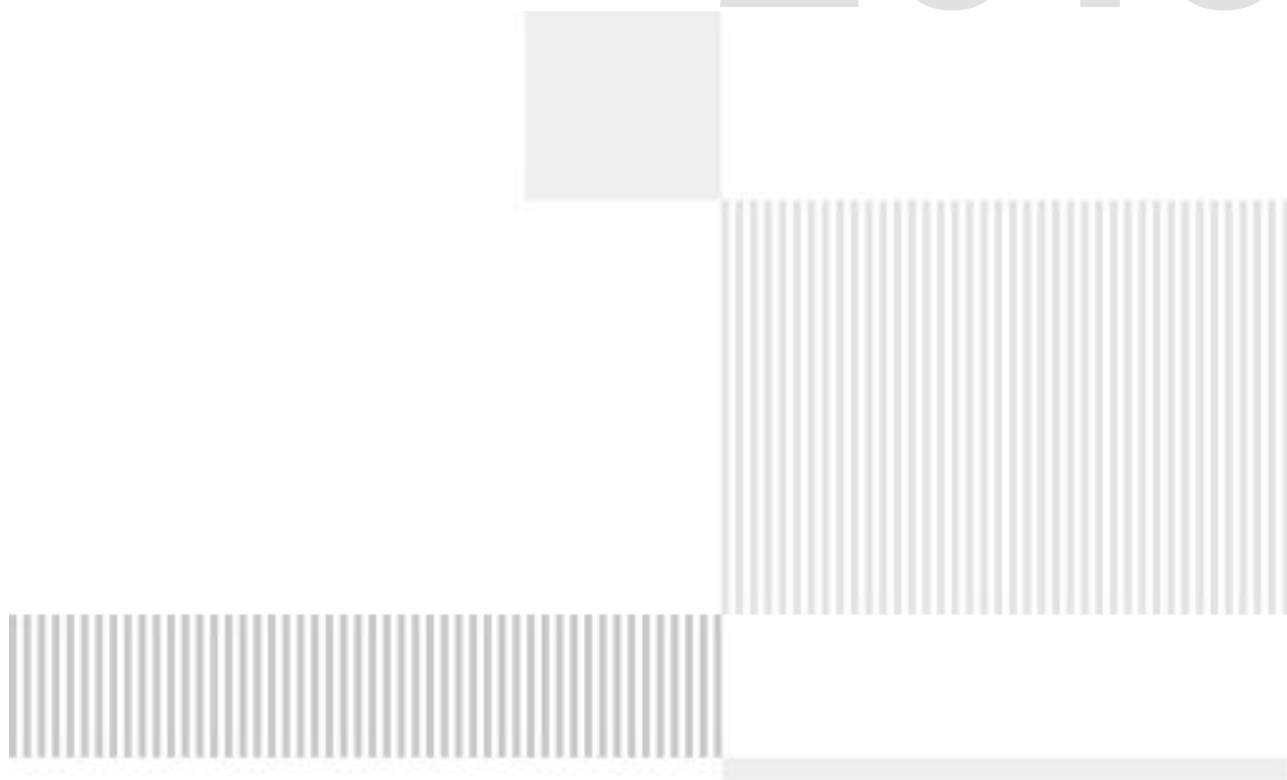


MANAGEMENT BOARD REPORT ON BANK ZACHODNI WBK GROUP PERFORMANCE IN 2016

(including Management Board Report on Bank Zachodni WBK Performance)

2016



Bank Zachodni WBK

 Grupa Santander

CONTENTS

I. Overview of Bank Zachodni WBK and BZ WBK Group Performance in 2016	3
II. Basic Information about Bank Zachodni WBK and BZ WBK Group	8
1. History, Ownership Structure and Profile.....	8
2. Market Position	11
3. Entities Related with Bank Zachodni WBK	12
4. Other Equity Investments	15
III. Macroeconomic Situation in 2016	16
IV. Development Strategy	20
1. Mission, Vision, Values and Strategic Objectives for 2016-2018.....	20
2. Delivery of Strategy of Bank Zachodni WBK Group in 2016.....	21
3. Strategic Priorities for 2017-2019	22
V. Human Resources and Corporate Culture	24
1. Human Resources Management.....	24
2. Business Ethics.....	28
3. Corporate Social Responsibility of Bank Zachodni WBK.....	28
4. Customer Relationship Management	30
5. Awards, Recognitions, Ratings	32
VI. Business Development	34
1. Bank Zachodni WBK and Selected Subsidiaries.....	34
1.1. Retail Banking	34
1.2. SME Banking.....	41
1.3. Business and Corporate Banking.....	44
1.4. Global Corporate Banking	47
2. Santander Consumer Bank Group.....	49
VII. Organisational, Infrastructural and Technological Development	53
1. Organisational Changes	53
2. Development of Selected Distribution Channels.....	54
3. IT Development	56
4. Capital Expenditures	57
VIII. Financial Situation of Bank Zachodni WBK and BZ WBK Group.....	58
1. Income Statement of Bank Zachodni WBK Group	58
2. Financial Position of Bank Zachodni WBK Group.....	68
3. Income Statement of Bank Zachodni WBK	75
4. Financial Position of Bank Zachodni WBK	78
5. Selected Financial Ratios of Bank Zachodni WBK and BZ WBK Group	80
6. Additional Financial Information on Bank Zachodni WBK and BZ WBK Group.....	81
7. Factors which May Affect Financial Results of Bank Zachodni WBK and BZ WBK Group in 2017	83
IX. Investor Relations	84
1. Investor Relations at Bank Zachodni WBK.....	84
2. Share Capital, Ownership Structure and Share Price.....	84
3. Bank Zachodni WBK Rating.....	87
X. Risk Management.....	89
1. Risk Management Principles and Structure in Bank Zachodni WBK and Bank Zachodni WBK Group	89
2. Credit Risk Management.....	91
3. Market Risk and Liquidity Risk Management	94
4. Operational Risk Management.....	97
5. Legal and Compliance Risk Management.....	98
6. Reputational Risk Management	99
7. Capital Management	100
XI. Statement on Corporate Governance in 2016	104
1. Legal Basis	104
2. Code of Best Practice	104
3. Management Board's Statement on Corporate Governance	104
4. Issuer's Securities	105
5. Governing Bodies	106
6. Diversity Policy.....	115
7. Control System of Financial Statements	116
8. Pending Court Proceedings.....	119
XII. Representations of the Management Board	120

I. Overview of Bank Zachodni WBK and BZ WBK Group Performance in 2016

The present „Management Board Report on Bank Zachodni WBK Group Performance in 2016” includes information scope required of the Management Board Report on Bank Zachodni WBK.

This section provides an overview of the activity of Bank Zachodni WBK (BZ WBK) and Bank Zachodni WBK Group (BZ WBK Group) in 2016. It presents the financial, business and organisational performance compared with the previous year, and reports on the internal and external factors affecting the Group's activities.

Financial and Business Highlights of Bank Zachodni WBK Group

Key Financial and Business Highlights of BZ WBK Group for 2016	
Total Income	<ul style="list-style-type: none"> Total income of Bank Zachodni WBK Group (BZ WBK Group) for 2016 increased by 0.9% YoY to PLN 7,606.2m. Excluding one-off gains on equity transactions (PLN 316.1m from settlement of acquisition of Visa Europe Ltd. by Visa Inc. in 2016 and PLN 523m from partial disposal and loss of control over BZ WBK-Aviva TUnž and BZ WBK-Aviva TUO in 2015), the underlying total income increased by 3.9% YoY.
Total Costs	<ul style="list-style-type: none"> Total costs decreased by 5.9% YoY to PLN 3,367.7m. Excluding obligatory contributions made under the deposit guarantee scheme to cover reimbursements of guaranteed funds to depositors of insolvent cooperative banks (PLN 13.5m in 2016 and PLN 183.8m in 2015), the underlying cost base was reduced by 1.2% YoY.
Profit	<ul style="list-style-type: none"> Profit before tax amounted to PLN 3,122.1m, down 1.8% YoY. Adjusting income and costs as above and excluding banking tax, the underlying profit before tax increased by 12.9% YoY. Profit attributable to the shareholders of Bank Zachodni WBK was PLN 2,166.8m and 6.9% lower YoY (12.5% higher on a comparable basis).
Capital Ratio	<ul style="list-style-type: none"> Capital ratio stood at 15.05% (14.62% as at 31 December 2015), ensuring security of operations and a stable growth.
ROE	<ul style="list-style-type: none"> Return on Equity (ROE) was 12.8% (15.1% as at 31 December 2015), and 11.6% excluding one-off items (13.7% as at 31 December 2015). The marked decrease in the ROE ratio results from the introduction of a tax on financial institutions and increased capital requirements imposed by the banking supervision authorities.
Costs/Income	<ul style="list-style-type: none"> Cost to income ratio was 46.0% (48.4% in 2015), excluding one-off items.
Net Impairment Losses	<ul style="list-style-type: none"> Net impairment losses on loans and advances amounted to PLN 784.6m compared with PLN 810.7m in 2015.
Credit Quality	<ul style="list-style-type: none"> NPL ratio was 6.6% (7.3% as at 31 December 2015), while the ratio of impairment losses to the average gross credit volumes was 0.75% (0.85% as at 31 December 2015).
Loans to Customers	<ul style="list-style-type: none"> Gross loans to customers increased by 7.9% YoY to PLN 107,947.4m due to the growth of 8.4% YoY in personal loans and 4.2% YoY in loans to enterprises and the public sector to PLN 56,291.4m and PLN 45,375.7m, respectively.
Deposits from Customers	<ul style="list-style-type: none"> Deposits from customers increased by 11.1% YoY to PLN 112,522.5m as a result of the expansion of deposits from enterprises and the public sector by 16.5% YoY to PLN 48,974.6m and increase of 7.3% YoY in personal deposits to PLN 63,547.9m.
Loans/Deposits	<ul style="list-style-type: none"> Customer loans to deposit ratio was 91.6% as at 31 December 2016 compared with 93.7% as at 31 December 2015.
Net Assets under Management	<ul style="list-style-type: none"> Net value of assets in mutual funds and private portfolios increased by 6.4% YoY to PLN 13.8bn.
Electronic Banking	<ul style="list-style-type: none"> The number of customers using BZWBK24 electronic banking services totalled 3.2m (+0.9% YoY), including customers with access to mobile services of 0.9m (+29.7% YoY). The BZ WBK Group payment card base (excluding prepaid cards) included 3.4m debit cards (+4.8% YoY) and more than 1.2m credit cards of BZ WBK and SCB (+8.2% YoY).
Customer Base	<ul style="list-style-type: none"> The customer base was more than 6.4m customers, including 4.4m BZ WBK customers.

Financial and Business Highlights of Bank Zachodni WBK

Key Financial and Business Highlights of BZ WBK for 2016	
Total Income	<ul style="list-style-type: none"> Total income of Bank Zachodni WBK (BZ WBK) for 2016 increased by 10.2% YoY to PLN 6,311.5m. Excluding one-off gains on equity transactions (PLN 305,9m from settlement of acquisition of Visa Europe Ltd. by Visa Inc. in 2016 and PLN 234,9m from partial disposal of BZ WBK-Aviva TUnž and BZ WBK-Aviva TUO in 2015), the underlying total income increased by 9,4% YoY.
Total Costs	<ul style="list-style-type: none"> Total costs decreased by 5.5% YoY to PLN 2,722.7m. Excluding obligatory contributions made under the deposit guarantee scheme to cover reimbursements of guaranteed funds to depositors of insolvent cooperative banks (PLN 12.5m in 2016 and PLN 170.5m in 2015), the underlying cost base was stable YoY.
Profit	<ul style="list-style-type: none"> Profit before tax amounted to PLN 2,649.2m, an increase of 21.7% YoY. Adjusting income and costs as above and excluding banking tax, the underlying profit before tax increased by 28.4% YoY. Profit for the period was PLN 2,081,7m and 18.5% higher YoY (29.1% higher YoY on a comparable basis).
Capital Ratio	<ul style="list-style-type: none"> Capital ratio stood at 16.52% (15.80% as at 31 December 2015), ensuring security of operations and a stable growth.
ROE	<ul style="list-style-type: none"> Return on Equity (ROE) was 12.6% (11.3% as at 31 December 2015), and 11.4% excluding one-off items (11.3% as at 31 December 2015).
Costs/Income	<ul style="list-style-type: none"> Cost to income ratio was 45.1% (49.4% in 2015), excluding one-off items.
Net Impairment Losses	<ul style="list-style-type: none"> Net impairment losses on loans and advances amounted to PLN 583.5m compared with PLN 667.9m in 2015.
Credit Quality	<ul style="list-style-type: none"> NPL ratio was 6.0% (6.7% as at 31 December 2015), while the ratio of impairment losses to the average gross credit volumes was 0.67% (0.82% as at 31 December 2015).
Loans to Customers	<ul style="list-style-type: none"> Gross loans to customers increased by 6.7% YoY to PLN 90,184.8m due to the growth of 10.6% YoY in personal loans and 2.9% YoY in loans to enterprises and the public sector to PLN 42,995.9m and PLN 47,007.3m, respectively.
Deposits from Customers	<ul style="list-style-type: none"> Deposits from customers increased by 10.0% YoY to PLN 103,381.3m as a result of the expansion of deposits from enterprises and the public sector by 14.4% YoY to PLN 45,535.9m and increase of 6.7% YoY in personal deposits to PLN 57,845.4m.
Loans/Deposits	<ul style="list-style-type: none"> Customer loans to deposit ratio was 84.3% as at 31 December 2016 compared with 86.3% as at 31 December 2015.
Net Assets under Management	<ul style="list-style-type: none"> The number of customers using BZWBK24 electronic banking services totalled 3.2m (+0.9% YoY), including customers with access to mobile services of 0.9m (+29.7% YoY). The BZ WBK payment card base (excluding prepaid cards) included 3.4m debit cards (+4.8% YoY) and 779.8k credit cards (+6.7% YoY).
Electronic Banking	<ul style="list-style-type: none"> The BZ WBK customer base was more than 4.4m customers.

Impact of Macroeconomic Developments in 2016

Key Macroeconomic Factors Impacting Financial and Business Performance of BZ WBK and BZ WBK Group in 2016	
Economic Growth	<ul style="list-style-type: none"> Slowdown in economic growth to below 3% YoY under the impact of delays in delivery of EU co-financed projects, moderate economic growth rate in the Eurozone and stagnant international trade.
Labour Market	<ul style="list-style-type: none"> Favourable conditions in the labour market – gradual increase in employment in the enterprise sector, unemployment at a record-low level, relatively fast wage growth supporting private consumption.
Inflation	<ul style="list-style-type: none"> Low inflationary pressure, CPI inflation rate below zero throughout most of the year. Gradual growth in oil prices following their fall at the start of the year.
Monetary Policy	<ul style="list-style-type: none"> NBP official rates kept continually at the lowest level ever.

Key Macroeconomic Factors Impacting Financial and Business Performance of BZ WBK and BZ WBK Group in 2016 (cont.)

Credit markets	<ul style="list-style-type: none"> Deceleration of credit growth in the banking sector, particularly in the enterprise sector.
Financial Markets	<ul style="list-style-type: none"> Changes of mood in international financial markets influenced by the expected policy orientation of the main central banks (Federal Reserve, ECB), incoming macroeconomic data, worries about the geopolitical situation, including concerns about the results of negotiations between the UK and the EU, the immigration crisis, the economic slowdown in China and concerns about the outcome of the presidential election in the US. Volatility of the zloty exchange rate versus the main currencies; changes in Polish bond yields. Downgrade of Poland's investment rating by S&P in January and downward change in rating prospects by Moody's in May 2016.
Regulatory environment	<ul style="list-style-type: none"> Introduction of bank tax. Easing of FX loan conversion bill. Increased capital ratios for the banking sector by the Financial Supervision Authority (KNF).

Key Developments and Achievements

Major Corporate Events in 2016

January	<ul style="list-style-type: none"> Conclusion of a loan agreement (22 January 2016) between Bank Zachodni WBK and an international bank providing for a EUR 50m credit line to finance the bank's general corporate purposes.
February	<ul style="list-style-type: none"> Supervisory Board's decision (11 February 2016) to extend the mandate for Mr. Gerry Byrne, the Supervisory Board Chairman, to continue as acting Management Board President until the office of a new CEO is taken. Redemption by BZ WBK (17 February 2016) of 230k A series certificates of deposit with a nominal value of PLN 1k each. Issuance by BZ WBK of the following securities: <ul style="list-style-type: none"> series B certificates of deposit (17 February 2016) with floating interest rate, 6-month maturity and a total nominal value of PLN 250m; bearer bonds (26 February 2016) with a total nominal value of PLN 185m and a 1-year maturity. Issuance by SCB of floating bonds with a nominal value of PLN 110m with a maturity of 2 to 4 years as part of the debt securities issue programme. Affirmation of the bank's ratings (29 February 2016) by Fitch Ratings.
March	<ul style="list-style-type: none"> Conclusion of an agreement (16 March 2016) with the European Bank for Reconstruction and Development (as part of the Programme of Financing Energy Efficiency Improvement) for financing in the amount of EUR 75m with 4-year maturity. Announcement by the BZ WBK Management Board (22 March 2016) of a dividend proposal (approved by the Supervisory Board), providing for a payout of PLN 13 per share from the bank's 2014 and 2015 profit. Selection by the BZ WBK Supervisory Board of PricewaterhouseCoopers (22 March 2016) as the auditor for the bank's unconsolidated and consolidated financial statements for the periods ending 30 June and 31 December 2016. Finalisation of the reverse merger (31 March 2016) between BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI) and BZ WBK Asset Management (BZ WBK AM), whereby the parent (BZ WBK AM) was taken over by its subsidiary (BZ WBK TFI).
April	<ul style="list-style-type: none"> Convening of the Annual General Meeting (AG) of BZ WBK (20 April 2016) which approved the distribution of the bank's profit for 2015 and the amount of dividend for 2014 and 2015. It also adopted the "2016 Code of Best Practice for WSE Listed Companies" and the "Policy for Selection and Assessment of Qualifications of Supervisory Board Members of Bank Zachodni WBK". Conclusion of a loan agreement (26 April 2016) with the European Investment Bank (EIB), providing for a loan of EUR 70m for 5 years towards financing the bank's ordinary activity. Decision of the AGM of SCB (12 April 2016) to pay out a dividend of PLN 83.57 per share from the 2015 profit.
May	<ul style="list-style-type: none"> Appointment of Mr. Michał Gajewski as the bank's Management Board President (16 May 2016). Issuance by SCB of 4-year floating bonds with a nominal value of PLN 222m under a debt securities issue programme.

Major Corporate Events in 2016	
June	<ul style="list-style-type: none"> Registration of changes to the Statutes of BZ WBK with the National Court Register (10 June 2016) adopted by the AGM of BZ WBK on 20 April 2016. Conclusion of a loan agreement with the Council of Europe Development Bank (13 June 2016), providing for a 5-year loan of EUR 100m to be used for the financing of lending to SMEs. Resignation of Mr. Pawel Wieczorek as a member of the bank's Management Board as of 20 June 2016. Receipt of remuneration by BZ WBK and SCB from the settlement of an acquisition of Visa Europe Ltd. by Visa Inc. (21 June 2016) in the total amount of PLN 316.1m. Appointment of Mr. Artur Chodacki (22 June 2016) as a member of the bank's Management Board in charge of the SME Banking Division, as he replaced in this role Mr. Feliks Szyszkowiak – member of the Management Board appointed as Chief Digital Officer.
July	<ul style="list-style-type: none"> Introduction of amendments to the agreement between Bank Zachodni WBK and the European Bank for Reconstruction and Development (EBRD) regarding EUR 100m worth of subordinated bonds issued on 5 August 2010 and taken up by the EBRD. Allocation of the foregoing subordinated bonds to Tier 2 capital in accordance with the KNF decision of 18 May 2016. Instigation by KNF of the supervisory evaluation proceedings in relation to the identification of BZ WBK as other systematically important institution (as informed by KNF in the letter of 6 July 2016).
August	<ul style="list-style-type: none"> Fitch Ratings upgrade from AA- (pol) to AA (pol) of the national long-term rating and the senior unsecured debt rating of BZ WBK (4 August 2016). Other ratings remain unchanged. KNF approval of the appointment of Mr. Michał Gajewski as the bank's Management Board President (9 August 2016). Agreement signed (1 August 2016) between BZ WBK Leasing and International Finance Corporation providing for a USD 150m facility earmarked for financing leases of small companies. Issuance by BZ WBK of fixed rate certificates of deposit with a nominal value of PLN 100m and 6-month maturity (17 August 2016). Issuance by SCB of 4-year floating bonds with a nominal value of PLN 100 under a debt securities issue programme. Completion by SCB of the securitization of a cash loan portfolio involving the transfer of securitized receivables to SC Poland Consumer 2016-1 sp. z o.o., a special purpose vehicle registered in Poland. Issuance by SPV of PLN 1,225m worth of bonds based on securitised assets.
September	<ul style="list-style-type: none"> Conclusion of an agreement between SCB and Banque PSA Finance (30 September 2016), whereby SCB acquired directly a 50% shareholding in PSA Finance Polska Sp. z o.o. and indirectly 50% shareholding in PSA Consumer Finance Polska as of 1 October 2016. Affirmation of the bank's ratings by Moody's (9 September 2016).
October	<ul style="list-style-type: none"> Conclusion of an agreement between BZ WBK Faktor and a foreign bank providing for a EUR 100m credit facility earmarked for financing the factoring business of the former entity (3 October 2016). Identification of BZ WBK as other systematically important institution (4 October 2016) and imposing on the bank the equivalent to 0.50% of the total amount of the risk exposure on an unconsolidated and consolidated basis. Receipt of the KNF requirement (25 October 2016) for the bank to maintain own funds at the level sufficient to cover an additional capital requirement for risk related to foreign currency home mortgages (0.62 p.p. above the total capital ratio). Resignation (28 October 2016) of Ms. Beata Daszyńska-Muzyczka as a Management Board member, effective from 31 October 2016.
November	<ul style="list-style-type: none"> Affirmation of the bank's ratings by Fitch Ratings (9 November 2016). Assumption of the position of the President of BZ WBK Management Board by Mr. Michał Gajewski (29 November 2016) following the expiry of his previous employment commitments.
December	<ul style="list-style-type: none"> Appointment of Ms. Dorota Strojowska to a position as a Management Board member by the bank's Supervisory Board (14 December 2016). She will take the office after expiry of her current employment commitments. Issuance of 10-year floating subordinated bonds (2 December 2016) for a total amount of EUR 120m with a view to increasing the Tier 2 capital, subject to the KNF consent. Issuance by SCB of 3-year floating bonds for a total nominal value of PLN 40m under the issue programme.

Development of Bank Zachodni WBK Group in Years 2012-2016

Selected data illustrating performance of BZ WBK Group in 2012-2016

Selected Financial Data (PLN m)	2016	2015	2014 ²⁾	2013 ¹⁾	2012
Total Assets	150 099,7	139 708,7	134 501,9	106 060,0	60 019,2
Net Loans and Advances to Customers ³⁾	103 068,5	94 913,9	85 820,5	68 091,4	39 852,3
Deposits from Customers ³⁾	112 522,5	101 245,2	94 824,7	78 376,0	46 872,1
Total Equity	21 018,5	20 568,1	18 051,7	14 482,9	8 977,7
Profit Before Tax	3 122,1	3 178,3	2 640,0	2 514,7	1 837,0
Profit Attributable to Owners of BZ WBK	2 166,8	2 327,3	1 914,7	1 982,3	1 433,8
Selected Ratios	2016	2015	2014	2013	2012
Cost to Income Ratio ⁴⁾	46,0%	48,4%	47,3%	47,0%	43,9%
Capital Ratio	15,1%	14,6%	12,9%	13,9%	16,5%
NPL Ratio	6,6%	7,3%	8,4%	7,9%	5,4%
Earnings per Share (PLN)	19,4 ⁴⁾	20,7 ⁴⁾	19,9	21,2	19,4
Net Book Value per Share (PLN)	211,8	207,3	181,9	154,8	120,3
Selected Non-Financial Data	2016	2015	2014	2013	2012
Number of Branches	821	890	961	830	519
Number of FTEs	14 772	14 218	14 835	12 612	8 835
Dividend (PLN)	n/a ⁵⁾	13,0 ⁶⁾	- ⁷⁾	10,7	7,6
Number of Shares at the Year-End	99 234 534	99 234 534	99 234 534	93 545 089	74 637 631
Closing Share Price at the Year-End (PLN)	316,0	284,0	375,0	387,6	241,9

1) Financial and non-financial data for 2013 and onwards include Kredyt Bank as a result of the merger with BZ WBK on 4.01.2013.

2) Financial and non-financial data for 2014 and onwards (excluding dividend, number of shares and share price) include SCB Group following the acquisition by BZ WBK of a controlling stake in SCB on 1.07.2014 r.

3) Loans and advances to customers and deposits from customers do not include repo transactions due to changes to the presentation of these operations starting from 30 June 2016. Data for the previous reporting periods have been adjusted accordingly to ensure comparability.

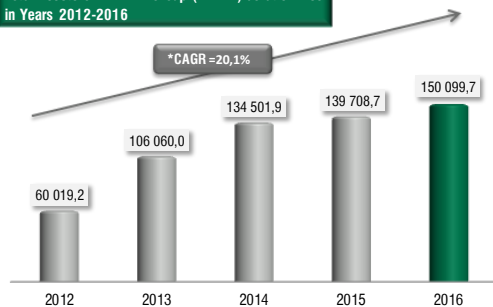
4) The calculations of the C/I and basic EPS ratios for 2015 and 2016 use the Group's total income, total costs and profit (as applicable) adjusted for one-off items (gains on interest in Visa Europe Ltd. and BZ WBK-Aviva companies, and contributions of BZ WBK and SCB under the deposit guarantee scheme).

5) As at the release date of this report, the Management Board of BZ WBK has not completed the analysis leading to the issuance of a recommendation on the dividend payout for 2016.

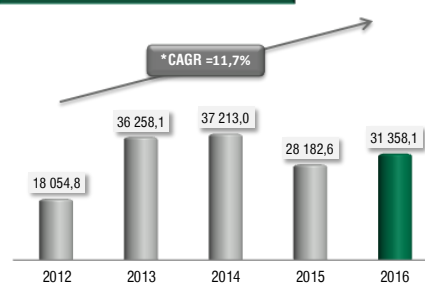
6) The AGM of 20 April 2016 decided to allocate PLN 702.5m of net profit earned by Bank Zachodni WBK in 2015 and PLN 587.6m of undistributed net profit for 2014 for dividend payment. The dividend totalled PLN 13 per share.

7) Pursuant to the KNF requirement of 1 April 2015 to retain the entire profit for 2014 until the regulator determines an additional capital requirement for the bank, BZ WBK AGM of 23 April 2015 left PLN 952.7m of after-tax profit as undistributed after allocating the remaining portion of the profit to the capital reserve.

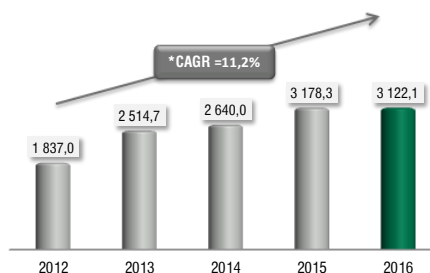
Total Assets of BZ WBK Group (PLN m) as at 31 Dec. in Years 2012-2016



Capitalisation of BZ WBK (PLN m) as at 31 Dec. in Years 2012-2016



Profit Before Tax of BZ WBK Group (PLN m) in Years 2012-2016



* CAGR – compounded annual growth rate

II. Basic Information about Bank Zachodni WBK and BZ WBK Group

1. History, Ownership Structure and Profile

History and Profile

2001

Set-up of
BZ WBK
by way of merger

Bank Zachodni WBK S.A. (Bank Zachodni WBK, BZ WBK) was established following the merger of Bank Zachodni with Wielkopolski Bank Kredytowy. The Wrocław-based entity was entered into the business register in the National Court Register on 13 June 2001 and on 25 June 2001 it debuted on the Warsaw Stock Exchange.

2011

Change of the majority
shareholder to Banco
Santander

Bank Zachodni WBK was originally a member of AIB Group together with the controlling shareholder – AIB European Investments Ltd. – which on 1 April 2011 sold their entire stake in the bank (70.36% of share capital and voting power) to Banco Santander with its registered office in Santander, Spain.

Banco Santander finalised the purchase of Bank Zachodni WBK in the tender for 100% of the bank's shares. As a result, Banco Santander acquired an interest representing 95.67% of share capital and voting power in the bank.

2013

Merger with
Kredyt Bank

On 4 January 2013, Bank Zachodni WBK merged with Kredyt Bank pursuant to the Investment Agreement of 27 February 2012 between Banco Santander and KBC Bank NV. The merger by acquisition was completed by way of a transfer of all assets and liabilities of Kredyt Bank to Bank Zachodni WBK in exchange for newly issued series J shares with a nominal value of PLN 189.1m allotted to all of the existing shareholders of Kredyt Bank at the agreed exchange ratio.

2014

Acquisition of a
controlling stake in SCB

Pursuant to the Investment Agreement of 27 November 2013 between Bank Zachodni WBK, Santander Consumer Finance and Banco Santander, on 1 July 2014 Bank Zachodni WBK acquired ordinary and preference shares in Santander Consumer Bank with its registered office in Wrocław (SCB), representing 60% of the share capital of SCB and 67% of votes at the General Meeting of SCB. In exchange for an in-kind contribution of SCB shares, the bank issued series L shares with the total nominal value of PLN 53.8m.

2014

Incorporation of
Dom Maklerski BZ WBK

On 31 October 2014, the organised part of the enterprise of Dom Maklerski BZ WBK specialising in the provision of brokerage services was incorporated into the bank's structures.

2016

Acquisition of control by
SCB over two companies
from Banque PSA Finance

Based on the agreement of 30 September 2016 between SCB and Banque PSA Finance, the former took over a 50% stake in PSA Finance Polska and indirectly a 50% stake in PSA Consumer Finance Polska. SCB acquired control over both companies as of 30 October 2016, having satisfied the conditions set in IFRS 10.7.

Structure of Share Capital of Bank Zachodni WBK

The table below presents the entities with significant holdings of Bank Zachodni WBK shares as at 31 December 2015 and 31 December 2016.

Shareholder	Number of Shares Held		% in the Share Capital & Voting Power at AGM	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Banco Santander S.A.	68 880 774	68 880 774	69,41%	69,41%
Nationale Nederlanden OFE	5 110 586	5 110 586	5,15%	5,15%
Others	25 243 174	25 243 174	25,44%	25,44%
Total	99 234 534	99 234 534	100,0%	100,0%

In 2016, no changes were noted in the structure of shareholders having more than a 5% stake in the registered capital of Bank Zachodni WBK.

Based on information available to the Management Board of Bank Zachodni WBK, as at the date of release of the 2016 Annual Report of Bank Zachodni WBK Group (17 February 2017), the shareholder structure remained unchanged compared with 31 December 2016. The shareholders holding at least 5% of the total number of votes at the BZ WBK General Meeting of Shareholders were Banco Santander and Nationale Nederlanden OFE with shareholdings of 69.41% and 5.15%, respectively.

Scope of Activities of Bank Zachodni WBK Group

Bank Zachodni WBK is a universal bank which provides a full range of services for personal customers, SMEs, large companies and institutions. 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 financial services of Bank Zachodni WBK include cash management, payments, trade finance and transactions in the capital, money, FX and derivative markets, as well as underwriting, brokerage and custody services.

The bank's own product range is complemented by specialist products offered by its group of related companies, including: BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI), BZ WBK Leasing, BZ WBK Lease, BZ WBK Faktor, BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych (BZ WBK-Aviva TUO) and BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie (BZ WBK-Aviva TUnŻ). Through all these companies, the bank offers its customers access to mutual fund units and asset portfolios as well as insurance, leasing and factoring products.

Santander Consumer Bank, which was incorporated into the structure of Bank Zachodni WBK Group on 1 July 2014, specialises in consumer finance and term deposit accounts for personal and business customers.

As at 31 December 2016, Bank Zachodni WBK Group provided services to 6.4m customers, including 2.0m customers of Santander Consumer Bank.

Business Model of Bank Zachodni WBK Group

Operating Structure

Bank Zachodni WBK together with its non-banking subsidiaries carries on its operations through the following central units: Retail Banking Division, SME Banking Division, Business & Corporate Banking Division and Global Corporate Banking Division.

Retail Banking of Bank Zachodni WBK offers services to personal customers who are divided into Standard, Premium, VIP or Private Banking customer segments, taking into account their diverse needs and expectations. Retail customers interact with the bank via an extensive network of branches and remote channels, e.g. telephone banking, internet banking and mobile banking (BZWBK24 electronic banking platform and the Multichannel Communication Centre). Private Banking and VIP customers benefit from a personalised service model under which they may use the support of an advisor or the Affluent Customers Centre phone services (part of the Multichannel Communication Centre). The personalised approach towards other retail customers is reflected in relationship building, sales and after-sales contacts.

SME Banking is focused on services for small and medium enterprises which are assigned to two segments based on turnover. The relationships with personal customers and companies with lower turnover are managed by advisors in branches and partner outlets, while SMEs with higher turnover are handled by specialised macroregional teams.

Services to large business customers, local administration units and the public sector are supervised by the Business & Corporate Banking Division and are provided through 12 Corporate Business Centres operating nationwide, the Large Corporate Team and the Corporate Property Department (central units operating across Poland) in accordance with customer segmentation (corporate, large corporate or property finance).

The Global Corporate Banking Division is responsible for a banking relationship with the bank's largest institutional clients who are offered investment, credit, transactional and treasury products and services as part of the global Customer Relationship Management Model of Santander Group. It also provides treasury, brokerage and securities services to customers handled by other Divisions.

All business customers, regardless of their segmental allocation, are serviced by dedicated advisors from the bank's relevant units responsible for the overall relationship. They are also provided with access to the bank's products and services via remote channels, including internet and mobile iBiznes24 platform as well as phone services of specialised operating centres (Business Customers Centre and SME Customers Centre). The markedly improving iBiznes24 electronic banking system for businesses and corporations performs a wide range of transactions (e.g. FX and trade finance transactions) and effectively manages companies' finances.

Santander Consumer Bank Group, which specialises in consumer finance, forms a separate business segment with its own customer base, offering and distribution channels.

Basic Distribution Channels

As at 31 December 2016, Bank Zachodni WBK operated country-wide through 658 branches divided into and managed by 65 regions and 8 macroregions. The bank's distribution network also included 110 partner outlets, 1,766 self-service units (ATMs, CDMs/Cash Dispensing Machines and dual function machines).

In addition to direct banking via branches, partner outlets and Corporate Business Centres, Bank Zachodni WBK offers 24-hour access to banking products and services by means of internet and mobile channels (BZWBK24, Moja Firma Plus and iBiznes 24 electronic banking platforms). The bank has been steadily developing integrated CRM systems and multi-channel banking solutions to ensure consistent service levels and continuity of communication with customers in all the distribution channels. Strong focus has been placed on security of banking processes, which involves regular upgrades to IT security protocols.

Santander Consumer Bank delivers its products through a network of own branches and franchise outlets, structures for mobile sales of car loans and corporate deposits, remote channels (Call Centre and the Internet) and a network of partners selling the bank's car loans and instalment loans.

Basic Distribution Channels of BZ WBK and SCB		
Bank Zachodni WBK	31.12.2016	31.12.2015
Branches (location)	658	723
Partner Outlets	110	115
Business and Corporate Banking Centres	12	12
ATMs	1 063	1 239
CDMs	19	158
Dual Function Machines	684	286
BZWBK24 - registered users (in thousands) ¹⁾	3 221	3 193
iBiznes24 and Moja Firma Plus - registered users/companies (in thousands)	39	35
Santander Consumer Bank	31.12.2016	1.01.2016
Branches	163	167
Partner Outlets	148	136
Registered Electronic Banking Users (in thousands)	4	-

1) The BZWBK24 customer base includes the users of BZ WBK24 mobile application, i.e. 863.9k as at 31.12.2016 r. and 666.3k as at 31.12.2015.

Business Model Framework

The fundamental element of the strategy and business model of Bank Zachodni WBK Group is customer-centricity, an approach whereby each initiative and banking process is judged from the customer’s viewpoint, with a concentration on the customer’s needs and experience in order to build lasting mutual relationships underpinned by an attractive, simple and innovative products portfolio and high service quality. The Group creates value for customers focusing on modern technologies, digitisation and multichannel banking. The Group also gives priority to developing a friendly work environment and corporate culture by promoting cooperation and increasing the motivation, engagement and professionalism of employees. It conducts its business activity taking into consideration the interests of all stakeholders, including shareholders and communities it operates in.

The Group focuses on diversification of income, expansion in high-margin market segments, maintenance of a solid capital position and effective risk management. This translates into balanced growth in business volumes, an increasing presence in the most profitable market segments and strong and recurring financial performance.

In view of the strategic programme of Digital Transformation and Retail Banking Transformation launched in 2016, the bank’s business model will be subject to further improvement going forward in terms of effectiveness, customer needs, digitisation and integration of distribution channels, among other things.

2. Market Position

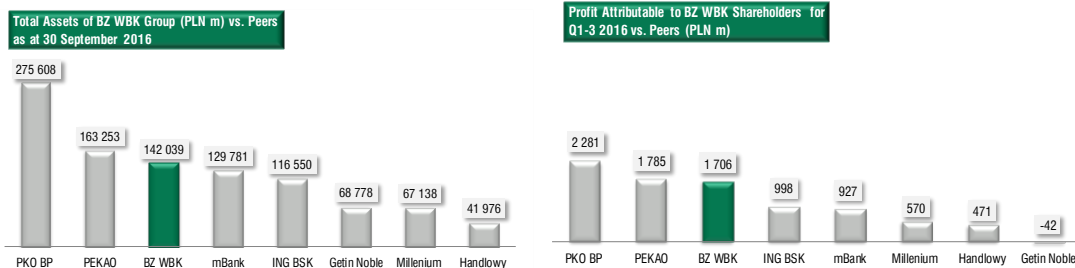
Position of BZ WBK Group in the Polish Banking Sector

Bank Zachodni WBK Group has stable sources of funding, solid capital and liquidity position and a diversified asset portfolio. The Group’s competitive position has been supported by a clear, coherent and consistent strategic vision, an efficient and straightforward business model, a broad and diversified scope of business as well as benefits and synergies achieved by the bank as a member of Santander Group. The business scale, quality of products and services and strong focus on building lasting relationships with customers allow the Group to compete successfully with the largest players in the Polish banking market. At the same time, a wide array of complementary services for respective customer segments, a large Poland-wide branch network, modern banking technologies and rapidly expanding functionality and integration of remote distribution channels give opportunity for further market penetration.

Competitive Strengths of Bank Zachodni WBK and BZ WBK Group



According to the financial statements for the nine months ended 30 September 2016, which at the date of approval of this Management Board report (14 February 2017) were the most up-to-date source of comparable data on the performance of banks listed on the Warsaw Stock Exchange (WSE), Bank Zachodni WBK – including its subsidiaries and associates – was Poland’s third largest banking group in terms of total assets, equity, deposits and loans.



According to NBP statistics, as at the end of December 2016 the Group's share of the market was 9.8% for loans and 9.7% for deposits.

The Group continued to strengthen its presence in the factoring and leasing markets via its subsidiaries, holding a market share of 12% and 6.9%, respectively (according to the Polish Factors Association and the Polish Leasing Association as at the end of December 2016). At the same time, the Group's share in the retail mutual funds market was 10.3% (according to Anality Online) while in the equity and futures markets it held 5.2% and 10.8%, respectively (according to the Warsaw Stock Exchange).

3. Entities Related with Bank Zachodni WBK

Subsidiaries

As at 31 December 2016, Bank Zachodni WBK Group comprised of the following subsidiaries:

1. Santander Consumer Bank S.A. (SCB S.A.)
2. Santander Consumer Finanse Sp. z o.o. – a subsidiary of SCB S.A.
3. AKB Marketing Services Sp. z o.o. in liquidation – a subsidiary of SCB S.A.
4. Santander Consumer Multirent Sp. z o.o. – a subsidiary of SCB S.A.
5. SC Poland Consumer 2015-1 Sp. z o.o. – a subsidiary of SCB S.A.
6. SC Poland Consumer 2016-1 Sp. z o.o. – a subsidiary of SCB S.A.
7. PSA Finance Polska Sp. z o.o. – a subsidiary of SCB S.A.
8. PSA Consumer Finance Polska Sp. z o.o. – a subsidiary of PSA Finance Polska Sp. z o.o.
9. BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.
10. BZ WBK Finanse Sp. z o.o.
11. BZ WBK Faktor Sp. z o.o. – a subsidiary of BZ WBK Finanse Sp. z o.o.
12. BZ WBK Leasing S.A. – a subsidiary of BZ WBK Finanse Sp. z o.o.
13. BZ WBK Lease S.A. – a subsidiary of BZ WBK Finanse Sp. z o.o.
14. BZ WBK Inwestycje Sp. z o.o.
15. BZ WBK Nieruchomości S.A.
16. Gieldokracja Sp. z o.o. in liquidation

Compared with 31 December 2015, the list of Bank Zachodni WBK subsidiaries changed and expanded to include an additional item as a result of the following ownership changes:

- **Merger of BZ WBK Asset Management (BZ WBK AM) and BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI)**

The transaction finalised on 31 March 2016 had the form of a reverse merger, i.e. the parent company (BZ WBK AM) was acquired by the subsidiary (BZ WBK TFI). The process was completed by transfer of all assets of the acquiree (BZ WBK AM) to the acquirer (BZ WBK TFI). Concurrently, the share capital of the acquirer was increased through the issue of 135k series H merger shares taken up by the shareholders of the acquired company (50% by Bank Zachodni WBK and 50% by Banco Santander) in exchange for its existing shares. Accordingly, BZ WBK TFI assumed all rights and obligations of BZ WBK AM.

The acquired company was dissolved without formal liquidation as of the date it was removed from the National Court Register (31 March 2016). Changes in the share capital and merger of the companies were registered on the same day.

- **Dissolution of SC Poland Auto 2014-1 Limited**

20 April 2016 saw repayment of the last tranche of bonds issued as part of the first securitisation transaction of SCB completed via SC Poland Auto 2014-1 Limited, an SPV established in Ireland, which in 2014 took over a part of the receivables associated with car and instalment loans and on that basis issued series 14-1, class A and B securitisation bonds. The SPV was dissolved after the completion of the project for which it had been formed.

- **Formation of SC Poland Consumer 2016-1**

SC Poland Consumer 2016-1 is a subsidiary of SCB established for the purpose of securitisation of cash loans of SCB. The company was entered in the National Court Register on 10 November 2015. Its shares are held by a Polish entity which is not connected with the Group. However, since 1 August 2016 the company has been controlled by SCB due to fulfilment of the control conditions laid down in IFRS 10.7. (for details see "Santander Consumer Bank Group" in Chapter VI "Business Development").

- **Acquisition of a 50% stake in PSA Finance Polska and PSA Consumer Finance Polska**

On 30 September 2016, Santander Consumer Bank (a subsidiary of Bank Zachodni WBK) and Banque PSA Finance entered into an agreement establishing strategic cooperation. Pursuant to the agreement, on 1 October 2016, SCB purchased 50% shares of PSA Finance Polska (a wholly owned subsidiary of Banque PSA Finance) and, indirectly, 50% stake in PSA Consumer Finance (100% owned by PSA Finance Polska). The new companies support the sale of vehicles manufactured by Peugeot and Citroën, providing financial services including lease facilities and consumer loans.

On 28 April 2016, the Annual General Meeting adopted a resolution to dissolve Gieldokracja and to start its liquidation as of 1 May 2016. At the time of preparation of this report, a decision to revoke liquidation proceedings and to earmark the company for other purposes was being considered.

All the entities within Bank Zachodni WBK Group are consolidated with the bank in accordance with IFRS 10 as at 31 December 2016.

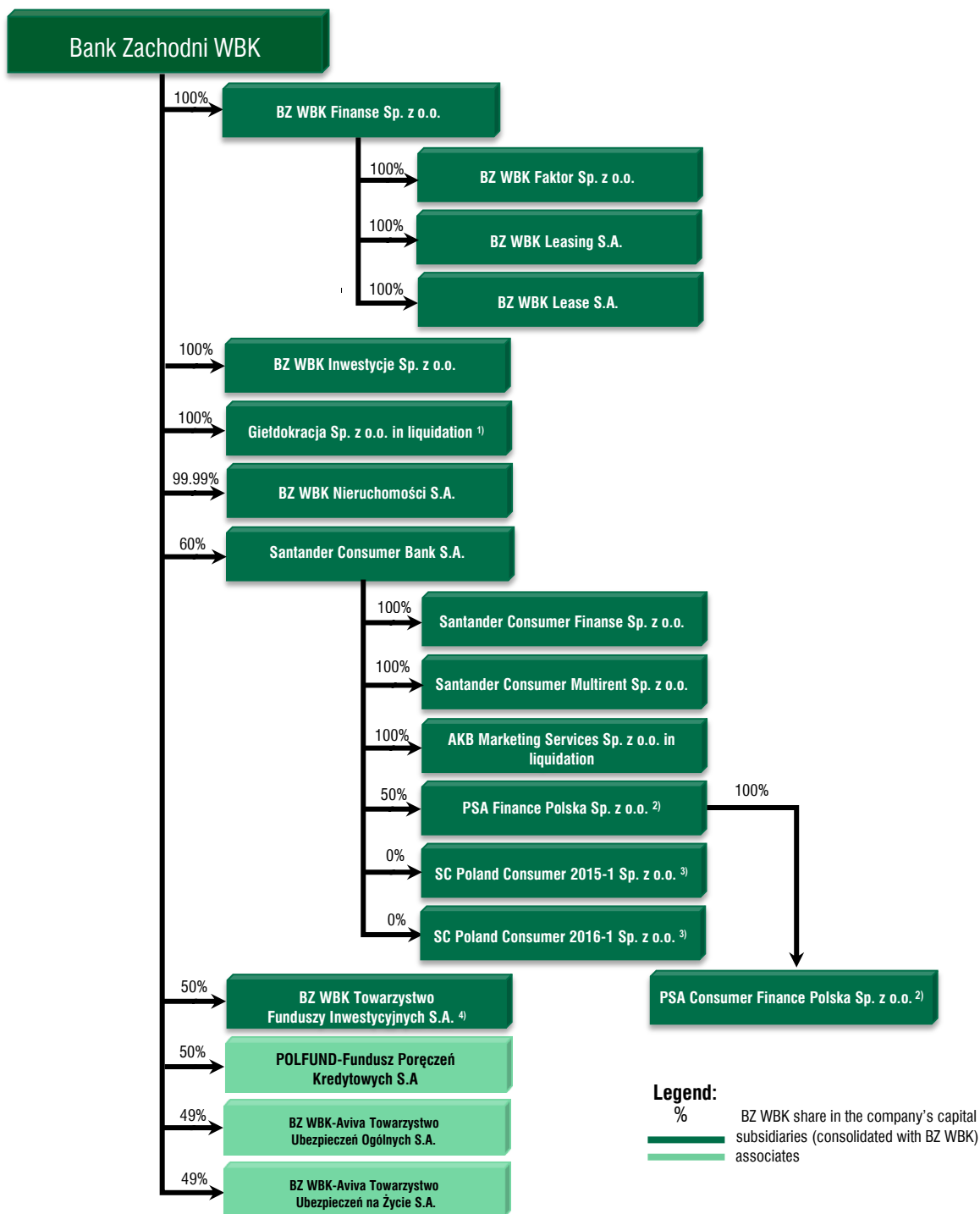
Associates

In the consolidated financial statements of Bank Zachodni WBK for the 12 months ended 31 December 2016, the following companies are accounted for using the equity method in accordance with IAS 28:

1. BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. (BZ WBK-Aviva TUO)
2. BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. (BZ WBK-Aviva TUnŻ)
3. POLFUND - Fundusz Poręczeń Kredytowych S.A.

Compared with the end of December 2015, the list of associates excludes companies from Metrohouse Franchise Group, following the sale of the entire stake in Metrohouse Franchise held by BZ WBK Inwestycje on 22 January 2016 (representing 20.13% of the share capital of the company).

Organisational Chart of Entities Related to Bank Zachodni WBK Group as at 31.12.2016



1) On 28 April 2016, the Annual General Meeting adopted a resolution to dissolve Gieldokracja and to start its liquidation as of 1 May 2016.
 2) On 1 October 2016, SCB acquired 50% shares of PSA Finance Polska (a wholly owned subsidiary of Banque PSA Finance S.A.) and, indirectly, 50% stake in PSA Consumer Finance Polska. The new companies are controlled by SCB as they meet the conditions set out in IFRS 10.7.
 3) SC Poland Consumer 2015-1 and S.C. Poland Consumer 2016-1 are SPVs set up for the purpose of securitisation of part of SCB credit portfolio. Shares in the companies are held by an entity that is not connected with the Group. The companies are controlled by SCB as they meet the conditions laid down in IFRS 10.7. as of 23 September 2015 and 1 August 2016, respectively.
 4) On 31 March 2016, BZ WBK TFI merged with BZ WBK AM by taking over its assets in return for merger shares issued to the co-owners, i.e. to Bank Zachodni WBK and 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 BZ WBK TFI because Banco Santander pursues its policy in Poland through the bank. Consequently, the company is treated as a subsidiary.

4. Other Equity Investments

As at 31 December 2016 and 31 December 2015, Bank Zachodni WBK Group owned at least 5% of share capital or voting power in the following companies:

Ref.	Company	% in the Share Capital	Voting Power at AGM	% in the Share Capital	Voting Power at AGM
		31.12.2016		31.12.2015	
1.	Reliz Sp. z o.o. in liquidation	100,00%	100,00%	100,00%	100,00%
2.	Zakłady Przemysłu Jedwabniczego DOLWIS S.A. in liquidation	44,00%	44,00%	44,00%	44,00%
3.	Invico S.A. ¹⁾	21,09%	12,21%	21,09%	12,21%
4.	Krynicki Recycling S.A. ¹⁾	19,19%	19,19%	19,57%	19,57%
5.	Polski Standard Płatności Sp. z o.o.	16,67%	16,67%	16,67%	16,67%
6.	i3D S.A. ¹⁾	15,77%	15,77%	15,77%	15,77%
7.	Krajowa Izba Rozliczeniowa S.A.	14,23%	14,23%	14,23%	14,23%
8.	Zakłady Remontowe Energetyki KATOWICE S.A.	-	-	13,08%	5,00%
9.	Agencja Wspierania Rozwoju Infrastruktury Lokalnej Sp. z o.o.	-	-	12,00%	12,00%
10.	Aviva Powszechnie Towarzystwo Emerytalne Aviva BZ WBK S.A.	10,00%	10,00%	10,00%	10,00%
11.	Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	10,00%	10,00%	10,00%	10,00%
12.	Aviva Towarzystwo Ubezpieczeń na Życie S.A.	10,00%	10,00%	10,00%	10,00%
14.	PBG S.A. in arrangement bankruptcy	7,96%	7,96%	-	-
13.	Biuro Informacji Kredytowej S.A.	7,72%	5,14%	7,72%	5,14%
15.	Infosystems S.A. ¹⁾	7,50%	7,50%	7,50%	7,50%
16.	Hortico S.A. ¹⁾	6,39%	6,39%	6,39%	6,39%
17.	AWSA Holland II B.V.	5,44%	5,44%	5,44%	5,44%
18.	Gorzowski Rynek Hurtowy S.A. ¹⁾	2,47%	6,53%	2,47%	6,53%

1) Companies from the equity investment portfolio of BZ WBK Inwestycje Sp. z o.o.

III. Macroeconomic Situation in 2016

Economic Growth

Economic growth in Poland in 2016 slowed down versus the previous year and amounted to about 2.7%, with the final quarter of the year being probably the weakest. The slowdown was primarily due to a reduction in investments, which were undermined by low absorption of EU funds in the interim period between two EU financial programmes. Public infrastructure investments were affected in particular, but private investments decreased as well. Economic growth was also undermined by the weakening of foreign trade, which was caused by a somewhat slower global growth. Private consumption was the main driver of growth, supported by favourable labour market situation and payments under the 500+ child benefit programme. Polish industry was sluggish throughout the year, while the construction sector contracted markedly. Polish external imbalance remained low, with current account balance expected at approx. 0.7% of GDP at the year-end.

Labour Market

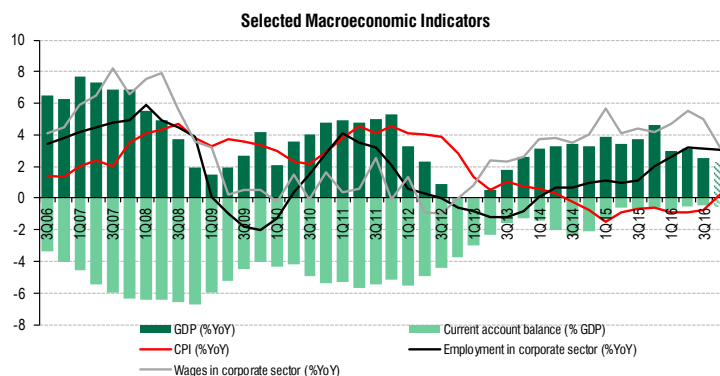
The labour market was strong in 2016. Average employment in the enterprise sector grew on average by approx. 2.9% YoY, amid rising demand for labour and the number of jobs available. However, data from other sources (like the Labour Force Survey, LFS) suggested that some growth visible in employment statistics may have been due to changes in the type of job contracts and that employment may have fallen in the second half of the year. The unemployment rate continued to fall, both as regards registered unemployment and Labour Force Survey (LFS) unemployment, reaching its lowest levels since the early 1990s (on average 8.9% and 6.3%, respectively). Nominal wage growth in the corporate sector amounted to approx. 4.1% YoY. This, together with a negative growth of consumer prices and an increase in employment, caused a significant rise in the real wage bill (by approx. 7.7% YoY). Wage pressure was visible primarily in retail trade.

Inflation

CPI inflation ran below zero for the better part of the year, but in the last months of the year returned to positive territory, mostly thanks to a base effect and rising food and fuel prices. CPI inflation amounted to -0.6% YoY on average in 2016 and +0.8% YoY at the year-end. Deflationary tendencies were maintained in core categories, yet a strong rise was recorded in car insurance prices. Core inflation, excluding food and energy prices, was at -0.2% YoY on average and 0.0% YoY at the year-end.

Monetary Policy

In early 2016, a new term of the Monetary Policy Council (MPC) began. Despite expectations, new MPC members did not decide to ease the monetary policy conditions and they continued the policy of the previous Council keeping monetary policy parameters unchanged. According to the MPC members deflation showed no negative effects, the GDP slowdown was temporary and interest rates were at optimal levels. At the same time, MPC members were of the opinion that the downside risks to the global economic conditions and the volatility of commodity prices remained main sources of uncertainty for the domestic economy and price developments. They also suggested that next time rates would rather be increased than decreased, but not in 2017.



Credit and Deposit Markets

In 2016, total deposits advanced fast, at approx. 10.0% YoY on average. This stemmed from solid growth of deposits in household sector, but also in the corporate sector. The loan market slowed slightly as compared with 2015. The pace of growth in loans to households was stable and close to 4% YoY (FX-adjusted). Mortgage loans rose by 3% YoY. At the same time, corporate loans growth decelerated, mostly due to lower companies' demand for working currency loans and weaker growth of property loans. On the other hand, investment loans rose by approx. 10% YoY.

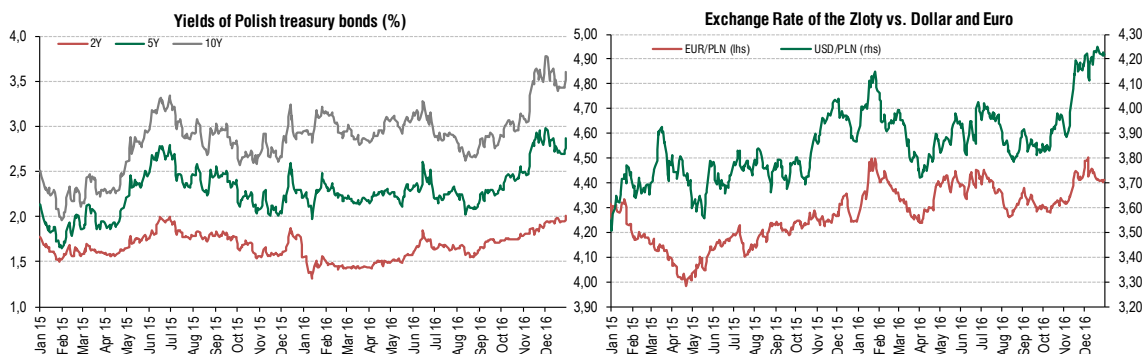
Financial Market

2016 was yet another year, characterised by elevated volatility in financial markets. The domestic financial market was mainly influenced by political events abroad, particularly by the UK European Union membership referendum in June and the US presidential elections in November. The results of both votes proved to be surprising – UK citizens supported the Brexit campaign, while Donald Trump, promising a fiscal expansion to boost American economy, was elected the next US president. Those events had significant impact on the valuation of emerging markets' assets, including Polish ones. As a result of a higher risk aversion, the zloty and Polish debt depreciated quite significantly, although the weakening was not very long-lasting, and some investors took this opportunity to accumulate Polish assets, which remained attractive when compared to other countries. Decisions of the main central banks (Fed, EBC, BoE, BoJ) were also very important for the Polish financial market. The weakening of Poland's debt and currency was heavily influenced by rising expectations of a Fed interest rate hike, which was due to the fact that US investors were among the biggest investors in Polish bonds.

Domestic factors had a much lower impact on the zloty and the interest rate market than external factors. The most important domestic factors, which contributed to higher market volatility were: (1) S&P's decision to cut Poland's sovereign rating by two notches in January, and (2) a softer-than-expected draft of the solution to deal with the FX loans issue, submitted by President Andrzej Duda. It should be noted that the impact of those factors on investors' behaviour on FX and fixed income markets was short-lived. Moreover, disappointing data from the Polish economy contributed to growing market expectations for monetary policy easing by the Monetary Policy Council. However, the conservative rhetoric of the MPC suggesting that the current level of interest rates was adequate for maintaining long-term macroeconomic stability clearly cooled down such expectations, and at the end of 2016 the market even started to price in the possibility of interest rate hikes on a 15-month horizon.

The subsequent rating reviews for Poland had only temporary impact on the financial market.

In 2016 domestic yield curves shifted up by 46-67bp on average for bonds and by 20-45bp for the IRS market. At the end of the year the yield of 2Y benchmark rose above 2% for the first time since September 2014. Moreover, both curves steepened and the 2-10Y spread widened to 160bp for bonds and to 95bp for IRS. The zloty depreciated in 2016 against most main currencies, reaching a local high of almost 5 per euro in January 2016. However, taken over the year (December 2016 versus December 2015), the zloty depreciated by less than 4% against the euro. The Polish currency lost most against the US dollar (slightly more than 7%). USDPLN reached its maximum at 4.25 in 2016, which resulted from declining EURUSD. The zloty weakened against the Swiss franc by 4.5%. At the end of 2016, CHFPLN was at 4.12, versus 3.94 a year earlier. Meanwhile, the zloty gained quite significantly against the British pound (11% over the year), due to the depreciation of GBP in international markets after the Brexit referendum and the Bank of England's decision on further easing of monetary policy.



Stock Market

Similarly to the previous year, 2016 was a turbulent period for the Warsaw Stock Exchange (WSE) due to adverse developments that occurred both in and around the stock market. This time, however, the main WSE indices performed much better. The major market trend indicators gained throughout the year. The WIG and mWIG40 indices topped the league table, yielding 11.4% and 18.2%, respectively, due to strong results of mid-cap companies. The sWIG80 index fared worse (+7.9%), as did WIG20 (+4.8%) which still had to cope with systemic risk. The indices grew on the back of improvement in investor sentiment in the second half of the year, after the consequences of events such as the economic slowdown in China or the UK's decision to leave the EU turned out to be less severe than projected earlier in the year. The global stock markets (including the Warsaw floor) continued rising towards the year-end despite hawkish rhetoric from the US Federal Reserve following another interest rate hike and the unexpected victory of the somewhat unpredictable nominee of the Republicans in the presidential election. The pressure from the dollar's advance turned out to be moderate, too. In Poland, the WSE was impacted by the political climate and reports about economic slowdown. However, neither the above factors nor the upcoming liquidation of open pension funds undermined the moderate confidence of investors at the close of the year. The zloty, though dropping rapidly, still managed to attract foreign capital which stimulated growth, particularly in the case of the largest companies.

Regulatory Environment of Banking Sector

In the period before publication of this report, the following pieces of legislation were ratified, which affected the banking sector in Poland:

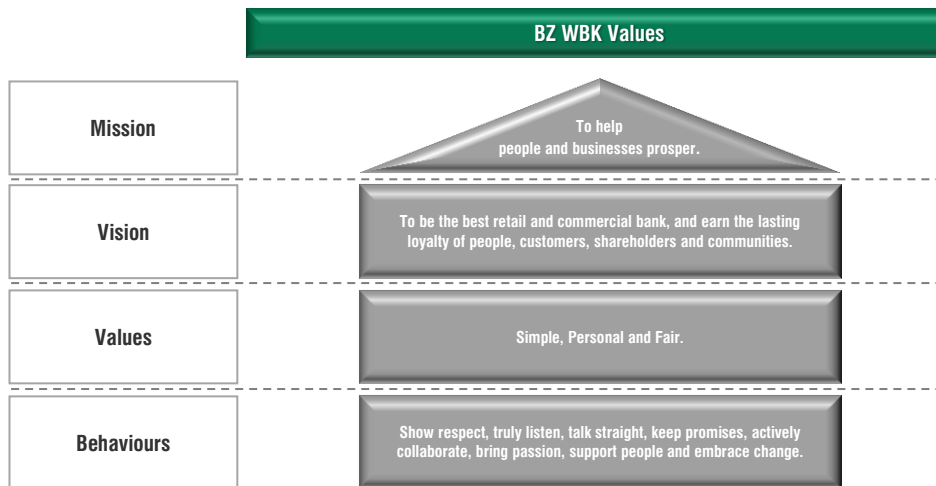
Legal act	Selected regulations affecting the banking sector
Act of 9 October 2015 on the support for distressed mortgage borrowers (the "Support Act", which came into force in its entirety on 19 February 2016)	<ul style="list-style-type: none"> The act lays down the rules for granting refundable financial aid from the Borrowers Support Fund created by Bank Gospodarstwa Krajowego from contributions from lenders. The value of the contributions is determined pro-rata to the value of their respective portfolios of mortgages that are more than 90 days in arrears. The fund will be replenished by banks as needed, in line with the support given to customers of the individual banks.
Act of 15 January 2016 on the tax on certain financial institutions (effective since 1 February 2016)	<ul style="list-style-type: none"> Domestic banks have been levied with a tax at a monthly rate of 0.0366% (approx. 0.44% annually) of the value of their assets understood as the excess of the taxpayer's total assets (resulting from the trial balance as per the General Ledger at the last day of the month) over the statutory limit of PLN 4bn. In the case of non-associated banks, the tax base is reduced by the value of own funds, assets purchased from the National Bank of Poland held as collateral for a refinancing credit facility granted by that bank and the value of treasury securities.
Act on changes to the act on supervision over the financial market, the Banking Law act and certain other acts of 11 October 2015	<ul style="list-style-type: none"> The act regulates the operations of lending companies. It introduces changes that are important for banks, relating to the consumer loans act (effective since 11 March 2016) as it sets the cap on non-interest credit costs and the total amount of default interest and fees. It also sets the cap on the borrowing costs in relation to loans granted within 120 days from the first loan that has not been cleared yet.
Act of 9 October 2015 on changes to the Banking Law act and certain other acts (effective from 1 July 2016)	<ul style="list-style-type: none"> The act determines the procedure to be followed by banking institutions with regard to dormant accounts, i.e. accounts that have been inactive for a long time.

Legal act	Selected regulations affecting the banking sector
<p>Act of 14 April 2016 on withholding the sale of properties owned by the Agricultural Property Stock of the State Treasury and on changes to certain acts (effective since 30 June 2016)</p>	<ul style="list-style-type: none"> The act introduced the rule that the value of mortgage on an agricultural property may not exceed the property's market value as at the date of mortgage perfection, and gives the Agricultural Property Agency a pre-emptive right to buy any agricultural property put up for sale. The legislative actions have been instigated to change certain rules of this law, including mortgaging of an agricultural property.
<p>Act of 20 May 2016 on the Banking Guarantee Fund, deposit guarantee system and forced restructure (the act becomes effective three months after publication, except selected articles)</p>	<ul style="list-style-type: none"> The act introduced the provisions of Directive 2014/59/EU (BRRD) and Directive 2014/49/EU (DGSD), enabling the Banking Guarantee Fund to conduct recovery and resolution proceedings for banks and other financial institutions, and modified the deposit guarantee scheme in Poland.

IV. Development Strategy

1. Mission, Vision, Values and Strategic Objectives for 2016-2018

In view of dynamic and complex changes in the macroeconomic environment, the operational strategy of Bank Zachodni WBK Group is regularly verified. In 2016, the bank pursued its strategy for 2016-2018, which was updated to form its strategy for 2017-2019. The revised strategy takes into account the current and expected macroeconomic challenges and other relevant factors which need to be considered and adequately addressed as part of the strategic management process. Most importantly, the new strategy is a continuation of the previous course of action, based on the same values and assumptions. It promotes a customer-centric culture in business management, digital transformation and improvement of the business model and product offering. The strategy is expected to ensure that Bank Zachodni WBK is the first-choice bank for customers, earning their lasting loyalty, and has a mature corporate culture that reinforces employees' engagement and motivation.



With respect to the key stakeholder groups, the bank's mission and vision are formulated as follows:

Customers	• Enhancement of the bank's image as a trusted partner to customers which provides innovative and high quality solutions
Employees	• Commitment to staff development and engagement and creation of a favourable working environment
Communities	• Commitment to the well-being and development of local communities
Shareholders	• Maximisation of shareholder value

As part of its strategic vision, Bank Zachodni WBK intends to:

- Become a leading bank in terms of service quality, focusing on customer needs and expectations;
- Build long-term relationships with customers based on trust, loyalty and enhanced customer experience;
- Create an engaging work environment through collaboration, communication and bottom-up initiatives raised in all the bank's units;
- Grow faster than peers;
- Become the best retail and commercial bank earning the lasting loyalty of people, customers, shareholders and communities.

The corporate culture of Bank Zachodni WBK Group and Banco Santander Group is enshrined in the Simple, Personal and Fair values.



2. Delivery of Strategy of Bank Zachodni WBK Group in 2016



One of the overriding long-term goals of Bank Zachodni WBK is to increase its base of loyal customers through the development of strong relationships, an improvement in customer satisfaction with service quality, the optimisation of products and services, the implementation of innovative solutions and the development and integration of distribution channels.

In accordance with its customer-centric approach, in 2016 the bank made efforts to ensure that its portfolio includes simple and understandable products, transparent conditions, and prices and benefits based on the strength of the customers' relationship with the bank.

At the same time, the bank implemented CRM tools to engage in an active and consistent dialogue with customers in all channels, with a focus on their needs and expectations. As part of the first implementation phase, the bank launched an advanced and efficient complaint management system and a new Front-End CRM tool which has been used by all branches and partner outlets and by the Multichannel Communication Centre since August 2016.

The concept of the target customer relationship management model takes shape as the work on the new CRM platform becomes more advanced. With these new solutions in place, the bank's personalised and active proposition is increasingly based on a comprehensive knowledge of its customers, taking into account their behaviours, risk profile and the relationship to-date. Furthermore, in their interaction with the bank via different distribution channels, customers are offered a consistent service and continuous communication.

The bank took further measures to enhance telephone, Internet and mobile banking, focusing on services for business and corporate customers. The bank offered a mobile application and added new features to specialist modules of the iBiznes24 platform, making the system both more user friendly and secure at the same time. The number of companies able to use services of a dedicated advisor via phone was extended to include SMEs.

The bank made efforts to strengthen its market position with respect to services provided to importers and exporters and manufacturing and processing companies from the food sector. In particular, it offered tailored products and services, while developing and promoting its competences and technological and networking capabilities. Customers also had an opportunity to attend conferences and workshops and gain market insight and access to the base of prospective business partners.

In 2016, Bank Zachodni WBK launched the Digital Transformation Programme designed to ensure coordination of the initiatives that implement new systems and technologies to facilitate banking with BZ WBK, create products and services that will meet the growing needs of customers and enhance satisfaction with service quality. The Programme includes a number of strategic initiatives such as the digitisation of processes, development of multichannel services for personal and SME customers, extension of the platform for business and corporate customers, improvement of the CRM system and the definition of a new business model. As part of the digitisation programme, in 2016 the bank automated selected back-office processes, implemented the central collateral database and modified the decision engines for credit processes, among other things.

In order to facilitate transformation in the Retail Banking Division, the Retail Banking Transformation Area was set up to define and implement measures that will strengthen BZ WBK’s position as the first choice bank for existing and prospective customers. The key initiatives in this area include the design of an optimum model for distribution channels supporting direct and remote customer services.

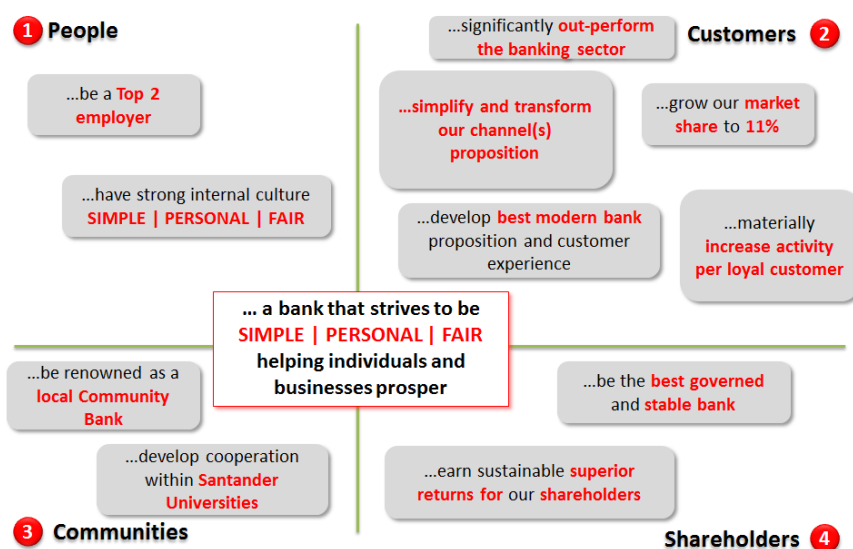
In 2016, a lot of focus was placed on improvement of the corporate culture based on the Simple, Personal and Fair values, development of employee engagement and creation of a strong employer brand.

The above strategic measures are described in detail in chapters relating to activities of individual BZ WBK divisions (Chapter VI “Business Development”).

3. Strategic Priorities for 2017-2019

Objectives

Below are the objectives of Bank Zachodni WBK Group for 2017-2019 which are focused on four main stakeholder groups: employees, customers, communities and shareholders.



Financial Plan Assumptions

General assumptions of the financial plan for 2017-2019:

- Increase in recurring net profit;
- Positive growth trends in interest and fee income;
- Cost management discipline resulting in reduction of the cost to income ratio;
- Improving quality of credit portfolio;
- Slower increase in the average risk weighted assets compared with loans and advances.

Assumptions of the Key Strategic Programmes

Going forward, one of the key strategic pillars will be the new Digital Transformation Programme launched to redesign and digitise the key processes and to provide them in the remote contact channels. The changes are soon expected to bring about the following benefits:

- simple and innovative products and services that suit diverse needs of customers;
- 24/7/365 remote and secure access to services based on user-friendly and intuitive solutions;
- additional services such as training, e-accounting, set-up of a website or an online store;
- customised services and guidance on the latest solutions provided by customer advisors;
- uniform and fully-digital processes for all products and segments (universal process, common functionalities);
- module-based approach to agreements with customers;
- identification of external customers in the video channel.

Alongside digital transformation, the bank will work on transformation of the business model to facilitate implementation of the initiatives that will reinforce a positive customer experience, simplify operating processes, increase productivity, eliminate overlaps and improve synergies and effectiveness. The above measures will be delivered in connection with the New Branch Model.

The bank's employer branding strategy will be implemented as part of an image building and recruitment programme (Banker's Career / Kariera Bankiera) aimed at strengthening the reputation of BZ WBK as a prestigious employer that provides a unique opportunity for development and career in the banking sector.

The above measures are expected to help the bank achieve the position of the best financial institution for retail and corporate customers and second best employer in the banking market.

Upcoming Challenges

The challenges facing the bank in the near future include the possibility of legislative solutions being introduced with respect to loans indexed to/denominated in foreign currency, which may substantially affect the Bank's performance and risk profile.

The PSD2 directive will reduce banks' competitive advantage that they enjoy at present as the only institutions that have access to information about customer activity. Under PSD2, new entities may be able to examine behavioural data on customers' accounts while being subject to less stringent legal requirements than those imposed by banks.

The slow-down in investments observed in Q4 2016 may cause even more market uncertainty and consequently result in a deterioration of companies' performance. As regards non-retail customers, the outlook for the global economy is also rather uncertain, which is due to external risk factors, including the growing risk of protectionism that may result in the emergence of new trade barriers.

Brexit as well as question marks around results of the elections to be held in key Member States may lead to a permanent depreciation of the zloty and adversely affect the performance of importers. The low unemployment rate (both registered unemployment and unemployment measured on the basis of occupational activity surveys) coupled with a steadily growing demand for labour – may result in companies having problems with attracting/retaining key employees.

The bank addresses these emerging challenges by, for example developing risk management solutions to facilitate the safe and stable growth of business volumes while ensuring compliance with regulatory requirements relating to advanced risk management methods. At the same time, the bank consistently pursues and regularly reviews its growth strategy, as it continues to optimise its existing processes and products to remain both competitive and profitable at the same time.

V. Human Resources and Corporate Culture

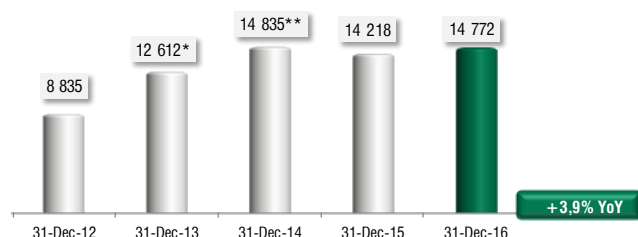
1. Human Resources Management

Human Resources

As at 31 December 2016, the number of FTEs in Bank Zachodni WBK Group was 14,772 vs. 14,218 as at 31 December 2015. These headcount figures include 11,733 FTEs of Bank Zachodni WBK (11,216 as at 31 December 2015) and 2,637 FTEs of SCB (2,625 as at 31 December 2015).

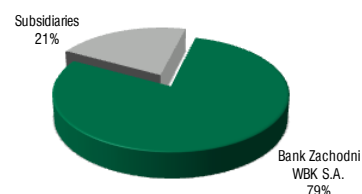
The growth in employment levels in BZ WBK Group (+554 FTEs) is attributable mainly to the ongoing transformation of Bank Zachodni WBK business model with a view to increasing the share of new technologies and remote customer contact channels in order to better suit customer needs. The technological, organisational and business changes connected with the above process called for the strengthening of business support functions and further optimisation of branch banking structures. Furthermore, in September 2016, the services provided by the Multichannel Communication Centre were insourced to deliver a top-quality customer experience in this channel. All changes were based on natural staff turnover to the largest possible extent and took account of business needs and prevailing market conditions.

Employment in BZ WBK Group in Years 2012-2016
(in FTEs)



* Merger of BZ WBK S.A. and Kredyt Bank on 4 January 2013
** Includes employees of SCB Group as a result of acquisition of a controlling stake in SCB on 1 July 2014

Employment Structure in BZ WBK Group as at 31.12.2016



HR Policy and Its Delivery

Recruitment

Bank Zachodni WBK recruits new employees both internally and externally using methods and sources which are relevant to existing vacancies, including internal recruitment processes, the Referrals Programme, external service providers, specialised social media, practical training and internships, career fairs, events organised by universities, science clubs and career services. The bank's employees have precedence over other candidates in the internal recruitment processes at Bank Zachodni WBK and SCB Group companies, which increases their development opportunities and helps build individual career paths. The candidate profiles are checked to see if they meet the required job criteria in terms of their competence, experience, knowledge, motivation and personality. All persons involved in the recruitment process must comply with the business ethics principles arising from the Labour Code and internal policies, in particular with the confidentiality and non-discrimination regulations.

The BZ WBK Referrals Programme, which was launched in 2015 as a tool supporting the recruitment of employees for customer service positions in the branch network, was expanded in June 2016 to provide an opportunity to recommend candidates for positions in other organisational units of the bank. The system helps to reach a wider group of prospective employees who have relevant competences, skills and motivation, and are interested in taking up a job at the bank.

The recruitment process is additionally supported by the Practical Training and Internship Programme run in cooperation with universities across Poland, which is designed to recruit young, qualified and talented individuals.

Remuneration and Incentive System

Base Salary

In Bank Zachodni WBK remuneration is essentially composed of a base salary which is determined on the basis of the role performed, scope of responsibilities, qualifications and experience. In its approach to job valuation, the bank uses best market practice to ensure competitiveness of remuneration. In response to dynamic changes in the labour market, the bank's remuneration system was revised in 2016 in terms of the approach to related groups of positions, reference levels and dispersion, using payroll reports of leading advisory companies and data published by the Central Statistical Office (GUS).

Following the implementation of the new remuneration regulations (which was subject to consultation with trade unions), the bank reviewed the base salaries of employees and revised them accordingly, effective from 1 December 2016.

Employees who have a material impact on the bank's risk profile are subject to the Remuneration Policy for individuals holding managerial positions in Bank Zachodni WBK, whose provisions regarding base salary do not differ from regulations applicable to other staff members.

Variable Components of Remuneration

The bonus schemes adopted by the bank enhance staff motivation and support the delivery of strategic objectives set by the organisation. Such schemes are linked to the results of the bank, respective units and individual employees who are subject to regular performance reviews.

Variable remuneration depends on a bonus scheme relevant to a given employee (including bonus regulations for branch employees and Business Support Centre employees).

Management Board members and material risk takers are covered by a separate bonus system which is related to the financial performance and risk generated (for details see section "Remuneration of Management and Supervisory Boards").

Key managers may also receive awards under long-term incentive schemes which are aimed at strengthening the relationship between the bank's financial effectiveness, expectations of the shareholders and the award granted. At present, not more than 500 key employees and executives in the Group are covered by a three-year share-based incentive scheme under which they may subscribe for a stated number of the bank's shares at their nominal value (for details see section "Performance Share Programme" in Chapter XI "Statement on Corporate Governance in 2016").

The base and variable remuneration policy adopted by Bank Zachodni WBK applies to the bank's subsidiaries, too.

The Group also offers additional benefits that suit employees' needs such as: health care packages or the cafeteria system which provides a wide range of cultural, sports or tourist benefits.

Personnel Policy

Pursuant to the strategy in place, the bank took measures to create an engaging work environment, focusing on the following three areas: organisational effectiveness, the employee's professional life cycle and a friendly work environment.

Performance Management

The Performance Management System existing in the bank for many years now is steadily improved and facilitates the culture of dialogue, promotes a uniform system of values and behaviours and increases staff engagement in the delivery of strategic and operational activities. The key element of the system is the performance review process, i.e. quarterly meetings between employees and managers whose objective is to set individual goals (at the beginning of the year), provide necessary support and feedback (during the year) and evaluate annual performance (at the end of each year).

Employer Branding Initiatives at Subsequent Stages of the Professional Life Cycle

Bank Zachodni WBK has a comprehensive employer branding strategy in place whose objective is to build a strong reputation of the bank as an employer. Apart from image building initiatives targeted at different groups of external stakeholders (from students to professionals), the strategy also covers activities connected with processes at various stages of the professional life cycle. These strategies help enhance staff engagement and build a strong employer brand.

In 2016, a particular focus was placed on:

- professional development of employees (for details see section below "Training and Development");
- support for recruitment processes: "Colourful Career" ("Kolorowa Kariera") campaign for the Multichannel Communication Centre, "Business Intelligence Academy" ("Akademia Business Intelligence") campaign for the Risk Management Division and other campaigns targeted at branch employees and Digital Transformation Division.

The above mentioned campaigns resulted in an increase in the number of applications for new job openings and also in a better quality and match of candidates with job requirements.

The employer branding strategy brought the following accolades to the bank: 5th place in the Universum 2016 ranking among banks (6th place in 2015), the title of Solid Employer for the second year running, and 4th place in the Antal ranking in the category of first-choice of employer in the financial sector (1st place among banks).

Creation of a Friendly Work Environment

In order to create a friendly work environment, the bank takes measures to increase the sense of security and engagement of staff and promote work-life balance. They include without limitation:

- management in accordance with corporate values;
- planning succession and knowledge transfer to ensure effective use of the company's intellectual potential;
- promoting ethical conduct among employees and building a workplace free from any displays of discrimination, mobbing or harassment through compliance with Dignity and Respect at Work Policy,
- elimination of adverse developments generating reputational and legal risks;
- launch of initiatives to promote work-life balance, e.g. work time management tools;
- delivery of the "Healthy bank" programme ("Zdrowie na bank") to promote healthy lifestyle through educational and incentive initiatives;
- "Banker's Hike" events ("Rajd Bankowca"), combining team building with active family holidays;
- additional benefits (medical care, cafeteria system, life insurance, financial aid and discount schemes).

Employee Engagement

Managing employee engagement and support is one of the fundamental elements of the corporate culture transformation process in accordance with the Simple, Personal and Fair values.

In Q3 2016, the next edition of an engagement survey was held across the Group. The findings are a valuable source of up-to-date information about the organisation, its values and operational and leadership styles. Most importantly, they help identify areas for improvement in teams and the bank as a whole, and define an action plan to enhance employee engagement. The survey is conducted by an external company, which ensures it is fully confidential and gives more confidence to staff.

The findings from the 2016 survey revealed that the share of fully effective employees met the target set for 2017. All the ratios derived from the survey increased on a year-on-year basis.

Training and Development Programmes

The Business Partnership Division provides top-quality development programmes and business-as-usual training to support the development of employees and executives and contribute to the delivery of the bank's strategic goals and key business projects. Business and training objectives are harmonised by planning and the co-ordination of training – a process actively supported by branch network and individual business areas.

Training Activity

BZ WBK employees have access to a wide variety of tools which help foster professional development, such as remote training (e-learning and webcasts), workshops (internal and external), language courses, postgraduate studies and specialist courses.

In 2016, training activities for the branch network were focused mainly on development of staff competence in the following areas: trade finance, lending to farmers, sale of insurance, deposit and investment products, quality of customer service and job interviews supporting employer branding. Training for the Business Support Centre covered such issues as digitisation, business and financial analysis, advanced IT skills, MIFID and MIFIR, prevention of money laundering, risk analysis, audit, transactions supervised by the Global and Corporate Banking, HR and payroll. Initiatives were also undertaken to build on the expertise and interpersonal skills of employees. The management staff in the branch network and the Business Support Centre had the opportunity to take part in a strategic project aimed at improvement of managerial competences in accordance with the model applicable across the Group (for details see section "Development programmes").

In 2016, the number of training hours came to a total of 494.3k, i.e. 41.7 hours or nearly 5 working days on average per employee. The number of registered attendees totalled 120k, 19% of which related to workshops and the remainder to remote training. The bank also continued activities aimed at developing the competences of BZ WBK Partner outlet agents.

Development Programmes

Development programmes for executives and high-potential employees of Bank Zachodni WBK are an important element of the human resources management strategy whose goal is to build an engaging work environment.

Programmes for Managers

The quality of management within the Group is strengthened through a uniform corporate model of managerial competences. The model covers four equally important areas (shown in the graphic below) which are fundamental to the effective delivery of business objectives and development of employee engagement.



The acquisition of respective skills is facilitated by a range of development opportunities offered by the bank such as books and articles, profiled workshops, e-learning, webinars and other tools. A total of 791 managers took part in the workshops (more than 100 sessions held by the end of 2016), and some of them attended the training more than once.

In 2016, the bank launched the next edition of its programme for newly appointed managers which is designed to develop managerial and leadership skills of 150 executives who meet specific criteria.

The managers participate in 360 feedback sessions in which they are assessed in terms of their competences and delivery of the Simple, Personal, Fair values. In 2016, 209 feedback sessions were launched, 46 of which were completed by the year end.

103 key managers were covered by dedicated development initiatives such as 360 feedback sessions and workshops for future mentors.

Mentoring and Coaching

Individual and team coaching and mentoring initiatives at Bank Zachodni WBK are aimed at supporting development of employees and teams whose goal is to deliver specific targets, change attitudes and behaviours or improve their competences. They are not meant to be corrective actions.

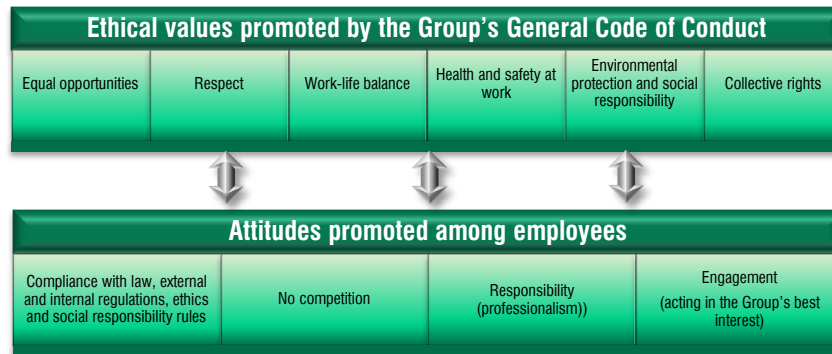
In 2016, the approach to mentoring was changed. The process now covers all employees/teams that have real development needs. The internal mentors include 95 experienced managers with a successful track record, who enjoy a well-earned reputation within the organisation and are recommended by their line managers and HR Business Partners. In order to ensure that mentors are fully prepared for their role, a special development process was launched along with an Intranet site with dedicated content.

In 2016, 78 individual coaching processes were started. Most of them were completed by the year end.

2. Business Ethics

Bank Zachodni WBK Group strives to maintain honesty, integrity and straightforwardness in its business as usual relations with shareholders, customers and employees. Ethical standards, available in the written form, have been for years a fundamental element of the Group's corporate culture.

The binding General Code of Conduct outlines basic ethical standards and promotes attitude and behaviour that is compliant with the values "Simple, Personal and Fair". It provides a set of guidelines for all employees, irrespective of their role in the organisation.



The code of standards is complemented with supplementary instructions in specific areas. These are, among others, the following regulations: Code of Conduct in the Securities Markets, Code of Conduct for Research Activity, General Conflict of Interest Policy, Anti-Money Laundering Policy and the Anti-Corruption Programme.

The Group attaches great importance to preservation of its reputation and to this end carries out a number of training initiatives addressed to all employees. The ethics and compliance e-learning programme (COMET) introduced a few years ago has become a constant element of the staff training system. In 2016, the bank launched an information and training campaign called "RiskPro" to consolidate knowledge on risk exposure and reputational risk in particular.

The Group makes every effort to prevent unlawful activity and develops tools and resources to be able to minimise the occurrence and materialisation of legal liability risk arising from its operations. Towards the end of 2016, the bank adopted Model Corporate Defence in respect of breaches of law committed by employees. This is an internal regulatory platform providing a reference for all the processes related to legal liability prevention.

As an employer, the bank consistently promotes the idea of an open dialogue with employees and provides them with special communication channels whereby they can report any issues and concerns they have, including those of an ethical nature. As part of the Respect and Dignity at Work Policy, the bank increased the profile of the above internal communication channels and ensured protection for whistleblowers. In 2016, another phone line was activated for reporting employment-related issues, in addition to the ethical helpline and the etyka@bzwbk.pl e-mail inboxes that have existed for many years at the bank.

3. Corporate Social Responsibility of Bank Zachodni WBK

Key Assumptions of BZ WBK Sustainability Policy

For many years now, corporate social responsibility principles have been integrated into the activities of Bank Zachodni WBK, which conducts its banking operations in a sustainable manner and takes into account the impact of the decisions taken on the respective groups of its stakeholders: customers, employees, business partners, communities and the environment.

In 2016, Bank Zachodni WBK introduced a range of social and environmental policies to support the practical application of corporate social responsibility values and principles in different business areas. The bank implemented, among other things, BZ WBK Sustainability (CSR) Policy based on best practices included in international conventions and protocols, codes of conduct and other guidelines, such as the United Nations Sustainable Development Goals. The underlying assumption of the Sustainability Policy is that long-term sustainable growth may only be achieved by creating value for all stakeholders (employees, customers, shareholders and communities) and taking on ethical, social and environmental commitments that go beyond the legal obligations towards the stakeholders.

The policy is complemented by six other policies of Bank Zachodni WBK, including: Climate Change Policy, Human Rights Policy, Corporate Volunteering Policy and risk management policies for sensitive sectors, which set out the minimum admission criteria according to the social and environmental risks.

Pursuant to the Sustainability Policy and other policies, Bank Zachodni WBK makes decisions taking account of ethical, social and environmental considerations as well as financial criteria and risks. The bank's commitment to corporate social responsibility is confirmed by its inclusion in the Respect Index of Poland's socially responsible companies.

CSR Priorities for Bank Zachodni WBK



Initiatives for Communities

Bank Zachodni WBK is committed to supporting local communities through investments in education and development, creation of a civil society, promotion of equal opportunities and prevention of social exclusion. This way, the bank contributes to long-term social and economic development.

The scope of CSR activities is steadily growing, as the bank believes in the synergy of business and investments that stimulate development of local communities. In 2016, there were 115k beneficiaries of CSR projects implemented by the bank and its employees. Nearly 700 regional initiatives were delivered as part of the Santander Universidades and Barrier-Free Banking programmes and activities of BZ WBK Foundation.

Education is the main focus of the bank's social investments, as it is seen as the driver of growth, progress and future well-being, which helps solve many major social problems.

One of the flagship projects of Bank Zachodni WBK is the Santander Universidades Programme, which is addressed to students, PhD students, academics, administrative staff and graduates. The Programme was launched in Poland in 2011 as part of a global initiative of Banco Santander started 18 years ago. Pursuant to agreements with universities in different countries, Banco Santander promotes the improvement and excellence of universities, international mobility of university groups (teachers, students and researchers), research, innovation and entrepreneurship.

Since 2010, Bank Zachodni WBK Foundation has supported the corporate volunteering initiatives at the bank. Each year, more than 50 social projects are initiated and delivered by the bank's employees. The activities of this kind engage more than 600 volunteers from the bank per year.

Sponsorship Projects in 2016

Bank Zachodni WBK, acting in the general public interest, is committed to supporting culture and art.

The key cultural and educational project run by the bank - Santander Orchestra - promotes such values as collaboration, creativity and courage, which are fundamental features of the global success of Santander Group. The Santander Orchestra was set up in 2015 together with MyWay Foundation and the Krzysztof Penderecki European Centre for Music. In 2016, the second edition of the programme was held: 64 young and talented students from Poland could practise their skills and prepare for concerts under the tutelage of great musicians from Poland and abroad. This year's edition was concluded with two concerts given as part of the 20th Ludvig van Beethoven Easter Festival and an album.

In 2016, the bank organised the 12th edition of the BZ WBK Press Photo competition held since 2005. 156 works from 33 Polish press photographers were awarded in six categories: events, everyday life, society, culture and art, sports and nature.

A large number of social programmes are delivered via the Bank Zachodni WBK Foundation which started 19 years ago. Particularly noteworthy are the following two grant programmes:

- “Bank of Children’s Smiles” - an initiative focused on organisations which help children from dysfunctional, unemployed or poverty-stricken families, as well as supporting institutions such as NGOs, community centres, local administration units and schools. The funds are invested in the development of underprivileged children. In 2016, two editions of the programme were held: the first one focused on education and upbringing, the second one on sports - it promoted active lifestyle and fair play among children. The annual support under the programme totalled PLN 500k in 2016 and was provided to 140 organisations.
- “Bank of Ambitious Youth” - a programme addressing educational, care institutions and youth organisations which engage ambitious, creative and responsible young people in educational and civil society initiatives. In 2016, a total of PLN 700k was granted to 87 organisations after two rounds for applications.

CSR Report

In September 2016, Bank Zachodni WBK published the third CSR Report for 2015, which had been prepared in accordance with GRI (Global Reporting Initiative) Guidelines 4.0. The report provides the overall picture of organisational management, focusing on social, ethical and environmental aspects of the bank’s operations, and describing the bank’s relationships with stakeholders, including employees, customers, shareholders, suppliers and local communities. The report was subject to independent assurance in terms of conformity of its non-financial data with GRI G4 guidelines.

The measures taken by the bank respond to the biggest challenges of the modern world and reflect the global Sustainable Development Goals set by the United Nations in 2015. The bank endeavours to ensure that its activities bring real benefits to local communities and contribute to social and economic development of individual regions and the country as a whole.

4. Customer Relationship Management

Quality Management

Service quality and customer satisfaction are the key elements of the customer centricity strategy pursued by Bank Zachodni WBK. The bank measures customer satisfaction on an ongoing basis and continuously improves the quality of products and services.

Key elements of Bank Zachodni WBK’s quality management system



Customer Expectations and Feedback

Since 2014, customer satisfaction surveys have been conducted on an ongoing basis. The results and customer feedback are available in real time on a dedicated IT platform, which allows the bank to monitor customer satisfaction, take prompt action if needed and assess the effectiveness of the measures implemented. The methodology of customer satisfaction survey used by the bank is consistent with the practice adopted across Santander Group, which ensures comparability of results and enables sharing of tried-and-tested solutions between different countries.

In 2016, the bank received feedback from nearly seventy thousand customers. The survey confirmed further improvement in the level of customer satisfaction with services provided both by the bank and by individual advisors.

Customer Service Quality

The bank regularly monitors customer service standards in branches and partner outlets by way of mystery shopping exercises. In 2016, each branch was surveyed 20 times on average. The performance indicator related to the application of customer service standards went up by 19 p.p. YoY.

Measures taken by the bank to improve customer service quality focus on the development of knowledge and competence of front-end staff. The responsibility for development of customer service skills is delegated to macroregional customer relationship managers who provide support to the branch network in this respect.

In 2016, Bank Zachodni WBK launched a programme of key educational initiatives for branch banking staff to improve sales techniques and develop management skills in terms of constructive feedback:

Customer Experience Management

The bank manages the customer experience at each stage of the relationship: from customer onboarding, the selection of an offer, teller operations (at a branch or in a self-service zone), the purchase of products and services in individual distribution channels, to the assessment of the complaint procedure.

Customer satisfaction surveys help Bank Zachodni WBK to continually improve service quality and implement solutions that suit customer needs. In 2016, a number of initiatives were undertaken including: centralisation of complaint handling, modernisation and extension of ATM and CDM network, development of self-service zones, an increase in the number of barrier-free branches with facilities for disabled customers, HCE payments, touch ID functionality for mobile banking users, an end-to-end credit process available in the Online Advisor channel and the implementation of TeleClick sales processes in the Multichannel Communication Centre.

Complaint Management

The complaint handling process at Bank Zachodni WBK satisfies regulatory requirements and is continuously improved to increase effectiveness and customer satisfaction.

Customers may submit a complaint by following a simple procedure in any of the following ways: at a branch, in writing, over the phone, via an electronic banking platform or using an online form available on the bank's website. The method of reply is chosen by the customer (letter, text message or via electronic banking services) with the bank ensuring that its response is kept as simple as possible and understood by persons other than banking professionals. More than 50% of complaints are resolved within three business days and this is a key factor in the rising level of customer satisfaction with the complaint handling process.

Barrier-Free Banking Programme

For the last six years, the bank has been delivering the "Barrier-Free Banking" programme to enhance its disabled customers' experience with BZ WBK in all contact channels (from branches to mobile banking).

The programme facilitates day-to-day banking for disabled customers through the following:

- branches without architectural or other barriers with accessibility certificates in place (166 outlets as at the end of 2016);
- Online Advisor services available in sign language via video call (accessible by means of BZWBK24 mobile, BZWBK24 internet, the bank's website or tablets available at the bank's branches);
- ATMs designed for visually impaired or blind customers (231 specially adapted machines installed as at the end of December 2016);
- BZWBK24 electronic banking services certified for accessibility to sight impaired customers;
- access to the bank's communication tools suitable for disabled customers such as advertisements, tutorials and the Barrier-Free Banking website presenting a range of solutions offered by the bank.

Marketing and Communication Campaigns

In 2016, Bank Zachodni WBK consolidated its position among the leaders of bank franchises as the third most recognisable brand in Poland.

In 2016, the bank ran five above-the-line campaigns for personal customers, including three cash loan campaigns, one image building campaign related to UEFA Euro 2016 and a campaign promoting the Account Worth Recommending (Konto Godne Polecenia). The bank also conducted marketing activities related to mortgage loans, credit cards, innovative HCE mobile payments, products and services for farmers, Onkopolska cancer insurance, BLIK payments, investment products for affluent and VIP customers and many others.

In 2016, both PR and advertising campaigns focused on the bank's sponsorship of football-related projects and emotions associated with large sports events such as UEFA Euro 2016 or 2018 FIFA World Cup qualification. Thanks to integrating the European Championship campaign and the cash loan campaign into one communication platform, Bank Zachodni WBK achieved a synergy that visibly improved the effectiveness of media and sales activities. Furthermore, the bank's #12player (#12 zawodnik) project launched on social media for football fans and then went on to win the following two accolades: Golden Clip in the Finance category and Silver Clip in the Social Media category. The voting panel appreciated the effectiveness and uniqueness of campaign activities that had evoked interest and enthusiasm among Polish football fans during UEFA Euro 2016.

Bank Zachodni WBK continued initiatives aimed at strengthening its relations with business and corporate customers, namely:

- The "Business Evolutions" ("Firmowe Ewolucje") project designed to encourage the activity of SMEs and promote the bank as an institution that supports the expansion of Polish companies;
- The continuation of the Poland-wide workshop programme "Entrepreneur Academy" ("Akademia Przedsiębiorcy"), which in 2016 focused on new technologies and foreign markets;
- The Export Development Programme, which supports customers in the international expansion of their business;

In 2016, the bank continued its activity in social media. At present, it is the financial institution that is one of the most active in its communication with web users and has the largest number of Facebook fans and Twitter followers (280k and 16k, respectively). The bank answers queries via hundreds of private Facebook messages each month, with a response rate reaching 95% (5% is spam). It also steadily develops its website (bzwbk.pl) and keeps in touch with Internet users via other contact channels, such as a blog or the Bank of Ideas site (Bank Pomysłów).

5. Awards, Recognitions, Ratings

Bank Zachodni WBK (BZ WBK)	
Golden Banker	<ul style="list-style-type: none"> • Second position in the survey by Puls Biznesu, Bankier.pl, TNS Polska and Obserwatorium.biz in the mortgage loan category in recognition of the comprehensiveness of the mortgage loan proposition, its accessibility to customers with a lower downpayment, competitive margin and attractive early repayment terms (April 2016).
Institution of the Year 2016	<ul style="list-style-type: none"> • Top position in the second edition of the Institution of the Year 2016 ranking by Mojebankowanie.pl, for the best remote customer services (June 2016).
Luminatus 2016	<ul style="list-style-type: none"> • Accolade from Bloomberg Businessweek Poland monthly for the Export Development Programme, which supports Polish businesses in their foreign expansion (June 2016).
2016 Wprost Portfolios Awards	<ul style="list-style-type: none"> • The best account in the "account for the young" category voted by the jury of the 2016 Wprost Portfolio Awards. Account<20 (Konto<20) is a free-of-charge account for customers under 20 (June 2016).
Best Bank in Poland	<ul style="list-style-type: none"> • Title of the Best Bank in Poland awarded by Euromoney Awards for Excellence 2016 in recognition of outstanding effectiveness and excellent financial performance (July 2016)
Award from WSE	<ul style="list-style-type: none"> • Award granted to BZ WBK Brokerage Office in recognition of the highest share in options trading without market-making in 2015. The panel appreciated not only the performance (39% share in the options market) but also the impact on the Polish capital market.
Analyst ranking	<ul style="list-style-type: none"> • In the annual analyst ranking published by Parkiet daily, a high position was achieved by the BZ WBK Brokerage Office Stock Market Analysis Team – nearly all the analysts from the Brokerage Office were ranked in the top ten in their respective categories, and three members of staff were ranked among Poland's top three analysts.
Top Brand 2016	<ul style="list-style-type: none"> • BZ WBK hailed Positive Brand of 2007-2016, and for the third time in the Top Brand 2016 Ranking, in recognition of the highest positive publicity rate among all banks ranked. • Second position in the general Top Brand ranking published by Press magazine in terms of number, scope and type of publicity.

Bank Zachodni WBK (cd.)	
Bank Team of the Year	<ul style="list-style-type: none"> BZ WBK Corporate Property Department selected the Bank Team of the Year in the commercial property market in the latest edition of the CIJ Awards 2016 organised by Roberts Publishing Media Group, a publisher of CIJ – an industry magazine about commercial properties in the CEE (November 2016).
Barrier-Free Banking	<ul style="list-style-type: none"> Silver Laurel accolade for the Barrier-Free Banking Programme in a competition organised by the International Project Management Association (IPMA) Poland for social projects aimed at disabled customers (November 2016).
Entrepreneur-Friendly Bank	<ul style="list-style-type: none"> Accolade and title of Banking Quality Leader 2016 in the 17th Edition of the Entrepreneur-Friendly Bank in recognition of exceptionally active approach towards SMEs, a wide array of products and services and top service quality.
Golden Clip 2016	<ul style="list-style-type: none"> Four awards in the prestigious Golden Clips competition held by the Association of Public Relations Companies: gold and silver accolades for the “12th Player” project and two silver accolades for the Export Development Programme (December 2016). The awards are granted to the most outstanding public relations projects.
BZ WBK Leasing	
Sale of machines and equipment	<ul style="list-style-type: none"> Accolade from <i>Gazeta Finansowa</i> in the category of machines and equipment in recognition of BZ WBK Leasing business growth in 2015 (February 2016).
Banking Forum 2016	<ul style="list-style-type: none"> Accolade from Banking Forum 2016 for the best-in-class financing standards (April 2016).
Pearls of Polish Lease	<ul style="list-style-type: none"> First position in “Pearls of the Polish Lease” ranking by <i>Gazeta Finansowa</i> in the machines and equipment segment for Q1-3 2016 (November 2016).
BZ WBK Towarzystwo Funduszy Inwestycyjnych	
Alfa 2015	<ul style="list-style-type: none"> Four accolades and two Alfa awards from Analizy Online (February 2016). The accolades were given in the following categories: best investment company, best Polish equity fund (Arka Prestiż Akcji Polskich SFIO), best balanced fund (Arka BZ WBK Zrównoważony FIO) and best Polish treasury securities fund (Arka Prestiż Obligacji Skarbowych SFIO). Alfa awards were granted to two funds managed by BZ WBK TFI under the Credit Agricole brand: Credit Agricole FIO (best Polish equity fund) and Credit Agricole Stabilnego Wzrostu FIO (best stable growth fund).
Santander Consumer Bank	
Ranking by TotalMoney.pl	<ul style="list-style-type: none"> First position in the TotalMoney.pl ranking in the following categories: <ul style="list-style-type: none"> ✓ cash loans for external customers (i.e. customers not holding a personal account or credit facility with the bank) (March 2016); ✓ cash loans for summer holidays for internal and external customers (July 2016); ✓ online cash loans (September 2016); ✓ loans for used cars (September 2016); ✓ cash loans for internal and external customers (November 2016). Third position in the TotalMoney.pl ranking in the following categories: <ul style="list-style-type: none"> ✓ cash loans for internal customers (i.e. customers holding a personal account or credit facility in the bank) (March 2016); ✓ cash loans for external customers (June 2016).
Ranking by direct.money.pl	<ul style="list-style-type: none"> Second position in the term deposit ranking by direct.money.pl, in the category of 12-month deposits (March 2016).
Banking Stars	<ul style="list-style-type: none"> Award in the Banking Stars ranking published by Dziennik Gazeta Prawna and PwC in the category of profitability and effectiveness (June 2016).
Customer Friendly Company	<ul style="list-style-type: none"> Title of Customer Friendly Company awarded by the Management Observatory Foundation (June 2016).
Pearl of the Polish Economy	<ul style="list-style-type: none"> First position in the Pearl of the Polish Economy ranking published by the Polish Market monthly, in the category “Pearls of the Financial Sector” (October 2016).
CESSIO Accolade 2016	<ul style="list-style-type: none"> Third position in the CESSIO 2016 ranking held by the Conference of Financial Companies in Poland, in the category of the Original Creditor in the Banking Sector (November 2016).

VI. Business Development

1. Bank Zachodni WBK and Selected Subsidiaries

1.1. Retail Banking

Main Directions

BZ WBK Retail Banking provides services to more than four million personal customers who are assigned to Standard, Premium, VIP and Private Banking segments which differ in terms of the personalisation of services.

In 2016, Bank Zachodni WBK continued its Multichannel CRM programme whose objective is to implement consistent communication with customers across all the various distribution channels, taking into account their specific needs and preferences. The key priority of the programme in 2016 was to launch new processes together with analytical, operational and front-end tools, as well as to develop a campaign data layer and migrate campaigns into these new tools. In effect, the new Front-End CRM application was finalised and deployed within branches, partner outlets and the Multichannel Communication Centre, and the first online event-based campaign was implemented.

Other strategic objectives of Retail Banking development in 2016 were as follows: to increase customer loyalty based on the strength of the relationship and satisfaction with banking services, to optimise the product range in line with transparency and profitability criteria, to promote remote channels among personal customers and to develop a new business model for the bank's branches as part of the Digital Transformation Programme.

Personal Accounts and Bundled Products

Key Personal Accounts

In 2016, the sales of PLN personal accounts grew by 11.2% YoY and increased the total portfolio by 136.9k to 3.1m accounts. Including FX accounts, the personal accounts base totalled 3.9m.

Sales were driven primarily by the Account Worth Recommending (Konto Godne Polecenia) which paid attractive interest under a special offer (available until August) called "Account with 4% Interest" ("Konto na 4%") and a promotional campaign (launched in November) called "Account with a Card pays off" ("Konto z Kartą Procentuje"), linking interest to the volume of debit card transactions. The special offers encouraged active use of remote channels, which translated into a 77% YoY growth in personal account sales via internet and mobile banking.

The growth of the personal account portfolio was also supported by sales from the 1|2|3 Account (Konto 1|2|3) and Account<20 (Konto<20). The latter received positive feedback from customers and banking industry experts alike and won first prize in the 2016 Wprost Portfolios Awards as the best account for the young. It was also voted the best account for customers under 18 in the ranking of personal accounts for the young published by TotalMoney.pl.

In early August 2016, the bank introduced a number of changes to products and services for personal customers: these were communicated as part of an extensive information campaign. In particular, the product range was simplified (e.g. by limiting the number of cards and term deposits) and the schedule of fees and charges was aligned to market conditions.

In 2016, the bank introduced a combined offer of its VIP Account with its Business Account, supported by a promotional campaign emphasising the benefits of one-stop banking. The above solution was implemented to meet the expectations of affluent customers, of whom nearly 50% are sole traders.

Family Packages

In April 2016, Bank Zachodni WBK introduced services for persons applying for a parent benefit under the government's "Family 500 Plus" programme. BZ WBK customers were provided with an opportunity to apply for this benefit via BZWBK24's internet platform as well as manage their finances using personal account and credit card facilities and also save for their children's future by opening a term deposit or savings account.

On 18 April 2016, the bank signed a new cooperation agreement with the Ministry of Labour and Social Policy as part of the "Big Family Card" programme under which families with at least three children may use dedicated products such as 1|2|3 Account (Konto 1|2|3), a mortgage loan or a cash loan on attractive terms.

Savings and Investment Products

Bank Deposits

Turning to deposit and investment products, in 2016 Bank Zachodni WBK focused on optimisation of its deposit portfolio, strengthening relationships with deposit customers, the acquisition of new funds and the implementation of tools that support transformation in this product line.

The optimisation measures were aimed at increasing the balances of current and savings accounts in the total deposit portfolio and reducing the share of less stable term deposits. To that end, the bank modified its product range, managed the parameters of products and services and launched advertising and promotional campaigns ("Active Deposit" programme). In effect, the portfolio of personal accounts grew at a record 23.6% YoY, as did the deposit base, which increased by 7.3% YoY.

Bank Zachodni WBK strengthened its relationship with deposit customers by rewarding their activity and linkage with the bank as part of a comprehensive programme called "Active Deposit". The programme was launched in January 2016 along with a mechanism to automatically increase an interest rate on savings accounts once the volume of transactions in a personal account (including online and card transactions) reaches a stated level. The measures taken to increase the strength of relationships and product penetration (through the cross-selling of investment, insurance and transactional products) were also supported by the Bonus Deposit (Lokata Bonusowa) and e-Investor Deposit (e-Inwestor) available only via electronic banking.

New funds were acquired on the back of a 4-month Easy Earning Deposit (Lokata Swobodnie Zarabiająca) paying attractive fixed interest, and Max Savings Account (Konto Max Oszczędnościowe) for new funds. Deposit retention was facilitated by special offers made to price-sensitive customer segments and by negotiated deposits.

In relation to the ongoing transformation of the bank's business model, which is aimed at providing customers with easy-to-understand and transparent products and services, among other things, the range of deposits for personal customers was simplified and modified to better suit the needs of individual sub-segments (more than 20 products were withdrawn and the VIP Savings Account/Konto Oszczędnościowe VIP was introduced).

Structured Products

In 2016, Bank Zachodni WBK continued its activity on the structured deposit market. The bank sold products with a yield linked to exchange rates, stock indices or investment fund performance, providing 100% capital protection at the end of the deposit term.

The bank offered 76 products with a wide variety of tenors in the total of 39 subscriptions, including:

- 35 subscriptions for standard personal customers:
 - ✓ in 18 subscriptions, the bank offered deposits where the interest rate was linked to the EUR/PLN or USD/PLN rate, and was also dependent on the investment strategy adopted by the customer: appreciation, depreciation or stabilisation of currency;
 - ✓ in 14 subscriptions, the yield was linked to the following stock indices: S&P500, Nasdaq 100, Euro Stoxx® Oil&Gas, Euro Stoxx 50® or performance of mutual funds: Energy Select Sector SPDR® Fund and SPDR® Gold Shares;
 - ✓ 3 subscriptions of FX structured deposits paid interest depending on the EUR/PLN, USD/PLN or EUR/USD rate;
- 4 subscriptions were aimed at Private Banking customers, with interest linked to Euro Stoxx Oil&Gas® or Nasdaq 100 indices or performance of SPDR® Gold Shares or iShares® Silver Trust investment funds.

In all, more than PLN 533m worth of funds were collected as a result of the aforementioned subscriptions.

Brokerage Products

In 2016, Bank Zachodni WBK focused on the acquisition of new Brokerage House customers and on increasing the activity of the existing ones. It also actively promoted brokerage products and services among BZ WBK customers, particularly in the VIP segment.

The key tool to attain the above goals was a special offer called "Bonus for yield" ("Premia za zysk") which was available from March to August 2016 and was supported by a marketing campaign called "Profitable (re)start on the stock exchange" ("Zyskowy (re)start na giełdzie"). The above offer, which featured a cash bonus depending on the rate of return from trading in a brokerage account, helped to acquire or activate around two thousand customers and increase the share of BZ WBK Brokerage House in the WSE retail trading market.

In H2 2016, the bank focused on developing products and services that would facilitate customers' access to foreign markets and would help the bank achieve a leadership position in foreign spot markets. An automated currency conversion mechanism was implemented to allow investors to buy foreign stocks and bonds without the need to make FX transactions themselves. The new solution was supported by an external marketing campaign called "Global stock markets without foreign currencies" ("Światowe giełdy bez obcych walut") which was started on 1 August 2016 and continued until 31 December 2016, and a special offer which included an attractive transaction fee and currency spreads, and free investment advice.

In order to promote brokerage products and services, the bank also introduced new contracts for difference (CFD) which allow customers to take advantage of movements in indices and the price of commodities and raw materials. Additionally, an investment profiling service was implemented to help customers choose a suitable investment fund.

The bank's priority was also to further develop and promote the Investor Mobile platform, which was available to nearly ten thousand users at the end of 2016.

Investment Funds

Cooperation between Bank Zachodni WBK and BZ WBK Towarzystwo Funduszy Inwestycyjnych

Bank Zachodni WBK offers Arka investment funds which are managed by BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI), one of the largest and most experienced investment companies in Poland. The collaboration between the bank and BZ WBK TFI involves a wide range of activities supporting the development, distribution and marketing of investment funds. The flagship products are two open umbrella funds: Arka BZ WBK FIO and Arka Prestiż SFIO. The subfunds operating as part of the above-mentioned funds offer various investment strategies in the domestic and foreign markets, from conservative (based on debt securities) through mixed (based on bonds and equities) to more risky equity portfolios. An option to invest in Arka BZ WBK FIO subfunds is also available as part of the Individual Pension Account (IKE).

In Q1 2016, BZ WBK customers generally invested in money market subfunds (e.g. Arka BZ WBK Gotówkowy or Arka Prestiż Gotówkowy), while in the latter part of the year they switched to debt subfunds (e.g. Arka BZ WBK Obligacji Korporacyjnych or Arka Prestiż Obligacji Korporacyjnych) in view of stable performance of funds and the prevailing sentiment of the investment fund markets.

In order to meet customers' expectations and facilitate access to products and services, in 2016 distribution activities focused on developing processes and increasing sales of investment funds in remote channels. In April 2016, an end-to-end process was launched through the BZWBK24 internet platform to sell Arka investment funds. It was supported by special offers, such as no distribution fee for Arka fund customers placing orders via electronic or telephone banking channels after 2 May 2016. Another promotion was e-Investor (e-Inwestor) deposits offering higher interest for customers investing via BZWBK24. As a result, sales of Arka investment funds via BZWBK24 internet were significantly higher YoY.

In 2016, the bank took further measures to promote Individual Pension Account (IKE) as one of the ways to save and build capital for the future, including for retirement. The communication and marketing campaigns contributed to a pronounced increase in sales of Individual Pension Accounts compared to 2015.

Activities of BZ WBK TFI

Merger of BZ WBK TFI and BZ WBK Asset Management (BZ WBK AM)

On 31 March 2016, BZ WBK TFI (the acquirer) and BZ WBK AM (the acquiree) were merged by through an acquisition (for details see Chapter II "Basic Information about Bank Zachodni WBK and BZ WBK Group", section 3 "Entities Related with Bank Zachodni WBK").

Sale of investment funds

As at 31 December 2016, the total net assets in mutual funds managed by BZ WBK TFI were PLN 13.4bn and up 7.2% on 31 December 2015.

From February to October 2016, BZ WBK TFI funds reported positive net monthly sales. The highest net sales were recorded by corporate bond subfunds and money market subfunds: Arka Prestiż Obligacji Korporacyjnych, Arka Prestiż Gotówkowy and Arka BZ WBK Gotówkowy. At the end of December 2016, Arka Prestiż Obligacji Korporacyjnych was ranked among the top 10 retail investment funds in Poland by an independent research company Analizy Online.

In 2016, BZ WBK TFI was among the leaders in terms of net sales of retail investment funds.

Sales growth was also enhanced by the introduction of a new communication process and a new training and sales support programme, as well as by award winning asset management confirmed through a number of awards and accolades granted to the funds and the investment company by Analizy Online.

Management of individual portfolios

At the beginning of 2016, BZ WBK Asset Management changed the profile of its asset management activity and focused on institutional customers. BZ WBK TFI, as its legal successor, continues operations in the above market segment.

Newly launched European funds

Following the modification of the Information Prospectus and the Statutes of Arka Prestiż SFIO Fund, two new subfunds of Arka Prestiż SFIO were set up on 19 February 2016, namely Arka Prestiż Akcji Europejskich (European equity fund) and Arka Prestiż Europejskich Spółek Dywidendowych (European dividend-paying companies fund).

The subfunds invest up to 100% of assets in subfunds of Santander SICAV, in particular:

- Arka Prestiż Akcji Europejskich invests in Santander AM Euro Equity subfund, whose principal policy is to invest in equity securities of issuers belonging to the euro zone;
- Arka Prestiż Europejskich Spółek Dywidendowych invests in Santander European Dividend subfund, which focuses on equity securities of issuers in developed European countries which regularly pay dividends.

These are the first master-feeder funds offered by BZ WBK TFI, therefore their commercial implementation was accompanied by an extensive information campaign addressed to the sales network and prospective customers.

Liquidation of the property market fund

The liquidation of Arka BZ WBK Fundusz Rynku Nieruchomości 2 FIZ was completed and the fund was removed from the register of investment funds run by the Department of Civil District Court in Warsaw on 6 April 2016.

Awards and recognition

On 29 February 2016, BZ WBK TFI was awarded four accolades and two Alfa awards by Analizy Online in recognition of its performance in 2015. The accolades were given in the following categories: best investment company (BZ WBK TFI), best Polish equity fund (Arka Prestiż Akcji Polskich SFIO), best balanced fund (Arka BZ WBK Zrównoważony FIO) and best Polish treasury securities fund (Arka Prestiż Obligacji Skarbowych SFIO). Alfa awards were granted to two funds managed by BZ WBK TFI under the Credit Agricole brand: Credit Agricole FIO (best Polish equity fund) and Credit Agricole Stabilnego Wzrostu FIO (best stable growth fund).

Arka Prestiż Akcji Polskich, the Polish equity subfund, won an accolade in the Best Investment Products 2016 ranking published by Gazeta Finansowa on 16 September 2016, in recognition of its outstanding performance with a five-year yield totalling 35.79% on 31 August 2016. Furthermore, the above subfund was awarded four out of five stars in the rating published by Analizy Online.

Lending Proposition

Mortgage Loans

In 2016, Bank Zachodni WBK reported record sales of mortgage loans based on its existing product range. At the same time, the bank improved processes, modified products and services to better adapt to a competitive environment and performed statutory and regulatory obligations.

In order to promote fixed-rate mortgage loans and equity releases, in January 2016, the bank offered attractive fixed interest rates on the above products for the first five years of the lending period. In H2 2016, the above rates were modified in line with prevailing market conditions.

The bank took measures to improve credit processes, e.g. it modified an application procedure for subsidised loans offered as part of the government programme "Home for the Young" ("Mieszkanie dla młodych"). The above changes contributed to an increase in the bank's market share in this segment, which is now 21%. In terms of services for finance brokers, the bank digitised the flow of credit applications and automated the process of communication with customer advisors, thus significantly reducing turnaround times.

Pursuant to Recommendation S issued by KNF, the range of products and services was expanded to include a payment protection insurance from PZU in relation to home loans with an LTV above 85%. This allowed the bank to offer high LTV loans (max 90%), with margins unchanged.

In 2016, Bank Zachodni WBK took further measures to assist CHF mortgage borrowers, in particular:

- A negative CHF LIBOR interest rate was applied;
- The currency spread was reduced to 2% for CHF;
- Loan instalments were reduced through an interest-only option, payment holidays or an extension of maturity;
- Customers had an option to request loan conversion to PLN at the mean NBP rate and with no additional fees charged.

BZ WBK also introduced a solution which makes it easier for borrowers to sell a mortgaged property with a swap of collateral into a newly purchased property.

In relation to the introduction of the Act on supporting borrowers in financial distress, Bank Zachodni WBK entered into a cooperation agreement with Bank Gospodarstwa Krajowego (BGK) and offered refundable support from the Borrowers Support Fund in the form of repayment of mortgage debt at max PLN 1,500 per month for a maximum period of 18 months.

In 2016, the mortgage loan proposition of Bank Zachodni WBK won the following accolades:

- 1st place in the Comperia Stars ranking (best mortgage loan);
- 2nd place in the Golden Banker (Złoty Bankier) ranking (in recognition of the comprehensiveness of the mortgage loan proposition, its accessibility to customers with a lower down payment, competitive margin and attractive early repayment terms).

In 2016, the value of new (disbursed) PLN mortgage loans totalled PLN 5.6bn, up 30.1% YoY. Home loans were most popular among customers, in particular loans offered under the "Home for the Young" ("Mieszkanie dla młodych") programme. The gross mortgage portfolio grew by 11.5% YoY, reaching PLN 33.9bn at the end of December 2016. The value of PLN mortgage loans amounted to PLN 20.9bn, up 22.8% YoY.

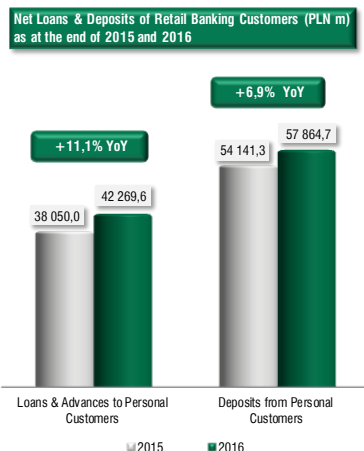
According to the report on the mortgage loan and residential property market published by the Polish Banks Association, after four quarters of 2016, Bank Zachodni WBK was ranked fourth in terms of sales of home loans, with a market share of 14.3% vs. 10.7% a year before.

Cash Loans

In 2016, the range of cash loans offered by Bank Zachodni WBK was modified along with the credit process to increase competitiveness, while maintaining profitability in sales. The lending period was extended to 120 months, low-value loans were offered to customers in a simplified procedure on the basis of a statement on earnings (a solution aimed at customers with insufficient or no credit history), an interest rate of 4.99% was introduced for customers with high creditworthiness and a lower arrangement fee was charged on loans taken out via remote channels.

In 2016, cash loan sales increased by 4.0% YoY, reaching nearly PLN 4bn. The respective loan portfolio was up 8.1% YoY and totalled PLN 7.2bn. The bank's sales activities were supported by two campaigns: one featuring a cash loan with interest reduced by as much as 50% and the other one focusing on a simplified credit process. Sales also grew on the back of marketing and promotional initiatives in the BZWBK24 platform as well as new CRM tools which provided access to comprehensive customer information and helped offer customised products and services.

Core Business Volumes



Total net loans (net of impairment losses) to personal customers increased by 11.1% YoY to PLN 42.3bn as a result of mortgage and cash loans sales. Deposits of customers from this segment were PLN 57.9bn, up 6.9% YoY as a result of higher current account balances.

Payment Cards

Similarly to previous years, the bank focused on initiatives designed to enhance the functionality and security of card products and to increase the sales and volume of card transactions. One of the key projects involved the improvement of security for online transactions made by debit and credit card holders (personal or business customers) through the introduction of the 3D Secure service, which became an integral feature of all cards (irrespective of customer access to electronic banking services). Concurrently, the bank simplified the product range by withdrawing less popular products or those offered to small customer groups.

Credit Cards

From April 2016, customers were provided with the facility to make contactless Visa or MasterCard credit cards payments using a system based on mobile phone. The mobile card is available via BZWBK24 mobile phone platform for holders of a plastic credit card (the principal card) and may be used directly after downloading (transactions with a mobile card reduce the cardholders' existing credit limit).

Furthermore, in June 2016, the bank offered the additional option to make cashback transactions using Visa, MasterCard and Maestro credit cards. As part of a special offer, an interest-free period for such transactions was extended as in the case of non-cash transactions (up to 54 days).

In August 2016, the bank simplified its credit cards offer, reducing the number of cards to five products which meet the specific needs and transactional behaviours of customers. In addition, the schedule of fees and charges was amended.

As at 31 December 2016, the credit card portfolio of Bank Zachodni WBK comprised 779.8k instruments, an increase of 6.7% YoY. The average drawdown of credit card limits went up by 11% at that time. These sales efforts helped the bank become the second largest player in Poland's credit card market, with a 12.6% share in total credit card sales (based on data available at 30 September 2016).

Debit Cards

On 1 August 2016, the bank introduced a simplified range of debit cards, modified its tariff of fees and charges and automated the issuance of new cards in the place of the stopped ones (without the need to sign new agreements and visit the branch). The above measures were preceded by an extensive communication campaign.

In September 2016, the bank introduced BZWBK MasterPass™ Digital Wallet – a solution which registers and stores payment cards details of BZ WBK customers (Visa and MasterCard). Customers can make online payments by logging into the MasterPass™ system, without the need to provide payment card details. A special offer was launched to encourage customers to use a new payment solution when shopping online.

In 2016, Bank Zachodni WBK actively promoted card payments. To that end, major acquisition campaigns were launched called "Double interest" ("Podwajamy oprocentowanie") and "Account with 4% Interest" ("Konto na 4%"), as well as offers targeted at specific customer groups (e.g. students or bankrupt banks' customers who were reimbursed under the deposit guarantee scheme via Bank Zachodni WBK acting as an agent for the BFG). The bank was also actively involved in the initiatives undertaken by the payment organisations: Visa and MasterCard.

As at the end of December 2016, the personal debit card portfolio of Bank Zachodni WBK (excluding prepaid cards) comprised nearly 3.2m items and increased by 4.6% YoY. Taking business cards into account, the total number of debit cards reached 3.4m, up 4.8%.

Prepaid Cards

The value of the prepaid card portfolio has been gradually decreasing in the wake of the Management Board's decision of November 2015 to withdraw prepaid cards from the bank's offer following an industry debate and guidance from the market regulator.

Bancassurance

Bank Zachodni WBK cooperates under agency agreements with the following insurance companies: BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie, BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych and Aviva Towarzystwo Ubezpieczeń Ogólnych, supporting them with development, distribution and marketing of products and services. Insurance products offered by Bank Zachodni WBK include products linked with bank products for retail and business customers (mainly loans) and non-linked products such as: Family Care (Opiekun Rodziny) life insurance, Locum home insurance and Partner in Business (Partner w Biznesie) property and liability insurance.

In 2016, the range of insurance products was extended to include the Safe Limit (Bezpieczny Limit) payment protection plan for individuals using overdrafts, a product for SME customers called Partner in Business Plus (Partner w Biznesie Plus), which offers a multirisk insurance coverage for companies with higher turnover, and Onkopolisa cancer insurance. Customers were also provided with an opportunity to apply for Safe Money (Pewne Pieniądze) debit card insurance via telephone or ATMs.

In 2016, sales of non-linked products grew on account of higher activity of customer advisors and introduction of the Onkopolisa cancer insurance, which attracted many customers.

The following products contributed most to insurance fee income: the Worry-Free Loan (Spokojny Kredyt) individual insurance package for cash loan borrowers including life insurance, Family Care (Opiekun Rodziny) life insurance, Business Guarantor (Biznes Gwarant) insurance package for business loan borrowers including life insurance, and Locum home insurance.

In 2016, the profitability of the bancassurance business was impacted by the amended Act on insurance and reinsurance activity, under which the bank was no longer entitled to collect insurance fees in relation to group insurance plans (effective from 1 April 2016) run on account of a third party.

Services to Financial Institutions

Bank Zachodni WBK is a major outsourcing service provider for banks and financial institutions in Poland, mainly with regard to card personalisation, issuance and handling and ATM network management. Drawing on its own experience, the bank continues to adapt its products and functionalities to suit the requirements of its customers and gradually expands its offering, ensuring it is highly innovative. The latest services provided by the bank include, among other things, the 3D Secure service, Visa and MasterCard tokenization solutions, the Android Pay service and cash deposit machines.

The bank's partners are offered a modern IT infrastructure and real-time access to transaction data. High quality and security of services was confirmed by the certification of personalisation processes for magnetic strip and chip cards conducted by Visa and MasterCard payment organisations in 2016.

As at the end of December 2016, Bank Zachodni WBK provided outsourcing services to more than ten banks and financial institutions operating in Poland and abroad. It managed a network of 480 third-party ATMs and handled nearly 3.1 million Visa/MasterCard cards for third party institutions.

1.2. SME Banking

Main Directions

The SME segment includes 290.9 thousand business customers with an annual turnover of less than PLN 40m and a maximum bank debt of PLN 5m.

The fundamental elements of the SME offering are the following:

- current account packages that suit the size, profile and needs of individual companies;
- a wide array of credit facilities such as working capital financing, investment loans (including via the European Investment Bank), preferential loans subsidised by the Agency for Restructuring and Modernisation of Agriculture and guarantees, leasing and factoring facilities.

An extensive range of deposit and investment products, modern distribution channels and comprehensive automated trade finance services serve as additional tools to build sustainable relationships with customers.

The SME Banking Division supports customers in their business expansion based on the following three pillars:

- top quality customer services provided through the network of qualified branch advisors and robust remote communication channels;
- building loyalty and long-term relationships with customers;
- simple but distinctive products with additional non-financial services.

The ambition of the bank is to become a partner for customers by offering advice and a wide array of non-financial services (e.g. support in networking with prospective counterparties and investors, industry insight, specialist workshops and training).

The above approach along with its focus on relationship banking should help Bank Zachodni WBK become the first choice bank and contribute to building a strong and stable customer base.

Product Range Development

Current Accounts

In line with the bank's business strategy focusing on providing easy access to simple products and services, in Q1 2016, the bank modified the range of current accounts for SME customers by replacing the existing packages with two types of the Business Account Worth Recommending (Firmowe Konto Godne Polecenia) depending on the volume of transactions. Customers with greater transaction volumes are offered the Business Account Worth Recommending package covering the main account with a monthly maintenance fee, unlimited free-of-charge additional accounts in PLN, FX accounts and online transfers via ELIXIR. Entrepreneurs with lower transaction volumes may opt for the Business Account Worth Recommending package covering the main current account operated free of charge (if used for payment of taxation commitments or social security contributions), one free-of-charge FX account and limited free online transfers via ELIXIR (a limit in any one month). Both Business Account Worth Recommending packages are available online. This simplified range of current accounts has enhanced the acquisition of SME customers and helped increase the volume of customer transactions.

The bank took measures to support foreign trade development and expanded its range of current accounts for small and medium enterprises to include accounts in non-standard currencies: CNY, MXN, RON, RUB and TRY.

Furthermore, on 1 August 2016, the BZ WBK Schedule of Fees and Charges for business customers was amended with respect to certain card transactions and ATM operations.

Loans

In 2016, significant changes were made to increase the competitiveness of products and services for SME customers.

- An online SME loan (up to PLN 50k) was introduced for sole traders who may apply using an online form and receive a preliminary credit decision in less than 20 minutes. The decision is immediately communicated to the customer in a remote channel, without the need to visit a branch.

- A new package of credit facilities was offered to customers from the agriculture sector to finance specific business needs (for details see part 1.3 below “Business and Corporate Banking”).
- A process was put in place allowing customers to apply for a loan to finance technological innovations. The loan is granted by Bank Zachodni WBK in cooperation with Bank Gospodarstwa Krajowego (BGK) as part of the EU Intelligent Development Operational Programme.
- New collateral was introduced under relevant agreements with BGK:
 - ✓ free-of-charge de minimis guarantees financed from the Guarantee Fund under the Innovative Economy Operational Programme to secure loans for companies which meet certain innovativeness criteria;
 - ✓ guarantees the securing of working capital and investment loans for SMEs as part of the COSME Programme (established to improve competitiveness in European SMEs) and the European Fund for Strategic Investments.

As part of the standard process, preliminary credit decisions may be issued in relation to all loans for SME customers (without a detailed financial analysis, description of the business model, details about collateral and valuation), which contributes to the bank’s competitive edge as customers are provided with quick information about their repayment capacity, loan pricing and the required type and value of collateral.

Educational and Information Support for Customers

In 2016, Bank Zachodni WBK developed various platforms of communication with SME customers (Entrepreneur Academy, firmoweewolucje.pl portal) to offer expert advice and necessary tools, identify customers’ business needs and respond with suitable products and procedures.

In 2016, the bank held another series of conferences for small and medium enterprises across Poland as part of the Entrepreneur Academy entitled “Global markets wide open to Polish entrepreneurs” - spring edition (“Światowe rynki szeroko otwarte dla polskich przedsiębiorców”) and “Win the markets with new technologies” - autumn edition (“Podbij rynki dzięki nowym technologiom”). The conferences covered such issues as foreign trade, business in international markets and use of new technologies and online solutions. The programme has a Poland-wide scope (50 cities) and leverages the knowledge and experience of experts from Bank Zachodni WBK, renowned external companies and Fundusz Poręczeń Kredytowych Polfund. In 2016, the initiative attracted nearly three thousand participants representing companies from all around Poland.

Bank Zachodni WBK also delivered a few hundred local workshops and training for five thousand companies, with content tailored to the needs of entrepreneurs from a given region. The above initiatives addressed such issues as: EU funds, exports and imports, digitisation and agri business.

In view of the success of the first edition of a TV show for small and medium enterprises called “Business Evolutions” (“Firmowe Ewolucje”) run under the patronage of Bank Zachodni WBK and its partners, in September 2016, TVP1 launched the second edition of the programme consisting of ten episodes. The purpose of the programme was to analyse the prospects and current situation for each of the companies, provide them with guidelines on how to do business and inspire them to take the most promising business opportunities. The programme also presented financial and non-financial solutions offered by Bank Zachodni WBK to small and medium-sized companies. The second edition attracted ca. 18 million viewers.

In addition, the firmoweewolucje.bzwbk.pl portal was launched as a platform combining all initiatives and activities undertaken by the bank in relation to products, services and general support for SME customers. The portal offers a wide range of training and workshop opportunities plus discounts from partners, as well as non-financial solutions provided free of charge or on preferential terms. It also provides a point of access to the www.santandertrade.com website run by Banco Santander to support the expansion of companies from around the world in terms of exports and imports. In 2016, the above websites had more than 2 million unique visitors (as per Google Analytics), whereas the number of registered users reached ca. 30 thousand at the end of December 2016.

Mobile and Internet Banking

In 2016, Bank Zachodni WBK actively developed the functionality of electronic and telephone banking services for enterprises (particularly SMEs) by expanding the scope of services and operational features.

In 2016, the iBiznes24 mobile application was launched to facilitate transfers to the Social Security Office (ZUS) and Tax Office, among other things.

Furthermore, the bank extended the scope of services provided by the Multichannel Communication Centre to SME customers to include an opportunity to apply for a loan, open and terminate negotiated deposits via telephone (for SMEs with higher turnover) or ask about loans and deposits on offer.

The functionality of the mobile and Internet application for business customers – BZWBK Mini Firma – was upgraded to include the “e-FX Currency Exchange” option, which comes as a standard element and does not require any separate agreement on currency exchange in electronic channels.

Leasing Business

In 2016, BZ WBK Leasing and BZ WBK Lease financed a record amount of fixed assets: PLN 4.0bn in total. This record-high performance was noted both in the SME segment and in the corporate segment. Sales in non-agricultural markets increased by 19.6%, driven by a 30.8% growth in car leases.

The range of lease products and services was developed as follows:

- The financing for investments in agricultural land was re-introduced on attractive terms, following the amendment of regulations pertaining to the sale of agricultural land introduced in August 2016.
- In cooperation with Fundusz Poręczeń Kredytowych POLFUND, a guarantee scheme was set up to provide an opportunity to execute transactions requiring additional collateral which could not be processed as part of the existing credit risk management system of the leasing companies.
- New vendor finance schemes were introduced in collaboration with five suppliers of machines and equipment, using financial solutions offered by BZ WBK Leasing.
- A financing scheme called “Successful Businesswomen” was introduced for female sole traders who may avail of the company’s Office Assistance insurance for only PLN 1 along with attractive investment financing solutions.

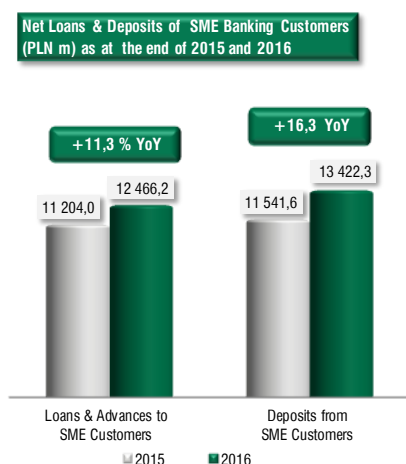
The following measures were taken to enhance customer service quality:

- The parameters of loans for farmers were modified to include the option of financing for up to 6 years without a need for down payment.
- The process of agreement verification and activation was precipitated, significantly reducing the servicing time of financing transactions.

In February 2016, BZ WBK Leasing was recognized by *Gazeta Finansowa* for its business growth over 2015 in the machines and equipment segment. The subsidiary’s leadership position in this market segment was confirmed by *Gazeta Finansowa* in its “Pearls of the Polish Lease” ranking issued in November 2016.

BZ WBK Leasing was the only leasing company to have been recognized by the 11th Banking Forum 2016 held in April 2016 as the company setting the highest investment financing standards in terms of transparency for customers and above-the-market business growth.

Core Business Volumes (SME Banking Division)



In 2016, the SME deposit base increased significantly. As at the end of December 2016, the balance of deposits reached PLN 13.4bn and rose by PLN 1.9bn YoY (+16.3%), mainly due to growth in current account balances in connection with a simplified range of products and their availability in remote distribution channels.

The net customer loans and advances portfolio went up by 11.3% YoY (up PLN 1.3bn), mainly on account of overdrafts and leasing. Customers also opted for Business Express (Biznes Ekspres) loans and investment loans. Lending was supported by new guarantees issued by BGK, including COSME guarantees granted to secure credit transactions and POIG guarantees issued to secure overdrafts, as an attractive alternative to de minimis guarantees.

1.3. Business and Corporate Banking

Main Directions

The Business and Corporate Banking Division provides services to business customers with a turnover of more than PLN 40m and a credit exposure exceeding PLN 5m. The customer base was divided into three basic segments by turnover volume: corporate segment, large corporate segment and property finance segment.

As at the end of December 2016, the Business and Corporate Banking Division provided services to a customer base of 8,900 entities from across all business sectors, supporting them in building and growing their business. Corporate bankers together with credit partners and product specialists delivered tailor made solutions to these customers and comprehensive services in the area of loans, deposits, transactional banking, treasury, leasing, factoring and capital markets.

The development initiatives launched in the previous periods were continued in 2016 with a focus on such areas as: a foreign trade development programme, products and services for the agriculture sector, digital banking, service quality, human resources and efficiency. The bank also gave priority to the development of its electronic banking channels for corporate customers. After the successful launch of a mobile application in 2016, the bank took further measures to upgrade features to personalise services and increase the functionality of this application. A focus was also placed on the enhancement of security of transactions effected via electronic platforms.

In order to achieve the position of the first choice bank for business customers, the Business and Corporate Banking Division continued with an operational transformation and improved the processes, product range and services to enhance the customer experience. The above efforts received positive feedback from corporate customers and helped the bank achieve an all-time best result in customer satisfaction surveys in the above segment.

Products and Services for the Agriculture and Food Sector

In view of the growing importance and potential of the agriculture and food sector, in 2014 the bank gave strategic priority to this market segment and since then has strived to become the best partner for all participants, including suppliers, farmers and processing companies. To that end, the bank develops a competitive product range, coordinates cooperation between divisions dedicated to this customer segment and ensures integration of activities between product lines and distribution channels.

In H1 2016, the structure of the Food & Agri Department was established, and sales managers were successfully recruited. The employees, including staff from other divisions, were trained in products and services provided to customers from the above sector, in particular the use of EU funds as part of the Rural Development Programme for 2014-2020 (PROW). Measures were taken to increase the awareness of Bank Zachodni WBK brand through marketing initiatives and participation in trade fairs, conferences and congresses (European Economic Congress, Meat Congress, AGROSEC), and also through presentations and sector analysis prepared for customers.

The bank shared its expertise and best practice, while focusing on development of the product range. The lending proposition was extended to include five new products for farmers:

- Agri Production (Agro Produkcja) – financing of production cycles;
- Agri Development (Agro Budowa) – financing of construction and modernization of buildings for live inventory;
- Agri Land (Agro Grunt) – financing of purchase of built up land and farms;
- Agri Investment (Agro Inwestycja) – financing of live stock and fixed assets which cannot be financed through leasing;
- Agri Bridge Financing (Agro Pomostowy) – VAT financing.

These new solutions expanded the range of products and services offered to customers from the agriculture sector, which seeks to combine short and long-term financing with flexible solutions that suit customers' needs.

Property Finance Segment

The Corporate Property Department is a centralised unit operating Poland-wide, providing services to business customers from the real estate market, in particular property investors and developers.

The flagship products include loans for development and investment purposes as well as revolving VAT loans. Property segment customers are also offered interest rate and currency hedging solutions as well as Global Transactional Banking products, including escrow accounts for developers.

In the reporting period, the Corporate Property Department entered into a number of transactions, including with key market players, and provided funding for both commercial and residential properties. The property segment generated significant income from transactions with a satisfactory risk profile.

Bank Zachodni WBK won an accolade in the latest edition of the CIJ Awards 2016 organised by Roberts Publishing Media Groups for the Bank Team of the Year in the real estate market. The bank also received the title of the Financing Provider of the Year in the CEE at the Eurobuild Awards 2016.

Export Development Programme

As part of the strategy aimed at building a leading position in the trade finance sector, the bank delivers its Export Development Programme and provides support to importers and exporters seeking international expansion. The four editions of the Export Development Programme held so far attracted more than 2,670 corporate customers who took part in such events as regional meetings, export workshops, Eagles of Exports (Orly Eksportu) conferences or trade missions. 170 companies established business relationships with foreign partners. A network of the Export Development Programme ambassadors was set up to include entrepreneurs who actively promote international expansion among local companies as part of export workshops or business breakfasts.

The 2016 edition of the Programme involved greater participation of Santander Group, which provided an opportunity to establish relationships with companies operating in the key markets of Santander Group.

In November 2016, 22 food companies interested in expansion to the Iberian countries were invited to participate in meetings with Spanish retailers held in Madrid.

In H1 2016, the Eagles of Exports Awards were held and export workshops were organised as part of the autumn edition of the Programme.

On 23 June 2016, the bank received the Bloomberg Luminatus accolade from Bloomberg Businessweek Poland monthly in the category of the most interesting innovations in Poland in recognition of the Export Development Programme and initiatives supporting Polish companies in their foreign expansion.

International Desk

As part of development of the non-financial services for corporate customers, in June 2016, Bank Zachodni WBK launched Santander Trade Network services in cooperation with four banks from Santander Group (from Spain, the UK, Chile and Mexico) to facilitate the international expansion of exporters and importers into markets where Santander Group operates.

Santander Trade Network gives access to a solid network of local professionals who provide services in these four key areas:

- marketing and communication – market research, communications plan, marketing plan, search engine optimisation (SEO);
- networking – commercial agenda, showroom, international trade fairs;
- business centres – virtual office, business meeting space;
- other services – legal and tax advice, recruitment services.

The first customer to have used the networking services was a company from the furniture and construction sector who was provided with an agenda of meetings with prospective counterparties, including importers, distributors and DIY retailers from the Mexican market. Other companies were offered an opportunity to establish relationships with entities from the UK, Chile or Mexico.

In cooperation with Santander Brasil, Bank Zachodni WBK organised a virtual trade mission for companies from the food, agriculture and consumer goods sectors from Brazil and Poland. The event, which attracted 50 participants – exporters from Poland and importers and distributors from Brazil, offered good networking opportunities and detailed information on how to do business in Brazil, which was presented by experts, lawyers and representatives of logistic companies.

Bank Zachodni WBK, together with Banco Santander Spain and the Trade Promotion and Investment Department of the Polish Embassy in Madrid, organised a trade mission to Spain for producers and exporters from the food sector. During a three-day visit, 25 companies from Poland met with Spanish importers and distributors, including with leading retailers.

In order to maximise the opportunities arising from the Poland-Germany trade and investment corridor, in Q3 2016, the German Desk was launched as a pilot run, which established relationships with German companies operating in Poland as to offer dedicated intergroup solutions to facilitate funding and business activities.

Development of Relationships with International Financial Institutions in 2016

Bank Zachodni WBK signed a cooperation agreement with the Inter-American Development Bank and the Central American Bank for Economic Integration, which will provide guarantees to secure, for example confirmed export letters of credit or guarantees issued by the bank under counter-guarantees. The bank also established a strategic alliance with Rabobank in terms of referring and servicing customers from the Netherlands and Poland. The key areas of cooperation include: banking services for Rabobank customers in Poland and BZ WBK customers in the Netherlands, cross-border cash management services, financing and guarantees, trade finance solutions and syndicated lending.

The cooperation as part of the IBOS International Banking Association will continue to involve customer referrals in the areas in which the member banks operate.

Product Range Development

In 2016, the range of products and services for corporate customers was expanded to include the following:

- invoice discounting for local administration units which are not BZ WBK Faktor customers;
- the 3D-Secure service for corporate card holders and access to VIP lounges at the airports for users of MasterCard Corporate Executive;
- BLIK payouts for customers who effect a great volume of transactions with counterparties who do not have a bank account or prefer cash payments;
- foreign payments:
 - ✓ a new form of payment confirmation;
 - ✓ changes to SEPA transfers introduced in accordance with Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009;
- domestic payments - a new automated process for incoming payments to FX accounts.

Bank Zachodni WBK joined the Guarantee Fund managed by Bank Gospodarstwa Krajowego (BGK) under the Innovative Economy Operational Programme (FG POIG), offering free-of-charge de minimis guarantees to customers who meet the criteria of innovativeness specified in the agreement. As part of the programme, Bank Zachodni WBK was granted the second highest portfolio guarantee line by BGK.

In 2016, the bank continued the programme aimed at simplification and automation of customer services across all electronic channels (Internet, mobile, B2B web-service) and the development of self-service zones to facilitate placement of instructions in the direct contact with the bank and reduce paper workflow. The programme focuses on the implementation of Internet and mobile banking solutions for the largest business customers from the Global Corporate Banking, Business and Corporate Banking and SME Banking segments.

In 2016, the following solutions were introduced:

- iBiznes 24 Connect;
- Mobile iBiznes24;
- projects designed to enhance user-friendliness and security of the system, reduce transaction processing time and extend the features of the respective modules, in particular the Trade Finance, Cash and Card modules;
- new e-requests which expanded the range of online processes available to customers, including loan drawdown or early repayment of loans granted to finance letters of credit;
- promotion of self-service solutions (e-requests and services available as part of the product modules), resulting in a steady increase in the share of electronic and paperless instructions placed by corporate customers.

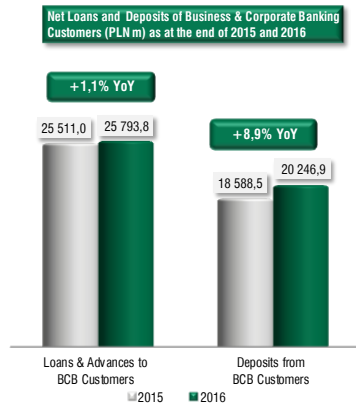
Factoring Business

The range of products and services offered by BZ WBK Faktor includes recourse and non-recourse factoring, domestic and foreign reverse factoring and confirming. The company provides services to customers from the SME, Business and Corporate Banking and Global Corporate Banking segments.

In 2016, a "Capped Rate" service ("Oprocentowanie nie wyższe niż") was introduced in relation to factoring, reverse factoring and confirming to allow customers to hedge against interest rate risk.

In 2016, the turnover of BZ WBK Faktor came in at PLN 19.0bn, up 11.8% YoY. This gave the company a market share of 12% and second position in the ranking of members of the Polish Association of Factoring Companies. As at the end of December 2016, the company's credit exposure was PLN 3.4bn, higher by 15.9% YoY.

Core Business Volumes (Business and Corporate Banking Division)



The Business and Corporate Banking Division increased its total net loans portfolio (net of impairment losses) by 1.1% YoY to PLN 25.8bn driven by growth in the corporate segment and the food & agri area. The deposit base increased by 8.9% YoY to 20.2bn compared to the end of 2015 driven by high-volume short-term corporate deposits.

Significant increases were noted in transactional banking lines. The increasing banking activity of the Division's customers is reflected in the growth of revenues from funds transfers (+27% YoY) and the number of transactions made (+8% YoY).

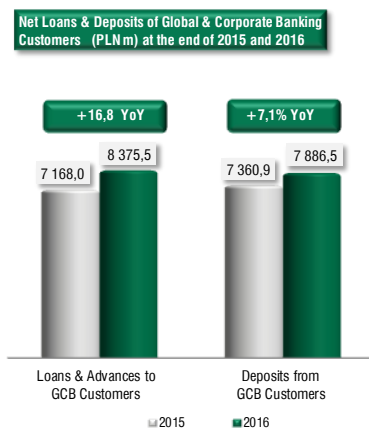
1.4. Global Corporate Banking

Scope of Business

In 2016, the Global Corporate Banking Division provided an end-to-end support to the largest corporate customers of Bank Zachodni WBK and rendered services to corporations under the global framework of GCB of Santander Group. As at 31 December 2016, the active GCB customer base included nearly 190 of the largest companies and groups (allocated to that segment based on the turnover) from the fuel, energy, mining, media and telecommunications, financial, FMCG, pharmaceutical, retail, chemical and household appliance sectors.

The Division had a comprehensive proposal covering a wide range of products and services, including transactional banking, working capital, short, mid and long-term financing, guarantees, M&A solutions, liquidity management and custodian services. The GCB Division conducted the bank's activity on financial markets and provided specialist financial products (including treasury, brokerage and capital market offers) to retail and corporate customers.

The GCB Division consisted of the following business lines: Global Transactional Banking, Credit Markets, Capital Markets (including BZ WBK Inwestycje) and Financial Markets (including Treasury and Brokerage Office).



As a result of the steady growth of business, as at 31 December 2016, total loans and advances to customers, including factoring receivables, increased by 16.8% YoY to PLN 8.4bn, while customer deposits grew by 7.1% YoY, reaching PLN 7.9bn. The Division's credit delivery (excluding factoring receivables) was fully financed with customer deposits, with a loan-to-deposit ratio of 84.1%.

The GCB Division utilised opportunities from the global presence of Santander Group and rendered services to corporations within international GCB structures and cooperated with several Santander Group units (Santander UK, Santander Chile, Santander USA, Santander Mexico and Santander Madrid) on large financing projects for groups of companies. One such undertaking was the bank's participation in the issue of eurobonds.

Global Transactional Banking

Global Transactional Banking provided support to GCB customers in respect of financing working capital needs and managing cash in current accounts and deposits. The offer also included trade finance, guarantees, factoring, leasing, custodian services and correspondent banking.

It implemented innovative cash management solutions for one of the Group's strategic customers, which helped to fully automate the processes of transferring transactions from the customer's accounting and settlement system to the bank, and sending statements and information about transaction status from the bank to the customer, ensuring full data integrity through elimination of interference.

Furthermore, in cooperation with the construction company the bank issued payment cards with the customer's logo to its employees. The project was delivered with the participation of the following bank units: the Card Personalisation Team and the Business Service Centre Team.

Following the successful implementation of innovative BLIK electronic cheques for GBC customers, in 2016 the service was offered to customers of the Business and Corporate Banking Division and the SME Banking Division.

In the reporting period, Global Transactional Banking closed a number of deals in relation to financing, guarantees and trade finance with companies from the automotive, media, telecommunications, trade, construction, shipbuilding, mining, financial, transportation and household appliance sectors.

Capital and Credit Markets

Capital Markets

In 2016, Capital Markets provided analytical and advisory services to customers and were engaged as a financial/transactional advisor for companies from the financial, automotive, construction, energy and media sectors.

Through cooperation with the Brokerage Office, Capital Markets raised PLN 2.2bn worth of capital for a financial institution as part of the largest public offering on the WSE since 2013 and the largest issue of shares with pre-emptive rights since 2009.

Capital Markets managed the JESSICA Programme (Urban Regeneration Fund for Greater Szczecin) under the agreement with the Zachodniopomorskie province.

Credit Markets

Credit Markets provided funding towards medium and long-term investment projects delivered by GCB customers through loans and debt issue, including in cooperation with other units, both within its Division (e.g. with Global Transactional Banking and Financial Markets) and outside it (e.g. with the Business and Corporate Banking Division).

In 2016, Credit Markets closed several financing deals with companies from economically-important sectors such as the energy, fuel, media and telecommunications, chemical and FMCG sectors. They also worked closely with the Business and Corporate Banking Division in terms of financing for the food and chemical sectors.

The largest deals completed by Credit Markets in 2016 include:

- Debt refinancing and providing stable sources of capex financing to a telecommunications company as part of a syndicate of banks, with Bank Zachodni WBK acting as the lead manager, the coordinator of interest rate hedging and the main lender for the company;
- Acquisition of a company from the service sector by a BZ WBK customer in cooperation with other units in the Division, with the bank acting in the capacity of investment advisor;
- Arrangement of financing for a company from the publishing sector (WSiP);
- Completion of an investment project consisting in the construction of a modern delayed coking unit and other units connected with the EFRA (Effective Refining) Programme.

Financial Markets

Treasury

In 2016, the Financial Market Transactions Department focused on the further development of products and services using the global know-how of Santander Group. The Department joined the global foreign exchange platform and became one of the leaders of the global electronic trading platforms in terms of Polish treasury bonds. With an increased share in trading, the bank climbed up in the ranking of Dealers in Treasury Securities. The measures taken in 2016 provided solid foundations for further business growth in both areas.

The Department made intensive efforts to extend the range of structured products for retail and corporate customers in response to market demand and trends. It also generated satisfactory income from market making activity.

In 2016, the Treasury Services Department continued an income diversification strategy based on the development of interest rate hedges. The range of interest rate hedging instruments offered by the bank was extended to include new solutions for mortgage borrowers and SME customers. The Department also focused on the promotion of foreign exchange instruments to enable customers to hedge currency risk in the long term and thus stabilise their balance sheet positions. It continued to develop distribution channels for treasury products and e-commerce tools in order to increase sales opportunities and customer service quality.

Brokerage Office

In 2016, the BZ WBK Brokerage Office continued to render brokerage services to business and personal customers in relation to securities trading on WSE and – in cooperation with the Capital Markets Department – provided support to companies with respect to public offerings and private placements.

The range of products and services was expanded to include new contracts for difference for indices, raw materials and commodities. In addition to 48 currency pairs, new underlying instruments were introduced as part of the Inwestor Online FX platform (27 instruments in total).

Customers investing in foreign markets were also provided with an option of an automated currency conversion, which allows them to purchase stock, bonds and ETFs in EUR, USD, CHF or GBP without the need to buy foreign currency.

An upgraded version of the Inwestor mobile application was launched, featuring such functionalities as a mobile PIN or a default NIK (customer identification number).

In the reporting period, the Brokerage Office continued to develop and promote advisory services, by expanding the Investment Guide services (Drogowskaz inwestycyjny).

In 2016, the brokerage account offered by BZ WBK Brokerage Office came third in the ranking published by Gazeta Finansowa daily. Customers appreciated features such as access to mobile quotations, a competitive order fee and opportunities to save for retirement.

One of the brokers from BZ WBK Brokerage Office was awarded the title Young Star of the Financial Market in the ranking published by Parkiet daily and the Association of Brokers and Advisors.

In 2016, BZ WBK Brokerage Office organised a series of investment conferences for companies from the banking, construction, energy and commodity, consumer goods and games sectors. In similarity to previous years, the conferences attracted a large number of investors.

2. Santander Consumer Bank Group

Profile

Santander Consumer Bank (SCB) is a financial institution with many years of experience and a strong position in the consumer finance sector, which specialises in providing credit facilities to households. Its lending business is based on the following product groups: car loans, instalment loans, cash loans, consolidation loans, business loans and credit cards. Deposits and insurance products are also an important element of the bank's product range.

The bank's business is based on a tried-and-tested business model with a multi-product and multi-channel approach, addressed to a diverse customer base, as well as regular cross-selling and up-selling. The bank's offer is supplemented with car finance through lease facilities provided by Santander Consumer Multirent, a wholly-owned subsidiary of Santander Consumer Bank, and through lease and factoring solutions offered by PSA Finance Polska, in which Santander Consumer Bank has held a 50% stake since 1 October 2016. In addition, PSA Consumer Finance Polska, a subsidiary of PSA Finance Polska which is 50% owned indirectly by SCB, provides consumer finance solutions to support car sales.

Other entities controlled by Santander Consumer Bank are: Santander Consumer Finanse (investment of cash surpluses and cooperation with BZ WBK and Warta in terms of financial advisory services), AKB Marketing Services in liquidation (auxiliary banking services) and SC Poland Consumer 15-1 and SC Poland Consumer 16-1 (SPVs set up for the purpose of securitisation transactions).

The ambition of Santander Consumer Bank Group is to build a modern and secure organisation with an effective and consistent structure and a management culture based on the experience of Santander Group. The Group is constantly looking to enhance its competitive edge and reinforce its leadership position in the consumer finance market. Its strength is underpinned by knowledge of the market and the optimum use of resources, including different delivery channels and access to an extensive expertise and experience of Santander Group.

Business Development in 2016

Main Development Directions

In 2016, SCB Group focused on growing business volumes, improving product range and distribution channels, enhancing effectiveness and ensuring compliance with the ever changing legal and regulatory environment.

In the pursuit of 2016 objectives, SCB Group:

- strengthened the business position and perception of Santander Group as a leading institution in the consumer finance market, achieving:
 - ✓ 1st place in the hire purchase market;
 - ✓ 1st place in terms of growth in the number of credit cards;
 - ✓ 3rd place in the cash loans market;
 - ✓ 3rd place in the car finance market;
 - ✓ every fifth consumer loan granted by SCB in Poland (according to BIK credit reference agency);
- maintained strong sales of high-margin consumer loans (cash loans and credit cards) and increased the volume of car finance with a growing share of lease solutions chosen over car loans;
- diversified and built up stable sources of funding and optimised its cost in an environment of low interest rates and a changing regulatory regime owing to a higher share of the most stable sources (long-term deposits and securitisation bonds) and increased activity on bond issue market;
- maintained a stable risk level, high provision coverage ratio and steady non-performing loans sales ratio in comparable periods;
- ensured a stable level of operating costs and improved cost-effectiveness;
- maintained a solid capital position.

In 2016, SCB Group generated PBT of PLN 613.9m (after intercompany transactions with Bank Zachodni WBK), i.e. up 10.5% YoY.

Loans to Customers

Lending Proposition

SCB Group specializes in car loans, cash loans, instalment loans and credit cards.

As part of its car finance product, the Group offers car loans, asset-backed loans, refinancing solutions, leases and lease loans to personal and business customers. The lease loan was introduced in 2016 in view of the growing popularity of lease facilities. The Group is strengthening its position in the car finance market by liaising and financing car dealers and cooperating with car importers. A wide range of financing solutions (for the purchase of new and used cars up to 12 years old with a maximum repayment period of 96 months) and flexible repayment schedules (equal, diminishing or balloon payments) add to the Group's competitive edge in an increasingly demanding market. By separating the network dedicated to used car finance, the Group strengthened its presence in this market segment, increased the number of active partners offering car loans and improved the experience of used car buyers.

Cash loans are offered either as a regular cash loan or a consolidation loan. Consolidation loans are targeted at existing customers with the capacity to consolidate internal or external debt. In addition, the Group grants consolidation loans to customers in financial difficulty as part of debt restructuring. Customers can sign an agreement and draw down a cash loan in a remote channel, without the need to visit a branch.

Instalment loans, which are an important customer acquisition tool, are available countrywide from Santander Consumer Bank partners.

The range of credit cards offered by the bank includes Visa Comfort, Visa Comfort Plus, TurboKARTA as well as co-branded cards. In 2016, all credit cards were equipped with contactless payment functionality. In order to develop sales and communication channels, SCB Group launched a new website for credit card holders.

In 2016, the Group's lending proposition was expanded to include an extended version of the Banking Services Package offered to cash loan and instalment loan borrowers and modified assistance insurance "Help at your beck and call" ("Pomoc na zwołanie") available to credit card holders and cash loan borrowers (there are three insurance coverage options to choose from: medical assistance, home assistance or cardiac telecare). In addition, the Group introduced new insurance solutions and continued to migrate credit cards to individual insurance plans.

Credit Portfolio

As at 31 December 2016, gross loans and advances granted by Santander Consumer Bank Group amounted to PLN 15,462.9m (including intercompany transactions) and were 6.9% higher YoY due to growth in w/c loans, cash loans, credit cards and car loans portfolios (including lease facilities). The increase in w/c loans was attributed to, among other things, the acquisition of shares in PSA Finance Polska – a company offering factoring and leasing solutions to car dealers (1 October 2016). The balance of leases was steadily on the rise due to prevailing market trends (an increasing share of entrepreneurs buying new cars) and the above mentioned new SCB Group member. Satisfactory growth in sales of cash loans was achieved due to low interest rates and an intensive marketing campaign.

Deposit from Customers

One of the main funding sources of SCB Group are deposits from customers, which totalled PLN 8,224.7m at the end of 2016 (including intercompany transactions) and increased by 17.4% YoY driven by a higher volume of deposits from corporate and retail customers.

Retail deposits are the bulk of the Group's deposit base, and mainly include term deposits from retail customers with a fixed capitalisation rate at maturity. The remaining portion of the Group's deposit base is made up of business deposits. The bank focuses on the sale of deposits for tenors of one year or more, by offering attractive pricing, particularly on 12-month deposits.

In 2016, the Group optimised the cost of this funding source, while maintaining strong growth in the value of term deposits.

Liabilities in respect of debt securities increased by PLN 1,123.6m compared to 31 December 2015, due to the issue of bonds by SCB under the issue programme and by SC Poland Consumer 15-1 as part of the third securitisation transaction.

Key Developments

- On 12 April 2016, the Annual General Meeting of SCB decided to pay a dividend for 2015. A dividend of PLN 434.6m was paid on 1 July 2016.
- In April 2016, the last tranche of loans securitised as part of the first transaction of SC Poland Auto 2014-1 Limited was repaid. In view of that, the bonds were redeemed in full. SC Poland Auto 2014-1 Limited, an SPV which issued series 14-1 class A and B securitisation bonds, was dissolved.
- On 1 August 2016, the third securitisation project was completed, as part of which SC Poland Consumer 16-1 was set up and PLN 1.25bn worth of assets were securitised. Class A, B and C bonds were issued. Class A bonds with the total nominal value of PLN 1bn were sold to an external investor.
- On 30 September 2016, SCB signed an agreement under which on 1 October 2016 it acquired 50% shares in PSA Finance Polska, a wholly owned subsidiary of Banque PSA Finance.
- On 16 December 2016, SCB signed an agreement with the European Investment Bank (supported by the European Fund for Strategic Investment) for the purchase of mezzanine bonds with a total nominal value of PLN 225m and an interest rate based on 1M WIBOR issued by SC Poland Consumer 16-1 as part of the securitisation programme. As a result of the above mentioned securitisation transaction made via SC Poland Consumer 16-1 in August 2016 and the sale of mezzanine bonds on 16 December 2016, a significant portion of risk attached to the securitised assets was transferred away.

Distribution Network of Santander Consumer Bank

As at 31 December 2016, Santander Consumer Bank sold its products through the following distribution channels:

- ✓ an own network of 163 branches and 148 franchise outlets (167 and 136 at the end of December 2015, respectively);
- ✓ a mobile sales channel for car loans;
- ✓ a mobile sales channel for corporate deposits;
- ✓ remote channels, including a call centre and the Internet;
- ✓ a network of 473 partners offering the bank's car loans plus 12,516 active partners offering the bank's instalment loans (611 and 13,339 at the end of December 2015, respectively);
- ✓ a remote channel for car loans.

The number of SCB customers using electronic and mobile banking services was 4.2k as at 31 December 2016.

VII. Organisational, Infrastructural and Technological Development

1. Organisational Changes

Bank Zachodni WBK

The organisational changes introduced in 2016 resulted from the transformation processes delivered by the bank in accordance with its development strategy. They covered such issues as digitisation, business model, data management, corporate culture, Retail Banking and other business areas. The purpose of the above processes is to better respond to customers' needs and market and regulatory changes in order to build the position of the best bank in Poland.

The most significant organisational changes were introduced in the Retail Banking Division and the Digital Transformation Division (former Technology Division).

The following units were set up in the Retail Banking Division: Retail Distribution Area (in charge of the Branch Network and Partner Outlet Development Office), Retail Marketing and Offering Development Area (responsible for the enhancement of customer satisfaction and loyalty), Multichannel Banking Area (dedicated to the development of internet and mobile banking), Retail Banking Transformation Programme Area (responsible for the retail banking transformation strategy) and CRM Department (providing support at different stages of the customer life cycle). In addition, the Brokerage House was incorporated into the structures of the Retail Banking Division.

In September 2016, the bank's Management Board approved the new structure of the Digital Transformation Division, taking into account the development trends and needs of the bank. This is expected to better meet the expectations of business units and facilitate the work of IT units through faster and continuous change implementation without impact on the quality and availability of banking services. The new structure includes, inter alia, the Cybersecurity Department, which was set up on the basis of the Security Operations Centre and is responsible for monitoring and preventing internal and external threats to the bank's ICT environment.

Furthermore, the Business Model Transformation Area was established (reporting directly to the President of the Management Board) in order to estimate and monitor benefits arising from the changes implemented, simplify the organisational structure and identify synergies between different areas of the bank.

In 2016, the bank continued the process of restructuring its branch network, relocating or closing down less effective branches.

Key Changes in the Structure of Bank Zachodni WBK Group

On 31 March 2016, BZ WBK TFI merged with BZ WBK AM. The process was completed by the transfer of all assets of the acquiree (BZ WBK AM) to the acquirer (BZ WBK TFI) and removal of the former company from the National Court Register. Accordingly, BZ WBK TFI assumed all rights and obligations of BZ WBK AM.

On 30 September 2016, Santander Consumer Bank (a subsidiary of Bank Zachodni WBK) and Banque PSA Finance entered into a strategic cooperation agreement. Pursuant to the agreement, on 1 October 2016, SCB purchased 50% shares in PSA Finance Polska (a wholly owned subsidiary of Banque PSA Finance) and, indirectly, 50% stake in PSA Consumer Finance (100% owned by PSA Finance Polska).

For more information about changes in the structure of Bank Zachodni WBK Group see the section "Entities Related with Bank Zachodni WBK" Chapter II "Basic Information about Bank Zachodni WBK and BZ WBK Group".

2. Development of Selected Distribution Channels

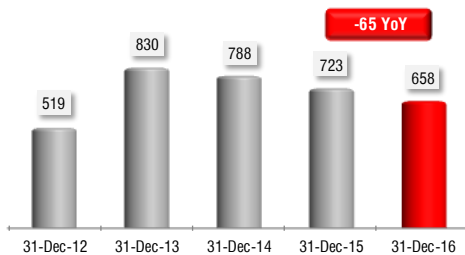
Branch Network and Complementary Channels

In 2016, Bank Zachodni WBK carried out a review of its branch network, taking into account customers' needs and changes in their banking behaviour as well as the development of electronic and mobile services. The process of rationalisation and relocation of branches was continued accordingly, as a result of which the number of outlets decreased by 65 during the last 12 months to 658 as at 31 December 2016. Concurrently, the bank invested in the development of remote channels, self-service devices and CRM tools.

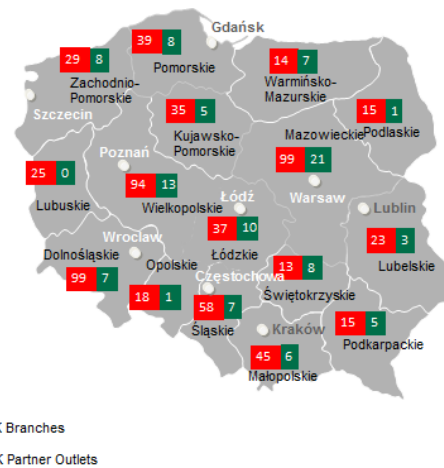
The bank's branch network was complemented by 110 partner outlets (vs. 115 as at 31 December 2015).

In order to support business transformation, the Retail Banking Transformation Area was set up in the Retail Banking Division to develop a new branch model, among other things. To that end, a new cash management model was implemented in 18 branches as a pilot run. In the new model, all cash operations are transferred to self-service devices (ATMs, CDMs, deposit ATMs), as a result of which branches may devote more time to customer relationship building. The new model is planned to be rolled out in new branches in 2017.

BZ WBK Branch Network at the end of individual quarters from 31.12.2015 to 31.12.2016



Distribution of BZ WBK branches and partner outlets in Poland as at 31.12.2016



Santander Consumer Bank delivered cash loans, credit cards, retail deposits and other banking products through its own network of 163 branches and 148 franchise outlets. The bank also sold car loans and instalment loans through mobile sales structures and a network of partners.

ATMs/Cash Deposit Machines

In 2016, Bank Zachodni WBK continued the development of self-service channels in order to reduce cashier desk-services in branches and enhance the customer experience. The bank focused on the extension of the network of self-service devices featuring cash deposit and withdrawal functions. The functionality of the existing ATMs was upgraded accordingly or new deposit ATMs were installed.

In 2016, the first cash recyclers were put in place (112 as at 31 December 2016). The cash that is deposited into a recycler is the same cash as may be later dispensed from it. Cash recycling helps to reduce costs associated with cash services.

As at the end of December 2016, the network of self-service devices of Bank Zachodni WBK comprised 684 deposit ATMs (vs. 286 as at 31 December 2015). In all, there were 1,766 devices including ATMs and CDMs (vs. 1,683 as at 31 December 2015).

Mobile and Internet Banking

The number of registered BZWBK24 internet users increased by 0.9% YoY and reached 3.2 million at the end of December 2016. The number of customers with access to BZWBK24 mobile went up by 29.7% to 863.9 thousand.

The number of customers who at least once logged into BZWBK24 in December (digital customers) reached nearly 2 million, up 4.5% YoY. In 2016, the number of payments and similar transactions in the remote channels grew by 14.7% YoY, while remote sales increased by 77.4% YoY in terms of personal accounts and by 23.4% YoY in terms of credit facilities (30.2% by value).

The development initiatives related to electronic banking were aimed at providing unparalleled customer services via the BZWBK24 platform. To that end, new features were introduced, the scope of products and services was expanded and the security of data and transactions was enhanced.

The functionality of BZWBK24 mobile and BZWBK24 internet was steadily upgraded throughout the year. The security of transactions was improved thanks to the advanced network encryption technology used for customer connections with the bank via computer, a mobile phone or a tablet.

Internet Banking

The features of BZWBK24 internet were improved by introducing a "Customer Service" tab, which facilitates access to the most frequently used services such as ordering a duplicate card, stopping an ID document, applying for a cash loan etc. A customer may click on the tab to order a product or make online contact with a customer advisor via a video call, audio call, online chat or a contact form.

The same functionality was added to the Mini Firma and Moja Firma Plus service. Furthermore, users of Mini Firma were also provided with an opportunity to change the transaction limit without using an authorisation tool.

The bank launched a new multichannel process called the TeleKlik service which allows customers who apply for credit facilities by phone or via an online advisor to sign an agreement through the BZWBK24 internet platform without the need to visit the bank's branch.

Since April 2016, customers may use BZWBK24 internet to apply for child benefit payments under the government programme known as "Family 500 Plus".

In March 2016, all users of BZWBK24 internet and BZWBK24 mobile with access to SMS codes or a token were offered an opportunity to make electronic currency exchange transactions as part of the e-FX module. Furthermore, personal customers were provided with an option to apply for a cash loan, a credit card or an overdraft via the Internet and mobile banking services.

Mobile Banking

The new features available exclusively in the BZWBK24 mobile application include among other things: transfers to a phone (transfer of money via the BLIK network using the beneficiary's phone number instead of their account number), Touch ID (an option to log in with a fingerprint available to users of selected iPhones), transfers to Social Security (ZUS) and Tax accounts, phone top-ups for any phone number, parking fees for actual parking time and ordering and paying via Mobile Shopping service for taxi services.

Furthermore, Android phone users were provided with an opportunity to make contactless payments using a mobile credit card of Visa or MasterCard. This way, Bank Zachodni WBK became the first bank in Poland to offer contactless payments by phone using a mobile debit or credit card.

The BZWBK24 mobile application won a number of accolades for its innovativeness and functionality. In June 2016, it was named the best application in Poland and third best application among the top 11 banks in Europe by an international R&D company Forrester Research.

Multichannel Communication Centre

The Multichannel Communication Centre provided services via phone, e-mail, audio call, video call, Internet chat or via a contact form, Facebook or Twitter. The Centre, which comprises 33 specialist teams, performed tasks related to sales, customer service, relationship building, acquisition, retention and support for personal, VIP and SME customers (also in English, Spanish and sign language). It handled 464.5k interactions per month on average.

In 2016, a number of new customer service processes were launched via the Multichannel Communication Centre for:

- small and medium-sized companies (e.g. non-standard transfer instructions, change of debit card limits or a phone number for sms codes, application for account opening, wider scope of information provided);
- personal customers (e.g. the modification of accounts sold as part of a special offer of Account 1|2|3 (Konto 1|2|3), services related to personal and savings accounts, Arka mutual funds, MasterPass digital wallet, Onkopolisa cancer insurance, TeleKliik and E2E credit products sale);
- affluent customers (e.g. purchase, conversion and redemption of mutual fund units held by Brokerage House customers, services related to credit cards, personal accounts coming with a card, savings accounts and insurance products, voice biometrics).

In 2016, Bank Zachodni WBK started a mass roll-out of the call centralisation project as part of which each customer calling a branch is redirected to the Multichannel Communication Centre, which provides end-to-end support.

Bank Zachodni WBK was named the Best Institution of 2016 in the second and third edition (out of the six editions scheduled for 2016) of the cross-sectoral service quality survey conducted by MojeBankowanie.pl. The survey promotes best practice in terms of the customer experience in remote channels. The third edition of the survey covered for the first time customer contact via video or online chat.

3. IT Development

Development of IT Systems

IT Strategy of Bank Zachodni WBK

BZ WBK's IT strategy is determined in connection with the business strategy and changes in the bank's environment. The key objective of the latest IT strategy for 2017-2019 adopted by the bank is to improve customer service and continue its digital transformation in order to ensure the largest possible use of modern ICT technologies to increase the effectiveness of the bank's operations. The strategy also acknowledges new market trends which are closely related to the IT area such as fintech companies or the API economy (management of Application Programming Interface) which are expected to have a significant impact on the global market of banking services in the future. The strategy grants priority to issues connected with cyber security in a broad sense.

Response to Business and Regulatory Requirements

In 2016, the bank implemented a series of changes to its IT systems in response to legal requirements. At the same time, it continued the projects connected with EU directives such as the Payment Services Directive 2 (PSD-2) or the Markets in Financial Instruments Directive 2 (MIFID-2), which are scheduled to be implemented in years to come.

In 2016, the bank launched a new CRM system along with inter-process communication mechanisms, which were used for the first time on such a large scale. They are universal and their scope of application may be extended. The bank used to a larger extent methodologies applicable to the collection and multidimensional analysis of big data. The focus was put on the automation of the entire software life cycle, from development, through testing, implementation and use, to decommissioning.

As part of the Digital Transformation, the bank promoted such initiatives as multichannel services, paperless banking, cashless transactions and biometric customer identification. Measures were also taken to simplify processes and products.

Internet and mobile banking solutions were developed on an ongoing basis. The bank also upgraded and developed the ICT infrastructure along with associated software.

In Q1 2016, Bank Zachodni WBK, together with several other banks, provided intermediation services in relation to accepting requests for child benefit payments under the government's "Family 500 Plus" programme. To that end, the bank's customer authentication mechanisms were used and dedicated software was developed to ensure that requests are correctly populated and securely transferred to the government department's IT systems.

The bank places great emphasis on IT security in view of a growing cyber threat. Therefore, policy making functions at the bank are formally segregated from the functions responsible for operations. In addition to the continued protection of the ICT infrastructure, measures were taken to enhance security and identify possible threats in order to take preventive measures. In order to increase IT security, the bank launched the 24/7 threat detection and response centre and cooperates with the relevant authorities and government and industry organisations on an ongoing basis.

In addition, the following steps were taken:

- Advanced threat protection mechanisms were enhanced;
- The unit responsible for cyber security was expanded and new employees were recruited;
- A comprehensive system was implemented for the purpose of operational risk management, including collection of detailed information about operational events;
- A new risk analysis methodology was introduced in relation to the ICT environment and its components;
- The frequency of key supplier audits was increased to minimise threats to the bank and its customers;
- Measures were taken to enhance the security of transactions in the Internet banking platform and in mobile banking applications.

4. Capital Expenditures

In 2016, Bank Zachodni WBK Group spent PLN 354.0m (compared to PLN 350.1m in 2015) on investments, mainly on projects connected with the development and management of IT systems, IT equipment, deposit ATMs, launch of a new CRM system, modernisation of the branch network and development of Internet and mobile banking.

In 2016, the bank implemented projects related to the development and management of IT systems and further upgraded its IT infrastructure. In particular, it delivered a number of obligatory projects connected with new or amended laws, improved the performance and capacity of central systems and increased the hardware resources (servers, disk arrays), while enhancing their reliability and scalability to support future projects. Additionally, the functionality of the data warehouse was improved in relation to data storage and retrieval, the DMZ network infrastructure was renewed to ensure effective business support for electronic banking services and licence resources were extended. Significant investments were also made into maintaining an adequate level of day-to-day IT security and ensuring the expected quality and continuity of operations within the entire IT environment.

In order to reduce the branch workload associated with cashier services, the bank further developed its network of deposit ATMs, including recyclers. The bank also continued to replace ATM machines, upgrade ATM software, modernise branch infrastructure and implement service standards in accordance with the requirements applicable in Santander Group.

In 2016, a new CRM system was put in place in the bank's branches and the Multichannel Communication Centre. The system uses new technologies and allows the bank to offer products and services that are better suited to the needs of individual customers and to increasing the effectiveness of relationship-building initiatives, stimulate sales in remote channels, integrate information about customer interactions with the bank in all channels and improve the definition, generation and monitoring of sales campaigns.

As part of development of a multichannel service model, intensive efforts were taken to further enhance mobile and Internet banking, by adding new features and improvements to the BZWBK24 mobile application, the BZWBK24 platform for personal and business customers and the iBiznes24 platform for corporate customers.

In 2016, the bank launched the digitisation of sales and after-sales processes connected with credit and investment facilities, accounts and insurance products. Investments were also made in the automation of selected back-office processes, implementation of the central collateral database and modification of a decision engine for credit processes. The key changes planned under the Digitisation Programme are to be introduced in 2017.

Furthermore, the bank implemented a number of IT solutions under the iRisk Programme to facilitate the flow and analysis of information and accelerate and automate the processes related to credit delivery. Measures were also taken to optimise and standardise risk data aggregation and reporting in accordance with the Basel Committee's guidelines set out in BCBS 239.

As part of the ALM Programme, the bank launched the implementation of a tool for liquidity oversight and management which is designed to facilitate daily measurement of interest rate risk in the banking book and liquidity risk. This Programme will continue in 2017.

VIII. Financial Situation of Bank Zachodni WBK and BZ WBK Group

1. Income Statement of Bank Zachodni WBK Group

Structure of Bank Zachodni WBK Group Profit

The table below illustrates changes in key items of the Group's consolidated income statement in 2016 compared with the previous year.

PLN m

Condensed Consolidated Income Statement of BZ WBK Group (for analytical purposes)	2016	2015	YoY Change
Total income	7 606,2	7 540,2	0,9%
- Net interest income	4 770,4	4 309,2	10,7%
- Net fee & commission income	1 914,7	1 938,1	-1,2%
- Other income ¹⁾	921,1	1 292,9	-28,8%
Total costs	(3 367,7)	(3 578,9)	-5,9%
- Staff, general and administrative expenses ²⁾	(2 935,2)	(3 208,7)	-8,5%
- Depreciation/amortisation	(277,2)	(256,6)	8,0%
- Other operating expenses	(155,3)	(113,6)	36,7%
Impairment losses on loans and advances	(784,6)	(810,7)	-3,2%
Profit/loss attributable to the entities accounted for using the equity method	55,4	27,7	100,0%
Tax on financial institutions ³⁾	(387,2)	-	-
Consolidated profit before tax	3 122,1	3 178,3	-1,8%
Tax charges	(738,0)	(643,7)	14,6%
Net profit for the period	2 384,1	2 534,6	-5,9%
- Net profit attributable to BZ WBK shareholders	2 166,8	2 327,3	-6,9%
- Net profit attributable to non-controlling shareholders	217,3	207,3	4,8%

1) Other income includes the following items of the full income statement: dividend income; net profit on shares in subordinate entities; net trading income and revaluation; gains on other financial instruments; other operating income.

The figure for 2016 includes one-off gains of PLN 316.1m reported by BZ WBK and SCB on account of the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. (in the full version of the income statement this amount is reported as part of gains on other financial instruments).

Other income for 2015 includes one-off gains on subordinate entities of PLN 523m on account of partial disposal and loss of control over BZ WBK-Aviva Tunż and BZ WBK-Aviva TUO on 27 February 2015 (in the full version of the income statement this amount is reported as gains on subordinate entities).

2) Total costs include contributions made by the Group to reimburse guaranteed funds to deposit customers of insolvent cooperative banks, totalling PLN 13.5m in 2016 and PLN 183.8m in 2015, respectively.

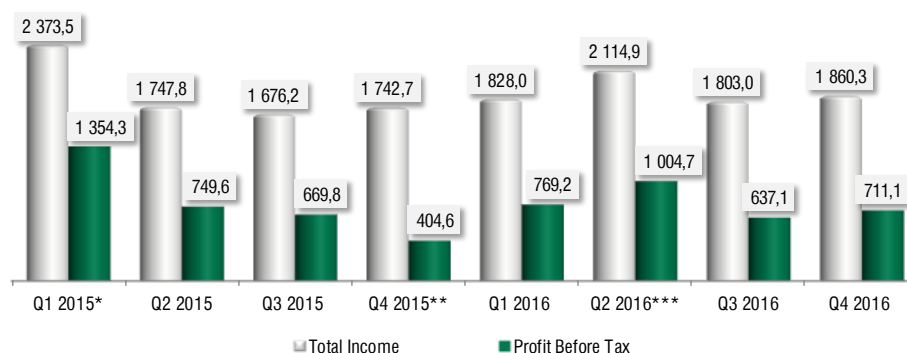
3) The banking tax is calculated in accordance with the Act on tax imposed on certain financial institutions that became effective on 1 February 2016.

In 2016, Bank Zachodni WBK Group posted a profit before tax of PLN 3,122.1m, down 1.8% YoY. Profit attributable to the shareholders of Bank Zachodni WBK was PLN 2,166.8m and decreased by 6.9% YoY.

Excluding:

- 1) one-off gains on equity instruments:
 - PLN 316.1m reported in 2016 from settlement of the acquisition of Visa Europe Ltd. by Visa Inc.;
 - PLN 523m recognised in 2015 from the disposal and loss of control over BZ WBK-Aviva companies;
- 2) mandatory contributions made by BZ WBK and SCB under the deposit guarantee scheme:
 - PLN 13.5m in 2016;
 - PLN 183.8m in 2015;
- 3) a new statutory charge:
 - a tax on financial institutions of PLN 387.2m for 2016;

the underlying profit before tax increased by 12.9% YoY and the profit attributable to the shareholders of the parent went up by 12.5% YoY.

Total Income and Profit Before Tax by Quarter in 2015 and 2016 (PLN m)


- * Includes one-off gains on subordinate entities of PLN 523m recognised in 2015 on account of partial disposal and loss of control over BZ WBK-Aviva TUŹ and BZ WBK-Aviva TUO.
- ** Under Resolution of BFG Management Board of 26 November 2015, BZ WBK and SCB were obliged to make a total contribution of PLN 183.8m from the deposit protection fund to help cover the reimbursements of guaranteed funds to depositors of a third bank following its insolvency.
- *** As a result of the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. (21 June 2016), BZ WBK and SCB recognised a total gain of PLN 316.1m on their shareholdings in the acquired entity.

Comparability of Periods in the Income Statement of BZ WBK Group for 2016

Comparability of periods in the income statement of BZ WBK Group for 2016	
2016	2015
<p>Remuneration resulting from the merger of Visa Europe Ltd. with Visa Inc.</p> <ul style="list-style-type: none"> As part of the settlement of the take-over of Visa Europe Ltd. by Visa Inc. on 21 June 2016, BZ WBK and SCB, as members and shareholders of the acquired company, received a cash payment, preferred series C shares and an earn-out totalling PLN 316.1m, including PLN 305.9m attributable to BZ WBK. 	<p>Loss of control over BZ WBK-Aviva TUŹ and BZ WBK-Aviva TUO</p> <ul style="list-style-type: none"> On 27 February 2015, Bank Zachodni WBK sold part of its shares in BZ WBK-Aviva TUŹ and BZ WBK-Aviva TUO, which resulted in the loss of control over the above entities. In effect, gains on the sale and adjustments on account of the loss of control were recognised, totalling PLN 523m. The loss of control resulted in reclassification of the above-mentioned companies from subsidiaries to associated undertakings along with the change of their accounting treatment from full consolidation to equity method.
<p>New statutory charge</p> <ul style="list-style-type: none"> Pursuant to the Act of 1 February 2016 on tax imposed on certain financial institutions, bank assets are subject to tax of 0.0366% per month. Until the end of 2016, the total levy imposed on BZ WBK and SCB in this respect was PLN 387.2m. 	
<p>Extension of the scope of consolidation of SCB Group</p> <ul style="list-style-type: none"> Pursuant to the agreement of 30 September 2016 with Banque PSA Finance, SCB established a strategic cooperation with PSA franchise in Poland and purchased 50% shares in PSA Finance Polska and, indirectly, 50% stake in PSA Consumer Finance and took over the control over the above-mentioned entities on 1 October 2016. The total contribution of these companies to profit before tax of BZ WBK Group for 2016 was PLN 2.4m. 	
<p>Performance of obligations arising from the deposit guarantee scheme</p> <ul style="list-style-type: none"> Pursuant to the Resolution of the Bank Guarantee Fund (BFG) of 28 October 2016, BZ WBK and SCB were obliged to make a contribution of PLN 12.5m and PLN 1.0m, respectively, from the deposit protection fund to cover the reimbursements of guaranteed funds to deposit customers of Bank Spółdzielczy in Nadarzyn in relation to its insolvency. 	
<ul style="list-style-type: none"> Pursuant to the Resolution of BFG of 26 November 2015, BZ WBK and SCB were obliged to make a contribution of PLN 170.5m and PLN 13.3m, respectively, from the deposit protection fund to cover the reimbursements of guaranteed funds to depositors of Spółdzielczy Bank Rzemiosła i Rolnictwa, Wołomin, as a result of its insolvency. 	

Key Factors Affecting the Profit of Bank Zachodni WBK Group in 2016

2016/2015	2016	Determinants of BZ WBK Group's Profit for 2016
Increase in net interest income	+10,7% PLN 4,770.4m	<ul style="list-style-type: none"> An increase in net interest income (+ PLN 461.2m YoY) amid the record low interest rate environment reflects the growing net interest margin (up 0.13 p.p. YoY to 3.68%) resulting from the Group's multidimensional activities, including management of product parameters, customer relationships, marketing campaigns and distribution channels, among other things. The purpose was to optimise the funding sources and stimulate lending, which fuelled positive (from the perspective of net interest margin) development trends in core business volumes (an increase in the portfolios of cash loans, mortgage loans and business loans, and a significant rise in low-cost current and savings accounts along with a reduction in retail term deposits).
Decrease in fee and commission income	-1,2% PLN 1,914.7m	<ul style="list-style-type: none"> A slight YoY decrease in net fee and commission income (-PLN 23.4m YoY) was induced mainly by external developments, in particular regulatory change (insurance fees) and volatility of financial markets (distribution and asset management fees). The above falls were partly offset by higher fee and commission income earned in other areas, the largest increases being driven by customer activation programmes (credit card and guarantee fees). Sustainable generation of net fee and commission income is ensured by diversification of the Group's income sources.
Decrease in other income ¹⁾	-21,4% PLN 605.0m	<ul style="list-style-type: none"> A YoY decrease of PLN 164.9m in the Group's other income (excluding one-off transactions in the capital market) was attributed to lower profit from the portfolio of available-for-sale debt securities and a decline in other operating income due to changes in the presentation of the Group's insurance income following the deconsolidation of BZ WBK-Aviva insurance companies, smaller income from the disposal of fixed assets and lower releases of provisions for legal disputes and other assets.
Improvement of credit quality indicators	-3,2% PLN 784.6m	<ul style="list-style-type: none"> The lower level of impairment losses (-PLN 26.1m YoY) is attributed to the sale of significant debt portfolios of BZ WBK and SCB as well as the Group's conservative approach to credit risk management and the rather favourable macroeconomic environment. The above decrease was combined with a 7.9% YoY increase in the consolidated gross loan book and further improvement in credit quality ratios.
Effective management of staff and general expenses	-1,2% PLN 3,354.2m	<ul style="list-style-type: none"> The Group's total underlying cost base (excluding the mandatory contributions of BZ WBK and SCB to the deposit guarantee scheme) was reduced by PLN 40.9m YoY as a result of a higher decrease in "staff and general expenses" compared with a parallel increase in amortisation/depreciation and other operating costs. The lower level of "staff and general expenses" is attributed to effective cost base management under the considerable pressure from regulatory charges, increasing business volumes, steady development of IT infrastructure and continuous transformation of the Group in response to changing business, legal and technological requirements.

1) Other income includes the following items of the comprehensive income statement: dividend income; net profit on shares in subordinate entities; net trading income and revaluation; gains on other financial instruments; other operating income.

Structure of Profit Before Tax Earned by BZ WBK Group by Contributing Entities

PLN m

Components of Bank Zachodni WBK Group Profit Before Tax by contributing entities	2016	2015	YoY Change
Bank Zachodni WBK S.A.	2 649,2	2 176,6	21,7%
Existing subsidiary undertakings:	761,3	722,0	5,4%
Santander Consumer Bank and its subsidiaries ¹⁾	613,9	555,5	10,5%
BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. ²⁾	65,3	74,0	-11,8%
BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A., BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. ³⁾	-	12,1	-
BZ WBK Finanse Sp. z o.o., BZ WBK Leasing S.A., BZ WBK Lease S.A. and BZ WBK Faktor Sp. z o.o. ⁴⁾	90,2	78,5	14,9%
Other subsidiary undertakings ⁵⁾	(8,1)	1,9	-
Equity method valuation	55,4	27,7	100,0%
Elimination of dividends received by BZ WBK ⁶⁾	(343,8)	(51,7)	565,0%
Other intercompany and consolidation adjustments ⁷⁾	-	303,7	-
Profit before tax	3 122,1	3 178,3	-1,8%

1) SCB Group is controlled and consolidated by BZ WBK. As at 31 December 2016, SCB Group included the following entities: AKB Marketing Services Sp. z o.o. in liquidation, Santander Consumer Multirent Sp. z o.o., Santander Consumer Finanse Sp. z o.o., SC Poland Consumer 15-1 Sp. z o.o., SC Poland Consumer 16-1 Sp. z o.o., PSA Finance Polska Sp. z o.o. and PSA Consumer Finance Polska Sp. z o.o. As at 31 December 2015, SCB Group did not include the last three entities, which were set up in H2 2016, but additionally included SC Poland Auto 2014-1 Ltd. which was subsequently liquidated. The amounts provided above represent profit before tax (after intercompany and consolidation adjustments) of SCB Group for the periods indicated.

2) On 31 March 2016, BZ WBK TFI merged with BZ WBK AM by taking over its assets in return for merger shares issued to the co-owners, i.e. to Bank Zachodni WBK and Banco Santander.

The combined profit before tax of these entities for 2015 excludes the dividend of PLN 41.6m received by BZ WBK AM from BZ WBK TFI.

3) BZ WBK-Aviva TUO and BZ WBK-Aviva TUŃ changed their status from subsidiaries to associated undertakings as of 27 February 2015. Since then, both entities have been accounted for using the equity method. The amounts provided above represent profit before tax of both companies for two months of 2015 after consolidation adjustments and post-audit profit adjustments.

4) The combined profit before tax of these entities excludes dividends of PLN 4.9m and PLN 32.4m received by BZ WBK Finanse from BZ WBK Faktor and BZ WBK Leasing, respectively.

5) Other subsidiaries include: BZ WBK Inwestycje, BZ WBK Nieruchomości and Gieldokracja in liquidation.

6) The figure includes dividends received by Bank Zachodni WBK from subsidiaries and associated undertakings, including dividend of PLN 260.8m received from SCB and disclosed in Q2 2016.

7) Consolidation adjustments (other than dividends) for 2015 mainly include the items resulting from the loss of control over BZ WBK-Aviva companies (PLN 288.6m).

Bank Zachodni WBK (Parent Entity of Bank Zachodni WBK Group)

The unconsolidated profit before tax of Bank Zachodni WBK totalled PLN 2,649.2m for 2016, which is an increase of 21.7% YoY and 28.4% on a comparative basis (after adjusting for one-offs and tax on financial institutions). For details see section 3 "Income Statement of Bank Zachodni WBK".

Subsidiaries

The subsidiaries consolidated by Bank Zachodni WBK reported an increase of 5.4% YoY in their total profit before tax mainly as a result of the higher profitability of SCB Group as well as the factoring and leasing subsidiaries with their controlling entity BZ WBK Finanse.

The contribution of SCB Group to the consolidated profit before tax of Bank Zachodni WBK Group for 2016 was PLN 613.9m (after intercompany transactions and consolidation adjustments) and increased by 10.5% YoY due to the following factors:

- 10.0% YoY higher net interest income of PLN 1,147.8m, driven by higher net interest margin and lower funding cost, growth of the credit portfolio and favourable changes in its structure (e.g. a bigger share of high-margin products such as cash loans and credit cards);
- increase of PLN 9.3m in total gains on other financial instruments and net trading income due to the remuneration arising from the settlement of the acquisition of Visa Europe Ltd. by Visa Inc. (PLN 10.2m) as well as valuation of derivatives through profit and loss;
- decrease of 7.4% YoY in net fee and commission income to PLN 176.2m on account of lower insurance income and higher partner commissions;

- reduction of 7.7% YoY in operating costs to PLN 535.1m thanks to an optimisation of marketing costs, renegotiation of lease agreements for branch premises, a decrease in maintenance costs associated with telecommunications links and the end of the amortisation of subsequent modules of the automotive loan servicing system;
- a higher net impairment charge by PLN 58.4m YoY (PLN 181.8m), mainly attributable to the lower value of disposal of bad loans in 2016 compared with the previous year and the stabilization of the level of recoveries in the credit portfolio.
- additional charge to the income statement of PLN 31.1m representing tax on financial institutions.

BZ WBK Faktor reported profit before tax of PLN 22.7m, up PLN 3.3m YoY (excluding profit adjustment recognized in 2015) on account of a lower impairment loss on factoring receivables and a strong increase in net interest income triggered by growing sales and an effective pricing policy.

Record sales posted by BZ WBK Leasing, BZ WBK Lease and BZ WBK Finanse (a controlling entity) in terms of lease and insurance facilities translated into significant growth in net interest income, net fee and commission income and other operating income. The positive impact of the above-mentioned factors was partly offset by higher operating costs associated with business development and higher impairment losses on lease receivables reflecting a conservative approach by the leasing companies to risk management in relation to dynamic growth in the lease portfolio. Profit before tax earned by the companies in 2016 totalled PLN 67.5m, up 1.6% YoY.

The 11.8% YoY decrease in consolidated profit before tax reported by BZ WBK TFI (PLN 65.3m) reflects lower fee and commission income from asset management as a result of a decline in the average value of net assets under management and the change in their structure with a shift towards low-margin products (mainly money market instruments and corporate bonds). Due to the significant volatility of stock markets observed for the best part of the year, the demand for share-based solutions was weak, while the slowdown of the debt market discouraged investors from choosing solutions based on treasury bonds. The negative impact of lower fee and commission income on the company's bottom line was partly offset by a lower operating cost base.

Losses reported by other subsidiaries result from the recognition of an impairment loss on the BZ WBK Inwestycje portfolio of equity investments.

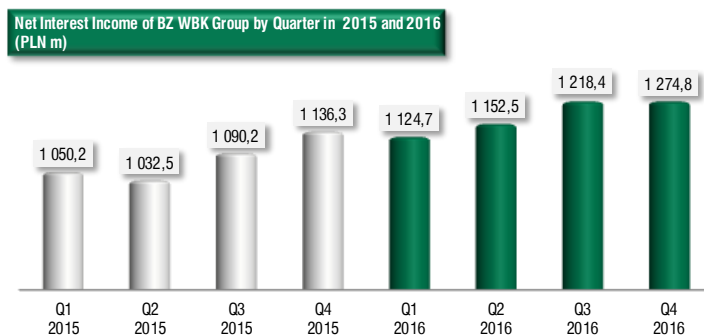
The change in accounting treatment of the insurance companies BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO from line-by-line consolidation to the equity method is an effect of the partial disposal of shares in both companies and the loss of control over them, effective from 27 February 2015.

Total Income

Total income of Bank Zachodni WBK Group for 2016 increased by 0.9% YoY to PLN 7,606.2m. Adjusting the current and base period for one-off gains on equity investments, the Group's underlying total income was higher by 3.9% YoY.

Net Interest Income

In 2016, net interest income amounted to PLN 4,770.4m and increased by 10.7% YoY.

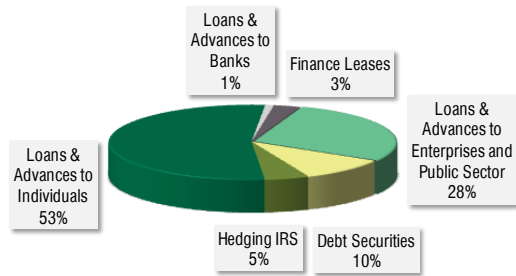


In the lower interest rate environment, the Group reported increased interest income (by 6.2% YoY to PLN 6,060.9m) alongside a decline in interest expense (down 7.8% YoY to PLN 1,290.5m).

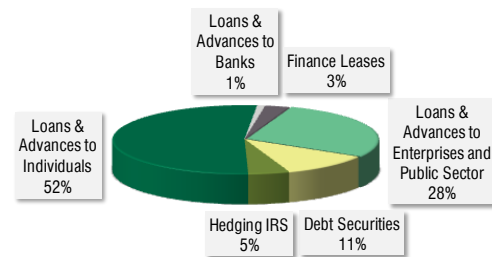
The growth rate of interest income – fueled by loans to personal and business customers, leasing receivables and CIRS/IRS transactions hedging cash flows – was slowed down by decreases in the portfolio of debt securities and repo transactions.

The continued decline in interest expense was driven by retail customers and public sector deposits and amounts due in respect of repo transactions.

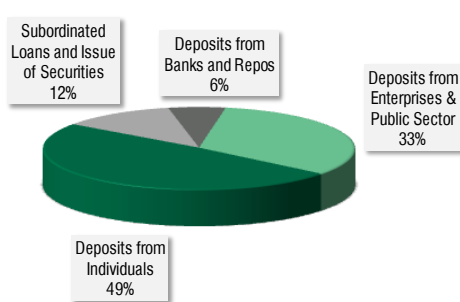
Structure of Interest Revenues in 2016



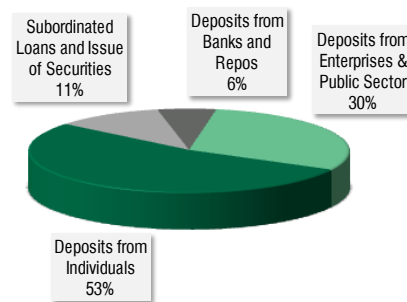
Structure of Interest Revenues in 2015



Structure of Interest Expense in 2016



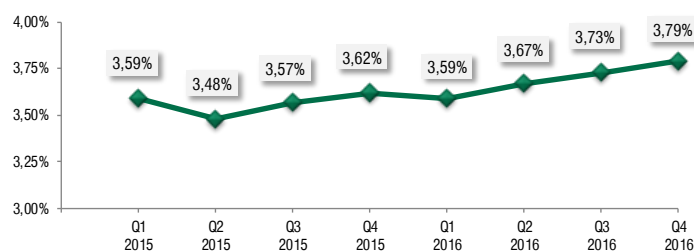
Structure of Interest Expense in 2015



The net interest margin of Bank Zachodni WBK Group increased from 3.55% in 2015 to 3.68% in 2016 as a result of a decrease in the cost of funding in the record low interest rate environment (after the Monetary Policy Council decided to cut interest rates by 50 b.p. in March 2015) under the impact of adaptation processes and the strategy of optimisation of basic sources of funding. Thanks to favourable trends in sales that were generated or strengthened through the use of tools designed to improve the quality, accessibility and competitiveness of products and services, the Group reported positive changes (from the perspective of a net interest margin) in core business volumes such as an increase in loans and advances to retail customers (notably cash loans and mortgage loans) and business customers, and a significant rise in low-cost current account balances of individuals and companies as well as a drop in term deposits from personal customers.

In 2016, loans to customers brought a yearly average nominal interest income of 4.8% compared with 4.9% in 2015. Customer deposits carried a yearly average nominal interest cost of 1% compared with 1.2% the year before.

Net Interest Margin by Quarter in Years 2015-2016 (including SWAP points*)



* The calculation of the net interest margin of Bank Zachodni WBK takes account of swap points allocation from derivative instruments used for the purpose of liquidity management but excludes interest income from the debt trading portfolio.

Quarterly net interest margin increased from 3.59% in Q1 2016 to 3.79% in Q4 2016 on the back of consistent measures taken by the Group with respect to the management of deposit and credit base. These included, among other things, acquisition, relationship building, promotion and management of product offer parameters, taking into account strategic objectives, market conditions, customer expectations and the policy regarding liquidity, capital and balance sheet management.

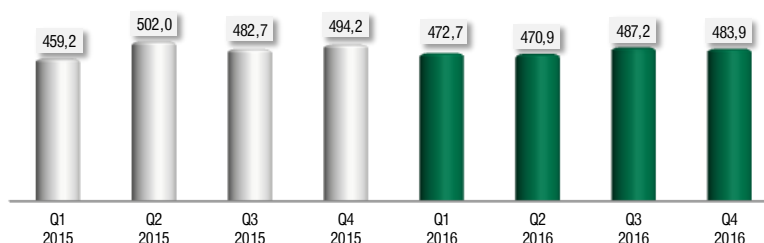
Net Fee and Commission Income

Net fee and commission income for 2016 was PLN 1,914.7m and decreased slightly by 1.2% YoY.

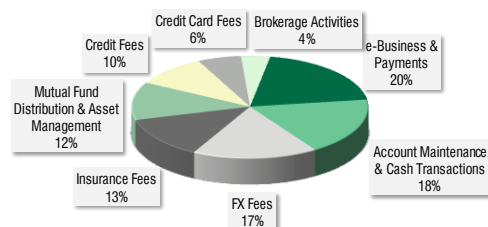
PLN m			
Net Fee and Commission Income of BZ WBK Group	2016	2015	YoY Change
E-Business and payments ¹⁾	377,0	367,2	2,7%
Account maintenance and cash transactions ²⁾	335,7	336,1	-0,1%
FX fees	320,0	312,9	2,3%
Insurance fees ³⁾	244,8	270,0	-9,3%
Asset management and distribution	233,5	251,6	-7,2%
Credit fees ⁴⁾	199,1	217,2	-8,3%
Credit cards	121,5	103,8	17,1%
Brokerage activities	61,2	58,5	4,6%
Other ⁵⁾	21,9	20,8	5,3%
Total	1 914,7	1 938,1	-1,2%

- 1) Fees for foreign and mass payments, Western Union transfers, trade finance, debit cards, services for third party institutions as well as other electronic and telecommunications services.
- 2) Fee and commission income from account maintenance and cash transactions has been reduced by the corresponding expenses which in Note 7 "Net fee and commission income" of the consolidated financial statements of Bank Zachodni WBK Group for 2016 are included in the line item "Other" (PLN 2.6m for 2016 vs. PLN 2.4m for 2015).
- 3) During the period of control over BZ WBK-Aviva companies (from 20 December 2013 to 27 February 2015), the bank disclosed the major part of income from the insurance business in "Other operating income" rather than in "Net fee and commission income" (PLN 26.3m in Q1 2015). Since the loss of control over the entities, the entire insurance fee income other than an integral part of effective interest rate has been disclosed under "Net fee and commission income".
- 4) Fee and commission income from lending, factoring and leasing activities which is not amortised to interest income. This line item includes inter alia the cost of credit agency fees.
- 5) Guarantees, issue arrangement fees and others.

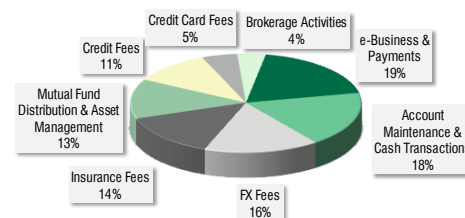
Net Fee & Commission Income of BZ WBK Group by Quarter in Years 2015-2016 (PLN m)



Net Commission Income Structure of BZ WBK Group for 2016



Net Commission Income Structure of BZ WBK Group for 2015



In 2016, the highest YoY growth in net fee and commission income was reported for credit cards (+17.1% YoY) on account of a 8.2% YoY increase in the size of the combined credit card portfolio of Bank Zachodni WBK and SCB, a higher volume of credit card transactions and the revision of selected credit card fees and charges of both banks.

An improvement in FX fee income (+2.3% YoY) is attributed to the Group's comprehensive measures taken to support foreign trade and develop e-FX services in iBiznes24.

Active promotion of trade finance solutions also triggered an increase in fee and commission income related to guarantees, sureties and letters of credit (+51.2% YoY), which totalled PLN 63.8m ("Other income" in the table above).

Fee and commission income aggregated under the “eBusiness and payments” line item rose by 2.7% YoY as a combined effect of higher income from issuance and management of debit cards as well as cash and non-cash transactions made with such cards.

In spite of subdued stock market trading, net fee and commission income generated by BZ WBK Brokerage House increased by 4.6% YoY on account of higher income from investment advice and services for corporate customers in the private equity market.

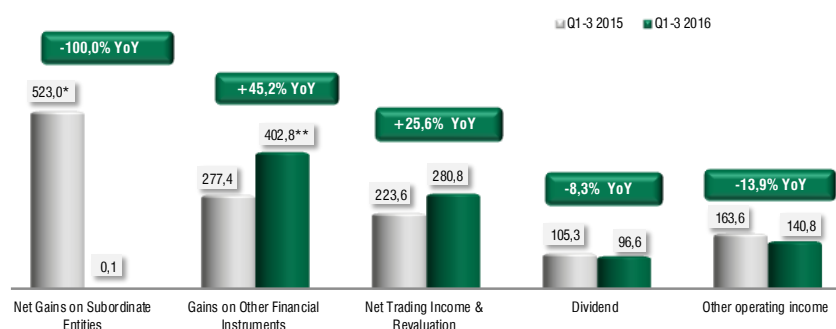
The YoY decline of 9.3% in net fee and commission income from insurance business was connected with the legal and regulatory regime of the bancassurance market, in particular the statutory ban imposed by the Act of 11 September 2015 on insurance and reinsurance activity (effective from 1 April 2016) on collection of insurance fees by banks acting as insuring parties in relation to group insurance plans (e.g. linked with payment cards).

Lower net fee and commission income from fund distribution and asset management (-7.2% YoY) reflects a decrease in the average value of assets managed by BZ WBK TFI and a change in their structure in favour of lower-margin products (mainly cash instruments and corporate bonds). The demand for investment solutions with equity components subsided amid uncertainties in the financial markets.

Lower credit fee income (-8.3% YoY) results from growing competitive pressure in terms of working capital financing for smaller corporate customers.

Other Income of the Group

Components of Other Income of BZ WBK S.A. (PLN m) in 2015 vs. 2016



* As a result of partial disposal and loss of control over BZ WBK-Aviva Tunž and BZ WBK-Aviva TUO in Q1 2015, the Group reported a one-off gain on subordinate entities of PLN 523m.

** Includes total gains of PLN 316.1m on a shareholding in Visa Europe Ltd. disclosed by BZ WBK and SCB upon the completion of acquisition of Visa Europe Ltd. by Visa Inc. on 21 June 2016.

The other income components indicated in the graph above totaled PLN 921.0m. Adjusted for one-off events, these items amounted to PLN 605.1m and decreased by 21.4% YoY on a comparative basis.

Gains on Subordinate Entities

In the base period, Bank Zachodni WBK Group recognised a one-off gain of PLN 523m on subordinate entities arising from the partial sale of shares in BZ WBK-Aviva TUO and BZ WBK-Aviva Tunž, which resulted in the loss of control over the above-mentioned companies in favour of Aviva Ltd. and their reclassification from subsidiaries to associates.

Gains on Other Financial Instruments

Gains on other financial instruments for 2016 increased by 45.2% YoY to PLN 402.8m, including PLN 316.1m of total gains earned by the Group (PLN 305.9m by BZ WBK and PLN 10.2m by SCB) from settlement of acquisition of Visa Europe Ltd. by Visa Inc. on 21 June 2016. Bank Zachodni WBK and SCB – as members and shareholders of the acquired company – received cash consideration of EUR 51.6m, 18,692 series C preference shares and an earn-out of approx. 0.4% from EUR 1.12bn payable to all transaction participants.

Gains on other instruments from BZ WBK Group’s available-for-sale portfolio of equity investments totalled PLN 1.8m.

Gains on the sale of debt instruments (mainly treasury bonds) were PLN 93.2m, down 65.7% YoY. The measures taken as part of duration management on the available-for-sale debt securities portfolio were in line with market conditions and took into account the Group’s objectives with regard to risk and liquidity management. The decisions regarding the structure of the portfolio and balance sheet are determined by expectations of interest rate cycle movements and fluctuations of yield curves.

Net Trading Income and Revaluation (“Net Trading Income”)

In 2016, net trading income and revaluation reported by Bank Zachodni WBK Group was PLN 280.8m, up 25.6% YoY.

The Group generated a profit on derivatives and interbank FX trading of PLN 254.4m vs. PLN 231.5m a year before. This result was achieved amid substantial volatility in the interest rate and FX markets, with the highest pressure from international developments. Compared with the end of 2015, the IRS curve moved up (by 20-45 b.p.) and steepened (the spread extended to 95 b.p.) while the zloty depreciated against the major currencies.

The above-mentioned item includes net interest-related income from the non-hedging CIRS/IRS transactions totalling PLN 17.9m for 2016 vs. PLN 17.6m for 2015. It excludes, however, net interest income from the CIRS and IRS transactions designated as hedging instruments under the cash flow hedge accounting (PLN 274.2m for 2016 vs. PLN 255.4m for 2015), which is disclosed under “Interest income”.

Other FX trading related income was PLN 20.2m, higher by PLN 1.2m on a YoY basis.

Debt and equity securities trading brought in a total profit of PLN 6.2m compared to a loss of PLN 26.8m in the corresponding period.

Dividends

In 2016, the Group disclosed dividend income of PLN 96.6m, i.e. down 8.3% YoY on account of dividends from Aviva Group companies from Bank Zachodni WBK portfolio of equity investments.

Other Operating Income

Other operating income for 2016 decreased by 13.9% to PLN 140.8m.

The decline was primarily attributed to changes in the presentation of the Group’s insurance income following the loss of control over BZ WBK-Aviva companies. From 1 January 2014 to 27 February 2015, the major part of net insurance income was disclosed under other operating income (PLN 26.3m in 2015), whereas starting from March 2015, total insurance income that is not an integral part of an effective interest rate or spread over time, is taken to insurance fees.

In 2016, the amounts resulting from the release of provisions for legal disputes and other assets were lower than in the previous year (- PLN 11.8m). A YoY decrease of PLN 9.9m was also reported in income on sale or liquidation of fixed assets and assets held for sale due to execution of transactions involving relatively smaller properties in the current period. On the other hand, BFG fee refunds were higher by PLN 14.5m.

Impairment Charges

	PLN m		
Impairment Losses of BZ WBK Group on Loans and Advances	2016	2015	YoY Change
Collective and individual impairment charge	(828,2)	(926,3)	-10,6%
Impaired but not reported losses charge	(27,0)	22,8	-
Recoveries of loans previously written off	45,2	80,4	-43,8%
Off-balance sheet credit related facilities	25,4	12,4	104,8%
Total	(784,6)	(810,7)	-3,2%

In 2016, the loan impairment charge to the income statement of Bank Zachodni WBK Group was PLN 784.6m, down 3.2% YoY. The contribution of SCB Group to that figure was PLN 181.8m and increased by PLN 58.4m compared to 2015 on account of lower sales of bad loans and stabilization of the level of recoveries in the credit portfolio.

The charge for incurred and reported losses (on individual and collective exposures) was PLN 828.2m for 2016 and decreased by 10.6% YoY amid robust growth in the Group’s credit portfolio: loans to enterprises and the public sector increased by 4.2% YoY (including factoring receivables), personal loans by 8.4% YoY and lease receivables by 34.2% YoY. Compared with the corresponding period of 2015, impairment charges decreased both on individually and collectively assessed exposures.

The impairment charge for incurred but not reported losses was PLN 27m vs. a positive value of PLN 22.8m for 2015 resulting from periodical update of parameters underlying IBNR provision calculations.

In 2016, Bank Zachodni WBK sold credit receivables in the principal amount of PLN 1,281.7m (PLN 1,353.6 m including interest) vs. PLN 582.2m in the corresponding period, which contributed PLN 103.9m and PLN 23.6m to the profit before tax in both periods, respectively. Unlike previous years, the sold portfolio included mainly loans and advances to business customers in the principal amount of PLN 952.8m. The remainder was made up of overdue retail receivables.

Santander Consumer Bank sold the written-off portfolio of cash loans and instalment loans of PLN 326.6m, which brought in a profit before tax of PLN 51.9m. Last year, SCB sold the written-off portfolio of credit cards, cash loans and instalment loans for the total amount of PLN 425.5m, generating profit before tax of PLN 60.5m.

The changes in the value and structure of impairment charges reflect the prudential approach of Bank Zachodni WBK Group to credit risk management.

As at 31 December 2016, Bank Zachodni WBK Group's NPL ratio was 6.6% compared with 7.3% as at 31 December 2015. The cost of credit totalled 0.75% vs. 0.85% twelve months before.

Total Costs

	PLN m		
Total costs of BZ WBK Group	2016	2015	YoY Change
Staff, general and administrative expenses, of which:	(2 935,2)	(3 208,7)	-8,5%
- Staff expenses	(1 510,3)	(1 544,0)	-2,2%
- General and administrative expenses	(1 424,9)	(1 664,7)	-14,4%
Depreciation/amortisation	(277,2)	(256,6)	8,0%
Other operating expenses	(155,3)	(113,6)	36,7%
Total costs	(3 367,7)	(3 578,9)	-5,9%
Obligatory payment to guaranteed funds protection fund	(13,5)	(183,8)	-92,7%
Underlying total costs	(3 354,2)	(3 395,1)	-1,2%

The total costs of BZ WBK Group for 2016 amounted to PLN 3,367.7m, and were 5.9% lower YoY. Excluding BFG fees imposed on entities subject to the deposit guarantee scheme, the underlying total costs decreased by 1.2% YoY.

This result was achieved despite the higher prudential fee payable to BFG, significant costs associated with the maintenance and extension of IT systems, high expenses associated with the Group's development projects (including digital and business model transformation), higher amortization/depreciation charges and provisions for legal disputes reflected in other operating costs.

Excluding one-off items, namely gains on equity instruments and contributions to the deposit guarantee scheme, the Group's cost to income ratio was 46.0% in 2016 vs. 48.4% in 2015.

Staff Expenses

Bank Zachodni WBK Group's staffing expenses for 2016 totalled PLN 1,510.3m and decreased by 2.2% YoY. SCB Group's contribution to consolidated staffing expenses was PLN 230.3m and up 1.3% YoY.

The key staffing expense line items, i.e. "salaries and bonuses" and "statutory deductions from salaries" decreased by 2% YoY to PLN 1,451.6m in total as a result of lower costs incurred in 2016 in relation to incentive programmes (including share-based plans), settlement of the unused provision for bonuses from previous years and the limited scope of organisational changes.

As at 31 December 2016, the number of FTEs in Bank Zachodni Group increased by 554 YoY, as a result of incorporation of the Multichannel Communication Centre into the structures of the Business Support Centre to ensure the highest quality of centralized phone and other remote services. The above change includes an increase in SCB Group staff by 12 FTEs resulting from the control acquisition over PSA Finance Polska and PSA Consumer Finance Polska effective from 1 October 2016 r.

General and Administrative Expenses

In 2016, general and administrative expenses of Bank Zachodni WBK Group decreased by 14.4% YoY to PLN 1,424.9m. Costs incurred by SCB Group totalled PLN 248.9m and were 15% lower YoY due to the optimisation of marketing expenses, renegotiation of lease agreements for branch premises and a reduction of maintenance costs associated with telecommunications links.

Excluding fees made in the current and corresponding reporting period under the deposit guarantee scheme, consolidated general and administrative expenses decreased by 4.7% YoY. Further adjusted for statutory contributions to the Borrowers Support Fund set up by Bank Gospodarstwa Krajowego (PLN 8.5m in 2016 and PLN 40.8m in 2015), the expenses were reduced by 2.6%.

Taking the above adjustments into account, fees paid by Bank Zachodni WBK Group to market regulators grew by 6.1% YoY due to a higher quarterly prudential fee (+68.7% YoY) payable to the BFG stabilisation fund which was calculated at an increased rate and against the new base. The annual and prudential fees payable to BFG totalled PLN 252.4m in 2016 vs. PLN 230.9m in 2015.

In 2016, a significant drop was reported in the cost of marketing and entertainment (-22.0% YoY), which was attributed to less intensive brand marketing campaigns. The Group visibly reduced the cost of data transmission (-22.3% YoY) as well as postal fees and telecommunications fees (-14.0% YoY) as a result of a review and subsequent renegotiation of agreements and optimisation measures.

At the same time, consultancy and advisory fees increased significantly by 36.1% YoY on account of the higher costs of legal and consultancy services related to the bank's digital and business model transformation programme. The Group incurred higher costs in machine repairs (+72.1% YoY) as part of fitting out office premises and higher costs for bank security (+26.1% YoY) in relation to amended payroll regulations for security guards.

Tax on Financial Institutions

Pursuant to the Act of 1 February 2016 on tax imposed on certain financial institutions, bank assets above PLN 4bn are subject to tax of 0.0366% per month. In 2016, the total charge to the income statement of Bank Zachodni WBK Group in this respect was PLN 387.2m.

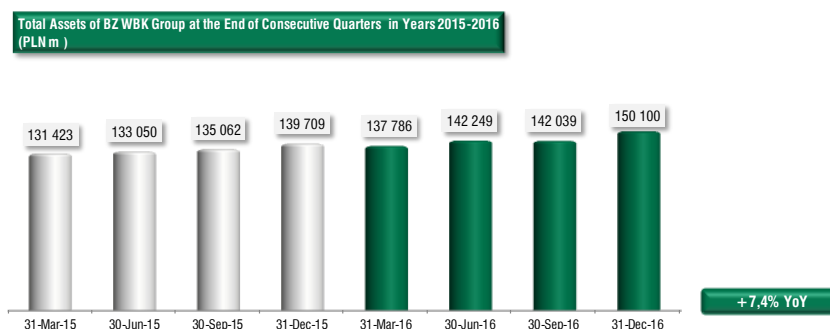
Effective Tax Rate

In 2016, the effective interest rate was 23.6% vs. 20.3% in 2015, due to debt sales, higher prudential fee and banking tax, which are not tax deductible and do not reduce the tax base of corporate income tax.

2. Financial Position of Bank Zachodni WBK Group

Consolidated Assets

As at 31 December 2016, the total assets of Bank Zachodni WBK Group were PLN 150,099.7m, an increase of 7.4% YoY. The value and structure of the Group's financial position is determined by the parent entity, which accounts for 87.6% of the consolidated total assets vs. 89.8% as at the end of December 2015.



Presentation of Changes to the Unconsolidated and Consolidated Statements of Financial Position

Compared with 2015, Bank Zachodni WBK changed the presentation of repo transactions and provisions in the full version of the unconsolidated and consolidated statement of the financial position included in the Financial Statements of Bank Zachodni WBK for 2016 and the Consolidated Financial Statements of Bank Zachodni WBK Group for 2016. Starting from 30 June 2016, receivables from buy-sell-back transactions and liabilities due to sell-buy-back transactions are disclosed under separate line items in the full statement of the financial position. Previously, they were disclosed as part of loans and advances to customers and banks and deposits from customers and banks, respectively. Starting from 31 December 2016, provisions which used to be disclosed under other liabilities, are now a separate line item of the liabilities in the full consolidated statement of the financial position.

Structure of Consolidated Assets

The table below presents major developments in key categories of the consolidated assets of Bank Zachodni WBK Group as at 31 December 2016 compared with the previous year.

Assets of BZ WBK Group (condensed presentation for analytical purposes)	PLN m				
	31.12.2016 1	Structure 31.12.2016 2	31.12.2015 3	Structure 31.12.2015 4	YoY Change 1/3
Loans and advances to customers ¹⁾	103 068,5	68,7%	94 913,9	67,9%	8,6%
Financial assets available for sale	29 307,9	19,5%	24 622,1	17,6%	19,0%
Cash and operations with Central Banks	4 775,7	3,2%	6 229,9	4,5%	-23,3%
Financial assets held for trading and hedging derivatives	3 248,6	2,2%	4 330,3	3,1%	-25,0%
Loans and advances to banks ²⁾	3 513,3	2,3%	3 581,0	2,6%	-1,9%
Fixed assets, intangibles and goodwill	3 053,6	2,0%	2 984,7	2,1%	2,3%
Other assets ³⁾	3 132,1	2,1%	3 046,8	2,2%	2,8%
Total	150 099,7	100,0%	139 708,7	100,0%	7,4%

1) Loans and advances to customers take into account an impairment charge and exclude receivables from buy-sell-back transactions which are reported under other assets, whereas in the full version of financial statements they are disclosed in a separate line item together with the corresponding loans and advances to banks.

2) Loans and advances to banks do not include receivables from buy-sell-back transactions which are reported under other assets.

3) Other assets include the following: receivables from buy-sell-back transactions, investments in associates, net deferred tax assets, assets classified as held for sale and other assets.

The movements in the consolidated statement of the financial position of Bank Zachodni WBK Group in 2016 reflect market trends, business acquisition and the Group's strategy for management of its balance sheet structure and current liquidity.

As at 31 December 2016, consolidated net loans and advances to customers totalled PLN 103,068.5m, up 8.6% on the end of December 2015 on account of credit delivery to business and retail customers. SCB Group contributed PLN 13,811.1m to this line, an increase of 7% YoY (after intercompany and consolidation adjustments) driven by lease and factoring facilities, working capital loans, cash loans and credit cards.

The portfolio of financial assets available for sale increased by 19.0% YoY on account of the growth in debt securities portfolio. SCB Group contributed PLN 2,959.2m to this item, which is an increase of 47.9% YoY.

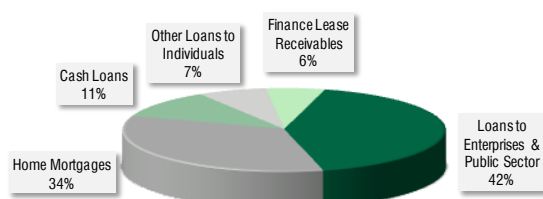
At the same time, a drop was reported in the portfolio of trading debt securities and derivatives disclosed in the table above under "Financial assets held for trading and hedging derivatives" (-25.0% YoY). A decline in the balance of the bank's current account held with the NBP caused a decrease in the value of "Cash and operations with central banks" (-23.3% YoY).

Credit Portfolio of Bank Zachodni WBK Group

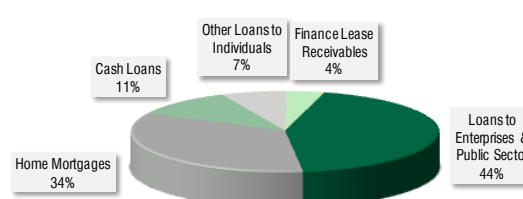
Gross Loans and Advances to Customers of BZ WBK Group	PLN m		
	31.12.2016	31.12.2015	YoY Change
Loans and advances to individuals	56 291,4	51 950,1	8,4%
Loans and advances to enterprises and public sector customers ¹⁾	45 375,7	43 542,3	4,2%
Finance lease receivables	6 098,5	4 545,7	34,2%
Other	181,8	6,9	2534,8%
Total	107 947,4	100 045,0	7,9%

1) Excluding buy-sell-back transactions.

Structure of Consolidated Loans & Advances to Customers as at 31.12.2016



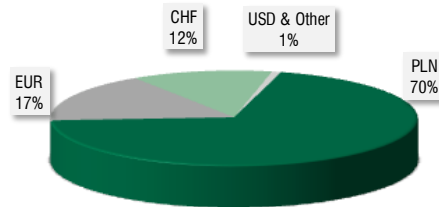
Structure of Consolidated Loans & Advances to Customers as at 31.12.2015



As at 31 December 2016, gross loans and advances to customers were PLN 107,947.4m (excluding buy-sell-back transactions) and higher by 7.9% YoY. On a constant currency basis, the figure increased by 6.6% YoY.

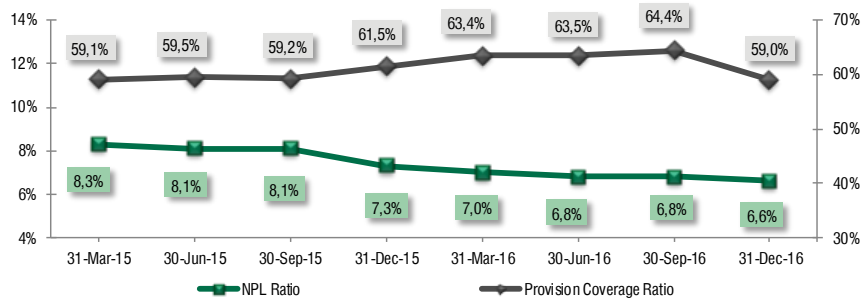
Compared with 31 December 2015, loans and advances to individuals increased by 8.4% to PLN 56,291.4m as at 31 December 2016. Housing loans, which represent the major portion of loans and advances to individuals, increased by 9.8% to PLN 37,008.4m during 2016. The second significant constituent item, i.e. cash loans, grew by 9.7% YoY to PLN 11,926.7m.

FX Structure of Consolidated Loans and Advances to Customers as at 31.12.2016



Loans and advances to enterprises and public sector entities were PLN 45,375.7m, 4.2% higher YoY driven by lending to SME and large corporate customers. Finance leases, which include the portfolios of BZ WBK Leasing, BZ WBK Lease, Santander Consumer Multirent and PSA Finance Polska, increased by 34.2% YoY to PLN 6,098.5m on account of dynamic growth in the sales of vehicles. Loans granted by BZ WBK leasing companies to finance machines and vehicles for business customers, which totalled PLN 1,642.4m as at 31 December 2016 (vs. PLN 1,460.6m as at 31 December 2015), are disclosed outside the leasing portfolio, as loans and advances to enterprises.

Credit Quality Ratios by Quarter in 2015 and 2016



As at 31 December 2016, non-performing (impaired) loans to customers accounted for 6.6% of the gross portfolio of Bank Zachodni WBK Group vs. 7.3% twelve months before. The provision coverage ratio for impaired loans was 59.0% vs. 61.5% as at 31 December 2015, with the gross loan book growing at 7.9% at that time.

Consolidated Equity and Liabilities

The table below presents major developments in key categories of the consolidated equity and liabilities of Bank Zachodni WBK Group as at 31 December 2016 compared with the previous year.

PLN m

Liabilities & Equity of BZ WBK Group S.A. (condensed presentation for analytical purposes)	31.12.2016	Structure 31.12.2016	31.12.2015	Structure 31.12.2015	YoY Change
	1	2	3	4	1/3
Deposits from customers ¹⁾	112 522,5	75,0%	101 245,2	72,4%	11,1%
Subordinated liabilities and debt securities in issue	5 969,6	4,0%	4 847,5	3,5%	23,1%
Financial liabilities held for trading and hedging derivatives	3 832,4	2,5%	4 615,5	3,3%	-17,0%
Deposits from banks ¹⁾	2 561,3	1,7%	1 066,8	0,8%	140,1%
Sell-buy-back transactions	1 632,6	1,1%	5 258,0	3,8%	-69,0%
Other liabilities ²⁾	2 562,8	1,7%	2 107,6	1,5%	21,6%
Total equity	21 018,5	14,0%	20 568,1	14,7%	2,2%
Total	150 099,7	100,0%	139 708,7	100,0%	7,4%

1) Deposits from customers and banks do not include liabilities due to sell-buy-back transactions which are reported under a separate line item.

2) Other liabilities include current income tax, provisions and other liabilities.

The key change in the consolidated equity and liabilities of Bank Zachodni WBK Group as at 31 December 2016 was noted in liabilities towards banks which increased by 140.1% YoY on account of loans granted by commercial banks, including international banks.

Significant growth was also observed in subordinated liabilities and debt securities in issue (+23.1% YoY). This was driven by debt securities issues and securitisation transactions effected by the Group in order to diversify the sources of funding. In 2016, Bank Zachodni WBK issued two series of certificates of deposit with a nominal value of PLN 250m and PLN 100m, respectively, and zero-coupon bearer bonds with a nominal value of PLN 185m and 10-year subordinated bonds with a nominal value of EUR 120m which are earmarked for allocation to the Tier 2 capital subject to the KNF consent. PLN 480m worth of certificates of deposits matured in the analysed period, as did PLN 500m worth of 3-year bonds issued in a private placement. At the same time, Santander Consumer Bank issued bonds with a nominal value of PLN 472m (as part of a debt securities issue programme guaranteed by Santander Consumer Finance) and redeemed several series of matured bonds with a nominal value of PLN 574.7m. Furthermore, SC Poland Consumer 2016-1, a special purpose vehicle, issued bonds with a nominal value of PLN 1.2bn under the securitisation transaction and sold them to external investors.

Deposits from customers went up by 11.1% YoY due to higher balances of current accounts held by personal and business customers as well as high-value short-term deposits placed by corporate customers. As at 31 December 2016, deposits from customers represented 75.0% of the Group's consolidated equity and liabilities and were the primary source of funding for its lending business.

At the same time, liabilities arising from sell-buy-back transactions decreased by 69.0% YoY, mainly in the interbank market. Furthermore, the value of financial liabilities held for trading and hedging derivatives declined by 17.0% YoY under the impact of IRS transactions and short sales.

Deposit Base

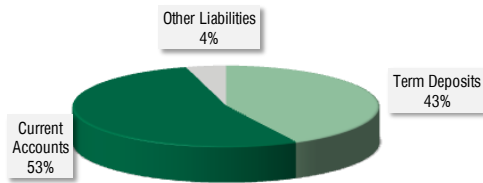
PLN m

Deposits of BZ WBK Group from Customers	31.12.2016	31.12.2015	YoY Change
Deposits from individuals	63 547,9	59 200,7	7,3%
Deposits from enterprises and public sector customers ¹⁾	48 974,6	42 044,5	16,5%
Total	112 522,5	101 245,2	11,1%

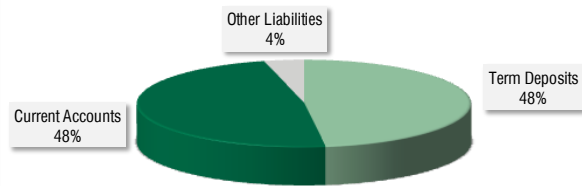
1) Excluding sell-buy-back transactions.

In 2016, deposits from customers increased by 11.1% YoY and amounted to PLN 112,522.5m as at 31 December 2016 (excluding sell-buy-back transactions), including PLN 8,224.7m relating to SCB Group after intercompany transactions (vs. PLN 7,006.5m as at the end of December 2015).

Structure of Consolidated Customer Deposits as at 31.12.2016

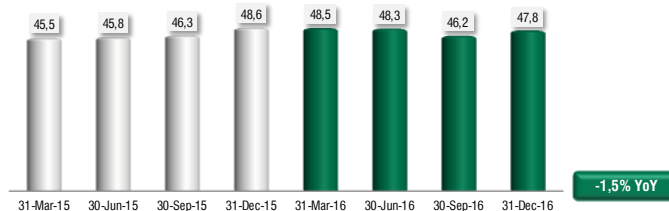


Structure of Consolidated Customer Deposits as at 31.12.2015

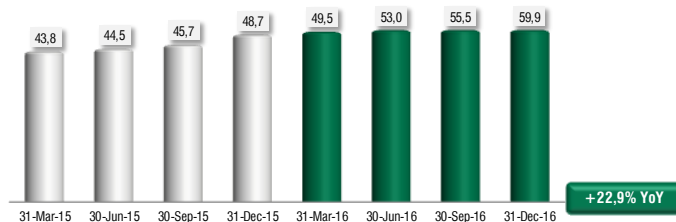


The Group's total term deposits from customers amounted to PLN 47,824.7m and decreased by 1.5% YoY. Current account balances increased by 22.9% YoY to PLN 59,862.6m, and other liabilities were PLN 4,835.2m, up 21.8% on 31 December 2015. The largest constituent of the last item were "loans and advances" (PLN 4,075.9m vs. PLN 3,002m as at 31 December 2015), reported under "deposits from enterprises" which included loans granted by international financial organisations (the European Investment Bank, the European Bank for Reconstruction and Development and the Council of Europe Development Bank) to finance the bank's credit delivery and the leasing business of the bank's subsidiaries. Until the end of December 2016, the bank obtained funding from the above-mentioned financial institutions in the sum of EUR 170m, while the leasing companies drew down EUR 25m worth of financing granted by the Council of Europe Development Bank and received a loan of EUR 135.4m from the International Finance Corporation. At the same time, the bank repaid several tranches of the loan from the European Investment Bank in a total amount of CHF 113.3m.

Term Deposits at the End of Consecutive Quarters of 2015 and 2016 (PLN bn)



Current Accounts* at the End of Consecutive Quarters of 2015 and 2016 (PLN bn)

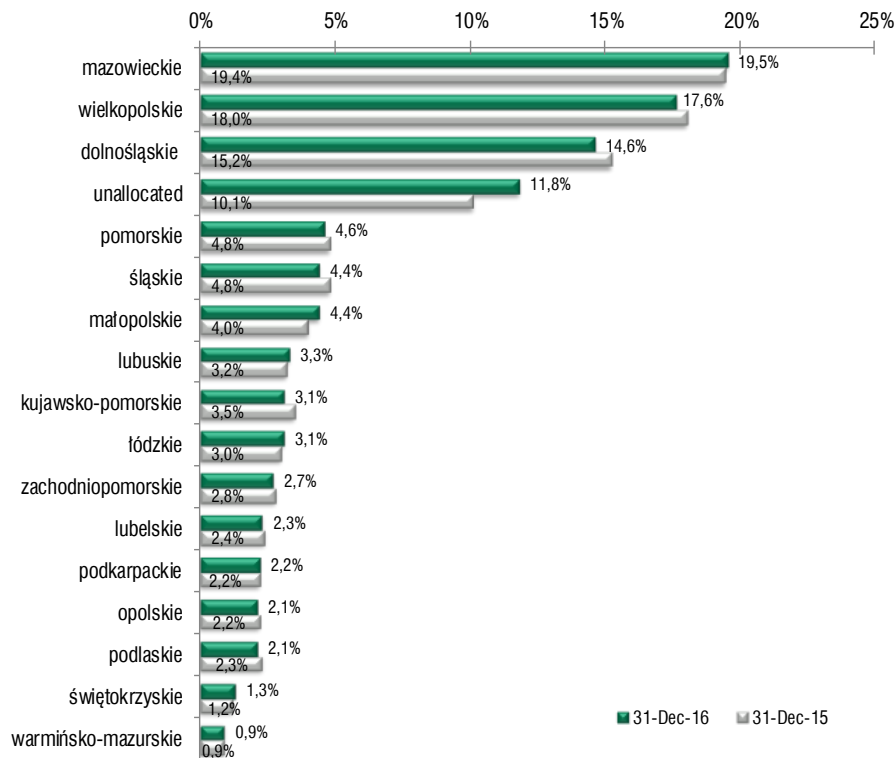


* Including savings accounts

The retail deposit base stood at PLN 63,547.9m, higher by 7.3% YoY as a result of a strong increase in current account balances (+23.6% YoY), including savings accounts (+22.1% YoY). In 2016, the portfolio of PLN personal accounts grew by 4.6% on the back of a promotional campaign of the Account Worth Recommending (Konto Godne Polecenia). Customers with high transaction volumes in the account were automatically offered a higher interest rate on a selected savings account. The above solution and the new Max Savings Account (Konto Max Oszczędnościowe) successfully stimulated growth in current account balances. At the same time, the value of term deposits declined markedly (-12.1% YoY) because of the low appeal of deposits in the record low interest rate environment and the Group's strategy aimed at optimising expensive sources of funding, ensuring stable growth of balances of active customers and increasing loyalty and strength in customer relationships with the bank.

Deposits from enterprises and the public sector increased by 16.5% to PLN 48,974.5 at the end of 2016. The strong growth in current accounts balances (+21.6% YoY) was combined with the fast accumulation of term deposits (+11.7% YoY), mainly from corporate customers.

Geographical Structure of Deposits (by provinces) as at 31.12.2015 and 31.12.2016



Diversification of Funding Sources of Bank Zachodni WBK and Bank Zachodni WBK Group

In 2016, actions were continued to diversify the funding sources of Bank Zachodni WBK Group.

Issue of Own Securities

- Bank Zachodni WBK made new issues of debt securities:
 - ✓ On 17 February 2016, the bank issued series B certificates of deposits with a total nominal value of PLN 250m, an interest rate based on 6M WIBOR plus a margin of 0.15%. All certificates, which matured on 17 August 2016, were taken up by investors.
 - ✓ On 26 February 2016, the bank made a private placement of bearer bonds with a total nominal value of PLN 185m and redemption date of 26 February 2017.
 - ✓ On 17 August 2016, the bank issued certificates of deposit with a total nominal value of PLN 100m, an interest rate of 1.75% p.a. and 6-month maturity.
 - ✓ On 2 December 2016, the bank issued 10-year subordinated bonds with a total nominal value of EUR 120m and a variable interest rate based on EURIBOR and a margin of 3%. Subject to consent from KNF, bonds will be allocated to the Tier 2 capital of Bank Zachodni WBK as defined in the CRR.
- As part of the updated (23 December 2015) debt securities issue programme underwritten by Santander Consumer Finance (with the maximum amount underwritten increased to PLN 3bn), Santander Consumer Bank (SCB) issued bonds with a total nominal value of PLN 472m, a variable rate based on 6M WIBOR and maturity ranging from 2 to 4 years.

- In August 2016, SCB completed the securitisation of a cash loan portfolio involving the transfer of securitised receivables to an SPV - SC Poland Consumer 2016-1. The securitised assets were used by the company to issue PLN 1,225m worth of class A, B and C bonds secured by a registered pledge on SCPC assets, with an interest rate based on 1M WIBOR. PLN 1bn A class bonds were sold to an external investor, and the remaining bonds with a total nominal value of PLN 225m were taken up by SCB and then sold to the European Investment Bank under the agreement of 16 December 2016 (as part of the European Fund for Strategic Investment).

Financing from International Banks and Financial Institutions

- Under the loan agreement of 16 December 2015 concluded with an international bank, on 4 January 2016, the full loan amount of EUR 100m was drawn to be used for financing the bank's general corporate purposes. The loan is based on the EURIBOR rate and matures within 36 months of signing the agreement.
- Bank Zachodni WBK entered into the following facility agreements:
 - ✓ A loan agreement of 22 January 2016 with an international bank providing for EUR 50m worth of funding with an interest rate based on EURIBOR and maturity date falling 24 months after the date of the agreement. The loan is earmarked for the bank's general corporate purposes and was disbursed in bullet form on 29 January 2016.
 - ✓ A loan agreement of 16 March 2016 with the European Bank for Reconstruction and Development (as part of the Polish Residential Energy Efficiency Financing Facility programme) providing for EUR 75m worth of funding with a 4-year maturity and interest rate based on EURIBOR. The first tranche of EUR 50m was drawn on 30 March 2016. The above facility extended the bank's product range for customers interested in the enhancing energy efficiency of their apartments or houses.
 - ✓ A loan agreement of 26 April 2016 with the European Investment Bank (EIB) for a loan of EUR 70m to be used for financing companies from the SME and Mid-Cap segment (public companies with a stated level of capitalisation). The facility bears an interest rate based on EURIBOR and is to be repaid in bullet after 5 years. The loan was drawn on 20 May 2016.
 - ✓ A loan agreement of 13 June 2016 with the Council of Europe Development Bank providing for a 5-year loan of EUR 100m to be used for funding SMEs and supporting job creation and retention. The first tranche of EUR 50m was drawn on 28 June 2016.
- Subsidiaries of Bank Zachodni WBK signed the following agreements:
 - ✓ A loan agreement of 1 August 2016 between BZ WBK Leasing and International Finance Corporation providing for a USD 150m worth of facility (disbursed in the equivalent in EUR) earmarked for financing lease business. The facility is based on 6M EURIBOR and is payable within six years of the agreement date. The purpose of the loan is to support sustained economic growth by facilitating access to credit for businesses run by women and small enterprises. The facility is secured by a guarantee issued by Bank Zachodni WBK.
 - ✓ A loan agreement of 3 October 2016 between BZ WBK Faktor and a foreign bank providing for a EUR 100m facility with an interest rate based on EURIBOR. The facility is earmarked for financing the factoring business and matures within 12 months of the drawdown date. The facility is secured by a guarantee issued by Bank Zachodni WBK.
- In 2016, BZ WBK Leasing received the second and third tranches totalling EUR 25m from the Council of Europe Development Bank under an agreement signed in 2015 for a total amount of EUR 50m (the first tranche amounted to EUR 25m).

3. Income Statement of Bank Zachodni WBK

Profit of Bank Zachodni WBK

PLN m

Condensed Unconsolidated Income Statement of BZ WBK (for analytical purposes)	2016	2015	YoY Change
Total income	6 311,5	5 725,8	10,2%
- Net interest income	3 480,4	3 134,9	11,0%
- Net fee & commission income	1 604,7	1 613,3	-0,5%
- Other income ¹⁾	1 226,4	977,6	25,5%
Total costs	(2 722,7)	(2 881,3)	-5,5%
- Staff, general and administrative expenses ²⁾	(2 360,2)	(2 589,1)	-8,8%
- Depreciation/amortisation	(234,1)	(206,1)	13,6%
- Other operating expenses	(128,4)	(86,1)	49,1%
Impairment losses on loans and advances	(583,5)	(667,9)	-12,6%
Tax on financial institutions ³⁾	(356,1)	-	-
Profit before tax	2 649,2	2 176,6	21,7%
Tax charges	(567,5)	(420,4)	35,0%
Net profit for the period	2 081,7	1 756,2	18,5%

1) Other income includes the following items of the full income statement: dividend income; net profit on shares in subordinate entities, net trading income and revaluation, gains on other financial instruments, other operating income.

The figure for 2016 includes one-off gains of PLN 305.9m reported by BZ WBK as a result of the settlement of acquisition of Visa Europe Ltd. by Visa Inc. (in the full version of the income statement this amount is reported as part of gains on other financial instruments).

Other income for 2015 includes a one-off gain on subordinate entities of PLN 234.4m on account of partial disposal and loss of control over BZ WBK-Aviva TUnž and BZ WBK-Aviva TUO on 27 February 2015 (in the full version of the income statement this amount is reported as gains on subordinate entities).

2) Total costs include contributions made by BZ WBK to reimburse guaranteed funds to deposit customers of insolvent cooperative banks, totalling PLN 12.5m in 2016 and PLN 170.5m in 2015, respectively.

3) The banking tax is calculated in accordance with the Act on tax imposed on certain financial institutions that became effective on 1 February 2016.

The unconsolidated profit before tax of Bank Zachodni WBK was PLN 2,649.2m for 2016 and 21.7% higher YoY. Excluding the following items:

- from the current period: a one-off gain of PLN 305.9m resulting from the settlement of acquisition of Visa Europe Ltd. by Visa Inc., a mandatory contribution of PLN 12.5m to reimburse guaranteed deposits to deposit customers of insolvent banks, and a banking tax of PLN 356.1m;
- from the base period: a one-off gain of PLN 234.4m on partial disposal of shares in BZ WBK-Aviva companies and a mandatory contribution of PLN 170.5m under the deposit guarantee scheme;

the underlying profit before tax grew by 28.4% YoY.

In 2016, profit for the period increased by 18.5% YoY to PLN 2,081.7m. Adjusting for the impact of the above-mentioned items, the profit was up 29.1% on account of the following:

- a major improvement in net interest income (+11.0% YoY to PLN 3,480.4m) driven by robust credit delivery and optimisation of the deposit range focused on development of current account balances and long-term relationships with deposit customers;
- an increase in net trading profit (+37.7% YoY to PLN 266.4m) due to higher profit on derivatives and FX transactions, and on equity instruments;
- higher dividend income recognised in 2016 (PLN 439.3m, up 180.9%) driven mainly by dividend pay-outs from SCB (PLN 260.8m) and BZ WBK TFI as a legal successor of BZ WBK AM (PLN 52.2m) that had not been paid in the previous year (SCB) or had been significantly lower (BZ WBK TFI);
- lower impairment losses on loans and advances (PLN 583.5m, down 12.6% YoY), reflecting lower impairment charges for individually and collectively assessed portfolios as a result of the debt sale, among other things;
- stable total underlying cost base of PLN 2,710.2m as a result of a reduction in underlying staff, general and administrative costs (-2.9% YoY to PLN 2,347.7m) and a concurrent increase in amortisation/depreciation and a provision to cover legal disputes.

At the same time, a decrease was noted in gains on debt securities available for sale (-66.4% YoY to PLN 92.8m) and a slight decline in net fee and commission income (-0.5% YoY to PLN 1,604.7m) arising from changes to the fee collection regulations for the insurance market.

Components of Total Income of Bank Zachodni WBK

Total income of Bank Zachodni WBK for 2016 increased by 10.2% YoY to PLN 6,311.5m. Adjusting the current and base period for one-off gains on equity investments, the bank's underlying total income was higher by 9.4% YoY.

Net Interest Income

In 2016, net interest income was PLN 3,480.4m and up 11.0% YoY due to better performance of core banking portfolios with a support from activities and tools described in the section on the financial situation of the Bank Zachodni WBK Group.

in PLN m			
Interest Revenues of BZ WBK due to:	2016	2015	Zmiana r/r
Loans and advances to individuals	1 922,9	1 733,4	10,9%
Loans and advances to enterprises and the public sector	1 614,4	1 543,2	4,6%
Debt securities	576,0	596,3	-3,4%
Interest on hedging IRS	284,4	286,0	-0,6%
Other revenues	72,2	84,9	-15,0%
Total	4 469,9	4 243,8	5,3%
Interest Expenses of BZ WBK due to:	2016	2015	Zmiana r/r
Deposits from individuals	(495,9)	(587,8)	-15,6%
Deposits from enterprises and the public sector	(379,0)	(384,7)	-1,5%
Subordinated liabilities and issue of securities	(65,0)	(81,2)	-20,0%
Other expenses	(49,6)	(55,2)	-10,1%
Total	(989,5)	(1 108,9)	-10,8%
Net Interest Income	3 480,4	3 134,9	11,0%

Net Fee and Commission Income

In 2016, Bank Zachodni WBK earned net fee and commission income in the total amount of PLN 1,604.7m, which is comparable to the previous year's level.

in PLN m			
Net Fee and Commission Income of BZ WBK	2016	2015	YoY Change
E-Business and payments ¹⁾	378,2	368,4	2,7%
Account maintenance and cash transactions ²⁾	326,7	326,7	0,0%
FX fees	320,0	312,9	2,3%
Insurance fees	85,0	114,2	-25,6%
Asset management and distribution	133,8	138,7	-3,5%
Credit fees ³⁾	192,9	199,7	-3,4%
Credit cards	67,2	61,8	8,7%
Guarantees	65,6	42,7	53,6%
Brokerage activities	61,3	59,8	2,5%
Other ⁴⁾	(26,0)	(11,6)	124,1%
Total	1 604,7	1 613,3	-0,5%

1) Fees for foreign and mass payments, Western Union transfers, trade finance, debit cards, services for third party institutions as well as other electronic and telecommunications services.

2) Fee and commission income from account maintenance and cash transactions has been reduced by the corresponding expenses which in Note 6 "Net fee and commission income" of the Financial Statements of Bank Zachodni WBK for 2016 are included in the line item "Other" (PLN 2.6m for 2016 vs. PLN 2.4m for 2015).

3) Fee and commission income from lending activities which is not amortised to interest income. This line item includes, inter alia, the cost of credit agency.

4) Issue arrangement fees and others.

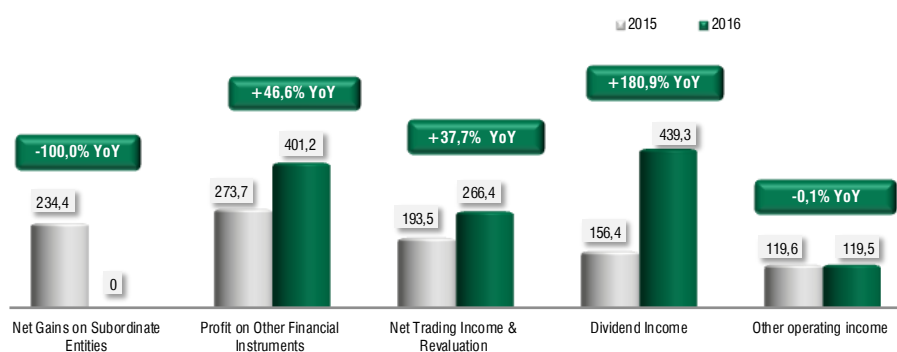
Bank Zachodni WBK efforts to enhance trade finance business was reflected in the growth of net fee and commission from guarantees and letters of credit (+53,6% YoY). There was also a marked increase net fee and commission income from credit cards (+8.7% YoY) fuelled by the growing size of the BZ WBK credit card portfolio (+6.7% YoY), higher volume of respective transactions and a revision of selected credit card fees and charges.

The decline in net fee income from insurance (-25.6% YoY) results from the legal and regulatory regime of the bancassurance market.

Increases and decreases in other business lines were moderate and kept within the deviations observed in the business as usual operations.

Components of Other Income of Bank Zachodni WBK (other than net interest income or net fee and commission income)

Components of Other Income (PLN m) of BZ WBK in 2015 vs. 2016



In 2016, no gains on subordinate entities were recognised whereas a year before the Bank reported a gain of 234.4m on the partial disposal of shareholdings in BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŽ (17 % interest in each) resulting in the loss of control over the entities to Aviva Ltd. and their reclassification from subsidiaries to associates.

In 2016, gains on other financial instruments increased by 46.6% YoY to PLN 401.2m. Included in this amount was a profit of PLN 307.7m on equity instruments available for sale (PLN 2.2 m in 2015), of which PLN 305.9m derived from the settlement of acquisition of Visa Europe Ltd. by Visa Inc. in June 2016. The other significant component was the profit from sale of treasury bonds which decreased by 66.4% YoY to PLN 92.8 m.

In the reporting period Bank Zachodni generated a net trading profit of PLN 266.4m, up 37,7% YoY on account of gains earned on derivatives and interbank FX transactions and profit on debt instruments.

Dividend income from the equity investment portfolio of Bank Zachodni WBK was PLN 439.3m and higher by PLN 282.9m YoY driven by a dividend pay-out from SCB of PLN 260,8 m and a larger dividend income (+PLN 35.6m YoY) from BZ WBK TFI, a legal successor to BZ WBK AM.

Impairment Charge

In PLN m

Impairment Losses of BZ WBK on Loans and Advances	2016	2015	YoY Change
Collective and individual impairment charge	(609,6)	(694,4)	-12,2%
Impaired but not reported losses charge	(0,2)	6,1	-
Recoveries of loans previously written off	(1,1)	4,4	-
Off-balance sheet credit related facilities	27,4	16,0	71,3%
Total	(583,5)	(667,9)	-12,6%

In 2016, the loan impairment charge to the income statement of Bank Zachodni WBK was PLN 583.5m, down 12.6% YoY.

Bank Zachodni WBK sold credit receivables in the principal amount of PLN 1,281.7m (PLN 1,353.6 m including interest) vs. PLN 582.2m in the corresponding period, which contributed PLN 103.9m and PLN 23.6m to the profit before tax in both periods, respectively.

In 2016, the cost of credit of Bank Zachodni WBK was at 0.67% and improved vs. 0.82% twelve months before.

Staff and General Expenses of Bank Zachodni WBK

In PLN m			
Total costs of BZ WBK	2016	2015	YoY Change
Staff, general and administrative expenses, of which:	(2 360,2)	(2 589,1)	-8,8%
- Staff expenses	(1 220,8)	(1 255,4)	-2,8%
- General and administrative expenses	(1 139,4)	(1 333,7)	-14,6%
Depreciation/amortisation	(234,1)	(206,1)	13,6%
Other operating expenses	(128,4)	(86,1)	49,1%
Total costs	(2 722,7)	(2 881,3)	-5,5%
Obligatory payment to guaranteed funds protection fund	(12,5)	(170,5)	-92,7%
Underlying total costs	(2 710,2)	(2 710,8)	0,0%

The total costs of Bank Zachodni WBK for 2016 amounted to PLN 2,722.7m, and were 5.5% lower YoY. Excluding obligatory payment to BFG under the deposit guarantee scheme, the underlying total costs were stable while staff, general and administrative expenses were lower by 2.9% YoY.

Excluding one-off items, namely gains on equity instruments and the contribution to the BFG, the bank's cost to income ratio was 45.1% in 2016 vs. 49.4% in 2015.

4. Financial Position of Bank Zachodni WBK

In PLN m			
Assets of BZ WBK (condensed presentation for analytical purposes)	31.12.2016	31.12.2015	YoY Change
Loans and advances to customers	87 102,4	81 125,4	7,4%
Financial assets available for sale	26 322,4	22 576,2	16,6%
Cash and operations with Central Banks	4 696,6	6 129,5	-23,4%
Loans and advances to banks	3 308,8	4 484,2	-26,2%
Financial assets held for trading and hedging derivatives	3 265,0	4 337,5	-24,7%
Fixed assets, intangibles and goodwill	2 932,7	2 874,4	2,0%
Other assets	3 790,1	3 950,4	-4,1%
Total	131 418,0	125 477,6	4,7%
Liabilities & Equity of BZ WBK (condensed presentation for analytical purposes)	31.12.2016	31.12.2015	YoY Change
Deposits from customers	103 381,2	94 021,3	10,0%
Financial liabilities held for trading and hedging derivatives	3 771,8	4 559,7	-17,3%
Subordinated liabilities and debt securities in issue	2 223,8	2 125,1	4,6%
Deposits from banks	1 212,8	548,6	121,1%
Sell-buy-back transactions	-	4 007,5	-100,0%
Other liabilities	1 798,9	1 506,3	19,4%
Total equity	19 029,5	18 709,1	1,7%
Total	131 418,0	125 477,6	4,7%

Total assets of Bank Zachodni WBK increased by 4.7% YoY to PLN 131,418.0m as at 31 December 2016. YoY movements observed in the unconsolidated statement of financial position are distinctly reflected in the consolidated statement discussed earlier in this chapter. The bank with its 87.6% contribution to the total consolidated assets sets development directions for the Group's core business volumes. Gross Loans and Advances of BZ WBK Customers

	In PLN m		
Gross Loans and Advances to BZ WBK Customers	31.12.2016	31.12.2015	YoY Change
Loans and advances to individuals	42 995,9	38 865,9	10,6%
Loans and advances to enterprises and public sector customers ¹⁾	47 007,3	45 677,6	2,9%
Other	181,6	6,4	2737,5%
Total	90 184,8	84 549,9	6,7%

1) Excluding receivables from buy-sell-back transactions.

As at 31 December 2016, gross loans and advances to customers were PLN 90,184.8m and higher by 6.7% YoY driven by lending to personal customers and enterprises. Solid YoY growth rate was witnessed in real estate and cash loan portfolio, which increased by 12,0 % and 8.1% to PLN 32,711.7m and PLN 7,211.6 m, respectively.

As at 31 December 2016, non-performing (impaired) loans to customers accounted for 6.0% of the gross portfolio of Bank Zachodni WBK vs. 6.7% twelve months before. The provision coverage ratio for impaired loans was 50.9% vs. 54.2% as at 31 December 2015.

Deposits of BZ WBK Customers

	In PLN m		
Deposits of BZ WBK Customers	31.12.2016	31.12.2015	YoY Change
Deposits from individuals	57 845,4	54 219,6	6,7%
Deposits from enterprises and public sector customers ¹⁾	45 535,9	39 801,7	14,4%
Total	103 381,3	94 021,3	10,0%

1) Excluding liabilities due to sell-buy-back transactions.

In 2016, deposits from customers increased by 10.0% YoY to PLN 103,381.3m due to the inflow of funds to accounts maintained by personal customers (+6,7% YoY) and enterprises (+14.4% YoY). The main driver were balances in current accounts, yet there was also a solid increase in the term deposit base of enterprises.

5. Selected Financial Ratios of Bank Zachodni WBK and BZ WBK Group

Selected Financial Ratios of BZ WBK Group	2016 ¹⁾	2015 ¹⁾
Total costs/Total income	46,0%	48,4%
Net interest income/Total income	65,4%	61,4%
Net interest margin ²⁾	3,7%	3,6%
Net commission income/Total income	26,3%	27,6%
Customer net loans/Customer deposits	91,6%	93,7%
NPL ratio	6,6%	7,3%
NPL coverage ratio	59,0%	61,5%
Credit risk ratio ³⁾	0,75%	0,85%
ROE ⁴⁾	12,8%	15,1%
ROTE ⁵⁾	15,3%	19,6%
ROA ⁶⁾	1,5%	1,7%
Capital ratio ⁷⁾	15,05%	14,62%
Tier I ratio ⁸⁾	14,56%	14,10%
Book value per share (in PLN)	211,8	207,3
Earnings per share (in PLN) ⁹⁾	19,4	20,7
Selected Financial Ratios of BZ WBK	2016 ¹⁾	2015 ¹⁾
Total costs/Total income	45,1%	49,4%
Net interest income/Total income	58,0%	57,1%
Net interest margin ²⁾	3,1%	3,0%
Net commission income/Total income	26,7%	29,4%
Customer net loans/Customer deposits	84,3%	86,3%
NPL ratio	6,0%	6,7%
NPL coverage ratio	50,9%	54,2%
Credit risk ratio ³⁾	0,67%	0,82%
ROE ⁴⁾	12,6%	11,3%
ROTE ⁵⁾	15,1%	13,9%
ROA ⁶⁾	1,6%	1,4%
Capital ratio ⁷⁾	16,52%	15,80%
Tier I ratio ⁸⁾	16,08%	15,40%
Book value per share (in PLN)	191,8	188,5
Earnings per share (in PLN) ⁹⁾	18,6	17,2

1) The calculations of the following ratios for 2016 and 2015: cost/income, net interest income/total income, net fee and commission income/total income and earnings per share use the Group's total income, total costs or profit (as the case may be) after adjustment for one-off events (equity gains and contributions resulting from the membership in the deposit guarantee scheme).

2) Net interest income (excluding interest income from the portfolio of trading securities) to average net interest-bearing assets (excluding the trading portfolio).

3) Impairment losses (for the accounting year) to average gross loans and advances to customers (as at the beginning and end of the reporting period).

4) Profit attributable to the parent's shareholders (for the accounting year) to average equity (as at the beginning and end of the reporting period), net of non-controlling interests, current period profit and the undistributed portion of the profit. Adjusted for one-off items, consolidated ROE was 11.6% as at 31 December 2016 vs. 13.7% as at 31 December 2015.

5) Profit attributable to the parent's shareholders (for the accounting year) to average tangible equity (as at the beginning and end of the reporting period) defined as common equity attributable to the parent's shareholders less revaluation reserve, current period profit, undistributed portion of the profit, intangible assets and goodwill. Adjusted for one-off items, consolidated ROTe was 13.9% as at 31 December 2016 vs. 17.1% as at 31 December 2015.

6) Profit attributable to BZ WBK shareholders (for the accounting year) to average total assets (as at the beginning and end of the reporting period).

7) The capital adequacy ratio was calculated on the basis of own funds and the total capital requirements established for the individual risk types by means of the standardised approach, in line with the CRD IV/CRR package.

8) Tier 1 ratio is Tier 1 capital expressed as a percentage of risk weighted assets for credit, market and operational risk.

9) Profit for the period attributable to shareholders of the parent entity (excluding one-off items) divided by the number of ordinary shares.

6. Additional Financial Information on Bank Zachodni WBK and BZ WBK Group

Selected Transactions with Related Entities

Key Intercompany Transactions with Subsidiaries

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

As at 31 December 2016, the bank's total exposure on loans to subsidiaries (BZ WBK Faktor, BZ WBK Leasing, BZ WBK Lease, Santander Consumer Multirent) amounted to PLN 7,952.3m compared with PLN 7,357.0m as at 31 December 2015.

The deposits held with the bank by subsidiaries (e.g. BZ WBK Finanse, BZ WBK Inwestycje, BZ WBK Asset Management, BZ WBK Towarzystwo Funduszy Inwestycyjnych, Santander Consumer Multirent) totalled PLN 152.9m vs. PLN 166.8m as at 31 December 2015.

Contingent financial liabilities totalled PLN 1,770.6m compared with PLN 2,227.7m as at 31 December 2015. Guarantees to subsidiaries amounted to PLN 67.0m vs. PLN 64.6m as at 31 December 2015.

These intercompany items have been eliminated from the consolidated accounts.

Leaseback

On 16 April 2015, Bank Zachodni WBK signed an agreement with BZ WBK Leasing regarding finance leaseback of the existing properties (building, land and perpetual usufruct) and the lease of the planned property (an office building to be developed within three years) located in Wrocław.

The final total value of the assets arising from the lease agreement (building and land) was estimated at PLN 156.3m as at the start date of the transaction. As at 31 December 2016, the current value of the fixed assets under the finance leaseback agreement was PLN 39.0m, and the value of fixed assets under construction totalled PLN 20.3m.

The basic lease period was set at 153 months. The purchase of the assets and construction of the office building by BZ WBK Leasing is financed with a loan from Bank Zachodni WBK.

Intercompany Transactions with Parent Entity

The bank's receivables from the parent entity (Banco Santander) amounted to PLN 594.0m compared with PLN 337.1m as at 31 December 2015, while obligations amounted to PLN 271.3m compared with PLN 102.6m as at 31 December 2015.

A full disclosure on related party transactions is available in Note 48 of the Consolidated Financial Statement of Bank Zachodni WBK Group for 2016 and in Note 46 of the Financial Statement of Bank Zachodni WBK for 2016.

Selected Off-Balance Sheet Items

Guarantees and derivatives

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

		PLN m	
Guarantees and Commitments of BZ WBK Group		31.12.2016	31.12.2015
Financial commitments:		23 243,1	21 917,7
- credit lines		19 134,4	18 496,0
- credit cards debits		3 419,0	2 980,9
- import letters of credit		655,6	438,0
- term deposits with future commencement term		34,1	2,8
Guarantees		4 182,8	4 426,0
Allowance for impairment		(50,8)	(75,3)
Total		27 375,1	26 268,4

		PLN m	
Nominal Value of Derivatives of BZ WBK Group		31.12.2016	31.12.2015
Derivatives - Forward (hedging)		32 810,5	37 200,0
Derivatives - Forward (trading)		289 441,5	250 073,8
Current FX transactions		1 540,2	3 022,1
Trading in equities		1 335,7	1 485,1
Total		325 127,9	291 781,0

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 from Bank Zachodni WBK, the bank provides civil law sureties and guarantees (mainly: guarantees of payments for goods or services, advance payment guarantees, performance bonds, customs guarantees, bid bonds) as well as sureties and guarantees under the 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 and Santander Consumer Bank lease offices under operating lease agreements. Typically, Bank Zachodni WBK signs its lease agreements for a term of 5-10 years, while the lease agreements of Santander Consumer Bank are concluded for a term of 3-5 years (except for the lease agreements for the premises of mobile units which are entered for an indefinite period subject to between one and three months' notice).

PSA Finance Polska generally operates from the premises leased under a 5-year agreement valid until September 2017. In December 2016, the company and its subsidiary - PSA Consumer Finance Polska - extended the agreement for a period of four years. Both companies lease printers/photocopiers, laptops and personal computers from Banque PSA Finance.

Total payments of all the irrevocable operating leases (including the value of land in perpetual usufruct) are as below.

Lease payments by maturity	PLN m	
	31.12.2016	31.12.2015
less than 1 year	235,7	254,6
between 1 and 5 years	494,5	472,6
over 5 years	467,6	421,8
Total	1 197,8	1 149,0

Writs of Execution and Value of Collateral

In 2016 Bank Zachodni WBK did not issue any writs of execution. The Act of 25 September 2015 amending the Banking Law provided for the removal of banking writs of execution from Polish legislation. As of the effective date (27 November 2015), all regulations pertaining to these instruments ceased to apply. Currently, all overdue amounts are enforced at the court under ordinary proceedings or proceedings by writ of payment.

The table below shows the number and value of the writs of execution issued by Bank Zachodni WBK in 2015.

Facility	2015	
	Number	Value
Loans to individuals	71 114	609,6
Loans to enterprises	4 094	387,9
Total	75 208	997,5

As at 31 December 2016, the value of borrowers' accounts, assets or leased objects pledged as collateral to the Group amounted to PLN 97 529.0m compared with PLN 78,781.1m as at 31 December 2015.

7. Factors which May Affect Financial Results of Bank Zachodni WBK and BZ WBK Group in 2017

The following external developments will have a significant impact on the financial performance and activity of Bank Zachodni WBK Group in 2017:

- Economic growth should gradually accelerate following the slowdown at the turn of 2016 and 2017, reaching 3% YoY in Q4, with exports and investment rebounding amid sustained growth in private consumption.
- The world economy, and in particular the euro zone, is expected to see a moderate recovery. An improvement in the situation for Poland's main trading partners should positively affect exports to those countries. Nevertheless, there is still a lot of uncertainty regarding emerging economies, especially China, which may considerably weigh on economic sentiment.
- Inflation is expected to rise considerably, even to 2% YoY in the interim period, under the impact of commodity and food prices, and decrease slightly towards the year due to the base effect.
- The improvement in the labour market will slow down - the Polish economy is facing difficulties with its labour force, therefore immigration will continue to have a significant impact. Labour market tensions may translate into higher wage pressure. Still, due to rising inflation, the real increase in households' income may be less considerable than in 2016. Private consumption should continue to be an important driver and stabiliser of GDP growth in 2017.
- The beginning of 2017 will offer little prospect of zloty appreciation. However, later in the year the Polish currency will be supported by any revival in economic growth.
- Subdued economic growth will prevent the Monetary Policy Council from changing rates despite rising inflation. However, expectations for policy tightening may rise towards the end of the year.

IX. Investor Relations

1. Investor Relations at Bank Zachodni WBK

As a listed company with an established market position, Bank Zachodni WBK is required to actively communicate with its stakeholders in order to satisfy their information requirements in accordance with the highest market standards and prevailing laws.

Particularly important is communication with capital market participants: shareholders, investors and analysts. Bank Zachodni WBK is committed to providing the above stakeholders with regular and timely access to high quality and clear information in order to facilitate the accurate assessment of the bank's financial standing, market position and effectiveness of its strategy and business model.

The BZ WBK Investor Relations Office maintains relationships with institutional investors and stock market analysts, informing them proactively of the bank's development and performance and other relevant aspects which may affect their decisions. This is to ensure adequate transparency of the company, build trust and promote the bank's image in capital markets.

In 2016 - as part of standard activities in the area of investor relations - investors, shareholders and stock market analysts had the opportunity to meet representatives of the bank's Management Board at numerous brokers' conferences in Poland and abroad as well as investor road-shows and individual meetings.

In 2016, Bank Zachodni WBK was present at ten international investor conferences, including the WallStreet20 Conference held by the Individual Investors Association – the largest event of its kind in Poland.

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

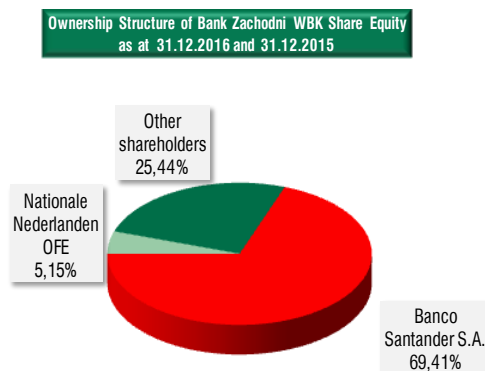
Up-to-date information on key developments regarding Bank Zachodni WBK is published at www.inwestor.bzwbk.pl.

2. Share Capital, Ownership Structure and Share Price

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

As at 31 December 2016, the share capital of Bank Zachodni WBK totalled PLN 992,345,340, divided into 99,234,534 ordinary bearer shares at a nominal value of PLN 10 each. There were no changes to the amount of share capital in the year from 31 December 2015.

Chapter XI "Statement on Corporate Governance in 2016" (part 4 "Equity Securities of the Issuer") presents general information about shares of Bank Zachodni WBK, respective share issues, as well as the number of shares and voting power held by shareholders with more than a 5% stake in the bank's share capital as at the end of 2015 and 2016.

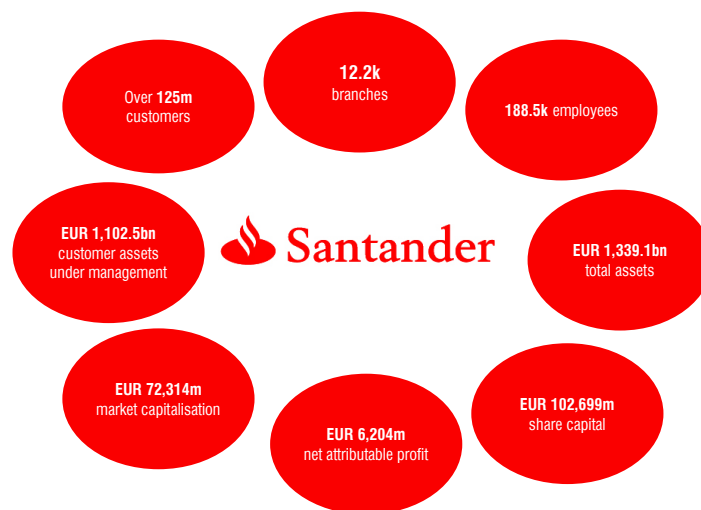


Majority Shareholder

Banco Santander – a parent entity of Bank Zachodni WBK – is a commercial bank with a history of nearly 160 years, having its registered office in Santander and operational headquarters in Madrid (Spain). While it specialises in retail banking services, the bank is also very active in the private banking, business and corporate banking, asset management and insurance markets. Banco Santander, which is characterised by the significant geographic diversification of its business, currently focuses on its 10 core markets – both developed and emerging. It has a strong market position in Spain, Argentina, Brazil, Chile, Mexico, the USA, Poland, Portugal and the UK. It is also present in consumer finance markets in Europe (Germany, France, Italy, Poland and the Scandinavian countries).

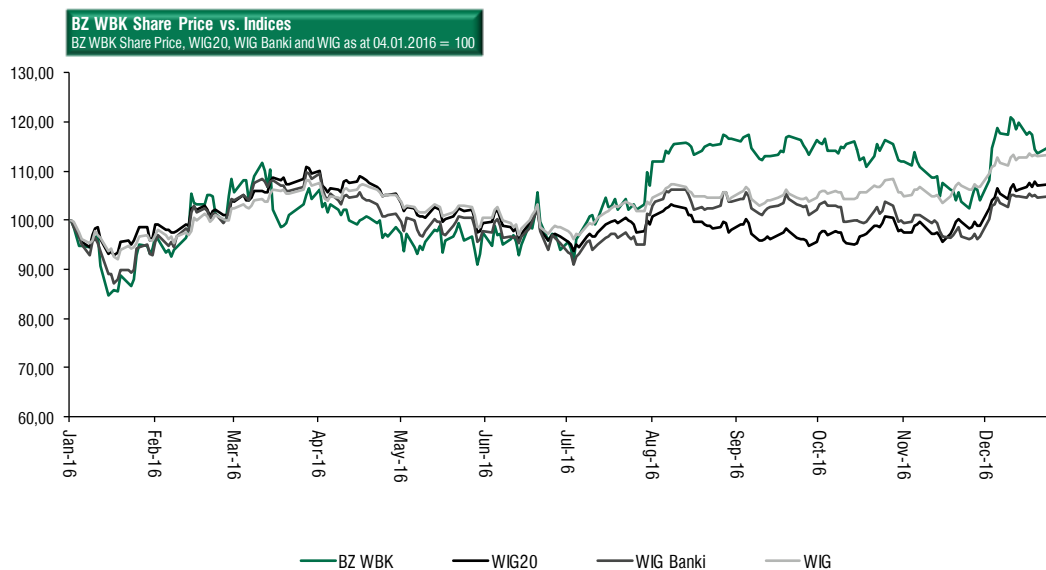
According to data as at the beginning of 2017, Banco Santander was among the TOP 20 world's largest banks and the third largest in Europe in terms of market capitalisation.

Key figures presenting the scale of consolidated activity of Banco Santander Group as at 31.12.2016

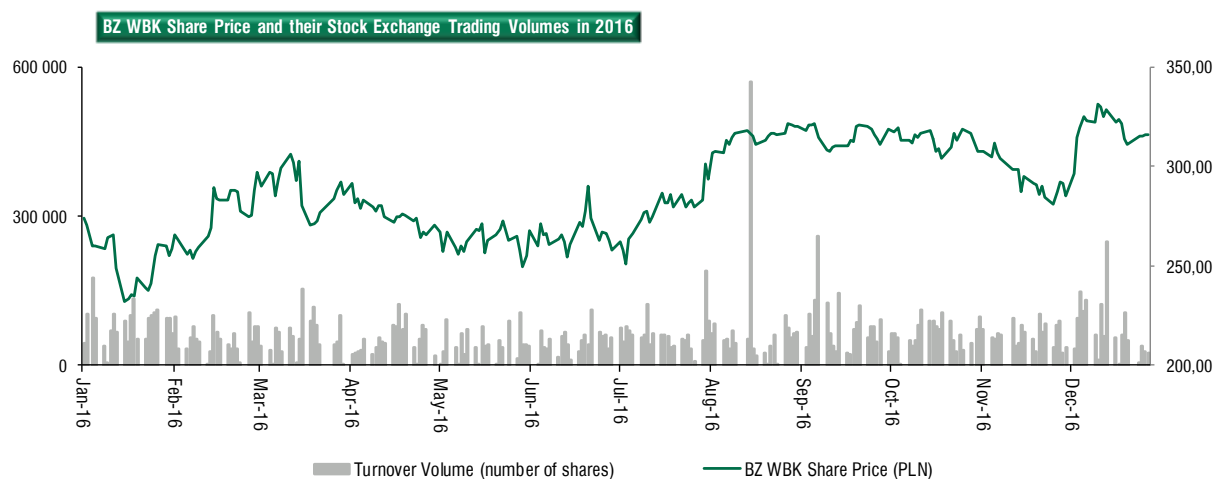


Banco Santander has been listed on the Warsaw Stock Exchange since 3 December 2014. A total of 12,840.5m ordinary shares of the bank with a nominal value of EUR 0.50 each are traded there. In addition to the WSE, Banco Santander shares are quoted on stock exchanges in Madrid, Milan, Lisbon, London, New York, Buenos Aires and in other cities.

Share Price of Bank Zachodni WBK S.A. vs. Indices



After a weak first half of the year, the BZ WBK share price surged thereafter, closing the year at PLN 316, up 11.3% YoY, and clearly outpacing the WIG-Banks index, which yielded a mere 4.5% at that time. The bank's stock price (adjusted for dividend) rose to an all-year high on 16 December, reaching PLN 333. There were considerable fluctuations throughout 2016, though. In addition to the factors that affected the global market situation, the bank's share price was influenced by the risks associated with the ongoing work on CHF loan conversion law and by the introduction of a banking tax. From the perspective of a technical analysis, the last trading sessions in November were particularly important: BZ WBK shares managed to continue in an upward trend, thanks to which they closed the year at their maximum. After a one-year non-dividend period required by the KNF on 1 April 2015, the General Meeting of Bank Zachodni WBK decided to pay a dividend of PLN 13 per share in respect of 2014 and 2015 profits.



Due to strong liquidity and high market capitalisation, BZ WBK shares are traded in a number of stock market indices, including WIG20 (blue chip companies), WIG-Banks (industry index) and RESPECT.

Key Data on BZ WBK Shares	2016	2015
Share price at the year-end (in PLN)	316,0	284,0
Maximum closing share price over the year (in PLN)	331,5	386,0
Date of maximum closing share price	13.12.2016	23.04.2015
Minimum closing share price over the year (in PLN)	232,5	253,5
Date of minimum closing share price	18.01.2016	09.12.2015
Price per earning ratio (P/E) at the year-end	15,0	16,1
Number of shares at the year-end (items)	99 234 534	99 234 534
Market capitalisation at the year-end (PLN m)	31 358,1	28 182,6
Average turnover over the year (PLN m)	18,3	17,4
Dividend per share ¹⁾ (PLN)	13,0	-

¹⁾ Details in "Dividend per Share" section below.

Dividend per Share

As at the date of publication of this report, the Management Board of Bank Zachodni WBK did not finish the analysis required to issue a recommendation on the dividend payment in respect of 2016.

The Annual General Meeting (AGM) of 20 April 2016 decided to allocate PLN 702.5m of net profit earned by Bank Zachodni WBK in 2015 and PLN 587.6m of undistributed net profit for 2014 as the dividend payment. The dividend totalled PLN 13 per share and was paid out on 16 May 2016.

In 2015, the bank did not pay a dividend due to the KNF recommendation of 1 April 2015 that the bank should retain its entire profit earned in 2014 until the regulator determines the additional capital requirement. The AGM of 23 April 2015 adopted a resolution on distribution of the net profit for 2014, transferring PLN 1,042.0m to reserves and leaving the remainder of PLN 952.7m undistributed.

Dividend payments for the last five years are summarised in “Business development of Bank Zachodni WBK Group in 2016 vs previous years” in Chapter I “Overview of Bank Zachodni WBK and BZ WBK Group Performance for 2016”.

3. Bank Zachodni WBK Rating

Bank Zachodni WBK Rating

Bank Zachodni WBK has bilateral credit rating agreements with Fitch Ratings Ltd. and Moody's Investors Service.

Rating Actions by Fitch Ratings

Fitch Rating	Ratings confirmed as at	Ratings updated as at	Ratings confirmed as at	Ratings updated as at
	9.11.2016	4.08.2016	29.02.2016	23.11.2015
International Ratings				
Long-term Issuer Default Rating (long-term IDR)	BBB+	BBB+	BBB+	BBB+
Outlook for the long-term IDR rating	stable	stable	stable	stable
Short-term Issuer Default Rating (short-term IDR)	F2	F2	F2	F2
Viability rating (VR)	bbb+	bbb+	bbb+	bbb+
Support rating	2	2	2	2
National Ratings				
National long-term rating	AA(pol)	AA(pol)	AA-(pol)	AA-(pol)
Outlook for the national long-term rating	stable	stable	stable	stable
Senior unsecured debt national long-term rating	AA(pol)	AA(pol)	AA-(pol)	AA-(pol)

Ratings of Bank Zachodni WBK as at 31 December 2016 were affirmed by Fitch Ratings on 9 November 2016.

The international ratings of Bank Zachodni WBK did not change during 2016. Fitch believes that Bank Zachodni WBK is a strategically important subsidiary for Banco Santander and there is a high probability of support from the parent entity if need be. This view is reflected in the long-term IDR assigned to the bank, which was one notch below the rating of the majority shareholder. The rating is also justified by the individual VR assigned to Bank Zachodni WBK, which reflects the bank's strong capitalisation, solid internal capital generation and sound financial liquidity profile based on diversified funding with a dominant share of own funds in the form of retail customer deposits.

The individual VR of BZ WBK is additionally underpinned by its fundamentally sound credit quality (despite a relatively high share of foreign currency mortgages and an above-average impaired loans ratio), conservative risk management as part of the underwriting process and the absence of any major changes in its financial metrics over the last 12 months.

On 4 August 2016, Fitch Ratings upgraded the national long-term rating and senior unsecured debt rating of Bank Zachodni WBK from AA-(pol) to AA(pol). The above upgrade was driven by the recalibration of the national rating scale for Poland due to the downgrade of the sovereign's long-term local currency IDR on 22 July 2016.

Rating Actions by Moody's Investors Service

Ratings of Bank Zachodni WBK as at 31 December 2016 were affirmed by Moody's Investors Service in the credit opinion dated 9 September 2015.

Category of Moody's Ratings	Ratings confirmed as at 9.09.2016	Ratings confirmed as at 18.04.2016	Ratings confirmed as at 15.03.2016	Ratings updated as at 21.05.2015
Bank Deposit	A3/P-2	A3/P-2	A3/P-2	A3/P-2
Baseline Credit Assessment (BCA)	baa3	baa3	baa3	baa3
Adjusted Baseline Credit Assessment (Adjusted BCA)	baa2	baa2	baa2	baa2
Outlook	stable	stable	stable	stable
Counterparty Risk Assessment (CR)	A2 (cr)/ P-1 (cr)	A2 (cr)/ P-1 (cr)	A2 (cr)/ P-1 (cr)	A2 (cr)/ P-1 (cr)

Based on the results of the Advanced Loss Given Failure (LGF) analysis, the long-term deposit rating for Bank Zachodni WBK was A3, i.e. two notches above the adjusted Basic Credit Assessment (BCA), and the short-term deposit rating was P-2. A3/Prime-2 deposit ratings incorporate the bank's standalone baseline credit assessment, the agency's assumption of moderate parental support from Banco Santander and the low likelihood of support from the Polish government in case of need, and the Advanced Loss Given Failure (LGF) analysis.

BZ WBK BCA of baa3 is supported by Poland's macro profile of Strong-, and reflects the bank's expanding franchise in the Polish market, improved asset quality and strong profitability. At the same time, the bank's capitalisation, although at a good level, may come under pressure from faster lending growth and potential government initiatives on CHF mortgages.

X. Risk Management

1. Risk Management Principles and Structure in Bank Zachodni WBK and Bank Zachodni WBK Group

Risk Management Principles

The main objective of risk management in the bank and BZ WBK Group is to ensure effective and safe operations to support development within 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 the bank and BZ WBK Group is consistent with the risk profile approved by the Risk Management Committee which corresponds to the general risk appetite defined by the Group. Risk appetite is expressed as quantitative limits and captured in the Risk Appetite Statement approved by the Management Board and the Supervisory Board. Limits are set using stress tests and scenario analyses to ensure stability of the bank's position even if adverse circumstances materialise. With global limits in place, watch limits are set and risk management policies are drafted.

The integrated risk management structure contains separate units responsible for identification, measurement, monitoring and mitigation of risks in a way that ensures independence of risk management functions from risk-taking units. The responsibilities of 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.

Risk Management Structure

The bank's Supervisory Board is responsible for ongoing supervision of the risk management system in Bank Zachodni WBK, supported by the Audit and Compliance Committee of the Supervisory Board and the Risk Oversight Committee. The Supervisory Board approves the strategy, key risk management policies and risk appetite, and monitors the use of internal limits from the perspective of current business strategy and the macroeconomic environment. It conducts the reviews of the key risk areas, the identification of threats and the process of defining and monitoring remedial actions. The Supervisory Board also assesses the effectiveness of measures taken by the Management Board.

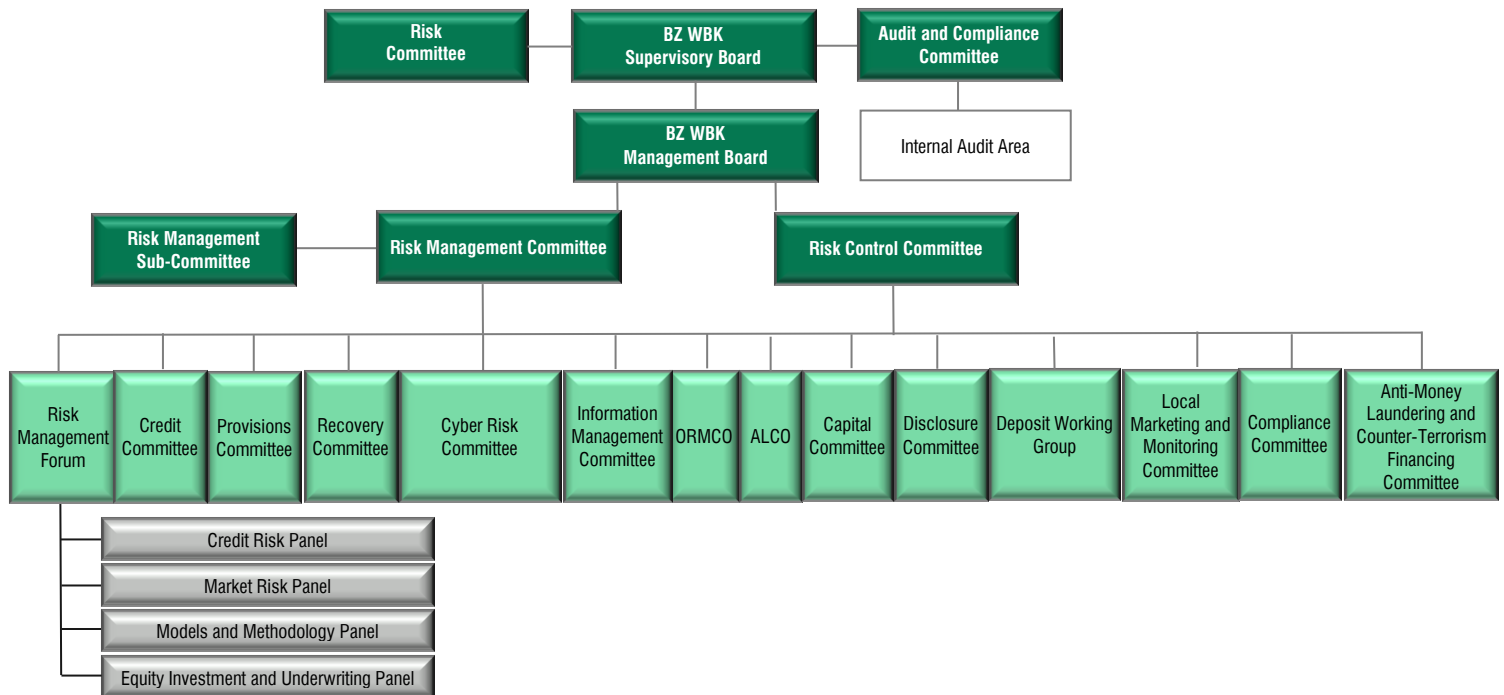
The bank's Management Board is responsible for implementing an effective risk management system compliant with the bank's regulatory obligations and internal regulations. Specifically, the bank's role in this regard is to set up an organisational structure tailored to the size and profile of the risks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

The Management Board fulfils its risk management role through the following three committees:

- The Risk Management Committee, which is an executive committee responsible for developing a risk management strategy across the Group, including the identification of material risk types, setting the risk appetite and defining the methods of risk measurement, control, monitoring and reporting;
- The Risk Management Sub-Committee set up in August 2016 as part of the Risk Management Committee to approve the key decisions taken by the main lower-level risk committees;
- The Risk Control Committee set up in March 2016 to monitor the risk level across different areas of the bank's operations and supervise the activities of lower-level risk management committees set up by the Management Board.

These committees, acting within the respective remits defined by the Management Board, are directly responsible for developing risk management methods and monitoring risk levels in specific areas.

Corporate Governance Structure for Risk Supervision and Management



In 2016, the bank reviewed and streamlined the structure of its committees:

- The powers of the Monitoring Committee (responsible for ensuring ongoing and effective monitoring of the business and corporate credit portfolio) were delegated to the existing committees;
- The Information Management Panel, which used to operate as part of the Risk Management Forum, was replaced by a separate Information Management Committee, which is responsible for the quality and organisation of data related to risk management and other areas of the bank's operations;
- The Cyber Risk Committee was set up as a forum for direct cooperation and communication among all organisational units involved in the processes related to cyber security, to ensure effective supervision of the cyber security strategy.

The Risk Control Committee supervises the following committees responsible for risk management in the Group:

- The Risk Management Forum composed of panels dedicated to credit risk, market risk, models and methodology and equity investment and underwriting
- Credit Committee
- Recovery Committee
- Provisions Committee
- Information Management Committee
- Operational Risk Management Committee / ORMCO
- Cyber Risk Committee
- Assets and Liabilities Management Committee / ALCO
- Capital Committee
- Disclosure Committee
- Deposit Working Group
- Local Marketing and Monitoring Committee
- Compliance Committee
- Anti-Money Laundering and Counter-Terrorism Financing Committee.

Through these committees, the bank also supervises the risk attached to the operations of its subsidiaries.

Acting under the applicable law, the bank exercises oversight of risk management in Santander Consumer Bank (SCB) in line with the same oversight rules as applied to other Bank Zachodni WBK Group companies. Bank Zachodni WBK Management Board members in charge of the Risk Management Division and Financial Management Division (respectively) sit on the Supervisory Board of SCB. Pursuant to the BZ WBK strategy of investments in capital market instruments, they are responsible for supervision over SCB and they ensure, together with the SCB Supervisory Board, that the company operates in line with the adopted plans and operational security procedures. The bank monitors the profile and level of SCB risk via BZ WBK risk management committees.

2. 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. It results in 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.

Credit risk in the bank and BZ WBK Group arises mainly from lending activities on the retail, corporate and interbank markets. This risk is managed as part of the policy approved by the Management Board on the basis of the adopted credit procedures and discretionary limits. The internal system of credit grading and monitoring used by the bank and BZ WBK Group allows for an early identification of potential defaults that might impair the loan book. Additionally the bank and the Group use large set of credit risk mitigation tools, both collateral (financial and non-financial) and specific credit provisions and clauses (covenants).

Credit risk management in the bank and BZ WBK Group involves actions taken as a result of the ongoing analysis of the macroeconomic environment and internal reviews of particular credit portfolios. These advanced credit risk assessment tools allow quick remedial actions to be effected in response to the first signs of any change in the portfolio's quality or structure.

Credit Policy

In 2016, the bank and the Group continued their existing credit risk management policy, keeping credit risk at a safe level while ensuring the high profitability of loan portfolios, the growth of business volumes and an increase in market share. Credit policies were optimised in response to macroeconomic developments. The bank and the Group carry out their lending activity with full regard to applicable prudential regulations. High quality customer service is also a priority.

The credit policy adopted by the bank and BZ WBK Group 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 lending policy because they facilitate the monitoring of exposure concentration within individual sectors, geographical regions and foreign currencies. Pursuant to the policy, the bank and BZ WBK Group ensure adequate diversification of the credit portfolio in terms of exposure towards individual customers and sectors.

The credit decision making system in place matches the profile and requirements of respective customer segments. Individuals engaged in credit risk approval are vested with powers which are commensurate with their skills and experience as well as risk associated with a given credit transaction, and are reviewed on a regular basis. Large credit exposures in excess of PLN 25m are referred to the Credit Committee composed of senior management and top executives. Transactions above PLN 187.5m are additionally signed off by the Management Board's Risk Management Sub-Committee. The existing system of credit discretion ensures segregation of the credit risk approval function from the sales function.

The lending activity of subsidiaries is modelled on the bank's credit policies. In the decision making process, the bank and BZ WBK Group follow a consistent approach to credit risk and use the same IT platform to assign rating/scoring (this does not apply to Santander Consumer Bank). Subsidiaries have credit risk management procedures in place which have been approved by the bank.

Credit Risk Management Process

Key Elements of the Credit Risk Management Process in BZ WBK Group

Credit Decision Making Process	<ul style="list-style-type: none"> Discretionary limits 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 is based upon individual credit discretions vested in credit officers, commensurate with their knowledge and experience relating to particular activities (branch banking, SME banking, business banking and corporate banking).
Credit Grading	<ul style="list-style-type: none"> The credit risk assessment tools conform to KNF guidelines, International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) and best market practice. The Group uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, home loans, property loans, cash loans, credit cards and personal overdrafts. Credit grading is subject to regular monitoring which is carried out in accordance with the rules described in the lending manuals. Additionally, for selected models, automated processing of credit grade verification is carried out based on the number of overdue days or an analysis of behavioural factors. Credit grade is also verified at subsequent credit assessments.
Credit Reviews	<ul style="list-style-type: none"> The Group performs regular reviews to determine the actual quality of the credit portfolio, confirm that adequate credit grading and provisioning processes are in place and verify compliance with the procedures and credit decisions.
Collateral	<ul style="list-style-type: none"> The Collateral and Credit Agreements Department is a central unit responsible for ensuring that security covers are duly established and held effective in line with the lending policy for respective business segments. The unit develops standardised internal procedures with respect to collateral and ensures that the establishment, monitoring and release of security covers is duly effected. In addition, the Collateral and Credit Agreements Department provides assistance to credit units in credit decision making and the development of credit policies, collects data on security covers and ensures adequate management information.
Credit Risk Stress Testing	<ul style="list-style-type: none"> 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 condition of the bank and BZ WBK Group. Stress tests are conducted to assess potential changes in credit portfolio quality when faced with adverse conditions. The process also delivers management information about the adequacy of the agreed limit and internal capital allocation.
Calculation of Impairment	<ul style="list-style-type: none"> Impairment charges reflect credit impairment, which is recognised if the bank or the Group presents objective evidence that such amounts cannot be recovered in line with the signed loan agreement. Impairment is calculated on the basis of the estimated recoverable amount. Impairment analysis is performed using both an 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 Group compares the assumptions and parameters used for impairment calculations with the actual situation, including changes of economic conditions, and amendments to the Group's credit policies and recovery process. This process provides assurance that impairment charges are recognized correctly. The responsibility for ensuring the adequacy of impairment charges rests with the Provisions Committee.
Forbearance Practices	<ul style="list-style-type: none"> As part of pro-active management of credit risk and credit portfolio quality, Bank Zachodni WBK Group takes measures aimed at the early implementation of debt restructuring (forbearance solutions) with respect to customers in financial difficulty. The purpose of debt restructuring is to better match repayment terms with the current and projected financial standing of the customer, minimise default risk and/or maximise recovery. The portfolio subject to restructuring is monitored on a regular basis. The debt is classified as restructured until the customer's circumstances stabilise. More information on forbearance practices is provided in Note 4 "Risk Management" in "Consolidated Financial Statements of Bank Zachodni WBK Group for 2016".

Credit Portfolio Quality

BZ WBK Group loans and advances to customers by impaired and non-impaired loan portfolios

PLN m

Loans and Advances to Customers by Impaired and Non-Impaired Loan Portfolios	31.12.2016	31.12.2015
Individually impaired (gross amount)	2 641,2	3 286,4
Allowance for impairment	(1 265,9)	(1 487,1)
Net amount (individually impaired)	1 375,2	1 799,3
Collectively impaired (gross amount)	4 460,4	3 981,8
Allowance for impairment	(2 921,9)	(2 984,3)
Net amount (collectively impaired)	1 538,6	997,5
IBNR portfolio (gross amount)	100 543,8	92 664,1
- non-past due	94 415,3	88 021,5
- past due	6 128,5	4 642,6
IBNR provisions	(691,1)	(659,6)
Net amount (non-impaired)	99 852,7	92 004,5
Other receivables	302,0	112,6
Total net loans and advances to customers	103 068,5	94 913,9
Impaired loan ratio	6,6%	7,3%
Impaired loan coverage ratio	59,0%	61,5%

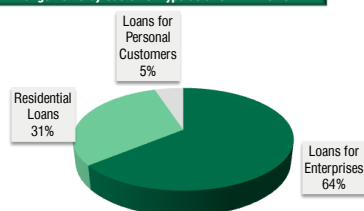
BZ WBK loans and advances to customers by impaired and non-impaired loan portfolios

PLN m

BZ WBK Loans and Advances to Customers by Impaired and Non-Impaired Loan Portfolios	31.12.2016	31.12.2015
Individually impaired (gross amount)	2 501,4	3 199,8
Allowance for impairment	(1 196,4)	(1 424,7)
Net amount (individually impaired)	1 305,0	1 775,1
Collectively impaired (gross amount)	2 883,6	2 486,4
Allowance for impairment	(1 544,5)	(1 659,5)
Net amount (collectively impaired)	1 339,1	826,9
IBNR portfolio (gross amount)	84 497,9	78 751,2
- non-past due	80 792,5	76 104,3
- past due	3 705,4	2 646,9
IBNR provisions	(341,6)	(340,4)
Net amount (non-impaired)	84 156,3	78 410,8
Other receivables	302,0	112,6
Total net loans and advances to customers	87 102,4	81 125,4
Impaired loan ratio	6,0%	6,7%
Impaired loan coverage ratio	50,9%	54,2%

Value and Structure of BZ WBK Group Debt Subject to Forbearance

Structure of Gross Loans and Advances Subject to Forbearance Arrangements by Customer Type as at 31.12.2016



Loans and Advances to Customers Subject to Forbearance Arrangements (PLN m)	31.12.2016	31.12.2015
Loans and advances to customers in the gross amount	4 041,7	4 348,6
Allowance for impairment	(954,6)	(1 363,7)
Loans and advances to customers in the net amount	3 087,1	2 984,9

3. Market Risk and Liquidity Risk Management

Market Risk

Market risk associated within bank's and Group's operations is derived mainly from customer service operations, transactions effected to maintain liquidity on the money market and capital markets as well as proprietary trading in debt, FX and equity instruments.

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

Market Risk Management

The Risk Management Forum 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 takes 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 Corporate Banking Division.

Identification and Assessment of Market Risk

Interest rate and FX risks associated with the banking book are managed by the Financial Management Division, which is also responsible for managing open positions in interest rate and FX risks of companies from BZ WBK Group.

The Global Corporate Banking Division, which includes the Brokerage Office of Bank Zachodni WBK, is responsible for managing market risk in the trading book.

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

With the 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 measurement and reporting functions are separate from the risk managing and taking units.

The market risk management policies adopted by the bank and the Group 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 coordinated 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 of banking book to interest rate movements as at 31.12.2016 and 31.12.2015

PLN k 1 day holding period	NII Sensitivity		MVE Sensitivity	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Maximum	218	118	250	215
Average	184	97	198	186
As at the end of period	218	116	218	215
Limit	280	170	340	220

In 2016, the global NII and MVE limits for the banking book were not exceeded.

The bank and BZ WBK Group use the following measures and limits to mitigate and control the exposure to market risk in the trading book:

- daily VaR limit for interest rate risk, FX risk and the repricing risk of equity instruments held by the Brokerage Office;
- PV01 limit set for individual currencies and transaction repricing dates;
- stop-loss mechanism used to manage the risk of loss on trading positions subject to fair value measurement through profit or loss;
- maximum limit of the total position and an open position for individual currencies.

As these measures relate to the calculation of a potential loss under normal market conditions, the bank and BZ WBK Group also use stress tests which show the estimated potential losses in the event of the materialisation of adverse market conditions.

VAR as at 31.12.2016 and 31.12.2015 for interest rate, currency and equity risk in the trading book of Bank Zachodni WBK Group

PLN k 1 day holding period	Interest Rate Risk VAR		FX Risk VAR		Equity Securities Risk VAR	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Average	1 706	1 643	392	636	301	429
Maximum	3 681	5 534	3 096	3 411	742	1 057
Minimum	659	375	30	52	50	90
as at the end of the period	1 509	837	319	846	77	230
Limit	7 523	5 852	3 134	1 951	4 346	4 057

Financial instruments used for management of market and other risks

The bank and the Group use the following financial instruments in relation to repricing risk, credit risk, cash flow risk and liquidity risk:

- derivative instruments held for trading – proprietary transactions in connection with treasury services rendered to bank customers in order to mitigate market risk, maintain liquidity or as part of underwriting services;
- other financial instruments, including investment securities held for sale, hedging derivatives and equity instruments.

The market risk associated with open positions in financial instruments is mitigated through a set of limits (defined separately for the trading book and the banking book). The credit risk of such positions is curbed using concentration limits in respect of individual counterparties. In order to mitigate the liquidity risk, the bank and the Group keep an adequate level of liquid financial assets bearing low credit risk (in particular treasury bonds and NBP money market bills) in line with the liquidity risk appetite defined by the bank and the Group.

No derivative instruments were used by the bank or the Group to hedge credit risk, while FX options, interest rate options and commodity derivatives were executed on a back-to-back basis and therefore did not expose the bank or the Group to market risk.

The market risk of the balance sheet is managed by the bank and the Group using, inter alia, derivative instruments and hedge accounting with respect to:

- mortgage loans bearing WIBOR rate – interest rate swaps are used to receive fixed interest and pay floating interest thus hedging the risk of movements in cash flows relating to floating interest loans;
- mortgage loans in CHF and EUR – basis swaps are used to hedge the risk of movements in interest rates (CHF LIBOR, EURIBOR) and exchange rates (CHF/PLN and EUR/PLN);
- fixed interest cash loans – interest rate swaps are used to receive floating interest and pay fixed interest thus hedging the fair value of positions;
- selected fixed coupon bonds – interest rate swaps are used to hedge the fair value of bonds whereby the bank and the Group receive floating interest and pay fixed interest.

Liquidity Risk

Liquidity risk is the risk of failure to meet contingent and non-contingent obligations made to customers and counterparties.

The Liquidity Management Policy adopted by the bank and the Group is to ensure that all outflows expected in the short term are fully covered by anticipated inflows or liquid assets. In addition, the aim of the policy is to ensure an adequate structure of funding for the bank's and the Group's operations by maintaining medium- and long-term liquidity ratios at a pre-defined level and monitoring stress testing results. The policy covers all assets and liabilities as well as off-balance sheet items impacting the liquidity level.

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 stress test results are regularly reviewed by senior management.

ALCO also supervises the liquidity management process in subsidiaries.

Liquidity management is the role of the Financial Management Division, which is responsible for the development and maintenance of appropriate strategies. The Risk Management Division is responsible for the independent measurement and reporting of liquidity risk and defining liquidity risk management policies. The Financial Risk Department in the Risk Management Division is also responsible for the regular performance of stress tests with respect to liquidity, and for the review of the Contingency Liquidity Plan approved by the Management Board and the Supervisory Board.

Identification and Assessment of Liquidity Risk

Liquidity risk is identified and measured daily, mainly using modified liquidity gap reports, intra-day liquidity reports and regulatory reports. These 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 CRD IV/CRR (LCR and NSFR) and in KNF Resolution no. 386/2008. As at 31 December 2016, LCR ratio was at 144.6% and NSFR ratio was at 115.0%.

Economic Liquidity Gap Analysis as at 31.12.2016 and comparable period

									in PLN k
31.12.2016	A'vista	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years	
Economic liquidity gap	12 681 182	6 267 741	(8 945 412)	(4 763 837)	931 488	3 890 399	3 959 170	(14 020 732)	
Cumulative economic liquidity gap	12 681 182	18 948 923	10 003 511	5 239 674	6 171 162	10 061 561	14 020 731	(1)	
31.12.2015	A'vista	up to 1 month	from 1 to 3 months	from 3 to 6 months	from 6 to 12 months	from 1 to 2 years	from 2 to 5 years	over 5 years	
Economic liquidity gap	15 325 329	(1 489 742)	(9 045 449)	(4 486 001)	2 506 687	4 401 822	4 172 754	(11 385 400)	
Cumulative economic liquidity gap	15 325 329	13 835 587	4 790 138	304 137	2 810 824	7 212 646	11 385 400	-	

Liquidity gap analysis as at 31.12.2016 and 31.12.2015 (excluding SCB Group)

in PLN k

Liquidity Risk	31.12.2016		31.12.2015	
	GAP	Cumulative GAP	GAP	Cumulative GAP
<1T	27 238,6	27 238,6	21 340,3	21 340,3
<1M	(8 739,9)	18 498,7	(7 907,2)	13 433,1
>1M	(13 811,1)	4 687,6	(8 374,4)	5 058,7

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

In 2016, the bank's funds significantly exceeded the level required to cover the expected outflows. The bank also met the regulatory quantitative requirements for liquidity. Key regulatory indicators (i.e. the short term liquidity ratio and ratio of coverage of non-liquid assets and assets of limited liquidity with own funds and core external funds and relationship between liquid assets and net inflows/LCR) comfortably exceeded the required levels.

4. Operational Risk Management

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

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

Employees across the bank and BZ WBK Group are involved in operational risk management – this process covers a number of interrelated concepts. Operational risk is inherent in all bank's and Group's business processes, including outsourced functions or services delivered jointly with third parties.

The bank and the Group apply the Operational Risk Management Strategy. In addition, detailed procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated.

The Operational Risk Management Committee (ORMCO) established by the Management Board is responsible for setting operational risk management standards for BZ WBK Group. ORMCO is the main forum for discussions on operational risk. It sets the strategic direction for operational risk management, determines and monitors objectives for managing operational risk, including business continuity, information security, outsourcing/insourcing and money laundering risk in all business areas of Bank Zachodni WBK. As part of ORMCO, there are dedicated forums which deal with specific operational risk aspects: the Anti-Money Laundering Forum and the Insurance Forum. The results of ORMCO's work are reported to the Risk Control Committee.

In view of the growing cyber threat, the Cyber Risk Committee was set up as a forum for direct cooperation and communication among all organisational units involved in the processes related to cyber security in a broad sense. The Committee also supervises the adherence to the cyber security strategy in Bank Zachodni WBK.

Operational risk management tools

Tools used by the bank and the Group to manage operational risk	
Identification and Assessment of Operational Risk	<ul style="list-style-type: none"> In the self-assessment process, the bank and BZ WBK Group identify the risks they may be exposed to when delivering their functions, assess inherent and residual risks in terms of their likelihood and impact, and evaluate the efficiency of existing controls. The process of identification and assessment of operational risk is additionally supported by such tools as: scenario analyses, business impact analyses and an analysis of risk in new initiatives.
Reporting on Operational Incidents and Lessons Learned	<ul style="list-style-type: none"> Each organisational unit is required to report operational incidents identified in its area of responsibility. Material operational events are escalated to senior management using a fast-track procedure. The bank and Group run a database of operational events identified across the organisation with data utilised to analyse the root cause and consequences of incidents, capture lessons learned and take preventive and corrective measures. The Group also makes inputs to the external database of operational events run by the Polish Banks Association and uses information about external events from a number of sources. The analysis of external events allows for benchmarking and lesson learning from events identified outside the Group.
Analysis of Risk Indicators	<ul style="list-style-type: none"> Bank Zachodni WBK Group monitors financial, operational and technological risk indicators. Risk indicators provide an early warning of emerging threats and operational losses and support monitoring of risk in the bank's and the Group's operations.
Business Continuity Management (BCM)	<ul style="list-style-type: none"> Each organisational unit is required to develop and update its business continuity management plans to ensure that critical business processes remain uninterrupted following an unplanned disruption. BCM plans are tested on a regular basis to provide assurance to Bank Zachodni WBK Group that critical business processes may be restored at the required service level and within the agreed time frame. The bank and Group have backup locations in place where critical processes can be restored and continued should an incident occur.
Insurance	<ul style="list-style-type: none"> For the purpose of operational risk mitigation, Bank Zachodni WBK Group has an insurance scheme in place which covers various financial risks, plus motor, property and professional indemnity insurance.
Reporting to the Risk Management Committee and Supervisory Board	<ul style="list-style-type: none"> The aim of operational risk reporting is to provide up-to-date adequate information to the management team. Operational risk reports record details on operational events and losses, information security incidents, risk indicators and defined mitigants. The Group's Information Security Management System has a certificate of compliance with the ISO 27001:2013 standard.

5. Legal and Compliance Risk Management

Bank Zachodni WBK and BZ WBK Group companies provide a wide array of specialist financial services and are exposed to legal and compliance risks mainly in the following areas:

- generally applicable laws regarding labour law, taxes, accounting and personal data protection;
- domestic and international (mainly: EU) trade regulations in the area of reporting, prudential standards, prevention of money laundering and counter-terrorism financing etc.;
- domestic and international regulations concerning the type of products offered and service delivery methods applied by the bank and BZ WBK Group (in particular: the legislation on consumer and competition protection, capital markets, financial markets etc.);
- codes of good practice and other regulations implemented by the Group, including in relation to the membership of domestic or international trade associations.

One of the main objectives of compliance risk management in the Group is to ensure that general laws and domestic and international reporting regulations are adhered to in order to strengthen the perception of Bank Zachodni WBK Group as a dependable organisation.

At the bank and BZ WBK Group, legal and compliance risks are managed as part of a number of processes, which are coordinated and executed by relevant organisational units:

- Responsibilities of the Legal and Compliance Division relate to “conduct of business” compliance obligations, in particular with regard to: the protection of consumer rights, the implementation and sale of new products, the prevention of money laundering, ethical issues, the protection of sensitive information, the protection of personal data and conflict management.
- The identification, interpretation and communication roles relating to other legal and regulatory obligations for the bank as a legal entity (non-conduct of business) have been assigned to functions with specialist knowledge in those areas:
 - ✓ compliance with employment law – Business Partnership Division;
 - ✓ compliance with taxation law and reporting requirements – Financial Accounting and Control Division;
 - ✓ compliance with prudential regulation – Risk Management Division.

The bank’s Management Board adopted a policy statement on compliance with its legal and regulatory obligations, which was approved by the Supervisory Board. The policy provides the Compliance Area operating within the Legal and Compliance Division with the relevant mandate to support managers in the effective management of compliance and reputational risks. The Compliance Area escalates all issues to the Risk Management Committee and Audit and Compliance Committee of the Supervisory Board which ensure the fulfilment of regulatory obligations and approve internal control principles and the compliance policy framework. The Audit and Compliance Committee regularly reviews key compliance issues identified by the Compliance Area and the Anti-Money Laundering Department.

The Compliance Area and the Anti-Money Laundering Department are responsible for the prevention of legal and compliance risk, the maintenance of appropriate relationships with business units and market regulators, providing support to the bank’s management and BZ WBK Group companies in the strategic decision making process regarding compliance, and coordination (under applicable laws) of the implementation of uniform standards regarding compliance risk management and anti-money laundering in Group companies. These tasks are delivered through:

- independent identification, monitoring and assessment of compliance risk that the bank and the Group are exposed to (with particular focus on new products and services, prevention of money laundering and terrorist financing, protection of confidential information, conflicts of interest or private account share dealing by employees);
- preventing the use of the financial system for money laundering and terrorist financing;
- providing advice and reporting to the Risk Management Committee, the bank’s Management Board and Audit and Compliance Committee on the effectiveness of processes established to ensure compliance with laws and regulations;
- communication of policies and procedures, providing the management and staff with guidance on compliance risk management;
- coordination of contacts with market regulators (KNF, UOKiK, GIIF, GIODO);
- coordination of the approval of new products;
- coordination and support for compliance processes regarding a model for the sale of investment products and the MiFID Directive;
- strengthening the principles of ethical business conduct and building the corporate governance culture in the organisation.

Aside from the above-mentioned operational units, BZ WBK Group also has specialised committees supporting management of compliance risk in specific areas: the Compliance Committee, the Local Marketing and Monitoring Committee, the Local Volcker Steering Committee, the Anti-Money Laundering and Counter-Terrorism Financing Committee and the Business Ethics Commission.

6. Reputational Risk Management

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

Potential sources of this risk are internal operational incidents and external events, such as adverse publicity, dissemination of negative feedback from customers, e.g. via the Internet, social media or other mass media, as well as customer complaints and claims. They may refer directly to BZ WBK Group and its products as well as the bank’s shareholders and the entire banking and financial sectors (both domestic and international).

Other sources of reputational risk are customer complaints and claims related to the process of offering banking products, including complaints about the lack of sufficient (i.e. complete, true, reliable and non-misleading) information about products and related risks, the complexity of products, improper sales practices or loss of capital.

The owners of reputational risk are the Corporate Communication and Marketing Area and the Compliance Area.

The objective of the reputational risk management process is to protect the image of the bank and BZ WBK Group with a view to limiting and eliminating negative events which affect the image and financial results of Bank Zachodni WBK Group.

The key risk mitigation measures include:

- The information policy of Bank Zachodni WBK;
- The monitoring of local, nationwide and certain international mass media sources;
- Daily monitoring of social media sources (in particular: Facebook, Twitter) in the context of references to BZ WBK;
- Analysis of image-sensitive information by the Press Office;
- Response to information which poses a threat to public perception of the bank's image;
- Keeping the representatives of national and local media up to date about new products and changes to regulations regarding existing products;
- Customer satisfaction index;
- Preparation and control by relevant Bank Zachodni WBK units of all important communiqués and reports for shareholders, the Polish Financial Supervision Authority (KNF) and the Warsaw Stock Exchange, and ensuring the timely publication of such communiqués and reports;
- Evaluation of new products or their modifications, procedures, communication, commercial materials, initiatives addressed to customers (promotions, contests) and training materials for sales staff in respect of their compliance with laws and regulatory guidelines;
- Participation in the process of handling customer complaints, especially those addressed to the regulators;
- Supervision of after-sales control of investment products;
- Mystery shopping surveys for investment products;
- Regular monitoring of reputational risk associated with products offered by Bank Zachodni WBK Group through the analysis of customer complaints, sales volumes, the number of customers and rate of return.

7. Capital Management

It is the policy of Bank Zachodni WBK Group to maintain a level of capital adequate to the type and scale of operations and the level of risk. The level of own funds required to ensure the safe operation of the bank and capital requirements estimated for any unexpected loss is determined in accordance with the CRD IV / CRR package implemented on 1 January 2014 by the European Parliament and EBA, plus the KNF recommendation regarding the use of national options.

The Management Board is accountable for capital management, calculation and maintenance processes, including the assessment of capital adequacy in different economic conditions and the evaluation of stress test results and their impact on internal capital and capital adequacy. Responsibility for general oversight and estimation of internal capital rests with the Supervisory Board.

The Management Board has delegated ongoing capital management to the Capital Committee which conducts a regular assessment of the capital adequacy of the bank and the Group, including in extreme conditions, the monitoring of the actual and required capital levels and the initiation of transactions affecting these levels (e.g. by recommending the value of dividends to be paid). The Capital Committee is the first body that defines capital policy, principles of capital management and principles of capital adequacy assessment. However, ultimate decisions regarding any increase or decrease in capital are taken by relevant authorities within the bank and its subsidiaries in accordance with the applicable law and the bank's Statutes.

Pursuant to the bank's information strategy, details about the level of own funds and capital requirements are presented in the annual report entitled "Information on capital adequacy of the bank and BZ WBK Group as at 31 December 2016".

As at 31 December 2016, Bank Zachodni WBK Group met all regulatory requirements regarding capital management.

Capital Policy

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

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

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

On 4 October 2016, the KNF identified Bank Zachodni WBK as another systemically important institution and imposed an additional capital buffer of 0.5 p.p.

As at 31 December 2016, the minimum capital ratios of the bank and BZ WBK Group satisfying the regulatory recommendations and additional own fund requirements under Pillar 2 were as follows:

- a Tier 1 capital ratio of 11.22%;
- a total capital ratio of Bank Zachodni WBK of 14.37%;
- a total capital ratio of Bank Zachodni WBK Group of 14.38%.

The above-mentioned capital ratios take into account the KNF recommendation on an additional capital requirement related to home mortgages and an additional capital buffer in connection with the identification of Bank Zachodni WBK as other systemically important institution, plus a conservation buffer.

Pursuant to the KNF decision of 15 October 2016, Bank Zachodni WBK Group maintains own funds to cover an additional capital requirement for risk attached to foreign currency home mortgages at the level of 0.63 p.p. above the total capital ratio. At the level of the bank the buffer is set at 0.62 p.p. and should be composed of at least 75% of Tier 1 capital (which in case of Bank Zachodni WBK corresponds to a capital requirement of 0.47 p.p. above Tier 1 capital ratio) and at least 56% of the Common Equity Tier 1 capital (which in the case of Bank Zachodni WBK corresponds to the capital requirement of 0.35 p.p. above Common Equity Tier 1 capital).

Regulatory Capital

The capital requirement for Bank Zachodni WBK Group is determined in accordance with Part 3 of Regulation (EU) no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) no. 648/2012 (CRR), which formed a legal basis as at 31 December 2016.

Bank Zachodni WBK uses the standardised approach to calculate the capital requirement for credit risk, market risk and operational risk. According to this approach, the total capital requirement for credit risk is calculated as the sum of risk-weighted exposures multiplied by 8%. The exposure value for these assets is equal to the balance sheet total, while the value of off-balance sheet liabilities corresponds to their balance sheet equivalent. Risk-weighted exposures are calculated by means of applying risk weights to all exposures in accordance with the CRR.

Calculation of capital ratio for Bank Zachodni WBK Group and Bank Zachodni WBK as at 31.12.2016 and 31.12.2015

BZ WBK Group (including SCB)		in PLN m	
		31.12.2016	31.12.2015
I	Total capital requirement (Ia+Ib+Ic+Id), of which:	8 816,6	8 745,2
Ia	- due to credit risk	7 713,6	7 508,1
Ib	- due to market risk	93,3	152,9
Ic	- due to settlement / counterparty risk	42,7	120,3
Id	- due to operational risk	967,0	964,0
II	Total own funds ¹⁾	19 179,7	18 902,6
III	Reductions	2 594,9	2 922,2
IV	Own funds after reductions (II-III)	16 584,8	15 980,4
V	Capital Ratio [IV/(I*12.5)]	15,05%	14,62%
VI	Tier 1 Ratio	14,56%	14,10%

1) On 30 September 2016, the bank took part of the current year profit of PLN 688,513k for the period between 1 January 2016 and 30 June 2016 to own funds as permitted by KNF.

Bank Zachodni WBK		in PLN m	
		31.12.2016	31.12.2015
I	Total Capital requirement (Ia+Ib+Ic+Id), of which:	7 068,6	7 108,8
Ia	- due to credit risk & counterparty credit risk	6 183,4	6 086,3
Ib	- due to market risk	103,6	162,2
Ic	- due to credit valuation adjustment risk	41,2	118,9
Id	- due to operational risk	740,4	741,3
II	Total own funds ¹⁾	18 078,7	17 869,1
III	Reductions	3 481,8	3 826,4
IV	Own funds after reductions (II-III)	14 596,9	14 042,7
V	CAD [IV/(I*12.5)]	16,52%	15,80%
VI	Tier I ratio	16,08%	15,40%

1) On 30 September 2016, the bank took part of the current year profit of PLN 688,513k for the period between 1 January 2016 and 30 June 2016 to own funds as permitted by KNF.

Calculation of capital ratio for Santander Consumer Bank as at 31.12.2016 and 31.12.2015

Santander Consumer Bank		31.12.2016	31.12.2015
I	Capital Ratio	16,22%	16,31%
II	Tier 1 Ratio	16,22%	16,16%

Internal Capital

Notwithstanding the regulatory methods for measuring capital requirements, Bank Zachodni WBK Group carries out an independent assessment of current and future capital adequacy as part of the internal capital adequacy process (ICAAP). The purpose of the process is to ensure that the level and nature of own funds guarantee the solvency and stability of bank's and Group's operations.

The capital adequacy assessment is one of the fundamental elements of the Group's strategy, the process of defining risk appetite and the process of planning.

The Group uses assessment models based on the statistical loss estimation for measurable risks, such as credit risk, market risk and operational risk plus its own assessment of capital requirements for other material risks not covered by the model, e.g. reputational risk and compliance risk.

The internal capital is estimated on the basis of risk parameters including the probability of default of BZ WBK Group customers (PD - probability of default) and loss given default (LGD loss given default).

Bank Zachodni WBK Group performs an internal assessment of capital requirements, including under stressed conditions, taking into account different macroeconomic scenarios.

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

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

Subordinated Liabilities

In 2016, the bank amended the agreement under which subordinated registered bonds were issued on 5 August 2010 and taken up by the European Bank for Reconstruction and Development. The amendments included a maturity extension to 5 August 2025, among other things. Pursuant to the KNF decision of 18 May 2016, the foregoing subordinated bonds of EUR 100m were allocated to Tier 2 capital.

Furthermore, on 2 December 2016, the bank issued bonds worth EUR 120m as part of its strategy aimed at increasing Tier 2 capital. On 5 December 2016, the bank requested consent from the KNF to allocate the above bonds to Tier 2 capital.

XI. Statement on Corporate Governance in 2016

1. Legal Basis

The corporate governance framework applicable in Bank Zachodni WBK is based on existing laws (in particular the Commercial Companies Code, Banking Law and capital market regulations) as well as recommendations included in the following documents: the “Code of Best Practice for WSE Listed Companies” and “Rules of Corporate Governance for Supervised Institutions”.

This Statement on Corporate Governance in 2016 was prepared in accordance with Paragraph 91(5)(4) of the Finance Minister’s Ordinance 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.

The information included in this chapter fulfils the requirements of the corporate governance report set out in Paragraph 29(5) of the Terms of Reference of Warsaw Stock Exchange (WSE) and Paragraph 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, incorporation of this Statement on Corporate Governance in 2016 into the annual report ensures fulfilment of the requirement to provide the WSE with a corporate governance report.

2. Code of Best Practice

Code of Best Practice for WSE Listed Companies

In 2016, Bank Zachodni WBK was subject to the rules of corporate governance and conduct applicable to the relationship between listed companies and their market environment as conveyed in the 2016 Code of Best Practice for WSE Listed Companies, and appended to WSE Supervisory Board Resolution no. 26/1413/2015 of 13 October 2015. This version of the Code became effective on 1 January 2016 with approval for use by Bank Zachodni WBK by virtue of the decision of the Management Board (resolution no. 160/2015 of 2 December 2015) accepted by the Supervisory Board (resolution no. 61/2015 of 16 December 2015). The full text is available on WSE website (www.gpw.pl), “Best Practice of Companies” tab, and the bank’s website (www.bzwbk.pl), “Investor Relations” tab.

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

Corporate Governance Rules for Supervised Institutions

Bank Zachodni WBK also abides by Rules of Corporate Governance for Supervised Institutions as published by the KNF on 22 July 2014. The document describes internal and external relations of supervised institutions, including relationship with shareholders and customers, their organisation, corporate governance framework and key internal systems and functions, as well as statutory bodies and the rules of their cooperation. The aforementioned Rules are available on the KNF website (www.knf.gov.pl) via “About the market” tab, and at the bank’s website (www.bzwbk.pl) via the “Investor Relations” tab.

Rules of Corporate Governance for Supervised Institutions were adopted by Bank Zachodni WBK as of 1 January 2015 by virtue of Management Board Resolution no. 116/2014 of 9 October 2014 and Supervisory Board Resolution no. 58/2014 of 17 December 2014. As the above guidelines are also applicable to shareholders, they were submitted to and approved by the General Meeting (GM) of Bank Zachodni WBK on 23 April 2015.

3. Management Board’s Statement on Corporate Governance

In 2016, Bank Zachodni WBK duly complied with all corporate governance rules set out in the existing version of the Code of Best Practice for WSE Listed Companies. In this period, no corporate governance breaches were reported. Equity Securities of the Issuer

4. Issuer's Securities

Structure of Share Capital

Ownership structure of share capital of Bank Zachodni WBK as at 31.12.2016 and 31.12.2015

Shareholder	Number of Shares Held		% in the Share Capital & Voting Power at AGM	
	31.12.2016	31.12.2015	31.12.2016	31.12.2015
Banco Santander S.A.	68 880 774	68 880 774	69,41%	69,41%
Nationale Nederlanden OFE	5 110 586	5 110 586	5,15%	5,15%
Others	25 243 174	25 243 174	25,44%	25,44%
Total	99 234 534	99 234 534	100,0%	100,0%

According to information held by BZ WBK Management Board as at 31 December 2016, the shareholders holding at least 5% of the total number of votes at the BZ WBK General Meeting of Shareholders were Banco Santander and Nationale Nederlanden OFE with shareholdings of 69.41% and 5.15%, respectively.

Compared with 31 December 2015, there were no changes to the amount and structure of the share capital.

Structure of share capital of Bank Zachodni WBK as at 31.12.2016 by share series

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)
from 4.01.2013	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
	K	bearer	none	none	305 543	3 055 430
	L	bearer	none	none	5 383 902	53 839 020
		Total				99 234 534

Rights and Restrictions Attached to the Issuer's Securities

The shares of Bank Zachodni WBK are ordinary bearer shares. Each share carries one vote at a General Meeting of Shareholders. The nominal value is PLN 10 per share. All the shares issued have been fully paid up.

The bank did not issue any series of shares that would give their holders any special control rights towards the issuer or would limit their voting power or other rights. Neither are there any 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 capital and voting power at a General Meeting of Shareholders of Bank Zachodni WBK.

5. Governing Bodies

General Meetings of Shareholders

Annual General Meeting of 2016

The Annual General Meeting of Shareholders of Bank Zachodni WBK held on 20 April 2016 (AGM) approved the following reports:

- unconsolidated and consolidated financial statements of the bank and BZ WBK Group for 2015;
- BZ WBK Supervisory Board's report on its activities in 2015 along with the assessment of the financial statements and reports of the bank and BZ WBK Group for 2015, and the remuneration policy.

The AGM granted discharge to members of the Management and Supervisory Boards for the performance of their duties in the previous year and agreed on the distribution of the net profit for 2015 and dividend payment for 2014 and 2015 (see section 2 of Chapter IX "Investor Relations"). The AGM also adopted the Policy on selection and suitability assessment of Supervisory Board members of Bank Zachodni WBK and set the maximum ratio between fixed and variable components of remuneration for persons holding managerial positions in BZ WBK Group. The 2016 Code of Best Practice for WSE Listed Companies issued by WSE was adopted and changes to the bank's statutes were approved.

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 the BZ WBK GM. The Statutes as well as the Terms of Reference are available on the bank's website.

The GM agrees 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 a secret ballot – allows shareholders to remain anonymous. Each share carries one vote.

Candidates for the Supervisory Board attain votes on an individual basis, in alphabetical order.

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

Shareholders' Rights

The rights of 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, shareholders have the following rights with respect to the GM:

- Each shareholder may request that a list of shareholders be e-mailed free-of-charge to a valid 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 own expense.
- Shareholders may:
 - ✓ demand copies of requests included in the GM agenda one week before the GM;
 - ✓ have access to the GM's minutes 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 regarding issues on the GM agenda, as provided for by the Commercial Companies Code;
 - ✓ exercise their voting rights (each share equates to 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 through the method prescribed by the applicable law.

Supervisory Board

Below is the composition of the Bank Zachodni WBK Supervisory Board as at 31 December 2016 vs. 31 December 2015.

Role in the Supervisory Board	Ref.	Composition as at 31.12.2016	Ref.	Composition as at 31.12.2015
Chairman of the Supervisory Board:	1.	Gerry Byrne	1.	Gerry Byrne
	2.	Danuta Dąbrowska	2.	Danuta Dąbrowska
Members of the Supervisory Board:	3.	David R. Hexter	3.	David R. Hexter
	4.	José Garcia Cantera	4.	José Garcia Cantera
	5.	Witold Jurcewicz	5.	Witold Jurcewicz
	6.	José Luis de Mora	6.	José Luis de Mora
	7.	John Power	7.	John Power
	8.	Jerzy Surma	8.	Jerzy Surma
	9.	Marynika Woroszyńska-Sapieha	9.	Marynika Woroszyńska-Sapieha
	10.	José Manuel Varela	10.	José Manuel Varela

There were no changes to the composition of the bank's Supervisory Board in the 12-month period ending 31 December 2016.

As at 31 December 2016, the following members of the Supervisory Board held independent status: Ms. Danuta Dąbrowska, Mr. David R. Hexter, Mr. Witold Jurcewicz, Mr. Jerzy Surma and Ms. Marynika Woroszyńska-Sapieha.

In the period from 1 January to 31 December 2016, eight Supervisory Board meetings were held at which 69 resolutions were passed.

Detailed information about the qualification, academic background and professional experience of the bank's Supervisory Board members can be found at the bank's website: <http://www.bzwbk.pl/relacje-inwestorskie/spolka/rada-nadzorcza/rada-nadzorcza.html>.

Role of the Supervisory Board

The Supervisory Board of Bank Zachodni WBK operates strictly 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 on the bank's website.

The Supervisory Board consists of at least five members appointed for a joint, three-year term of office. The Supervisory Board members, including the Chairman of the Supervisory Board, are appointed and removed by a General Meeting of Shareholders. The Management Board notifies the Polish Financial Supervisory Authority (KNF) about Supervisory Board membership.

Pursuant to the bank's Statutes, at least half the members of the Supervisory Board should be of independent status.

The Supervisory Board exercises ongoing supervision over all aspects of the bank's activities. The Supervisory Board takes decisions in the form of resolutions which are adopted by an absolute majority of votes in open voting. Resolutions are voted upon in a secret ballot in cases stipulated by law, in personal matters or at the request of any Supervisory Board member accepted by the Supervisory Board in a secret vote. The Supervisory Board's meetings are held as and when required and at least three times in any financial year. The Supervisory Board's Members convene 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. These committees are designed to facilitate the current activities of the Supervisory Board by preparing draft Supervisory Board recommendations and decisions with regard to their own motions or the motions presented by the Management Board.

The following Supervisory Board committees operate at Bank Zachodni WBK: Audit and Compliance Committee, Risk Committee and Remuneration and Nominations Committee. The responsibilities of the Committees are set out in their respective Terms of Reference introduced by virtue of Supervisory Board resolutions.

		Supervisory Board Committees as at 31.12.2016			
Role in the Supervisory Board	Ref.	Composition as at 31.12.2016	Audit and Compliance Committee	Risk Committee	Nominations & Remuneration Committee
Chairman of the Supervisory Board:	1.	Gerry Byrne			●
	2.	Danuta Dąbrowska	●		●
	3.	David R. Hexter	●	●	
	4.	José Garcia Cantera			
	5.	Witold Jurcewicz		●	●
	6.	José Luis de Mora			●
	7.	John Power	●	●	
	8.	Jerzy Surma	●		●
	9.	Marynika Woroszyńska-Sapieha		●	
	10.	José Manuel Varela		●	

● Chairman
● Members

The Audit and Compliance Committee evaluates the adequacy, scope and effectiveness of the accounting and internal control systems. Together with the Management Board and internal auditors, it reviews the Group's internal financial controls, and the internal control and (financial and non-financial) risk management systems. The Committee monitors the bank's financial reporting process, ensuring the adequate quality of financial reports and compliance of disclosure practices with the law, KNF requirements and accounting principles. Furthermore, the Committee reviews the work performed by the statutory auditor, ensuring that the entity is independent and effective. Also, it reviews the actions undertaken by the Management Board in terms of their compliance with legal and regulatory requirements and the bank's by-laws. The majority of the Audit and Compliance Committee is comprised of independent Supervisory Board members.

The Risk Committee is responsible for providing a comprehensive opinion about the bank's current and prospective risk-bearing capacity. It examines and reviews the Management Board's risk management strategy, supports the Supervisory Board in supervising the process of implementing the risk management strategy by senior management and checks compliance of the bank's risk policy with its strategy and financial plan. The Risk Committee also checks if the bank's business model and risk strategy are duly reflected in the prices of liabilities and assets offered to customers. If the result is negative, it makes a proposal to the Management Board to ensure adequacy of asset and liability prices vis-à-vis different risk types.

The Audit and Compliance Committee and Risk Committee convene at least four times per year at dates corresponding to the reporting and audit cycle. Additional meetings are held if the Chairman or members consider it necessary.

The Remuneration and Nominations Committee presents the Supervisory Board with recommendations with regard to the composition and succession plans for the Management Board. It monitors the remuneration market and recommends fair remuneration policies and practices in order that it may incentivise senior management to deliver better results. It defines the remuneration policy and the individual pay packages for Management Board members and performs annual reviews of the remuneration payable to Management and Supervisory Board members. The Committee also has oversight of the bonus scheme for Management Board members, and carries out analyses of incentive solutions and other remuneration schemes proposed for implementation at the bank and its subsidiaries.

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

The Annual Reports on activities of the Supervisory Board and its Committees, the Supervisory Board's reports on examination of the bank's and the Group's Annual Report along with an assessment of the Group's operations, including internal control and the risk management system, are included in materials submitted to shareholders before the General Meeting of Bank Zachodni WBK and published in current reports containing the resolutions passed by this body.

Management Board

The table below presents the composition of the Bank Zachodni WBK Management Board as at 31 December 2016 and the roles and responsibilities of its members.

Role in the Management Board	Ref.	Composition as at 31.12.2016	Reporting Areas as at 31.12.2016	Ref.	Composition as at 31.12.2015	Reporting Areas as at 31.12.2015
President	1.	Michał Gajewski ¹⁾	Units reporting directly to the President: Internal Audit Area, Corporate Communications & Marketing Area, Business Model Transformation Area, Board Office, Strategic Transformation Office	1.	Gerry Byrne ¹⁾	Units reporting directly to the President: Internal Audit Area, Corporate Communications & Marketing Area, Central Operations Area, Board Office
Board Members:	2.	Andrzej Burliga	Risk Management Division	2.	Andrzej Burliga	Risk Management Division
	3.	Eamonn Crowley	Financial Management Division	3.	Eamonn Crowley	Financial Management Division
	4.	acting Michał Gajewski	Business Partnership Division	4.	Beata Daszyńska-Muzyczka	Business Partnership Division
	5.	Michael McCarthy	Business & Corporate Banking Division	5.	Michael McCarthy	Business & Corporate Banking Division
	6.	Carlos Polaino Izquierdo	Financial Accounting & Control Division	6.	Carlos Polaino Izquierdo	Financial Accounting & Control Division
	7.	Juan de Porras Aguirre	Global Corporate Banking	7.	Juan de Porras Aguirre	Global Corporate Banking
	8.	Marcin Prell	Legal & Compliance Division	8.	Marcin Prell	Legal & Compliance Division
	9.	Miroslaw Skiba	Retail Banking Division	9.	Miroslaw Skiba	Retail Banking Division
	10.	Artur Chodacki	Small & Medium Enterprise Banking Division	10.	Feliks Szyszkowski	Small & Medium Enterprise Banking Division
	11.	Feliks Szyszkowski	Digital Transformation Division	11.	Paweł Wieczorek	Technology Division

1) Following resignation of Mateusz Morawiecki, the Chairman of the Supervisory Board performed duties of the President of the Management Board until the appointment of Mr. Michał Gajewski as the new President as of 29.11.2016.

In 2016, the membership of the Management Board changed as follows:

- Mr. Paweł Wieczorek resigned as the Management Board member in charge of the Technology Division as of 20 June 2016.
- On 22 June 2016, Mr. Artur Chodacki was appointed the Management Board member in charge of the SME Banking Division, replacing Mr. Feliks Szyszkowski, who was nominated as the Chief Digital Officer in charge of the Digital Transformation Division set up in place of the former Technology Division.
- Ms. Beata Daszyńska-Muzyczka resigned as the Management Board member in charge of the Business Partnership Division, effective from 31 October 2016.
- Mr. Michał Gajewski, who was appointed the President of the bank's Management Board on 16 May 2016, took up the position on 29 November 2016 following the expiry of his previous employment commitments. At the same time, the temporary mandate of Mr. Gerry Byrne as acting CEO expired.
- On 14 December 2016, Ms. Dorota Strojowska was appointed the Management Board member in charge of the Business Partnership Division. She will take office after the expiry of her current employment commitments (1 April 2017 at the latest). Until that time, the President of the Management Board will be in charge of the Business Partnership Division.

Detailed information about the qualifications, academic background and professional experience of the bank's Management Board members can be found at the bank's website: <http://www.bzwbk.pl/relacje-inwestorskie/spolka/zaradz/zaradz-banku-bz-wbksa.html>.

Appointment and Removal of Executives

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

The bank's Management Board consists of at least three persons (including the Management Board President) appointed by the Supervisory Board for a joint three-year term of office. At least half of the Management Board's members, including the President, are required to have completed 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 a Polish banking institution. Two Management Board members, including the Management Board President, are appointed with the approval of the Polish Financial Supervision Authority (KNF). Management Board members may be removed by the Supervisory Board or General Meeting at any time.

Powers of Executives

The Bank Zachodni WBK Management Board manages and represents the bank. The Management Board possesses comprehensive powers that are not otherwise governed or stipulated by law or Statutes within the remit of other governing bodies of the bank.

The Management Board takes decisions to raise obligations or transfer assets where the 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 refer such decisions to other committees or persons in the bank. The Management Board's 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 proposed 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 or 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 functioning 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 Counter-Terrorism Financing Committee, Urban Regeneration Fund Investment Committee, Procurement Investment Forum, Procurement Investment Committee, Compliance Committee, Local Marketing and Monitoring Committee, Monitoring Committee and Public Policy Committee.

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

Role of the Management Board

The Management Board's operations are primarily governed by 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 is responsible for running the bank's affairs and representing 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 (proxy), or two commercial representatives (proxies) acting jointly. Representatives may be appointed and authorized to act individually or jointly with any of the persons indicated in b) or with another appointed and authorized representative.

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

Remuneration of Management and Supervisory Boards

Remuneration of Supervisory Board Members

Pursuant to BZ WBK Statutes and Remuneration Policy for Supervisory Board members, the remuneration of the Supervisory Board is set by the General Meeting of Shareholders of Bank Zachodni WBK. As at 31 December 2016, the remuneration for BZ WBK Supervisory Board members was set by virtue of Resolution no. 28 of the General Meeting of Shareholders of Bank Zachodni WBK of 23 April 2015.

The table below presents the remuneration paid to BZ WBK Supervisory Board members in 2015 and 2016.

in PLN k

First and last name	Position	2016		2015	
		Period	PLN k	Period ³⁾	PLN k
Gerry Byrne ¹⁾	Chairman of the Supervisory Board	01.01.2016-31.12.2016	-	01.01.2015-31.12.2015	-
José García Cantera ¹⁾	Member of the Supervisory Board	01.01.2016-31.12.2016	-	23.04.2015-31.12.2015	-
José Antonio Álvarez ¹⁾	Member of the Supervisory Board			01.01.2015-05.02.2015	-
Danuta Dąbrowska	Member of the Supervisory Board	01.01.2016-31.12.2016	244	01.01.2015-31.12.2015	202
Witold Jurcewicz	Member of the Supervisory Board	01.01.2016-31.12.2016	247	01.01.2015-31.12.2015	208
José Luis de Mora ¹⁾	Member of the Supervisory Board	01.01.2016-31.12.2016	-	01.01.2015-31.12.2015	-
David Hexter	Member of the Supervisory Board	01.01.2016-31.12.2016	275	01.01.2015-31.12.2015	251
John Power ²⁾	Member of the Supervisory Board	01.01.2016-31.12.2016	303	01.01.2015-31.12.2015	298
Jerzy Surma	Member of the Supervisory Board	01.01.2016-31.12.2016	256	01.01.2015-31.12.2015	216
Marynika Worozylska-Sapieha	Member of the Supervisory Board	01.01.2016-31.12.2016	194	01.01.2015-31.12.2015	172
José Manuel Varela	Member of the Supervisory Board	01.01.2016-31.12.2016	193	01.01.2015-31.12.2015	188

1) Mr. Gerry Byrne, Mr. José García Cantera, Mr. José Antonio Álvarez and Mr. José Luis de Mora did not receive remuneration for their membership of the Supervisory Board.

2) In 2015, Mr. John Power received additional remuneration of PLN 1,050.3k for the supervision of the merger between BZ WBK and Kredyt Bank on behalf of the Supervisory Board.

3) In 2015, the composition of the Supervisory Board changed as follows: Mr. José Antonio Álvarez resigned as of 5 February 2015 due to his nomination as the CEO of Banco Santander, and Mr. José García Cantera was appointed a new member under the resolution of the General Meeting of Shareholders of 23 April 2015.

Except for Mr. John Power, no other Supervisory Board member sat on the boards of the subsidiaries or associates of Bank Zachodni WBK. In 2016, the remuneration for Mr. John Power in respect of his membership in the Supervisory Boards of the subsidiaries totalled PLN 35k (PLN 31k in 2015).

Remuneration of Management Board members

Agreements between Bank Zachodni WBK and its Executives

The Management Board's members signed employment contracts with Bank Zachodni WBK for the current term of office. The terms and conditions of employment comply with general laws and internal regulations, including the Remuneration Policy for BZ WBK Management Board members and the Policy on variable components of remuneration paid to individuals holding managerial positions in Bank Zachodni WBK Group.

BZ WBK Management Board members also signed agreements prohibiting competitive activity after termination of their employment with Bank Zachodni WBK.

A Management Board member who is not appointed for a new term of office or is removed from the Board is entitled to one-off severance pay. It does not apply to Management Board members who accept a new role in the bank, are removed due to gross negligence, resign or are not granted discharge.

Fixed Remuneration

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 Committee establishes a remuneration policy for Management Board members and individual terms and conditions as part of remuneration packages for each Management Board member.

The table below presents the total remuneration and additional benefits received by BZ WBK Management Board members in 2015 and 2016 for their membership in the Management Board.

in PLN k

First and last name	Position	2016			2015		
		Period ¹⁾	Remuneration (PLN k)	Additional benefits ³⁾ (PLN k)	Period ²⁾	Remuneration (PLN k)	Additional benefits ³⁾ (PLN k)
Michał Gajewski	President of the Management Board	29.11.2016-31.12.2016	176	6			
Mateusz Morawiecki	President of the Management Board				01.01.2015-09.11.2015	1 618	95
Andrzej Burliga	Member of the Management Board	01.01.2016-31.12.2016	1 012	95	01.01.2015-31.12.2015	1 013	110
Artur Chodacki	Member of the Management Board	22.06.2016-31.12.2016	316	29		0	0
Eamonn Crowley	Member of the Management Board	01.01.2016-31.12.2016	1 004	9	01.01.2015-31.12.2015	989	39
Beata Daszyńska-Muzyczka	Member of the Management Board	01.01.2016-31.10.2016	637	126	23.04.2015-31.12.2015	494	15
Michael McCarthy	Member of the Management Board	01.01.2016-31.12.2016	1 161	21	01.01.2015-31.12.2015	1 146	45
Piotr Partyga	Member of the Management Board				01.01.2015-23.04.2015	321	34
Carlos Polaino Izquierdo	Member of the Management Board	01.01.2016-31.12.2016	1 319	226	23.04.2015-31.12.2015	924	221
Juan de Porras Aguirre	Member of the Management Board	01.01.2016-31.12.2016	1 221	55	01.01.2015-31.12.2015	1 221	43
Marcin Prell	Member of the Management Board	01.01.2016-31.12.2016	912	94	01.01.2015-31.12.2015	912	96
Marco Antonio Silva Rojas	Member of the Management Board				01.01.2015-23.04.2015	545	28
Miroslaw Skiba	Member of the Management Board	01.01.2016-31.12.2016	1 032	93	01.01.2015-31.12.2015	1 033	102
Feliks Szyzkowski	Member of the Management Board	01.01.2016-31.12.2016	1 032	94	01.01.2015-31.12.2015	1 032	95
Paweł Wieczorek	Member of the Management Board	01.01.2016-20.06.2016	339	44	23.04.2015-31.12.2015	497	54

1) Changes to the composition of the Management Board in 2016 are presented in "Governing Bodies".

2) In 2015, the composition of the Management Board changed as follows: Mr. Carlos Polaino Izquierdo, Ms. Beata Daszyńska-Muzyczka and Mr. Paweł Wieczorek were appointed new members on 23 April 2016, whereas Mr. Marco Antonio Silva Rojas and Mr. Piotr Partyga ceased to be the members as their term in office expired. Furthermore, on 9 November 2015, Mr. Mateusz Morawiecki resigned as the President of the Management Board to take up a position in the public service.

3) Additional benefits received by the Management Board members include, among other things, life insurance cover without pension option and, in case of Mr. Juan de Porras Aguirre, Mr. Marco Antonio Silva Rojas and Mr. Carlos Polaino Izquierdo also medical cover, accommodation, travel expenses and school fees.

In 2016, Management Board members were paid an allowance of PLN 199k in lieu of annual leave (PLN 1,056.3k in 2015).

In both periods, no Management Board member received remuneration for their membership in the governing bodies of the subsidiaries or associates.

In 2016, Mr. Paweł Wieczorek and Mrs. Beata Daszyńska-Muzyczka received PLN 708k and PLN 384k, respectively, in relation to the termination of their employment contracts and the non-competition clause. In 2015, Mr. Piotr Partyga received PLN 1,108.3k in this respect.

Awards Paid

The Policy on variable components of remuneration paid to individuals holding managerial positions in BZ WBK Group applies to Management Board members and other persons whose professional activity has a material impact on the bank's risk profile. The Policy has been adopted by the Management Board and approved by the Supervisory Board. It is reviewed annually or more frequently, if need be (e.g. if any significant organisational changes take place).

Management Board members are paid variable remuneration once a year following the end of the settlement period and release of the bank's results. Variable remuneration is awarded in accordance with the applicable bonus regulations for the Management Board members (adopted by virtue of the Supervisory Board's resolution), which set out the principles for determination of a bonus and a bonus pool depending on the achievement of business and financial objectives. The above principles have been defined in accordance with KNF resolution no. 258/2011 re. variable components of remuneration paid to persons holding managerial positions. The total variable remuneration paid to Management Board members and key managers for a given calendar year cannot exceed 200% of the total fixed remuneration paid.

Variable remuneration is awarded in accordance with bonus regulations and paid in cash and phantom stock. The latter shall represent min. 50% of the total amount of variable remuneration. Payment of min. 40% of variable remuneration is conditional and deferred for the period of three years (13.3% per annum). It is paid in arrears in equal annual instalments depending on the individual performance in the analysed period and the value of the phantom stock.

The table below presents awards paid to the Management Board members in 2016 and 2015.

in PLN k

First and last name	Position	2016 ¹⁾		2015 ²⁾	
		Period (PLN k)	Benefits	Period (PLN k)	Benefits
Michał Gajewski	President of the Management Board	29.11.2016-31.12.2016			
Mateusz Morawiecki	President of the Management Board			01.01.2015-09.11.2015	1 358
Andrzej Burliga	Member of the Management Board	01.01.2016-31.12.2016	888	01.01.2015-31.12.2015	609
Artur Chodacki	Member of the Management Board	22.06.2016-31.12.2016			
Eamonn Crowley	Member of the Management Board	01.01.2016-31.12.2016	843	01.01.2015-31.12.2015	577
Beata Daszyńska-Muzyczka	Member of the Management Board	01.01.2016-31.10.2016	200	23.04.2015-31.12.2015	-
Michael McCarthy	Member of the Management Board	01.01.2016-31.12.2016	874	01.01.2015-31.12.2015	578
Piotr Partyga	Member of the Management Board			01.01.2015-23.04.2015	405
Carlos Polaino Izquierdo	Member of the Management Board	01.01.2016-31.12.2016	243	23.04.2015-31.12.2015	-
Juan de Porras Aguirre	Member of the Management Board	01.01.2016-31.12.2016	1 047	01.01.2015-31.12.2015	688
Marcin Prell	Member of the Management Board	01.01.2016-31.12.2016	707	01.01.2015-31.12.2015	467
Marco Antonio Silva Rojas	Member of the Management Board			01.01.2015-23.04.2015	438
Mirosław Skiba	Member of the Management Board	01.01.2016-31.12.2016	955	01.01.2015-31.12.2015	678
Feliks Szyszkowiak	Member of the Management Board	01.01.2016-31.12.2016	953	01.01.2015-31.12.2015	677
Paweł Wieczorek	Member of the Management Board	01.01.2016-20.06.2016	200	23.04.2015-31.12.2015	-

1) The awards paid in 2016 include part of the award for 2015, 2014 and 2013 which was conditional and deferred in time.

2) The awards paid in 2015 include part of the award for 2014, 2013 and 2012.

Pursuant to the remuneration system applicable at the bank, Management Board members may be conditionally entitled to a bonus for 2016 which would be paid in part in 2017 and thereafter, if specific criteria are met. As at the date of these financial statements, the Supervisory Board did not take a decision in this respect.

Performance Share Programme

As at 31 December 2016, Bank Zachodni WBK delivered a three-year 5th Incentive Scheme which had been introduced by the Extraordinary General Meeting of 30 June 2014 in relation to bank and subsidiary employees that have a key contribution to the value of the organisation. The main objective of the programme is to retain and motivate top-performing executives.

The Incentive Scheme covers no more than 500 key employees of Bank Zachodni WBK Group indicated by the Management Board and approved by the Supervisory Board, inclusive of all the Management Board members. Having executed an agreement with the bank, the participants are eligible to subscribe for and acquire a definite number of shares at the nominal value of PLN 10 each provided that certain economic criteria are met. For the award to be granted, the bank must achieve a stated net profit growth rate in 2014-2016. Persons who are covered by the EU's regulations on variable remuneration components and have a significant impact on the risk profile of the Group are additionally required to achieve a stated RoRWA ratio in the respective years of the programme. For the purpose of the scheme, the bank will issue up to 250,000 performance shares.

The three-year long 5th Incentive Scheme is monitored on a monthly basis to verify if any employees have lost their participant status. The usual reason for the loss of such status is termination of employment, either with the bank or another entity of BZ WBK Group. Furthermore, the underlying financial ratios are monitored in cooperation with the Financial Accounting and Control Division.

Shares and Conditional Rights held by Supervisory and Management Board Members

As at the release dates of the Annual Reports of Bank Zachodni WBK Group for 2016 and 2015, respectively, none of the members of the Supervisory Board held any Bank Zachodni WBK shares or attached conditional rights.

The table below represents Bank Zachodni WBK shares and attached conditional rights held by the Management Board members as at 31 December 2015 and 31 December 2016.

Management Board Members	17.02.2017		12.02.2016	
	No. of BZ WBK shares	Rights	No. of BZ WBK shares	Rights
Michał Gajewski ¹⁾	-	-	-	-
Andrzej Burliga	3 000	2 204	4 888	2 204
Artur Chodacki ¹⁾	-	1 253	-	-
Eamonn Crowley	-	2 094	-	2 094
Beata Daszyńska-Muzyczka ¹⁾	-	-	923	700
Michael McCarthy	-	2 424	1 075	2 424
Carlos Polaino Izquierdo	-	1 000	-	1 000
Juan de Porras Aguirre	-	2 217	-	2 217
Marcin Prell	-	1 983	-	1 983
Mirosław Skiba	1 057	2 248	3 257	2 248
Feliks Szyszkowiak	204	2 248	3 704	2 248
Paweł Wieczorek ¹⁾	-	-	-	800
Total	4 261	17 671	13 847	17 918

1) Changes in the composition of the Management Board have been described in detail above in the section "Governing bodies".

The Relationship between the remuneration paid to Management Board members and key managers and long-term business and financial objectives of the company

The BZ WBK Policy on variable components of remuneration paid to material risk takers is connected with strategic goals, short- and long-term operational objectives and the performance of the company.

Variable remuneration is awarded to key managers of Bank Zachodni WBK on the basis of an assessment of individual performance and business results of the bank in the area of responsibility of a given person, taking into account the bank's business cycle and risk arising from its operations. The assessment is made as part of the performance review system applicable at the bank.

In addition to financial ratios, the annual objectives of the bank's Management Board include qualitative (customer satisfaction, employee engagement) and risk metrics which reflect the sustainable management strategy. The objectives are described in detail in the balanced scorecard. They are communicated at the beginning of the year and monitored accordingly.

Pursuant to the policy on variable components of remuneration, min. 40% of variable remuneration to executives is deferred for the period of three years and paid in three equal annual instalments, unless there are reasons for reduction or non-payment. Furthermore, min. 50% of remuneration is paid in the form of phantom stock based on the bank's shares.

In addition, Management Board members and executives may receive awards under long-term incentive schemes (and take up the bank's shares at their nominal value). The above-mentioned schemes set out in detail the economic criteria that must be met for an award to be granted (i.e. objective criteria reflecting the bank's performance) and the right of the bank's Supervisory Board to change the terms and conditions of the incentive scheme, e.g. in the event of any substantial deterioration of the financial standing or the risk profile.

Other Transactions with the Bank's Executives

Loans and Advances

Loans and advances granted by Bank Zachodni WBK to the bank's executives and their relatives totalled PLN 7,158k as at 31 December 2016 vs. PLN 5,160k as at 31 December 2015. These facilities were sanctioned on the regular terms and conditions.

Deposits placed with Bank Zachodni WBK by the bank's executives and their relatives totalled PLN 13 312k as at 31 December 2016 vs 16 091k as at 31 December 2015 r.

As at 31 December 2016 and 31 December 2015, the balance of lease facilities and Social Fund loans and advances granted to the bank's Management Board members was nil.

Provisions for Employee Benefits

Provisions for employee benefits disclosed in Note 50 of “Consolidated financial statement of Bank Zachodni WBK Group for 2016” include the following amounts related to members of the bank’s Management Board:

Provisions for liabilities to employees for the Management Board Members	in PLN k	
	2016	2015
Provision for pension - disability pension	17	16
Provision for unused holidays	567	852

6. Diversity Policy

Diversity Policy at Bank Zachodni WBK

For many years now, Bank Zachodni WBK has been committed to promoting diversity in accordance with best practice and ensuring equal treatment of employees regardless of their gender, age, disability, race, religion or belief, national or ethnic origin, political beliefs, trade union membership or sexual orientation.

In the BZ WBK Sustainability (CSR) Policy adopted in June 2016, the bank’s Management Board undertook to observe the following general principles in their relationship with employees:

- to respect diversity and prevent discrimination because of gender, race, age or on any other grounds;
- to encourage equal opportunities among employees, aspiring to have a balanced representation between men and women in all functions and responsibilities.

The above policy is complemented by the BZ WBK Human Rights Policy, which establishes a set of principles regarding the relationships with various stakeholders, including equal access to employment and promotion, and protection against discrimination based on age, gender, race, religion, origin, marital status or financial situation. Furthermore, the bank is committed to preventing and eliminating disrespect and abuse in the work environment.

Aspects such as respect for individuality, promotion of equal treatment and the prevention of discrimination have been addressed by a number of policies and procedures applicable at the bank. Most importantly, they have become an element of the bank’s day-to-day activities and are applied at each stage of the employee lifecycle, starting from recruitment and throughout each employee’s time with the organisation (terms of employment, access to training and development initiatives, promotion opportunities) to the termination of employment with the bank.

The bank is in the process of developing a uniform diversity policy which will address all key aspects.

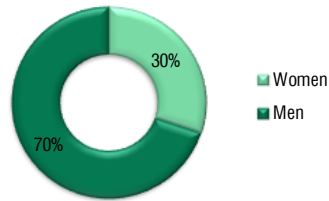
Respect for diversity is also ensured among Management Board members and senior executives. They include people of different gender, age, experience and educational background.

Sex	Women	Men
Supervisory Board	2	8
Management Board	-	10
Key Managers	35	68

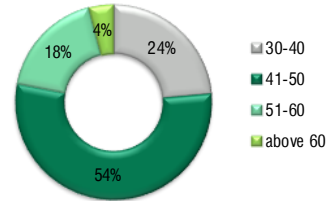
Age	30-40	41-50	51-60	60 and over
Supervisory Board	-	-	6	4
Management Board	-	6	4	0
Key Managers	29	61	12	1

Years of employment with BZ WBK	up to 5	5-10	10-15	15-20	20-25	25 and over
Supervisory Board	5	3	-	2	-	-
Management Board	1	3	1	1	4	-
Key Managers	15	15	18	23	27	5

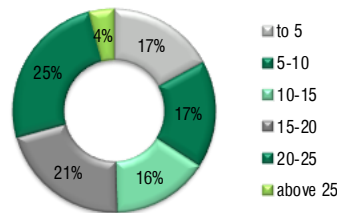
Sex of supervising staff and key executives of BZ WBK Group



Age of supervising staff and key executives of BZ WBK Group



Work experience of supervising staff and key executives of BZ WBK Group



Percentage of Women on the Management and Supervisory Boards

Bank Zachodni WBK makes every effort to ensure a gender balance in the representation of men and women appointed to its Management and Supervisory Boards. The Appointment and Succession Policy for Management Board members and key function holders in Bank Zachodni WBK adopted in 2015 ensures the continuity of business processes, while reflecting the bank’s ambition to achieve the best possible balance of gender, knowledge, skills and experience.

As at 31 December 2016, there were two women on the bank’s Supervisory Board: Ms. Danuta Dąbrowska and Ms. Marynika Woroszyńska-Sapieha. There were temporarily no female members on the Management Board after Ms. Beata Daszyńska-Muzyczka resigned on 28 October 2016 as a Management Board member in charge of the Business Partnership Division. She will be replaced by Ms. Dorota Strojowska who was appointed a Management Board member as of 14 December 2016 and will take up the position after fulfilment of her existing employment commitments.

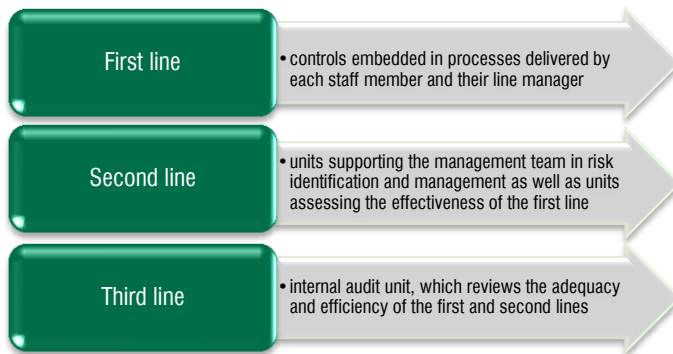
7. Control System of Financial Statements

Internal Control System and Risk Management

Bank Zachodni WBK Group operates an internal control system which supports decision-making processes and contributes to efficient operation of the organisation, the reliability of financial reporting and compliance with laws, international standards, internal regulations and best practice. The internal control system is tailored to the Group’s organisational structure and risk management system and covers the Business Support Centre, branches, Partner outlets and subsidiaries. Development, implementation and maintenance of the written strategies and procedures of the internal control system are the responsibility of the bank’s Management Board. Oversight of 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 an Internal Control Policy in Bank Zachodni WBK which defines, inter alia, the structure, purpose and scope of internal control and lists related roles and responsibilities. In particular, Policy and other regulations describe the bank’s Internal Control Model (ICM), defining the rules and organisation of the process of identifying the risks that are material from the point of view of the control environment, along with their controls. The ICM includes monitoring, testing and reporting to ensure an effective control environment, both in terms of design and operation of the controls, and to strengthen the control culture at all levels within the organisation. The elements of the Internal Control Model include: risk models, controls, tasks, organizational units and activities.

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



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 the quality and processing of financial data. The internal control model in place allows for a systematic verification of controls in terms of their effectiveness. The results are regularly escalated to and reviewed by the bank's Management Board and the Audit and Compliance Committee of the Supervisory Board of Bank Zachodni WBK Group.

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

Financial data preparation for the purpose of reporting is automated and based on the consolidated General Ledger and Data Warehouse. The underpinning IT systems are strictly controlled in terms of integrity and security of information.

Data inputs in the source systems are subject to formal operational and approval procedures which state the 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 also under strict control. BZ WBK Group has a BCM plan in place, which covers all IT systems used to prepare financial reports. The plan is updated on an ongoing basis.

In order to manage risk associated with the preparation of financial statements, the bank follows legal and regulatory changes related to reporting obligations and updates its accounting rules and disclosures accordingly. The bank, through its representatives sitting on the supervisory boards of individual subsidiaries, exercises oversight of its consolidated subsidiaries.

Financial statements are approved by the Disclosure Committee, which is responsible for ensuring that the financial disclosures of BZ WBK Group comply with all legal and regulatory requirements before they are released.

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

The effectiveness of controls in financial reporting is additionally assessed by an independent external auditor as part of the annual certification process for compliance with the Sarbanes-Oxley Act.

Internal Control Compliant with the Sarbanes-Oxley Act

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

The certification process for compliance with the Sarbanes-Oxley Act in 2016 covered all key business areas of Bank Zachodni WBK and was carried out using solutions and methodology based on Santander Group's approach. The scope of testing included risk factors which were particularly significant for the reliability and accuracy of financial statements, taking into account the local control environment.

In view of the requirements arising from external regulations, Bank Zachodni WBK took measures to adjust the internal control system to satisfy the Volcker Rule (section 619 of Dodd-Frank Wall Street Reform and Consumer Protection Act) and ensure compliance with RDA/RRF (Basel Committee on Banking Supervision 239: Principles for effective risk data aggregation and risk reporting).

The assessment of the design and effectiveness of the internal control system covers all available information and related recommendations, including those concerning audit and post-inspection. Results of assessments and tests form 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 2016, the bank's management confirmed that no incidents were identified in Bank Zachodni WBK Group which could significantly affect the relevant processes and threaten the effectiveness of the internal control over financial reporting.

Auditor

Selection of External Auditor

In accordance with § 32 (10) of the Statutes of Bank Zachodni WBK, applicable regulations and industry practice, in 2016, the bank's Supervisory Board passed a resolution appointing PricewaterhouseCoopers Polska as the entity to review and audit the bank's unconsolidated and consolidated financial statements for the first half and the entire year 2016. The bank signed agreements with PricewaterhouseCoopers Polska for the terms required to carry out the specified work.

The bank also contracted PricewaterhouseCoopers Polska and other companies from PricewaterhouseCoopers Group for consulting and tax advisory services. In the bank's view, the above advisory services do not affect the impartiality and independence of the auditor.

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

Remuneration of External Auditor

The table below shows the remuneration paid to PricewaterhouseCoopers Polska in 2016 and Deloitte Polska in 2015 for audit/review of the financial statements of Bank Zachodni WBK Group pursuant to concluded agreements.

PLN k

Remuneration of External Auditors	Reporting Year ended on 31.12.2016	Reporting Year ended on 31.12.2015
Audit fees in respect of the parent bank ¹⁾	2 350	1 544
Audit fees in respect of the subsidiaries ²⁾	1 659	1 161
Audit fees related to assurance services, including the review of the parent bank and subsidiaries ¹⁾	908	2 693
Fees for non-assurance services ¹⁾	865	320

1) Remuneration for services performed in 2016 based on the agreement with BZ WBK on review and audit of financial statements as of 23 July 2016 and an annex as of 16 November 2016.

8. Pending Court Proceedings

As at 31 December 2016, no case was pending before any court or state administration agencies with regard to any claims made by or against Bank Zachodni WBK or its subsidiaries amounting to a minimum of 10% of the Group's equity.

	PLN m	
Court Proceedings with BZ WBK Group as a Party	31.12.2016	31.12.2015
Amounts claimed by the Group	518,3	256,5
Claims against the Group	221,6	211,8
Receivables due to bankruptcy or arrangement cases	40,9	15,2
Value of all litigation	780,8	483,5
Share [%] of all litigation in equity	3,7%	2,4%
Completed significant court proceedings	451,7	80,0

A significant increase in the value of the claim brought by the Group results from the abrogation of the laws pertaining to the banking writs of execution and the need to refer to the court any unpaid receivables of the bank under ordinary proceedings or proceedings by writ of payment.



XII. Representations of the Management Board

True and Fair Presentation of the Financial Statements

To the best of the Management Board's knowledge, the financial figures and the comparable data presented in the financial statements incorporated in the "Annual Report 2016 of Bank Zachodni WBK" and "Annual Report 2016 of Bank Zachodni WBK Group" were prepared in keeping with the applicable accounting policies and give a true and fair view of the state of affairs and earnings of Bank Zachodni WBK Group. The Management Board's Report contained in this document shows a true picture of the development, achievements and position of the parent entity and the Bank Zachodni WBK Group (including the underlying risks) in 2016.

Unbiased and Independent Audit

The auditing firm responsible for auditing the "Financial Statement of Bank Zachodni WBK Group for 2016" and "Consolidated Financial Statement of Bank Zachodni WBK Group for 2016" 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
14.02.2017	Michał Gajewski	President of the Board	
14.02.2017	Andrzej Burliga	Member	
14.02.2017	Artur Chodacki	Member	
14.02.2017	Eamonn Crowley	Member	
14.02.2017	Michael McCarthy	Member	
14.02.2017	Carlos Polaino Izquierdo	Member	
14.02.2017	Juan de Porras Aguirre	Member	
14.02.2017	Marcin Prell	Member	
14.02.2017	Mirosław Skiba	Member	
14.02.2017	Feliks Szyszkowiak	Member	