

**MANAGEMENT BOARD REPORT
ON BANK ZACHODNI WBK
PERFORMANCE IN 2012**

2012



WBK | Bank Zachodni WBK S.A.

CONTENTS

I.	Overview of BZ WBK Performance in 2012	3
II.	Basic Information	6
1.	History and Profile of Bank Zachodni WBK.....	6
2.	Companies Connected with Bank Zachodni WBK.....	9
3.	Other Equity Investments.....	12
III.	Macroeconomic Situation in 2012	13
IV.	Business Growth of BZ WBK in 2012	16
1.	Retail Banking.....	16
2.	Business and Corporate Banking.....	23
3.	Global Banking and Markets.....	24
4.	Selected Distribution Channels.....	26
5.	Service Quality Improvement.....	27
V.	Human Resources and Corporate Culture	30
1.	Human Resources Management.....	30
2.	Corporate Values.....	32
3.	Corporate Social Responsibility of Bank Zachodni WBK.....	32
VI.	Key Projects, Developments and Other Information	35
1.	Organisational Changes.....	35
2.	Capital Expenditure.....	35
3.	Awards, Recognitions, Position in Rankings.....	36
4.	Merger with Kredyt Bank.....	36
5.	Integration of Bank Zachodni WBK with Kredyt Bank.....	38
VII.	Financial Situation of BZ WBK in 2012	40
1.	Income Statement of Bank Zachodni WBK.....	40
2.	Financial Position.....	49
3.	Key Financial Ratios.....	53
4.	Additional Financial Information.....	54
5.	Factors Which May Affect Financial Results of BZ WBK in 2013.....	55
VIII.	Future Growth Prospects	57
1.	Business Plan of Bank Zachodni WBK for 2012-2014.....	57
2.	Economic Outlook for 2013.....	60
IX.	Investor Relations	62
1.	Investor Relations in Bank Zachodni WBK.....	62
2.	Share Capital, Ownership Structure and Share Price.....	62
3.	Share Price of Bank Zachodni WBK vs. Indices.....	62
4.	Dividend per Share.....	64
5.	Bank Zachodni WBK Rating.....	64
X.	Risk Management	66
1.	Risk Management Principles.....	66
2.	Risk Management Structure in Bank Zachodni WBK.....	66
3.	Credit Risk Management.....	67
4.	Market Risk and Liquidity Risk Management.....	70
5.	Operational Risk Management.....	73
6.	Legal and Regulatory (Compliance) Risk Management.....	74
7.	Reputation Risk Management.....	75
8.	Capital Management.....	75
XI.	Statement on Corporate Governance in 2012	78
1.	Introduction.....	78
2.	Code of Best Practice.....	78
3.	Management Board's Statement on Corporate Governance.....	78
4.	Equity Securities Issued by the Bank.....	78
5.	Governing Bodies.....	80
6.	Control System of Financial Statements.....	86
7.	Pending Court Proceedings.....	88
XII.	Representations of the Management Board	89

I. Overview of BZ WBK Performance in 2012

This section is an overview of the financial performance of Bank Zachodni WBK in 2012 compared with the previous year, and shows internal and external factors affecting the bank's profit and activity.

Financial and Business Highlights

- Total income increased by 9,6% YoY to PLN 3,860.4m.
- Total costs decreased by 4.6% YoY to PLN 1,665.9m, with staff expenses down 1.2% to PLN 866.3m.
- Profit-before-tax was PLN 1,704m and up 19.4% YoY.
- Profit for the period was PLN 1,367.6m and higher by 18% YoY.
- Capital Adequacy Ratio was 16.49% (14.60% as at 31 December 2011).
- Return on Equity was 21.4% (21% as at 31 December 2011), and 22% excluding the cost of integration with Kredyt Bank.
- Cost to income ratio was 43.2% (49.6% in 2011), and 42.2% excluding the cost of integration with Kredyt Bank.
- Net impairment losses on loans and advances amounted to PLN 490.5m compared with PLN 347.7m in 2011.
- NPL ratio was 5.1% (5.3% as at 31 December 2011), while the ratio of impairment losses to average gross credit volumes was 1.2% (1.0% as at 31 December 2011).
- Loans to deposits ratio was 83.7% as at 31 December 2012 compared with 79.6% as at 31 December 2011.
- Gross loans to customers increased by 5.6% YoY due to the expansion of personal loans (+9.1% YoY) and business & public sector loans (+3.8% YoY) to PLN 13,697.3m and PLN 27,185.7m, respectively.
- Stable deposit base (+0.4% YoY) as a result of the inflow of funds to personal deposits (+5.6% YoY) and the decline in high-value short-term deposits from business & public sectors (-6.4% YoY), which brought the respective liabilities to PLN 28,073.1m and PLN 19,089.1m.
- The number of customers using the BZWBK24 electronic banking services amounted to 2.2m (+10.1% YoY), while the BZ WBK payment card base included ca. 2.7m debit instruments (+6.6% YoY).
- The number of active bank accounts was more than 3.4m as at 31 December 2012 compared with 3.5m as at 31 December 2011.

Key Developments and Achievements

- BZ WBK Annual General Meeting of Shareholders convened on 10 May 2012 approved the proposed dividend pay-out of PLN 8 per share.
- Changes in the bank's governing bodies:
 - ✓ Supervisory Board: joined by a new independent member - Jerzy Surma; resignation of Piotr Partyga following his appointment to the Management Board of the new term of office;
 - ✓ Management Board: nine members appointed for a new term of office (with Piotr Partyga as a new member); the composition extended to include Marco Antonio Silva Rojas in charge of the Financial Accounting and Control Division.

- Finalisation of the legal merger between Bank Zachodni WBK (BZ WBK) and Kredyt Bank (KB) on 4 January 2013, preceded by the following events:

• Date	Calendar of events leading up to the merger of BZ WBK and KB
27.02.2012	Investment agreement signed between Banco Santander S.A. and KBC Bank NV expressing the intention to merge BZ WBK and KB. A separate agreement signed by all the parties involved to commence work on the merger.
29.03.2012	Investment agreement signed between BZ WBK and the European Bank for Reconstruction and Development (EBRD) whereby EBRD was to acquire new shares of PLN 332m issued by BZ WBK to support the merger between BZ WBK and KB.
10.05.2012	The General Meeting of BZ WBK resolved to increase the share capital of the bank through the issue of series I shares.
11.05.2012	Merger Plan signed by the Management Boards of BZ WBK and KB.
28.06.2012	BZ WBK published the first notice of the intended merger.
06.07.2012	EBRD acquired 1,561,618 of BZ WBK shares in a private placement offer, excluding the pre-emptive rights of the existing shareholders, in accordance with the subscription agreement of 6 July 2012.
16.07.2012	Published a second notice of the intended merger of BZ WBK and KB.
18.07.2012	Public information released advising that the European Commission did not object to Banco Santander, and thus BZ WBK, taking control over KB.
26.07.2012	The Management Board of BZ WBK issued a positive opinion on the merger.
30.07.2012	The Extraordinary General Meeting of BZ WBK adopted a resolution on the merger, on the increase in the share capital of BZ WBK, changes to its Statutes, dematerialisation of the series J shares and the steps taken to ensure admission of the shares to the regulated market on the Warsaw Stock Exchange.
09.08.2012	Changes to the bank's Statutes – connected with the increase in the share capital of BZ WBK by PLN 15,616,180 to PLN 746,376,310 – were registered in the National Court Register.
27.08.2012	The Management Board of the Warsaw Stock Exchange admitted the series I ordinary bearer shares to the main market.
30.08.2012	Series I shares were registered by the National Depository of Securities (KDPW) and introduced to trading on the main market.
04.12.2012	Received consent of the Polish Financial Supervision Authority (KNF) to the merger and to changes to the Statutes of BZ WBK (increase in share capital).
06.12.2012	KNF decided that the information contained in the memorandum of BZ WBK was equivalent with the information required to be disclosed in the prospectus.
04.01.2013	The merger between BZ WBK and KB, increase in the share capital of the merged entity and changes to its Statutes adopted by the EGM on 30 July 2012 were registered in the National Court Register. The emergence of merged BZ WBK which has taken over all the rights and obligations of KB
08.01.2013	KDPW accepted the 18,907,458 series J merger shares.
22.01.2013	Series J shares registered in KDPW.
25.01.2013	Series J shares admitted to trading on the Warsaw Stock Exchange.

- Launch of works towards integration of both banks.
- Execution by the Global Banking & Markets Division and the Business and Corporate Banking Division of several significant agreements regarding the bank's participation in bond issue programmes.

- Further progress in the integration between BZ WBK and Banco Santander with respect to organisational structures, operational procedures and information technology.
- Further development of modern distribution channels:
 - ✓ Launch of a new iBiznes24 electronic banking platform designed for the customers of the Business and Corporate Banking Division and the Global Banking & Markets Division;
 - ✓ New “buy-by-click” products available in the BZWBK24 Internet application;
 - ✓ Expansion of the phone services to customers using the IVR technology.
- Finalisation of the project of automation of credit decision-making processes in the SME segment.
- Implementation of the Directive (2007/64/EC) on payment services.
- Downgraded ratings of pre-merger BZ WBK: long-term IDR rating reduced from “A+/RWN” to “BBB/stable outlook”; short-term IDR rating revised from “F1/RWN” to “F3” and the support rating changed from “1” to “2”, owing to the increased sovereign risk of Spain and the resulting review of Banco Santander’s ratings; the individual VR rating of BZ WBK was maintained at “bbb” based on the bank’s internal strength.
- Affirmation of the above-mentioned IDRs for post-merger BZ WBK at the start of 2013.
- Bank Zachodni WBK was honoured with the title “Best Bank in Poland” by the *Euromoney* monthly (in “Euromoney Awards for Excellence 2012”, July 2012) and the *Banker* magazine (November 2012) in recognition of its financial performance, effectiveness and growing position in the Polish banking sector.

External Factors Impacting the Bank’s Activity and Results

- Slower economic growth (GDP growth in 2012 at 2%), mainly resulting from lower external and domestic demand, including weaker consumption and investments.
- Significant decrease in industrial production and in construction output, particularly in the second half of the year, after closing the EURO 2012-related investments and amid a weaker activity in residential construction. Financial difficulties of companies from the construction sector.
- Sluggish retail sales and a low increase in private consumption due to decreasing real household income.
- Deteriorated situation in the labour market: gradual decrease of the employment rate in the enterprise sector; increase in salaries slower than inflation.
- Volatility in the currency market: the stronger zloty at the beginning of the year followed by its depreciation in the second quarter amid fears of crisis in the Euro zone; the zloty appreciated again as a result of improved moods in the world markets.
- Significant decrease in yields of debt securities due to improved market sentiments, stronger interest in Polish assets among foreign investors and increased expectations of interest rate cuts. A decrease in the WIBOR money market rates in anticipation of interest rate cuts.
- Strong deceleration of household and business lending.
- A fast increase in household deposits and a strong deceleration in business deposits;
- Continued falling trend in residential property prices in the majority of the key Polish cities as a result of a limited growth in demand combined with a high supply of apartments.

II. Basic Information

1. History and Profile of Bank Zachodni WBK

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 25 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.

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 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. On exceeding 90% share in the total voting power at the General Meeting of Shareholders of Bank Zachodni WBK, the new majority shareholder was bound to acquire a block of shares at the request of non-controlling shareholders, which increased its shareholding and voting power in Bank Zachodni WBK to 96.25%. On 30 August 2012, this shareholding decreased to 94.23% following an increase of the share capital of Bank Zachodni WBK through the issue of ordinary series I shares taken up by EBRD in terms of the private placement.

Merger with Kredyt Bank

On 27 February 2012, the majority shareholders of Bank Zachodni WBK and Kredyt Bank, i.e. Banco Santander and KBC Bank NV entered into an investment agreement whereby they expressed intention to merge the two banks under their respective control. Concurrently, all the parties involved signed an agreement to commence efforts towards combination of Bank Zachodni WBK and Kredyt Bank. On 11 May 2012, both banks signed a merger plan laying down the rules and method of delivery of the transaction. Upon the receipt of the legally required authorisations and consents, on 4 January 2013, the merger was recorded in the court register. In consequence, Bank Zachodni WBK (the acquiring entity) assumed all the rights and obligations of Kredyt Bank, which was dissolved without a liquidation procedure.

The merger was carried out under Article 492 § 1 (1) of the Commercial Companies Code, i.e. by transferring all the assets of Kredyt Bank to Bank Zachodni WBK (merger through acquisition) in exchange for the newly issued series J shares allocated to all the shareholders of Kredyt Bank in accordance with the following exchange ratio: 6.96 of merger shares for 100 shares of Kredyt Bank. The 18,907,458 series J merger shares were admitted to trading on Stock Exchange on 25 January 2013.

As a result of the series J shares issue, the share capital of Bank Zachodni WBK was increased to PLN 935,450,890, which reduced the share of Banco Santander S.A. in the total voting power in the bank to 75.19%. KBC Bank NV, the majority shareholder of Kredyt Bank, received merger shares representing 16.17% of the total voting power in the merged bank.

The merger created a universal bank ranked 3rd in Poland in terms of the value of assets, equity, deposits, gross loans and the number of branches. After the merger, the bank has a network of 889 branches providing service to about 4.1m customers.

More details about changes in the share capital and the shareholding structure of Bank Zachodni WBK in 2012 and 2013 are provided in Chapter XI "Statement on Corporate Governance in 2012".

Scope of Activities of Bank Zachodni WBK

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., 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 Model

As at 31 December 2012, Bank Zachodni WBK operated country-wide through 519 outlets, which is the third largest branch network in Poland. The bank's distribution network also includes 109 partner outlets.

Large and medium-sized business customers are serviced through three Corporate Business Centres operating nationwide, seven Business Banking Centres located across all key markets in Poland and seven regional offices, as well as the Corporate Property Department and the Large Corporate Department within the Business and Corporate Banking Division.

The Global Banking and Markets Division is responsible for a banking relationship with the largest institutional clients. The clients are offered investment, credit, transactional and treasury products and services as part of the global CRM Model of Santander Group.

Bank Zachodni WBK offers a modern platform 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. The bank has also launched a specialised iBiznes24 electronic banking platform for businesses and corporations, a tool that can be used to carry out a wide range of transactions and safely manage the company's finances.

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

Position of BZ WBK in the Polish Banking Sector

According to the financial information as at the end of Q3 2012, which at the date of approval of this report (7 March 2013) was the only up-to-date source of comparable data on the banking sector in Poland, pre-merger Bank Zachodni WBK was the 5th banking institution in Poland in terms of total assets, 4th by equity and 3rd by profit-before-tax. The bank was also one of the leaders of the Polish banking sector in terms of ROE, credit portfolio quality, cost-to-income ratio and loans-to-deposits ratio.

The entity formed on 4 January 2013 as a result of the merger with Kredyt Bank is the 3rd largest bank in Poland in terms of key business volumes, such as gross loans, deposits and mutual funds. Post-merger Bank Zachodni WBK has a share in core financial markets ranging from 8% to over 10%, solid balance sheet, stable sources of funding and a strong capital base. The wide array of complementary services to different customer segments and the extensive branch network across Poland position the bank well for further market penetration. With the expanded scale of its business, the bank will be able to compete successfully with the biggest players in the Polish banking sector, leveraging off the expected synergies to increase operational effectiveness.

Position of Santander Group in 2012

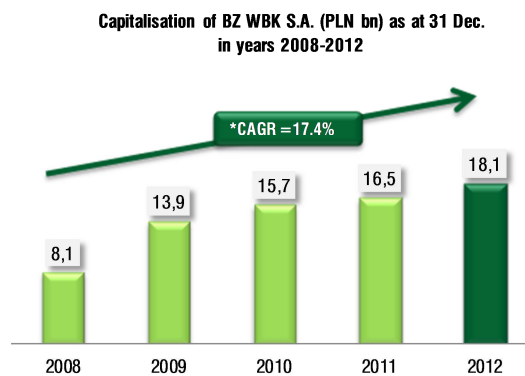
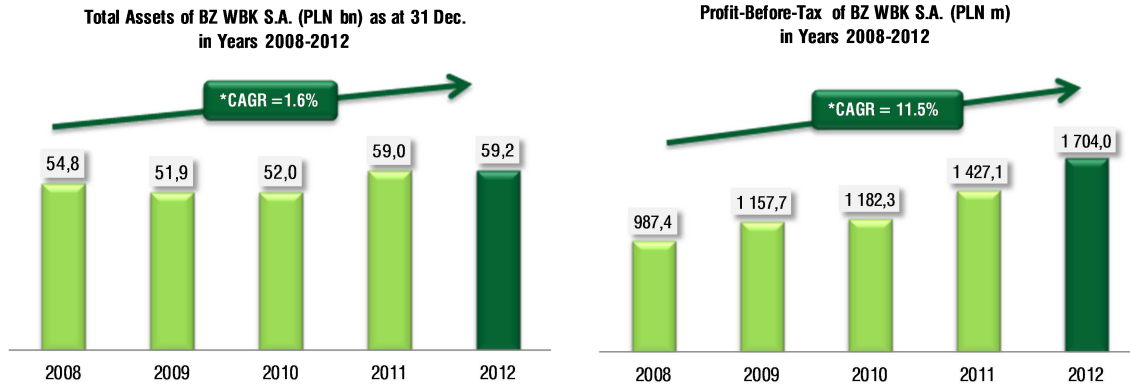
Banco Santander - a parent entity of Bank Zachodni WBK - is a commercial bank with over 150 year history, having its registered office in Santander and operational headquarters in Madrid (Spain). While it specialises in retail banking services, the bank is also active on the corporate, asset management and insurance market. Banco Santander is characterised by geographic diversification of its business. It currently focuses on its 10 key markets - both developed and emerging ones. According to the data as at the end of December 2012, Banco Santander was one of the leading banks in the Euro zone and the 11th banking institution worldwide in terms of capitalization. It managed EUR 1,387.8bn worth of customer funds, provided services to ca. 102 million customers via a distribution network of 14,392 branches, and employed 186.8 thousand people. In 2012, the net profit attributable to the Group's shareholders came in at EUR 2,205m. Santander is the leading group in Spain and South America. It also enjoys a strong market position in the UK, north-eastern coast of the US as well as in Germany and Poland.

Development of Bank Zachodni WBK in Years 2008-2012

Selected Data Illustrating Performance of BZ WBK in Years 2008-2012

Selected Financial Data (PLN m)	2012	2011	2010	2009	2008
Total Assets	59 196,1	59 016,8	52 034,8	51 946,3	54 811,1
Loans and Advances to Customers	39 464,7	37 422,2	31 952,7	32 625,0	32 653,7
Deposits from Customers	47 162,2	46 992,1	42 099,2	41 262,2	43 381,9
Total Equity	8 284,1	6 824,1	6 107,8	5 474,5	4 420,6
Profit Before Tax	1 704,0	1 427,1	1 182,3	1 157,7	987,4
Net Profit for the Period	1 367,6	1 158,5	916,9	985,3	809,2
Selected Ratios	2012	2011	2010	2009	2008
Cost to Income Ratio	43,2%	49,6%	50,8%	47,9%	52,8%
Capital Adequacy Ratio	16,5%	14,6%	15,3%	12,3%	9,8%
NPL Ratio	5,1%	5,3%	6,6%	5,6%	2,9%
Earnings per Share (PLN)	18,5	15,9	12,6	13,5	11,1
Net Book Value per Share (PLN)	111,0	93,4	83,6	74,9	60,6
Selected Non-Financial Data	2012	2011	2010	2009	2008
Number of Branches	519	526	527	512	505
Number of FTEs	8 217	8 726	9 163	8 809	9 515
Dividend (PLN) *	7,6	8,0	8,0	4,0	-
Number of Shares at the Year-End *	74 637 631	73 076 013	73 076 013	73 076 013	72 960 284
Closing Share Price at the Year-End (PLN)	241,9	226,0	214,9	190,0	110,8

* After the balance sheet date, the Bank issued 18,907,458 shares that are entitled to dividend from 2012 profit. As a result, the number of Bank Zachodni WBK shares increased to 93,545,089.



* CAGR – Compound Annual Growth Rate

2. Companies Connected with Bank Zachodni WBK

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. – subsidiary of 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 2011, 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 ended on 31 December 2012, the following companies are accounted for using the equity method in accordance with IAS 28 and 31:

Joint Ventures:

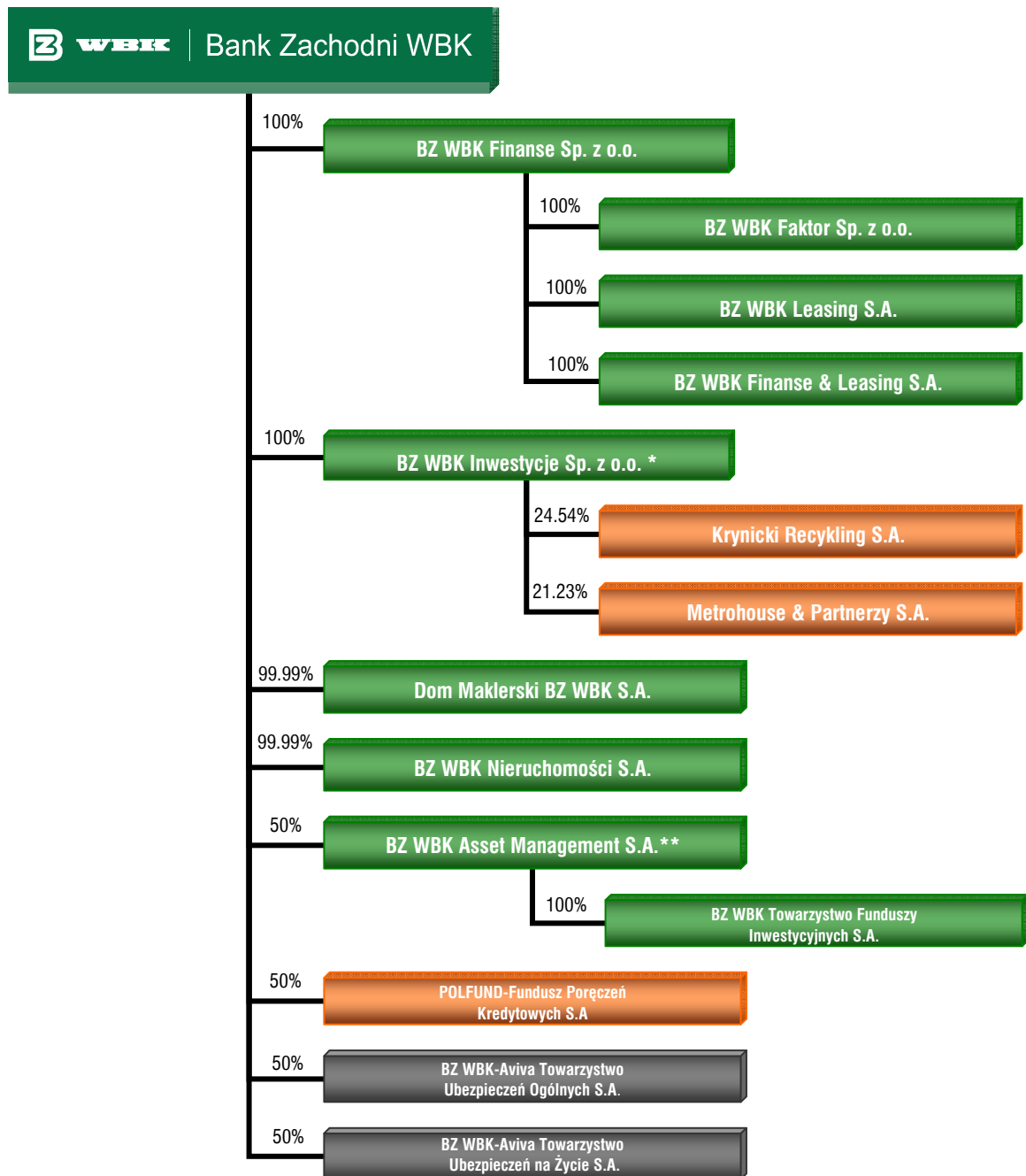
1. BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.
2. BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.

Associates:

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

Compared with 31 December 2011, Holicon Group S.A. was removed from the list of associates following the disposal by BZ WBK Inwestycje Sp. z o.o. of all its shareholdings in the company (4.05m shares with a total value of PLN 4.9m).

Organisational Chart of Entities Connected with Bank Zachodni WBK as at 31 December 2012



* Associated undertakings of BZ WBK Inwestycje Sp. z o.o., i.e. 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 December 2012, Bank Zachodni WBK was a co-owner of BZ WBK Asset Management S.A., together with Banco Santander. 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 2012 (compared with 31 December 2011), Bank Zachodni WBK owned more than 5% of share capital in the following companies.

Ref.	Company	% in the Share Capital		% in the Share Capital	
		31.12.2012	Voting Power at AGM	31.12.2011	Voting Power at AGM
1.	Kuźnia Polska	16,67%	16,67%	16,67%	16,67%
2.	Krajowa Izba Rozliczeniowa S.A.	11,48%	11,48%	11,48%	11,48%
3.	Aviva Powszechnie Towarzystwo Emerytalne Aviva BZ WBK S.A.	10,00%	10,00%	10,00%	10,00%
4.	Aviva Towarzystwo Ubezpieczeń na Życie S.A.	10,00%	10,00%	10,00%	10,00%
5.	Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	10,00%	10,00%	10,00%	10,00%
6.	AWSA Holland II B.V.	5,44%	5,44%	5,44%	5,44%
7.	Biuro Informacji Kredytowej S.A.	5,14%	5,14%	5,14%	5,14%

III. Macroeconomic Situation in 2012

Economic Growth

2012 was the period of deceleration of economic growth in Poland. The initial driver of slowing activity in the Polish economy was a significant global economic slowdown, especially in the euro zone (which entered a recession again after a two-year break). In due course, a marked slump in export orders was recorded, which in turn had a negative effect on domestic exports and manufacturing sector. At the same time, high uncertainty and volatility in international markets as well as information about the Euro zone crisis negatively affected moods of domestic entrepreneurs and consumers. There was a strong deterioration in domestic demand, whose growth dropped below zero already in the second quarter. It was driven, among others, by stagnation in private consumption (amid worsening situation in the labour market and declining real income of households), sharp slowdown in fixed investment growth and cyclical reduction of inventories. Fixed investment growth already in Q2 decelerated to 1.9% YoY from almost 10% YoY at the end of 2011, even despite delivery of important infrastructural projects prior to EURO 2012. In the second year-half, an investment drop was recorded. Indicators of consumer optimism decreased sharply, approaching 2009 lows. Indices of economic climate in major sectors also recorded a marked deterioration: in the construction sector, the business climate assessment fell to the lowest level since the beginning of economic transition.

GDP growth was decelerating in subsequent quarters of 2012 – from 3.6% YoY in Q1 to ca. 1% YoY in the final quarter of the year. Overall GDP growth in 2012 reached 2% and was only slightly higher than in 2009, when the world economy was struck by a deep economic and financial crisis.

Labour Market

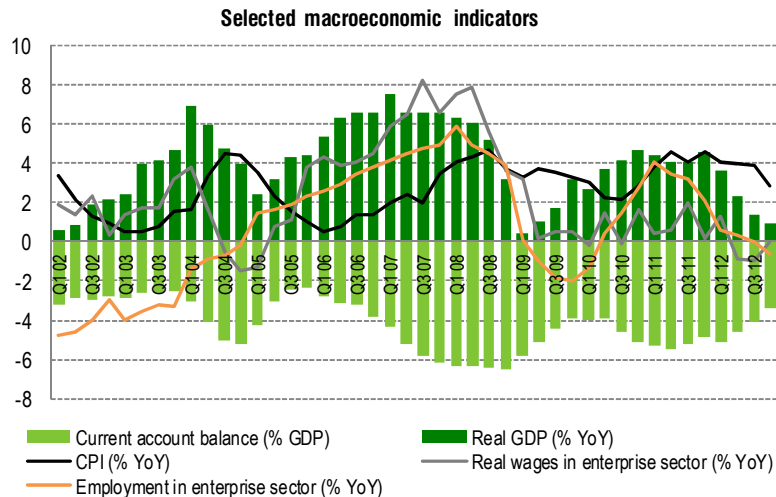
Labour market entered a period of stagnation. Average employment in the corporate sector was declining gradually in the individual months and from January to December the number of jobs fell by ca. 73k. At the same time, wage growth decelerated significantly, falling well below the inflation rate. Consequently, real labour income was declining. The registered unemployment rate, after a seasonal drop in the summer, was increasing since August to 13.4% at the end of the year. Seasonally adjusted unemployment rate according to the Labour Force Survey recorded a mild increase in the second year-half to 10.6%.

Inflation

In the first half of the year the inflation rate persisted at an elevated level, exceeding 4%. The main drivers of the high CPI growth included lagging effects of the earlier increases in food, fuel and energy prices. Still, amid the slower economic growth, and in particular the weaker domestic demand, the higher prices in these categories did not spread to other goods and services, which was reflected in the falling core inflation and in the second year-half also in a drop in the headline CPI growth. In December, the CPI inflation rate fell to 2.4% YoY, decreasing below the NBP's official target for the first time since August 2010. The most important measure of core inflation – CPI excluding prices of food and energy – declined at the end of the year to 1.4%.

Monetary Policy

In reaction to the inflation staying above the official NBP target, the Monetary Policy Council decided to hike main interest rates by 25bps in May 2012. The decision was justified by the fact that in the MPC's opinion, the future economic situation was supposed to be much more optimistic than predicted by most of analysts. Yet, the actual economic situation appeared to be much worse than forecast. Deepening economic slowdown and stagnation in the labour market implied lack of inflationary pressure and no risk of second-round effects. Some MPC members had been proposing a significant relaxation of monetary policy already since July. Nevertheless, the MPC decided to cut main interest rates as late as in November and December, delivering two cautious interest rate reductions by 25bps each. The lack of more decisive cuts was justified by MPC's concerns about "inflation persistence". The Council did not rule out further monetary policy easing.



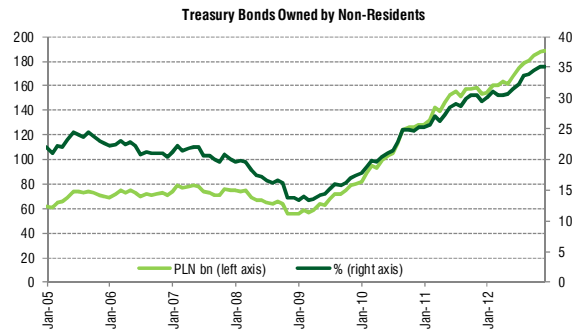
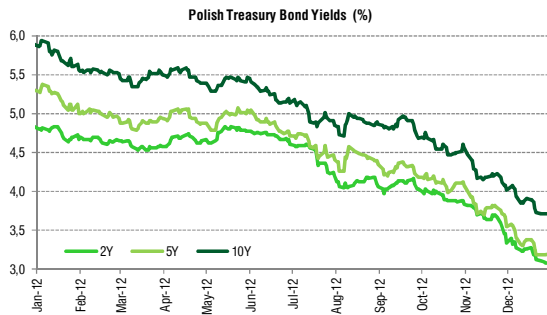
Credit Market

On the credit market the slowdown was visible since the very start of the year, and this regarded loans to both households and companies. The pace of total loan growth in the banking sector decelerated from 14% YoY at the end of 2011 to nearly 1% YoY in December 2012. As regards loans for companies, the annual momentum declined from ca. 18% at the end of 2011 to ca. 1.5% YoY in December. After eliminating the impact of exchange rate fluctuations, the growth rate declined from 15.4% to 3.3% YoY. The biggest slowdown took place in investment loans – from ca. 25% YoY to almost zero after FX adjustment. The pace of growth of household loans also plunged to almost zero, which was the worst result since comparable data have been available (i.e. since mid-90.). Growth in mortgage loans abated to ca. 5% YoY (after FX adjustment), the lowest level in history. Consumer loans recorded a second straight year of decline, falling by ca. 5% YoY.

Financial Markets

The start of 2012 was marked by a significant improvement of moods in international financial markets. This was, among other things, due to the ECB's LTRO in December 2011 and February 2012, successful restructuring of the Greek debt, and hopes for additional monetary stimulus from the Fed. The rise in global risk appetite triggered the strengthening of the Polish zloty and bonds, and gains in the stock markets. In Q2 moods on the global markets again started to deteriorate because of the weakening outlook for the world economic growth and returning fears about the debt crisis in the countries of Southern Europe. Additionally, the political fears increased, which was connected with the outcomes of the Greek parliamentary and French presidential elections. In the second year-half, the situation in the world financial markets was still characterised by some volatility due to unresolved problems of the Euro zone, deteriorating global economic outlook and investors' uncertainty if and when the crisis would be surmounted. Still, a tendency of declining risk aversion was prevailing. This was, among other things, due to the actions of the central banks (the ECB announced a launch of unlimited purchasing of the peripheral Euro zone sovereign bonds and the Fed started the third round of quantitative easing, so-called QE3).

The increase in the global risk aversion led to high volatility of the zloty – after a decrease to ca. 4.11 in the middle of March, the EUR/PLN rate increased above 4.40 in early June, and then fell again, stabilising in the 4.05-4.20 range in the final months of the year. An even higher volatility was observed in the case of the USD/PLN rate, which was caused by the fluctuations of the EUR/USD rate. The scale of the zloty strengthening was curbed by building market expectations for prospective interest rate cuts by the MPC. Domestic bonds proved relatively immune to increased global risk aversion, an effect of the positive investors' assessment of the Polish economic outlook against the rest of Europe, growing expectations for the interest rate cuts by the MPC, as well as low securities' supply on the primary market due to financing of a significant part of budgetary borrowing needs in the first months of the year. In the second half of the year the money market started pricing-in aggressively chances for monetary policy easing. Rising hopes for interest rate cuts, improvement of sentiment in global markets, and uninterrupted inflow of foreign portfolio capital to Polish Treasury papers triggered a fall in yields of Polish bonds to the lowest levels in history. Towards the year-end, the yield of 2Y bonds was just below 3.1%, 5Y bonds paid below 3.2%, while the yield of 10Y bonds fell to nearly 3.7%. In effect, the yield of the Polish treasury bonds decreased by 1.75 p.p. during the year in the 2Y segment, and by more than 2 p.p. in the case of long-term instruments. The value of treasury securities held by non-residents increased in 2012 to a record level of PLN 190bn, while their share increased to more than 35% of the total value of the securities issued.



Stock Markets

2012 saw a rise in the major Warsaw stock indices. WIG posted gains of more than 26% and WIG20 closed out 2012 with gains of more than 20%. The mWIG40 and sWIG80 indices also finished 2012 in positive territory, posting 17% and 22% gains, respectively. The first half of 2012 was volatile for stock investors. After New Year optimism, the stock indices hit to their lowest level in mid-2012, which was connected with global concerns over the eurozone break-up and the sovereign debt crisis of some member states. As a result of robust measures taken by the European financial supervision authorities, the debt-servicing costs of such countries dropped and, consequently, their solvency was guaranteed. In effect, in the second half of 2012, Warsaw Stock Exchange indicators improved significantly, surging in late 2012. In December, the US budget problems and the fiscal cliff risk did not give stock investors a scare. The substantial upward trend was observed in respect of largest and medium-sized companies, rather than the whole Warsaw stock market. Nonetheless, both major stock indices fared well after many months of consolidation, reaching in late 2012 the highest level in almost one and a half years.

IV. Business Growth of BZ WBK in 2012

1. Retail Banking

Customer Segmentation and Relationship Management

Bank Zachodni WBK Retail Banking has the following customer segments: retail customers, micro and small companies and Wealth Management. Additionally, the retail customers segment is divided into VIP, Prestige and Mass sub-segments.

Retail customers are classified into individual sub-segments based on the amount of deposits in the bank: for Wealth Management customers – more than PLN 1m, for VIP customers – more than PLN 300k, for Prestige customers – more than PLN 100k or account inflows amounting to no less than PLN 5k. The micro and small companies segment comprises institutional customers with annual turnover amounting to less than PLN 30m and with credit exposure amounting to no more than PLN 5m.

As at 31 December 2012, Bank Zachodni WBK provided its products and services to ca. 2.7m retail customers and 0.2m small companies.

All retail customers have their own advisors. Additionally, key bank branches have relationship and credit partners whose main responsibility is to provide comprehensive services to the small-sized enterprise segment.

Within the framework of the CRM system, Bank Zachodni WBK takes pro-active measures aimed at improving customer satisfaction with the bank products and services, increasing the number of products used by customers and building long term relationship.

Customers of the bank are managed within the CLM (Customer Lifecycle Management) Programme, taking into account evolution of customer-bank relationship over its entire life cycle. The purpose of the programme is to become the leader in terms of customer satisfaction and loyalty.

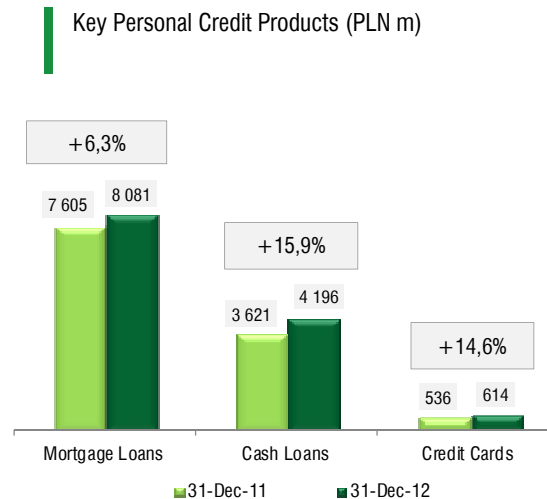
Retail Lending

In 2012, Bank Zachodni WBK adapted its retail lending policy to the changing macroeconomic, legal and regulatory environment, and revised its offer accordingly.

Like previous years, much focus was placed on effectiveness and quality of credit delivery processes, especially the turnaround times. The retail lending process was further streamlined and modified to increase automation of decision making and improve the acceptance rate.

Sales actions, including advertising campaigns, CRM measures and procedural solutions, were aimed not only at encouraging the existing customers to use their banking products more actively and to acquire new ones, but also at attracting and maintaining new customers.

In addition to regular focus on quality of the banking offer and effective distribution of cash loans, mortgage loans and credit cards, a lot of attention was given to overdrafts. In July 2012, a special overdraft offer, with no arrangement fee, became available. Also, the maximum amount of available credit limits was increased (taking into account the necessary prudential regulations).



Cash Loans

In 2012, the cash loan offer was regularly modified in respect of the structure, pricing parameters and processes of credit delivery and distribution.

In March 2012, the rules for granting cash loans were harmonised by introducing the maximum term of 72 months, irrespective of the loan amount. In late 2012, the maximum available amount of the unsecured cash loan was increased to PLN 120k.

Also, the price grid was changed. In August 2012, the fixed interest rate of 17.99% was introduced for cash loans up to PLN 5k, while for loans exceeding PLN 5k an interest rate range of 7.99% to 23.99% was adopted. In line with developments on the interest rate market, the maximum interest rate was reduced to 22.99% in late 2012.

In October 2012, the decision making systems were streamlined, which increased the acceptance rate and automation of the credit decision making process. At the same time, the functionality of online BZWBK24 banking service was extended to include an option to buy cash loans with payment protection insurance ("Secure Loan"), which previously used to be available at bank branches only.

Like previous years, in 2012 intensive marketing actions were continued to promote Bank Zachodni WBK cash loans. From February to December 2012, a five-part advertising campaign was carried out, emphasising short turnaround time, few formalities, individual interest rates and long terms of loan.

Despite the stagnant consumer credit market in Poland, the annual pace of growth of BZ WBK cash loan sales was high thanks to attractive features of the offer and advertising campaigns. The cash loan-book increased by 15.9% YoY to reach PLN 4,196.4m as at 31 December 2012.

Mortgage Loans

In 2012, the mortgage market conditions were difficult because of stricter regulations and a housing market slowdown, which was reflected in declining house prices and a low number of transactions. Despite unfavourable market trends, Bank Zachodni WBK boosted annual sales to the second-best level in bank history, which was very close to the record high result witnessed in 2008. The mortgage loan-book increased by 6.3% YoY to PLN 8,080.5m while maintaining its NPLs at a low and stable level.

In 2012, Bank Zachodni WBK actively shaped its mortgage lending and mortgage pricing policies, adapting them to the macroeconomic conditions, competition and expectations of the regulator.

Modification of the offer in March was induced by the implementation of the amended Recommendation S of the Polish Financial Supervision Authority (KNF), defining new rules for repayment capacity calculation. In September, in pursuit of the KNF recommendation to curb foreign currency lending, the policy was revised to restrict EUR-denominated mortgage lending. At present, the EUR mortgage offer is available to a small group of customers with adequate income. Also, the Individual Pricing grid was refitted, especially in respect of margins on EUR loans.

In Q4 2012, a number of changes were introduced in respect of the decision rules, which resulted in a higher acceptance rate and quicker decision making.

Credit Cards

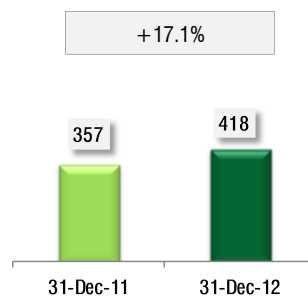
In 2012, a number of facilities were introduced for the benefit of credit card holders, which improved availability of credit cards and related services as well as streamlined and optimised credit card handling. In early February, an option to pay off credit card debt online was made available to customers. In June, the “buy-by-click” functionality was launched in BZWBK24 e-banking in respect of credit cards and payment protection insurance on credit cards. In order to meet customer expectations, the parameters of the Ratio service were modified in April, by introducing more attractive terms and conditions of instalment arrangements. Also, the bank implemented new procedures for taking out credit card insurance by customers, exempting buyers of credit cards from insurance premium during the first months of the facility life cycle.

Throughout 2012, some pricing conditions were revised, e.g. interest rate payable on silver credit cards was changed and the late minimum payment fee was replaced with the fee for the monitoring actually carried out.

Like previous years, special focus was put on the growth and activation of the credit card portfolio. The acquisition measures were targeted primarily at the existing customers with no credit cards. At the same time, the bank was acquiring new customers, using its competitive Balance Transfer offer. Also, the bank took actions to encourage customers to use their credit cards, including the onboarding programme for new customers, the credit card renewal programme and numerous communication and promotional campaigns. A lot of attention was paid to the operation and improvement of the tools used to retain credit card customers.

As a result of multi-dimensional management of the credit card portfolio, the indicators describing active credit card use improved, turnover generated by the portfolio increased and the card attrition rate dropped. The actions taken directly translated into the growth of the credit card base (+17.1% YoY) and financial results of Bank Zachodni WBK.

BZ WBK Credit Cards (in thousands)



Settlement Products

Personal Accounts

The primary range of personal accounts offered by Bank Zachodni WBK did not change and included Moneyback Account (“Konto Wydajesz & Zarabiasz”), <30 Account (“Konto<30”) for young customers, 50+ Account (“Konto Aktywni 50+”) for customers aged 50+ and VIP 24-Account (“Konto24 VIP”). The bank implemented a new agreement template, defining the rules for operating personal accounts and covering payment cards and BZWBK24 e-banking service and BZWBK24 Telephone service, a mandatory self-service channel (launched in early 2012).

In June 2012, as part of sales support actions, the Payroll process was implemented. It is a new model for selling retail products to employees of companies which are customers of the Business and Corporate Banking Division. The objective is to open new salary accounts. For the purpose of the process, the bank prepared a special offer, comprising the Moneyback Account, the Moneyback card and a cash loan.

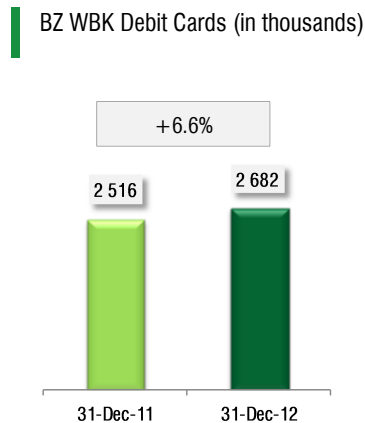
Marketing initiatives were put in place (online advertising campaign, bonus sales) to promote the bank’s flagship accounts, MasterCard PAYBACK Multi card and BZWBK24 electronic banking services among external customers.

As part of the cooperation with Polkomtel initiated in 2011, the bank continued to sell the Avocado Package, including a personal account, a debit card and electronic banking services, in the Plus network. Avocado package holders would take out new products with the bank, including a tailor-made Avocado deposit or SMS transfers. In 2012, they were also approached with a customised proposition including cash loans and credit cards.

Debit Cards

In 2012, Bank Zachodni WBK delivered a number of incentive campaigns among the total population and selected groups of debit card holders. Individual target groups were encouraged to use cards for traditional and online shopping, as part of special offers, lotteries or money-back programmes rewarding the most active users. During the year, bonus sales of 50+ account package and <30 account bundled with MasterCard PAYBACK Multi card were launched. The bank also continued to run campaigns/programmes in collaboration with Mastercard and Visa.

Other key initiatives included withdrawal of some niche products from the offer (e.g. Maestro savings card/"Karta Maestro Oszczędnościowa"), changes to the Schedule of Fees and Charges with respect to debit cards (November 2012), including new frequency of charges (monthly instead of annual) and increase in the conditional charge for non-active cards.



PAYBACK Programme

Since March 2012, any personal account (except for the Avocado account) may come with the MasterCard PAYBACK Multi card which is delivered in key distribution channels, including BZWBK24 Internet ("by-click"). This way the payment card proposition developed as part of the PAYBACK Programme has become available to all customers of the bank without limitation. The bank launched an extensive promotional campaign of the new product among young customers (<30 Account bundled with MasterCard PAYBACK Multi card) and initiated an incentive programme for the existing PAYBACK debit card holders based on the PAYBACK marketing platform.

The PAYBACK Programme participants were approached with a special offer available in BZWBK24 transactional platform, under which they could earn PAYBACK points for the purchase of "by-click" credit products. During 2012, the promotional offer was also extended to include other bank products such as Locum insurance and Easy Earning Deposit. Since August 2012, PAYBACK points may be exchanged for a pre-paid MasterCard PAYBACK card.

Pre-Paid Cards

In 2012, transaction limits of pre-paid facilities were significantly increased, which added to their competitiveness. The bank's offer was expanded to include a prepaid card with an agreement, contactless pre-paid facilities, "For Easter" and "For Christmas" company cards as well as EURO 2012-related cards ("Fan Card", "Emotions"). Furthermore, the bank standardised the procedures in www.prepaid.bzwbk.pl and set up a new online store on Facebook.pl selling pre-paid facilities.

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 individual preferences and investment goals.

In 2012, the bank continued the strategy of balanced growth of its investment and savings base in line with customer needs, own core business funding requirements and the market conditions.

Key to the bank's deposit strategy were medium and long-term deposits. Deposit prices were shaped based on analysis of the deposit structure, sources of funds and portfolio profitability.

Investment products, including structured bonds, mutual funds and individual portfolios were offered by the bank in close co-operation with specialised subsidiaries and joint ventures.

Deposits

In 2012, the bank removed the Daily Earning Deposits ("Lokaty Codzienne Zarabiające" - deposits with daily capitalisation of interest) from its offer. It was also gradually implementing new deposit products to suit different customer expectations and preferences. The offering was being developed as follows:

- In February 2012, the 12-month Easy Earning Deposit ("Lokata Swobodnie Zarabiająca") was implemented, available in two options: with a standard or increased interest rate, the latter reserved for new funds. The customer could terminate the deposit before its contractual maturity and claim interest for full completed months of the deposit term.
- In 2012, the 6-month Fast Earning Deposit ("Lokata Dynamicznie Zarabiająca") was offered, with a progressive interest rate of 8% during the last month of the deposit term.
- In September 2012, the bank offered a 7-month renewable Fast Earning Deposit ("Lokata Dynamicznie Zarabiająca") with a progressive interest rate growing to 8% in the last interest period. Unlike the 6-month product, the deposit can be terminated before maturity, with an interest pay-out for the full completed months of the deposit term.
- In the period from 12 November 2012 to the end of December 2012, the customers could use a new deposit product: 2-month Well Earning Deposit ("Lokata Dobrze Zarabiająca") with a fixed interest rate of 5.5% p.a. The deposit was available for customer depositing new funds.

In 2012, as an incentive measure, customers were offered higher deposit interest rates (granted on an individual basis) to reward their active personal account transactions and acquisition of new products. Furthermore, the prices of negotiable deposits were made more flexible.

Structured Products

In 2012, Bank Zachodni WBK remained active in the market of innovative savings products developed on the basis of deposits, investment banking products and insurance products. The following initiatives were completed:

- Bank Zachodni WBK arranged 33 subscriptions of structured deposits for retail customers, offering interest rates linked to the EUR/PLN, USD/PLN or CHF/PLN exchange rates. Depending on the adopted investment strategy, the customers could choose to earn a profit on an increase, decrease or stabilisation of the currency rate. Similar subscriptions were addressed to VIP customers.
- In co-operation with BZ-WBK Aviva Towarzystwo Ubezpieczeń na Życie, the bank offered its customers 5 subscriptions of investment policies: Index Premium, Index Premium 2, Euro Index, Euro Index 2 and Euro Index 3. These are 2.5-year investment and insurance products (a group life/endowment policy for the bank's customers), whose profitability is linked to volatility of WIG20 or Euro Stoxx 50 index.
- Dom Maklerski BZ WBK - jointly with Bank Zachodni WBK - offered structured bonds of 2 issues: WIG20 Premium2 and WIG20 Premium3.

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 funds managed by BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. (BZ WBK Investment Fund Corporation/BZ WBK TFI).

In 2012, BZ WBK TFI continued to develop its offering:

- In January 2012, the terms and conditions of the Arka Prestige SFIO fund were changed so that the product could be sold as part of the InPlus Investment Programme. Furthermore, the investment policies of the individual Arka Prestige SFIO subfunds were modified, effective from 25 May 2012.
- On 6 February 2012, the Arka BZ WBK Bonds (Arka BZ WBK Obligacji) subfund was transformed into Arka BZ WBK Treasury Bonds (Arka BZ WBK Obligacji Skarbowych) subfund. At the same time, its investment policy was changed by setting a minimum share of treasury securities at 80% and dispensing with the requirement to invest at least 70% of the subfund's assets in securities with maturity of over one year.
- On 10 February 2012, two new subfunds were launched: Arka BZ WBK Corporate Bonds (Arka BZ WBK Obligacji Korporacyjnych) and Arka BZ WBK Bonds Plus (Arka BZ WBK Obligacji Plus). The sales of the new funds were supported by special incentives, including temporary reduction of the distribution fee to 0%.

The enriched offering of BZ WBK TFI contains a wide range of subfunds, which are well-diversified by risk, profit potential and investment geography. The Arka BZ WBK FIO fund currently contains 12 subfunds, while Arka Prestiż SFIO consists of 5 subfunds.

In 2012, investors were primarily focused on debt investment securities. The highest net sales were recorded by the following subfunds: Arka Prestige Treasury Bonds, Arka BZ WBK Treasury Bonds and Arka Prestige Corporate Bonds.

Other Investment Products

The bank was also active in the market investment-linked insurance products. It continued the sale of the InPlus BZ WBK Investment Programme (life insurance linked with insurance capital funds) in branches and in electronic channels, acting as the sole distributor of the product on behalf of BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie. In 2012, the product's pricing parameters were enhanced and the range of investment options offered was extended to include allocation of savings in the Arka Prestige group subfunds.

Wealth Management

As at 31 December 2012, the Wealth Management Department managed more than PLN 1.5bn worth of assets of the most affluent customers of Bank Zachodni WBK. The key components were as follows:

- Net assets of private portfolios offered by BZ WBK Asset Management were PLN 0.6bn, down 23% YoY. 2012 saw an increase in bond investments with a concurrent decrease in investments in other financial instruments.
- Other assets of the Wealth Management Department's customers (investment and structured products) totalled PLN 0.9bn. The structure of these assets is characterised by a balanced share of deposit and investment products, such as mutual funds or structured products.

Proposition for Small Companies

Loans for Small Companies

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

In 2012, the bank implemented a new automatic decision-making process for SMEs, which shortened the credit turnaround time and reduced administrative workload.

The bank continued its promotional campaign advertising any-purpose business loans. In the two runs of the campaign, the advertising message emphasised the key attributes of the proposal including no need to present invoices, any borrowing purpose and the high maximum loan value.

To bring a diversified and attractive credit offering to its customers, Bank Zachodni WBK entered into further agreements with external institutions.

- On 24 September 2012, an annex was signed to the agreement with the Agriculture Restructuring and Modernisation Agency whereby the bank's proposition of subsidised farming loans was modified by introducing standardised interest rates for the individual subsidy lines, reduction of fees and a change of the maximum loan amount for the purchase of agricultural land.
- Under the agreement of 14 September 2012 with the European Investment Bank, Bank Zachodni WBK obtained a credit line of EUR 50m to finance small and medium-sized projects promoted by SMEs in the sectors of industry and services. The bank uses the credit proceeds to provide Biznes Express EBI loans which is available to customers in the maximum amount of PLN 500k. It may be used to finance business activity in its broad sense, i.e. to cover working capital requirements or fund replacement or expansion investments. This is already a third loan from the European Investment Bank to fund this business line.

Current Accounts, Deposits and Other Products for Small Enterprises

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 as well as Currency Package.

In 2012, the customers who started co-operation with Elavon (and purchased the POS terminal for processing card transactions) were offered an attractively priced current account and electronic funds transfers.

As the current accounts proposition for small companies was well-diversified and adjusted to the customers' needs, in 2012 the bank focused on developing supporting products and services.

The Mini Business Package was expanded to include the Visa Business Electron Mini card. Business customers were targeted by a number of promotional campaigns, including the Moneyback campaign with a card offered under the slogan "Karta wiele warta" ("A Precious Card"). The holders of the card obtain 1% refund on all their non-cash transactions made during the first months of using the card.

In July 2012, the bank implemented a new BZWBK24 Mini Firma service that allows transactions to be made in the company's account by any out of the maximum 5 users. The application may also be used to perform debit card operations (e.g. activate the card, assign PIN) and purchase products via the electronic channel ("buy-by-click"), including an account, card and card insurance.

On 2 May 2012, business customers were also offered a new deposit: 1-month Business Impet – New Funds.

Insurance

Bank Zachodni WBK offers a range of insurance products developed in co-operation with its joint ventures: BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych and BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie. The insurance products include insurance for borrowers, houses and apartments, insurance for credit/debit cards holders, offered both for retail and business customers.

As part of development of the Bancassurance business line, in 2012 steps were taken to improve the effectiveness of the insurance products distribution and to increase skills of employees and knowledge of the insurance offer among the bank's customers. Furthermore, the IT tools and solutions used in the sale and processing of insurance products were enhanced.

Last year the bank carried out five subscriptions of the Investment Policy (Index Premium, Index Premium 2 and Euro Index, Euro Index 2 and Euro Index 3) and modified the existing insurance products, including the home insurance ("Locum"), accident insurance ("Dla Bliiskich"), business loan insurance ("Biznes Gwarant") and consumer loan insurance ("Spokojny Kredyt"). To support sales, the bank launched promotional campaigns, bonus programmes and lottery sales for customers opting for the insurance. It also organised communication and training sessions for branch employees.

Services to Customers of Other Financial Institutions

Bank Zachodni WBK is a major service provider for banks and financial institutions with regard to domestic and international payments, cash services, card personalisation, issuance and handling, ATM network management and financial fraud prevention. Using own experience, the bank enhances its products and functionalities to suit the requirements of its customers and gradually expands its offering. The bank proposes and implements innovative solutions, including the technologies that meet the requirements of payment organisations (MasterCard, Visa) and SEPA. The bank's partners are offered a modern, high quality and safe IT infrastructure and real-time access to transaction data. The quality of stripe and chip cards personalisation is confirmed by the certification processes of international payment organisations (MasterCard, Visa).

In 2012, Bank Zachodni WBK entered into an agreement with two co-operative banks to provide them with card and ATM handling services. The bank also signed an ATM network sharing agreement and a replacement card personalisation agreement with a commercial bank.

As part of co-operation with its existing partners, the bank launched subsequent banking services, including DCC (Dynamic Currency Conversion), cash processing, replacement cash service and Hal-Cash. It also actively participated, together with Elavon as the partner merchant, in the expansion of the card payments market by installation of new POS terminals.

As at 31 December 2012, Bank Zachodni WBK co-operated with more than 20 banks. The bank's customer base also included many other financial institutions to which a wide range of services were provided. The bank managed a network of 580 third party ATMs and handled 2.8m Visa/MasterCard cards for third party institutions.

The bank seeks to expand its card and AMT services, which is the key business area in the co-operation with financial institutions. Subsequent products are being prepared to be offered to partner banks.

2. Business and Corporate Banking

The Business and Corporate Banking Division is responsible for the delivery of the bank's strategy of providing comprehensive service to medium-sized and large enterprises (whose annual turnover exceeds PLN 30m or whose bank debt exceeds PLN 4m). The Division manages individual relations with the bank's customers, recommending products and services, taking decisions on credit exposures and co-ordinating comprehensive day-to-day banking service. It is also responsible for the sale of leasing and factoring products to all the bank's customers.

As at 31 December 2012, the Business and Corporate Banking provided services to 4.2 thousand companies and capital groups.

Changes in the Organisational and Business Model

The Business and Corporate Banking Division implemented a new customer service model which clearly divides the roles and responsibilities between a Credit Partner and a Relationship Manager with an ultimate goal to enhance the effectiveness and quality of customer service. The Credit Partner offers credit support to the Relationship Manager who is responsible for managing the customer relationship, sale of banking products and generation of new business.

Following the establishment of the Global Banking and Markets Division which took over responsibility for managing the relations with the largest BZ WBK customers, the Business & Corporate Banking Division adjusted its organisation and scope of operations, which involved a split of customer portfolios and structures (such as Large Corporate and Structured Finance Department, and Large Corporate Sectoral Department).

In effect, as at 31 December 2012, business customers were serviced through three Corporate Business Centres operating nationwide, seven Business Banking Centres located across all key markets in Poland and seven regional offices, as well as the Corporate Property Department and Large Corporate Department within the Business and Corporate Banking Division.

Back-office support for the Business and Corporate Banking and Global Banking and Markets were provided by central specialist units (Business Service Centre, Settlements Centre, Securities Centre and Credit Operations Centre) as well as the branch network.

The delivery channels in the Business and Corporate Banking Division were dedicated to different market segments. The Corporate Property Department was responsible for the portfolio of commercial property loans. The Business Banking Centres managed relations with the companies whose annual turnover was PLN 30-250m or whose borrowings were higher than PLN 4m (irrespective of turnover). The Corporate Banking Centres dealt with the companies with annual turnover up to PLN 1bn while the Large Corporate Department managed relations with clients with annual sales in excess of PLN 1bn.

Offering and Infrastructure Development

In April 2012, the bank completed the pilot run of iBiznes24 platform which provides browser-based access to accounts and a wide array of online banking operations, including international payments, currency exchange and trade finance. Customers were migrated to the new platform on schedule. As at 31 December 2012, the system was used by 900 customers of Business and Corporate Banking and Global Banking and Markets. Concurrent with the migration, the application was upgraded with a view to extending the functionalities of the system based on suggestions from its active users.

During 2012, customers were offered access to Trade Finance Module of the iBiznes24 platform. The bank is now one of the few domestic entities to provide comprehensive on-line services related to letters of credit, documentary collections and export guarantees. Characteristics of the new functionality such as tailored solutions, flexibility and expert support added to the bank's competitive edge, as evidenced by a 40% growth in documentary transactions.

In December 2012, the bank implemented a new service – Express Elixir transfers operated by the National Clearing Chamber. Transfers are processed on-line and the beneficiaries' accounts with networked banks are credited immediately (until the end of 2012, this product was offered through a network of 6 Polish banks). In Bank Zachodni WBK this service is available via e-channels only (iBiznes, Moja Firma Plus, Minifirma and BZWBK24 for personal and business customers).

The bank implemented an end-to-end IVR-based customer support solutions in the Business Service Centre (COB), which optimised the product sales and service. Under a framework agreement, customers may remotely buy banking products and services, including current accounts, deposits, debit and charge cards and e-banking services (iBiznes24). Among other things, business accounts may be opened or modified on verbal instructions from proxies so that business customers are no longer required to sign a hard copy of the agreement/ annex. Customer migration to this service was concurrent with the migration to iBiznes24

In 2012, the bank added five currencies, i.e. CNY, TRY, MXN, RON and RUB to its current account proposition for business and corporate customers. Accounts may be opened at branches or online. The new currencies may be used for payments or selected treasury transactions.

Since 2012, in addition to the existing network, corporate customers may make sealed envelope deposits at the ca. 4,000 Polish Post Offices.

3. Global Banking and Markets

The Global Banking and Markets Division (GBM Division) provides an end-to-end support to leading local and global entities and groups of companies allocated to that segment based on turnover. The Division operates within the framework of the Global Banking and Markets model of Santander Group, which facilitates entering into and maintaining relationships with customers operating globally and providing local customers with solutions available in Santander Group.

- ✓ Global Transactional Banking;
- ✓ Credit Markets;
- ✓ Rates;
- ✓ Equity.

Selected units of the Division, in particular Rates Area and Dom Maklerski BZ WBK S.A., render specialist services to all customers of the bank.

The Division is responsible for the development of the proposition for GBM customers within the following product lines:

The year 2012 marked the first full year of activity for the Global Banking and Markets Division, which became operational in Q4 2011. In 2012, extensive measures were taken in relation to the organisational chart, internal procedures and proposition of the Division as well as harmonisation of solutions adopted by Santander Group with a local framework. The Division focused in particular on development and fostering of relationship with customers and their end-to-end support, while streamlining asset management across the bank.

In 2012, the GBM Division cooperated with ca. 60 Polish and foreign capital groups which were offered a wide array of financial products. It rendered services to entities from the energy, financial, FMCG and pharmaceutical sectors, among others. The Division steadily grew its business by delivering initiatives related to individual product lines targeted both at customers of the GBM Division and other segments through cross-selling.

Global Transactional Banking

In 2012, Global Transactional Banking (GTB) provided support to the Division's customers in respect of current accounts, deposits and working capital needs. GTB proposition included also factoring, bank guarantees and leasing.

Short-term loan and factoring (in particular its variety "confirming") were the first-choice products among GBM customers. A growth in the volume of funds was also recorded under cash management services, both in terms of current and deposit accounts. The total value of guarantees went up in the wake of acquisition of a company from the household appliances sector by one of the Division's customers.

The performance of the Division directly translated into higher business volumes of the bank.

Credit Markets

Credit Markets Department provided funding towards medium and long-term investment projects delivered by customers of the GBM Division through loans and debt issue.

In 2012, Credit Markets Department entered into a number of agreements with major customers, including the following classified as significant:

- 10-year Bond Issue Programme with ENEA S.A. signed on 21 June 2012 by BZ WBK and four other banks regarding the issue of max. PLN 4bn-worth of bonds by the foregoing company and their underwriting by the banks-signatories of the agreement.
- Agreement of 29 June 2012 concluded by Bank Zachodni WBK and other banks (syndicate) with TAURON Polska Energia S.A., under which the bond issue programme of the company has been extended to include two tranches of PLN 2,475m and PLN 275m, respectively. The value of the Programme totals PLN 7,050m.
- Guarantee agreement, agency and depository agreement of 4 July 2012 concluded jointly by BZ WBK and other banks (syndicate) with PGNiG Termika S.A. regarding the issue of bonds up to PLN 1.5bn.

Owing to its active presence, Bank Zachodni WBK became one of the leaders of the Polish syndicated loans market in 2012.

The GBM Division provided co-funding and advice to large companies. It also developed a new product - Asset and Capital Structure (ACS) to offer equity-based financing of the bank or other members of Santander Group for investments in the energy sector.

Rates

The Rates Area provides services to customers of the GBM Division and other bank units. The treasury product proposition includes interest rate and FX risk hedging instruments.

In 2012, changes were introduced to bring the internal procedures in line with Santander Group standards and to effectively develop strong relationships with the Division's customers. The Rates Area embarked on implementing the GBM strategy related to the management of relationships.

It also launched the income diversification strategy propped up by development of interest rate products. The GBM Division observed a significant growth of interest rate derivative trading volumes, aided by favourable macroeconomic environment, competitive proposition and cross-sell opportunities.

Maciej Reluga, BZ WBK Chief Economist from the GBM Division, took the 1st (in Poland) and 2nd position (globally) in the ranking of the top macroeconomic forecasters published by *Bloomberg*. In 2012, he also topped the rankings of macroeconomic forecasts for Poland, published by *Puls Biznesu* and *Parkiet*.

The bank was awarded by *Euromoney* and Structured Retail Products, an online resource, for the best currency structured products for personal customers. Furthermore, the bank took the 3rd place in the ranking of the top BondSpot MTS market-makers in the years 2002-2012.

Equity

The investment banking activity was pursued by the Corporate Finance Area, Dom Maklerski BZ WBK S.A. (BZ WBK Brokerage House) and BZ WBK Inwestycje Sp. z o.o.

In 2012, the Corporate Finance Area acted as an advisor in a number of transactions, mainly mergers and acquisitions, public offering and private placements. It advised, inter alia, BSH Bosch und Siemens Hausgeräte GmbH in the purchase of the controlling stake in Zelmer S.A. The tender for shares was organised by Dom Maklerski BZ WBK (DM BZ WBK). The bank performed advisory services in public offerings and private placements, effected with Dom Maklerski BZ WBK. In 2012, the following public share issues were arranged:

- Nokaut S.A., for PLN 31m;
- Czerwona Torebka S.A., for PLN 19m;
- Microtech International S.A., for PLN 10m.

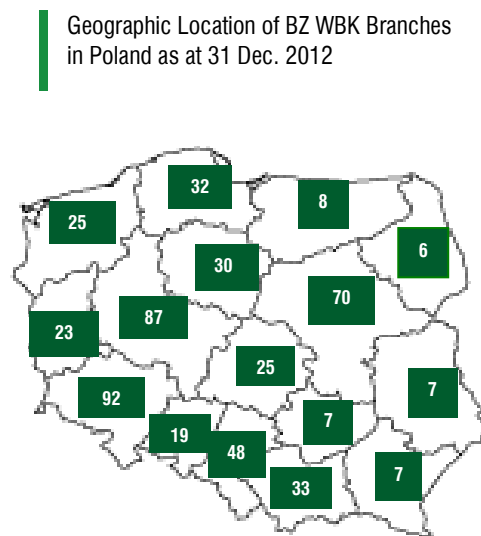
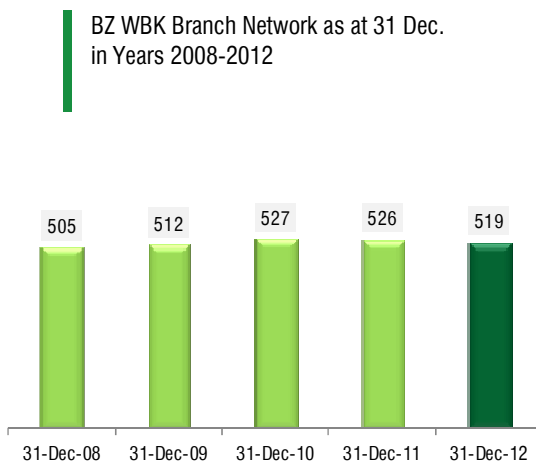
The Corporate Finance Area also provided analytical and advisory services to all interested customers and was engaged as a financial/transactional advisor in a number of privatisation processes. Under the agreement entered into with the European Investment Bank, the bank managed the Urban Regeneration Fund for Greater Szczecin (JESSICA Programme).

4. Selected Distribution Channels

Branch Network

As at 31 December 2012, Bank Zachodni WBK operated through 519 branches (vs. 526 as at 31 December 2011).

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. The branch network comprises 10 regions reporting to the Branch Banking Director.



Partner Outlets

Bank Zachodni WBK branch network was supported by 109 Partner outlets (96 outlets as at 31 December 2011). Throughout 2012, Partner outlets were continued to be aligned with the bank in terms of the product range and customer service processes. The Partner network implemented new products, electronic banking services and procedural and operational solutions parallel with the bank.

Direct Banking

BZWBK24 Transaction System

The range of self-service functions available via BZWBK24 electronic banking was considerably expanded. Since April 2012, customers may update their BZWBK24 electronic banking agreements on their own and use new "by-click" functionality of the transaction platform without the need to visit a branch. The "buy-by-click" proposition available via BZWBK24 Internet was expanded to include insured cash loan, credit cards, credit card and overdraft top-ups, and Ratio loan which enables to repay credit card debt in instalments. On top of that, customers may now use BZWBK24 to make real-time payments via Express Elixir clearing system.

In July 2012, the bank expanded the BZWBK24 Mini Firma offer for small companies. As many as five users may now place individual instructions in relation to company accounts, make debit card transactions and buy products "by-click" via electronic banking services.

2012 saw a strong increase in the sale of products “by-click”. The number of credit facilities grew fourfold compared to 2011, which was attributable to extended product proposition, marketing activities and increase in the customer base approached with a preliminary credit limit (pre-sanctioning).

The bank’s operations, including BZWBK24 electronic banking platform, were brought in line with Payment Services Act of 19 August 2011 which transposes Directive no. 2007/64/EC into Polish law.

As part of the mobile banking enhancement, the mobile phone top-up (including transferred numbers) was implemented in 2012, together with the geolocation functionality which enables customers to locate the points of interest on the map, such as BZ WBK outlets and cash deposit machines, BZ WBK and other banks’ ATMs, gas stations and PAYBACK partners. The browsing function also includes an option to generate a list of online shops with discounts available for BZ WBK customers paying with BZ WBK cards or by Przelew24 transfer.

In September 2012, BZWBK24 mobile banking services were ranked 3rd in the Mobile Banking category in the “Friendly Bank” ranking published by *Newsweek*.

Telephone and Electronic Banking Centre (T&EBC)

Bank Zachodni WBK has been steadily increasing the operating capacity and role of the Telephone and Electronic Banking Centre to improve sales and customer service. Initiatives delivered in 2012 included:

- The bank completed the first phase of roll-out of call centre consultant application (Aplikacja Doradcy) integrated with the bank’s CRM system.
- New uniform authentication procedures were put in place for customers contacting T&EBC via BZWBK24 Telefon, irrespective of the product stream.
- The Ratio service is now available online. The activation of the service by T&EBC was simplified, which added to the growth potential of the credit card portfolio.
- The bank launched cross-sale of insurance products and the Ratio service.
- The Credit Card Retention Team operating in T&EBC was restructured and expanded, which benefited the credit card recovery rate as part of product and customer-focused retention activities.
- The scope of after-sales support was extended with respect to holders of personal accounts.
- Changes were implemented in the scope of mobile services with a view to improving the availability of T&EBC services.
- Customers availing of Avocado bundled offer are provided end-to-end support by T&EBC.
- The bank took measures to optimise the sale of credit cards.

T&EBC of Bank Zachodni WBK was certified against EN 15838 EU standard on quality requirements for customer contact centres. The certification audit carried out by SGS Poland covered sale and after-sale support for personal banking customers via telephone and Internet, as well as support for business customers via telephone.

ATM Network

As at 31 December 2012, the bank’s ATM network included 1,059 machines (1,045 ATMs as at 31 December 2011). As part of network optimisation, the bank launched relocation of a number of ATMs to selected stores of “Biedronka” retail chain, which until the end of 2012 involved 20 machines.

In 2012, the bank implemented ATM display in HTML instead of text format, which – apart from an improved layout – offers a more user-friendly functionality and shorter time needed to introduce changes in ATM screens.

5. Service Quality Improvement

Quality Policy

Pursuant to the “Quality Policy of Bank Zachodni WBK S.A.” 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 through continuous improvement of the organisation. This goal is pursued by:

- ✓ full commitment of the bank’s management and staff to delivery of the customer focus strategy;
- ✓ best quality services rendered to customers and non-customers;
- ✓ process-based and systemic approach to management;

- ✓ continuous improvement of staff's skills;
- ✓ fostering corporate culture based on cooperation, partnership, mutual respect and teamwork.

In 2012, Bank Zachodni WBK continued its efforts aimed to deliver a first class coherent experience to new and existing customers.

High Customer Satisfaction Index

In Q4 2012, the bank adopted a new approach to customer satisfaction analysis which is in keeping with the methodology of Santander Group. The new approach allows for a proper assessment of the bank's competitive edge against its peers in Poland and other Santander Group companies.

It focuses on customer satisfaction analysis broken down by: representatives of critical segments, users of key products and respective distribution channels. With the new methodology in place, the bank will be able to act on precisely defined gaps in customer-bank interface, starting from 2013 onwards.

Customer Excellence

In 2012, Bank Zachodni WBK continued its strategy aimed at ensuring all customers with top quality service, while focusing on branch banking, telephone and Internet channels.

"Service Standards+" adopted by the bank 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, the quality of services rendered by branches and the telephone banking centre were monitored in the form of mystery shopping. In 2012, 4 mystery shopping exercises were conducted in each branch. Based on the results, corrective measures were taken, including internal training, best practice and coaching scenarios.

In effect, bank branches performed above the service quality target set at 80% in 2012.

Position in Rankings

In recognition of its superior customer service, in 2012, Bank Zachodni WBK won the following awards and accolades:

- Top position in the Mobile Banking category in the "Friendly Bank" ranking published by "Newsweek". Bank Zachodni WBK was recognised for the quality of mobile banking services, including mobile apps, lightweight homepage, WAP page and SMS services.
- Customer-Friendly Company Award – based on a positive result of the quality audit looking at, inter alia, customer satisfaction with branch service, bank's hotline and user-friendliness of the bank's website.

Customer Excellence Forum

BZ WBK Customer Excellence Forum is dedicated to ongoing oversight and optimum management of all issues impacting customer experience with the bank, including the quality of customer service and product delivery, monitoring of accessibility of bank systems and efficiency of distribution and contact channels. The Forum sets priorities and defines the responsibility for actions arising from the customer experience management policy aimed to enhance customer loyalty. The Forum analyses key quality measures during monthly meetings.

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 Bank Arbitrator with the Polish Banks Association (ZBP).

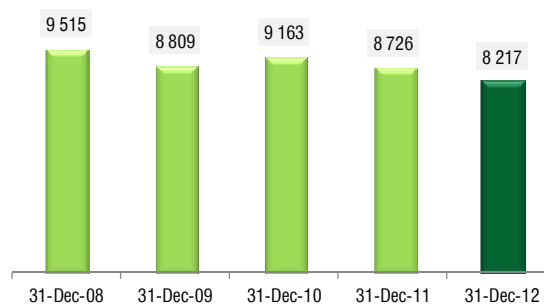
V. Human Resources and Corporate Culture

1. Human Resources Management

Human Resources

As at 31 December 2012, the number of FTEs in Bank Zachodni WBK was 8,217, i.e. 509 lower YoY. This reduction reflects natural staff turnover, decision not to fill in the vacancies, continued streamlining of back-office functions in Branch Banking and change of business structures to meet current market needs.

Employment in BZ WBK as at 31 Dec. in Years 2008-2012
(in FTEs)



HR Initiatives

Bank Zachodni WBK 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. As part of the Performance Management Process, the staff were graded against a 5-rating scale. Employees whose performance much exceeded expectations (160 persons in total) had their personal development plans designed. They also benefited from individual and group training, certified courses, post-graduate studies, mentoring and meetings with senior management.

In September 2012, the Staff Attitude Survey was conducted for the eighth time among the employees of Bank Zachodni WBK. 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 bank and set directions for further development and remedial actions, where required.

Remuneration System

Bank Zachodni WBK pursues a transparent remuneration policy based on sector best practice and payroll reports prepared by leading advisory companies. Remuneration in Bank Zachodni WBK is composed of a base salary and additional benefits governed by relevant internal policies.

In order to support delivery of the bank's strategic objectives and to ensure that staff are adequately motivated, bonus schemes have been put in place. They are linked to results of respective units, performance and delivery of individual objectives.

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, allowing them to purchase the bank's shares on preferential terms, subject to achievement of consolidated performance targets in the years covered by the scheme (2006-2008, 2007-2009, 2008-2010). 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.

On 20 April 2011, the Annual General Meeting of Shareholders launched a three year 4th Incentive Scheme, as a continuation of the existing Group's Performance Share Programme. Initially, the scheme covered 496 key employees of Bank Zachodni WBK. Over the years 2011-2012 five other persons were qualified to join the programme. Having executed an agreement with the bank, the participants are eligible to subscribe for and acquire a defined number of shares at the nominal value of PLN 10 provided that certain economic criteria are met. 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 4th Incentive Scheme, spread over three years, is monitored to check if any of the employees might have lost their participant status. So far, the only reason for losing the status was termination of the employment relationship, either with the bank or another entity of BZ WBK Group. As at 31 December 2012, there were 479 participants. 22 participants of the 4th Incentive Scheme lost their status.

Training

Bank Zachodni WBK 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 2012, a number of long-term executive development projects were completed, including: TOP 10 (10 Regional Directors), Senior Executives (15 senior managers from the Business Support Centre), TOP 100 (ca. 100 Branch Managers reporting to Regional Directors), Development Academy (other 50 Branch Managers) and Effective Leadership (90 directors from the Business Support Centre).

In 2012, the 9th edition of the Leaders of the Future was completed (60 participants) and the 10th edition was launched (69 participants). The aim of the initiative is to support development of an objectively selected group of outstanding employees who have the potential to take managerial roles across the bank in the future.

In order to ensure top quality management practice at all levels, the newly appointed managers (110 persons) participated in the Success Through People programme aimed to induct them into their new role and provide necessary knowledge and skills related to management and leadership. The programme included 3 training modules on Performance Management (including basics of team management), legal issues related to working time and the bank's policies ("Respect and Dignity at Work", "Speak up Policy" and "Mother-friendly BZWBK"). In 2012, the bank also launched the 2nd edition of the Success Through People programme addressed to managers with 2-5 years of service.

Apart from development programmes run at a central level, a number of local programmes were implemented to meet the business needs and profile of respective regions and divisions. Local programmes are designed in close liaison with the management of the unit and focus on the development of practical knowledge and skills.

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.

In relation to the intended merger with Kredyt Bank, the executives from selected regions and divisions participated in the workshops on change management and preparation for diversified team management. Held on a regular basis, the workshops will be continued in 2013.

For many years now, the bank has been promoting mentoring as one of the development tools. In 2012, Bank Zachodni WBK was scoped for the mentor certification process (18 persons) under the International Mentoring Certification standards.

In 2012, the bank delivered 169 training workshops and 161 e-learning courses for the branch staff and the Business Support Centre staff. The total number of participants in the training sessions and development programmes (workshops) for Bank Zachodni WBK employees exceeded 12k and was 14% lower YoY. The number of attendants in e-learning courses was similar to the level recorded in 2011. In 2012, the number of training hours came in to a total of 290,828, i.e. 35 hours or 4.4 days on average per each employee.

The bank also supported development of skills of BZ WBK Partner agents. In 2012, 640 attendants in 62 training groups were registered.

2. Corporate Values

Code of Business Ethics

Bank Zachodni WBK follows the Code of Business Ethics, which sets out the general standards of behaviour underpinning its corporate culture.

According to the Code, in all aspects of its activities, the bank will comply with law and act in accordance with the best corporate governance and risk management models. The bank 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 bank supports corporate-giving and sponsorship programmes.

Last year, the bank undertook to implement a new Code of Ethics, compliant with Santander Group standards. The new Code adds more specific standards on relations with employees, customers and suppliers, conflicts of interests, information security and fraud. It will be supplemented with detailed guidelines to facilitate its interpretation.

Corporate Culture

Bank Zachodni WBK 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 compliance-related risk with respect to 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.

The bank constantly seeks to reinforce the professional and ethical behaviour of its employees. There is an ongoing Compliance and Business Ethics training programme (COMeT) addressed to all employees from the bank. 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.

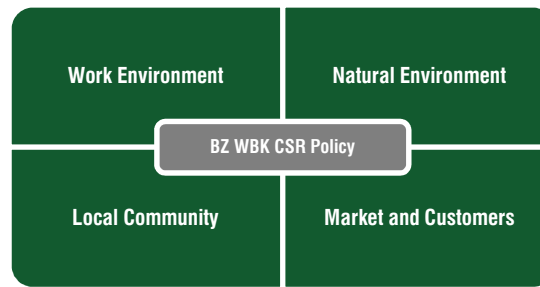
Bank Zachodni WBK places a great emphasis on quality and integrity of the product information communicated to customers, ensuring that the advertising materials are duly prepared, the sales staff are well qualified and the information available in the Intranet and branches is of top quality.

3. Corporate Social Responsibility of Bank Zachodni WBK

Over many years, Bank Zachodni WBK has been taking social actions, both locally and nationwide. The bank's mission is to participate in long-term and valuable dialogue with the society, to prevent social exclusion and facilitate access to financial services for different groups within the society.

In December 2012, the Responsible Business and Sustainable Development Committee of Bank Zachodni WBK was established. The responsibility of the Committee, which is chaired by the President of the Board, is to define strategic directions and to set and monitor targets related to social responsibility and sustainable development with due regard to the broadly understood environment the bank operates in. The establishment of the Committee was accompanied by implementation of the "Social Responsibility and Sustainable Development Policy."

Four areas of corporate social responsibility of Bank Zachodni WBK



Customer Service without Barriers

Since 2010 the bank has carried out the “Customer Service without Barriers” programme. The purpose of this pioneering programme is to break down barriers and introduce facilities for disabled customers. The following projects were completed within the framework of the programme by the end of 2012:

- Architectural barriers were eliminated from 100 branches (as confirmed by the Certificates of Availability issued by the Integration Association). More than 850 staff of these branches were trained to provide services to disabled customers.
- 156 ATMs designed for the visually impaired were made available. All new ATMs have headphone jacks and special software which allows blind and partially sighted customers to use ATMs unaided.
- Approximately 70 participants in the “Leaders of the Future” programme were involved in social actions within the framework of the “Dependents – Independents” project, whose objective is to raise awareness of replacement issues among Poles and to support fund raising for the “Beyond Horizons” foundation.
- The branches holding the Certificate of Availability launched 12 educational programmes.
- The “Traineeship Without Barriers” programme was implemented. This pilot programme is targeted at disabled students of the universities which cooperate with the bank within the framework of the Santander Universidades programme.

In 2012, Bank Zachodni WBK received several awards and honourable mentions for the “Customer Service without Barriers,” including:

- The Leader of the World of Banking award in the CSR category for the “Customer Service without Barriers” programme, given within the framework of the Polish Economic Congress.
- Honourable mention in the Available Cyberspace Forum in 2012 in recognition of special contribution to improving availability of services to the disabled.
- Ranked 1st in the first Utilitia ranking of bank website availability in 2012.

Financial Education

Bank Zachodni WBK has been involved in financial education initiatives. Over four years, the bank has been a partner in the economic cartoon and animation competition organised by the Forum for Civil Society Development. Winning projects are used to develop scripts for lesson plans and make them available to teachers free of charge. Such lesson plans help teach entrepreneurship and social studies. During the 2011/2012 edition, materials were provided to 600 teachers teaching 1,500 classes.

In 2012, almost three thousand students from 21 high schools took part in entrepreneurship lessons and the “Leaders of Europe” game. For the purpose of this project, 50 volunteers from the bank prepared and held a training course for teachers and gave teaching demonstration.

Santander Univesidades

Bank Zachodni WBK is a member of Santander Group, which has been actively supporting universities. The global Santander Univesidades initiative has been developed for more than 15 years. At the moment, the Group cooperates with universities from 16 countries. The underpinning belief is that the best way to stimulate social and economic growth is to support tertiary education and research programmes. The international student exchange programme is the flagship grant initiative supported by Santander Univesidades. Since December 2011, the programme has also been carried out in Poland, under the auspices of Bank Zachodni WBK. Until the date of this report sign-off for publication, as many as 30 universities, including top 5 universities in Poland, joined the programme. Thus, Polish universities have joined the group of 1,010 European, American and Asian universities.

Patronage of Culture and Arts

Patronage of the arts and culture is an integral part of social actions taken by Bank Zachodni WBK. This initiative consists in providing financial support to Polish cultural institutions, such as the Museum of the History of Poland and the Warsaw Uprising Museum. Also, the prestigious BZ WBK press photo contest (BZ WBK PressFoto) is organised every year. In connection with this event, photography workshops are organised for youth in towns where the art education programmes are limited.

Charity and Educational Activities of Bank Zachodni WBK S.A. Foundation

Since 2004, the “Bank of Children’s Smile” charity has supported institutions which take care of children from dysfunctional families and from families facing financial problems. Funds are allocated to educational programmes. Until now, more than 4 thousand projects have been completed, providing assistance to ca. 12 thousand children from different social groups.

Other programmes and initiatives carried out by Bank Zachodni WBK Foundation:

- The “Bank of Ambitious Youth” programme – promoting social responsibility, citizenship and volunteering among young people.
- Grant programmes supporting and inspiring children and youth, which are carried out to develop civil society.
- Coordination of staff volunteering, including long-term cooperation with NGOs and social welfare bodies as well as non-recurring charity campaigns initiated by staff.
- The “Business Zone” online game – promoting entrepreneurship (the game consists in setting up one’s own virtual business and running business in the environment that is close to the actual market conditions); the game is very popular (in 2012, it had 3,762 players).
- The “Financial Mathematics League” online contest carried out in liaison with the Institute of Mathematics of the Wrocław University.
- History contests and movie workshops organised as part of the strategic partnership with the Museum of the History of Poland and the National School of Film, Television and Theatre.

VI. Key Projects, Developments and Other Information

1. Organisational Changes

In 2012, the bank continued the process of integrating key business streams with the standards applied by Santander Group. This involved harmonisation of organisational structures, optimisation of risk management process and development of new service models with respect to selected customer segments. The ultimate goal was to improve efficiency and facilitate the cooperation, using best practice and well-tried solutions of the established financial organisation with a global footprint and extensive track record.

In 2012, reorganisation of the Business Support Centre (BZ WBK head office) launched a year before was finally completed. The Global Banking and Markets Division put new structures in place to handle the portfolio of largest corporate customers and approach them with a customised product proposition. The credit risk management function was fully centralised in the Risk Management Division to which the Credit Division staff and responsibilities were redeployed. Two new divisions were spun off the Finance Division – the Accounting and Financial Control Division and the Financial Management Division. Structures and processes were also revised in response to developments in the market risk management. The Global Banking and Markets Division is to continue to manage the risk associated with the trading book, while the responsibility for the management of risk attached to the banking book was delegated to the Financial Management Division. Finally, the Logistics and Property Management Area was transferred from the Business Support Division to the HR Management Division.

2. Capital Expenditure

In 2012, Bank Zachodni WBK spent PLN 76.1m (compared to PLN 106m in 2011) on the delivery of investment projects and initiatives, mainly IT development and management, hardware, and projects related to the merger of Bank Zachodni WBK and Kredyt Bank.

In 2012, there were a number of projects to improve capacity of central IT systems, enhance security of LAN and WiFi networks, and upgrade the systems in place. The implemented solutions helped maintain the high level of data security and ensured continuity of the services offered by the bank.

In 2012, the bank embarked on implementing SAS application to enhance risk management and bring the model development and validation methodology in line with Santander Group standards. The new tools will add to the quality of loanbook management.

2012 saw implementation of an integrated call system designed to harmonise call service quality in all locations of the Rates Area. This solution will help optimise operations in the financial markets and client facilitation services. It will also support integration of call systems of the merged desks of Bank Zachodni WBK and Kredyt Bank.

In 2012, the bank continued work on:

- e-services for business and corporate customers;
- mobile banking;
- changes related to Treasury IT platform;
- credit and finance systems.

The fourth quarter of 2012 witnessed completion of collateral centralisation and optimisation, a major project which started in 2008. Processes underpinning creation and management of loan collateral were optimised across all business lines and brought in line with the standards set out in the New Basel Capital Accord (Basel II) and IAS 39. As part of the project, Securities Centre, responsible for collateral backing all credit exposures, was set up.

Another long term project completed in 2012 was automation and centralisation of branch back-office. The initiative was launched in 2009 and helped improve service quality as well as reduce workload and costs by lowering the number of documents and authorisations required from retail customers (related mainly to customer on-boarding and e-banking).

In order to ensure top service and security standards, in 2012 several dozen branches were modernized. The refurbishment included upgrade and replacement of hardware and printers, and enhancement of security systems. A new branch and 43 partner outlets were added to the branch network. Subsequent branches were equipped with queue management systems.

The ATM network was expanded to include 29 new ATMs and 22 CDMs.

A number of projects commenced as part of the integration with Kredyt Bank, related mainly to integration of IT systems, a joint product proposition and harmonised branding.

3. Awards, Recognitions, Position in Rankings

In 2012, Bank Zachodni WBK won many awards and accolades. Below are the key ones:



- Top positions in the prestigious ranking of 100 Most Valuable Companies of 2012 published by *Newsweek*: 3rd place in the financial sector and 14th place in general.



- “Best Bank in Poland” award granted by *Euromoney* monthly as part of “Euromoney Awards for Excellence 2012” in recognition of financial performance, efficiency and the bank’s growing role in the Polish banking sector (July 2012).



- “Bank of the Year in Poland” award granted by *The Banker*, a prestigious British monthly (November 2012). The bank has received this top rating from *The Banker* for the second time in three years. The jury appreciated Bank Zachodni WBK for its ability to improve its market position despite the negative impact of the eurozone crisis. They also highlighted the double-digit growth of the net profit, innovative solutions for personal and business customers as well as prospects for further growth of business after the merger with Kredyt Bank.



- “Customer Friendly Company” award received by the bank for the fourth time already (November 2012). The prize is granted by Fundacja Obserwatorium Zarządzania (Management Observatory Foundation) based on customer opinion survey and experience. The bank received top ratings in terms of customer service quality as well as staff know-how and skills, tested by mystery clients at random branches.



- “Global Banking Leader” award in the CSR category granted by the jury of the first Polish Economic Congress composed of market experts, MPs and economic journalists, in recognition of the Barrier-Free Banking Programme.

4. Merger with Kredyt Bank

Increase in the Share Capital of Bank Zachodni WBK under an Investment Agreement with the European Bank for Reconstruction and Development

- On 29 March 2012, Bank Zachodni WBK signed an investment agreement with the European Bank for Reconstruction and Development (EBRD) and Banco Santander S.A., whereby EBRD agreed to take up the new shares of Bank Zachodni WBK for PLN 332m to support the latter’s merger with Kredyt Bank.
- The shares subscription took place pursuant to the resolution of the Annual General Meeting of Shareholders of Bank Zachodni WBK of 10 May 2012 on increasing the bank’s share capital through the issue of ordinary, series I bearer shares.
- In accordance with the subscription agreement of 6 July 2012, EBRD took up 1,561,618 shares of Bank Zachodni WBK with a nominal value of PLN 10 per share in a private offer, excluding the pre-emptive rights of the existing shareholders. The issuance price was PLN 212.6 per share, and the total value of the subscription was PLN 331,999,987.

- On 9 August 2012, i.e. on the day of registration of the appropriate amendments to the bank's Statutes in the National Court Register, the share capital of Bank Zachodni WBK was increased by PLN 15,616,180 to PLN 746,376,310. The increased capital was fully paid up. In effect, EBRD became a non-controlling shareholder of Bank Zachodni WBK.
- The ordinary series I shares were admitted to public trading on the main stock exchange market by Resolution no. 846/2012 of the Warsaw Stock Exchange of 27 August 2012.
- Under § 38 section 1 and section 3 of the Warsaw Stock Exchange Regulations, the Management of the Warsaw Stock Exchange decided that the shares would be admitted to the main market in the ordinary procedure effective from 30 August 2012, following registration of the shares by the National Depository of Securities and marking them with code PLBZ00000044. After the shares were registered on 30 August 2012, the total number of shares of Bank Zachodni WBK S.A. increased to 74,637,631.

Milestones of the Merger between Bank Zachodni WBK and Kredyt Bank

- On 27 February 2012, the majority shareholders of Bank Zachodni WBK and Kredyt Bank, i.e. Banco Santander and KBC Bank NV entered into an investment agreement whereby they expressed their intention to merge the two banks. On the same day, all the parties involved signed an agreement to commence efforts towards combination of Bank Zachodni WBK with Kredyt Bank.
- The plan for the merger between Bank Zachodni WBK and Kredyt Bank was agreed and signed by the Management Boards of both banks on 11 May 2012. Finalisation of the merger was conditional on:
 - ✓ consent of the Polish Financial Supervision Authority to the merger and to changes to the Statutes of Bank Zachodni WBK;
 - ✓ decision of the European Commission, acknowledging the concentration of Bank Zachodni WBK and Kredyt Bank as compliant with the single market;
 - ✓ confirmation from the Polish Financial Supervision Authority that the information contained in the information memorandum of Bank Zachodni WBK complies in substance and form with the disclosure requirements for a share prospectus, in accordance with the Act on Public Offering;
 - ✓ no objections of the Polish Financial Supervision Authority to the acquisition of the shares of KBC TFI S.A. by KBC Asset Management NV;
 - ✓ resolutions on the merger adopted by the General Meeting of Bank Zachodni WBK and the General Meeting of Kredyt Bank.
- The merger plan was examined as required by the Commercial Companies Code by a statutory auditor from KPMG Audyt Sp. z o.o. According to the auditor's opinion dated 20 June 2012, the document was prepared in a correct and reliable manner in all material aspects, and the share exchange ratio was duly determined using adequate methodology. No special difficulties with valuation of the two banks were noted.
- On 19 June 2012, the Polish Financial Supervision Authority issued a decision stating that there were no grounds to object to the intended direct acquisition by KBC Asset Management NV of the shares in KBC Towarzystwo Funduszy Inwestycyjnych S.A. representing more than 50% of voting rights at the General Meeting of Shareholders.
- On 28 June 2012, Bank Zachodni WBK published the first notice on the intended merger with Kredyt Bank, and a notice of an Extraordinary General Meeting to be held on 30 July 2012. The second notice was published on 16 July 2012.
- On 18 July 2012, Bank Zachodni WBK was advised that the European Commission decided not to raise any objections to Banco Santander S.A., and effectively Bank Zachodni WBK, taking control over Kredyt Bank. The Commission decided that the planned acquisition of control was in accordance with the common market principle and the European Economic Area Agreement.
- On 26 July 2012, the Management Board of Bank Zachodni WBK issued a positive opinion about the merger with Kredyt Bank, stating that the conditions of the transaction, as laid down in the Merger Plan were in the best interest of the bank and its shareholders. It was also confirmed that the economic and legal premises for the merger presented in the document remained valid. A corresponding opinion was issued by the Management Board of Kredyt Bank.
- On 30 July 2012, the Extraordinary General Meeting (EGM) of Bank Zachodni WBK advised the shareholders of the key aspects of the merger with Kredyt Bank and presented the auditor's opinion on the merger plan. The EGM resolved on the merger of Bank Zachodni WBK with Kredyt Bank, on the increase in the share capital of Bank Zachodni WBK, changes to its Statutes, dematerialisation of the series J shares and the steps taken to ensure admission of the shares to the regulated market on the Warsaw Stock Exchange.

- On 30 July 2012, the EGM of Kredyt Bank adopted a resolution approving the merger with Bank Zachodni WBK.
- On 4 December 2012, the Polish Financial Supervision Authority (KNF) endorsed the merger between Bank Zachodni WBK and Kredyt Bank. At the same time, KNF gave its consent to changes in the Statutes of Bank Zachodni WBK (with regard to §10 concerning the bank's share capital increase), previously ratified by the EGM of 30 July 2012 convened in connection with the planned merger.
- On 6 December 2012, KNF decided that the information contained in the information memorandum of Bank Zachodni WBK prepared in connection with the public offering of the ordinary series J bearer shares was equivalent – in substance and form – with the information required to be disclosed in the prospectus.
- On 4 January 2013, the District Court for Wrocław-Fabryczna, VI Commercial Division of the National Court Register registered the merger of Bank Zachodni WBK and Kredyt Bank, the increase in the share capital of the merged bank and changes to its Statutes approved by the EGM on 30 July 2012. In consequence, Bank Zachodni WBK (the acquiring entity) assumed all the rights and obligations of Kredyt Bank (the acquired entity), which was dissolved without a liquidation procedure.
- The merger was carried out under Article 492 § 1 (1) of the Commercial Companies Code, i.e. by transferring all the assets of Kredyt Bank to Bank Zachodni WBK (merger through acquisition) in exchange for the newly issued series J shares allocated to all the shareholder of Kredyt Bank in accordance with the following exchange ratio: 6.96 of merger shares for 100 shares of Kredyt Bank. On 8 January 2013, the 18,907,458 merger shares (code PLBZ00000044) were recorded in the National Depository of Securities (KDPW). The registration took place after the Management Board of the Warsaw Stock Exchange adopted a resolution, dated 22 January 2013, on introducing the shares to the public trading on the main stock exchange market in the ordinary procedure, effective from 25 January 2013.
- As a result of the issue of series J shares, the registered capital of Bank Zachodni WBK increased from PLN 746,376,310 to PLN 935,450,890 (i.e. by PLN 189,074,580), and is divided into 93,545,089 ordinary bearer shares with a nominal value of PLN 10 each.

5. Integration of Bank Zachodni WBK with Kredyt Bank

Characteristics of Kredyt Bank

Kredyt Bank S.A. was a universal bank providing banking service in two main segments: retail banking and business banking. The bank's offering was customised to the needs of the individual customer groups, including retail, micro and SME customers, and local authorities. The bank distributed its products and services through an extensive branch (370 outlets) and ATM networks as well as Internet-based banking channel.

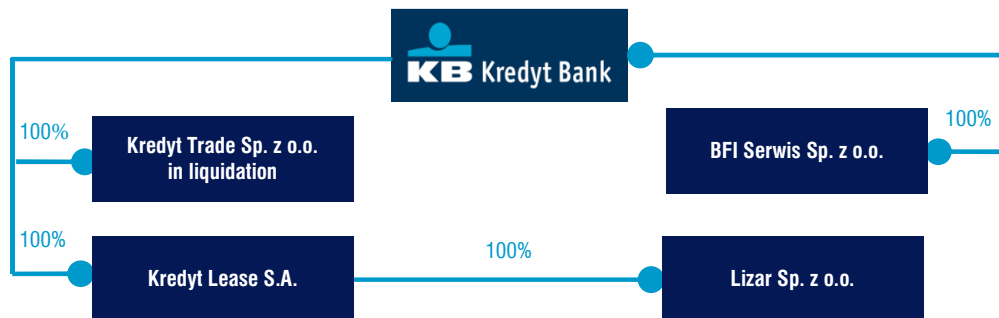
As at 31 December 2012, Kredyt Bank provided service to 1,172k retail customers, and micro, small and medium enterprises, and 21.2k corporate customers.

A major part of the product offer was provided by individual companies from Kredyt Bank Group and KBC Group in Poland, including Kredyt Lease S.A., which offered fixed asset and property leasing to business customers, and the companies not covered by the merger: KBC TFI S.A. (mutual funds) and KBC Securities S.A. (investment banking services to corporate customers).

Kredyt Bank also offered treasury products. It was active both in the domestic and international interbank market, making proprietary and mandated transactions. It had a status of Primary Dealer and a Money Market Dealer.

Kredyt Bank actively co-operated with banks in Poland and abroad, providing FX/MM, custody, trade finance and payment services. Furthermore, its services included maintenance of securities accounts for retail and corporate customers. It also provided services to investment funds as a depository and an issue sponsor. Kredyt Bank held KNF licence to maintain securities accounts, was an active participant of the National Depository for Securities (KDPW) as a depository and a participant of the securities register maintained by the National Bank of Poland.

Below is a composition and ownership structure of the Group as at 31 December 2012.



As at 31 December 2012, the following companies were consolidated line-by-line with Kredyt Bank: Kredyt Lease S.A. and Kredyt Trade Sp. z o.o. in liquidation. Kredyt Bank Group did not consolidate the following companies due to their small scale of operations and immateriality of financial data: Lizar Sp. z o.o. and BFI Serwis Sp. z o.o.

Rationale for the Merger

As a result of the merger, the complementary businesses of the two banks will be integrated, which will increase the scope of the services offered and will expand the customer base, thus strengthening the bank's market penetration potential. With the economies of scale and harmonised risk management, the bank's profitability and effectiveness will increase. Cost synergies will be primarily achieved by the improvement of processes, adoption of the most effective operational solutions, merger and optimisation of organisational structures along with the integration of IT systems. Revenue synergies will result from combination of the complementary offerings, cross-selling of both banks' products, harmonisation of service styles and increase in productivity. The merger will position the bank among the top three universal banks in Poland, and with the blended knowledge and experience of the two banks, the merged entity will be more effective and will boast a higher quality of its solutions. The higher number of Bank Zachodni WBK shares in free float will ensure they are more liquid and more attractive for investors.

Integration Process

The merger between Bank Zachodni WBK and Kredyt Bank is a long and challenging integration process involving a number of programmes designed to finalise the legal and operational merger and harmonise the brand.

To ensure effective delivery of integration tasks, a Steering Committee, Integration Office and Project Teams were appointed, consisting of representatives of both banks. The Project Teams do conceptual and implementation work, which is co-ordinated by the Steering Committee, which has oversight of the schedule and quality of deliverables.

In 2012, both banks were focused on the legal merger, which was completed on 4 January 2013. Concurrently, preparations were in progress to migrate the brand and carry out the operational merger. In the former aspect, the objective is to standardise the bank's image and market proposition, while the latter is about implementing common customer service processes, migrate customer and product data and achieve full operational integration of the merged bank. In addition to the programmes outlined, the following projects are under way: "Quick Wins" (identification of the initiatives that will bring business benefits at the early phase of the integration) and "Golden Shelf" (identification of the best solutions existing in both banks to make them part of the target business model).

Last year, a business model, customer and product migration plan and data migration methods (in the adopted IT systems architecture) were developed. All the integration efforts were in line with the overall Integration Programme schedule prepared by the Integration Office and approved by the Steering Committee.

Due to a large number of business and IT projects connected with the merger, a special emphasis was placed on project and operational risk management during change planning and implementation.

VII. Financial Situation of BZ WBK in 2012

1. Income Statement of Bank Zachodni WBK

Profit Earned by Bank Zachodni WBK in 2012 – its Drivers and Structure

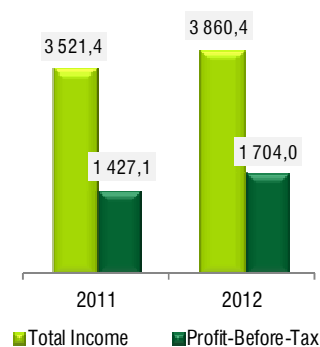
The table below shows changes in the key items of the bank's income statement in 2012 compared with a year before.

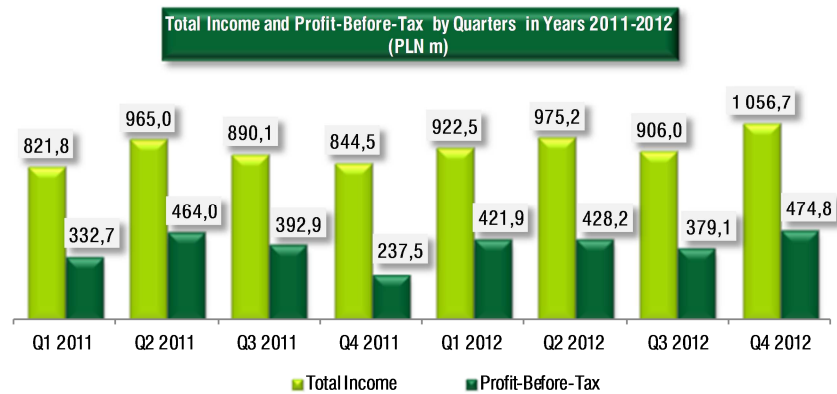
Condensed Income Statement (for analytical purposes)	PLN m				
	2012	2011	* 2011 underlying data	Change YoY	* Change YoY underlying data
Total income	3 860,4	3 521,4	3 521,4	9,6%	9,6%
- Net interest income	2 150,6	1 923,7	1 923,7	11,8%	11,8%
- Net fee & commission income	1 195,8	1 090,7	1 090,7	9,6%	9,6%
- Other income	514,0	507,0	507,0	1,4%	1,4%
Total costs	(1 665,9)	(1 746,6)	(1 658,9)	-4,6%	0,4%
- Staff, general and administrative expenses	(1 526,7)	(1 513,8)	(1 508,7)	0,9%	1,2%
- Depreciation/amortisation	(125,9)	(202,8)	(127,5)	-37,9%	-1,3%
- Other operating expenses	(13,3)	(30,0)	(22,7)	-55,7%	-41,4%
Impairment losses on loans and advances	(490,5)	(347,7)	(347,7)	41,1%	41,1%
Profit-before-tax	1 704,0	1 427,1	1 514,8	19,4%	12,5%
Tax charges	(336,4)	(268,6)	(268,6)	25,2%	25,2%
Net profit for the period	1 367,6	1 158,5	1 246,2	18,0%	9,7%

* Underlying data for 2011 exclude once-off cost adjustments of PLN 87.7m introduced in Q4 2011 as part of the process aimed to align operational practices of Bank Zachodni WBK and Banco Santander. More information on the subject can be found in "Annual Report 2011 of Bank Zachodni WBK S.A.".

In 2012, Bank Zachodni WBK posted a profit-before-tax of PLN 1,704m, an increase of 19.4% on 2011. The profit for the period was PLN 1,367.6m and higher by 18% YoY. Excluding the non-recurring cost adjustments of PLN 87.7m posted in Q4 2011 in the process of aligning operating practices across Santander Group, the underlying profit-before-tax increased by 12.5% YoY while profit for the period improved by 9.7% YoY.

Total Income and Profit-Before-Tax in 2011-2012
(PLN m)





* includes once-off cost adjustments of PLN 87.7m

Key Drivers of the bank's 2012 Profit

The performance of Bank Zachodni WBK in 2012 was significantly affected by the external environment, especially the processes occurring in the domestic and global economy, the regulatory policies and price fluctuations in the financial markets.

Key Market Trends

In 2012, the economic growth in Poland decelerated as a result of slower investments and reduced growth of consumption and exports. The economic deterioration resulted in a stagnation on the labour market, growth of unemployment and constrained growth in salaries. As households were increasingly concerned about their future finances, their demand for consumer loans decreased compared with 2011. The reduction in the growth of mortgage loans was also affected by the tightened lending criteria (e.g. amended Recommendation S) and changes in the State-subsidised loans programme "Rodzina na Swoim" ("A Family's Own Place"). Due to the weakening economic activity and pessimistic outlook for further growth, businesses were less interested in borrowings, especially in investment loans. At the same time, their liquidity diminished, and so did the value of their deposits. The household deposits with banks increased, however, despite the growing competition in the deposits market and removal of the one-day interest capitalisation deposits (following KNF's guidelines and the amended rules for calculation of the capital gains tax).

Starting from 2011, interest rates in the domestic money market were trending upwards (in May 2012, the NBP reference rate was raised to 4.75%) until late 2012 when it was commonly expected that the Monetary Policy Council would relax the monetary policy and eventually two NBP interest rate cuts were effected, by 0.5 p.p. in total.

In 2012, the moods in the financial markets were shifting, heavily influenced by the economic and political developments in the Euro zone and in the world. In the first half of the year unfavourable market trends prevailed, while in the latter half of the year the risk aversion abated following the efforts of central banks (including EBC) to increase liquidity in the banking sector and to stabilise selected treasury bonds markets. The inflow of foreign capital to the Polish market (including investments in treasury bonds) was conducive to the zloty appreciation and the growth of prices of financial assets. As the moods improved, at the end of 2012 the main indices at the Warsaw Stock Exchange recorded the highest growths in percentage terms since 2009 (the annual change in the WIG index was 26.2%, while the WIG20 index increased by 20.4%). Mutual funds reported surprisingly strong performance, while the yields of Polish debt securities fell to the lowest levels in history. Towards the year-end, the yield of 2Y bonds was just below 3.1%, 5Y bonds paid below 3.2%, while the yield of 10Y bonds fell to nearly 3.7%. In effect, the yield of the Polish treasury bonds decreased by 1.75 p.p. during the year in the 2Y segment, and by more than 2 p.p. in the case of long-term instruments. The value of treasury securities held by non-residents increased in 2012 to a record level of PLN 190bn, while their share increased to more than 35% of the total value of the securities issued.

All these events were reflected in the business volumes and performance of Bank Zachodni WBK, although the strength of their impact sometimes differed from market tendencies due to other factors being involved as well.

Development Directions of the Key Business Volumes of Bank Zachodni WBK

In 2012, the total credit volumes of Bank Zachodni WBK moderately increased (+5.6% YoY) while deposits levelled off.

Loans and advances to personal customers grew by 9.1% YoY, including an increase in mortgages and cash loans of 6.3% YoY and 15.9% YoY, respectively. Cash loan sales were conspicuous in the market as a result of intensive marketing campaigns, well-selected proposal parameters and smooth credit delivery. Deposit from personal customers increased by 5.6% YoY, mainly as a result of the inflow of term deposits.

Stronger business lending resulted in a 4.5% YoY growth in loans and advances to enterprises, while business deposits fell by 7.4% YoY, with a 17.8% YoY increase in current account balances and a 21.7% YoY decrease in term deposits.

Development Directions of the Main Income Statement Items of Bank Zachodni WBK

In 2012, the profit was mainly driven by the net interest income, which improved by 11.8% YoY as a result of the average annual growth of core business volumes, evolution of the business mix, higher interest rates environment and implementation of cash flow hedge accounting.

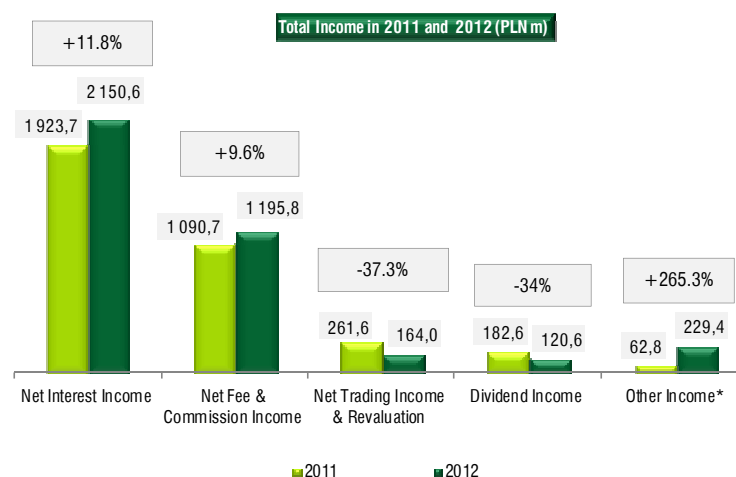
The profit growth was also significantly affected by the sale of debt securities from the available-for-sale portfolio. Polish government bond yields reduced significantly during 2012 reaching all-time lows and the Management of Bank Zachodni WBK took the opportunity to reposition a portion of the above-mentioned investment portfolio, earning a gain of PLN 174.1m, which exceeded the 2011 level by PLN 167.4m. Furthermore, a total YoY increase of PLN 106m was noted in the fee income from insurance, lending and direct banking activity.

There was also a positive enhancement from total costs which decreased by 4.6% YoY. It is worth noting that staff and administrative expenses declined by 1.6% YoY, excluding the impact of PLN 37.8m in respect of preparations for the merger of Bank Zachodni WBK and Kredyt Bank. This performance was achieved thanks to the robust and constantly improved process of monitoring and optimisation of the bank's cost base.

The factors that curtailed the profit growth in 2012 primarily included higher credit risk costs by 41.1% YoY (associated with the situation in the construction sector and the overall economic slowdown) and a decrease of 37.3% YoY in the net trading income and revaluation (as a result of developments in the foreign currency and interest rate market, and the implementation of the cash flow hedge accounting).

Total Income

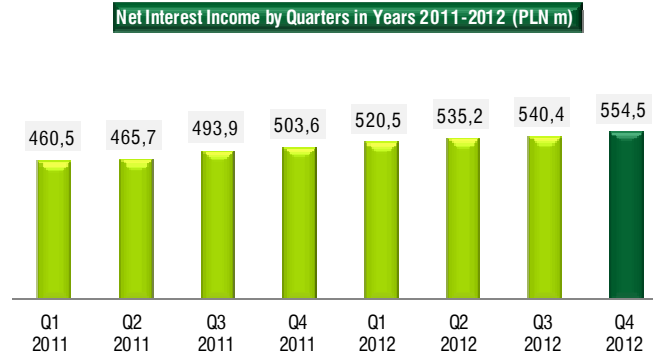
The total income achieved by Bank Zachodni WBK in 2012 was PLN 3,860.4m and up 9.6% YoY.



* The other components of total income include the profit on other financial instruments and other income.

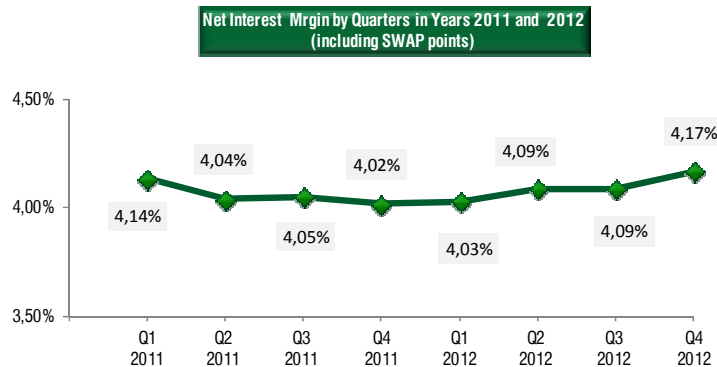
Net Interest Income

In 2012, the net interest income increased by 11.8% YoY to PLN 2,150.6m.



The net interest income for 2012 includes interest income of PLN 158.7m from CIRS transactions designated as hedging instruments under cash flow hedge accounting, first adopted in Bank Zachodni WBK on 1 December 2011. The respective amount is disclosed in Note 5 "Net interest income" under "Interest income from IRS hedges", which in 2012 amounted to PLN 177.2m compared with PLN 25.3m in 2011.

Taking into account other interest-related income, specifically the income from FX Swaps and non-hedging CIRS transactions (PLN 102.3m for 2012 and PLN 188.2m for 2011), reported under "Net trading income and revaluation", the underlying net interest income increased by 6.7% YoY.

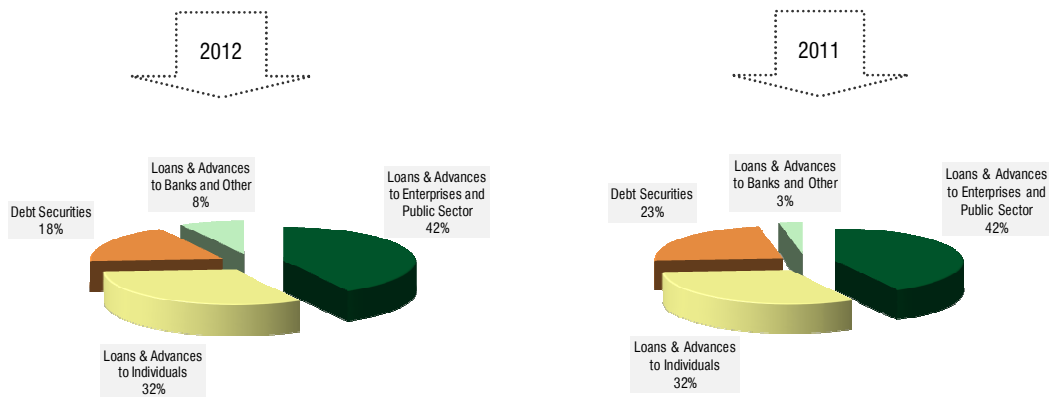


In the period from January to December 2012, the quarterly net interest margin of BZ WBK remained above 4% and slightly trended upwards (from 4.03% in Q1 2012 to 4.17% in Q4 2012). The relatively low margin at the beginning of the year is a result of the stronger competition among banks for household deposits (including the maturing deposits with one-day interest capitalisation), while the subsequent margin development mainly reflects the changes occurring in the bank's balance sheet structure. The structural factors that affected interest income and expense include, among others, the increase in lending (mainly cash loans and loans and advances to SME customers), repositioning of the debt securities portfolios as part of the bank's liquidity and balance sheet management, as well as evolution of the deposit base under the impact of high-value short-term deposits and customers' economic situation and savings preferences.

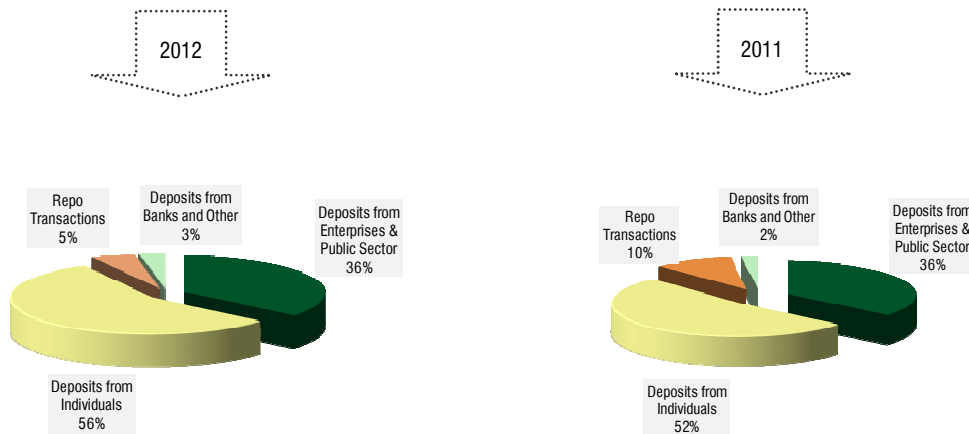
In the entire 2012, the bank's net interest margin was 4.09% compared with 4.06% reported a year before.

Total loans and advances to customers generated an average nominal interest income at the rate of 7.05% in 2012 vs. 6.80% in 2011. Total deposits from customers produced nominal interest expense at the annual rate of 3.15% vs. 2.77% in 2011 (calculated based on semi-annual business balances).

Structure of interest income of BZ WBK in 2012 and 2011



Structure of interest expense of BZ WBK in 2012 and 2011



In 2012, the interest income amounted to PLN 3,749.5m and increased by 13.9% YoY, while the interest expense increased by 16.9% YoY to PLN 1,598.9m. Interest income was driven by loans and advances to enterprises (+14.2% YoY), mortgage loans (+16.2% YoY), other personal loans (+16.6% YoY), loans and advances to banks (+15.6% YoY) and interest on hedging IRS (+599.4% YoY). The growth in interest expense was mainly attributable to deposits from enterprises (+14% YoY), personal deposits (+25.7% YoY) and state budget sector deposits (+50.9% YoY).

Net Fee and Commission Income

PLN m			
Net Fee and Commission Income	2012	2011	Change YoY
Direct Banking *	346,5	313,7	10,5%
Account maintenance and cash transactions	245,9	244,5	0,6%
FX fees	233,8	224,3	4,2%
Credit fees	129,5	91,2	42,0%
Insurance fees	93,9	59,0	59,2%
Distribution fees	80,8	87,0	-7,1%
Credit cards	63,5	55,9	13,6%
Other **	1,9	15,1	-87,4%
Total	1 195,8	1 090,7	9,6%

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

** guarantee commissions, issue arrangement fees and other commissions

Net Fee & Commission Income by Quarters in Years 2011-2012 (PLN m)

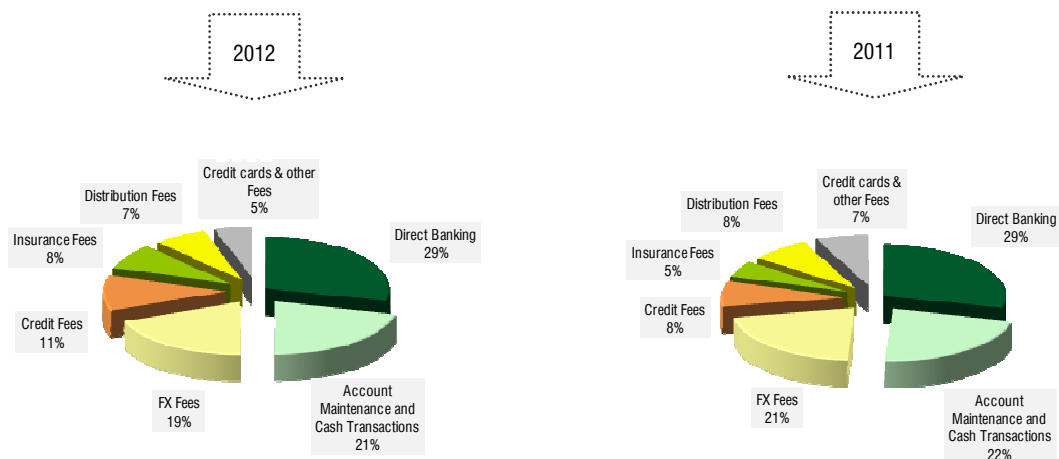


In 2012, the net fee and commission income was PLN 1,195.8m and increased by 9.6% YoY.

Like previous years, this line was dominated by the net fee and commission income of Direct Banking (29% of the total) which increased by 10.5% during the year, mainly due to the growing number and activity of debit card holders, users of the BZWBK24 electronic banking system and customers making international payments. A strong growth was also recorded in the insurance fees (+59.2% YoY) and credit fees (+42% YoY) whose share in the net fee and commission income increased to 8% and 11%, respectively. This is primarily attributable to the development of the bank's lending business, including cash loans coming with the "Spokojny Kredyt" ("Worry-Free Loan") insurance, SME loans with the "Biznes Gwarant" ("Business Guarantee") insurance, and various financing options for the companies managed by the Business and Corporate Banking, and the Global Banking and Markets Divisions. The credit card business line improved its performance in terms of net fees and commissions by 13.6% YoY, underpinned by larger credit card base (+17.1% YoY) and higher cashless transaction volumes generated by credit card users.

The bank's net fee income from distribution of mutual funds declined by 7.1% YoY amid significantly higher sales driven by low margin products. The income from investment advice and security issue arrangement services fell during the year by PLN 10.2m to PLN 5m, which contributed to a decrease of 87.4% YoY in the aggregate figure presented in the table above as "Other fees".

Structure of net commission income of BZ WBK in 2012 and 2011



Other Income

Net Trading Income and Revaluation

Net trading income and revaluation (net trading income) amounted to PLN 164m and decreased by 37.3% YoY amid fluctuations of the foreign currency and interest rate markets, and under the impact of cash flow hedge accounting adopted by Bank Zachodni WBK effective from 1 December 2011.

In accordance with the hedge accounting principle, interest-related income from CIRS transactions designated and qualifying as cash flow hedges is treated as a component of interest income, while the interest income from other CIRS transactions is classified as net trading income. In 2012, the amount of PLN 158.7m was accordingly recognised as interest income, which negatively impacted the net trading income. The latter discloses solely the ineffective portion of changes in the fair value of cash flow hedging instruments, which in 2012 was negative at -PLN 0.2m.

A significant part of the net trading income is derived from the interest-related income on the FX Swap transactions and non-hedging CIRS transactions which in 2012 amounted to PLN 102.3m compared with PLN 188.2m posted a year before. The year-on-year decrease results from the methodology of recognising income from hedging CIRS transactions under cash flow hedge accounting, and from developments of currency rates and basis spreads.

Dividend Income

Dividend income amounted to PLN 120.6m and decreased by 34% YoY, mainly on account of PLN 15.7m lower dividend pay-outs from Aviva Group companies (Aviva Powszechne Towarzystwo Emerytalne S.A. and Aviva Towarzystwo Ubezpieczeń na Życie S.A.) and non-payment of dividend by Dom Maklerski BZ WBK S.A. (BZ WBK Brokerage House) which a year before had contributed PLN 47.1m to the bank's dividend income.

Other Income Items

Other income of Bank Zachodni WBK, an aggregate comprised of the gains on the sale of other financial instruments (PLN 178.5m) and other operating income (PLN 50.9m), totalled PLN 229.4m and went up by 265.3% YoY.

This movement was driven primarily by the gains on other financial instruments, which increased by PLN 165.9m YoY on account of higher profit from the sale of available-for-sale debt securities (PLN 174.1 in 2012 vs. PLN 6.7m in 2011). The gain from the sale of equity instruments of PLN 2.8m represents the disposal of the bank's entire stake in Bank Polskiej Spółdzielczości.

Impairment Charges

	PLN m	
Impairment Losses on Loans and Advances	2012	2011
Collective and individual impairment charge	(524,7)	(343,1)
Impaired but not reported losses charge	17,0	(6,2)
Recoveries of loans previously written off	12,6	6,6
Off-balance sheet credit related facilities	4,6	(5,0)
Total	(490,5)	(347,7)

In 2012, the loan impairment charge to the profit and loss account amounted to PLN 490.5m vs. PLN 347.7m in 2011, which represents an increase of 41.1% YoY.

The balance of provisions for identified losses (individual and collective) was PLN 524.7m and up PLN 181.7m against a growth of PLN 2,173.8m in gross loans and advances to customers. The ensuing increase in provisions is mainly the effect of deteriorating financial condition of the construction sector, liquidity problems of enterprises and the projected deceleration of economic growth in Poland. Due to the higher identified impairment losses in the portfolio of business loans, the bank's credit risk ratio increased YoY by 0.2 p.p. to 1.2%. It is worth mentioning, however, that at the same time the provisions for commercial property loans kept on a downward trend.

The balance of provisions for unidentified losses (IBNR) was positive at PLN 17m (-PLN 6.2m in 2011), reflecting timely loan service by the bank's customers, including cash loans and residential mortgages.

In 2012, Bank Zachodni WBK sold retail and business loan portfolios with a total principal value of PLN 393.9m.

Due to a number of actions taken as part of the bank's conservative credit risk management, the quality of loan receivables – as measured by the impaired loans ratio – improved further during the year, particularly with respect to the retail, SME and property portfolios.

Total Costs

	PLN m		
Total costs	2012	2011	Change YoY
Staff, general and administrative expenses, of which:	(1 526,7)	(1 513,8)	0,9%
- Staff expenses	(866,3)	(876,8)	-1,2%
- General and administrative expenses	(660,4)	(637,0)	3,7%
Depreciation/amortisation	(125,9)	(202,8)	-37,9%
Other operating expenses	(13,3)	(30,0)	-55,7%
Total	(1 665,9)	(1 746,6)	-4,6%

In 2012, the total costs of Bank Zachodni WBK amounted to PLN 1,665.9m, and were 4.6% lower than in 2011. The recorded decline combined with an increase in the total income of 9.6% YoY caused further improvement in the bank's cost to income ratio, i.e. from 49.6% in 2011 to 43.2% in 2012.

The bank's total cost base includes the integration expenses of PLN 37.8m associated with the merger between Bank Zachodni WBK and Kredyt Bank. Excluding the impact of these expenses, the bank's cost to income ratio was 42.2%.

Staff and general & administrative expenses, which have the highest share in the bank's total costs (91.6%), amounted to PLN 1,526.7m, of which:

- The staff expenses amounted to PLN 866.3m and decreased by 1.2% YoY, mainly on account of reduced employment by 509 FTEs over the 12 month period.

- The general and administrative expenses amounted to PLN 660.4m and were 3.7% higher YoY. The most pronounced growth (+112.3% YoY) was seen in the consulting fees connected with the merger between Bank Zachodni WBK and Kredyt Bank. The higher fees paid to the market regulators (+16.6% YoY) result from the higher basis of their calculation in effect of the steady development of business volumes. Following the increase in energy prices and indexation of lease agreements, the cost of maintenance and lease of buildings went up (+4.9% YoY) while the expanded outsourcing of IT service and application development raised IT usage costs (+4.7% YoY). At the same time the bank notably limited its operating costs in such areas as: stationery, prints, cards, cheques (-28.5% YoY), security (-14.8% YoY), postal and telecommunications fees (-14.1% YoY), and marketing and entertainment costs (-7.7% YoY).

The depreciation was PLN 125.9m and lower by 37.9% YoY due to the recognition in Q4 2011 of PLN 75.3m representing a once-off increase of depreciation/amortisation charge as a result of adoption of a shorter period of economic life of intangible assets and selected properties.

The other costs amounted to PLN 13.3m and were down 55.7% YoY due to non-coverage of debt collection costs (foreclosure of assets) and a once-off adjustment that occurred in Q4 2011 as part of the process of aligning operational practices across Santander Group.

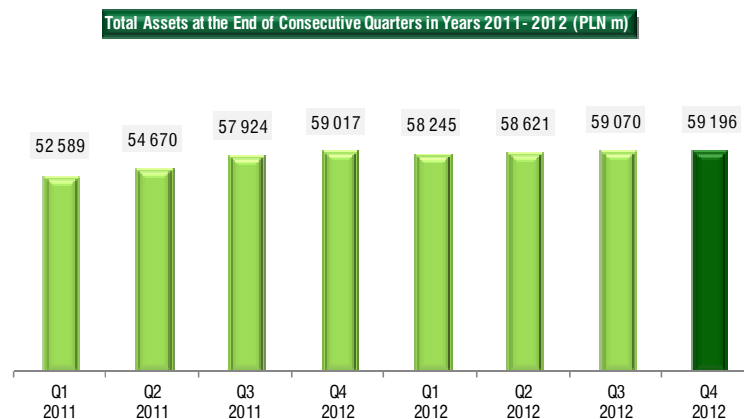
The bank maintains a strict cost discipline. The operating and capital expenses are subject to a stringent planning, and progress against the approved budget is closely monitored. The centralised procurement process allows the number of suppliers to be reduced and ensures that the existing contracts are regularly reviewed and negotiated.

2. Financial Position

Assets

As at 31 December 2012, total assets of Bank Zachodni WBK amounted to PLN 59,196.1m, showing stable year-on-year levels.

Total assets of BZ WBK in 2011-2012 by quarters (PLN m)



The table below presents major developments in the key categories of the assets of Bank Zachodni WBK as at 31 December 2012 versus 31 December 2011.

Assets (condensed presentation for analytical purposes)	PLN m				
	31.12.2012 1	Structure 31.12.2012 2	31.12.2011 3	Structure 31.12.2011 4	Change YoY 1/3
Loans and advances to customers *	39 464,7	66,7%	37 422,2	63,4%	5,5%
Investment securities	11 697,4	19,8%	11 625,1	19,7%	0,6%
Cash and operations with Central Banks	4 157,3	7,0%	1 425,5	2,4%	191,6%
Loans and advances to banks	1 454,3	2,4%	1 198,3	2,0%	21,4%
Financial assets held for trading	818,6	1,4%	5 779,3	9,8%	-85,8%
Fixed and intangible assets	581,7	1,0%	620,9	1,1%	-6,3%
Hedging derivatives	253,6	0,4%	141,6	0,2%	79,1%
Other assets	768,5	1,3%	803,9	1,4%	-4,4%
Total	59 196,1	100,0%	59 016,8	100,0%	0,3%

* including impairment write-down

The biggest YoY changes in the assets of Bank Zachodni WBK were observed under current lines. The "Financial assets held for trading" decreased by 85.8% YoY, reflecting a lower volume of trading in short-term NBP bills. Concurrently, as part of on-going liquidity management, substantial amounts were deposited in the NBP current account, which boosted "Cash and operations with Central Bank" by 191.6% YoY. The "Loans and advances to banks" increased by 21.4% YoY as a result of the bank's deposit activity in the interbank money market. Also, the book value of derivative hedges showed a considerable growth (+79.1% YoY).

In 2012, net loans and advances to customers increased moderately (+5.5% YoY) and at the end of December accounted for 83.7% of the deposits from non-financial entities funding them, as compared with 79.6% at the end of December 2011. At the same time, the loans and advances to customers increased their share in the total assets from 63.4% to 66.7%.

Credit Portfolio

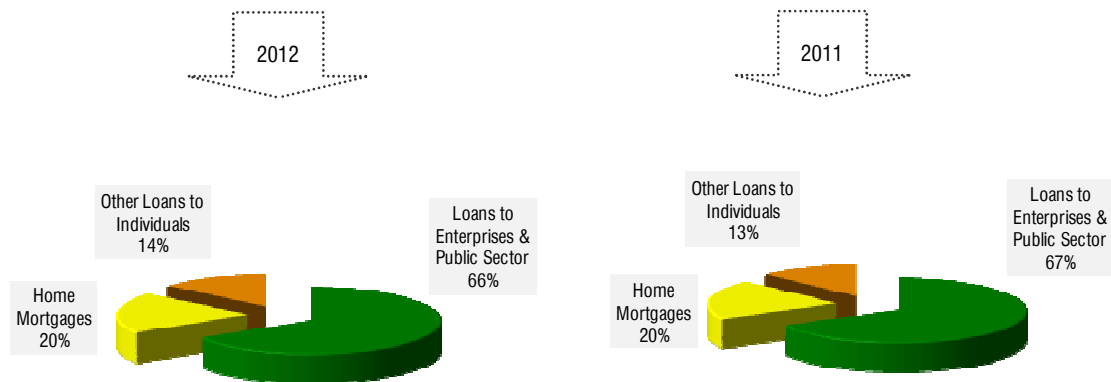
Gross Loans and Advances to Customers	31.12.2012	31.12.2011	Change YoY
Loans and advances to enterprises and public sector customers	27 185,7	26 179,9	3,8%
Loans and advances to individuals	13 697,3	12 553,3	9,1%
Other	27,1	3,0	803,3%
Total	40 910,1	38 736,2	5,6%

As at 31 December 2012, gross loans and advances to customers were PLN 40,910.1m and 5.6% up YoY.

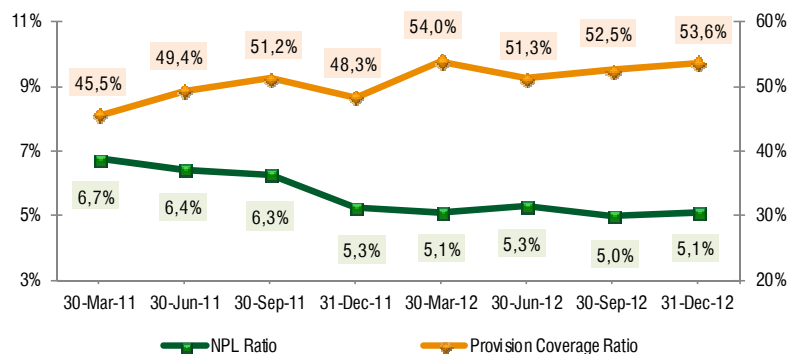
The total value of loans and advances to enterprises and public sector rose by 3.8% YoY to PLN 27,185.7m, reflecting higher borrowing demands of SME and corporate customers seeking to enhance their current operations or resume the suspended development plans. However, the value of property loans decreased on end-December 2011 as a result of the zloty appreciation and the planned loan re-payments.

Loans and advances to individuals increased by 9.1% YoY to PLN 13,697.3m. Included in this figure were residential mortgages of PLN 8,080.5m which grew by 6.3% YoY and cash loans of PLN 4,196.4m which expanded by 15.9% YoY. Sales of both products have been improving steadily with the bank consistently upgrading its offering, developing CRM tools and extending brand recognition through advertising campaigns.

Loans and advances to customers of BZ WBK as at 31.12.2012 and 31.12.2011



The NPL and provision cover ratio at the end of individual quarters in the period from 31.03.2011 to 31.12.2012



As at 31 December 2012, non-performing (impaired) loans to customers accounted for 5.1% of the gross portfolio vs. 5.3% at the end of December 2011. The provision cover for the impaired loans was 53.6% compared with 48.3% twelve months before.

Equity and Liabilities

The table below presents major developments in key categories of the equity and liabilities of Bank Zachodni WBK as at 31 December 2012 versus 31 December 2011.

Liabilities & Equity (condensed presentation for analytical purposes)	PLN m				
	31.12.2012 1	Structure 31.12.2012 2	31.12.2011 3	Structure 31.12.2011 4	Change YoY 1/3
Deposits from customers	47 162,2	79,7%	46 992,1	79,6%	0,4%
Deposits from banks	1 291,7	2,2%	2 361,4	4,0%	-45,3%
Financial liabilities held for trading	728,8	1,2%	938,0	1,6%	-22,3%
Subordinated liabilities	409,1	0,7%	441,2	0,7%	-7,3%
Hedging derivatives	322,3	0,5%	523,7	0,9%	-38,5%
Other liabilities	997,9	1,7%	936,3	1,6%	6,6%
Total equity	8 284,1	14,0%	6 824,1	11,6%	21,4%
Total	59 196,1	100,0%	59 016,8	100,0%	0,3%

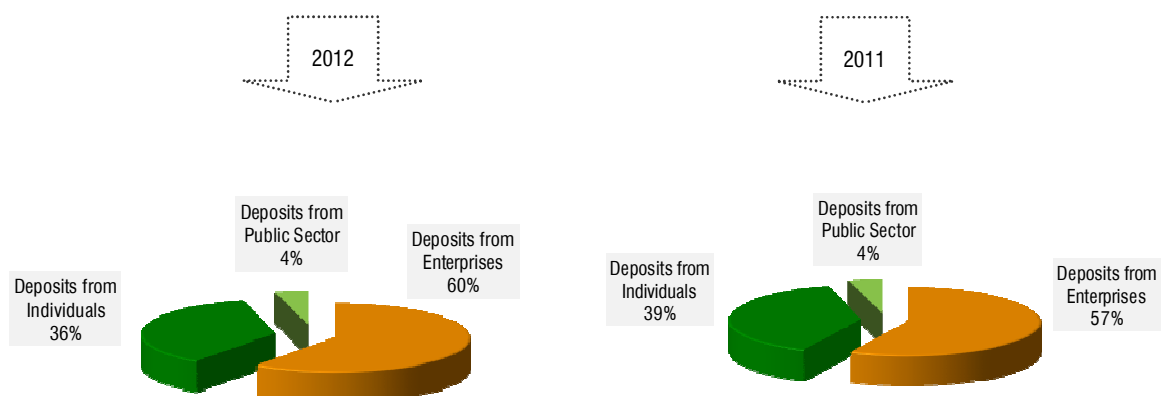
The statement of financial position as at 31 December 2012 shows a major growth in total equity (+21.4% YoY), resulting from an increase in BZ WBK share capital through the issue of 1,561,618 ordinary series I shares, fully taken up by EBRD in a private subscription. The nominal value of the shares of PLN 15.6m increased the share capital, while the share premium of PLN 316.4m was recognised in the supplementary capital. Customer deposits increased only slightly (+0.4% YoY), yet their structure changed both in terms of depositors and deposit types. At the same time, deposits from banks decreased (-45.3% YoY), mainly due to the lower volume of sell-buy-back transactions. A decrease was also noted in the book value of derivatives - both hedging derivatives (-38.5% YoY) and non-hedging derivatives reported under "Financial liabilities held for trading" (-22.3% YoY).

Deposit Base

Deposits from Customers	PLN m		
	31.12.2012	31.12.2011	Change YoY
Deposits from individuals	28 073,1	26 590,0	5,6%
Deposits from enterprises and public sector customers	19 089,1	20 402,1	-6,4%
Total	47 162,2	46 992,1	0,4%

Deposits from customers, which represent 79.7% of the bank's total equity and liabilities, are the primary source of funding the bank's lending business. As at 31 December 2012, these liabilities amounted to PLN 47,162.2m, remaining rather stable YoY.

Deposits from customers of BZ WBK as at 31.12.2012 and 31.12.2011



Deposits from individuals amounted to PLN 28,073.1m, up 5.6% on 31 December 2011. The most rapid growth was observed in term deposits, particularly in new deposit products developed in response to customers' demands and prevailing market conditions. In 2012, personal customers were most attracted by the 12M Easy Earning Deposit ("Lokata Swobodnie Zarabiająca") and the 7M Fast Earning Deposit ("Lokata Dynamicznie Zarabiająca") with progressive interest rates and monthly interest capitalisation. Short-term negotiable deposits were also quite popular throughout the year.

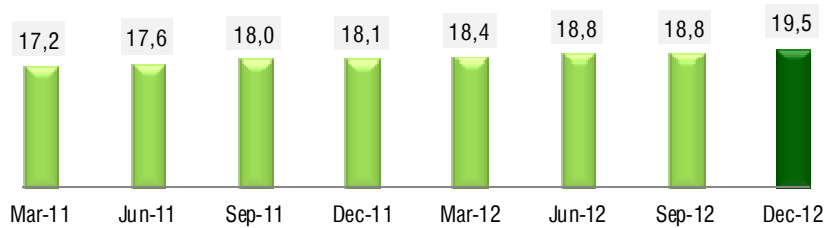
Deposits from enterprises and public sector decreased by 6.4% YoY to PLN 19,089.1m as several high-value short-term deposits placed by corporate customers towards the end of 2011 matured and were utilised for the scheduled investment undertakings. Term deposits from business and public sector customers decreased by 21.6% YoY, which was partly counterbalanced by the inflow of funds to the current accounts held by respective customers, totalling PLN 1.2bn (+18.5% YoY).

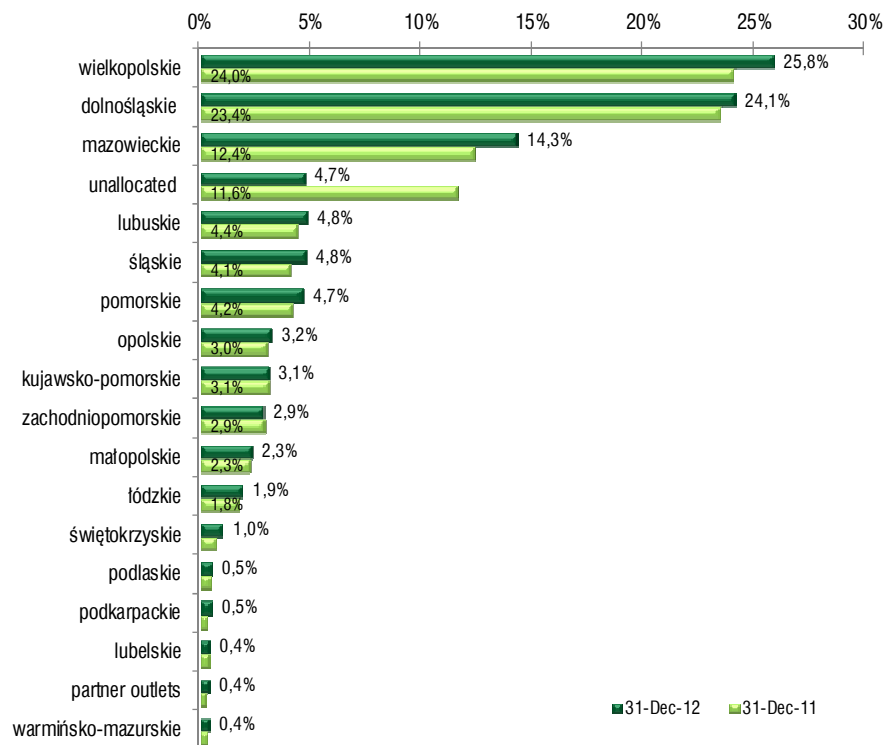
In the total amount of deposits from customers, term deposits were PLN 26,053m and down 5.8% YoY, current accounts were PLN 19,545.1m and up 8.2% YoY, and other liabilities were PLN 1,564m, up 23.7% YoY. The last item reflects utilisation of the credit lines from the European Investment Bank for SME funding in the total maximum amount of EUR 250m.

Term Deposits at the End of Consecutive Quarters of 2011 and 2012 (PLN bn)



Current Accounts at the End of Consecutive Quarters of 2011 and 2012 (PLN bn)



Geographical Structure of Bank Zachodni WBK Customer Deposits as at 31.12.2011 and 31.12.2012


3. Key Financial Ratios

Selected Financial Ratios	31.12.2012	31.12.2011
Total costs/Total income *	43,2%	49,6%
Net interest income/Total income	55,7%	54,6%
Net interest margin **	4,1%	4,1%
Net commission income/Total income	31,0%	31,0%
Customer loans/Customer deposits	83,7%	79,6%
NPL ratio	5,1%	5,3%
NPL coverage ratio	53,6%	48,3%
Credit risk ratio ***	1,2%	1,0%
ROE ****	21,4%	21,0%
ROA *****	2,3%	2,1%
Capital adequacy ratio	16,5%	14,6%
Book value per share (in PLN)	111,0	93,4
Earnings per share (in PLN) *****	18,5	15,9

* Excluding costs of integration with Kredyt Bank of PLN 37.8m, the adjusted cost-to-income ratio was 42.2% for 2012.

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

*** Impairment losses on loans and advances to average gross loans and advances.

**** Net profit attributable to the shareholders of BZ WBK to average equity calculated based on total equity at the end of five consecutive quarters, net of the current period profit and dividend due to BZ WBK shareholders.

Excluding once-off cost adjustments introduced in Q4 2011 as described in "Annual Report 2011 of Bank Zachodni WBK", adjusted ROE as at 31.12.2011 was 22.6%.

Excluding costs of integration with Kredyt Bank of PLN 37.8m, adjusted ROE as at 31.12.2012 was 22%.

***** Net profit attributable to the shareholders of BZ WBK to average total assets calculated based on balances as at the end of five consecutive quarters.

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

4. Additional Financial Information

Selected Transactions with Connected Entities

Transactions between Bank Zachodni WBK 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 2012, the bank's total exposure on loans to subsidiaries (BZ WBK Leasing, BZ WBK Finanse & Leasing, BZ WBK Faktor, Dom Maklerski BZ WBK) amounted to PLN 3,362.7m compared with PLN 2,482.2m as at 31 December 2011.

As at 31 December 2012, the deposits held by the subsidiaries (mainly: Dom Maklerski BZ WBK, BZ WBK Finanse & Leasing, BZ WBK Asset Management, BZ WBK Towarzystwo Funduszy Inwestycyjnych, BZ WBK Inwestycje) with the bank totalled PLN 905.2m versus PLN 974.2m a year before.

Guarantees to subsidiaries amounted to PLN 310.2m versus PLN 323.1m as at 31 December 2011.

These intercompany items have been eliminated from the consolidated accounts.

The bank's receivables from the parent entity (Santander Group) amounted to PLN 283.8m compared with PLN 81.7m at 31 December 2011, while the liabilities amounted to PLN 36.3m compared with PLN 0.2m as at 31 December 2011.

A full disclosure on related party transactions, including those with senior management, is available in Note 44 of the "Financial Statements of Bank Zachodni WBK for 2012".

Selected Off-Balance Sheet Items

Commitments and Derivatives

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

	PLN m	
Guarantees and Commitments	31.12.2012	31.12.2011
Financial commitments:	11 324,3	9 268,2
- credit lines	10 118,5	8 139,8
- credit cards debits	1 109,4	970,7
- import letters of credit	96,4	157,2
- term deposits with future commencement term	-	0,5
Guarantees	2 531,3	1 796,8
Total	13 855,6	11 065,0

	PLN m	
Nominal Value of Derivatives	31.12.2012	31.12.2011
Derivatives - Forward (hedging)	14 675,6	10 703,0
Derivatives - Forward (trading)	67 180,0	82 685,8
Trading in equities	1 890,0	2 343,8
Total	83 745,6	95 732,6

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 sureties and guarantees (mainly: guarantees of payments for goods or services, advance payment guarantees, performance guarantees, customs guarantees) as well as sureties and 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 sureties and 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 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:

Lease payments by maturity	PLN m	
	31.12.2012	31.12.2011
less than 1 year	157,5	153,9
between 1 and 5 years	490,8	518,3
over 5 years	245,7	211,3
Total	894,0	883,5

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 2012 compared with 2011.

Facility	31.12.2012		31.12.2011	
	Number	Value	Number	Value
Loans to individuals	29 077	179,5	27 435	205,1
Loans to enterprises	2 335	1 130,3	2 481	813,4
Total	31 412	1 309,8	29 916	1 018,5

As at 31 December 2012, the value of collateral on borrowers' accounts and assets across the Group amounted to PLN 30,681.6m compared with PLN 29,972.3m as at 31 December 2011.

5. Factors Which May Affect Financial Results of BZ WBK in 2013

The most important factors which may affect financial results of Bank Zachodni WBK in the near future are:

- Predicted gradual improvement of economic growth in the world economy, in particular in the Euro zone, which implies improving prospects for Polish exports.
- Stagnation in the labour market in the first months of the year, which may negatively affect the quality of households' loans portfolio and limit demand for new consumption loans and mortgage loans.
- Higher pace of growth in real households' income due to the quickly falling inflation, moderately high pension indexation and some recovery in domestic labour market in H2 thanks to improving results of exporters.
- Strong decline in the public sector's investment spending due to continued fiscal consolidation which may deepen a slump in construction sector and financial problems of construction companies.
- Further interest rate cuts by the Monetary Policy Council (MPC) in response to a significant deceleration of economic growth and the inflation's fall below the NBP target.

- The changes of assets' financing cost depending on the pace and scale of changes of the main interest rates, changes of the zloty exchange rate, development of liquidity situation of the banking sector and the intensity of price competition between the banks in the area of deposit acquisition.
- Possible increase in volatility of the financial market in case of disappointment of the pace of solving debt crisis in the Euro zone, lower than expected pace of global economic revival, or negative scenario of social or political developments (social unrest in the Southern European states, general elections in Italy).
- Further developments on the global stock market and its impact on willingness to purchase investment funds units or keeping savings in safe bank deposits as an alternative.

VIII. Future Growth Prospects

1. Business Plan of Bank Zachodni WBK for 2012-2014

Goals of the Integrated Bank

Key goals of Bank Zachodni WBK after the merger with Kredyt Bank:

- Increase the market share to become number three bank in Poland.
- Further strengthen the balance sheet and the capital base. Maintain the good liquidity position with a broad access to funding sources.
- Improve effectiveness and efficiency of the organisation by eliminating overlapping structures, combining complementary distribution networks and taking advantage of the economies of scale of Santander Group.
- Achieve a 15%-20% annual growth rate of earnings over the next four years.
- Increase profitability thanks to cost and revenue synergies.
- Expand the product range, improve customer service and customer satisfaction in cooperation with the merged bank.
- Build reputation as the best employer in the Polish banking sector through continuing professional development of staff.
- Significantly increase the free float and liquidity for the benefit of all shareholders.

Strategy of the Integrated Bank

Bank Zachodni WBK will continue activities within the framework of the existing business models, presenting the specialised offer to the segments of both banks, i.e. retail, SME, corporate and global customers.

First, customers will be offered products available in each bank. Next, the customers of Kredyt Bank will be gradually migrated to Bank Zachodni WBK products. The Kredyt Bank products having fixed maturity date will continue to be used in accordance with the existing terms and conditions until expiry/maturity. The remaining products will be converted into Bank Zachodni WBK products during 24 months after the merger, in line with customer needs.

During the integration period, actions will be taken to give customers a stronger sense of security and to strengthen their opinion about quality of services offered by the integrated bank. All changes will be communicated adequately and the bank will monitor whether information provided via all available channels is consistent.

For all key segments, the integrated bank intends:

- To expand relationship with key customers, using a competitive product offer and modern management systems;
- To manage customer retention appropriately during the integration process and to take active measures in respect of communication and marketing;
- To acquire new customers by offering a diverse and broad distribution platform and competitive products.

Retail Banking

Customer Relationship

The integrated Bank Zachodni WBK will provide banking services to ca. 3.8m retail customers. In order to meet the needs of these customers in the best way possible, a business relationship management system will be implemented on the basis of best practice in the following three key streams:

- Management of retail customer segments;
- Management of customer relationship life cycle;
- Operational management of contacts initiated by the bank.

The scope, time-frame and form of contacts with the group of mass customers will be determined by the principles of managing customer relationship life cycle. Special attention will be given to regular customers having a strong business relationship with the integrated bank.

In order to efficiently and adequately manage relationships with a diversified group of several million customers (including initiating contacts), efficient operational management of the following elements must be ensured:

- Customised offer, including pre-sanctioning offer in respect all credit facilities;
- Choosing the time to contact the customer, taking into account significant events in the customer's life, the form of cooperation with the bank and statistical models;
- The use of most effective contact forms while ensuring that the offer provided through multiple channels is consistent;
- Adherence to the agreed rules in respect of contact frequency and prioritisation.

Product Range

The integrated bank will focus on actions aimed at increasing its market share in respect of most profitable and fastest growing products, while maintaining its share in other market areas. Offering competitive products and services is one of the key success factors.

As for retail customer service, the bank intends:

- To offer a full range of personal accounts and deposits that meet the needs and expectations of customers classified into individual segments;
- To harmonise the offers of both banks, focusing on sale of the existing insurance and investment products;
- To focus on competitive consumer loans, overdrafts and mortgage loans, debit and credit cards and expand the existing credit offer only in duly substantiated cases;
- To offer debit cards to retail customers, taking into account the needs of retail customer segments; the proposition is to be connected with the personal account offer;
- To offer insurance, taking into account the needs of all customer segments of both banks.

SME Banking

Customer Relationship

The SME segmentation of the integrated bank will be based on the Bank Zachodni WBK model. Small enterprises with revenue of up to PLN 30m and exposure of up to PLN 5m will be managed by branches under Retail Banking supervision. Larger enterprises will be managed by Corporate and Business Banking Centres. Harmonised SME segmentation will ensure a consistent approach to customers in respect of the form of service, communication and CRM campaigns.

The SME migration schedule is adjusted to the organisation's capability to provide services to small enterprises via the integrated branch network. The following aspects are taken into account: availability of advisors having adequate skills, plan of training courses aimed at improving advisors' skills and functionality of information systems.

Product Range

The integrated bank will present SME customers with harmonised offer packages based on current accounts and deposits, primarily deposits with maturities ranging from O/N to 1 year. Until then, prices, product functionalities, rules of communication and product management will be harmonised. The number of product packages and their composition will be adapted to meet the needs of customers classified into individual segments.

The scope and structure of SME credit facilities will depend on the credit delivery process and the nature of individual sub-segments. For small enterprises, the process will be significantly simplified and the products will be standardised. For largest companies, the process will be based on decisions made by credit experts and the product range will be adapted to individual needs of customers.

Business and Corporate Banking

Business and corporate customers will be offered products and services of Bank Zachodni WBK, with the option of incorporating some products and functionalities of the Kredyt Bank offer. The key product groups are: transactional banking, investment products, working capital financing, treasury products, lease and factoring.

The existing units responsible for business and corporate customer service will be integrated to create a new nationwide distribution network, taking advantage of the potential of the existing locations and staff.

Key strategic objectives of Business and Corporate Banking:

- Further develop and diversify the credit portfolio, income streams and the customer base, while managing and controlling the risk effectively.
- Substantially increase results in the area of transactional banking and deposits.
- Maintain close relationships with customers and increase the visibility of the integrated bank in the market thanks to actions taken by highly skilled relationship managers focused on sales and income growth.
- Make the most of new business opportunities offered by the global network of Banco Santander S.A.
- Further develop and expand the product range to improve competitiveness.
- Build reputation as a bank offering top quality services thanks to flexible approach, quick decision making and professionalism.

The integrated bank plans to offer a full range of financial services, including: banking services, brokerage services, lease and factoring. It is planned to merge those connected entities whose business activities overlap, unless there is economic, operational or legal rationale for application of other solutions.

Global Banking and Markets

Customer Relationship

Global Banking and Markets (GBM) is a global business unit, which offers its services and products to customers who require highly customised services and value-added products because of the size of their business and the complexity of their business profile. The Global Management Model gives customers access to the global distribution network and the services and products of Santander Group.

The merger between Bank Zachodni WBK and Kredyt Bank will not have a significant impact on the GBM customer base as most customers of Kredyt Bank are classified into the SME segment. Within the Rates product line, which is addressed at all customer segments, a considerable increase in sales and trading volumes is expected.

The strategy relating to establishment of business relationships with GBM customers will be based primarily on building product awareness and offering the products by the integrated bank, based on the well-tried solutions of Banco Santander S.A.

Product Range

The following product lines will remain key streams from the perspective of GBM:

- Global Transactional Banking;
- Credit Markets;
- Rates;
- Equity, including Accelerated Book-Building.

Image and Marketing

The key marketing objective for the coming years is to strengthen the market position of the integrated bank thanks to its widely recognisable, distinctive and attractive brand, which will reflect the business potential of the bank. This objective will be achieved thanks to the Bank Zachodni WBK brand, which is not only one of most recognisable bank brands in Poland (spontaneous brand awareness at 42%), but also a brand which is perceived as reliable, secure and customer-friendly. The strength of this brand should give customers a sense of security and stability during the merger and integration period.

Sales Network

Branch Network

The branch networks of Bank Zachodni WBK and Kredyt Bank, which are complementary to one another in terms of their geographic footprint, will help the integrated bank achieve substantial synergies. The branch optimisation process will involve locations which are overlapping or lack a business case as well as efforts to harmonise the management structure of the branch network.

The integrated bank will continuously monitor effectiveness of its distribution network, on the basis of effectiveness and competitiveness analyses, and will adapt the network to the changing market conditions to ensure appropriate distribution of branches and focus on the most promising areas.

Electronic Channels

The target e-banking offer of the integrated bank will be based on the multi-channel BZWBK24 website. Electronic services will be the primary element of the personal account package offered to retail customers and the current account package offered to business customers. Customers will be proposed a full range of products of the integrated bank through the on-line channel, including additional services within the framework of BZWBK24, secure online payments as well as secure and user-friendly transaction authorisation methods.

Also, the challenging plan to develop e-banking of the integrated bank will be implemented, with special focus on developing the mobile channel and tools which optimise remote communication between customers and the bank, the purchase of banking products as well as on the use of self-service options for the purpose of after-sales processes.

Telephone Banking

According to the assumptions, the target telephone banking model of the integrated bank will have the following features:

- Comprehensive service provided to customers of the integrated bank through the harmonised organisational structure.
- Reorganised structure focused on the achievement of business objectives in the following key areas: sales, customer service, relationship, innovative solutions and channel development.
- BZWBK24 telephone service, a consistent automatic services platform, made available to customers.
- Implementation of the resources and costs optimisation strategy to structure the process of providing services to customers of the integrated bank.
- Sale of products and services within the framework of BZ WBK Direct.
- Sale of selected products and services on the basis of campaigns targeted at the combined customer portfolios (consistent CRM measures).
- Outsourcing of selected executive structures.

ATMs

The bank will seek to harmonise ATM services and optimise the network. Next, the ATM brand name will be changed into Bank Zachodni WBK.

2. Economic Outlook for 2013

After significant economic deceleration observed in 2012, 2013 should see gradual economic recovery in Poland and globally. However, recovery is expected to be quite slow. The lowest Poland's GDP growth is expected in Q1 2013, when the economic growth rate may be close to zero. Seasonally adjusted GDP may be even negative on a quarter-on-quarter basis, which means that the economy is at the edge of recession. However, the economy should start to recover slowly in subsequent quarters. As a result, in late 2013 the GDP growth rate may be close to 2% on a year-on-year basis, whereas average GDP growth throughout the year is expected in the region of 1.2%.

The global economy, especially the eurozone, is expected to recover. Economic recovery of key trading partners of Poland will have a positive impact on exports to those countries, which will become the driving force behind Poland economy again. Domestic demand is expected to be limited. Specifically, capital expenditure is expected to continue to drop in 2013, which will be to a large extent caused by substantial cuts in public investments, arising from the fiscal consolidation policy. To some extent, private investments may be supported by interest rate cuts and the launch of the government programme Polish Investments. The pace of growth of private consumption will be quite weak, although a slight improvement is expected throughout the year. A substantial drop in the inflation rate, indexation of social benefits (based on the high inflation rate reported in 2012) and, later, higher wages in the export sector will translate into an increase of real income of households, which should boost consumption. However, there is a risk that the growth of consumption will be impeded by rebuilding of savings, which were eroded in the last quarters of 2012.

After a sudden decrease in inflation during the first months of the year, inflation will level off significantly below the NBP inflation target. This will be attributable, inter alia, to lower increases in prices set by regulators, lack of substantial increases in global commodity prices, decline in gas prices but first of all by lack of demand and salary pressures, arising from weak economy. The inflation rate may increase only in Q4 2013, albeit staying below the NBP inflation target (2.5%).

The Monetary Policy Council cut the interest rates in January and February and, as a result of four decreases in a row, the NBP reference rate dropped to 3.75%. In the context of weak economic growth and lower inflation, the Monetary Policy Council will probably decide to continue monetary easing in March, cutting the interest rates again by 25 b.p. Thus, the NBP reference rate will reach the record low level of 3.5%, which was observed during the 2009 economic crisis. The interest rates are likely to remain at a stable level over the remainder of the year.

IX. Investor Relations

1. Investor Relations in Bank Zachodni WBK

Bank Zachodni WBK is committed to ensuring effective communication with shareholders and investors. The main objective of the Investor Relations Team is to provide information on the company's business and performance and to strengthen its position as a reliable and reputable market player.

In 2012, 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 as well as roadshows 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 recordings were made available at the bank's website (www.inwestor.bzwbk.pl).

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

2. Share Capital, Ownership Structure and Share Price

Share Capital and Changes in the Ownership Structure of Bank Zachodni WBK

As at 31 December 2012, the share capital of Bank Zachodni WBK totalled PLN 746,376,310, divided into 74,637,631 ordinary bearer shares at the nominal value of PLN 10 each. With its stake of 94.23%, Banco Santander S.A. was the only shareholder with the min. 5% voting power at the GM of Bank Zachodni WBK.

Following the merger of Bank Zachodni WBK and Kredyt Bank, which was registered on 4 January 2013, the eligible shareholders of Kredyt Bank took up the total of 18,907,458 series J merger shares at the agreed exchange ratio.

As a result of the issue of series J shares, the share capital of Bank Zachodni WBK was increased to PLN 935,450,890 (i.e. by 189,074,580) divided into 93,545,089 ordinary bearer shares at the nominal value of PLN 10 each. Consequently, the share of Banco Santander S.A. in the total voting power at the GM of Bank Zachodni WBK reduced to 75.19%. KBC Bank NV – the majority shareholder of Kredyt Bank – acquired 15,125,966 merger shares representing 16.17% of total votes at the GM and capital share of Bank Zachodni WBK, becoming the second shareholder, after Banco Santander S.A., with the min. 5% voting power at the GM.

For more details on the issues of shares of Bank Zachodni WBK, please refer to the section "Legal Merger with Kredyt Bank" in Chapter VI "Key Projects, Developments and Other Information".

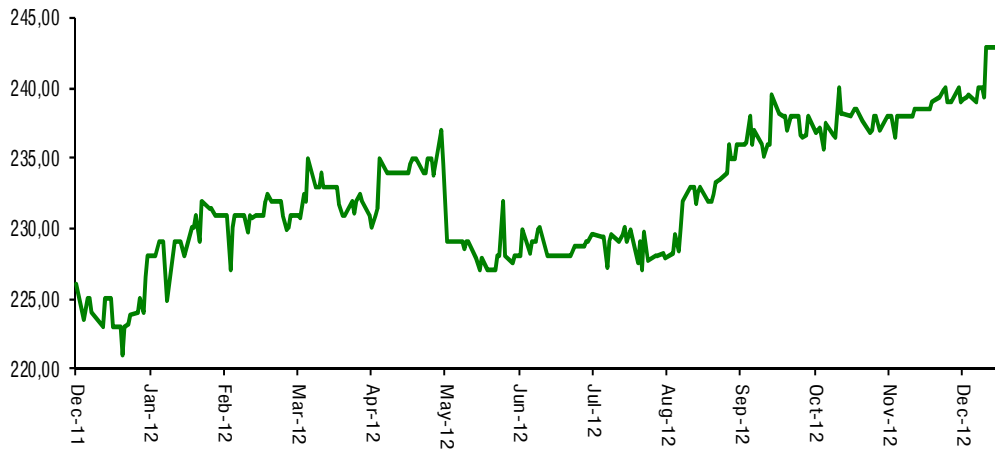
See tables in Chapter XI "Statement on Corporate Governance in 2012" for details of the ownership structure of Bank Zachodni WBK and share series as at 31 December 2011, 31 December 2012 and 4 January 2013.

3. Share Price of Bank Zachodni WBK vs. Indices

Despite the financial markets downturn which prevailed for the most part of the year, 2012 saw an all-time increase in WSE indices since 2009: WIG20 went up by 20.4%, WIG by 26.2% and WIG Banks by 22.6%.

In 2012, the share price of Bank Zachodni WBK continued on an upward trend. This came in the wake of reports on the planned merger with Kredyt Bank, which was initially announced on 28 February 2012 together with the information on the investment agreement between Banco Santander S.A. and KBC Bank NV regarding the merger of Bank Zachodni WBK and Kredyt Bank. As at 31 December 2012, the share price hit a record high in the last five years, reaching PLN 241.90, i.e. just a dozen or so percent below the all-time high recorded in 2007. Furthermore, pursuant to the resolution of the GM of 10 May 2012, in June the bank paid out a dividend at PLN 8 per share from the 2011 profit, which added to the profitability of the investment in the bank's shares. The share price of Bank Zachodni WBK yielded 10.6% per annum, inclusive of a dividend.

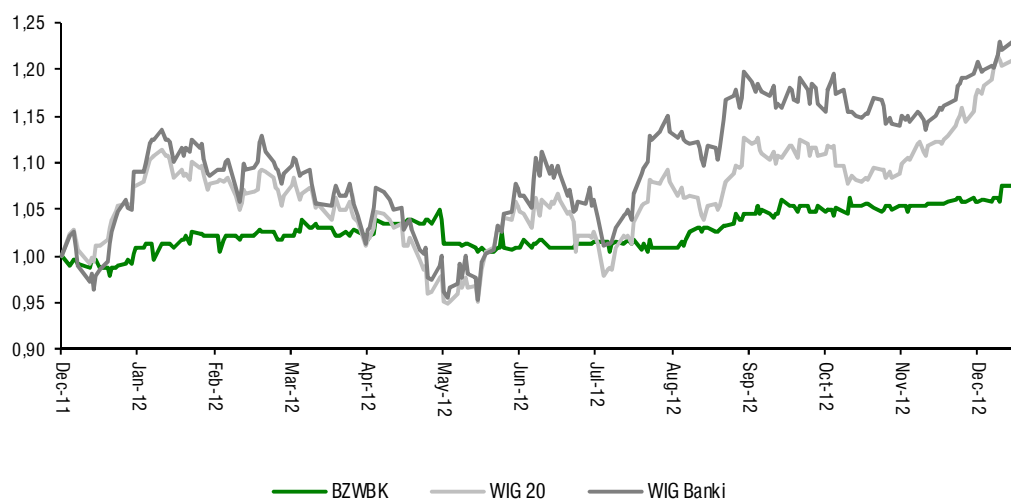
Price of Bank Zachodni WBK Shares in 2012



During the year, the share price increased by 7%, i.e. from PLN 226.00 as at 31 December 2011 to PLN 241.90 as at 31 December 2012. The maximum share price was PLN 242.90 (21 and 27 December 2012) versus the minimum of PLN 221 (17 January 2012).

As at 31 December 2012, capitalisation of Bank Zachodni WBK was PLN 18,054.8m compared to PLN 16,515.2m a year before. P/E ratio totalled 13.06 (vs. 14.26 as at the end of 2011) whereas P/BV amounted to 2.18 (vs. 2.42 as at the end of 2011).

Share Price of Bank Zachodni WBK* vs. Indices
BZ WBK Share Price, WIG-20 and WIG-Banki as at 31.12.2011 = 1.00



* As a consequence of the changes in the ownership structure, on 1 April 2011 the shares of Bank Zachodni WBK were removed from the stock market indices. In line with the methodology adopted by the Warsaw Stock Exchange, the companies with less than 10% of shares in free float may not be listed in the indices.

4. Dividend per Share

The Management Board of Bank Zachodni WBK will propose a dividend payout of PLN 7.60 per share for 2012. The final decision on the dividend payment and amount will be made by the General Meeting of Bank Zachodni WBK shareholders.

The Annual General Meeting of Shareholders of Bank Zachodni WBK held on 10 May 2012 resolved on allocation of PLN 584.6m of 2011 net profit for dividend to shareholders. The dividend of PLN 8 per share was paid out on 8 June 2012.

See the table in Chapter II "Basic Information", section 1 "History and Profile of Bank Zachodni WBK" for details of the dividend paid from 2008 to 2012.

5. Bank Zachodni WBK Rating

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

Bank Zachodni WBK Rating in 2012

In 2012, Fitch Ratings took four rating actions on Bank Zachodni WBK:

- On 25 January 2012, Fitch Ratings withdrew - globally - individual ratings for banks, and replaced them with Viability Ratings introduced in 2011. As a result, Individual Rating at "C" was removed from BZ WBK ratings.
- In its release of 13 February 2012, Fitch Ratings downgraded Long-term Issuer Default Rating from "A+" to "A-", removed it from Rating Watch Negative and assigned a negative outlook. The agency also downgraded Short-term Issuer Default Rating of the bank from "F1" to "F2" and removed it from Rating Watch Negative. The rating action on the bank followed the downgrade of Long-term Issuer Default Rating of Banco Santander from "AA-" to "A" and Viability Rating from "aa-" to "a", which largely reflected the deterioration in the Spain's risk profile (downgrade of the Spanish sovereign rating to "A"/Negative from "AA-").
- In its release of 1 March 2012, Fitch Ratings affirmed the support driven ratings of Bank Zachodni WBK, including its Long-term Issuer Default Rating (IDR) at "A-" with a negative outlook, and placed its "bbb" Viability Rating (VR) on Rating Watch Negative (RWN). These rating actions followed the statement made on 28 February 2012 by Banco Santander and KBC announcing the agreement to merge Bank Zachodni WBK and Kredyt Bank.
- On 14 June 2012, Fitch Ratings downgraded the Long-term IDR of Bank Zachodni WBK from "A-" to "BBB" with stable outlook, Short-term foreign currency IDR from "F2" to "F3" and the Support Rating from "1" to "2". The agency also affirmed BZ WBK's Viability Rating (VR) at 'bbb' and removed it from Rating Watch Negative (RWN). These rating actions followed the downgrade of Banco Santander S.A. on 11 June 2012 (to "BBB+"/Negative as a result of the downgrade of the Spanish sovereign rating), which reduced its ability to provide support to Bank Zachodni WBK. However, Fitch believed that Santander's propensity to provide support remained high, given the strategic importance of Polish banking operations to Santander. The IDRs of Bank Zachodni WBK are now based on the bank's intrinsic strength reflected in its VR of "bbb".

BZ WBK Rating Actions by Fitch Ratings in the period from 31 December 2011 to 31 December 2012

Rating type	Announcement of Fitch Ratings as of:				
	14.06.2012*	01.03.2012	13.02.2012	25.01.2012	22.12.2011**
Long-term IDR	BBB	A-	A-	A+	A+
Outlook for the long-term IDR rating	stable	negative	negative	RWN	RWN
Short-term IDR	F3	F2	F2	F1 (RWN)	F1 (RWN)
Viability Rating	bbb	bbb (RWN***)	bbb	bbb	bbb
Individual Rating	-	-	-	-	C
Support Rating	2	1	1	1	1

* BZ WBK rating valid as at 31.12.2012

** BZ WBK rating valid as at 31.12.2011

*** Risk Watch Negative

Ratings of Bank Zachodni WBK in 2013

On 10 January 2013, following the completion of the legal merger of Bank Zachodni WBK and Kredyt Bank, Fitch Ratings affirmed ratings of Bank Zachodni WBK and withdrew ratings of Kredyt Bank. As a result of these actions, the rating of the post-merger bank is as follows:

Rating type	Ratings confirmed by the announcement of Fitch Ratings as of 10.01.2013
Long-term IDR	BBB
Outlook for the long-term IDR rating	stable
Short-term IDR	F3
Viability Rating	bbb
Support Rating	2

Confirmed IDRs and individual VR reflect Fitch's view that the credit profile of the merged organisation is broadly in line with that of pre-merger BZ WBK, although it is slightly weaker owing to KB. Both ratings reflect the intrinsic strength of BZ WBK, i.e. robust performance, comfortable liquidity and capital position as well as a stable funding structure based on customer deposits. According to Fitch, risks arising from the bank's credit exposures to commercial property loans and residential mortgages are properly secured, given the high capitalisation and profitability of the merged bank.

The affirmed support rating means that the bank's majority shareholder - Banco Santander (Santander, "BBB+" / Negative) - will have a high propensity to provide support to the merged bank in case of need, given its strategic importance for Santander's business in Poland.

According to the base scenario developed by Fitch, prospective downgrade of the long-term IDR for Santander will not have any impact on BZ WBK rating. No VR or IDR upgrades are expected in the short- and medium-term perspective, given the merger-related organisational challenges for the bank, moderately negative impact of the merger, deterioration of the macroeconomic environment and the credit rating of Banco Santander.

X. Risk Management

1. Risk Management Principles

The main objective of risk management in Bank Zachodni WBK 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, credit risk, market risk and liquidity risk.

Risk management in Bank Zachodni WBK is consistent with the risk profile approved by the Risk Management Committee which corresponds to the general risk appetite defined by the bank. The risk appetite is expressed as quantitative limits and captured in "Risk Appetite Statement" approved by the Management Board and Supervisory Board. Limits are set using stress tests to ensure stability of the bank's position even if adverse circumstances materialise. Global limits are used to set watch limits and shape risk management policies.

The integrated risk management structure contains separate units responsible for measurement, monitoring and controlling risks in a way that ensures independence of the risk management functions from the risk-taking units. The responsibilities of the risk management units are defined by the risk management framework that governs the process of identifying, measuring and reporting the risks taken. Furthermore, limits are set on a regular basis to mitigate exposure to individual risks.

2. Risk Management Structure in Bank Zachodni WBK

The bank's Management Board is responsible for implementing an effective risk management system compliant with the bank's regulatory obligations and internal regulations. Specifically, the bank's role in this regard is to set up an organisational structure adjusted to the size and profile of the risks taken, segregate responsibilities to make risk assessment and control functions independent from operational functions, introduce risk management policies and ensure an adequate information policy.

The Management Board fulfils its risk management role through the Risk Management Committee (RMC), which is responsible for developing the risk management strategy across the bank, including identification of material risk types, setting the risk appetite and defining the methods of risk measurement, control, monitoring and reporting.

The Risk Management Committee supervises the activities of different risk management committees set up by the bank's Management Board. These committees, acting within their respective remits, are directly responsible for developing risk management methods and monitoring of risk levels in specific areas.

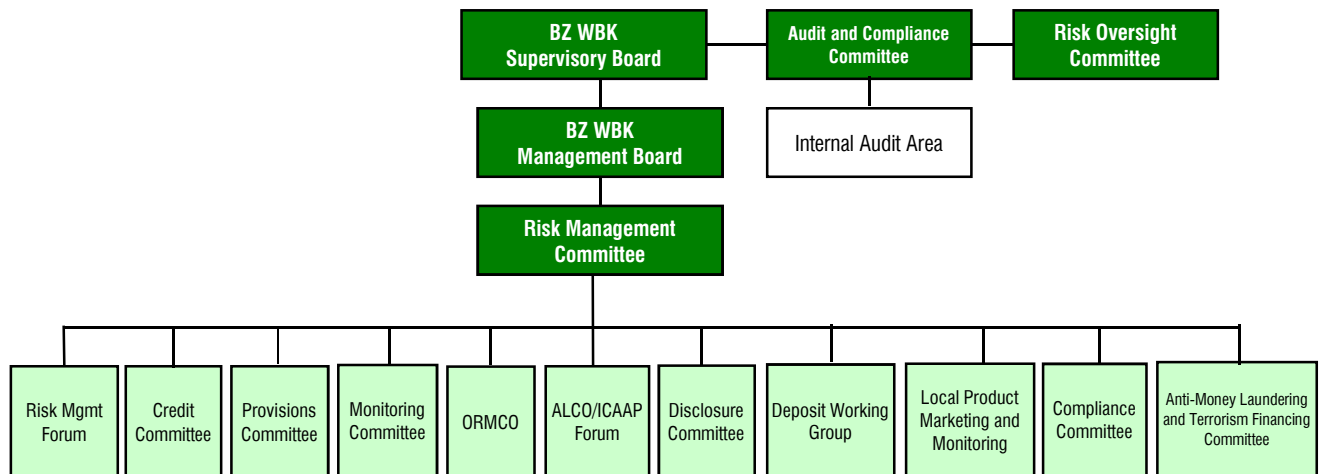
In 2012, the structure of the risk management committees was reviewed. The key change implemented as part of the review was to set up the Risk Management Forum, which became responsible for the supervision over credit risk, market risk and liquidity risk. Furthermore, the following Committees were established: Monitoring Committee, Local Product Marketing and Monitoring Committee and Compliance Committee.

RMC supervises the following risk committees:

- ✓ Risk Management Forum, operating through the following 4 panels: Credit Risk Panel, Market Risk Panel, Models and Methodology Panel and Equity Investments and Underwriting Panel;
- ✓ Credit Committee;
- ✓ Provisions Committee;
- ✓ Monitoring Committee;
- ✓ Operational Risk Management Committee (ORMCO);
- ✓ Assets and Liabilities Committee(ALCO);
- ✓ Disclosure Committee;
- ✓ Deposit Working Group;
- ✓ Local Product Marketing and Monitoring Committee;
- ✓ Compliance Committee;
- ✓ Anti-Money Laundering and Terrorism Financing Committee.

One of the priorities for 2013 is to carry out a smooth integration process following the merger of Bank Zachodni WBK and Kredyt Bank, including harmonisation of risk management policies, processes and systems.

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 bank'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 based on applicable credit delivery procedures and discretionary limits. The bank'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 bank uses collateral (financial and tangible assets) and specific covenants and clauses in agreements to mitigate credit risk.

The bank'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 actions to be taken in response to the first signals of changes in the portfolio quality or structure.

In 2012, the bank continued its conservative risk management policy with a focus on ensuring a balanced growth of the high-quality credit portfolio. The bank is constantly improving its processes and procedures for measuring, monitoring and managing the bank's credit risk. To this end, the bank has undertaken the following actions:

- In the context of the economic slowdown and instability in the currency market, which led to an increase in the risk charge and caused liquidity problems for customers, especially for the construction sector, the bank was closely looking at the external environment and analysing its exposure to the particular customer segments and economic sectors to adjust its credit policy parameters accordingly;
- Strengthened the role of the Risk Management Division, which became responsible for a consolidated credit risk management process, including management and supervision of credit delivery, defining credit policies, providing decision-making tools and credit risk measurement tools, quality assurance of the credit portfolio and provision of reliable management information on the credit portfolio;

- Reviewed the structure of the committees that take decisions on credit risk; appointed the Monitoring Committee, which is responsible for ensuring a continuous and effective monitoring of the credit portfolio of the business and the corporate segment. In 2012, the Recoveries Forum was established with a responsibility for recovering high-risk credit exposures and making regular reviews of the non-performing loans portfolio;
- Constantly developed and upgraded risk-based decision-making systems and methods of grading loans, allocating capital, measuring and increasing returns and monitoring of risk profile in all credit portfolios. In particular, the bank expanded the risk analysis of new SME loans by using an external database of borrowers "BIK Przedsiębiorca", which ensured a significant reduction of the risk of SME lending.

Like in the previous year, in 2013, the bank will be carefully monitoring developments in the macroeconomic situation to be able to maintain a high quality of the credit portfolio. Furthermore, the bank will continue to actively participate in the consultations on the updated KNF recommendations with regard to credit risk, namely: Recommendation T, pertaining to best practice in managing the risk of retail credit exposures and Recommendation S, pertaining to best practice in managing mortgage-backed credit exposures. Also, the bank's internal processes and procedures will be brought in line with the new provisions.

Credit Policy

In 2012, 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 and profitable loan book. The bank carries out its lending activity having full regard to applicable prudential regulations and standards. High quality of customer service is also treated as a priority. In 2012, a number of projects were delivered to enhance customer experience.

Bank Zachodni WBK 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 with the risks 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 the Credit Committee.

Credit Decision Making Process

Discretionary limits applied across the bank are governed by the guidelines on "Discretionary Limits in Bank Zachodni WBK". 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. The existing system of credit discretions ensures segregation of the credit risk approval function from the sales function.

Credit Grading

Intensive work has been undertaken by the bank for further development of the credit risk assessment tools to conform to the regulatory guidelines and regulations, taking account of the best market practice in risk management and accounting. The bank 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 bank 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 credit assessments.

Credit Reviews

The bank 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 carried out by the Credit Review Department and the Control & Quality Assessment Department, which are independent of the risk-taking units.

Collateral

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 assistance to credit units in credit decision making and development of credit policies with respect to collateral, 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 bank's condition. Stress tests are composed of assessment of 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 credit impairment charges are recognised in accordance with IAS/IFRS. The charges reflect credit impairment which is recognised if the bank 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 recommendations of the Basel Committee and the International Accounting Standards (IAS 39).

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

Twice a year, the bank compares the assumptions and parameters used for impairment calculations with the actual situation, including changes of economic conditions, amendments to the bank's credit policies and recovery process. The process provides assurance that impairment charges are recognised correctly. The responsibility for ensuring adequacy of the impairment 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	31.12.2012	31.12.2011	
Individually impaired (gross amount)	1 066,2	925,3	
Allowance for impairment	(514,8)	(399,0)	
Net amount (individually impaired)	551,4	526,3	
Collectively impaired (gross amount)	1 026,6	1 110,9	
Allowance for impairment	(606,2)	(583,8)	
Net amount (collectively impaired)	420,4	527,1	
IBNR portfolio	38 712,6	36 621,4	
- non-past due	37 343,9	35 624,0	
- past due	1 368,7	997,4	
IBNR provision	(324,4)	(331,2)	
Net amount (non-impaired)	38 388,2	36 290,2	
Other receivables	104,7	78,6	
Total	39 464,7	37 422,2	

4. Market Risk and Liquidity Risk Management

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

Market risk associated with the bank'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 the Risk Management Forum, to which direct supervision of market risk management has been delegated.

ALCO – supported by the Financial Management Division – is responsible for managing market risk in the banking book, while the market risk in the trading book is managed by the bank's Global Banking and Markets Division.

Identification and Assessment of Market Risk

In 2012, new rules were implemented with respect to management of market risk in the banking book and the trading book, following the model used in Santander Group.

Interest rate and FX risks associated with the banking book are managed by the newly created Financial Management Division. The Global Banking and Markets Division is responsible for managing the market risk on the trading portfolio.

The responsibility for the measurement, monitoring and reporting of market risk and compliance with the risk limits is vested in the Risk Management Division, which is also responsible for regular reviews of the market risk exposure, reporting the results to the Risk Management Forum.

With the new division of roles, management of the risk in the banking book is fully separate from the management of risk in the trading book, and the risk assessment and monitoring processes are separate from the risk-taking units.

The bank's market risk management policies set out a number of measures in the form of obligatory and watch limits and ratios. Limits are reviewed and risk appetite is updated on an annual basis. The process is co-ordinated by the Financial Risk Department in the Risk Management Division.

To control the banking book risk, the following maximum sensitivity limits have been set for the risk of interest rate changes:

- NII sensitivity limit (i.e. sensitivity of the net interest income to a parallel shift of the yield curve by 100 bp);
- MVE sensitivity limit (i.e. sensitivity of the market value of equity to a parallel shift of the yield curve by 100 bp).

Sensitivity measures for 2012

PLN k	NII Sensitivity	MVE Sensitivity
1 day holding period	31.12.2012	
Maximum	90	140
Average	48	70
As at the end of period	90	131
Limit	75	150

In Q4 2012, the NII limit was exceeded as a result of redevelopment of the investment portfolio structure. The excess was reported to the bank's Management Board and Supervisory Board.

BZ WBK uses the following measures and limits to mitigate and control its exposure to the market risk in the trading book:

- daily VaR limit for interest rate risk and FX risk, measured using the standards of Santander Group, and for repricing risk of equity instruments of Dom Maklerski WBK;
- PV01 limit set for individual currencies and transactions repricing dates;
- maximum limit of the total position and an open position for individual currencies;
- stop-loss mechanism.

As these measures relate to the calculation of a potential loss in the normal market conditions, Bank Zachodni WBK also uses stress tests, which show estimated potential losses in the event of materialisation of the adverse market conditions.

Risk measures as at 31.12.2012

PLN k	Interest Rate Risk VAR	FX Risk VAR
1 day holding period	31.12.2012 *	
Average	2 089	613
Maximum	5 261	1 542
Minimum	165	142
as at the end of the period	745	382
Limit	7 749	1 550

* Due to the change in the rules of market risk management and the change of VaR calculation methodology these data are not comparable with the 2011 data.

Liquidity Risk

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

The liquidity policy adopted by the bank is to ensure that all outflows expected within 1 month are fully covered by the anticipated inflows or liquid assets. In addition, the aim of the policy is to ensure an adequate structure of financing of the bank'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 2012, as in 2011, the bank focused on keeping its loan-to-deposit ratio at a comfortable level, which totalled 83.7% as at 31 December 2012. The bank also maintained a stable level of deposits from customers which constituted the main source of financing for Bank Zachodni WBK.

Liquidity Risk Management

ALCO and the Risk Management Forum have overall responsibility for the supervision of liquidity risk on behalf of the Management Board. As part of their roles, they make 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.

Liquidity management is the role of the Financial Management Division, which is responsible for development and maintenance of appropriate strategies. The Risk Management Division is responsible for an independent measurement and reporting of liquidity risk and shaping the liquidity risk management policies.

The Financial Risk Department in the Risk Management Division is also responsible for a regular performance of stress-tests with respect to liquidity, and for review of the contingency liquidity plan approved by the Management Board.

Identification and Assessment of Liquidity Risk

Liquidity risk is identified and measured daily, mainly using modified liquidity gap reports and regulatory reports. The reports include a number of internal and regulatory limits. Cyclical liquidity measurement reports are supported by stress test results. The bank regularly calculates the measures laid down in Basel III (LCR and NSFR).

Liquidity gap analysis as at 31.12.2011 and 31.12.2012

Liquidity Risk	PLN m			
	31.12.2012		31.12.2011	
	GAP	Cumulative GAP	GAP	Cumulative GAP
<1T	9 665,5	9 665,5	8 703,6	8 703,6
<1M	30,3	9 695,8	(444,8)	8 258,8
>1M	(9 695,8)	-	(8 258,8)	-

According to the bank'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 2012, 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 2012, 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

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

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

Bank Zachodni WBK 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 Bank Zachodni WBK. ORMCO is the main forum for discussions on operational risk. It sets out the strategic direction for operational risk management, determines and monitors objectives for managing operational risk, including business continuity, information security, outsourcing / insourcing and money laundering risk in business areas. The effects of this work are reported to the Risk Management Committee.

The bank's Information Security Management System has a certificate of compliance with ISO 27001:2005 standard.

The processes listed below are designed to ensure that operational risk is properly managed and major threats are identified:

- Identification and assessment of operational risk.

In their self-assessment process, organisational units identify risks present in their processes, systems or products, assess inherent and residual risks for their likelihood and impact, and describe the existing controls. As part of the self-assessment review, potential threats to the bank's business are identified. The risks with high residual rating have proper action plans developed whose progress is 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 is a tool aimed to reinforce and facilitate operational risk management; it ensures also that decisive steps are taken if any operational incidents materialise that lead or might lead to losses.

- Analysis of risk indicators.

Risk indicators are financial and operational indicators which depict the risk level present in the bank and provide early warning of emerging threats and operational losses.

- Business continuity management (BCM).

All organisational units are required to develop their BCM plans to ensure that critical business processes remain uninterrupted following an unplanned disruption. The strategies for recovery of critical process, laid down in the BCM plans, are developed on the basis of the Business Impact Analysis and cater for the risk of loss of location, IT systems, key staff or external service providers. BCM plans must be tested at least annually by each unit 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 (including key IT services) can be restored and continued should an incident occur.

- Regular reporting to the Risk Management Committee and Supervisory Board.

Operational risk reports cover, inter alia: operational risk incidents and losses, risk indicators and operational risk self-assessment.

- Insurance.

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

6. Legal and Regulatory (Compliance) Risk Management

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

Risk Identification and Assessment

In Bank Zachodni WBK, individual processes are managed by relevant units.

Responsibilities of the Legal and Compliance Division relate to the “conduct of business” compliance obligations, including implementation of new products, protection of clients’ rights, anti-money laundering, protection of sensitive information and protection of 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; compliance with taxation law and reporting requirements is the responsibility of Financial Accounting and Control Division, while compliance with prudential regulations is the responsibility of Risk Management Division.

Risk Management and Mitigation

The bank’s Management Board adopted a policy statement – consistent with the policy operated by the strategic shareholder – on compliance with legal and regulatory obligations, which was 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 monitoring of new products, regulatory activity, upcoming legislative initiatives and customers’ complaints.

The Risk Management Committee ensures execution of applicable regulations 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 Financial Accounting and Control Division, Risk Management Division and HR Management Division):

- independent identification, assessment and monitoring of compliance risk the bank is exposed to (with a particular focus on new or modified products and services and the issues connected with inside information, conflict of interest or private account shares dealings by employees);
- 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;
- centralisation of contacts with market regulators (KNF, UOKiK, GIIF and GIODO).

Legal and regulatory (compliance) risk management is coordinated by the Compliance Area reporting to the Management Board Member.

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 centralised units, Compliance Officers in dedicated units and subsidiaries, as well as staff of other controlling units acting on behalf of the Compliance Area (for branch network).

Risk prioritised annual compliance monitoring plans are prepared based on the risk assessment process. Monitoring is particularly focused on the issues connected with MiFID compliance.

The annual monitoring plan, accepted by the Audit and Compliance Committee, is reviewed and updated on a regular basis. Issues emerging from compliance monitoring are escalated for management attention, and action plans and implementation dates are agreed with the Compliance Area, which is also responsible for monitoring the timeliness and quality of delivery of such action plans.

7. Reputation Risk Management

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

The potential sources of the risk are internal and external operational incidents, such as adverse publicity, dissemination of negative feedback from customers e.g. on the Internet, in social media and other mass media. The elements of the reputation risk include customer complaints and claims related to the process of offering banking products, including complaints about insufficient information about products and related risks, complexity of products, improper sales practices or loss of capital.

The owner of the reputation risk is Corporate Communication and Marketing Area (CC&MA) and Compliance Area (CA).

The objective of the reputation risk management process is to protect the image of Bank Zachodni WBK and to limit and eliminate negative events which affect the image and financial results of Bank Zachodni WBK.

Key risk mitigation measures:

- Monitoring of local and nationwide media and some international mass media sources (CC&MA);
- Collection and analysis by the Press Office of image-sensitive information (CC&MA);
- Response to information which poses a threat to public perception of the bank's image (CC&MA);
- Customer satisfaction index (CC&MA);
- Preparation and control by relevant Bank Zachodni WBK units of all important communiqués and reports for the shareholders, the Polish Financial Supervision Authority and the Warsaw Stock Exchange; and timely publication of such communiqués and reports;
- Giving opinion on new products, procedures, commercial materials, processes and other bank initiatives in respect of their compliance with the regulations and the regulators' guidelines (CA);
- Participation in the process of handling customer complaints, especially those addressed to the regulators (CA).

No quantitative risk measurement is carried out or planned for the reputation risk as this risk is qualitative in its nature.

8. Capital Management

Introduction

It is the policy of Bank Zachodni WBK 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 II).

Basel II 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-à-vis different economic conditions and assessment of stress test results and their impact on internal capital level and adequacy. Responsibility for the 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 the Assets and Liabilities Committee (ALCO). 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 actions which affect the capital base (recommending e.g. the amount of dividend to be paid out). ALCO defines the capital policy, principles of capital management and principles of capital adequacy assessment. ALCO reviews and approves capital plans, and sets out principles of capital allocation to individual business segments when assessing their profitability. Any final decisions on movements in the capital level (increase or release) are taken by appropriate governing bodies in the bank in line with applicable laws and the bank's Statutes.

Capital Policy

The capital management policy of BZ WBK provides for a minimum solvency ratio of 10% (the ratio is calculated in accordance with the Banking Law and the resolutions of the Polish Financial Supervision Authority). The watch limit is set at 12%.

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) should not be lower than 9%.

Regulatory Capital

Pillar 1 risks and capital required to cover such risks are assessed quantitatively using regulatory measurement methods. The bank 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 risk categories 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 bank as at 31 December 2011 and 31 December 2012.

		PLN m	
		31.12.2012	31.12.2011
I	Total Capital requirement (Ia+Ib+Ic+Id), of which:	3 649,9	3 406,1
Ia	- due to credit risk	3 133,5	2 898,8
Ib	- due to market risk	14,2	38,8
Ic	- due to settlement / counterparty risk	42,5	44,2
Id	- due to operational risk	459,7	424,3
II	Total own funds	7 899,5	6 617,2
III	Reductions	378,2	399,1
IV	Own funds after reductions (II-III)	7 521,3	6 218,1
V	CAD [IV/(I*12.5)]	16,49%	14,60%

Internal Capital

The underlying aim of Pillar 2 of the New Capital Accord is to carry out assessment of the internal capital adequacy, both current and future (ICAAP), independent from the regulatory methods.

Under the ICAAP process, the Bank Zachodni WBK estimates, allocates and maintains the required level of internal capital to ensure secure conduct of its banking business in accordance with the bank's risk appetite statement.

In 2012, BZ WBK finalised implementation of the new internal capital assessment methodology. The new internal capital assessment model is based on the statistical loss estimation models for measurable risks, such as credit risk or operational risk, and own assessment of capital requirements for other material risks not covered by the model, e.g. reputation risk, compliance risk or model risk.

The internal capital assessment process uses the bank's internal risk assessment models, including rating and scoring systems, and the risk parameters coming from these models, showing the likelihood of default by BZ WBK customers and suffering potential losses as a result.

Results of the ICAAP process are an element of assessment of the current and future capital requirements, and are the basis for the assessment of risk appetite and the bank's strategy.

BZ WBK performs an internal assessment of capital requirements also in stressed conditions, taking into account different macroeconomic scenarios.

The internal capital estimation models are assessed and reviewed annually to adjust them to the scale and profile of the bank's business and to take account of any new risks and the management judgement.

The review and assessment is the responsibility of the bank's risk management committees, including: ALCO and the Models and Methodology Panel, which is part of the Risk Management Forum.

XI. Statement on Corporate Governance in 2012

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 of 11 December 2007.

In relation to the above and pursuant to WSE Management Board Resolution no. 718/2009 of 16 December 2009, preparation of the Representations on Corporate Governance in 2012 in line with the Ordinance of the Minister of Finance of 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 publishing of the representations as part of the annual report means 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 2012 are set forth in "Code of Best Practice for WSE Listed Companies" which constitutes an appendix to WSE Supervisory Board Resolution no. 20/1287/2011 of 19 October 2011 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 valid from 1 January 2012 until 31 December 2012. The original code was introduced by virtue of WSE Supervisory Board Resolution no. 12/1170/2007 of 4 July 2007 on introduction of "Code of Best Practice for WSE Listed Companies".

The updated code of best practice effective until the end of 2012 had been approved for use in Bank Zachodni WBK by virtue of BZ WBK Management Board Resolution no. 142/2011 of 6 December 2011, and accepted by BZ WBK Supervisory Board. In December 2012, measures were taken to implement the updated version of "Code of Best Practice for WSE Listed Companies" which was introduced by virtue of WSE Supervisory Board Resolution no. 19/130/2012 of 21 November 2012, effective since 1 January 2013. The changes are related mainly to general meetings held by public companies via electronic channels.

Bank Zachodni WBK has complied with the official corporate governance rules since 2002 when the first version of the code of best practice was published ("Best Practice for Public Companies in 2002").

3. Management Board's Statement on Corporate Governance

In 2012, 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 2012, the shareholder having minimum 5% of the total number of votes at the BZ WBK 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 was 94.23%, which was down by 2.02 p.p. YoY as a result of an increase in the bank's share capital (effective from 9 August 2012) through the issue of 1,561,618 series I shares placed in full with the European Bank for Reconstruction and Development (EBRD). The remaining shares were in free float.

Shareholder	Number of Shares Held		Number of Votes at AGM		% in the Share Capital & Voting Power at AGM	
	31.12.2012	31.12.2011	31.12.2012	31.12.2011	31.12.2012	31.12.2011
Banco Santander S.A.	70 334 512	70 334 512	70 334 512	70 334 512	94,23%	96,25%
Others	4 303 119	2 741 501	4 303 119	2 741 501	5,77%	3,75%
Total	74 637 631	73 076 013	74 637 631	73 076 013	100,0%	100,0%

On 4 January 2013, the merger of Bank Zachodni WBK and Kredyt Bank, and an increase in the share capital of the merged entity were entered into the Business Register. The merger was effected by way of a transfer of all of the assets of Kredyt Bank to Bank Zachodni WBK (a merger through acquisition) in exchange for 18,907,458 newly issued series J shares allotted to all of the existing shareholders of Kredyt Bank at the exchange ratio of 6.96 merger issue shares for 100 shares in Kredyt Bank. KBC Bank NV – the majority shareholder of Kredyt Bank – acquired 15,125,966 merger shares representing 16.17% of total votes at the GM of Bank Zachodni WBK, becoming the second shareholder, after Banco Santander S.A., with the min. 5% voting power at the GM.

Consequently, as at 4 January 2013, the ownership structure of the merged bank was as follows:

Shareholder	Number of Shares Held	% in the Share Capital	Number of Votes at AGM	Voting Power at AGM
Banco Santander S.A.	70 334 512	75,19%	70 334 512	75,19%
KBC NV	15 125 966	16,17%	15 125 966	16,17%
Others	8 084 611	8,64%	8 084 611	8,64%
Total	93 545 089	100,0%	93 545 089	100,0%

For detailed information about the above-mentioned event, please see Chapter VI “Key Projects, Developments and Other Information”, section “Legal Merger with Kredyt Bank”.

In the Investment Agreement of 27 February 2012 between Banco Santander and KBC Bank IV on the intended merger of Bank Zachodni WBK and Kredyt Bank, Banco Santander undertook to make joint effort with KBC Bank NV – following the merger – to reduce the latter’s stake in the merged bank from above 16% to below 10%. Banco Santander S.A. will consequently take measures to offer shares of the Belgian bank to investors. It is the intention of KBC Bank NV to sell the remaining stake as well.

Rights and Restrictions Attaching to the Issuer's Securities

The shares of Bank Zachodni WBK 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 31.12.2011, 31.12.2012 and 04.01.2013

Date of change	Series /issue	Type of share	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue (in PLN)
until 9.07.2012	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
	I	bearer	none	none	1 561 618	15 616 180
	J	bearer	none	none	18 907 458	189 074 580
from 4.01.2013	Total				93 545 089	935 450 890

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 as a parent entity of Bank Zachodni WBK arise from the number of shares and the resulting share of the voting power at the General Meeting of Shareholders of Bank Zachodni WBK.

5. Governing Bodies

General Meeting of Shareholders

Annual General Meeting of Shareholders of Bank Zachodni WBK

The Annual General Meeting of Shareholders of Bank Zachodni WBK (AGM) held on 10 May 2012 approved the 2011 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 a new member of the Supervisory Board, adopted general rules on variable components of remuneration paid to individuals holding managerial positions in the Group and resolved on distribution of the net profit and dividend payment of PLN 8 per share. The AGM also adopted a resolution regarding an increase in the bank's share capital through the issue of series I ordinary bearer shares (along with a waiver of the existing shareholders' preemptive rights), amendment of the bank's Statutes and measures to be taken with a view to admitting and introducing the shares to trading on the regulated market operated by the Warsaw Stock Exchange.

Extraordinary General Meetings of Shareholders of Bank Zachodni WBK

The Extraordinary General Meeting of Shareholders of Bank Zachodni WBK (EGM) held on 30 July 2012 acknowledged the presentation of key elements of the plan of merger between Bank Zachodni WBK and Kredyt Bank together with an audit opinion, and all the material changes to assets and liabilities which occurred between the date of the merger plan and the date of the merger resolution. The EGM adopted a resolution regarding the merger of Bank Zachodni WBK and Kredyt Bank, increase in the share capital of Bank Zachodni WBK, amendment of the Statutes, dematerialisation of the series J shares and seeking of the admission and introduction thereof to trading on the regulated market operated by the Warsaw Stock Exchange.

The next Extraordinary General Meeting of Bank Zachodni WBK held on 13 February 2013 appointed two new members of the Supervisory Board nominated by the shareholders of the European Bank for Reconstruction and Development and KBC Bank NV.

Organisation and Powers of the General Meeting of Shareholders

The 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.

The 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 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 the GM, demand copies of requests included in the GM agenda;
 - ✓ have access to minutes of the 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 the 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 gives one vote at the GM).
- Shareholders may attend the GM and vote personally or through proxies. In line with the Terms of Reference, shareholders may also participate in the GM via electronic communication channels.

Method of Changing the Statutes

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

In 2012, the Statutes of Bank Zachodni WBK, in particular § 10 thereof, were amended twice in relation to an increase in the company's share capital through the share issue.

- By virtue of the resolution of the Annual General Meeting of 10 May 2012, the share capital of Bank Zachodni WBK was increased by PLN 15,616,180 up to PLN 746,376,310 through the issue of 1,561,618 ordinary series I bearer shares having a nominal value of PLN 10.00 each.
- Pursuant to the resolution of the Extraordinary General Meeting of 30 July 2012, the share capital of Bank Zachodni WBK was increased by PLN 189,074,580 up to PLN 935,450,890 through the issue of 18,907,458 ordinary series J bearer shares having a nominal value of PLN 10.00 each (merger issue shares).

Supervisory Board

Composition of the Supervisory Board

Below is the composition of the Bank Zachodni WBK Supervisory Board as at 31.12.2012 and 31.12.2011.

Role in the Supervisory Board	Composition as at 31.12.2012	Composition as at 31.12.2011
Chairman of the Supervisory Board:	1. Gerry Byrne	1. Gerry Byrne
Vice-Chairman of the Supervisory Board:	2. José Manuel Varela	2. José Manuel Varela
Members of the Supervisory Board:	3. José Antonio Alvarez	3. José Antonio Alvarez
	4. Witold Jurcewicz	4. Witold Jurcewicz
	5. José Luis de Mora	5. José Luis de Mora
	-	6. Piotr Partyga
	6. John Power	7. John Power
	7. Jerzy Surma	-

The members of the Supervisory Board as at 31 December 2012 were appointed for a joint 3-year term of office by the GM held on 20 April 2011, except for Jerzy Surma who was nominated by the GM held on 10 May 2012. On that day, Piotr Partyga resigned as a member of the Supervisory Board in view of his appointment as a member of the bank's Management Board for a new term of office.

As at 31 December 2012, the following members of the Supervisory Board held an independent status: Witold Jurcewicz, John Power and Jerzy Surma.

On 13 February 2013, the Extraordinary General Meeting of Shareholders of Bank Zachodni WBK appointed two new members of the Supervisory Board: David R. Hexter and Guy Libot, who had been nominated by the shareholders of the European Bank for Reconstruction and Development and KBC Bank NV.

In the period from 1 January to 31 December 2012, 6 Supervisory Board meetings were held at which 60 resolutions were passed. Average attendance was 98%.

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 Chairman, 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 31.12.2012

Supervisory Board Committee	Role	Ref.	Composition
Audit and Compliance Committee	Chairman:	1.	John Power
	Members:	2.	Witold Jurcewicz
		3.	Jerzy Surma
		4.	José Manuel Varela
Risk Oversight Committee	Chairman:	1.	John Power
	Members:	2.	Witold Jurcewicz
		3.	Jerzy Surma
		4.	José Manuel Varela
Remuneration and Nominations Committee	Chairman:	1.	Gerry Byrne
	Members:	2.	José Antonio Alvarez
		3.	José 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 law, KNF requirements and the accounting policies. Furthermore, the Committee assesses the effectiveness of the 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 (not attended by the bank's Management Board members) as well as with the Management Board members 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 general risk management framework, reviews the Risk Appetite Statement, assesses the business strategy in terms of its adequacy for the risk exposure as well as goals and financial plans of the organisation, verifies the risk profile and monitors internal controls.

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 Chairman or the members find it necessary. The quorum is two.

The Remuneration and Nominations Committee presents the Supervisory Board with recommendations about remuneration policies and practices, performs an annual review of remuneration for members of the Management and Supervisory Boards and the bonus scheme for Management Board members, analyses the proposed incentive solutions and other remuneration schemes for the bank and subsidiaries.

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

Management Board

The table below presents the composition of Bank Zachodni WBK Management Board as at 31.12.2011 and 31.12.2012 together with the roles and responsibilities of its members.

Role in the Management Board	Ref.	Composition as at 31.12.2012	Reporting Areas 2012	Ref.	Composition as at 31.12.2011	Reporting Areas 2011
President of the Board:	1.	Mateusz Morawiecki	Units reporting directly to President: Internal Audit Area, Corporate Communications & Marketing Area	1.	Mateusz Morawiecki	Reporting units: Credit Division, Internal Audit Area, Corporate Communications & Marketing Area, Wealth Management Department, Bancassurance Office, Treasury Division
Members of the Board:	2.	Andrzej Burliga	Risk Management Division	2.	Andrzej Burliga	Risk Management Division
	3.	Eamonn Crowley	Financial Management Division	3.	Eamonn Crowley	Finance Division
	-	-	-	4.	Justyn Konieczny	Equity Area
	4.	Michael McCarthy	Business and Corporate Banking Division	5.	Michael McCarthy	Business and Corporate Banking Division
	5.	Piotr Partyga	Human Resources Management Division	6.	Janusz Krawczyk	Human Resources Management Division
	6.	Juan de Porras Aguirre	Global Banking & Markets Division	7.	Juan de Porras Aguirre	Global Banking & Markets Division
	7.	Marcin Prell	Legal and Compliance Division	8.	Marcin Prell	Legal and Compliance Division
	8.	Marco Antonio Silva Rojas	Financial Accounting & Control Division	-	-	-
	9.	Mirosław Skiba	Retail Banking Division	9.	Mirosław Skiba	Retail Banking Division
	10.	Feliks Szyszkiwiak	Business Support Division	10.	Feliks Szyszkiwiak	Business Support Division

In 2012, the composition of the Management Board of Bank Zachodni WBK changed as follows:

- On 8 May 2012, the bank informed about resignation of Justyn Konieczny (in charge of the Equity Area) and Janusz Krawczyk (in charge of the HR Management Division) as MB members in the next term of office starting from 10 May 2012.
- On 10 May 2012, the Supervisory Board of Bank Zachodni WBK appointed all the remaining members of the Management Board for the next term of office and nominated Piotr Partyga as a new MB member who took over from Janusz Krawczyk as Head of the HR Management Division.
- On 30 August 2012, the Supervisory Board appointed Marco Antonio Silva Rojas as a member of the Management Board in charge of the Accounting and Financial Control Division (which was spun off the former Finance Division), effective from 3 September 2012. Other responsibilities, in particular assets and liabilities management, were delegated to the Financial Management Division headed by Eamonn Crowley, a Management Board member.

Appointment and Removal of Executives

The members of the 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 have higher education, be permanent residents of Poland, speak Polish, have 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

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, Credit Committee, Provisions Committee, Risk Management Forum, Credit Policy Forum for Retail Portfolios, Credit Policy Forum for SME Portfolios, Credit Policy Forum for Business and Corporate Portfolios, Assets and Liabilities Committee (ALCO), Operational Risk Management Committee, Deposit Working Group, CRM Committee, Settlement Committee, Anti-Money Laundering and Terrorist Financing Committee, Urban Regeneration Fund Investment Committee, Procurement Investment Forum, Procurement Investment Committee, Compliance Committee, Local Product Marketing and Monitoring Committee, Monitoring 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 31 December 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 of 20 April 2011.

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 2012 and the comparable period is presented in Note 44 to the Financial Statements of Bank Zachodni WBK for 2012.

Agreements between Bank Zachodni WBK and its Executive Directors

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 2012 and 31 December 2011, none of the members of the Supervisory Board held any shares of Bank Zachodni WBK.

Under the 1st BZ WBK Share Incentive Scheme launched in 2006, members of the Management Board were allocated 23,084 out of 115,729 of series H shares issued as part of the conditional increase in 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 attached rights held by the Management Board members as of 31 December 2012 and 31 December 2011.

Management Board Members	31.12.2012		31.12.2011	
	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
Janusz Krawczyk *			3 397	3 854
Michael McCarthy	-	4 875	-	4 875
Piotr Partyga **	-	2 855		
Juan de Porras Aguirre	-	-	-	-
Marcin Prell	2 530	3 704	2 530	3 704
Marco Antonio Silva Rojas ***	-	-		
Mirosław Skiba	1 575	4 282	1 575	4 282
Feliks Szyszkowiak	1 755	4 449	3 438	4 449
Total	11 057	38 570	19 728	44 852

* Justyn Konieczny and Janusz Krawczyk decided not to apply for re-election to BZ WBK Management Board on 10 May 2012.

** Piotr Partyga was appointed as BZ WBK Management Board Member for a new term of office on 10 May 2012.

*** Marco Antonio Silva Rojas was appointed as BZ WBK Management Board Member on 30 August 2012, effective from 3 September 2012

6. Control System of Financial Statements

Internal Control System and Risk Management

Bank Zachodni WBK 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, international standards, internal regulations and best practice. The internal control system is adjusted to the organisational structure and risk management system and covers the Business Support Centre, branches and Partner outlets. 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.

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 the head of the division. The document defines the roles and responsibilities within each business area, including quality and processing of financial data. The internal control model in place allows for systematic verification of controls in terms of their effectiveness. The results are regularly escalated to and reviewed by the bank's Management Board and Audit and Compliance Committee of the Supervisory Board of Bank Zachodni WBK.

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 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. Bank Zachodni WBK has a BCM plan in place, which covers all IT systems used to prepare financial reports. The plan is updated on an on-going basis.

The bank follows legal and regulatory changes related to reporting and updates its accounting rules and disclosures accordingly.

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 additionally assessed by an independent external auditor as part of annual 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 operates as a material and independent organisation within the structure of Santander Group 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, the certification process for compliance with Sarbanes-Oxley Act in 2012 covered all key business areas of Bank Zachodni WBK and was carried out using solutions and methodology based on the Santander Group's approach. The scope of testing included risk factors which were particularly significant for the reliability and accuracy of financial statements. 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 (Global Framework).

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 for 2012, the bank's management confirmed that no incidents were identified in Bank Zachodni WBK 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 (10) of the Statutes of Bank Zachodni WBK, applicable regulations and industry practice, on 10 May 2012 the bank's Supervisory Board passed a resolution appointing Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: 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 2012 and the entire year 2012. The bank also contracted Deloitte Polska 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 S.A. ensures a consistent approach to the audit process across Santander Group, including certification for compliance with the American Sarbanes-Oxley Act. Banco Santander S.A. selects auditors for a fixed period of time, from three to nine years, starting from the beginning of the first financial year.

Remuneration of Auditor

The table below shows the remuneration paid to Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) for audit/review of the financial statements of Bank Zachodni WBK pursuant to the agreements concluded in 2011 and 2012.

Remuneration of External Auditors	PLN k	
	Reporting Year ended on 31.12.2012*	Reporting Year ended on 31.12.2011**
Audit fees in respect of the parent bank	927	860
Audit fees related to the assurance services, including the review of the parent bank	1 510	860

Remuneration based on the following agreements:

* 1) Agreement on Audit of Consolidation Package (for H1 2012) of 10 May 2012; 2) Agreement on Review of Financial Statements of 10 May 2012; 3) Agreement on Audit of Financial Statements of 12 October 2012 with Annex no 1; 4) Agreement on Audit of Consolidation Package (for H2 2012) of 12 October 2012 with Annex no 1; 5) Agreement on Review of Financial Statements (for 9-month period) of 5 November 2012.

** 1) Agreement on Audit and Review of Financial Statements of 6 June 2011; 2) Agreement on Audit of Consolidation Package of 6 June 2011.

7. Pending Court Proceedings

As at 31 December 2012, no case was pending before any court or state administration agencies with relation to any claims made by or against the bank that would equal or exceed 10% of the bank's equity.

Court Proceedings with BZ WBK as a Party	PLN m	
	31.12.2012	31.12.2011
Amounts claimed by the bank	36,1	36,2
Claims against the bank	78,0	131,2
Receivables due to bankruptcy or arrangement cases	0,1	5,3
Value of all litigation	114,2	172,7
Share [%] of all litigation in equity	1,4%	2,5%
Completed significant court proceedings	78,0	23,0

XII. Representations of the Management Board

True and Fair Presentation of the Financial Statements

According to the Management Board's best knowledge, the financial figures and the comparable data presented in the financial statements incorporated in the Annual Report of Bank Zachodni WBK for 2012 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. The Management Board's Report contained in this document shows a true picture of the development, achievements and position of Bank Zachodni WBK (including the underlying risks) in 2012.

Selection of Auditor

The auditing firm responsible for auditing the annual financial statements of Bank Zachodni WBK for 2012 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
7.03.2013	Mateusz Morawiecki	President of the Board	
7.03.2013	Andrzej Burliga	Member	
7.03.2013	Eamonn Crowley	Member	
7.03.2013	Michael McCarthy	Member	
7.03.2013	Piotr Partyga	Member	
7.03.2013	Juan de Porras Aguirre	Member	
7.03.2013	Marcin Prell	Member	
7.03.2013	Marco Antonio Silva Rojas	Member	
7.03.2013	Mirostlaw Skiba	Member	
7.03.2013	Feliks Szyszkowski	Member	