)
Net amount (non-impaired)	36 829,1	31 450,8
Other receivables	78,6	83,5
Total	38 017,2	32 838,4

4. Market Risk and Liquidity Risk Management

The key objective of Bank Zachodni WBK Group's market risk policy is to reduce the impact of interest and FX rates movements on the Group's profitability and market value as well as to increase income within the strictly defined risk limits and to ensure the Group's liquidity.

Market risk associated with the Group's operations stems mainly from services provided to customers as well as proprietary trading in debt, FX and equity instruments.

Market Risk

The Risk Management Committee approves market risk management strategies and policies as well as limits that define the maximum acceptable exposure to individual risk types, in accordance with the "Risk Appetite Statement".

The Management Board makes its strategic decisions on the basis of recommendations put forward by ALCo or the Market Risk Committee. The Management Board delegated the direct supervision of market risk management to the two abovementioned Committees.

The direct market risk management is centralised in the Global Banking and Markets Division. The risk arising from changes in the price of equity instruments is managed by Dom Maklerski BZ WBK S.A.

Identification and Assessment of Market Risk

At the bank level, interest rate and FX risks associated with the banking book are transferred to the Global Banking and Markets Division and managed centrally. Open interest rate and FX positions of the remaining Group subsidiaries are closed together with the bank's ones, except for Dom Maklerski BZ WBK S.A., which, due to the scale and profile of business, applies separate limits for risk arising from changes in the price of equity instruments and FX risk.

Market risk management policies adopted by the Group define risk measurement parameters, including regulatory and watch limits and indicators. Risk limits are periodically reviewed to align them with the bank's strategy and current market environment.

Market risk is measured and its compliance with the stated risk limits is monitored by qualified personnel independent of the unit which manages and generates the risk. Exposure to market risk is regularly reviewed by the Market Risk Committee and ALCo.

BZ WBK Group uses a number of market risk measurement methods, including: Value at Risk (VaR), sensitivity analysis and stress testing.

The Value at Risk (VaR) methodology is a standard industry tool used by the Group to measure and monitor interest rate and FX risks. It uses a statistical process to determine the probable maximum loss, economic value of a transaction or a portfolio of transactions as a result of an adverse change in market parameters. The Group applies the VaR methodology both to the trading and banking portfolio.

The VaR methodology and sensitivity analysis help estimate probable maximum losses in normal market conditions while stress tests are carried out to estimate potential losses in stressed market conditions.

In 2012, the risk management framework will be modified, i.e. the responsibility for the management of the banking and the trading book risks will be divided between the Global Banking and Markets Division which will continue to manage the risk associated with the trading book, and the Finance Division whose role will be to manage the risk arising from the banking book. To this end, measures were taken in 2011 to integrate the organisational and technical structure within the above framework.

In 2012, new market risk measures and limits will be implemented and - together with the organisational changes - duly reflected in the new risk policies and procedures aligned with the Santander Group methodology.

Risk Measures as at 31.12.2010 and 31.12.2011

	PLN m	
	31.12.2011	31.12.2010
Interest Rate Risk		
VaR (1M period)	31,8	27,8
Stress Scenario (1M period)	159,8	144,4
Sensitivity of securities portfolio (parallel increase of yield curves by 1 bp)*	(3,5)	(3,2)
FX Risk		
VaR (1M period)	2,0	1,8
Stress Scenario (1M period)	13,0	15,0
Equity Risk		
VaR (1D period)	0,9	0,6
Stress Scenario (1D period)	0,7	0,9

* regards trading, banking and NIRIL portfolios (NIRIL portfolio is managed by ALCO and mitigates the structural balance sheet risk)

Liquidity Risk

Liquidity Risk

Liquidity risk is the risk that the bank fails to meet its contingent and non-contingent commitments made to its customers and contractors.

The liquidity policy adopted by the Group is to ensure that all outflows expected within 1 month are fully covered by the anticipated inflows or qualified liquid assets. In addition, the aim of the policy is to ensure an adequate structure of financing of the Group's operations by maintaining the medium- and long-term liquidity ratios at a pre-defined level together with monitoring of stress testing results. The policy covers all assets and liabilities as well as off-balance sheet items impacting the liquidity level.

In 2011, as in 2010, the Group focused on keeping its loan-to-deposit ratio at a comfortable level, which totalled 81.2% as at 31 December 2011. The Group also maintained a stable level of deposits from customers which constituted the main source of financing for Bank Zachodni WBK.

Liquidity Risk Management

ALCo has overall responsibility for the supervision of liquidity risk on behalf of the Management Board. ALCo makes recommendations to the Management Board on appropriate strategies and policies for strategic liquidity management. Liquidity risk reports and results of stress tests are regularly reviewed by the senior management and by ALCo.

Day-to-day management of current (up to 7 days) and short-term (up to 30 days) liquidity is delegated to the Global Banking and Markets Division. The responsibility for mid- (above 1 month) and long-term (above 1 year) liquidity management is shared by the Head of Finance Division and the Head of Global Banking and Markets Division. The role of the Finance Division is to devise and update adequate strategies as well as to measure and report liquidity risk.

In 2012, the liquidity management model will be reshaped: current, short, medium and long-term liquidity will be directly managed by the Assets and Liabilities Management Area in the Finance Division, while the responsibility for risk measurement and reporting as well as development of liquidity management policies will rest with the Financial Risk Department in the Risk Management Division.

The Group has a scenario-based contingency plan approved by the Management Board to cater for unexpected liquidity problems, whether caused by external or internal factors. The plan is updated on a regular basis.

Identification and Assessment of Liquidity Risk

Liquidity risk is identified and measured daily, mainly using modified liquidity gap reports and regulatory reports, which define internal and regulatory limits. Regular liquidity measurement reports are supported by stress test results.

Liquidity Gap Analysis Based on the Management Report of the Global Banking and Markets Division
 as at 31.12.2010 and 31.12.2011

Liquidity Risk	31.12.2011 *		31.12.2010	
	GAP	Cumulative GAP	GAP	Cumulative GAP
<1T	8 703,6	8 703,6	10 622,4	10 622,4
<1M	(444,8)	8 258,8	43,2	10 665,6
>1M	(8 258,8)	-	(10 665,6)	-

* At the end of 2011, a change in the deposit base maturity profile was observed which is still a stable source of asset financing. The level of liquid assets did not change significantly y-o-y.

According to the Group's policy, the bank should have sufficient funds to cover outflows expected over a one-month horizon in full. The liquidity position over a longer time horizon and the level of qualified liquid assets are monitored as well.

In 2011, the bank's funds significantly exceeded the level required to cover the expected outflows.

At the same time, the bank complies with Resolution no. 386/2008 of the Polish Financial Supervision Authority (KNF) on liquidity management, in respect of, inter alia, liquidity monitoring, measurement and reporting.

In 2011, the bank met the regulatory quantitative requirements for liquidity. Key regulatory indicators (i.e. short term liquidity ratio and ratio of coverage of non-liquid assets and assets of limited liquidity with own funds and core external funds) exceeded the required levels.

5. Operational Risk Management

According to the definition agreed by the Basel Committee on Banking Supervision, operational risk is the risk of loss resulting from external factors or inadequacy or failure of internal processes, human resources and systems.

Operational risk is inherent in all the Group's business processes, including the outsourced functions or services delivered jointly with third parties. Each organisational unit in the Group is fully responsible for identification and management of the operational risks pertaining to its operations. The objective of the operational risk management is to minimise the likelihood and/or reduce the impact of unexpected adverse events.

Bank Zachodni WBK Group applies "Operational Risk Management Policy" and "Operational Risk Management Framework" which are subject to regular reviews. In addition, detailed procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated.

The Operational Risk Management Committee (ORMCo) established by the Management Board is responsible for setting operational risk management standards for BZ WBK Group. The Committee sets the strategic direction as well as defines and monitors operational risk management objectives, in relation to, inter alia, BCM, information security, outsourcing and insourcing and fraud prevention in all business areas.

BZ WBK Group is committed to maintaining superior standards of operational risk management, which involves: in-depth analysis of the environment in which the Group operates, identification of risks and development of effective controls to curb operating losses. The operational risk appetite factors in the maximum loss before tax resulting from residual operational risk that the Group is ready to incur in pursuit of its business goals (the limit was based on net income).

To ensure adequate risk management and identification of the key threats, the following processes are employed:

- Identification and assessment of operational risk

As part of risk self-assessment, organisational units identify risks present in their processes, systems or products, assess inherent and residual risks in terms of their likelihood and impact, and describe the existing controls. The risks with high residual rating have proper action plans developed with progress against them reviewed quarterly by ORMCo.

- Reporting on operational incidents and lessons learned

Each organisational unit is required to report operational incidents on a monthly basis. The data are used to carry out a root-cause analysis of the incidents with a view to ensuring that lessons learned are captured, and preventive and corrective measures are actioned. The lessons learned process reinforces and facilitates operational risk management. It also ensures that decisive steps are taken if any operational incidents materialise and cause or might cause losses.

- Analysis of risk indicators

Risk indicators are financial and operational indicators which point to the level of risk Bank Zachodni WBK Group is exposed to and provide early warning of emerging threats and operational losses.

- Business continuity management (BCM)

Each organisational unit is required to develop and update their business continuity management plans to ensure that critical business processes remain uninterrupted following an unplanned disruption. Business continuity plans must be tested at least annually to ensure that it is possible to restore critical business processes at the required service level and within the agreed timeframe. There are backup locations where critical processes can be restored and continued should an incident occur. IT continuity management conforms to ISO 20000 and ITIL best practice. IT support is provided by two data centres linked by high-capacity and interference-resistant connections. IT support covers mainly payment, clearing and settlement systems and end-user applications.

- Regular reporting to the Risk Management Committee and Supervisory Board

Operational risk reports cover, inter alia: operational risk incidents, risk indicators, operational risk self-assessment (Review & Challenge).

- Insurance

The bank's insurance cover includes the following insurance lines: Bankers' Bond, Computer Crime and Professional Indemnity.

6. Legal and Regulatory Risk Management

Legal and Regulatory (Compliance) Risk

Legal and regulatory (compliance) risk is defined – in line with the Basel Committee recommendation – as risk of regulatory sanctions, material financial loss or loss of reputation that may be incurred by Bank Zachodni WBK Group as a result of failure to comply with the laws, standards or codes of conduct applicable to its activities.

Risk Identification and Assessment

The management of respective processes within Bank Zachodni WBK Group has been delegated to relevant units.

The role of the Compliance Area is to ensure compliance with legal and regulatory requirements applicable to business operations, including protection of consumer rights, prevention of money laundering, protection of sensitive information and personal data.

The identification, interpretation and communication roles relating to other legal and regulatory obligations have been assigned to functions with specialist knowledge in those areas. All issues regarding compliance with employment law are assigned to HR Management Division; taxation law and reporting requirements to Finance Division and prudential regulations to Finance Division and Risk Management Division in respective aspects.

Risk Management and Mitigation

The bank's Management Board adopted a policy statement on compliance with legal and regulatory obligations, which was then approved by the Supervisory Board. The policy provides the Compliance Area with the relevant mandate to support senior managers in effective management of compliance risk. The Compliance Area escalates all issues to the Risk Management Committee and Audit and Compliance Committee of the Supervisory Board.

The Audit and Compliance Committee regularly reviews key compliance issues identified by the Compliance Area as part of advice and monitoring and related to, inter alia, performance of business units, regulatory activity and upcoming regulations.

The Risk Management Committee ensures performance of regulatory obligations and approves principles of internal control and compliance policy framework. It also ensures independence and sufficient resources of the Compliance Area.

The Compliance Area's major responsibilities include in particular (subject to the specific responsibility of Finance Division, Risk Management Division and HR Management Division):

- independent identification, assessment and monitoring of compliance risk the Group is exposed to;
- providing advice and reporting to the Risk Management Committee, Bank's Management Board and Audit and Compliance Committee on the effectiveness of the processes established to ensure compliance with laws and regulations within its area of responsibility;
- providing the management and staff with guidance on compliance risk and adequate risk management policies and procedures.

Legal and regulatory (compliance) risk management is coordinated by the Compliance Area reporting to the Management Board Member. The Area coordinates and supervises the process of compliance risk management across BZ WBK Group through subsidiary compliance units and pursuant to the applicable law.

Risk Monitoring and Reporting

The Compliance Area undertakes risk-based monitoring of compliance with relevant policies, procedures, regulatory requirements and codes of best practice. Monitoring is carried out by a dedicated centralised unit, Compliance Officers in dedicated units and subsidiaries, as well as staff of other controlling units acting on behalf of the Legal and Compliance Division (for branch network).

Risk-prioritised annual compliance monitoring plans are prepared based on the risk assessment process. The monitoring is focused particularly on processes but may also refer to individual organisational units.

The annual monitoring plan, accepted by the Audit and Compliance Committee, is regularly reviewed and updated to reflect new risks, changes in risk assessments and specific areas of regulatory focus. Issues emerging from compliance monitoring are escalated for management attention, and action plans and implementation dates are agreed with the Legal and Compliance Division. The implementation of these action plans is monitored by the Legal and Compliance Division.

7. Capital Management

Introduction

It is the policy of Bank Zachodni WBK Group to maintain capital at a level appropriate to the type and scale of its business and the risk it is exposed to, in accordance with the applicable Banking Law and regulations of the Polish Financial Supervision Authority, which transposed the New Capital Accord of the Basel Committee on Banking Supervision (Basel 2).

Basel 2 defines the approach to measurement of the minimum regulatory capital requirement (Pillar 1) and sets out the general principles of internal capital measurement (Pillar 2) where in-house models are applied by banks in day-to-day risk management. The estimated internal capital is more sensitive to risk and as such is subject to prudential and in-depth adequacy assessment. Internal capital calculation is an integral part of the management of the bank's business.

In addition, the capital level is determined by the ultimate external rating and stress tests results for individual risks identified as material to the business.

The bank's Management Board is accountable for end-to-end capital management, calculation and maintenance, including assessment of capital adequacy vis-a-vis different economic conditions and assessment of stress test results and their impact on internal capital level and adequacy. Responsibility for general oversight over estimation of internal capital rests with the Supervisory Board.

The bank's Management Board has delegated the day-to-day capital management to ALCo/ICAAP Forum. The Committee assesses capital adequacy on an ongoing basis, including capital adequacy under stress scenarios. Also, the Committee monitors the actual and required capital levels and initiates transactions which affect the capital base (recommending e.g. the amount of dividend to be paid out). ALCo/ICAAP Forum defines the capital policy, principles of capital management, principles of capital adequacy assessment both in the bank and the Group; reviews and approves capital plans, and sets out principles of capital allocation to individual business segments when assessing their profitability. Binding decisions on movements in the capital level (increase or release) are taken by appropriate bank's governing bodies in line with applicable laws and the bank's Statutes.

Capital Policy

Solvency ratio, which is the ratio of capital requirements in respect of individual risks to the bank's total capital, after obligatory deductions recognised in accordance with the Banking Law and resolutions of the Polish Financial Supervision Authority, is one of the key measures used by Bank Zachodni WBK Group to manage capital. Under the Banking Law, the minimum capital adequacy ratio is 8% at both the bank and Group level.

Under the Group's capital management policy, the target minimum solvency ratio is 10% at both the bank and Group level.

At the same time, the Tier 1 capital ratio (which is the ratio of core equity capital to risk-weighted assets for credit, market and operational risks) may not be lower than 8% within both the bank and the Group.

Regulatory Capital

Pillar 1 risks and capital required to cover such risks are assessed quantitatively using regulatory measurement methods. The Group applies the following approaches with respect to individual risks:

- credit risk – the standardised approach,
- operational risk – the standardised approach,
- market risk – the foundation approach.

The capital requirement for individual risks is aggregated directly to determine the overall minimum capital requirement (Pillar 1).

The table below shows amounts used to calculate the solvency ratio for the Group as at 31 December 2010 and 31 December 2011.

		PLN m	
		31.12.2011	31.12.2010
I	Total Capital requirement (Ia+Ib+Ic+Id), of which:	3 696,9	3 169,4
Ia	- due to credit risk	3 147,4	2 668,7
Ib	- due to market risk	44,6	34,8
Ic	- due to settlement / counterparty risk	44,2	27,9
Id	- due to operational risk	460,7	438,0
II	Total own funds	7 210,7	6 490,6
III	Reductions	233,1	242,5
IV	Own funds after reductions (II-III)	6 977,6	6 248,1
V	CAD [IV/(I*12.5)]	15,10%	15,77%

Internal Capital

The Group defines internal capital as the capital required to safeguard the Group against the impact of major unexpected losses which may jeopardise its solvency.

A key element of Pillar 2 is the internal capital adequacy assessment process (ICAAP). Under this process, the Group is required to estimate, allocate and maintain the required level of internal capital to ensure secure conduct of business, taking into account the Group's risk profile set out in the "Risk Appetite Statement".

The key objective of the ICAAP is to create a link between the risk profile, risk management, risk mitigation and internal capital level. The Group has an appropriate process in place to assess all the key elements of capital planning and management (including aggregation of capital for different risk types). The process ensures that the capital will be sufficient to cover all risks. The internal capital assessment process is adjusted to the type, scale and complexity of the Group's business.

The approach adopted in 2011 was based on regulatory capital requirements for Pillar 1 risks and the estimated capital for actual and potential Pillar 2 risks. Quantitative risk measurement methods are applied where practical and feasible. Other Pillar 2 risks are assessed and managed qualitatively, by way of adequate processes for risk management, tracking and mitigation. This is a very conservative approach as it assumes that there are no correlations between risks.

XII. Statement on Corporate Governance in 2011

1. Introduction

The information included in this chapter fulfils the requirements of corporate governance report set out in § 29 section 5 of the Terms of Reference of Warsaw Stock Exchange (WSE) and § 1 of the WSE Management Board Resolution no. 1013/2007 dated 11 December 2007.

In relation to the above and pursuant to WSE Management Board Resolution no. 718/2009 dated 16 December 2009, preparation of "Statement on Corporate Governance Compliance in 2011" in line with the Ordinance of the Minister of Finance dated 19 February 2009 on current and financial reports published by the issuers of securities and the rules of equal treatment of the information required by the laws of a non-member state (§ 91 section 5 point 4) and its publishing as part of the annual report is tantamount to the fulfilment of the requirement to provide WSE with a corporate governance report.

2. Code of Best Practice

Corporate governance rules applicable to Bank Zachodni WBK in 2011 are set forth in "Code of Best Practice for WSE Listed Companies" which constitutes an appendix to WSE Supervisory Board Resolution no. 17/1249/2010 dated 19 May 2010 and is available at WSE website (<http://corp-gov.gpw.pl/>) and the bank's website (www.inwestor.bzwbk.pl). It is an updated code of best practice which was applied from 1 July 2010 until the end of 2011. The original code was introduced by virtue of WSE Supervisory Board Resolution no. 12/1170/2007 dated 4 July 2007 on introduction of "Code of Best Practice for WSE Listed Companies".

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

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

3. Management Board's Statement on Corporate Governance

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

4. Equity Securities Issued by the Bank

Ownership Structure of Share Capital

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

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

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

Change of the Majority Shareholder

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

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

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

Rights and Restrictions Attaching to the Issuer's Securities

The shares of Bank Zachodni WBK S.A. are ordinary bearer shares. Each share carries one vote at the General Meeting of Shareholders.

The nominal value is PLN 10 per share. All the issued shares have been fully paid up.

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

Series /issue	Type of share	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue (in PLN)
A	bearer	none	none	5 120 000	51 200 000
B	bearer	none	none	724 073	7 240 730
C	bearer	none	none	22 155 927	221 559 270
D	bearer	none	none	1 470 589	14 705 890
E	bearer	none	none	980 393	9 803 930
F	bearer	none	none	2 500 000	25 000 000
G	bearer	none	none	40 009 302	400 093 020
H	bearer	none	none	115 729	1 157 290
				73 076 013	730 760 130

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

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

5. Governing Bodies

General Meeting of Shareholders

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

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

Organisation and Powers of the General Meeting of Shareholders

General Meeting of Bank Zachodni WBK Shareholders (GM) is held as provided for in the Commercial Companies Code of 15 September 2000, BZ WBK Statutes and Terms of Reference for BZ WBK GM. The Statutes as well as the Terms of Reference are available at the bank's website.

GM resolves on the issues within its remit, as defined by the above laws and internal regulations.

The resolutions are voted on using an electronic voting system which returns the number of votes ensuring that they correspond to the number of shares held, and in the case of secret ballot - allows shareholders to stay anonymous. Each share carries one vote.

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

The General Meeting is broadcast live online to all interested parties and the recording is available at the bank's website for later use.

Shareholders' Rights

The rights of the shareholders of Bank Zachodni WBK S.A. are set out in the Terms of Reference of BZ WBK GM in line with the Commercial Companies Code.

In particular, the shareholders have the following rights with respect to GM:

- Each shareholder may request that the list of shareholders be e-mailed free-of-charge to the indicated address. Each shareholder may have access to the list of shareholders in the bank's MB office and request a copy of the list at their expense.
- Shareholders may:
 - ✓ a week before GM, demand copies of requests included in the GM agenda;
 - ✓ have access to minutes of GM and request copies of resolutions confirmed by the bank's Management Board as true copies;
 - ✓ request voting by secret ballot;
 - ✓ appeal against resolutions made by GM in cases permitted in the Commercial Companies Code;
 - ✓ seek information from the Management Board on issues on the GM agenda, as provided for by the Commercial Companies Code;
 - ✓ exercise their voting rights (each share carries one vote at GM).
- Shareholders may attend GM and vote personally or through proxies. In line with the Terms of Reference, shareholders may also participate in GM via electronic communication channels.

Method of Changing the Statutes

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

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

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

Supervisory Board

Composition of the Supervisory Board

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

Composition of the Supervisory Board as at 31.12.2011 and 31.12.2010

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

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

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

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

Role of the Supervisory Board

The Supervisory Board of Bank Zachodni WBK operates particularly under the Banking Law of 29 August 1997, the Commercial Companies Code of 15 September 2000, the bank's Statutes and the Terms of Reference of the Supervisory Board, available at the bank's website.

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

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

The Supervisory Board exercises on-going supervision over all the aspects of the bank's activities. The Supervisory Board takes decisions in the form of resolutions which are adopted by absolute majority of votes in an open voting. Resolutions are voted upon in a secret ballot in the cases stipulated by law, in personal matters or at the request of any Supervisory Board member accepted by the Supervisory Board in a secret voting. The Supervisory Board meetings are held as needed, however, at least 3 times in any financial year. The Supervisory Board members convene at the same time in a single location or in different locations communicating via telephone or video links.

Supervisory Board Committees

The Supervisory Board may establish committees and designate individuals responsible for managing the work of such committees. The role of the committees is to facilitate the work of the Supervisory Board, i.e. prepare draft resolutions of the Supervisory Board with respect to own requests or requests submitted by the Management Board for approval.

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

Composition of Supervisory Board Committees as at 31.12.2011

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

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

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

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

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

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

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

Management Board

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

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

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

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

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

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

Appointment and Removal of Executives

The members of Bank Zachodni WBK Management Board are appointed and removed in accordance with the Commercial Companies Code, the Banking Law and the bank's Statutes.

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

Powers of Executives

The Bank Zachodni WBK Management Board manages and represents the bank. The Management Board has all powers that are not restricted by law or Statutes to the remit of other governing bodies of the bank.

The Management Board takes decisions to raise obligations or transfer assets whose total value for one entity exceeds 5% of the bank's own funds. The Management Board can also, by way of resolution, delegate its powers to take such decisions to other committees or persons in the bank. The Management Board members run the bank's affairs jointly, and in particular: define the bank's mission, set long-term action plans and strategic objectives, prepare assumptions for the bank's business and financial plans, approve the plans and monitor their performance, regularly report to the Supervisory Board on the bank's position in the scope and at the dates agreed with the Supervisory Board, appoint permanent and ad hoc committees and designate individuals responsible for managing the work of such committees. The committees are composed of both Management Board members and persons from outside the Management Board. Permanent committees operative in the bank include: Risk Management Committee, I and II degree Credit Committees, Provisions Committee, Credit Policy Forum, Credit Risk Measurement Committee, Assets and Liabilities Management Committee (ALCo), Operational Risk Management Committee (ORMCo), Market Risk Committee, Deposit Working Group (DWG), Equity Investment and Underwriting Committee, CRM Committee, Settlement Committee, Anti-Money Laundering and Counter Terrorist Financing Committee (AML Committee).

Management Board members acting severally do not have any specific powers. They cannot take decisions on issuing or redeeming shares.

Role of the Management Board

The Management Board operations are primarily governed by the Banking Law, the Commercial Companies Code, the bank's Statutes and the Terms of Reference of the Management Board, available on the bank's website.

The Management Board manages and represents the bank. According to the bank's Statutes, the following individuals are authorized to represent and bind the bank: a) the Management Board President acting individually, and b) two members of the Management Board acting jointly, or a member of the Management Board acting jointly with a commercial representative (prokurent), or two commercial representatives acting jointly. Representatives authorized to act severally or jointly with any of the persons listed in letter b) or with another authorized representative can be appointed.

The Management Board resolves on all issues which have not been restricted to the remit of the General Meeting of Shareholders or Supervisory Board. The Management Board takes decisions in the form of resolutions which are adopted by absolute majority of votes in an open voting. Secret ballot is held in the cases stipulated by law, in personal matters or at the request of any Management Board member accepted by the Management Board in a secret voting. The Management Board meetings are held as needed. The Management Board Members convene at the same time in a single location or in different locations communicating via telephone or video links.

Other Information on the Management and Supervisory Boards

Remuneration of the Supervisory and Management Board Members

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

Pursuant to the Statutes of Bank Zachodni WBK the remuneration of the President and members of the Management Board is set by the Supervisory Board, having due regard to recommendations of the Remuneration and Nominations Committee. The Remuneration and Nominations Committee defines the remuneration policy in respect of the Management Board members and individual terms and conditions as part of remuneration packages for each Management Board member. It also performs annual reviews of the remuneration of Management Board members.

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

Agreements between Bank Zachodni WBK and its Executive Directors

The Bank Zachodni WBK Management Board members signed agreements prohibiting competition after termination of their role on the Management Board. A Management Board member who is not appointed for a new term of office or is removed from the Board is entitled to a once-off severance pay. The severance pay does not apply if the Management Board member accepts a new job role in the bank/Group.

Shares and conditional rights held by the Supervisory and Management Board Members

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

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

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

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

6. Control System of Financial Statements

Internal Control System and Risk Management

Bank Zachodni WBK Group operates an internal control system which supports the decision-making processes and contributes to efficient operation of the organisation, reliability of financial reporting and compliance with laws, internal regulations and best practice. The internal control system is adjusted to the organisational structure and risk management system and includes the Business Support Centre, branches, Partner outlets and subsidiaries. Development, implementation and maintenance of the written strategies and procedures of the internal control system is the responsibility of the bank's Management Board. Oversight over the internal control and risk management system is exercised by the Audit and Compliance Committee of the Supervisory Board of Bank Zachodni WBK Group.

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

The internal control and risk management systems are based on three lines of defence:

- first line – controls embedded in processes delivered by each staff member and their line manager;
- second line – units supporting the management team in risk identification and management as well as units assessing the effectiveness of the first line;
- third line – internal audit unit which reviews the adequacy and efficiency of the first and second lines.

Each organisational unit operates in line with their Terms of Reference approved by heads of respective divisions and defining the roles and responsibilities within each business area, including quality and processing of financial data. The ongoing controls and management checks carried out in the bank enable to verify due delivery of the assigned tasks.

One of the key objectives of the internal control framework is to ensure full credibility of financial reporting.

Financial data preparation for the purpose of reporting is automated and based on the consolidated General Ledger and Data Warehouse. The underpinning IT systems are strictly controlled in terms of integrity and security of information. Data inputs in the source systems are subject to formal operational and approval procedures which state responsibilities of individual staff members. Data processing for the purpose of financial reporting is subject to a suite of specialist controls. Any manual corrections or management overrides are under strict control as well.

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

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

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

The effectiveness of controls in financial reporting is assessed annually as part of the certification process for compliance with Sarbanes-Oxley Act.

Internal Control Compliant with the Sarbanes-Oxley Act

In the light of the Sarbanes-Oxley Act, Bank Zachodni WBK Group operates as a material and independent organisation within the structure of Banco Santander and as such is required to implement, maintain and assess the effectiveness of the internal control environment pursuant to the abovementioned act.

As agreed with the Internal Control Department of Santander Group and the External Auditor, in the transition period, i.e. during the certification process for compliance with Sarbanes-Oxley Act in 2011, Bank Zachodni WBK will use the interim solutions and methodology based on the approach adopted in the previous years. The design and effectiveness of controls was tested by a dedicated second line unit. The effectiveness tests covered processes and key controls in the business and IT areas as well as Entity Level Controls. The scope of testing was agreed with the External Auditor of Bank Zachodni WBK Group, taking account of risk factors which were particularly significant for the 2011 SOX certification.

The test results are the basis for the bank's management to make representations on the effectiveness of the control environment.

As part of the SOX certification process in 2011, the bank's management confirmed that no incidents were identified in Bank Zachodni WBK Group which could significantly affect the relevant processes and threaten the effectiveness of the internal control of financial reporting.

Selection of Auditor

In accordance with §32 point 10 of the Statutes of Bank Zachodni WBK, applicable regulations and the industry practice, on 17 May 2011 the bank's Supervisory Board passed a resolution appointing Deloitte Audyt Sp. z o.o. as an entity to review and audit the bank's stand-alone and the Group's consolidated financial statements for H1 2011 and for 2011. The bank also contracted Deloitte Audyt Sp. z o.o and other companies from Deloitte Group for consulting and tax advisory services. In the bank's view, the above advisory services do not affect impartiality and independence of the auditor.

Retaining the same auditor both by Bank Zachodni WBK and Banco Santander ensures a consistent approach to the audit process across Santander Group, including certification for compliance with the American Sarbanes-Oxley Act. Banco Santander selects auditors for a fixed period of time, from three to nine years, starting from the beginning of the first financial year.

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

Remuneration of Auditor

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

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

Remuneration based on the following agreements:

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

7. Pending Court Cases

As at 31 December 2011, no case was pending before any court or state administration agencies with relation to any claims made by or against the bank or its subsidiaries that would equal or exceed 10% of the Group's equity.

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

XIII. Representations of the Management Board

True and Fair Presentation of the Financial Statements

According to the Management Board's best knowledge and belief, the financial figures and the comparable data presented in the Consolidated Financial Statements of Bank Zachodni WBK Group for 2011 were prepared in keeping with the applicable accounting policies and give a true and fair view of the state of affairs and earnings of Bank Zachodni WBK Group. The Management Board's Report contained in this document shows a true picture of the Group's development, achievements and position (including the underlying risks) in 2011.

Selection of Auditor

The auditing firm responsible for auditing the Consolidated Financial Statements of Bank Zachodni WBK Group for 2011 was selected in compliance with the applicable legislation. The auditing firm and its auditors satisfied the necessary conditions to ensure they provide an unbiased and independent report compliant with Polish law and professional standards.

Signatures of the Management Board Members			
Date	Name	Function	Signature
23.02.2012	Mateusz Morawiecki	President of the Board	
23.02.2012	Andrzej Burliga	Member	
23.02.2012	Eamonn Crowley	Member	
23.02.2012	Justyn Konieczny	Member	
23.02.2012	Janusz Krawczyk	Member	
23.02.2012	Michael McCarthy	Member	
23.02.2012	Juan de Porras Aguirre	Member	
23.02.2012	Marcin Prell	Member	
23.02.2012	Mirosław Skiba	Member	
23.02.2012	Feliks Szyszkowiak	Member	