ANNUAL REPORT 2015
OF BANK ZACHODNI WBK S.A.

2015

Bank Zachodni WBK
Grupa Santander

	FINANCIAL HIGHLIGHTS	PLN k		EUR k	
	for reporting period ended:	31.12.2015	31.12.2014	31.12.2015	31.12.2014
	Stand alone financial statements				
I	Net interest income	3 134 852	3 314 647	749 104	791 217
II	Net fee and commission income	1 613 244	1 622 314	385 501	387 252
III	Operating profit	2 176 553	2 478 396	520 109	591 601
IV	Profit before tax	2 176 553	2 478 396	520 109	591 601
V	Profit for the period	1 756 210	1 994 632	419 664	476 125
VI	Total net cash flow	(383 623)	(144 509)	(91 671)	(34 495)
VII	Total assets	125 477 589	121 607 365	29 444 465	28 530 926
VIII	Deposits from banks	3 935 893	6 171 077	923 593	1 447 828
IX	Deposits from customers	94 641 472	90 149 236	22 208 488	21 150 373
X	Total liabilities	106 768 460	104 495 353	25 054 197	24 516 189
XI	Total equity	18 709 129	17 112 012	4 390 268	4 014 737
XII	Number of shares	99 234 534	99 234 534		
XIII	Net book value per share in PLN/EUR	188.53	172.44	44.24	40.46
XIV	Capital ratio	15.80%	13.46%		
XV	Profit per share in PLN/EUR	17.70	20.74	4.23	4.95
XVI	Diluted earnings per share in PLN/EUR	17.67	20.69	4.22	4.94
XVII	Declared or paid dividend per share in PLN/EUR*	*	0	*	0

*As of the date of publication of this report, the Management Board of Bank Zachodni WBK SA has not finalised its analysis in respect of recommendation on dividend payout for 2015.

As at the date of publication of this report, the Management Board of Bank Zachodni WBK had yet to conclude its analysis of how to allocate the currently undistributed 2014 profit, the payment of which was deferred in accordance with the KNF's recommendation.

The following rates were applied to determine the key EUR amounts for selected financials:

- for balance sheet items – 4.2615 PLN rate to EUR as at 31.12.2015 stated by National Bank of Poland (NBP), 4.2623 PLN rate to EUR as at 31.12.2014
- for profit and loss items – as at 31.12.2015: 4.1848 (an average PLN mid-rate to EUR in NBP on the last day of each month in 2015), as at 31.12.2014: 4.1893 (an average PLN mid-rate to EUR in NBP on the last day of each month in 2014)

As at 31.12.2015, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 254/A/NBP/2015 dd. 31.12.2015.

FINANCIAL STATEMENTS OF BANK ZACHODNI WBK S.A. FOR 2015

2015

Bank Zachodni WBK

Grupa Santander

Dear Shareholders,

2015 was a year of relative stability in the Polish economy. There was broad based economic growth both in the indigenous market and in international trade. Bank Zachodni WBK strengthened its position among Poland's top banks, with performance being well above the sector average across all of our chosen segments.

Overall, however, 2015 was a challenging year for the Polish banking sector with increased regulatory costs, a reduced interest rates environment and unexpected Bank Guarantee Fund levies.

Economic outlook: growth despite the odds

One of the greatest challenges posed to the European economy during 2015 was preserving the unity and credibility of the eurozone. Events related to the Greek financial crisis highlighted the need for effective resolution of structural problems as they arise.

In Q3 2015, GDP in the eurozone grew by 1.6% YoY. The ratio was higher for the EU-28 amounting to 1.9%. Accommodative monetary policy of the European Central Bank provided a good boost to internal demand which in turn, was the major driving force behind European economies. Some potential threats to stability include uncertain global situations and geopolitical tensions.

The Polish economy again proved its pro-development orientation and resilience to external shocks. With GDP at 3.6% in 2015, Poland is placed among Europe's top economies. This growth was propelled by consumption, fixed investment and export growth, which increased despite a considerable slump on eastern markets and volatility in the German economy. Despite periodic fluctuation, the Polish zloty's exchange rate remained stable and competitive. The inflation level, which has been recording negative values in Poland for the last eighteen months, presented a certain challenge as it translated into structural sensitivity in both public finances and monetary policy. A fact which should be emphasized and appreciated is the decision of the European Commission to retract its excessive deficit procedure on Poland, in recognition of the Polish economy's strong foundations for growth, which are expected to bring the deficit in the public finance sector close to EU limits. The level of deflation did not have an adverse impact on the financial standing of Polish companies and contributed to a rise in real wages.

The banking sector is stable but challenging

In 2015, the Polish banking sector was independently confirmed as stable and sound. The stability review performed by the European Banking Authority, which included 13 financial institutions from Poland (including Bank Zachodni WBK) representing more than 80% of domestic commercial banks' assets, confirmed the situation as satisfactory.

Continuing deflation and record low interest rates were challenging influences on the performance of the banking sector. However, it was the accumulation of many other events that made the Polish banking sector face profitability challenges on an exceptional scale, unprecedented in the past 25 years of Poland's banking history. One of the foremost events for the sector was the rapid appreciation of the Swiss franc versus the Polish zloty, which gave rise to a national discussion about the need for addressing the issue of mortgage loans in foreign currencies. Quarter 4, 2015 saw one of Poland's largest cooperative banks in Poland enter bankruptcy, which had a negative impact on the results of the banking sector. Increasing regulatory pressure dictated by external conditions and the situation within the sector was further intensified by the new legislative and executive authorities implementing a bank tax in February 2016.

The year 2016 will bring more challenges for the banking sector, such as the KNF imposing increased capital buffers on banks with Swiss franc mortgage portfolios and new capital requirements resulting from the implementation of CRD IV rules. Irrespective of such challenges, Polish banks are among the most stable across European markets.

Operating performance / Delivering our strategy

Our customers remain the central component of our strategy and that is why we have been laying the foundations for consistently reliable and accessible services for customers across our branch, online, mobile and direct channels, simplifying how we do things and focusing our efforts on what matters most to them. Our results underline that the bank's core financial metrics are solid and moving in a positive direction.

During 2015, Bank Zachodni WBK managed to prove the effectiveness of its strategy through its diversification of business lines and an increase in the quality of customer service. Profit before tax posted by Bank Zachodni WBK exceeded PLN 2.1bn. The value of the bank's assets last year was PLN 125.5bn, compared to PLN 121.6bn a year before. Despite a decline in interest rates and interchange fees, we generated a higher interest and fee income relative to the previous year.

Our business results in 2015 were also very strong. The number of newly opened personal accounts approximated over 300k, including nearly 200k "Accounts Worth Recommending". At the end of the year, the bank has over 4 million retail customers. In the SME sector, we observed a 12% increase in the number of customers with high transactional activity and utilizing cross-selling offers. The business line sanctioned 17% more loans than a year before with their total value reaching the level of PLN 10bn.

In corporate banking, the credit volumes increased by 13%, significantly outperforming the market growth rate. Moreover, the bank continued to steadily develop its deposit base by expanding its offer of transactional banking products.

In 2015, Bank Zachodni WBK remained the sector leader in efficiency measured in terms of the return on equity, and one of the sector's best performers with respect to the cost-to-income and capital adequacy ratios.

The mobile banking platform was selected as the second best application in Europe and achieved first place in Poland in Newsweek's "Friendly Bank" ranking in the mobile banking category. The number of BZ WBK mobile banking application users has been steadily growing (by 38% on a year-on-year basis in Q4 2015)

Bank Zachodni WBK strongly supports the development of indigenous Polish businesses and is also becoming a lead player in international trade. The Export Development Programme is an initiative launched with partners such as Google, Korporacja Ubezpieczeń Kredytów Eksportowych S.A and Bisnode under the patronage of the Minister for Foreign Affairs and the Minister for Economy. The Santander Trade Portal and the Santander Trade Club provide access to matchmaking solutions which help Polish businesses to get in touch with business partners from other countries.

Socially responsible and friendly bank

Bank Zachodni WBK is expanding the horizon of its social and cultural initiatives such as being a sponsor of the 17th International Fryderyk Chopin Piano Competition and the various campaigns engaging local communities including – "Here I live, here I make changes" which financed 300 project in 2015. The bank also promotes Polish education, culture and national heritage via programmes such as Santander Universidades, which supports 52 universities. Last year, the bank funded 800 student scholarships under the programme and issued more than sixty thousand student ID Smartcards with payment functionality. In 2015, the bank also opened five branches dedicated to student needs. Bank Zachodni WBK is was the only bank to have received an award for its CSR Report which was recognised for its reliability, comprehensive presentation and as a good tool for making investment decisions.

Board changes

For Bank Zachodni WBK, 2015 was a year of further business and organisational growth notwithstanding some management changes. The President of the Management Board, Mateusz Morawiecki, who held the position in our bank for eight years, decided to serve the public in a governmental role and took up the office of Deputy Prime Minister and Minister for Development within the Polish government. We thank him for his great contribution to the growth of Bank Zachodni WBK over those years and we wish him all the best in his public mission.

We also welcomed new Board members: Beata Daszyńska-Muzyczka, Carlos Polaino Izquierdo and Paweł Wieczorek. Their experience and expertise will add further to the strength of the Management Team.

A modern, multi-channel and customer focused bank

The robust results delivered in 2015 reflect first of all our customers' trust which we continue to earn based on the high quality of our services. We look forward to continuing to serve our customer base in the most modern, easy and accessible way possible. We will continue to develop our new channels for doing business while striving to simplify our product offerings, processes and procedures. We face new challenges to create innovative and convenient solutions that meet the needs of our customers and to ultimately prove that our bank is a bank of satisfied customers.

We look forward to the future with confidence – the environment will continue to be challenging – however with our focus on the customer service proposition delivered by employees who are passionate about getting it right, Bank Zachodni WBK will continue to prosper for the benefit of customers, employees, local communities, shareholders and the Polish economy.

Gerry Byrne

Chairman of Supervisory Board, Acting President of Management Board

Bank Zachodni WBK SA

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in thousands of PLN

Income statement of Bank Zachodni WBK

for reporting period:		01.01.2015-31.12.2015	01.01.2014-31.12.2014
Interest income		4 243 768	4 856 042
Interest expenses		(1 108 916)	(1 541 395)
Net interest income	Note 5	**3 134 852**	**3 314 647**
Fee and commission income		1 887 844	1 873 349
Fee and commission expenses		(274 600)	(251 035)
Net fee and commission income	Note 6	**1 613 244**	**1 622 314**
Dividend income	Note 7	156 365	417 914
Net gains/(losses) on subordinated entities	Note 48	234 391	-
Net trading income and revaluation	Note 8	193 495	93 599
Gains (losses) from other financial securities	Note 9	273 717	231 508
Other operating income	Note 10	119 649	108 105
Impairment losses on loans and advances	Note 11	(667 895)	(731 194)
Operating expenses incl.:		(2 881 265)	(2 578 497)
Bank's staff, operating expenses and management costs	*Notes 12,13*	*(2 589 034)*	*(2 331 429)*
Depreciation/amortisation		*(206 104)*	*(192 636)*
Other operating expenses	Note 14	*(86 127)*	*(54 432)*
Operating profit		**2 176 553**	**2 478 396**
Profit before tax		**2 176 553**	**2 478 396**
Corporate income tax	Note 15	(420 343)	(483 764)
Profit for the period		**1 756 210**	**1 994 632**
Net earnings per share (PLN/share)	Note 16		
Basic earnings per share		17,70	20,74
Diluted earnings per share		17,67	20,69

Statement of comprehensive income of Bank Zachodni WBK

for reporting period:	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Profit for the period	**1 756 210**	**1 994 632**
Other comprehensive income which can be transferred to the profit and loss account:	**(185 890)**	**245 378**
Available-for sale financial assets valuation	(119 112)	474 540
including deferred tax	*22 631*	*(90 163)*
Cash flow hedges valuation	(110 382)	(171 604)
including deferred tax	*20 973*	*32 605*
Other comprehensive income which can't be transferred to the profit and loss account	**8 042**	**(11 219)**
Provision for retirement allowances – actuarial gains/losses	9 929	(13 851)
including deferred tax	*(1 887)*	*2 632*
Other comprehensive income for the period, net of income tax	**(177 848)**	**234 159**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1 578 362**	**2 228 791**

Notes presented on pages 13- 91 constitute an integral part of these Financial Statements.

in thousands of PLN

Statement of financial position of Bank Zachodni WBK

	as at:	31.12.2015	31.12.2014
ASSETS			
Cash and balances with central banks	Note 17	6 129 543	6 567 108
Loans and advances to banks	Note 18	4 756 502	3 673 519
Financial assets held for trading	Note 19	4 174 634	5 221 034
Hedging derivatives	Note 20	162 823	238 889
Loans and advances to customers	Note 21	81 142 310	74 645 880
Investment securities	Note 22	22 576 246	24 465 448
Investments in subsidiaries and associates	Note 23	2 377 325	2 387 250
Intangible assets	Note 24	443 603	393 265
Goodwill		1 688 516	1 688 516
Property, plant and equipment	Note 25	742 245	676 212
Net deferred tax assets	Note 26	842 763	794 008
Assets classified as held for sale	Note 27	637	637
Other assets	Note 28	440 442	855 599
Total assets		**125 477 589**	**121 607 365**
LIABILITIES			
Deposits from banks	Note 29	3 935 893	6 171 077
Hedging derivatives	Note 20	2 024 012	1 233 926
Financial liabilities held for trading	Note 19	2 535 708	2 781 686
Deposits from customers	Note 30	94 641 472	90 149 236
Subordinated liabilities	Note 31	426 507	1 439 835
Debt securities in issue	Note 32	1 698 619	983 646
Current income tax liabilities		165 537	475 363
Other liabilities	Note 33	1 340 712	1 260 584
Total liabilities		**106 768 460**	**104 495 353**
Equity			
Share capital	Note 34	992 345	992 345
Other reserve funds	Note 35	14 238 675	13 177 940
Revaluation reserve	Note 36	769 247	947 095
Retained earnings		952 652	-
Profit of the current period		1 756 210	1 994 632
Total equity		**18 709 129**	**17 112 012**
Total equity and liabilities		**125 477 589**	**121 607 365**

Notes presented on pages 13-91 constitute an integral part of these Financial Statements.

in thousands of PLN

Movements on equity of Bank Zachodni WBK

Statement of changes in equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Total
Note	34	35	36		
Opening balance as at 31.12.2014	**992 345**	**13 177 940**	**947 095**	**1 994 632**	**17 112 012**
Other comprehensive income which can be transferred to the profit and loss account	-	-	(185 890)	1 756 210	1 570 320
Other comprehensive income which can't be transferred to the profit and loss account	-	-	8 042	-	8 042
Transfer to other capital	-	1 041 980	-	(1 041 980)	-
Share scheme charge	-	18 755	-	-	18 755
As at 31.12.2015	**992 345**	**14 238 675**	**769 247**	**2 708 862**	**18 709 129**

As at the end of the period revaluation reserve in the amount of PLN 769,247 k comprises of debt securities and equity shares classified as available for sale of PLN 181,310 k and PLN 781,761 k respectively and additionally cash flow hedge activities of PLN (196,442) k and accumulated actuarial losses -provision for retirement allowances of PLN 2,618 k.

Statement of changes in equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Total
Note	34	35	36		
Opening balance as at 31.12.2013	**935 451**	**10 324 574**	**712 936**	**1 611 471**	**13 584 432**
Other comprehensive income which can be transferred to the profit and loss account	-	-	245 378	1 994 632	2 240 010
Other comprehensive income which can't be transferred to the profit and loss account	-	-	(11 219)	-	(11 219)
Issue of shares*	56 894	2 102 575	-	-	2 159 469
Transfer to other capital	-	610 539	-	(610 539)	-
Transfer to dividends for 2013	-	-	-	(1 000 932)	(1 000 932)
Share scheme charge	-	6 846	-	-	6 846
Maklerski BZ WBK (Brokerage House) into the structure of Bank Zachodni WBK	-	133 406	-	-	133 406
As at 31.12.2014	**992 345**	**13 177 940**	**947 095**	**1 994 632**	**17 112 012**

As at the end of the period revaluation reserve in the amount of PLN 947,095 k comprises of debt securities and equity shares classified as available for sale of PLN 488,575 k and PLN 570,978 k respectively and additionally cash flow hedge activities of PLN (107,033) k and accumulated actuarial losses -provision for retirement allowances of PLN (5,425) k.

* Detailed information on "Issue of shares" is included in Note 34.

Notes presented on pages 13-91 constitute an integral part of these Financial Statements.

in thousands of PLN

Statement of cash flows of Bank Zachodni WBK

for reporting period:	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Profit before tax	**2 176 553**	**2 478 396**
Total adjustments:		
Depreciation/amortisation	206 104	192 636
(Profit) loss from investing activities	(531 489)	(248 645)
Impairment losses	322	3 519
	1 851 490	**2 425 906**
Changes in:		
Provisions	(15 364)	7 490
Trading portfolio financial instruments	1 666 574	(778 438)
Loans and advances to banks	121 331	(270 717)
Loans and advances to customers	(6 496 430)	(7 031 338)
Deposits from banks	(2 420 635)	(107 707)
Deposits from customers	4 545 029	11 020 204
Other assets and liabilities	481 531	(415 265)
	(2 117 964)	**2 424 229**
Interests and similar charges	509 030	269 290
Dividend received	(154 986)	(417 914)
Paid income tax	(737 207)	(478 230)
Net cash flow from operating activities	**(649 637)**	**4 223 281**
Inflows	**96 601 784**	**237 926 010**
Sale of investments in subsidiaries	244 316	-
Sale/maturity of investment securities	96 125 480	237 483 273
Sale of intangible assets and property, plant and equipment	77 002	24 823
Dividend received	154 986	417 914
Outflows	**(95 570 319)**	**(241 954 228)**
Purchase of investment securities	(95 264 219)	(241 678 469)
Purchase of intangible assets and property, plant and equipment	(306 100)	(275 759)
Net cash flow from investing activities	**1 031 465**	**(4 028 218)**
Inflows	**1 327 019**	**904 285**
Debt securities in issue	715 000	475 000
Drawing of loans	612 019	426 230
Proceeds from issuing/shares	-	3 055
Outflows	**(2 092 470)**	**(1 243 857)**
Repayment of loans	(1 618 109)	(32 861)
Dividends and other payments to shareholders	-	(1 000 932)
Other financing outflows	(474 361)	(210 064)
Net cash flow from financing activities	**(765 451)**	**(339 572)**
Total net cash flow	**(383 623)**	**(144 509)**
Cash at the beginning of the accounting period	**12 113 526**	**12 253 154**
Cash acquired in a business combination	**-**	**4 881**
Cash at the end of the accounting period *	**11 729 903**	**12 113 526**

*Cash components are presented in Note 43.

Notes presented on pages 13-91 constitute an integral part of these Financial Statements.

Additional notes to financial statements of Bank Zachodni WBK

1. General information about issuer

Bank Zachodni WBK is a bank seated in Poland, 50-950 Wrocław, Rynek 9/11, TIN 896-000-56-73, National Official Business Register number (REGON) 930041341, registered in the District Court for Wrocław-Fabryczna, VI Economic Unit of the National Court Registry under 0000008723 number.

The direct parent of Bank Zachodni WBK is Banco Santander S.A. seated in Santander, Spain.

Bank Zachodni WBK offers a wide range of banking services for individual and business customers and operates in domestic and interbank foreign markets. Additionally, it offers also the following services:

- intermediation in trading securities,
- leasing,
- factoring,
- asset/ fund management,
- insurance services,
- trading in stock and shares of commercial companies,
- brokerage activity.

2. Basis of preparation of financial statements

Statement of compliance

The annual unconsolidated financial statements of Bank Zachodni WBK for the year ended 31.12.2015 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and are in compliance with the respective regulations and the provisions of the bank's Statutes that apply to the bank's unconsolidated financial statements.

These unconsolidated financial statements have been approved for publication by the bank's Management Board on 09.02.2016.

Changes in accounting policies

No major changes were introduced in accounting policies.

Comparability with results of previous periods

No major changes were introduced in respect of presentation of financial data for comparable periods of time.

On 27.02.2015, Bank Zachodni WBK lost control over BZ WBK-Aviva TUnŻ ("TUnŻ") and BZ WBK-Aviva TUO ("TUO") as a result of the exercise of a call option by Aviva International Insurance Limited ("Aviva Ltd.").

After the transfer, the bank holds a 49% stake in the share capital and the total voting power in each of the insurance companies, with the remaining 51% of shares and votes being held by Aviva Ltd. Detailed information is presented in Note 48.

Changes in judgments and estimates

In 2015, the scope of data covered by estimates did not change in comparison with the unconsolidated financial statements of Bank Zachodni WBK for 2014.

in thousands of PLN

New standards and interpretations or changes to existing standards or interpretations which can be applicable to the Bank and are not yet effective or have neither been implemented earlier

IFRS	Description of changes	Effective in the European Union from	Impact on the Bank
Amendment to IAS 19 Employee Benefits	The amendment applies to contributions from employees or third parties. Specifically, it simplifies the accounting principles regarding the contributions which are independent of the number of years of service.	1 February 2015	The amendments did not have any material impact on the financial statements.
Annual improvements to IFRS, the 2010-2012 cycle	The issues included in this cycle are: - IFRS 2 Definition of 'vesting condition'; - IFRS 3 Contingent consideration in a business combination; - IFRS 8 Aggregation of operating segments and reconciliation of the total of the reportable segments' assets to the entity's assets; - IFRS 13 Short-term receivables and payables; - IAS 16 / IAS 38 Revaluation method – proportionate restatement; - IAS 24 Key management personnel.	1 February 2015	The amendments did not have any material impact on the financial statements.
Amendment to IAS 27 Equity method in separate financial statements	The amendment will allow entities to account for investments in subsidiaries, associates and joint ventures using the equity method in their separate financial statements.	1 January 2016	Amendments will not have a material impact on financial statements.
Annual improvements cycle 2012-2014	The issues included in this cycle are: • IFRS 5 Changes in methods of disposal; • IFRS 7 Servicing Contracts; • IAS 19 Discount rate: regional market issue; • IAS 34 Disclosure of information 'elsewhere in the interim financial report'.	1 January 2016	Amendments will not have a material impact on financial statements.
Amendment to IFRS 11 Joint Arrangements	The purpose of the amendment is to issue new guidance on the disclosure of acquisition of an interest in a joint operation. It specifies the accounting treatment of such acquisition.	1 January 2016	Amendments will not have a material impact on financial statements.
Amendment to IAS 16 and IAS 38	The amendment to IAS 16 and IAS 38 sets out the rule of consumption of the economic benefits with regard to recognition of depreciation and amortisation. IASB explained that the revenue-based method should not be used to calculate depreciation/amortisation.	1 January 2016	Amendments will not have a material impact on financial statements.
IFRS 14 Regulatory Deferral Accounts*	Under IFRS 14, first-time adopters of IFRS are permitted to continue to recognise amounts related to rate regulation in accordance with their previous accounting rules. To enhance comparability with entities that already apply IFRS and that do not recognise such amounts, the effect of rate regulation must be presented separately from other items, both in the statement of financial position and income statement and statement of other comprehensive income.	1 January 2016	Amendments will not have a material impact on financial statements.
Amendments to IFRS 10*, IFRS 12 and IAS 28	The amendments will only apply to the sale or contribution of assets between an investor and its associate or joint venture.	1 January 2016	Amendments will not have a material impact on financial statements.
Amendments to IAS 1	Presentation of Financial Statements	1 January 2016	Amendments will not have a material impact on financial statements.
Amendments to IAS 7 Statement of Cash Flows*	Amendments to IAS 7 are designed to improve the information provided to the users of the entity's financial statements	1 January 2017	The impact analysis has not been completed yet
Amendments to IAS 12 Income Taxes*	The amendments to IAS 12 explain method of recognition of deferred tax assets in connection with debt instruments carried at fair value.	1 January 2017	The impact analysis has not been completed yet
Amendments to IFRS 15*	Revenue from Contracts with Customers.	1 January 2018	The impact analysis has not been completed yet
IFRS 9 Financial Instruments*	Amendment to the classification and measurement – replacement of the existing categories of financial instruments with two measurement categories: amortised cost and fair value. Amendments to hedge accounting.	1 January 2018	The impact analysis has not been completed yet
Amendments to IFRS 16 Leases *	In accordance with IFRS 16, the lessee recognises the right to use an asset and a lease liability.	1 January 2019	The impact analysis has not been completed yet.

*New standards and amendments to the existing standards issued by the IASB, but not yet authorized for use in the EU.

in thousands of PLN

Standards and interpretations or changes to existing standards or interpretations which were applied for the first time in 2015

IFRS	Description of changes	Effective in the European Union from	Impact on the Bank
IFRIC 21 Levies	IFRIC 21 is an interpretation of IAS 37 "Provisions, Contingent Liabilities and Contingent Assets". The interpretation identifies the obligating event for the recognition of a liability as the activity that triggers the payment of the levy in accordance with the relevant legislation.	17 June 2014	The interpretation did not have any material impact on the financial statements.
Annual improvements to IFRS, the 2011-2013 cycle	The issues included in this cycle are: - IFRS 3 Scope of exception for joint ventures; - IFRS 13 Scope of paragraph 52 (portfolio exception); - IAS 40 Clarification of the interrelationship of IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.	1 January 2015	The amendments did not have any material impact on the financial statements.

Basis of preparation

The financial statements are presented in PLN, rounded to the nearest thousand.

The financial statements are prepared on a fair value basis for derivative financial instruments, financial instruments measured at fair value through profit and loss, and available-for-sale financial assets, except those whose fair value cannot be determined reliably. Other financial assets and financial liabilities (including loans and advances) are recognised at amortised cost using the effective interest rate less impairment or purchase price less impairment.

The accounting policies set out below have been applied consistently to all periods presented in the financial statements.

Accounting policies

Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires the management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Main estimates and judgments made by the Bank

Loan impairment

The estimation of potential loan losses is inherently uncertain and depends upon many factors, including loan loss trends, portfolio grade profiles, economic climates, conditions in various industries to which Bank Zachodni WBK is exposed and other external factors such as legal and regulatory requirements. Impairment charges are posted for loans with indications of impairment if in the management's opinion the estimated recovery from the debtor, including liquidation of the existing collateral, may be lower than the outstanding exposure.

For all the impaired credit exposures, the Bank calculates an impairment charge as a difference between the exposure's book value and the present value of the estimated future cash flows, discounted using the effective interest rate as at the date of recognition of impairment

The identification of exposures that require impairment charges to be posted is based on several independent review levels. Credit quality and loan loss provisioning are independently monitored by head office personnel on a regular basis. The Bank uses a consistent system for grading advances according to agreed credit criteria with an important objective being the timely identification of vulnerable loans so that remedial action can be taken at the earliest opportunity. The credit grading system plays a key role in the calculation of impairment charges in Bank Zachodni WBK; this is the starting point of a process that ends in an impairment charge being posted against the individual exposures that are at the risk of default.

The analysis of impairment is carried out:

- with reference to individual credit exposures representing significant reporting items, for which indications of impairment have been identified; for Global Corporate Banking customers, customers with a commercial grading, property customers and local authorities, and for significant retail exposures (individual analysis);
- with reference to the portfolio of individually insignificant credit exposures (collective analysis) or individually significant exposures, but with no identified indications of impairment.

Impairment loss on non-financial assets

The measurement of fixed assets is reviewed at the end of the reporting period to specify whether there are reasons for write-down due to impairment. If there are such reasons, the recoverable value of assets should be determined.

Impairment is recognised if the book value of an asset exceeds its recoverable value and is presented in the profit and loss account.

For other receivables impairment amount is recognised considering the expected recoverable amounts, and for long term other receivables discounting is applied.

Assets held for sale are recorded at the lower of their carrying amount or estimated fair value less estimated costs to sell.

Fair value of financial instruments

Some of the bank's financial instruments are carried at fair value, including all derivatives, other financial assets measured at fair value through profit or loss and financial instruments available for sale. Financial instruments are either marked-to-market or priced by using a valuation model. Where the fair value is calculated using financial-markets pricing models, the methodology is to calculate the expected cash flows under the terms of each specific contract and then discount these values back to a present value. These models use as their basis independently sourced market parameters including, for example, interest rate yield curves, equities and commodities prices, option volatilities and currency rates. Most market parameters are either directly observable or are implied from instrument prices.

In justified cases, for financial instruments whose carrying amount is based on current prices or valuation models, the Bank takes into account the need to identify additional adjustments to the fair value of the counterparty credit risk.

Other accounting estimates and judgments

Provisions for employee benefits paid on termination of employment, i.e. post-employment benefits, are estimated on the basis of an actuarial valuation. The actuarial valuation of those accruals is updated at least on an annual basis. Provisions for legal claims have been estimated considering the expected loss arising on individual cases.

See Note 49 for details about provisions for staff benefits.

The fair value of awards granted under an incentive scheme is determined using the share based payments pricing models, which take into account the exercise price of the award, the share price at date of grant, the risk free rate, the expected volatility of the share price over the life of the award and other relevant factors. The Group assesses probability of the programme vesting which affects the programme value in the costs of the reporting period.

Detailed information about the estimates used in the bancassurance sector are net of bancassurance

Foreign currency

Foreign currency transactions

PLN is the accounting currency in the Bank.

Transactions in foreign currencies are translated at the foreign exchange rate applicable at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, are translated at the foreign exchange rate applicable at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate applicable at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to the reporting currency at the foreign exchange rates ruling at the dates that the fair values were determined. Foreign exchange differences arising on translation are recognised in profit or loss except for differences arising on retranslation of available for sale equity instruments, which are recognised in other comprehensive income.

Financial assets and financial liabilities

Classification

The Bank classifies its financial instruments into the following categories:

- financial assets or financial liabilities measured at fair value through profit or loss;

- held-to-maturity investments;
- loans and receivables;
- available-for-sale financial assets;
- other financial liabilities.

Financial asset or financial liability at fair value through profit or loss

This is a financial asset or liability that meets either of the following conditions.

a) Classified as held for trading. A financial asset or financial liability is classified as held for trading if:
   i. it is acquired or incurred principally for the purpose of selling or repurchasing in the near term;
   ii. it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking;
   iii. derivatives are held for trading unless the derivative is a designated and effective hedging instrument.

b) Upon initial recognition it is designated by the Bank at fair value through profit or loss. As at the balance sheet date the Bank doesn't hold this category of financial instrument.

Held-to-maturity investments

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the Bank's management has the positive intention and ability to hold to maturity. If the bank were to sell or reclassify more than an insignificant amount of held to maturity investments before maturity, the entire category would be reclassified as available for sale and for a two year period the Bank would not utilise the held to maturity classification. As at the balance sheet date the Bank does not hold this category of financial instrument.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(a) those that the entity intends to sell immediately or in the near term, which shall be classified as held for trading, and those that the entity upon initial recognition designates as at fair value through profit or loss;
(b) those that the entity upon initial recognition designates as available for sale;
(c) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration, which shall be classified as available for sale.

Loans and receivables comprise loans and advances to Banks and customers including purchased receivables and investments in debt instruments provided that they are not quoted in an active market and receivables due to reverse repo transactions.

Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets that are designated as available for sale or are not classified as:

a) loans and receivables;
b) held-to-maturity investments;
c) financial assets at fair value through profit or loss.

Other financial liabilities

Financial liabilities include financial liabilities not classified as those measured at fair value through profit and loss account. Those liabilities are valued at amortised cost and comprise: deposits from banks, deposits from customers, liabilities due to reverse repo transactions, borrowings, debt securities in issue and subordinated liabilities.

Recognition

The Bank recognises a financial asset or a financial liability in its statement of financial position when, and only when, the entity becomes a party to the contractual provision of the instrument.

A regular way purchase of a financial asset is recognised in the statement of financial position as at the transaction settlement date. This method is applied consistently for all purchases and sales of financial assets. Loans are recognised in the statement of financial position when cash is advanced to the borrowers. At the time of signing the loan agreement, the loans are recognised as off-balance sheet commitments.

Derecognition

Financial assets are derecognised from the statement of financial position when the contractual rights to the cash flows from the financial assets expire or when the Bank transfers the contractual rights to receive the cash flows in a transaction in which substantially all risk and rewards of ownership of the financial asset are transferred.

A regular way purchase of a financial asset is derecognised from the statement of financial position as at the transaction settlement date. This method is applied consistently for all purchases and sales of financial assets.

The Bank removes a financial liability (or a part of a financial liability) from its statement of financial position when, and only when, it is extinguished — i.e. when the obligation specified in the contract is discharged or cancelled or expires.

Measurement

When a financial asset or financial liability is recognised initially, it is measured at fair value plus (in the case of a financial asset or financial liability not classified at fair value through profit or loss) transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e. without modification) or based on a valuation technique whose variables include only data from observable markets.

After initial recognition, the Bank measures financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for:

(a) loans and receivables which shall be measured at amortised cost using the effective interest method;
(b) held-to-maturity investments, which are measured at amortised cost using the effective interest rate;
(c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

The fair values of quoted financial instruments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities) the Bank establishes fair value by using valuation techniques which include recent arm's length market transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Where a fair value cannot be reliably estimated, unquoted instruments that do not have a quoted market price in an active market are measured at cost and periodically reviewed for impairment.

After initial recognition, financial liabilities are measured at amortised cost using the effective interest method, except for:

(a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, are measured at fair value;
(b) financial liabilities resulting from transferring a financial asset that is not to be derecognised.

Financial assets and financial liabilities that are designated as hedged items are subject to measurement under hedge accounting requirements.

Reclassification

A financial asset classified as available for sale may be reclassified out of this category if it meets the definition of loans and receivables and if the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity. The fair value of the financial asset on the date of the reclassification becomes its new cost or new amortised cost.

For a financial asset which has a fixed maturity, gain or loss recognised in equity until the date of the reclassification is amortised and recognised in the statement of comprehensive income over the period remaining until maturity. Any difference between the new amortised cost and the amount of impairment is amortised over the period remaining until maturity of the financial instrument. Amortisation is based on the effective interest rate.

Gains and losses on subsequent measurement

A gain or loss arising from a change in the fair value of a financial asset or financial liability that is not part of a hedging relationship is recognised as follows:

- a gain or loss on a financial asset or financial liability classified at fair value through profit or loss is recognised in profit or loss;
- a gain or loss on an available-for-sale financial asset, except for impairment losses, is recognised in other comprehensive income, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in profit or loss. However, interest calculated using the effective interest method is recognised in profit or loss. Dividends on an available-for-sale equity instruments are recognised in profit or loss when the entity's right to receive payment is established.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when there is:

(a) a legally enforceable right to set off the recognised amounts;
(b) and when there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Subsidiaries, associates and joint ventures

An investment in subsidiaries, associates and joint ventures is recognised at cost less impairment. Impairment is recognised in the income statement. A release of an impairment provision is recognised in a statement of comprehensive income if estimates used to calculate return on investment have changed.

Repurchase and reverse repurchase transactions

The bank also generates/invests funds by selling/purchasing financial instruments under repurchase/reverse repurchase agreements whereby the instruments must be repurchased/resold at the previously agreed price.

Securities sold subject to repurchase agreements ("repo and sell-buy-back transactions") are not derecognised from the statement of financial position at the end of the reporting period. The difference between sale and repurchase price is treated as interest cost and accrued over the life of the agreement.

Securities purchased subject to resale agreements ("reverse repo and buy-sell-back transactions") are not recognised in the statement of financial position at the end of the reporting period. The difference between purchase and resale price is treated as interest income and accrued over the life of the agreement.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value. After their initial recognition, derivatives are subsequently measured at their fair values without any deduction for transactions costs to be incurred on sale or disposal. The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received).

Certain derivatives embedded in other financial instruments shall be separated from the host contract and accounted for as a derivative if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract and the host contract is not carried at fair value through profit or loss. Embedded derivatives are measured at fair value with changes recognised through the profit and loss account.

The Bank uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. Derivatives that do not qualify for hedge accounting are accounted for as trading instruments and recognised at fair value.

Hedge accounting

Hedge accounting recognises the offsetting effects on the statement of comprehensive income of changes in the fair values of the hedging instrument and the hedged item.

At the inception of the hedge there is formal designation and documentation of the hedging relationship and the Bank's risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged. The Bank also documents, at inception and on ongoing basis, an assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in the fair value of the hedged item.

The Bank uses derivative financial instruments among others to hedge its exposure to interest rate risks arising from operational, financing and investment activities.

The Bank discontinues hedge accounting when:

(a) it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
(b) the derivative expires, or is sold, terminated, or exercised;
(c) the hedged item matures or is sold or repaid.

Fair value hedge

This is a hedge of the exposure to changes in fair value of a recognised asset or liability or an unrecognised firm commitment, or an identified portion of such an asset, liability or firm commitment, that is attributable to a particular risk and could affect the statement of comprehensive income.

A fair value hedge is accounted for as follows: the gain or loss from remeasuring the hedging instrument at fair value (for a derivative hedging instrument) shall be recognised in profit or loss; and the gain or loss on the hedged item attributable to the hedged risk shall adjust the carrying amount of the hedged item and be recognised in profit or loss. This applies also to the hedged item, which otherwise would be measured at amortised cost and presented as available-for-sale financial asset.

Cash flow hedge

This is a hedge of the exposure to variability in cash flows that:

(a) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction and
(b) could affect the statement of comprehensive income.

A cash flow hedge is accounted for as follows: the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge shall be recognised directly in other comprehensive income and the ineffective portion of the gain or loss on the hedging instrument shall be recognised in profit or loss.

Interest income and expenses from cash flow hedge instruments are recognised as net interest income.

Impairment of financial assets

Assets carried at amortised cost – loans and receivables

The Bank assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets, or off-balance sheet commitments are impaired. A financial asset or a group of financial assets, or contingent commitments are impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a “loss event”) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. It may not be possible to identify a single, discrete event that caused the impairment. Rather the combined effect of several events may have caused the impairment. Losses expected as a result of future events, no matter how likely, are not recognised. Objective evidence that a financial asset or group of assets is impaired includes observable data about the following loss events:

(a) significant financial difficulty of the issuer or obligor;
(b) a breach of contract, such as a default or delinquency in interest or principal payments;
(c) the Bank, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Bank would not otherwise consider;
(d) it becoming probable that the borrower will enter bankruptcy, recovery, arrangement or other financial reorganisation;
(e) the disappearance of an active market for that financial asset because of financial difficulties; or
(f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the Bank, including:
    (i) adverse changes in the payment status of borrowers in the Bank, or
    (ii) national or local economic conditions that correlate with defaults on the assets in the Bank.

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). If a loan or receivable has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The carrying amount of the asset shall be reduced through identification of a provision. The amount of the loss shall be recognised in profit or loss.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs in obtaining and selling the collateral, whether or not foreclosure is probable.

The Bank periodically reviews its loan portfolio to check whether there is any objective evidence that a financial asset or group of financial assets are impaired.

With regard to impairment, the review of individual loan exposures is carried out once a quarter or more often, if needed. Impairment for the portfolio (collective approach), which is assessed jointly, is verified monthly. The Bank carries out validation (so called "back tests") of parameters which are used to calculate provisions under collective approach, on the basis of historical observations, at least twice a year.

Impairment of individual loan exposures is based on the amount of prospective receivables (defined as the current value of expected cash flows discounted by the effective interest rate) using the scenario-based approach to the individually significant exposures. As part of the scenario analysis, the relationship manager selects the strategy that reflects the current recovery method. Within each strategy, consideration is given to other possible scenarios. The selected strategy affects the parameters that can be used in the model. In the individual approach, the impairment is determined based on the calculation of the total likelihood-weighted impairment charges estimated for all the possible recovery scenarios, depending on the recovery strategy currently employed vis-à-vis the customer.

In the scenario analysis, the key strategies / scenarios used are as follows:

- Recovery from the operating cash flows / refinancing / capital support;
- Recovery through the voluntary liquidation of collateral;
- Recovery through debt enforcement;
- Recovery through an arrangement / turnaround / bankruptcy;
- Recovery by take-over of the debt / assets / sale of receivables.

Under the collective approach, credit exposures are grouped into portfolios reflecting specific features of the client or product (property, commercial customers, SMEs, mortgages, overdrafts, cash loans, etc.). Each portfolio contains systematic pools based on similar characteristics of the credit risk, i.e.:

- Internal grade;
- Timeliness of debt service;
- Time that has elapsed from the moment of default, i.e. from identification of an indication of impairment;
- Time that has elapsed since an indication of impairment ceased to exist;
- Time from the commencement of debt enforcement;
- Implementation of restructuring measures;
- Parameters specific to certain products (e.g. currency, distribution channel).

If the Bank determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised by the Bank are not included in a collective assessment of impairment.

For the purpose of the collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics that are indicative of the debtors' ability to pay all amounts due according to the contractual terms (for example, on the basis of the bank's credit risk evaluation or the bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). The characteristics chosen are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

The rating systems have been internally developed and are continually being enhanced, e.g. externally benchmarked to help underpin the aforementioned factors which determine the estimates of expected loss.

Future cash flows for a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from period to period (such as changes in unemployment rates, property prices, commodity prices, payment status or other factors that are indicative of incurred losses in the group and their magnitude). The Bank reviews regularly the methodology and assumptions used for estimating future cash flows in order to reduce any differences between loss estimates and actual loss experience.

IBNR (Incurred But Not Reported) provisions are also maintained to cover loans, which are impaired at the end of the reporting period and, while not separately identified, are known from experience to be present in any portfolio of loans.

IBNR provisions are maintained at levels that are deemed appropriate by management having considered: credit grading profiles and grading movements, historic loan loss rates, changes in credit management, procedures, processes and policies, economic climates, portfolio sector profiles/industry conditions and current estimates of loss in the portfolio.

Estimates of incurred but not reported losses (IBNR) take into account the following key factors:

- EP - Emergence Period i.e. estimated time between the occurrence of event of default and its identification by the Bank;
- PD - Probability of Default, based on historical observations together with EP is considered to be best indicator of incurred but not reported losses;
- LGD - Loss Given Default i.e. the fraction of the exposure amount that will be lost in the event of default;
- EAD - Exposure at Default;
- CCF - Credit Conversion Factor for the bank's contingent commitments (conversion of off-balance sheet items into on-balance sheet exposure).

These parameters are estimated based on historical experience of losses on loans with a similar credit profile on account of the adopted granularity of the estimated risk parameters.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed by adjusting the provision. The reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed.

The amount of the reversal is recognised in profit or loss.

When a loan has been subject to a specific provision and the prospects of recovery do not improve, eventually it may be concluded that there is no real prospect of recovery. When this point is reached, the amount of the loan which is considered to be non-recoverable is written off against the related provision for loan impairment. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in the income statement.

Available-for-sale financial assets

For financial assets classified as available-for-sale for which there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in other comprehensive income shall be removed and recognised in profit or loss. The amount of the cumulative loss that is removed from other comprehensive income and recognised in profit or loss shall be the difference between the acquisition cost (net of any principal repayments and amortisation) and current fair value. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss shall be reversed, with the amount of the reversal recognised in profit or loss.

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

Held-to-maturity investments

If there is objective evidence of impairment of the held-to-maturity investments carried at amortised cost, the impairment loss is the difference between the balance sheet value of the asset and the present value of estimated future cash flows discounted using the original effective interest rate (i.e. the effective interest rate at the date of initial recognition). If the investment is a variable rate instrument, the discount rate used for estimation of impairment is the present effective interest rate set under the particular contract. The balance sheet value of the asset is reduced by recognising the applicable provisions in the bank's loss.

Contingent liabilities

The bank creates provisions for impairment of risk-bearing irrevocable conditional liabilities (irrevocable credit lines, financial guarantees, letters of credit, etc.). The value of the provision is determined as the difference between the estimated amount of available conditional exposure and the current value of expected future cash flows under this exposure.

Property, plant and equipment

Owned assets

Property, plant and equipment are stated at cost or deemed cost less accumulated depreciation and impairment losses.

Leased assets

Leases for which the Bank assumes substantially all the risks and rewards of ownership are classified as finance leases. Owner-occupied property acquired through finance lease is stated at an amount equal to the lower of its fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Subsequent expenditure

The bank recognises in the carrying amount of property, plant and equipment the cost of replacing part of such an asset when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Bank and the cost of the item can be measured reliably. All other costs are recognised in the income statement as an expense as incurred.

Depreciation

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each asset. The estimated useful lives are as follows:

- buildings 40 years
- structures 22 years
- plant and equipment 3 – 14 years
- vehicles 4 years

Depreciation rates are verified annually. On the basis of this verification, depreciation periods might be changed.

Fixed assets held for sale

On initial date of classification of non-current assets as assets held-for-sale, the Bank measures them at the lower of carrying amount and fair value less cost to sell.

Any initial or subsequent write-down of assets held-for-sale to fair value less cost to sell is recognised in the profit and loss account.

Goodwill and Intangible assets

Goodwill

Goodwill as of the acquisition date measured as the excess of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities, less impairment. Goodwill value is tested for impairment annually.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Costs that are directly associated with the production of identifiable and unique software products controlled by the Bank, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Other intangible assets

Other intangible assets that are acquired by the Bank are stated at cost less accumulated amortisation and impairment losses.

Subsequent expenditure

Subsequent expenditure on capitalised intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation

Amortisation is charged to the income statement on a straight-line basis over the estimated useful lives of intangible assets. The estimated useful life is three years.

Amortisation rates are verified annually. On the basis of this verification, amortisation periods might be changed.

Other items of statement of financial position

Other trade and other receivables

Trade and other receivables are stated at cost less impairment losses.

Other liabilities

Liabilities, other than financial liabilities, are stated at cost.

Equity

Equity comprises capital and funds created in accordance with applicable law, acts and the Statutes. Equity also includes retained earnings and prior year losses carried forward.

Share capital is stated at its nominal value in accordance with the Statutes and the entry in the court register.

Supplementary capital is created from profit allocations and share issue premiums.

Reserve capital is created from profit allocations and is earmarked for covering balance sheet losses.

The result of valuation of profit sharing scheme is included in reserve capital (IFRS 2.53).

Revaluation reserve is comprised of adjustments relating to the valuation of available-for-sale financial assets and adjustments relating to the valuation of effective cash flow hedges taking into account deferred tax and actuarial gains from estimating provision for retirement. The revaluation reserve is not distributable.

On derecognition of all or part of financial assets available for sale the total effects of periodical change in the fair value reflected in the revaluation reserve are reversed. Total or part of the previous revaluation charge increases or decreases the value of the given financial asset available for sale. The effects of the fair value changes are removed from the revaluation reserve with a corresponding change in the profit and loss account.

The net financial result for the accounting year is the profit disclosed in the profit and loss account of the current year adjusted by the corporate income tax charge.

Custody services

Income from custody services is an element of the fee and commission income. The corresponding customer assets do not form part of the Bank's assets and as such are not disclosed in the consolidated statement of financial position.

Dividends

Dividends for a particular year, which have been declared and approved by the General Meeting of Shareholders but not paid at the at the end of the reporting period are recognised as dividend liabilities in "other liabilities" item.

Employee benefits

Short-term service benefits

The Bank's short-term employment benefits which include wages, bonuses, holiday pay and social insurance payments are recognised as an expense as incurred.

Long-term service benefits

The Bank's net obligation in respect of long-term service benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The accrual for retirement bonus is estimated using actuarial valuation methods. The valuation of those accruals is updated at least once a year.

Share based payments

The Bank operates a share based compensation plan. For share options after 07.11.2002 (IFRS 2.53), the fair value of the employee services received is measured by reference to the fair value of awards granted on the day of the grant. The cost of the employee services received in exchange for awards granted is recognised in the income statement over the period during which the employees become unconditionally entitled to the share based payments, which is the vesting period. The amount expensed is determined by reference to the fair value of awards granted. The fair value of awards granted is determined using the share based payments pricing models, which take into account the exercise price of the award, the share price at date of grant, the risk free rate, the expected volatility of the share price over the life of the award and other relevant factors. The Bank assesses probability of the programme vesting which affects the programme value in the costs of the reporting period.

Vesting conditions included in the terms of the grant are not taken into account in estimating fair value except where those terms are dependent on market conditions. Non-market vesting conditions are taken into account by adjusting the number of awards included in the measurement of the cost of employee services so that ultimately, the amount recognised in the income statement reflects the number of vested awards.

The expense related to share based payments is credited to shareholder's equity. Where the share based payment arrangements give rise to the issue of new shares, the proceeds of issue of the shares are credited to share capital (nominal amount) and share premium (if any) when awards are exercised.

Provisions

A provision is recognised in the balance sheet when the Bank has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Provisions for off balance sheet items such as guarantees, letters of credit, and unutilised irrevocable credit facilities are recognised in accordance with this policy.

Net income on bancassurance

For the selected loan products, where direct linkage to the insurance product has been identified, the Bank splits realised income into a portion recognised as interest income according to effective interest rate method and a portion recognised as fee income. The Bank qualifies distributed insurance products as linked to loans in particular if the insurance product is offered to the customer only with a loan, i.e. there is no possibility to purchase identical product in the Group, regarding its legal form, terms and conditions or economic substance without purchasing a loan.

To determine what part of income is an integral part of the credit agreement recognised as interest income using effective interest rate, the Bank separates the fair value of the financial instrument offered and the fair value of the insurance product sold together with such instrument. The portion that represents an element of the amortised cost of the financial instrument and the portion that represents remuneration for the agency services are split in proportion to the fair value of the financial instrument and the fair value of the agency service cost, respectively, relative to the sum of the two values.

The portion of income that is considered an agency fee for sales of an insurance product linked to a loan agreement is recognised by the Bank as fee income when the fee is charged for sales of an insurance product.

The Bank verifies the accuracy of the assumed allocation of different types of income at least annually.

Fees charged on insurance products that are paid cyclically during the term of the loan agreement (e.g. monthly, quarterly, annually) are recognised in the profit and loss account as fee and commission income when the fee is charged.

Net interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably.

Interest income and expenses for all financial instruments is recognised in the income statement at amortised cost using the effective interest rate method.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but does not consider future credit losses.

The calculation includes all fees (e.g. arrangement, drawdown, renewal, restructure fees and fees for annexes which modify payments) and amounts paid or received between parties to the contract, transaction costs, and all other premiums or discounts.

Costs that can be directly related to the sales of loan products are partly amortised according to the effective interest method, if there is a possibility of direct allocation to the specific loan agreement, and partly recognised in the fee income, at the moment of realisation, if there is no possibility of direct allocation to the specific loan agreement.

For the selected loan products, where direct linkage to the insurance product has been identified, the Bank splits realised income into a portion recognised as interest income according to effective interest rate method and a portion recognised as fee income. The Bank qualifies distributed insurance products as linked to loans in particular if the insurance product is offered to the customer only with a loan, i.e. there is no possibility to purchase identical product in the Group, regarding its legal form, terms and conditions or economic substance without purchasing a loan.

The Bank verifies the accuracy of the assumed allocation of different types of income at least annually.

In case impairment is recognised for a financial asset, interest income is accrued based on the carrying amount of receivable (i.e. the value reduced by revaluation charge) using the interest rate according to which future cash flows were discounted for impairment valuation.

Net commission income

Fees and commissions settled under effective interest rate are listed above.

Fees on overdrafts, revolving loans, credit cards and off balance sheet liabilities are recognised on a straight-line basis in the profit and loss account. Other fees and charges, which are not settled according to effective interest rate, are included in profit and loss account in accordance with accrual method.

Net fee and commission income from FX transactions in the branch network includes elements of revaluation.

Net trading income and revaluation

Net trading income and revaluation include profits and losses resulting from changes in fair value of financial assets and liabilities classified as held for trading that are measured at fair value through profit and loss. Interest cost and income related to the debt instruments are also reflected in the net interest income.

Dividend income

Dividends are taken to the Bank's profit at the moment of acquiring rights to them, provided that it is probable that the economic benefits will flow to the Bank and the amount of income can be measured reliably.

Profit on disposal of subsidiaries, associates and joint ventures

Profit on the sale of interests in subsidiaries is the difference between the net asset value and their sale price.

Profit on the sale of interests in associates and joint ventures is the difference between the carrying amount and their sale price.

Other operating income and costs

Other operating income and costs include expenses and revenues, which are not related directly to the statutory activity of the Bank. These are primarily revenues and costs from the sale and liquidation of fixed assets, income from sale of other services, paid and received damages, penalties and fines.

Operating lease payments

Operating lease payments are taken to the Bank's cost on a straight-line basis over the lease term.

Finance lease payments

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Corporate income tax

Corporate income tax comprises current and deferred tax. Income tax is recognised in profit and loss except to the extent that it relates to items recognised in other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years. Deferred income tax is provided, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the end of the reporting period and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences will be utilised. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised. Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

3. Risk management

Bank Zachodni WBK is exposed to a variety of risks in its ordinary business activities. The role of risk management is to ensure that the Bank continues to take risk in a controlled way in order to enhance shareholder value. Risk is a possibility that some events would materialise, which would impact the achievement of the Bank's strategic goals.

Risk management policies are designed to identify and measure those risks, define the most profitable return within the accepted risk level (risk-reward), and to continually set and review appropriate risk limits, which restrict the risk exposure.
Bank Zachodni WBK continues to modify and enhance its risk management practices to reflect changes in the Bank's risk profile, economic environment, regulatory requirements and evolving best practice.

In Bank Zachodni WBK, the Management Board and Supervisory Board set the business direction and actively support the risk management strategies. This is achieved by approving the key risk management policies, participation of the Management Board Members in the risk management committees, reviewing and signing off on the key risks and risk reports.

The Supervisory Board continuously oversees the risk management system. The Supervisory Board approves the strategy, key risk management policies, the acceptable risk level and monitors the utilisation of the internal limits in relation to the current business strategy and macroeconomic environment. It conducts the reviews of the key risk areas, the identification of threats and the process of defining and monitoring of remedial actions. The Supervisory Board assesses if the Management Board control activities are effective and aligned with the Supervisory Board policy, including the assessment of the risk management system.

Audit and Compliance Committee of the Supervisory Board supports the Supervisory Board in its supervisory activities. The Committee annually reviews the internal controls in financial reporting, accepts the reports from the independent internal audit unit and compliance units. The Committee receives the regular quarterly reports on the status of the implementation of audit recommendations as the basis of the assessment of the quality of management actions. The Audit Committee assesses the efficiency of the internal control system and the risk management system.

Risk Oversight Committee supports the Supervisory Board in assessment of the effectiveness of the internal control system and risk management system and the resources, which were accepted and planned in order to provide the efficient management of the material risks of the Bank.

Management Board is responsible for the effectiveness of the risk management. In particular, the Management Board introduces the organisational structure aligned with the level and profile of the risk being undertaken, split of the responsibilities providing the separation of the risk measurement and control function from the operational activity, is responsible for implementation and updating of the written risk management strategies, and transparency of the activities. The Management Board reviews the financial results of the Bank. The Management Board established a number of committees directly responsible for the development of the risk management methodology and monitoring of risks in particular areas.

Risk Management Committee sets the direction of the risk management strategy in Bank Zachodni WBK. The Risk Management Committee has a supervisory role for all the committees responsible for managing the risks identified in the Bank's operations. The comprehensive reporting process ensures that the Committee has a full and consistent picture of the Bank's current risk profile.

The Risk Management Committee has an oversight over the following risk committees:

Risk Management Forum, a body authorised to approve and supervise the risk measurement policy and methodology and to monitor the credit risk, market risk in the banking book, market risk in the trading book, structural balance sheet risk and liquidity risk. The Forum operates through 5 panels:

- **Credit Risk Panel;**
- **Market Risk Panel;**
- **Models and Methodology Panel;**
- **Equity Investment and Underwriting Panel;**
- **Information Management Panel.**

Credit Committee takes credit decisions in accordance with the applicable credit discretion levels.

Provisions Committee decides on the amount of impairment losses on credit exposures and the legal provisions. The Committee approves the methodology and the parameters used for the calculation of impairment on a portfolio level for the Bank.

Monitoring Committee ensures a continuous and effective monitoring of the credit portfolio of the business and the corporate segment.

Operational Risk Management Committee (ORMCo) sets the strategic activities within the operational risk management in the Bank, including business continuity management, information security and fraud prevention.

Assets and Liabilities Committee (ALCO) exercises oversight over the banking portfolio activity and takes decisions on liquidity management and the management of the interest rate risk on the banking book. It is responsible for the funding and balance sheet management, including for the pricing policy.

Capital Committee is responsible for capital management, in particular the ICAAP process.

Disclosures Committee verifies the Bank's financial information in terms of its compliance with legal and regulatory requirements.

Deposit Working Group has a responsibility for ensuring a balanced growth of the savings and investment products portfolio.

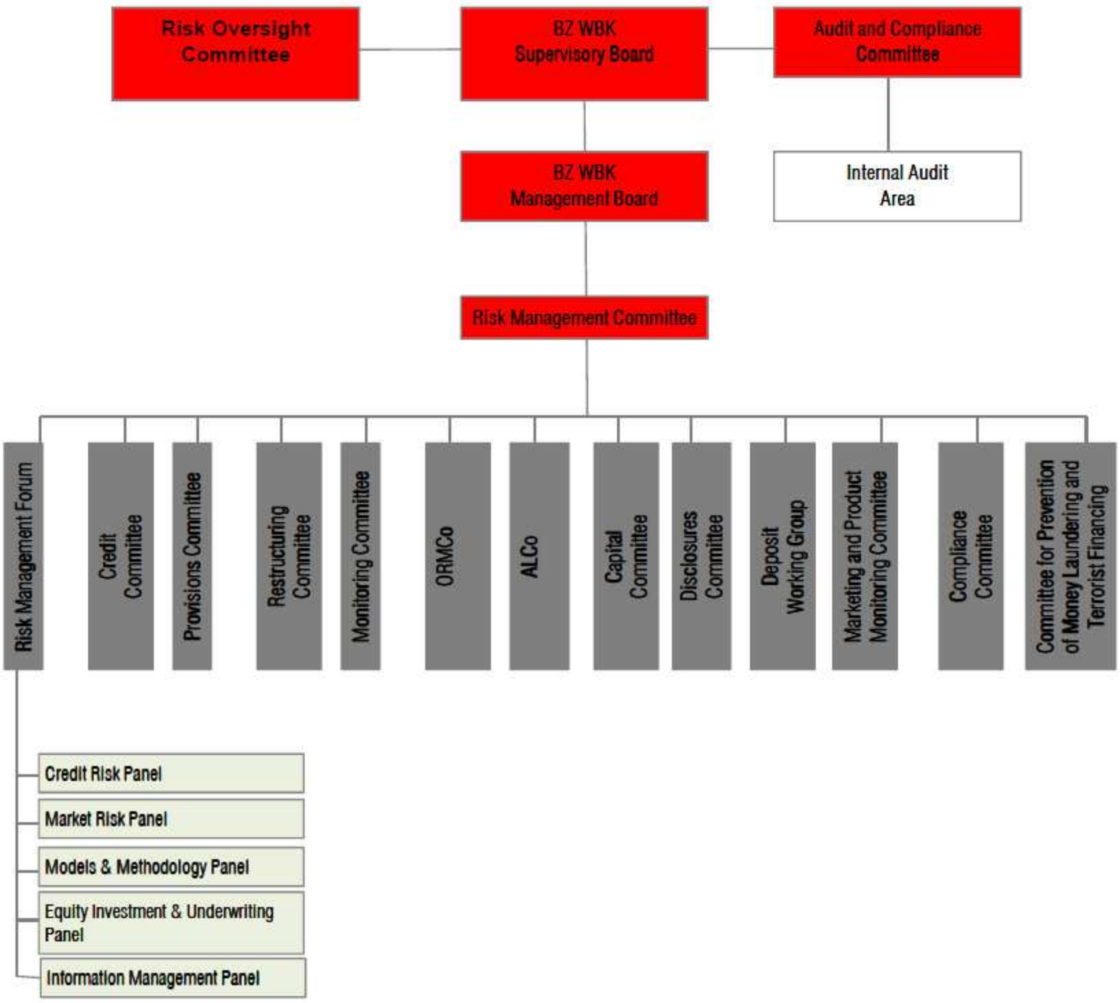
Product Marketing and Monitoring Committee approves new products and services to be implemented in the market, taking into account the reputation risk analysis.

Compliance Committee is responsible for setting standards with respect to the management of compliance risk and the codes of conducts adopted by the Bank.

Anti-Money Laundering and Terrorism Financing Committee approves the Bank's policy on prevention of money laundering and the financing of terrorism. It approves and monitors the Bank's activities in this area.

Restructuring Committee takes decisions as to the relationship management strategy for borrowers in distress as well as the cancellation and sale of loan receivables under the lending discretions.

The picture below presents the corporate governance in relation to the risk governance process.



Risk management is consistent with risk profile resulting from agreed general risk appetite approved by the Risk Management Committee.

Risk appetite is expressed as quantitative limits and captured in the "Risk Appetite Statement" approved by the Management Board and the Supervisory Board. With global limits in place, watch limits are set and risk management policies are drafted.

Bank Zachodni WBK is exposed to a variety of risks affecting its strategic goals. The Bank continuously analyses the risks, identifies their sources, creates the relevant risk management mechanisms including among others the measurement, control, mitigation and reporting. The risks the Bank is exposed to include:

- credit risk;
- concentration risk;
- market risk in the banking and trading books;
- liquidity risk;
- operational risk;
- compliance risk.

Detailed principles, roles and responsibilities of the Bank's units have been described in the relevant internal policies on the management of the particular risks.

Credit risk

The credit delivery activities of Bank Zachodni WBK focus on growing a high quality and profitable loan-book and ensuring customer satisfaction.

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

The Bank's credit risk arises mainly from lending activities on the retail, corporate and inter-bank markets. This risk is managed as part of the policy approved by the Management Board on the basis of the adopted credit procedures as well as on the basis of discretionary limits allocated to individual credit officers based on their knowledge and experience. The Bank's internal system of credit grading and monitoring allows for an early identification of likely defaults that might impair the loan-book. Additionally the Bank uses a large set of credit risk mitigation tools, both collaterals (financial and non-financial) and specific credit provisions and clauses (covenants).

The Bank continues to develop and implement risk based methods of grading loans, allocating capital and measuring returns. Risk valuation models are used for all credit portfolios.

One of the Bank's priorities in 2015 was to amend the internal risk management regulations in accordance with the new regulatory requirements in order to further enhance security in the areas exposed to risk. In addition, the Bank introduced a number of changes to optimise the processes and tools, with a particular focus on the quality of customer service (improvements in the lending process for retail and corporate customers).

The Bank continues to develop and implement processes and procedures of managing and monitoring of credit portfolio' risk adjusting them to the revised regulatory requirements, especially to Recommendations of KNF.

The Bank is closely looking at the macroeconomic environment and analysing its credit exposure to particular customer segments and economic sectors to respond with an adequate and prompt action and adjust its credit policy parameters accordingly. The bank also introduced changes to its pricing policy in response to falling reference rates.

Risk Management Forum

The credit risk oversight in Bank Zachodni WBK is performed by Credit Policy Panel (CPP) operating within the Risk Management Forum. Its key responsibilities include development and approval of the best sectoral practice, industry analyses, credit policies as well as implementation of grading and assessment systems aimed at ensuring sustainable growth of the credit portfolio. To align the Bank's management processes with the current strategic goals, three sub-committees were established within the CPP with a responsibility for the key customer segments: retail segment, SME segment and the business/corporate segment. The oversight over the credit risk models is the responsibility of the Models and Methodology Panel.

Risk Management Division

The Risk Management Division is responsible for a consolidated credit risk management process, including management and supervision of credit delivery, defining credit policies, providing decision-making tools and credit risk measurement tools, quality assurance of the credit portfolio and provision of reliable management information on the credit portfolio.

Credit Policies

Credit policies refer to particular business segments, loan portfolios and banking products. They contain guidelines for the identification of the areas where specific types of risks manifest themselves, specifying the methods of their measurement and mitigation to the level acceptable to the Bank (e.g. "Loan-to-Value" ratios, FX risk in the case of foreign currency loans).

The Bank reviews and updates its credit policies on a regular basis, aiming to bring them in line with the Bank's strategy, current macroeconomic situation, legal developments and changes in regulatory requirements.

Credit Decision Making Process

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

The Bank continually strives to ensure best quality credit service while satisfying the borrowers' expectations and ensuring security of the credit portfolio. To this end, the credit risk approval function has been segregated from the sales function.

Credit Grading

Intensive work has been undertaken to further develop credit risk assessment tools to conform to the recommendations of the Polish Financial Supervision Authority, the International Accounting Standards/International Financial Reporting Standards and the best practice in the market.

The Bank uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, home loans, property loan, cash loans, credit cards and personal overdrafts.

The Bank regularly monitors its credit grading using the rules specified in its Lending Manuals. Additionally, for selected models, automated process of credit grade verification is carried out based on the number of overdue days or an analysis of the customer's behavioural data. Credit grade is also verified at subsequent credit assessments.

Credit Reviews

The Bank performs regular reviews to determine the actual quality of the credit portfolio, confirm that adequate credit grading and provisioning processes are in place, verify compliance with the procedures and credit decisions and to objectively assess professionalism in credit management. The reviews are performed by the two specialised units: Credit Review Department and the Control & Quality Assessment Department, which are independent of the risk-taking units.

Collateral

In the Bank's security model, the Securities and Credit Documentation Centre is the central unit responsible for creation and maintenance of securities.

The role of the Centre is to ensure that security covers are duly established and held effective in line with the lending policy for all business segments. The unit is also responsible for developing standardised internal procedures with respect to perfecting and maintaining validity of collateral as well as ensuring that establishment, monitoring and release of security covers is duly effected.

Furthermore, the Securities and Credit Documentation Centre provides assistance to credit units in credit decision making and development of credit policies with respect to collateral. The unit gathers data on collateral and ensures appropriate management information.

The tables below show types of collateral that can be used to secure loans and advances to customers from non-banking sector.

Retail customers

Type of loan	Type of collateral
Cash loan	bills, guarantees, credit insurance
Credit on liquid assets	guaranty deposit, amounts frozen on account, investment funds
Student loan	sureties
Housing loan	mortgage, credit insurance, transfer of claim
Leasing	bills, guarantees, transfer of rights to bank's account; court registered pledge on movables; transfer of ownership, open mortgage, obligation of the leased asset supplier to buy the asset back (buy-back guarantee)

Business customers

Type of loan	Type of collateral
Commercial credit	guaranty deposit, registered pledge, bills
Revolving credit	assignment of credit, bills, guarantees, registered pledge
Building credit	mortgage
Investment credit	mortgage, sureties, warranty
Granted and with supplements	guarantees, warranty
Leasing	bills, guarantees, transfer of rights to bank's account; court registered pledge on movables; transfer of ownership, open mortgage, obligation of the leased asset supplier to buy the asset back (buy-back guarantee)

Collateral management process

Before a credit decision is approved, the Securities and Credit Documentation Centre assesses the collateral quality, a process that includes:

- verification of the valuation reports – assessment of the security value;
- assessment of the legal status of the security;
- assessment of the investment process for the properties;
- seeking legal advice on the securities offered.

The Securities and Credit Documentation Centre actively participates in the individual stages of the credit process, focusing on:

- drafting credit documentation;
- verification and assessment of the signed credit documentation;
- verification of data in the IT systems;
- collateral monitoring and reporting;
- releasing the collateral.

The Bank's process of managing its exposures also includes liquidation of collateral. The choice of the scope and method of collateral liquidation to satisfy the Bank's claims depends on the type of collateral (personal or tangible). As a rule, the Bank aims to liquidate the collateral voluntarily through negotiation. If the collateral provider is uncooperative the Bank follows the debt collection course prescribed by law and the Bank's internal regulations.

Credit risk stress testing

Stress testing is one of the components of the credit risk management process aimed at assessing how the Bank might be affected by specific changes in its environment, changes in financial and macroeconomic indicators or in the risk profile. The analysis also looks at the potential credit quality changes in the wake of adverse developments. The process also provides management information about adequacy of agreed limits and internal capital allocation.

Calculation of impairment

Bank Zachodni WBK posts impairment losses on credit exposures in accordance with the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS). Impairment losses reflect deterioration in the value of credit assets. An impairment loss is recognised if the Bank has objective evidence that the debt cannot be recovered in line with the signed loan agreement. Objective indications of impairment were defined in accordance with recommendations of the Basel Committee, the International Accounting Standards (IAS 39) and Recommendation R.

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

Twice a year, the Bank compares the assumptions and parameters used for impairment calculations with the actual situation, taking into account changes of economic conditions, amendments to the Bank's credit policies and recovery processes. The responsibility for ensuring adequacy of the impairment charges rests with the Provisions Committee.

in thousands of PLN

The tables below present the Bank’s maximum exposure to credit risk, for presentation purposes grouped by classes, defined by provisions cover.

31.12.2015	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Impaired portfolio					
Individually impaired					
	up to 50%	1 815 677	-	-	-
	50% - 70%	556 773	-	-	-
	70% - 85%	203 814	-	-	-
	over 85%	623 506	-	-	-
Gross amount		**3 199 770**	**-**	**-**	**-**
Impairment		(1 424 761)	-	-	-
Net amount		**1 775 009**	**-**	**-**	**-**
Collectively impaired					
	up to 50%	748 789	-	-	-
	50% - 70%	496 116	-	-	-
	70% - 85%	554 485	-	-	-
	over 85%	687 035	-	-	-
Gross amount		**2 486 425**	**-**	**-**	**-**
Impairment		(1 659 503)	-	-	-
Net amount		**826 922**	**-**	**-**	**-**
IBNR portfolio					
	up to 0,10%	42 125 337	4 756 503	22 576 246	4 174 634
	0,10% - 0,30%	21 369 336	-	-	-
	0,30% - 0,65%	8 439 085	-	-	-
	over 0,65%	6 817 449	-	-	-
Gross amount		**78 751 207**	**4 756 503**	**22 576 246**	**4 174 634**
Impairment		(340 430)	(1)		
Net amount		**78 410 777**	**4 756 502**	**22 576 246**	**4 174 634**
Other receivables		**129 602**	**-**	**-**	**-**
Off-balance sheet exposures					
Financing granted		20 863 916	-	-	-
Guarantees		4 488 628	-	-	-
Nominal value of derivatives - purchased		-	-	-	202 173 420
Allowance for off-balance sheet exposures		(55 276)	-	-	-
Off-balance sheet exposures - total		**25 297 268**	**-**	**-**	**202 173 420**

*The value of financial assets held for trading includes adjustment of the fair value as described in Note 19.

In 2015, Bank undertook to issue loans of PLN 1,746,957k under syndicate agreements, with a future payout date in 2016. Related impairment adjustment (above) and capital requirement for risk-weighted assets is immaterial.

in thousands of PLN

31.12.2014	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Impaired portfolio					
Individually impaired					
	up to 50%	2 270 954	-	-	-
	50% - 70%	495 567	-	-	-
	70% - 85%	271 511	-	-	-
	over 85%	785 613	-	-	-
Gross amount		**3 823 645**	**-**	**-**	**-**
Impairment		(1 709 956)	-	-	-
Net amount		**2 113 689**	**-**	**-**	**-**
Collectively impaired					
	up to 50%	670 326	-	-	-
	50% - 70%	495 587	-	-	-
	70% - 85%	587 265	-	-	-
	over 85%	404 887	-	-	-
Gross amount		**2 158 065**	**-**	**-**	**-**
Impairment		(1 370 142)	-	-	-
Net amount		**787 923**	**-**	**-**	**-**
IBNR portfolio					
	up to 0,10%	38 522 989	3 673 564	24 465 448	5 221 034
	0,10% - 0,30%	18 921 619	-	-	-
	0,30% - 0,65%	8 617 193	-	-	-
	over 0,65%	5 921 897	-	-	-
Gross amount		**71 983 698**	**3 673 564**	**24 465 448**	**5 221 034**
Impairment		(342 521)	(45)		
Net amount		**71 641 177**	**3 673 519**	**24 465 448**	**5 221 034**
Other receivables		**103 091**	**-**	**-**	**-**
Off-balance sheet exposures					
Financing granted		17 475 546	-	-	-
Guarantees		4 470 118	-	-	-
Nominal value of derivatives - purchased		-	-	-	140 069 431
Allowance for off-balance sheet exposures		(71 050)	-	-	-
Off-balance sheet exposures - total		**21 874 614**	**-**	**-**	**140 069 431**

*The value of financial assets held for trading includes adjustment of the fair value as described in Note 19.

IBNR portfolio

	Loans and advances to customers 31.12.2015	Loans and advances to customers 31.12.2014
Non-past due	**76 104 329**	**69 005 437**
Past-due	**2 646 878**	**2 978 261**
1-30 days	2 085 816	2 274 453
31-60 days	388 363	420 650
61-90 days	159 739	270 371
> 90 days	12 960	12 787
Gross amount	**78 751 207**	**71 983 698**

in thousands of PLN

Allowances for impairment by classes

Provision cover		Loans and advances to customers 31.12.2015	Loans and advances to customers 31.12.2014	Loans and advances to banks 31.12.2015	Loans and advances to banks 31.12.2014
Individual allowance for impairment					
	up to 50%	(351 186)	(468 989)	-	-
	50% - 70%	(334 924)	(294 796)	-	-
	70% - 85%	(149 758)	(206 017)	-	-
	over 85%	(588 893)	(740 154)	-	-
Total individual allowance for impairment		**(1 424 761)**	**(1 709 956)**	**-**	**-**
Collective allowance for impairment					
	up to 50%	(261 892)	(218 397)	-	-
	50% - 70%	(303 493)	(301 576)	-	-
	70% - 85%	(433 774)	(454 392)	-	-
	over 85%	(660 344)	(395 777)	-	-
Total collective allowance for impairment		**(1 659 503)**	**(1 370 142)**	**-**	**-**
IBNR					
	up to 0,10%	(11 899)	(10 120)	(1)	(45)
	0,10%-0,30%	(40 699)	(29 218)	-	-
	0,30%-0,65%	(40 347)	(41 288)	-	-
	over 0,65%	(247 485)	(261 895)	-	-
Total IBNR		**(340 430)**	**(342 521)**	**(1)**	**(45)**
Total allowance for impairment		**(3 424 694)**	**(3 422 619)**	**(1)**	**(45)**

Credit risk concentration

Bank Zachodni WBK S.A. adheres to the standards provided for in the Banking Law with regard to the concentration of risk bearing exposures to a single entity or a group of entities connected in terms of capital or organisation. As at 31.12.2015, pursuant to art. 71 of the Banking Law Act, the maximum limits for the bank totalled:

- PLN 3,510,684 k (25% of Bank's own funds).

The policy pursued by the Bank aims at minimising the credit concentration risk, by for example applying more rigorous than regulatory rules in this respect. The effect of this policy is maintenance of high level of diversification of exposures towards individual customers.

The analysis of the Bank's exposures in terms of sector concentrations, carried out at the end of December 2015, proved that the Bank does not have any exposures in excess of the limits imposed by the regulator.

in thousands of PLN

A list of the 20 largest borrowers (or group of capital-related borrowers) of Bank Zachodni WBK S.A. (performing loans) as at 31.12.2015.

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure	Committed credit lines, guarantees, treasury limits and capital investments
64	OTHER FINANCIAL SERVICES	4 103 499	999 599	3 103 900
64	OTHER FINANCIAL SERVICES	3 719 204	3 238 626	480 578
64	OTHER FINANCIAL SERVICES	2 860 000	2 774 551	85 449
64	OTHER FINANCIAL SERVICES	2 224 574	1 341 986	882 588
61	TELECOMMUNICATION	1 419 999	1 129 054	290 945
06	MINING	1 250 988	72 206	1 178 782
35	POWER INDUSTRY	968 984	183 984	785 000
19	RAFINERY	761 910	404 167	357 743
07	MINING	757 601	140 436	617 165
19	RAFINERY	656 709	174 858	481 851
35	POWER INDUSTRY	560 329	507 363	52 966
35	POWER INDUSTRY	529 168	480 168	49 000
41	CONSTRUCTION	429 001	1	429 000
20	CHEMICAL INDUSTRY	410 000	143 389	266 611
68	REAL ESTATE SERVICES	407 369	285 831	121 538
61	TELECOMMUNICATION	403 409	-	403 409
33	MACHINE INDUSTRY	399 986	42 601	357 385
68	REAL ESTATE SERVICES	389 978	224 679	165 299
68	REAL ESTATE SERVICES	387 244	385 235	2 009
68	REAL ESTATE SERVICES	379 217	379 217	-
Total gross exposure		**23 019 169**	**12 907 951**	**10 111 218**

A list of the 20 largest borrowers (or group of capital-related borrowers) of Bank Zachodni WBK S.A. (performing loans) as at 31.12.2014.

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure	Committed credit lines, guarantees, treasury limits and capital investments
64	OTHER FINANCIAL SERVICES	5 580 147	5 083 097	497 050
64	OTHER FINANCIAL SERVICES	3 064 238	706 796	2 357 442
64	OTHER FINANCIAL SERVICES	2 870 739	2 853 500	17 239
61	TELECOMMUNICATION	1 294 195	1 090 902	203 293
19	RAFINERY	1 201 133	875 135	325 998
06	MINING	1 197 708	29 579	1 168 129
07	MINING	1 297 011	234 317	1 062 694
35	POWER INDUSTRY	751 000	-	751 000
68	REAL ESTATE SERVICES	743 207	742 949	258
35	POWER INDUSTRY	652 386	2 386	650 000
64	OTHER FINANCIAL SERVICES	545 430	338 520	206 910
33	MACHINE INDUSTRY	515 030	133 603	381 427
68	REAL ESTATE SERVICES	509 268	505 479	3 789
35	POWER INDUSTRY	459 786	131 486	328 300
19	RAFINERY	426 014	382 174	43 840
20	CHEMICAL INDUSTRY	417 248	417 248	-
41	CONSTRUCTION	414 013	357 828	56 185
33	MACHINE INDUSTRY	400 000	-	400 000
68	REAL ESTATE SERVICES	392 310	392 310	-
41	CONSTRUCTION	386 000	-	386 000
Total gross exposure		**23 116 863**	**14 277 309**	**8 839 554**

in thousands of PLN

Industry concentration

The credit policy of Bank Zachodni WBK assumes diversification of credit exposures. Risk of particular industry affects value of the exposure limit. In order to ensure adequate portfolio diversification and control the risk of overexposure to a single industry, the Bank provides funding to sectors and groups or capital units representing a variety of industries.

As at 31.12.2015, the highest concentration level was recorded in the “property” sector (11% of the Bank Zachodni WBK exposure), “distribution” (11%) and “financial sector” (11%).

Groups of PKD by industries:

		Gross exposure	
	Industry	**31.12.2015**	**31.12.2014**
	Property	9 646 258	8 869 552
	Distribution	9 309 131	9 142 478
	Financial sector	9 095 528	8 712 222
	Manufacturing	8 362 864	7 331 479
	Energy	1 633 540	1 454 388
	Transportation	1 186 794	1 068 087
	Agriculture	1 089 473	1 005 476
	Construction	870 331	1 078 112
	Other industries	4 408 734	3 782 707
A	**Total Business Loans**	**45 602 653**	**42 444 501**
B	**Retail (including mortgage loans)**	**38 834 749**	**35 520 907**
A+B	**BZ WBK portfolio**	**84 437 402**	**77 965 408**
C	**Other receivables (commercial bonds, reverse repo)**	**129 602**	**103 091**
A+B+C	**Total BZ WBK**	**84 567 004**	**78 068 499**

Forbearance Policy

Pursuant to the definition set out in the draft Implementing Technical Standards of the European Banking Authority, a forbearance measure (i.e. customer debt restructuring) consists of a concession towards a debtor facing financial difficulties or prosect difficulties which threaten the repayment of debt towards BZ WBK on the existing contractual terms. The concession may involve a modification of the previous terms and conditions of a debt contract or its total or partial refinancing. The purpose of debt restructuring is to better align repayment terms with the current and projected financial standing of the customer, minimise default risk and/or maximise recovery.

Restructuring does not refer to a technical or operational modification of contractual terms, or changes attributable to other factors than payment difficulties (business or market conditions).

The decision on granting a concession towards a customer with insufficient debt service ability is based on an analysis of its financial standing, assessment of repayment capacity under the new terms, analysis of existing collateral, assessment of the willingness to repay and the relationship history. The concessions depend on the results of the assessment and may involve in particular: moratorium on payments, modification of repayment schedule (reduced payments), interest capitalisation, extension of maturity etc. Such solutions may be applied to both personal and business customers.

In order to ensure a better quality of credit portfolio through early restructuring and facilitation of debt repayment by corporate customers:

- as part of the concessions granted, in 2014 the Recovery Committee was established to take decisions concerning the relationship management strategy for borrowers in distress whose exposure does not exceed PLN 25 m. Decisions concerning corporate credit exposures above PLN 25 m are left at the discretion of the Credit Committee,
- the Bank implemented the Early Restructuring Model which helps to identify high risk corporate customers and take relevant actions to mitigate the risk of loss of exposure through effective debt restructuring at an early stage. The responsibility for the management of credit exposures under restructuring rests with the Early Debt Restructuring Team.

The portfolio subject to restructuring is monitored on a regular basis. Each concession (debt restructuring) is adequately reflected in the systems to allow for identification of debt portfolio under restructuring. Debt/customer is classified as under restructuring throughout the restructuring period, i.e. until the Bank establishes that the customer circumstances are sustainable, restructuring conditions have been met, there are no overdue payments above 30 days and the customer has a satisfactory repayment capacity. In accordance with a prudent approach, customers are reported as “subject to restructuring” for the minimum period of two years. Restructuring is often a long process, therefore the Bank assumes that with the available solutions the credit portfolio in restructuring will steadily grow going forward. Debt under restructuring is a separate (independent) category to the performing/non-performing status.

in thousands of PLN

Accounting principles applicable to financial assets subject to forbearance are the same as in the case of other performing or non-performing assets in the Bank, that is loans and receivables are measured at amortised cost using the effective interest method. If the terms of a loan, receivable or held-to-maturity investment are renegotiated or otherwise modified because of financial difficulties of the borrower or issuer, the exposure is measured using the original effective interest rate before the modification of terms (in accordance with IAS 39 AG 84).

		Book value	
		31.12.2015	31.12.2014
Loans and advances to customers- gross amount under forebearance measure:		**3 916 577**	**3 686 698**
	corporate exposures	3 050 425	3 159 650
	mortgage exposures	779 432	478 251
	individuals exposures	86 720	48 797
Allowance for impairment - forbearance clients		**(1 128 786)**	**(1 100 124)**
of which:	individually impaired	(929 512)	(981 876)
Loans and advances to forebearance clients- net amount		**2 787 791**	**2 586 574**

Analysis of credit quality of financial assets subject to forbearance:

Loans and advances to customers under forbearance	Gross exposure		Collateral value		Allowance for impairment	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Loans and advances -impaired	**2 647 104**	**2 846 581**	**4 338 467**	**4 087 175**	**(1 087 399)**	**(1 061 858)**
Loans and advances -unimpaired	**1 269 473**	**840 117**	**3 131 955**	**2 588 496**	**(41 387)**	**(38 266)**
non-overdue	988 021	636 009	2 177 952	2 073 921	(29 774)	(27 631)
from 1 to 30 days overdue	204 106	125 292	782 207	203 267	(8 111)	(3 148)
from 31 to 60 days overdue	57 216	35 731	143 369	247 020	(2 798)	(3 279)
from 61 to 90 days overdue	20 130	43 085	28 427	64 288	(704)	(4 208)
Total gross amount	**3 916 577**	**3 686 698**	**7 470 422**	**6 675 671**	**(1 128 786)**	**(1 100 124)**

Interest income on assets subject to forbearance was PLN 107,202 k as at 31.12.2015 and PLN 89,945 k as at 31.12.2014

Loans and advances to customers under forbearance by geographical region (gross amount)	31.12.2015	31.12.2014
Dolnośląskie	258 702	204 342
Kujawsko-Pomorskie	43 945	36 143
Lubelskie	27 198	18 698
Lubuskie	43 560	22 219
Mazowieckie	1 814 027	1 840 821
Małopolskie	279 646	360 473
Opolskie	18 249	7 610
Podkarpackie	15 890	6 935
Podlaskie	18 320	8 574
Pomorskie	124 562	74 741
Warmińsko-Mazurskie	26 328	17 307
Wielkopolskie	259 228	218 587
Zachodniopomorskie	56 832	33 999
Śląskie	575 507	520 094
Świętokrzyskie	268 602	260 950
Łódzkie	85 981	55 205
Total	**3 916 577**	**3 686 698**

in thousands of PLN

Loans and advances to customers under forbearance by industry (gross amount)	31.12.2015	31.12.2014
Construction	364 526	263 474
Distribution	265 767	248 313
Energy	588 969	583 062
Financial sector	5 418	5 167
Other industries	564 151	658 133
Property	912 205	1 142 042
Manufacturing	303 185	215 387
Agriculture	8 409	1 627
Transportation	37 795	42 445
Individuals	866 152	527 048
Total	**3 916 577**	**3 686 698**

	31.12.2015 *
Net carrying amont as at 31.12.2014	2 586 574
Allowance for impairment	(28 662)
Loans and advances derecognised during the period	(33 356)
Loans and advances recognised during the period	1 301 381
Other changes/repayments	(1 038 146)
Net carrying amount as at 31.12.2015	**2 787 791**

*Due to the fact that this category has not been identified in Bank's systems in previous reporting periods, the Bank is not able to present data for the comparable period.

Market risk

Market risk is defined as an adverse earnings impact of changes in interest rates, FX rates, share quotations, stock exchange indices, etc. It arises in trading activity as well as in the ordinary course of transacting business (exchange rate products, interest rate products, equity linked trackers).

Bank Zachodni WBK is exposed to market risk arising from its activity on money and capital markets and services provided to customers. Additionally, the Bank undertakes the market risk related to the active management of balance sheet structure (assets and liabilities management).

The activity and strategies on market risk management are directly supervised by the Risk Management Forum.

General principles of market risk management

The key objective of the market risk policy pursued by the Bank is to reduce the impact of the volatile market environment on the Bank's profitability and to grow income within strictly defined risk parameters while ensuring the Bank's liquidity and market value.

The Bank's market risk policies establish a number of limits and ratios for the purpose of risk assessment and mitigation. Risk limits are periodically reviewed to align them with the Bank's strategy.

Interest rate and FX risks linked to the banking business is managed centrally by the Financial Management Division. The Division is also responsible for acquiring funding, managing liquidity and making transactions on behalf of ALCO. This activity is controlled by the measures and limits approved from time to time by the Risk Management Forum, the Bank's Management Board and the Supervisory Board.

The debt securities and the interest rate derivatives portfolio is managed by ALCO, which takes all decisions on the portfolio's value and structure.

The market risk on the trading portfolio is managed by the Global Corporate Banking Division, which is also responsible for the activities of the Brokerage Services Office.

The Bank's trading activity is subject to a system of measures and limits, including Value at Risk, stop loss, position limits and sensitivity limits. This limits are approved by the Risk Management Forum, the Bank's Management Board and the Supervisory Board.

The Financial Risk Department within the Risk Management Division is responsible for ongoing assessment of the current risk, implementation of control procedures and risk monitoring and reporting. The Department is also responsible for shaping the market risk policy, proposing risk assessment methodologies and ensuring consistency of the risk management process across the Bank. Owing to the fact that the Department is a part of the Risk Management Division, the risk assessment and monitoring processes are separate from the risk-taking units.

in thousands of PLN

Assessment methods

Bank Zachodni WBK uses several methods to assess its market risk exposure. The methods employed for the banking portfolio are the MVE and NII sensitivity measures, while the methods used for the trading portfolio include: Value at Risk (VaR), stop loss, sensitivity measures (PV01) and stress tests. The risk assessment methodology is subject to an independent initial and periodic validation, the results of which are presented for approval to the Models and Methodology Panel (part of the Risk Management Forum).

In Bank Zachodni WBK, VaR is determined by means of a statistical modelling process as a difference between the mark-to-market value of positions and the market values based on the most severe movements in market rates from a determined observation window.

Due to the limitations of the VaR methodology, the Bank augments it by stress tests and by sensitivity measurement that shows how position value changes in reaction to price/profitability movements.

Interest rate risk in the banking book

The interest rate risk in the banking book is the risk of adverse impact of interest rate changes on the Bank's income and the value of its assets and liabilities. The main source of interest rate risk are transactions entered in the Bank's branches and in the business and corporate centres, as well as the transactions made in the money market by the Financial Management Division. Additionally, interest rate risk can be generated by transactions concluded by other units, e.g. through acquisition of municipal/commercial bonds, or the Bank's borrowings from the interbank market However, all positions that generate a repricing risk are transferred for management to the Financial Management Division, where the Bank's dealers enter into transactions in the interbank markets so as to manage the overall interest rate risk profile according to the approved risk strategy and in compliance with the allocated risk limits.

The interest rate risk in the banking book is managed based on the following limits:

- 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).

The sensitivity measures for 2015 and 2014 are presented in the table below.

	NII Sensitivity		MVE Sensitivity	
1 day holding period	**31.12.2015**	**31.12.2014**	**31.12.2015**	**31.12.2014**
Maximum	118	109	215	154
Average	97	100	186	99
as at the end of the period	116	90	215	154
Limit	**170**	**130**	**220**	**200**

In 2015, the global NII and MVE limits for the banking book were not exceeded.

Interest rate risk in the trading book

The trading book contains securities and derivatives held by the Global Corporate Banking Division for trading purposes. The instruments are marked to market each day, and any changes in their value are reflected in the profit and loss. The key methods of measurement of the interest rate risk in the banking books include the VaR methodology, stop loss, PV01 sensitivity measurement and stress tests.

The VaR in the Bank is calculated for the open positions of the Global Corporate Banking by establishing the difference between the market valuation of the interest rate transactions based on the current yield curves, and the valuation based on the "worst case" yield curve, which is calculated based on the fluctuations in the interest rates.

The "stop-loss" mechanism is used for managing the risk of losses on the items covered by the rules of fair valuation through profit and loss.

Stress tests are used in addition to these measures by providing an estimate of the potential losses in the event of materialisation of the stressed conditions in the market. The assumptions of stress scenarios are based on sensitivity reports and on extreme market rate movement scenarios set using the highest daily and monthly changes in interest rates.

in thousands of PLN

The table below shows risk measures at the end of 2015 and 2014 for 1-day position holding period.

Interest rate risk	VAR	
1 day holding period	**31.12.2015**	**31.12.2014**
Average	1 643	1 402
Maximum	5 534	4 656
Minimum	375	285
as at the end of the period	837	921
Limit	**5 852**	**5 261**

FX risk

FX risk is the risk that adverse movements in foreign exchange rates will have an impact on results (and result in losses). This risk is managed by the VaR limit for the open currency positions in the Bank's trading portfolio. Stress tests are used in addition to this measure by providing an estimate of the potential losses in the event of materialisation of the stressed conditions in the market. Stress tests use the currency exposure and the scenarios of extreme movements in currency rates based on historical data. Furthermore, the stop loss mechanism is used for managing the risk of losses on the trading positions.

In accordance with its policy, the Bank does not maintain open positions on currency options. Transactions made with clients are immediately closed in the wholesale market thus limiting the Bank's exposure to the market risk on the currency options portfolio.

The table below illustrates the risk measures at the end of December 2015 and 2014.

FX risk	VAR	
1 day holding period	**31.12.2015**	**31.12.2014**
Average	636	646
Maximum	3 411	2 676
Minimum	52	88
as at the end of the period	846	369
Limit	**1 951**	**1 754**

In 2015, the VAR limit has been exceeded. Positions for individual currencies were within established nominal limits, however, have exceeded the VaR limit. The next day, open position have been limited and VAR was in the prescribed limit. It was reported to the appropriate committees appointed by the Management Board and the Supervisory Board.

FX risk exposure is limited by different metrics to reduce potential loss caused by adverse market movement. VAR is ex-post control supplemented by stress scenarios and backtasting of model. BZWBK used two methods of VAR calculation to strengthen control especially during significant market movements. The notional positions monitoring on-line by dealers were kept in line with limits, however composition of position, last market movements and correlations caused limit excess. The escalation process was conducted by relevant Risk functions under Market Risk Panel oversight. Accordingly to procedures and policies exposure was immediately reduced by Front Office.

FX Balance Sheet

In 2015, the share of assets in foreign currencies in the bank's balance sheet remained at the level observed in 2014. A slight growth in amounts receivable in EUR and a decrease in amounts receivable in CHF were observed as a result of continued amortisation of loans removed from the Bank's offer. The marked increase in CHF receivables expressed in PLN results from the increase in the CHF/PLN rate.

As a result of reduced funding from the wholesale market, the mismatch between CHF assets and liabilities became more pronounced. The resulting funding gap was closed by entering into a swap transaction in the FX market.

in thousands of PLN

The tables below show the Bank's main FX items – as at 31.12.2015 and 31.12.2014.

31.12.2015	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	5 800 253	202 996	16 367	109 927	6 129 543
Loans and advances to banks	736 291	2 848 811	804 658	366 742	4 756 502
Loans and advances to customers	52 594 263	16 628 470	10 827 800	1 091 777	81 142 310
Investment securities	21 349 674	1 017 716	-	208 856	22 576 246
Selected assets	**80 480 481**	**20 697 993**	**11 648 825**	**1 777 302**	**114 604 601**
LIABILITIES					
Deposits from banks	1 498 351	859 619	1 379 354	198 569	3 935 893
Deposits from customers	81 460 525	9 451 537	676 231	3 053 179	94 641 472
Subordinated liabilities	-	426 507	-	-	426 507
Selected liabilities	**82 958 876**	**10 737 663**	**2 055 585**	**3 251 748**	**99 003 872**

31.12.2014	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	5 993 101	380 981	26 100	166 926	6 567 108
Loans and advances to banks	1 020 041	1 513 546	888 790	251 142	3 673 519
Loans and advances to customers	47 903 537	14 699 085	10 486 826	1 556 432	74 645 880
Investment securities	23 370 770	679 010	-	415 668	24 465 448
Selected assets	**78 287 449**	**17 272 622**	**11 401 716**	**2 390 168**	**109 351 955**
LIABILITIES					
Deposits from banks	3 421 269	160 692	2 482 252	106 864	6 171 077
Deposits from customers	78 606 832	8 197 793	1 008 438	2 336 173	90 149 236
Subordinated liabilities	74 927	426 290	938 618	-	1 439 835
Selected liabilities	**82 103 028**	**8 784 775**	**4 429 308**	**2 443 037**	**97 760 148**

Equity investment risk

The unit responsible for equity price risk management is Brokerage Office which now operates within the Financial Markets Area. The source of this risk are transactions conducted on Brokerage Office own account via stock exchanges and MS CTO (shares, futures).

This risk is measured using a Value at Risk model based on the historical method.

The market risk management in Brokerage Office is supervised by BZ WBK Risk Management Forum. The Forum sets the VaR limit for the brokerage house, approves changes in the risk measurement methodology and oversees the risk management process.

The table below presents the risk measures in 2015 and 2014:

Equity risk	VAR Brokerage Office	
1 day holding period	**31.12.2015**	**31.12.2014**
Average	429	281
Maximum	1 057	1 294
Minimum	90	81
as at end of the period	230	810
Limit	**4 057**	**3 647**

Liquidity risk

Liquidity risk is the risk that the Bank fails to meet its contingent and non-contingent obligations towards customers and counterparties as a result of a mismatch of financial cash flows.

Liquidity Risk Management

The BZ WBK Liquidity Management Policy is designed to:

- ensure the ability to finance assets and satisfy claims, both current and future, in a timely manner and at an economic price;
- manage the maturity mismatch between assets and liabilities;
- set a scale of the liquidity risk in the form of various internal limits;
- ensure proper organization of the liquidity management process in Bank Zachodni WBK;

- prepare the organization for emergence of adverse factors, either external or internal;
- ensure compliance with regulatory requirements, both qualitative and quantitative.

The general principle adopted by the Bank in its liquidity management process is that all expected outflows occurring within 1 month in respect of deposits, current funds, loan drawdowns, guarantee payments and transaction settlements should be at least fully covered by the anticipated inflows or Qualified Liquid Assets (QLA) assuming normal or predictable conditions for the Bank's operations. The QLA category includes: cash on hand, cash deposited with NBP (National Bank of Poland), securities which may be sold or pledged under repo transactions or NBP lombard loans.

In addition, the policy's aim is to ensure an adequate structure of funding the growing scale of the Bank's business by maintaining liquidity ratios at pre-defined levels. The Bank uses a number of other limits and observation ratios (including the loans to deposits ratio, the ratio of dependence on funding in the wholesale market, and the ratios required by Basel 3: LCR and NSFR). As at 31 December 2015 LCR ratio amounted to 146.74% and NSFR ratio amounted to 114.35%. In terms of the long-term liquidity, in addition to the internal measures, the Bank uses a limit corresponding to the regulatory limit, which requires that the equity and the stable sources of funding should fully cover the credit portfolio and non-liquid assets (e.g. fixed assets).

Management Process

The responsibility for supervision over the liquidity risk management process rests on the Assets and Liabilities Committee (ALCO), which also provides advice to the Management Board. ALCO prepares management strategies and recommends to the Management Board appropriate actions with regard to strategic liquidity management. Day-to-day management of liquidity is delegated to the Financial Management Division. The Assets and Liabilities Management Department, which is a part of the Division, is responsible for developing and updating the relevant liquidity management strategies.

The Bank has a scenario-based contingency plan approved by the Management Board to cater for unexpected liquidity problems, whether caused by external or internal factors. The plan also contains stress test with system and idiosyncratic scenarios.

Risk Measurement and Reporting

The responsibility for assessment and reporting of the liquidity risk rests on the Risk Management Division, specifically the Financial Risk Department.

The role of the Department is to draft liquidity management policies, carry out stress tests and to measure and report on risk.

Liquidity is measured by means of the modified liquidity gap, which is designed separately for the PLN and currency positions. The reported contract positions are subject to modifications based on: statistical analyses of the deposit and credit base behaviour, evaluation of the possibility to liquidate State Treasury securities by selling or pledging them in repo transactions or the lombard loan with NBP, evaluation of transaction rolling in the interbank market. The actual liquidity gap is used to set liquidity ratios, i.e. the ratio of projected consolidated inflows to projected outflows in the particular period. Concurrently, liquidity is measured in accordance with KNF Resolution no. 386/2008 on setting liquidity standards for Banks, and with the requirements laid down in Basel 3 and CRD4/CRR.

As an addition, stress tests are used in order to assess the Bank's exposure to liquidity risk and the maximum demand for the sources of funding if the particular scenarios materialise.

In 2015, as in 2014, BZ WBK focused on keeping its loan-to-deposit ratio at a comfortable level (which totalled 86% as at 31.12.2015) and controlling key short- and long-term liquidity measures.

The Bank continued to enhance its long-term funding structure by issuing in Q2 2015 PLN 485m worth of 3-year bonds and in the Q3 2015 worth of PLN 230 million 6-month bank securities.

In 2015 and in the comparable period, all key supervisory measures applicable to the Bank were maintained at the required levels.

in thousands of PLN

Contractual Gap Analysis based on remaining time maturity as at 31.12.2015 and in comparable period:

31.12.2015	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	Total
Cash and balances with central banks	6 129 543	-	-	-	-	-	-	6 129 543
Loans and advances to banks	3 600 823	150 075	792 622	48	212 934	-	-	4 756 502
Financial assets held for trading	518 961	176 877	1 327 218	883 094	577 523	659 897	31 064	4 174 634
Loans and advances to customers	5 435 353	3 185 665	16 693 335	21 484 907	10 715 220	27 052 524	(3 424 694)	81 142 310
Investment securities	1 949 396	-	1 146 693	5 821 949	3 869 974	8 683 762	1 104 472	22 576 246
Other items	-	-	-	-	-	-	6 698 354	6 698 354
Long position	**17 634 076**	**3 512 617**	**19 959 868**	**28 189 998**	**15 375 651**	**36 396 183**	**4 409 196**	**125 477 589**
Deposits from banks	3 475 592	253 453	206 848	-	-	-	-	3 935 893
Financial liabilities held for trading	612 428	227 031	473 991	475 753	435 991	310 332	182	2 535 708
Deposits from customers	62 260 146	13 384 569	14 975 042	2 554 487	894 260	572 968	-	94 641 472
Subordinated liabilities	-	-	-	-	426 507	-	-	426 507
Other items	-	-	-	-	-	-	23 938 009	23 938 009
Short position	**66 348 166**	**13 865 053**	**15 655 881**	**3 030 240**	**1 756 758**	**883 300**	**23 938 191**	**125 477 589**
Gap-balance sheet	**(48 714 090)**	**(10 352 436)**	**4 303 987**	**25 159 758**	**13 618 893**	**35 512 883**	**(19 528 995)**	
Contingent liabilities- sanctioned								
Financing related	375 239	2 206 053	9 758 560	4 009 383	3 140 032	1 374 648	(27 788)	**20 836 127**
Guarantees	284	585 538	1 824 225	1 608 687	251 015	218 880	(27 488)	**4 461 141**
Derivatives settled in gross terms								
Inflows	12 176 969	6 601 717	16 582 347	13 530 872	6 695 742	12 528 890	-	**68 116 537**
Outflows	12 099 482	6 570 186	16 506 996	14 508 295	6 532 100	12 757 076	-	**68 974 135**
Gap – off-balance sheet	**(298 036)**	**(2 760 060)**	**(11 507 434)**	**(6 595 493)**	**(3 227 405)**	**(1 821 714)**	**55 276**	

The “Rate insensitive” item contains assets with unspecified maturities, including impairment charges or investment assets available for sale.

in thousands of PLN

31.12.2014	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	Total
Cash and balances with central banks	6 567 108	-	-	-	-	-	-	6 567 108
Loans and advances to banks	2 479 999	78 082	407 982	707 456	-	-	-	3 673 519
Financial assets held for trading	110 939	153 549	414 963	1 608 443	1 977 845	878 390	76 905	5 221 034
Loans and advances to customers	5 795 001	3 252 849	13 226 295	20 412 860	10 070 009	25 311 484	(3 422 618)	74 645 880
Investment securities	2 999 833	-	1 791 208	3 427 646	4 950 830	10 442 975	852 956	24 465 448
Other items	-	-	-	-	-	-	7 034 376	7 034 376
Long position	**17 952 880**	**3 484 480**	**15 840 448**	**26 156 405**	**16 998 684**	**36 632 849**	**4 541 619**	**121 607 365**
Deposits from banks	4 912 634	15 292	426	1 242 725	-	-	-	6 171 077
Financial liabilities held for trading	578 086	132 000	650 841	763 539	326 581	307 120	23 519	2 781 686
Deposits from customers	58 829 584	12 883 886	14 831 404	1 644 105	1 038 147	922 110	-	90 149 236
Subordinated liabilities	-	-	-	-	1 013 544	421 968	4 323	1 439 835
Other items	-	-	-	-	-	-	21 065 531	21 065 531
Short position	**64 320 304**	**13 031 178**	**15 482 671**	**3 650 369**	**2 378 272**	**1 651 198**	**21 093 373**	**121 607 365**
Gap-balance sheet	**(46 367 424)**	**(9 546 698)**	**357 777**	**22 506 036**	**14 620 412**	**34 981 651**	**(16 551 754)**	
Contingent liabilities- sanctioned								
Financing related	149 250	1 738 315	7 528 145	4 383 334	1 418 863	2 257 638	(34 452)	**17 441 093**
Guarantees	4 767	401 080	1 096 817	1 916 160	455 794	595 500	(36 597)	**4 433 521**
Derivatives settled in gross terms								
Inflows	9 390 648	7 471 142	11 853 267	15 252 833	3 608 289	10 579 290	-	**58 155 469**
Outflows	9 382 319	7 422 211	12 354 430	16 350 875	3 745 131	10 488 077	-	**59 743 043**
Gap – off-balance sheet	**(145 688)**	**(2 090 464)**	**(9 126 125)**	**(7 397 536)**	**(2 011 499)**	**(2 761 925)**	**71 049**	

The “Rate insensitive” item contains assets with unspecified maturities, including impairment charges or investment assets available for sale.

in thousands of PLN

Liquidity Policy Report – Modified Liquidity Gap:

Liquidity risk	<1W	<1M	>1M
31.12.2015			
Qualifying Liquid Assets	21 728 281	441 227	6 124 214
Treasury inflows	3 663 745	-	942 880
Other inflows	10 904 761	7 270 239	142 518 779
Treasury outflows	(3 954 473)	(473 625)	(629 791)
Other outflows	(11 001 957)	(15 145 062)	(157 330 479)
GAP	**21 340 357**	**(7 907 221)**	**(8 374 397)**
Cumulative GAP	**21 340 357**	**13 433 136**	**5 058 739**

Liquidity risk	<1W	<1M	>1M
31.12.2014			
Qualifying Liquid Assets	23 893 561	30 000	7 373 468
Treasury inflows	2 289 774	151 623	1 191 289
Other inflows	18 133 055	6 105 260	120 594 803
Treasury outflows	(5 075 708)	(139 116)	(1 401 245)
Other outflows	(24 430 595)	(18 929 461)	(131 374 283)
GAP	**14 810 087**	**(12 781 694)**	**(3 615 968)**
Cumulative GAP	**14 810 087**	**2 028 393**	**(1 587 575)**

Operating Risk

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

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

Bank Zachodni WBK has implemented an integrated risk management framework to ensure that all risks which have a significant impact on Bank Zachodni WBK business are identified, measured, monitored and controlled. Operational risk management in Bank Zachodni WBK involves employees at all levels of the organisation and consists of a number of interrelated concepts. Operational risk is inherent in all the Bank's business processes, including the outsourced functions or services delivered jointly with third parties.

Bank Zachodni WBK has defined the Operational Risk Management Strategy and as well as other relevant policies regulating operating risk issues. 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. ORMCO is the main forum for discussions on operational risk. It sets out the strategic direction for operational risk management, determines and monitors objectives for managing operational risk, including business continuity, information security, outsourcing / insourcing and money laundering risk in all business areas of BZ WBK. Within the ORMCo Committee several bodies (Forums) were established to address specific aspects of operational risk e.g. Crime Prevention Forum and the Forum of Insurance. The effects of this work are reported to the Risk Management Committee.

Bank Zachodni WBK uses the following tools:

- Identification and estimation of operational risk

In the self-assessment process, Bank identifies the risks it may be exposed to when delivering its functions, assesses inherent and residual risks in terms of their likelihood and impact, and evaluates efficiency of the existing controls. In addition, action plans are devised to improve the efficiency of the existing and/or new controls.

The process of identification and assessment of operational risk is additionally supported by other tools dedicated to specific risk aspects such as: scenario analyses, business impact analyses, analysis of risk in new initiatives.

- Reporting on operational incidents and lessons learned

Each organisational unit is required to report operational incidents on a monthly basis. For significant operational incidents there is the path for prompt notification to senior management. The Bank runs a database of operational incidents identified across the organisation. The data are used to analyse the root cause and consequences of the incidents, capture lessons learned and take preventive and corrective measures.

The Bank 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 Bank.

- Analysis of risk indicators

Bank Zachodni WBK monitors risk indicators, both financial and operational ones. Risk indicators provide early warning of emerging threats and operational losses and depict the risk level present in the Bank.

- Business continuity management (BCM)

Each organizational unit is required to develop and update their business continuity management plans to ensure that critical business processes remain uninterrupted following an unplanned disruption because of unavailability of systems, locations and staff. Business continuity plans must be tested at least annually to ensure that it is possible to restore critical business processes at the required service level and within the agreed timeframe. There are backup locations where critical processes can be restored and continued should an incident occur.

- Insurance

For the purpose of operational risk mitigation, BZ WBK has an insurance scheme in place which covers financial risks, motor, property and professional indemnity insurance.

- Regular reporting to the Risk Management Committee and Supervisory Board

The aim of operational risk reporting is to provide up-to-date adequate information to the management. Operational risk reports cover, inter alia: operational risk incidents and losses, risk indicators and risk mitigants.

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

Legal and Compliance Risk

Legal and regulatory (compliance) risk is defined in line with the Basel Committee recommendation.

As an universal bank providing a wide array of financial services to retail and business customers, a parent company in a capital group providing a number of additional specialised financial services, and as an important member of the Polish banking system, Bank Zachodni WBK is exposed to the legal and compliance risk mainly in the following areas:

- generally applicable laws regarding the employment law, health and safety at work, taxes, accounting, personal data protection etc. which are binding for all enterprises operating in Poland;
- domestic and international (mainly: EU) trade regulations in the area of reporting, prudential standards, functioning on capital and investment market, prevention of money laundering and terrorist financing etc.;
- domestic an international regulations concerning the type of offered products and service delivery methods applied by the bank and the BZ WBK Group (in particular: the legislation on consumer and competition protection, capital markets, financial markets etc.);
- good practice codes and other regulations implemented by the Bank, including in connection with membership in domestic or international trade associations.

In Bank Zachodni WBK, individual processes for the legal and compliance risk are managed by relevant units.

Responsibilities of the Legal and Compliance Division relate to the "conduct of business" compliance obligations, in particular with regard to: protection of consumer rights, implementation and sale of new products, prevention of money laundering, ethical issues, protection of sensitive information and protection of personal data, conflict of interests 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 – the Business Partnership Division;
- compliance with taxation law and reporting requirements – Financial Accounting and Control Division;
- compliance with prudential regulations – Risk Management Division;
- compliance with health and safety regulations – the Business Partnership Division.

The bank's Management Board adopted a policy statement on compliance with 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 senior managers in effective management of the compliance risk. 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 the internal control principles and compliance policy framework, so that the Compliance Area may operate independently from business units and has relevant resources to perform its tasks.

The Audit and Compliance Committee regularly reviews key compliance issues identified by the Compliance Area and Anti-Money Laundering Department:

- as part of monitoring of new products;
- as part of compliance monitoring;
- as part of the monitoring of proprietary transactions effected by employees;
- based on the information on regulators' activity;
- as part of the review of upcoming legislative initiatives;
- as part of the review of anti-money laundering initiatives;
- as part of the review of ethical issues;
- as part of the review of customers' complaints.

The major responsibilities of the Compliance Area and Anti-Money Laundering Department include: prevention of legal and compliance risk, maintenance of appropriate relations with business units and market regulators, providing support to the Bank management in the strategic decision-making process regarding compliance, coordination (under the applicable laws) of the implementation of compliance management standards by compliance units operating in the Bank. These tasks are delivered through:

- independent identification, assessment and monitoring of compliance risk that the Bank is exposed to (with the focus on new products and services, prevention of money laundering and terrorist financing, protection of confidential information, conflicts of interest or private account shares dealing by employees);
- prevention of using the financial system for money laundering and terrorist financing;
- providing advice and reporting to the Risk Management Committee, bank's Management Board and Audit and Compliance Committee on the effectiveness of the processes established to ensure compliance with laws and regulations within its area of responsibility;
- publication of policies and procedures, providing the management and staff with guidance on compliance risk and adequate risk management policies and procedures;
- centralisation of contacts with market regulators (KNF, UOKiK, GIIF, GIODO),
- centralisation of the approval of new products;
- coordination and support for compliance processes regarding the model of sale of investment products and MiFID Directive;
- strengthening of the principles regarding ethical business conduct as well as health and safety at work, as well as building the corporate governance culture in the organisation.

Beside the above-mentioned operational units, BZ WBK also has specialised committees supporting the management of the compliance risk in specific areas. These committees consist of the representatives of key business units and risk management units who are competent and duly authorised to make informed decisions and provide high-quality advice. The Compliance Area together with Anti-Money Laundering Department coordinate and support the work of individual committees which are chaired by the Management Board member in charge of the Legal and Compliance Division. These committees include:

- Compliance Committee;
- Product Marketing and Monitoring Committee;
- Volcker Local Steering Committee;
- Anti-Money Laundering and Terrorism Financing Committee;
- Business Ethics Commission.

Reputation Risk Management

Reputation risk is defined as the risk arising from negative perception of the Bank by customers, counterparties, shareholders or investors.

The potential sources of the risk are internal and external operational incidents, such as adverse publicity, dissemination of negative feedback from customers e.g. on the Internet, in social media and other mass media. They may refer directly to the Bank and its products as well as the Bank's shareholders and the entire banking and financial sectors (domestic and international ones).

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

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

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

Key risk mitigation measures:

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

4. Capital Management

Introduction

It is the policy of the Bank Zachodni WBK to maintain the level of capital adequate to the type and scale of operations and the level of risk. The level of own funds required to ensure safe operations of Bank Zachodni WBK and capital requirements estimated for the unexpected loss is determined in accordance with the CRD IV / CRR package implemented on 01.01.2014 by the European Parliament and EBA, plus KNF recommendations regarding national options.

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

The Management Board delegated on-going capital management to Capital Committee. Capital Committee conducts regular assessment of capital adequacy of the Bank, also in extreme conditions, monitors the actual and required capital levels and initiates transactions affecting these levels (e.g. by recommending the value of dividends to be paid). The Credit Committee is the first body in the Bank to define capital policy and rules for assessment of capital adequacy for the Bank. Any ultimate decisions regarding increase or decrease of capital are taken by relevant authorities of the Bank in accordance with the applicable law and the Bank's Statutes.

With respect to capital adequacy, on 01.01.2014, two EU legislative packages took effect, implemented by the decision of the European Parliament and the European Banking Authority (EBA), i.e. Directive 2013/36/EU of the European Parliament of 26.06.2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC) and Regulation No 575/2013 of the European Parliament and of the Council of 26.06.2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

in thousands of PLN

Capital Policy

The capital management policy of BZ WBK stipulates the minimum capital ratios, taking into account regulatory requirements, applicable capital buffers and additional own fund requirements under Pillar 2.

Pursuant to 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%.

As at 31.12. 2015, the minimum capital ratios both 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 9.54%;
- a total capital ratio of 12.72%.

The above-mentioned capital ratios take into account the KNF recommendation on an additional capital requirement related to home mortgages.

In accordance with the decision of the Polish Financial Supervision Authority (KNF) of 23.10.2015, Bank Zachodni WBK maintains own funds at a level that ensures coverage of additional capital requirement of 0.72 p.p. to secure the risk arising from foreign currency mortgage loans for households.

The Act of 05.08.2015 on macroprudential oversight of the financial system and crisis management in the financial sector transposes CRD IV into the Polish law with regard to, among other things, additional capital buffers to be maintained by banks. As of 01.01.2016, the minimum capital ratios for the banking sector in Poland will be increased by 1.25 p.p. due to introduction of a conservation buffer.

Regulatory Capital

The capital requirement of Bank Zachodni WBK as at 31.12.2015 and 31.12.2014 was determined in accordance with Regulation no. 575/2013 of the European Parliament and the Council of 26.06.2013 on prudential requirements for credit institutions and investment firms as well as KNF recommendations regarding national options.

Standardised approach has been used to calculate capital requirements for credit, market and operational risk. The capital requirement for credit risk being the most important one.

According to the standardised approach, the total capital requirement for credit risk is calculated as the sum of risk weighted exposures multiplied by 8%. The value of assets is equal to the balance sheet total, while the value of off-balance sheet liabilities corresponds to their balance sheet equivalent. In order to calculate the risk weighted assets, the bank used risk weights defined in the Regulation mentioned above.

The tables below show capital requirement for the Bank as of 31.12.2015 and 31.12.2014.

		31.12.2015	31.12.2014
I	**Total Capital requirement (Ia+Ib+Ic+Id+Ie)**, of which:	**7 108 755**	**6 723 221**
Ia	- due to credit risk & counterparty credit risk	6 086 323	5 817 806
Ib	- due to market risk	162 249	84 063
Ic	- due to credit valuation ajdustment risk	118 860	101 862
Id	- due to operational risk	741 323	719 490
II	Total own funds*	17 869 121	15 910 296
III	Reductions	3 826 387	4 596 001
IV	**Own funds after reductions (II-III)**	**14 042 734**	**11 314 295**
V	**CAD [IV/(I*12.5)]**	**15,80%**	**13,46%**

* Total own funds as at 31.12.2014 includes part of the current year profit in the amount of PLN 370,947 k as premitted by Financial Supervision Authority on 30.10.2014.

Total own funds as at 31.12.2015 includes part of the current year profit in the amount of PLN 528,489 k as permitted by Financial Supervision Authority on 28.12.2015.

Internal Capital

Independent from the regulatory methods for measuring capital requirements, Bank Zachodni WBK assesses both current and future capital adequacy based on internal methods and models of risk measurement - process (ICAAP).

in thousands of PLN

Under the ICAAP process, the Bank estimates the required level of internal capital to ensure secure conduct of its banking business in accordance with the Bank’s risk profile defined in the “Risk Appetite Statement”.

For the purpose of the ICAAP process, the Bank uses statistical loss estimation models for measurable risks, such as credit risk, market risk or operational risk, and carries out qualitative assessment for other material risks not covered by the model, e.g. reputation risk or compliance risk.

The internal capital is estimated on the basis of risk parameters including the probability of default of Bank Zachodni WBK customers (PD - probability of default) and loss given default (LGD loss given default).

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

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

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

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

Subordinated liabilities

Until 31.12.2013, subordinated liabilities arising from the 10-year registered bonds bearing a floating interest rate issued on 05.08.2010 (fully taken up and paid for by the EBRD) were recognised in supplementary own funds under the Banking Law Act and KNF approval dated 13.10. 2010.

Since 01.01.2014, these items have been recognised in the calculations of the Bank’s capital ratio as they meet CRR requirements regarding eligible elements of Tier II capital.

Detailed information on subordinated liabilities is presented in Note 31.

5. Net interest income

Interest income	**01.01.2015-31.12.2015**	**01.01.2014-31.12.2014**
Loans and advances to enterprises	1 535 361	1 696 077
Loans and advances to individuals, of which:	1 733 407	2 000 344
Home mortgage loans	*735 011*	*820 595*
Debt securities incl.:	596 287	737 758
Investment portfolio available for sale	*563 946*	*686 798*
Trading portfolio	*32 341*	*50 960*
Loans and advances to banks	75 340	99 254
Public sector	7 817	14 259
Reverse repo transactions	9 578	25 513
Interest recorded on hedging IRS	285 978	282 837
Total	**4 243 768**	**4 856 042**
Interest expenses	**01.01.2015-31.12.2015**	**01.01.2014-31.12.2014**
Deposits from individuals	(587 815)	(854 801)
Deposits from enterprises	(328 565)	(436 485)
Repo transactions	(45 070)	(66 424)
Deposits from public sector	(56 171)	(84 137)
Deposits from banks	(10 104)	(9 976)
Subordinated liabilities and issue of securities	(81 191)	(89 572)
Total	**(1 108 916)**	**(1 541 395)**
Net interest income	**3 134 852**	**3 314 647**

As at 31.12.2015 net interest income includes interest on impaired loans of PLN 245,206 k (as at 31.12.2014 - PLN 245,288 k).

in thousands of PLN

6. Net fee and commission income

Fee and commission income	01.01.2015-31.12.2015	01.01.2014-31.12.2014
eBusiness & payments	542 171	594 160
Current accounts and money transfer	329 161	311 584
Asset management fees	6 454	11 884
Foreign exchange commissions	312 906	332 584
Credit commissions	219 939	241 903
Insurance commissions	123 032	104 225
Brokerage commissions *	71 347	14 181
Credit cards	82 199	92 024
Off-balance sheet guarantee commissions	42 732	41 871
Issue arrangement fees	15 028	4 626
Distribution fees	132 210	108 697
Other commissions	10 665	15 610
Total	**1 887 844**	**1 873 349**
Fee and commission expenses	**01.01.2015-31.12.2015**	**01.01.2014-31.12.2014**
eBusiness & payments	(173 807)	(157 211)
Credit cards	(20 393)	(18 001)
Brokerage commissions *	(11 579)	(1 949)
Finance lease commissions	(127)	(555)
Commissions paid to credit agents	(20 088)	(13 501)
Insurance commissions	(8 876)	(13 905)
Other	(39 730)	(45 913)
Total	**(274 600)**	**(251 035)**
Net fee and commission income	**1 613 244**	**1 622 314**

* On 31.10.2014 Dom Maklerski BZ WBK was incorporated into the bank's structure.

Included above is fee and commission income on credits, credit cards and off-balance sheet guarantee commissions of PLN 344,870 k (2014: PLN 375,798 k) and fee and commission expenses on credits cards and paid to credit agents of PLN (40,481) k (2014: PLN (31,502) k) (other than fees included in determining the effective interest rate), relating to financial assets and liabilities not carried at fair value through profit or loss.

The line item Insurance commissions presents insurance fees realised on insurance products linked to the loan products. They cover insurance fees related to cash loans, where approximately 30% of the realised income represents agency fees for the sale of insurance products and the remaining portion of realised income is amortised over time according to the effective interest rate method and recognised in interest income. Moreover, this line item presents insurance fees recognized on a cash basis for insurance products that are realised cyclically during the term of loan agreement (mortgage loans). For the remaining loan products insurance fees are recognised on a cash basis including an allowance for estimated future reimbursements.

7. Dividend income

Dividend income	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Dividends from subsidiaries and associates	51 680	338 698
Dividends from investment portfolio entities	103 306	79 216
Dividends from trading portfolio entities	1 379	-
Total	**156 365**	**417 914**

in thousands of PLN

8. Net trading income and revaluation

Net trading income and revaluation	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Derivative instruments and interbank fx transactions	204 662	28 828
Other FX related income	15 648	58 417
Profit on equity instruments	(10 273)	(6 909)
Profit on debt instruments	(16 542)	13 263
Total	**193 495**	**93 599**

Net trading income and revaluation includes the write-back of adjustments of derivatives resulting from counterparty risk in the amount of PLN 7,057 k for 2015 and PLN 8,772 k for 2014.

9. Gains (losses) from other financial securities

Gains (losses) from other financial securities	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Profit on sale of equity shares	2 215	16 758
Profit on sale of debt securities	276 368	220 466
Charge due to impairment losses	(323)	(3 519)
Total profit (losses) on financial instruments	**278 260**	**233 705**
Change in fair value of hedging instruments	46 294	(244 815)
Change in fair value of underlying hedged positions	(50 837)	242 618
Total profit (losses) on hedging and hedged instruments	**(4 543)**	**(2 197)**
Total	**273 717**	**231 508**

10. Other operating income

Other operating income	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Income on sale of services	17 183	26 471
Insurance indemnity received	1 305	1 052
Reimbursements of BGF charges	39 683	16 949
Release of provision for legal cases and other assets	21 831	28 096
Settlements of leasing agreements	1 341	171
Recovery of other receivables	5 758	9 081
Income on sales or liquidation of fixed assets, intangible assets and assets for disposal	18 515	13 932
Received compensations, penalties and fines	474	1 469
Other	13 559	10 884
Total	**119 649**	**108 105**

in thousands of PLN

11. Impairment losses on loans and advances

Impairment losses on loans and advances	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Collective and individual impairment charge	(694 394)	(873 335)
Incurred but not reported losses charge	6 103	113 318
Recoveries of loans previously written off	4 370	1 058
Off-balance sheet credit related facilities	16 026	27 765
Total	**(667 895)**	**(731 194)**

12. Employee costs

Employee costs	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Salaries and bonuses	(1 032 218)	(961 619)
Salary related costs	(173 001)	(160 473)
Staff benefits costs	(30 031)	(29 387)
Professional trainings	(16 538)	(12 596)
Retirement fund, holiday provisions and other employee costs	(3 646)	(2 426)
Integration costs*	113	(68 305)
Total	**(1 255 321)**	**(1 234 806)**

*In addition to the integration costs included in Notes 12 and 13, the amortization /depreciation related to the cost of integration for 2015 was PLN 34,599 k and PLN 15,025 k for 2014.

13. General and administrative expenses

General and administrative expenses	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Maintenance and rentals of premises	(299 217)	(320 561)
Marketing and representation	(117 768)	(119 092)
IT systems costs	(141 530)	(123 220)
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities**	(408 150)	(111 680)
Postal and telecommunication costs	(37 242)	(42 323)
Consulting fees	(32 919)	(20 743)
Cars, transport expenses, carriage of cash	(59 071)	(63 293)
Other external services	(74 297)	(68 732)
Stationery, cards, cheques etc.	(18 425)	(27 309)
Sundry taxes	(28 560)	(24 287)
Data transmission	(16 376)	(18 188)
KIR, SWIFT settlements	(24 963)	(19 219)
Security costs	(18 874)	(19 429)
Costs of repairs	(8 718)	(8 651)
Integration costs*	(27 047)	(93 154)
Other	(20 556)	(16 742)
Total	**(1 333 713)**	**(1 096 623)**

*In addition to the integration costs included in Notes 12 and 13, the amortization /depreciation related to the cost of integration for 2015 was PLN 34,599 k and PLN 15,025 k for 2014.

in thousands of PLN

**In 2015, the total cost of the Banking Guarantee Fund paid by Bank Zachodni WBK was PLN 396,394 k compared with PLN 104 409 k reported in 2014.

of which in 2015:

- 170,538 k - mandatory fee paid to the Banking Guarantee Fund for the purpose of payment of the guaranteed funds to the deposit holders of Spółdzielczy Bank Rzemiosła i Rolnictwa, co-operative bank based in Wołomin, due to the bank's bankruptcy,
- 25,000 k - provision raised for covering the contribution to the Borrower Support Fund.

In 2015, the total cost of the Polish Financial Supervision Authority (KNF) paid by Bank Zachodni WBK was PLN 12,622 k compared with PLN 11,217 k reported in 2014.

14. Other operating expenses

Other operating expenses	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Charge of provisions for legal cases and other assets	(67 866)	(34 325)
Costs of purchased services	(1 672)	(3 196)
Other memebership fees	(722)	(676)
Paid compensations, penalties and fines	(3 111)	(1 103)
Donation paid	(5 542)	(5 467)
Other	(7 214)	(9 665)
Total	**(86 127)**	**(54 432)**

15. Corporate income tax

Corporate income tax	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Current tax charge	(427 380)	(860 323)
Deferred tax	7 037	376 559
Total	**(420 343)**	**(483 764)**

Corporate total tax charge information	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Profit before tax	2 176 553	2 478 396
Tax rate	19%	19%
Tax calculated at the tax rate	(413 545)	(470 895)
Non-deductible expenses	(13 762)	(7 242)
Sale of receivables	(29 110)	(61 684)
Non-tax deductible bad debt provisions	(4 859)	(8 527)
Non-taxable income (dividends)	29 705	79 404
Adjustment of prior year tax incl. technological relief	10 431	(13 274)
Other	797	(1 546)
Total income tax expense	**(420 343)**	**(483 764)**

in thousands of PLN

Deferred tax recognised directly in equity	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Relating to equity securities available-for-sale	(183 376)	(133 933)
Relating to debt securities available-for-sale	(42 530)	(114 604)
Relating to cash flow hedging activity	46 079	25 107
Relating to valuation of defined benefit plans	(614)	1 272
Total	**(180 441)**	**(222 158)**

16. Earnings per share

Net earnings per share (PLN/share)	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Profit attributable to ordinary shares	1 756 210	1 994 632
Weighted average number of ordinary shares	99 234 534	96 154 065
Net earnings per share (PLN)	**17,70**	**20,74**
Profit attributable to ordinary shares	1 756 210	1 994 632
Weighted average number of ordinary shares	99 234 534	96 154 065
Weighted average number of potential ordinary shares *	167 928	235 066
Diluted earnings per share (PLN)	**17,67**	**20,69**

* The weighted average number of potential ordinary shares takes into account the number of share options granted under the incentive scheme described in Note 50.

17. Cash and balances with central banks

Cash and balances with central banks	31.12.2015	31.12.2014
Cash	2 003 444	2 434 018
Current accounts in central banks	4 126 099	4 133 090
Total	**6 129 543**	**6 567 108**

Bank Zachodni WBK holds an obligatory reserve on a current account in the National Bank of Poland. The figure is calculated at a fixed percentage of the monthly average balance of the customers' deposits, which was 3.5% as at 31.12.2015 and 31.12.2014.

In accordance with the applicable regulations, the amount of the calculated provision is reduced by the equivalent of EUR 500 k.

18. Loans and advances to banks

Loans and advances to banks	31.12.2015	31.12.2014
Loans and advances	1 753 992	1 508 090
Current accounts, other	2 730 212	1 768 457
Buy-sell-back transaction	272 299	397 017
Gross receivables	**4 756 503**	**3 673 564**
Allowance for impairment	(1)	(45)
Total	**4 756 502**	**3 673 519**

Fair value of loans and advances to banks is presented in Note 39.

in thousands of PLN

19. Financial assets and liabilities held for trading

The fair value of derivative financial instruments is determined using market quotations, discounted cash flow models and options valuation models, as appropriate.

Option contracts are stated at fair value using the market quotations or the option valuation models, as appropriate.

Financial assets and liabilities held for trading	31.12.2015 Assets	31.12.2015 Liabilities	31.12.2014 Assets	31.12.2014 Liabilities
Trading derivatives	**2 074 811**	**2 011 510**	**1 935 843**	**2 304 681**
Interest rate operations	**1 297 769**	**1 261 946**	**1 280 892**	**1 635 924**
Forward	-	-	-	139
Options	9 638	9 639	1 798	1 798
IRS	1 284 493	1 247 064	1 271 709	1 626 181
FRA	3 638	5 243	7 385	7 806
Transactions on equity instruments	**13 099**	**13 099**	**9 956**	**33 398**
Options	13 099	13 099	9 956	33 398
FX operations	**763 943**	**736 465**	**644 995**	**635 359**
CIRS	123 878	171 575	145 697	169 956
Forward	35 472	36 408	38 428	34 840
FX Swap	394 037	324 068	310 711	287 270
Spot	1 913	1 729	4 740	2 419
Options	202 503	202 503	140 796	140 798
Other	6 140	182	4 623	76
Debt and equity securities	**2 099 823**	**-**	**3 285 191**	**-**
Debt securities	**2 074 899**	**-**	**3 212 909**	**-**
Government securities:	2 073 995	-	3 212 769	-
- bonds	2 073 995	-	3 212 769	-
Commercial securities:	904	-	140	-
- bonds	904	-	140	-
Equity securities:	**24 924**	-	**72 282**	-
- listed	24 924	-	72 282	-
Short sale	**-**	**524 198**	**-**	**477 005**
Total financial assets/liabilities	**4 174 634**	**2 535 708**	**5 221 034**	**2 781 686**

Financial assets and liabilities held for trading - trading derivatives include the value of adjustments resulting from counterparty risk in the amount of PLN 14,197 k as at 31.12.2015 and PLN 6,091k as at 31.12.2014.

Interest income from debt instruments and other fixed rate instruments is disclosed under “interest income”.

Profit and loss from fair value changes of financial assets and liabilities held for trading are disclosed under net trading income and revaluation in the income statement.

All financial assets measured at fair value through profit and loss are assigned to this category due to the trading character of the transactions. As at 31.12.2015 and in comparable period there were no cases of instruments designated to financial assets measured at fair value through profit and loss at initial recognition.

in thousands of PLN

The table below presents off-balance sheet derivatives' nominal values.

	Derivatives' nominal values	31.12.2015	31.12.2014
1.	**Term derivatives (hedging)**	**35 681 069**	**33 953 647**
a)	Single-currency interest rate swap	2 115 615	2 988 000
b)	Macro cash flow hedge -purchased (IRS)	3 498 747	2 740 423
c)	Macro cash flow hedge -purchased (CIRS)	14 281 838	13 754 095
d)	Macro cash flow hedge -sold (CIRS)	15 784 869	14 471 129
2.	**Term derivatives (trading)**	**251 524 712**	**179 730 504**
a)	Interest rate operations	148 248 296	95 087 752
	Single-currency interest rate swap	131 201 753	86 409 126
	FRA - purchased amounts	13 375 000	6 450 000
	Options	3 671 543	1 792 126
	Forward- sold amounts	-	436 500
b)	FX operations	103 276 416	84 642 752
	FX swap – purchased amounts	23 112 618	20 757 332
	FX swap – sold amounts	23 042 788	20 728 416
	Forward- purchased amounts	4 872 628	3 372 360
	Forward- sold amounts	4 899 101	3 394 071
	Cross-currency interest rate swap – purchased amounts	9 336 831	6 845 102
	Cross-currency interest rate swap – sold amounts	9 389 486	6 872 957
	FX options -purchased CALL	6 972 190	5 519 076
	FX options -purchased PUT	7 339 292	5 817 181
	FX options -sold CALL	6 972 190	5 519 076
	FX options -sold PUT	7 339 292	5 817 181
3.	**Currency transactions- spot**	**3 119 168**	**4 656 294**
	Spot-purchased	1 559 682	2 329 321
	Spot-sold	1 559 486	2 326 973
4.	**Transactions on equity financial instruments**	**1 485 063**	**751 380**
	Derivatives contract- purchased	731 883	341 307
	Derivatives contract - sold	753 180	410 073
5	**Capital options related to subsidiary entities**	**-**	**255 738**
	Total	**291 810 012**	**219 347 563**

In the case of single-currency transactions (IRS, FRA, non-FX options) only purchased amounts are presented.

20. Hedging derivatives

	31.12.2015		31.12.2014	
Hedging derivatives	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Derivatives hedging fair value	116	192 392	-	251 397
Derivatives hedging cash flow	162 707	1 831 620	238 889	982 529
Total hedging derivatives	**162 823**	**2 024 012**	**238 889**	**1 233 926**

As at 31.12.2015 Hedging derivatives - derivatives hedging cash flow include value adjustments day first profit or loss for start forward CIRS transactions in the amount of PLN (11,719) k.

For the valuation of hedging transactions, Bank uses a valuation model, in which not all essential data used for valuation are based on observable market parameters, therefore, differences arise in the initial valuation. Bank treats it as the Day 1 profit or loss and amortises it in time and indicates the valuation effect in the profit and loss account. Amortisation of adjustment to the valuation of day 1 is recognized in Net trading income and revaluation.

in thousands of PLN

21. Loans and advances to customers

Loans and advances to customers	31.12.2015	31.12.2014
Loans and advances to enterprises	45 442 685	42 569 128
Loans and advances to individuals, of which:	38 865 950	35 302 881
Home mortgage loans	*29 195 051*	*26 248 235*
Loans and advances to public sector	234 917	190 426
Buy-sell-back transaction	17 060	100
Other	6 392	5 964
Gross receivables	**84 567 004**	**78 068 499**
Allowance for impairment	(3 424 694)	(3 422 619)
Total	**81 142 310**	**74 645 880**

In December 2015, Bank Zachodni WBK S.A. stopped applying fair value macro hedge accounting for a hedge of interest rate risk on fixed interest rate cash loans in PLN (6 relationships in total). By the time the Bank stopped using the hedge accounting, the accumulated fair value adjustment for the hedged position recognized in the balance sheet was PLN 7,148 k.

As at 31.12.2014 the fair value adjustment due to hedged risk on corporate loans was PLN 19,539 k.

Detailed information about the impact of FX movements on the value and risk profile of the affected assets is presented in the consolidated financial statements of Bank Zachodni WBK Group for 2015 released on 12.02.2016.

Fair value of "Loans and advances to customers" is disclosed in Note 39.

Movements on impairment losses on loans and advances to customers	31.12.2015	31.12.2014
Individual and collective impairment		
As at the beginning of the period	(3 080 099)	(2 922 665)
Charge/write back of current period	(694 394)	(873 335)
Write off/Sale of receivables	661 948	679 008
Transfer	35 920	50 383
F/X differences	(7 640)	(13 490)
Balance at the end of the period	**(3 084 265)**	**(3 080 099)**
IBNR		
As at the beginning of the period	(342 520)	(433 039)
Charge/write back of current period	6 059	113 170
Transfer	-	(18 943)
F/X differences	(3 968)	(3 708)
Balance at the end of the period	**(340 429)**	**(342 520)**
Allowance for impairment	**(3 424 694)**	**(3 422 619)**

in thousands of PLN

22. Investment securities available for sale

Investment securities available for sale	31.12.2015	31.12.2014
Available for sale investments - measured at fair value		
Debt securities	**21 471 774**	**23 612 492**
Government securities:	17 379 677	18 395 809
- bonds	17 379 677	18 395 809
Central Bank securities:	1 849 461	2 999 833
- bills	1 849 461	2 999 833
Commercial securities:	2 242 636	2 216 850
- bonds	2 242 636	2 216 850
Equity securities	**1 095 923**	**835 621**
- listed	18 271	20 467
- unlisted	1 077 652	815 154
Investment certificates	**8 549**	**17 335**
Total	**22 576 246**	**24 465 448**

As at 31.12.2015 fixed interest rate debt securities measured at fair value amount to PLN 16,399,457 k, variable interest rate securities amount to PLN 5,072,317 k.

As at 31.12.2014 fixed interest rate debt securities measured at fair value amount to PLN 18,350,972 k, variable interest rate securities amount to PLN 5,261,520 k.

As at 31.12.2015 fair value adjustment resulting from fair value hedge on available for sale debt securities totaled PLN 177,761 k (as at 31.12.2014 PLN 216,207 k).

Unlisted equity investments classified as available-for-sale for which no active market exists are recognized at cost and tested for impairment or their fair value is assessed based on valuation models. The Bank performs the review of the fair value of its unlisted available-for-sale financial instruments at each balance sheet date.

Based on the information received from Visa Europe Limited, in relation to transaction of proposed sale of 100% shares of Visa Europe to Visa Inc., Bank Zachodni WBK SA, as holder of 1 share of Visa Europe with nominal value of 10 EUR, is entitled to consideration resulting from the transaction in total amount of 62 780 774 euro, comprising:
- Cash 46 740 863 EUR and
- Shares of Visa Inc. 16 039 911 EUR

The above amount of consideration is not yet final and can be amended as a consequence of transaction costs, contractual clauses and successful members appeals.

According to Bank's assessment this information is a sufficient basis for revision of fair value estimation for the share in holding. Considering all stipulated above uncertainty factors, the Bank has recognized change in fair value of the share in holding in the amount of 60 m EUR i.e. PLN 255.7m. Change in fair value of the share classified as available for sale has been reflected in other comprehensive income with the effect of deferred tax. The fair value has been disclosed in Level III of fair value categorisation in the Note 39.
The above amount of consideration is not yet final and can be amended as a consequence of transaction costs, contractual clauses and successful members appeals. The final amount should be confirmed on 01.03.2016 and is expected to be settled by 30.06.2016. The transaction is to be finalised in Q2 2016 and depends on receipt of relevant regulatory approvals.

Fair value of the investments into the companies from Aviva Polska Group is measured for each of the three investments using the comparative and income method. As at 31.12.2014 and 31.12.2015 no changes were made to the fair value measurement of the investments into Aviva Poland Group companies.

Fair value of „Investment securities available for sale" is presented in Note 39.

in thousands of PLN

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2015	**23 612 492**	**852 956**	**24 465 448**
Additions	95 257 414	6 805	95 264 219
Disposals (sale and maturity)	(96 982 076)	(15 193)	(96 997 269)
Fair value adjustment	(417 785)	260 226	(157 559)
Movements on interest accrued	(32 928)	-	(32 928)
Allowances for impairment	-	(322)	(322)
F/X differences	34 657	-	34 657
As at 31 December 2015	**21 471 774**	**1 104 472**	**22 576 246**

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2014	**21 069 359**	**855 130**	**21 924 489**
Additions	241 664 063	14 480	241 678 543
Disposals (sale and maturity)	(239 834 476)	(10 962)	(239 845 438)
Fair value adjustment	702 073	(2 173)	699 900
Movements on interest accrued	(59 226)	-	(59 226)
Allowances for impairment	-	(3 519)	(3 519)
F/X differences	70 699	-	70 699
As at 31 December 2014	**23 612 492**	**852 956**	**24 465 448**

23. Investments in subsidiaries and associates

Investments in subsidiaries and associates	31.12.2015	31.12.2014
Subsidiaries	2 340 719	2 379 250
Associates	36 606	8 000
Total	**2 377 325**	**2 387 250**

Fair value of “Investment in subsidiaries and associates” is presented in Note 39.

in thousands of PLN

Investments in subsidiaries and associates as at 31.12.2015

Name of entity	BZ WBK Inwestycje Sp. z o.o.	BZ WBK Finanse Sp. z o.o.	Giełdokracja Sp. z o.o.	BZ WBK Nieruchomości S.A.	BZ WBK Asset Management S.A.	POLFUND - Fundusz Poręczeń Kredytowych S.A.*	BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Santander Consumer Bank S.A.	Total
Registered office	Poznań	Poznań	Poznań	Zakrzewo	Poznań	Szczecin	Poznań	Poznań	Wrocław	
Type of connection	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Associate	Associate	Associate	Subsidiary	
% of holding**	100.00	100.00	100.00	99.99	50.00	50.00	49.00	49.00	60.00	
Balance sheet value	46 600	130 097	100	753	6 755	8 000	13 747	14 859	2 156 414	**2 377 325**
Total assets	61 199	208 106	358	629	85 692	95 408	935 896	315 012	16 386 938	**18 089 238**
Own funds of entity, of which:	58 652	204 959	334	535	81 414	85 605	78 929	138 033	2 697 829	**3 346 290**
Share capital	100	1 165	100	750	13 500	16 000	24 250	27 000	520 000	602 865
Other own funds, of which:	58 552	203 794	234	(215)	67 914	69 605	54 679	111 033	2 177 829	2 743 425
from previous years	-	*(5 700)*	-	-	-	-	-	-	*236 685*	*230 985*
net profit (loss)	*1 467*	*44 240*	*85*	*31*	*59 585*	*1 541*	*30 688*	*40 312*	*434 586*	*612 535*
Liabilities of entity	2 547	3 147	24	94	4 278	9 803	856 967	176 979	13 689 109	**14 742 948**
Revenue	2 110	49 534	497	239	81 137	8 885	239 430	164 415	1 650 974	**2 197 221**

* selected financial information as at end of November 2015
** states percentage share of associates

Name of entity	Business
BZ WBK Inwestycje Sp. z o.o.	trading in shares of commercial companies as well as other securities; seeking investors for companies
BZ WBK Finanse Sp. z o.o.	centralised managemet of the bank's subsidiaries: BZ WBK Leasing S.A., Kredyt Lease SA and BZ WBK Faktor Sp. z o.o.
Giełdokracja Sp. z o.o.	advertising services, educational services related to the capital market, maintenance of internet portals (including www.giełdokracja.pl) and communication services
BZ WBK Nieruchomości S.A.	organisation of various events, catering and hotel services, agency services
BZ WBK Asset Management S.A.	brokerage activities: managing customer's share portfolios (listed and not listed)
POLFUND - Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management
BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	life insurance
BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	property and personal insurance
Santander Consumer Bank S.A.	accepting savings and term deposits, granting and taking out loans and advances

in thousands of PLN

Investments in subsidiaries and associates as at 31.12.2014

Name of entity	BZ WBK Inwestycje Sp. z o.o.	BZ WBK Finanse Sp. z o.o.	Giełdokracja Sp. z o.o.	BZ WBK Nieruchomości S.A.	BZ WBK Asset Management S.A.	POLFUND - Fundusz Poręczeń Kredytowych S.A.*	BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Santander Consumer Bank S.A.	Total
Registered office	Poznań	Poznań	Poznań	Zakrzewo	Poznań	Szczecin	Poznań	Poznań	Wrocław	
Type of connection	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Subsidiary	Associate	Subsidiary	Subsidiary	Subsidiary	
% of holding**	100.00	100.00	100.00	99.99	50.00	50.00	66.00	66.00	60.00	
Balance sheet value	46 600	130 097	100	753	6 755	8 000	20 015	18 516	2 156 414	**2 387 250**
Total assets	68 507	180 116	211	640	58 506	93 705	931 556	319 294	16 125 405	**17 777 940**
Own funds of entity, of which:	68 188	178 313	191	501	55 013	85 583	59 748	100 160	2 251 796	**2 799 493**
Share capital	100	1 165	100	750	13 500	16 000	24 250	27 000	520 000	602 865
Other own funds, of which:	68 088	177 148	91	(249)	41 513	69 583	35 498	73 160	1 731 796	2 196 628
from previous years	*752*	-	-	*(68)*	*(16 853)*	-	-	-	*281 156*	*264 987*
net profit (loss)	*6 898*	*5 981*	*(44)*	*(273)*	*50 037*	*2 602*	*15 584*	*39 143*	*192 212*	*312 140*
Liabilities of entity	319	1 803	20	139	3 493	8 122	871 808	219 134	13 873 609	**14 978 447**
Revenue	7 611	9 757	-	120	69 187	9 069	322 823	179 605	847 323	**1 445 495**

* selected financial information as at end of November 2014

** states percentage share of associates

Name of entity	Business
BZ WBK Inwestycje Sp. z o.o.	trading in shares of commercial companies as well as other securities; seeking investors for companies
BZ WBK Finanse Sp. z o.o.	centralised managemet of the bank's subsidiaries: BZ WBK Leasing S.A., Kredyt Lease SA and BZ WBK Faktor Sp. z o.o.
Giełdokracja Sp. z o.o.	advertising services, educational services related to the capital market, maintenance of internet portals (including www.giełdokracja.pl) and communication services
BZ WBK Nieruchomości S.A.	organisation of various events, catering and hotel services, agency services
BZ WBK Asset Management S.A.	brokerage activities: managing customer's share portfolios (listed and not listed)
POLFUND - Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management
BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	life insurance
BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	property and personal insurance
Santander Consumer Bank S.A.	accepting savings and term deposits, granting and taking out loans and advances

in thousands of PLN

24. Intangible assets

Intangible assets Year 2015	Licences, patents etc.	Other	Expenditure on intangible assets	Total
Gross value - beginning of the period	**1 156 509**	**213 775**	**157 644**	**1 527 928**
Additions from:				
- purchases	-	-	156 595	**156 595**
- intangible assets taken for use	146 813	15 595	-	**162 408**
- transfers	-	-	3 941	**3 941**
Disposals from:				
- liquidation, sale	(45 540)	-	(17)	**(45 557)**
- intangible assets taken for use	-	-	(162 408)	**(162 408)**
- transfers	-	-	-	**-**
Gross value - end of the period	**1 257 782**	**229 370**	**155 755**	**1 642 907**
Accumulated depreciation - beginning of the period	**(1 043 619)**	**(91 044)**	**-**	**(1 134 663)**
Additions/disposals from:				
- current year amortisation	(78 903)	(31 182)	-	**(110 085)**
- liquidation, sale	45 444	-	-	**45 444**
- transfers	-	-	-	**-**
Accumulated depreciation- end of the period	**(1 077 078)**	**(122 226)**	**-**	**(1 199 304)**
Balance sheet value				
Purchase value	1 257 782	229 370	155 755	**1 642 907**
Accumulated depreciation	(1 077 078)	(122 226)	-	**(1 199 304)**
As at 31 December 2015	**180 704**	**107 144**	**155 755**	**443 603**

in thousands of PLN

Intangible assets Year 2014	Licences, patents etc.	Other	Expenditure on intangible assets	Total
Gross value - beginning of the period	**1 064 603**	**213 775**	**99 862**	**1 378 240**
Intangible assets acquired in a business combination	**15 347**	**-**	**1 078**	**16 425**
Additions from:				
- purchases	-	-	149 634	**149 634**
- donation	64	-	-	**64**
- intangible assets taken for use	93 844	-	-	**93 844**
- transfers	-	-	987	**987**
Disposals from:				
- liquidation, sale	(17 349)	-	(73)	**(17 422)**
- intangible assets taken for use	-	-	(93 844)	**(93 844)**
- transfers	-	-	-	**-**
Gross value - end of the period	**1 156 509**	**213 775**	**157 644**	**1 527 928**
Accumulated depreciation - beginning of the period	**(982 976)**	**(52 459)**	**-**	**(1 035 435)**
Accumulated depreciation acquired in a business combinations	**(12 052)**	**-**	**-**	**(12 052)**
Additions/disposals from:				
- current year amortisation	(65 845)	(38 585)	-	**(104 430)**
- liquidation, sale	17 254	-	-	**17 254**
- transfers	-	-	-	**-**
Accumulated depreciation- end of the period	**(1 043 619)**	**(91 044)**	**-**	**(1 134 663)**
Balance sheet value				
Purchase value	1 156 509	213 775	157 644	**1 527 928**
Accumulated depreciation	(1 043 619)	(91 044)	-	**(1 134 663)**
As at 31 December 2014	**112 890**	**122 731**	**157 644**	**393 265**

in thousands of PLN

25. Property, plant and equipment

Property, plant & equipment Year 2015	Land and buildings	Financial leaseback - land and buildings	Equipment	Transportation means	Other fixed assets	Financial leaseback - expenditure	Capital expenditures	Total
Gross value - beginning of the period	**975 589**	**-**	**699 789**	**61 273**	**292 514**	**-**	**92 137**	**2 121 302**
Additions from:								
- purchases	-	-	-	-	-	3 067	146 436	**149 503**
- leasing	-	39 480	-	39 740	-	-	-	**79 220**
- fixed assets taken for use	22 548	-	73 812	-	8 640	-	-	**105 000**
- transfers	1 319	-	-	-	23 911	-	-	**25 230**
Disposals from:	**-**							
- sale, liquidation, donation	(134 136)	-	(193 856)	(429)	(48 219)	-	(1 837)	**(378 477)**
- fixed assets taken for use	-	-	-	-	-	-	(105 000)	**(105 000)**
- transfers	-	-	(23 911)	(15 080)	-	-	(3 941)	**(42 932)**
Gross value - end of the period	**865 320**	**39 480**	**555 834**	**85 504**	**276 846**	**3 067**	**127 795**	**1 953 846**
Accumulated depreciation - beginning of the period	**(615 928)**	**-**	**(552 037)**	**(23 652)**	**(253 473)**	**-**	**-**	**(1 445 090)**
Additions/disposals from:								
- current year amortisation	(25 898)	(660)	(47 099)	(10 743)	(11 618)	-	-	**(96 018)**
- sale, liquidation, donation	80 567	-	193 715	429	45 426	-	-	**320 137**
- transfers	(210)	-	19 087	9 580	(19 087)	-	-	**9 370**
Accumulated depreciation- end of the period	**(561 469)**	**(660)**	**(386 334)**	**(24 386)**	**(238 752)**	**-**	**-**	**(1 211 601)**
Balance sheet value								
Purchase value	865 320	39 480	555 834	85 504	276 846	3 067	127 795	**1 953 846**
Accumulated depreciation	(561 469)	(660)	(386 334)	(24 386)	(238 752)	-	-	**(1 211 601)**
As at 31 December 2015	**303 851**	**38 820**	**169 500**	**61 118**	**38 094**	**3 067**	**127 795**	**742 245**

in thousands of PLN

Property, plant & equipment Year 2014	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value - beginning of the period	997 091	708 648	50 021	289 923	57 783	2 103 466
Property, plant and equipment acquired in a business combination	1 067	11 139	2 024	3 372	167	17 769
Additions from:						
- purchases	-	-	-	-	126 126	126 126
- leasing	-	-	13 000	-	-	13 000
- fixed assets taken for use	2 358	76 007	-	12 587	-	90 952
- transfers	19 452	-	-	384	-	19 836
Disposals from:						
- sale, liquidation, donation	(44 379)	(95 621)	(1 423)	(13 752)	-	(155 175)
- fixed assets taken for use	-	-	-	-	(90 952)	(90 952)
- transfers	-	(384)	(2 349)	-	(987)	(3 720)
Gross value - end of the period	975 589	699 789	61 273	292 514	92 137	2 121 302
Accumulated depreciation - beginning of the period	(617 847)	(596 757)	(16 524)	(251 110)	-	(1 482 238)
Accumulated depreciation acquired in a business combinations	(734)	(10 143)	(1 043)	(3 146)	-	(15 066)
Additions/disposals from:						
- current year amortisation	(26 760)	(40 933)	(8 246)	(12 150)	-	(88 089)
- sale, liquidation, donation	32 477	95 426	787	13 303	-	141 993
- transfers	(3 064)	370	1 374	(370)	-	(1 690)
Accumulated depreciation- end of the period	(615 928)	(552 037)	(23 652)	(253 473)	-	(1 445 090)
Balance sheet value						
Purchase value	975 589	699 789	61 273	292 514	92 137	2 121 302
Accumulated depreciation	(615 928)	(552 037)	(23 652)	(253 473)	-	(1 445 090)
As at 31 December 2014	359 661	147 752	37 621	39 041	92 137	676 212

26. Net deferred tax assets

Deferred tax asset	31.12.2015	31.12.2014
Provisions for loans	428 489	444 130
Unrealized liabilities due to derivatives	767 844	681 206
Other provisions which are not yet taxable costs	110 331	98 165
Deferred income	253 901	233 695
Difference between balance sheet and taxable value of unfinancial value assets	2 091	(1 171)
Unrealised interest expense on loans, deposits and securities	40 852	135 436
Other	7 773	6 601
Total	**1 611 281**	**1 598 062**

Deferred tax liability	31.12.2015	31.12.2014
Revaluation of financial instruments available for sale*	(180 441)	(222 158)
Unrealised receivables on derivatives	(423 490)	(411 757)
Unrealised interests from loans, securities and interbank deposits	(159 879)	(163 530)
Provision due to application of investment relief	(2 203)	(3 227)
Other	(2 505)	(3 382)
Total	**(768 518)**	**(804 054)**
Net deferred tax assets	**842 763**	**794 008**

*Changes in deferred tax liabilities arising of cash flow revaluation were recognised in the statement of comprehensive income.

As at 31.12.2015 the calculation of deferred tax asset did not include purchased receivables of PLN 10,684 k and loans that will not be realised of PLN 61,866 k.

As at 31.12.2014 the calculation of deferred tax asset did not include purchased receivables of PLN 11,874 k and loans that will not be realised of PLN 95,001 k.

in thousands of PLN

Movements on net deferred tax	31.12.2015	31.12.2014
As at the beginning of the period	794 008	469 801
Changes on net deferred tax in a business combination	-	2 574
Changes recognised in income statement	7 037	376 559
Changes recognised in other net comprehensive income	41 718	(54 926)
As at end of the period	**842 763**	**794 008**

Temporary differences recognised in equity comprise deferred tax on available for sale securities and cash flow hedges.
Temporary differences recognised in the income statement comprise provision for impairment of loans and receivables and assets in the course of business.

27. Assets classified as held for sale

Assets classified as held for sale	31.12.2015	31.12.2014
Land and buildings	637	637
Total	**637**	**637**

28. Other assets

Other assets	31.12.2015	31.12.2014
Interbank and interbranch settlements	120 406	456 910
Sundry debtors	227 847	300 942
Prepayments	31 265	33 654
Repossessed assets	37 364	41 425
Settlements of stock exchange transactions	23 508	22 615
Other	52	53
Total	**440 442**	**855 599**

29. Deposits from banks

Deposits from banks	31.12.2015	31.12.2014
Repo transactions	3 387 335	5 664 694
Term deposits	29 050	110 592
Loans from other banks	195 247	-
Current accounts	324 261	395 791
Total	**3 935 893**	**6 171 077**

Fair value of “Deposits from banks” is presented in Note 39.

in thousands of PLN

30. Deposits from customers

Deposits from customers	31.12.2015	31.12.2014
Deposits from individuals	**54 219 574**	**52 936 866**
Term deposits	22 061 992	25 677 068
Current accounts	32 087 122	27 204 884
Other	70 460	54 914
Deposits from enterprises	**37 248 169**	**33 692 263**
Term deposits	18 424 576	16 703 200
Current accounts	14 972 460	13 734 630
Sell-buy-back transaction	519 052	157 134
Credits	2 638 739	2 587 686
Other	693 342	509 613
Deposits from public sector	**3 173 729**	**3 520 107**
Term deposits	1 292 043	1 317 191
Current accounts	1 668 272	2 202 706
Sell-buy-back transaction	101 138	-
Other	112 276	210
Total	**94 641 472**	**90 149 236**

As at 31.12.2015 deposits held as collateral totalled PLN 492,717 k (as at 31.12.2014 - PLN 384,050 k).

Fair value of “Deposits from customers” is presented in Note 39.

31. Subordinated liabilities

Subordinated liabilities	Redemption date	Currency	Nominal value
Tranche 1	05.08.2020	EUR	100 000

Movements in subordinated liabilities	31.12.2015	31.12.2014
As at the beginning of the period	**1 439 835**	**1 384 719**
Increase (due to:)	**166 216**	**116 631**
- interest on subordinated loan	42 564	61 925
- FX differences	123 652	54 706
Decrease (due to):	**(1 179 544)**	**(61 515)**
- subordinated loans repayment	(1 138 338)	-
- interest repayment	(41 206)	(61 515)
As at the end of the period	**426 507**	**1 439 835**
Short-term	2 158	4 770
Long-term (over 1 year)	424 349	1 435 065

Subordinated loans in the amount of PLN 1,138,338 k were repaid to KBC Bank in June 2015 as they no longer qualified to be treated as Tier II capital under CRD IV/CRR rules.

Other details on these liabilities are disclosed in Note 4.

in thousands of PLN

32. Debt securities in issue

Debt securities in issue	ISIN	Nominal value	Currency	Redemption date	31.12.2015
Series A bank securities	PLBZ00000184	230 000	PLN	17.02.2016	
Series A	PLBZ00000150	500 000	PLN	19.12.2016	
Series B	PLBZ00000168	475 000	PLN	17.07.2017	
Series C	PLBZ00000176	485 000	PLN	25.06.2018	
Debt securities in issue - as at the end of the period					**1 698 619**

33. Other liabilities

Other liabilities	31.12.2015	31.12.2014
Provisions:	404 955	420 319
Employee provisions	*319 000*	*306 503*
Provisions for legal claims	*27 373*	*39 466*
Provisions for off-balance sheet credit facilities	*55 276*	*71 050*
Other	*3 306*	*3 300*
Interbank and interbranch settlements	202 215	238 803
Other deferred and suspended income	157 560	117 629
Sundry creditors	353 179	260 363
Accrued liabilities	152 191	124 790
Public and law settlements	45 236	50 303
Settlements of stock exchange transactions	25 376	48 377
Total	**1 340 712**	**1 260 584**

The Bank raises provisions for disputable or expected, certain or highly probable, future liabilities that can be reliably estimated. The liabilities arise from past events and an outflow of resources embodying economic benefits will be required to settle the present obligation.

Employee related provisions and accruals consists of items outlined in Note 49.

in thousands of PLN

Change in provisions	31.12.2015	31.12.2014
As at the beginning of the period	**420 319**	**412 829**
Employee provisions	306 503	267 965
Provisions for legal claims	39 466	44 630
Provisions for off balance sheet credit facilities	71 050	96 934
Other	3 300	3 300
Provision acquired in a business combination	**-**	**7 553**
Employee provisions	-	7 360
Provisions for legal claims	-	193
Provisions for off-balance sheet credit facilities	-	-
Other	-	-
Provision charge	**340 247**	**447 092**
Employee provisions	249 212	276 173
Provisions for legal claims	4 299	11 415
Provisions for off balance sheet credit facilities	86 730	159 504
Other	6	-
Utilization	**(235 246)**	**(237 919)**
Employee provisions	(227 870)	(239 561)
Provisions for legal claims	(7 628)	(240)
Provisions for off balance sheet credit facilities	252	1 882
Other	-	-
Write back	**(120 365)**	**(209 236)**
Employee provisions	(8 845)	(5 434)
Provisions for legal claims	(8 764)	(16 532)
Provisions for off balance sheet credit facilities	(102 756)	(187 270)
Other	-	-
Other changes	**-**	**-**
Employee provisions	-	-
Provisions for legal claims	-	-
Provisions for off-balance sheet credit facilities	-	-
Other	-	-
Balance at the end of the period	**404 955**	**420 319**
Employee provisions	**319 000**	**306 503**
Provisions for legal claims	**27 373**	**39 466**
Provisions for off balance sheet credit facilities	**55 276**	**71 050**
Other	**3 306**	**3 300**

in thousands of PLN

34. Share capital

31.12.2015

Series/issue	Type of share	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue in PLN k
A	bearer	none	none	5 120 000	51 200
B	bearer	none	none	724 073	7 241
C	bearer	none	none	22 155 927	221 559
D	bearer	none	none	1 470 589	14 706
E	bearer	none	none	980 393	9 804
F	bearer	none	none	2 500 000	25 000
G	bearer	none	none	40 009 302	400 093
H	bearer	none	none	115 729	1 157
I	bearer	none	none	1 561 618	15 616
J	bearer	none	none	18 907 458	189 075
K	bearer	none	none	305 543	3 055
L	bearer	none	none	5 383 902	53 839
				99 234 534	**992 345**

Nominal value of one share is 10 PLN. All shares in issue are fully paid.

The shareholders having minimum 5% of the total number of votes at the BZ WBK General Meeting of Shareholders were Banco Santander with a controlling stake of 69.41% stake and Nationale - Nederlanden OFE with a share of 5.15%.

31.12.2014

Series/issue	Type of share	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue in PLN k
A	bearer	none	none	5 120 000	51 200
B	bearer	none	none	724 073	7 241
C	bearer	none	none	22 155 927	221 559
D	bearer	none	none	1 470 589	14 706
E	bearer	none	none	980 393	9 804
F	bearer	none	none	2 500 000	25 000
G	bearer	none	none	40 009 302	400 093
H	bearer	none	none	115 729	1 157
I	bearer	none	none	1 561 618	15 616
J	bearer	none	none	18 907 458	189 075
K	bearer	none	none	305 543	3 055
L	bearer	none	none	5 383 902	53 839
				99 234 534	**992 345**

Nominal value of one share is 10 PLN. All shares in issue are fully paid.

The shareholders having minimum 5% of the total number of votes at the BZ WBK General Meeting of Shareholders were Banco Santander with a controlling stake of 69.41% stake and ING OFE with a share of 5.15%.

Capital increase and admission of new shares to trading on the stock exchange

In Q3 2014, the Bank issued 305,543 series K ordinary bearer shares (registered on 11.07.2014) with a nominal value of PLN 3.1 m under the 4th Incentive Scheme for employees of Bank Zachodni WBK Group and 5,383,902 series L ordinary shares totalling PLN 2,156.4 m (registered on 18.07.2014), which were placed with SCF in exchange for in-kind contribution of Santander Consumer Bank shares. The nominal value of series L shares of PLN 53,839 k increased the share capital, while the share premium of PLN 2,102,575 k was recognised in the supplementary capital.

in thousands of PLN

35. Other reserve funds

Other reserve funds	31.12.2015	31.12.2014
General banking risk fund	649 810	649 810
Share premium	7 035 424	7 035 424
Other reserves of which:	6 553 441	5 492 706
Reserve capital	*6 382 692*	*5 321 957*
Supplementary capital	*170 749*	*170 749*
Total	**14 238 675**	**13 177 940**

Share (issue) premium is created from surplus over the nominal value of shares sold less costs of share issuance and constitutes the Bank's supplementary capital.

Reserve capital as at 31.12.2015 includes share scheme charge of PLN 104,537 k, as at 31.12.2013 of PLN 85,782 k.

Other movements of other reserve funds are presented in "movements on equity" for 2015 and 2014.

Statutory reserve (supplementary) capital is created from profit allocations in line with the prevailing banking legislation and the Bank's statute. The capital is not subject to split and is earmarked for covering balance sheet losses. Allocations from profit of the current year to reserve capital should amount to at least 8% of profit after tax and are made until supplementary capital equals at least one third of the Bank's share capital. The amount of allocations is adopted by the General Meeting of Shareholders.

Reserve capital is created from profit allocations in the amount adopted by the General Meeting of Shareholders. The decision on reserve capital use is taken by the General Meeting of Shareholders.

36. Revaluation reserve

Revaluation reserve	31.12.2015	31.12.2014
As at 31 December	947 095	712 936
Change in available for sale investments	157 256	694 985
Gross valuation related to cash flow hedge	(110 382)	(171 604)
Actuarial gains on retirement allowances	9 929	(13 851)
Decrease in revaluation reserve related to sale of investments	(276 368)	(220 445)
Deferred tax adjustment	41 717	(54 926)
Total	**769 247**	**947 095**

37. Hedge accounting

The Bank applies hedge accounting in line with the risk management assumptions described in Note 3 of the annual financial statements.

Fair value hedges

Bank Zachodni WBK SA uses fair value hedge accounting with respect to the following classes of financial instruments:

- Debt securities with a fixed interest rate, denominated in PLN and EUR;
- Loans with a fixed interest rate denominated in PLN.

Fair value hedges include Interest Rate Swaps and Overnight Indexed Swap, where the Bank pays a fixed rate and receives a variable rate. The transactions hedge the risk of changes in the fair value of an instrument or a portfolio as a result of movements in market interest rates. The transactions do not hedge fair value changes on account of credit risk.
Hedging items are measured at fair value. Hedged items are measured at amortised cost taking into account fair value adjustments on account of the risk being hedged.

in thousands of PLN

The tables below contain details about individual groups of hedge transactions for 2015 and the comparative period:

31.12. 2015	Bonds
Nominal value of hedging position	2 115 615
Fair value adjustment of hedging instrument	(181 935)
Fair value adjustment of hedged instrument due to hedged risk	177 761
Hedged risk	Interest rate risk
Period over which the instruments have an impact on the Bank's results	up to 2023

31.12. 2014	Bonds	Loans
Nominal value of hedging position	1 838 000	1 150 000
Fair value adjustment of hedging instrument	(215 921)	(20 870)
Fair value adjustment of hedged instrument due to hedged risk	216 207	19 540
Hedged risk	Interest rate risk	Interest rate risk
Period over which the instruments have an impact on the Bank's results	up to 2023	up to 2018

In December 2015, Bank Zachodni WBK S.A. stopped applying fair value macro hedge accounting for a hedge of interest rate risk on fixed interest rate cash loans in PLN (6 relationships in total). By the time the Bank stopped using the hedge accounting, the accumulated fair value adjustment for the hedged position recognized in the balance sheet was PLN 7,148 k. This amount will be amortized against the profit & loss account according to the tenors originally agreed for individual hedging relationships. A major portion of the amount will be recognized in the 2016 profit & loss account and the total amount will be disclosed in the profit & loss account by the end of 2018. An amount of PLN 0 was recognized in the 2015 profit & loss account in relation to the abovementioned amortization.

Cash flow hedging

Bank Zachodni WBK uses hedge accounting for its future cash flows with respect to credit portfolios based on a variable interest rate, denominated in PLN or in EUR, USD and CHF. The Bank's hedging strategies are designed to protect the Bank's exposures against the risk of changes in the value of future cash flows resulting from adverse interest rate movements or – in the case of credit portfolios denominated in foreign currency – from currency fluctuations. Hedging relationships are created using Interest Rate Swaps and Cross-Currency Interest Rate Swaps. The Bank uses the hypothetical derivative approach whereby the hedged credit portfolio is reflected by a derivative transaction with specific characteristics.

Hedged items are measured at amortised cost, while hedging items are measured at fair value. Subject to fulfilment of the criteria for effectiveness of hedging relationships, changes in the fair value of hedging instruments are recognised in equity.

As of 31.12.2015, the nominal value of the hedging item was PLN 19,283,616 k (31.12.2014 – PLN 17,211,552). Adjustment to fair value of the hedging instrument was PLN (242,522) k (31.12.2014 – PLN (132,140) k; the same amount, less deferred tax, is recognised in the Bank's equity under revaluation reserve. Hedging instruments have been concluded for a period of time until 2028.

The non-effective portion of measurement of the cash flow hedge was PLN 11,123 k as of 31.12.2015 and PLN (14,619) k as of 31.12.2014. It was taken to the 'Net trading income and revaluation' line of the profit and loss account.

38. Sell-buy-back and buy-sell-back transactions

Bank Zachodni WBK raises funds by selling financial instruments under agreements to repurchase these instruments at future dates at a predetermined price.

Repo and sell-buy-back transactions may cover securities from the Bank's balance sheet portfolio.

The foregoing items are not removed from the balance sheet, because the Bank retains all rewards (i.e. interest income on pledged securities) and risks (interest rate risk and the issuer's credit risk) attaching to these assets.

	31.12.2015 Balance sheet value	31.12.2014 Balance sheet value
Liabilities valued at amortised cost (contains sell-buy-back)	4 007 525	5 821 828
Treasury bonds held on the assets side	3 945 269	5 948 452
Buy-sell-back transactions	289 260	397 017

in thousands of PLN

All of the above-mentioned risks and costs related to the holding of the underlying debt securities in the sell-buy-back transactions remain with the Bank, as well as power to dispose them.

The Bank also effects reverse repo and buy-sell-back transactions at the same price increased by the pre-determined amount of interest.

Financial instruments covered by reverse repo and buy-sell-back transactions are not recognised in the balance sheet, because the Bank does not retain any rewards or risks attaching to these assets.

These instruments represent a security cover accepted by the Bank which may sell or pledge these assets.

Financial instruments held as security for (reverse repo) repurchase agreements may be sold or repledged under standard agreements, under the obligation to return these to the counterparty on maturity of the transaction.

As at 31.12.2015 and 31.12.2014, consolidated statements of financial position contained no financial instruments serving as collateral to repo transactions maturing within a period shorter or equal to that of the main transaction.

39. Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction other than in a forced or liquidation sale, and is best reflected by the market price, if available.

Below is a summary of the book values and fair values of the individual groups of assets and liabilities.

Assets	31.12.2015		31.12.2014	
	Book Value	Fair Value	Book Value	Fair Value
Cash and balances with central banks	6 129 543	6 129 543	6 567 108	6 567 108
Loans and advances to banks	4 756 502	4 756 502	3 673 519	3 673 519
Financial assets held for trading	4 174 634	4 174 634	5 221 034	5 221 034
Hedging derivatives	162 823	162 823	238 889	238 889
Loans and advances to customers	81 142 310	81 790 636	74 645 880	74 687 611
Investment securities	22 576 246	22 576 246	24 465 448	24 465 448
Investments in subsidiaries and associates	2 377 325	2 377 325	2 387 250	2 387 250
Liabilities				
Deposits from banks	3 935 893	3 935 893	6 171 077	6 171 077
Hedging derivatives	2 024 012	2 024 012	1 233 926	1 233 926
Financial liabilities held for trading	2 535 708	2 535 708	2 781 686	2 781 686
Subordinated liabilities	426 507	503 582	1 439 835	1 691 305
Deposits from customers	94 641 472	94 640 411	90 149 236	90 157 500

Below is a summary of the key methods and assumptions used in the estimation of fair values of the financial instruments shown in the table above.

Financial assets and liabilities not carried at fair value in the statement of financial position

The Bank has financial instruments which in accordance with the IFRS are not carried at fair value in the accounts. The fair value of such instruments is measured using the following methods and assumptions.

Loans and advances to banks: The fair value of deposits and placements is measured using discounted cash flows at the current money market interest rates for receivables of similar credit risk, maturity and currency.

Loans and advances to customers: Carried at net value after impairment charges. Fair value is calculated as the discounted value of the expected future cash flows in respect of principal and interest payments. It is assumed that loans and advances will be repaid at their contractual maturity date. The estimated fair value of the loans and advances reflects changes in the credit risk from the moment of sanction (margins) and changes in interest rates. As the reporting date no estimates were made with regard to the fair value of the portfolio of mortgage loans denominated in CHF due to the lack of an active market for similar products, however in case of that part of the portfolio of mortgage loans denominated in CHF acquired from Kredyt Bank, the carrying amount includes the fair value component established as at the merger date.

Financial assets not carried at fair value: The Bank does not use fair valuation for equity securities of unlisted companies for which the fair value cannot be reliably established. In the statement of financial position, equity instruments are presented at cost less impairment. Debt instruments are measured at amortised cost.

in thousands of PLN

Investments in associates: The financial assets representing investments in associates are measured using the equity method. The Management Board of the parent company believes that this is the most accurate estimation of fair value of these instruments.

Deposits from banks and deposits from customers: Fair value of the deposits with maturity exceeding 6 months was estimated based on the cash flows discounted by the current market rates for the deposits with similar maturity dates. In the case of demand deposits without a fixed maturity date or with maturity up to 6 months, it is assumed that their fair value is not significantly different than their book value. The process of fair value estimation for these instruments is not affected by the long-term nature of the business with depositors.

Debt securities in issue and subordinated liabilities: The securities and subordinated liabilities are measured at amortised cost.

Financial assets and liabilities carried at fair value in the statement of financial position

As at 31.12.2015 and in the comparable periods the Bank made the following classification of its financial instruments measured at fair value in the statement of financial position:

Level I (active market quotations): debt, equity and derivative financial instruments which at the balance sheet date were measured using the prices quoted in the active market. The Bank allocates to this level fixed-rate State Treasury bonds, treasury bills, Eurobonds of the German government, Eurobonds of the American government, shares of listed companies and WIG 20 futures.

Level II (the measurement methods based on market-derived parameters): This level includes derivative instruments and variable-rate State Treasury bonds. These bonds were measured using discounted cash flow models based on the discount curve derived from the market of fixed-rate treasury bonds.

Level III (measurement methods using material non-market parameters): The level includes equity securities that are not quoted in the active market, measured using the expert valuation model; investment certificates measured at the balance sheet date at the price announced by the mutual fund.

As at 31.12. 2015 and in the comparable period the Bank classified its financial instruments to the following fair value levels.

31.12.2015	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	1 743 073	2 429 722	1 839	4 174 634
Hedging derivatives	-	162 823	-	162 823
Financial investment assets - debt securities	14 549 997	6 921 777	-	21 471 774
Financial investment assets - equity securities	18 271	-	1 086 201	1 104 472
Total	**16 311 341**	**9 514 322**	**1 088 040**	**26 913 703**
Financial liabilities				
Financial liabilities held for trading	524 198	2 011 510	-	2 535 708
Hedging derivatives	-	2 024 012	-	2 024 012
Total	**524 198**	**4 035 522**	**-**	**4 559 720**

31.12.2014	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	1 848 187	3 371 457	1 390	5 221 034
Hedging derivatives	-	238 889	-	238 889
Financial investment assets - debt securities	15 351 139	8 261 354	-	23 612 493
Financial investment assets - equity securities	20 467	-	832 488	852 955
Total	**17 219 793**	**11 871 700**	**833 878**	**29 925 371**
Financial liabilities				
Financial liabilities held for trading	477 005	2 304 681	-	2 781 686
Hedging derivatives	-	1 233 926	-	1 233 926
Total	**477 005**	**3 538 607**	**-**	**4 015 612**

in thousands of PLN

The tables below show reconciliation of changes in the balance of financial instruments whose fair value is established by means of the valuation methods using material non-market parameters.

Level III	Financial assets			Financial liabilities
31.12.2015	Financial assets held for trading	Financial investment assets - debt securities	Financial investment assets - equity securities	Financial liabilities held for trading
Beginning of the period	**1 390**	**-**	**832 488**	**-**
Profit or losses				
recognised in income statement	*23*	-	-	-
recognised in equity	-	-	*258 175*	-
Purchase	1 278	-	6 805	-
Sale	(852)	-	(11 267)	-
Matured	-	-	-	-
Impairment	-	-	-	-
Transfer	-	-	-	-
At the period end	**1 839**	**-**	**1 086 201**	**-**

Level III	Financial assets			Financial liabilities
31.12.2014	Financial assets held for trading	Financial investment assets - debt securities	Financial investment assets - equity securities	Financial liabilities held for trading
Beginning of the period	**-**	**-**	**830 228**	**-**
Profit or losses				
recognised in income statement	-	-	-	-
recognised in equity	-	-	*11*	-
Purchase	-	-	5 868	-
Sale	-	-	(100)	-
Matured	-	-	-	-
Impairment	-	-	(3 519)	-
Transfer	1 390	-	-	-
At the period end	**1 390**	**-**	**832 488**	**-**

40. Contingent liabilities

Significant court proceedings conducted by Bank Zachodni WBK

As at 31.12.2015, no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank amounting to a minimum of 10% of the Bank's equity.

The value of all litigation amounts to PLN 305,012 k, which is ca. 1.63% of the Bank's equity. This amount includes PLN 93,305 k claimed by the Bank, PLN 198,060 k in claims against the Bank and PLN 13,647 k are Bank's receivables due to bankruptcy or arrangement cases.

In 2015 the amount of significant court proceedings which had been completed amounted to PLN 16,128 k.

As at 31.12.2014, no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank amounting to a minimum of 10% of the Bank's equity.

The value of all litigation amounts to PLN 234,070 k, which is ca. 1.37% of the Bank's equity. This amount includes PLN 63,879 k claimed by the Bank, PLN 170,191 k in claims against the Bank and PLN 0 k are Bank's receivables due to bankruptcy or arrangement cases.

In 2014 the amount of significant court proceedings which had been completed amounted to PLN 158,877 k.

The Bank raises provisions for legal risk where an internal risk assessment for a particular case indicates a possible outflow of cash. Provisions for cases disputed in court are presented in Note 33.

in thousands of PLN

Off-balance sheet liabilities

The break-down of contingent liabilities and off-balance transactions into categories are presented below. The values of guarantees and letters of credit as set out in the table below represent the maximum possible loss that would be disclosed as at the balance sheet day if the customers did not meet any of their obligations towards third parties.

Contingent liabilities - sanctioned	31.12.2015	31.12.2014
Liabilities sanctioned		
- financial	**20 836 127**	**17 441 093**
- credit lines	17 923 865	14 838 913
- credit cards debits	2 471 115	2 055 517
- import letters of credit	438 346	414 581
- term deposits with future commencement term	2 801	132 082
- guarantees	**4 461 141**	**4 433 521**
Total	**25 297 268**	**21 874 614**

As at 31.12.2015 provisions for off-balance sheet liabilities amounted to PLN (55,276) k, as at 31.12.2014: PLN (71,049) k.

In 2015, Bank undertook to issue loans of PLN 1,746,957 k under syndicate agreements, with a future payout date in 2016. Related impairment adjustment and capital requirement for risk-weighted assets is immaterial.

41. Assets and liabilities pledged as collateral

A guaranteed protection fund established by the Bank Zachodni WBK is collateralized by the debt securities.

Under the Bank Guarantee Fund Act, the bank calculated this fund using 0.55% rate (in the year 2014 the bank calculated this fund using 0.55% rate) of the annual contribution base which is defined the same as for calculating the obligatory reserve.

Accordingly, as at 31.12.2015 Bank Zachodni WBK pledged as collateral PLN 507,992 k of debt securities (PLN 484,402 k as at 31.12.2014).

In 2015 a deposit for PLN 2,293,716 k was placed with another financial institutions as a collateral for the day-to-day Treasury business (in 2014 it was PLN 1,622,004 k).

In 2015 Bank Zachodni WBK hold a deposit for PLN 207,623 k (in 2014 it was PLN 176,877 k) as a collateral for the day-to-day Treasury business.

Other assets pledged and liabilities accepted as collateral are disclosed in Notes 30 and 38.

42. Finance and operating leases

Finance leases

Bank Zachodni WBK acts as a lessee in finance lease agreements where the lessor side is represented by BZ WBK leasing subsidiaries. The leasing contracts finance purchase of cars and furniture.

Finance leases gross liabilities - maturity	31.12.2015	31.12.2014
less than 1 year	16 236	14 655
between 1 and 5 years	36 105	18 018
Total	**52 341**	**32 673**

Present value of minimum lease payments - maturity	31.12.2015	31.12.2014
less than 1 year	16 082	13 809
between 1 and 5 years	33 500	16 739
Total	**49 582**	**30 548**

in thousands of PLN

Reconciliation between the gross investment and the present value of minimum lease payments	31.12.2015	31.12.2014
Finance leases gross liabilities	52 341	32 673
Unrealised financial costs	(2 759)	(2 125)
Present value of minimum lease payments	**49 582**	**30 548**

Financial leaseback

On 16.04.2015, an agreement was signed between BZ WBK and its subsidiary BZ WBK Leasing providing for a financial leaseback of properties (freehold of a building and land and perpetual usufruct of land) and a lease of a planned project (an office building to be developed during the next three years) located in Wrocław.

The final total value of the assets arising from the lease of the building and land, which was estimated at the time of initiation of the transaction, was PLN 156,278 k.

Current value of the fixed assets obtained under the financial leaseback agreement was PLN 39,480 k as at 31.12.2015, the initial value of fixed assets under construction was PLN 3,067 k.

In accordance with the agreement, the basic lease term was defined as 153 months.

The purchase of assets by BZ WBK Leasing and development of the office building is financed with a loan provided by BZ WBK.

The lease agreement requires that only interest should be paid on the lease and the loan during the term of the respective agreements, while the principal sums will be paid as part of the last tranche, with the pre-financing costs relating to the building and the site where the building is developed are to be capitalised by BZ WBK Leasing, and the bank is to pay them along with the principal payment at the end of contractual period. Both agreements are to be based on 1M WIBOR + margin, and the parties reportedly plan to offset their mutual obligations.

Finance leaseback gross liabilities - maturity	31.12.2015	31.12.2014
less than 1 year	427	-
between 1 and 5 years	1 706	-
over 5 years	31 416	-
Total	**33 549**	**-**

Present value of minimum lease payments - maturity	31.12.2015	31.12.2014
less than 1 year	423	-
between 1 and 5 years	1 631	-
over 5 years	26 347	-
Total	**28 401**	**-**

Reconciliation between the gross investment and the present value of minimum lease payments	31.12.2015	31.12.2014
Finance leaseback gross liabilities	33 549	-
Unrealised financial costs	(5 148)	-
Present value of minimum lease payments	**28 401**	**-**

Operating leases

The BZ WBK leases offices in compliance with operational leasing agreements. As a standard, agreements are concluded for 5-10 years. A small part of the offices is subleased outside the Bank. In 2015 and 2014 rentals totalled PLN 218,270 k and PLN 237,288 k, respectively. These payments are presented in the profit and loss account under “operating expenses”.

The table below shows the total obligations under irrevocable operating lease agreements concluded by the Bank (including the value of perpetual usufruct of land).

Payments - maturity	31.12.2015	31.12.2014
less than 1 year	217 432	241 525
between 1 and 5 years	439 575	553 927
over 5 years	421 770	345 356
Total	**1 078 777**	**1 140 808**

in thousands of PLN

43. Statement of cash flow- additional information

Table below specifies components of cash balances of Bank Zachodni WBK.

Cash components	31.12.2015	31.12.2014
Cash and balances with central banks	6 129 543	6 567 108
Deposits in other banks, current account	3 750 899	2 546 585
Investment securities	1 849 461	2 999 833
Total	**11 729 903**	**12 113 526**

Bank Zachodni WBK holds restricted cash, which are the funds accumulated on obligatory reserve account in the Central Bank.

44. Related party disclosures

The tables below present intercompany transactions. They are effected between subsidiaries, associates and parent entity. Most of the transactions are banking transactions made as part of ordinary business activities and mainly include loans, deposits, guarantees, leases.

On 27.02.2015, Bank Zachodni WBK S.A. lost control over insurance entities BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. („TUnŻ S.A.") and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogolnych S.A. („TUO S.A.") following the exercise of a call option by Aviva International Insurance Limited ("Aviva Ltd."). Detailed information are described in Note 48.

Transactions with BZ WBK-AVIVA TUŻ S.A.. BZ WBK-Aviva TUO S.A. in the profit and loss account are presented as transactions for the associates for the period from 01.03.2015 to 31.12.2015.

in thousands of PLN

Transactions with subsidiaries	31.12.2015	31.12.2014
ASSETS	**8 528 758**	**9 299 050**
Loans and advances to banks	1 151 017	1 333 090
Financial assets held for trading	9 123	16 522
Loans and advances to customers	7 356 993	7 938 369
Other assets	11 625	11 069
LIABILITIES	**272 243**	**2 187 963**
Deposits from banks	12 867	29 370
Financial liabilities held for trading	43	50
Deposits from customers	166 793	2 127 105
Other liabilities	92 540	31 438
INCOME	**342 419**	**325 369**
Interest income	142 294	141 930
Fee and commission income	143 557	166 923
Other operating income	7 689	10 445
Net trading income and revaluation	48 879	6 032
Gains (losses) from other financial securities	-	39
EXPENSES	**15 121**	**35 182**
Interest expenses	9 383	28 429
Fee and commission expenses	5 067	4 297
Operating expenses incl.:	671	2 456
Bank's staff, operating expenses and management costs	*647*	*2 443*
Other	*24*	*13*
CONTINGENT LIABILITIES	**2 292 336**	**458 958**
Sanctioned:	2 292 336	458 958
- financing-related	*2 227 705*	*393 853*
- guarantees	*64 631*	*65 105*
DERIVATIVES' NOMINAL VALUES	**(1 553 216)**	**1 160 300**
Spot-purchased	(51 120)	3 344
Spot-sold	(51 138)	3 334
FX swap – purchased amounts	(162 779)	-
FX swap – sold amounts	(161 541)	-
Cross-currency interest rate swap – purchased amounts	(275 758)	513 982
Cross-currency interest rate swap – sold amounts	(270 900)	500 120
Single-currency interest rate swap	(579 980)	139 520

Transactions with associates	31.12.2015	31.12.2014
LIABILITIES	**60 075**	**2 931**
Deposits from customers	60 075	2 931
INCOME	**49 028**	**3**
Fee and commission income	49 028	3
EXPENSES	**4 412**	**201**
Interest expenses	1 237	201
Fee and commission expenses	203	-
Operating expenses incl.:	2 972	-
contingent liabilities	*2 972*	-
CONTINGENT LIABILITIES	**407**	**-**
Sanctioned:	407	-
- guarantees	*407*	-

in thousands of PLN

Transactions with Santander Group	31.12.2015	31.12.2014
ASSETS	**697 853**	**259 377**
Loans and advances to banks, incl:	338 490	697
deposits	*252 132*	*-*
current accounts	*86 358*	*697*
Financial assets held for trading	355 772	256 908
Hedging derivatives	1 529	869
Loans and advances to customers	-	-
Other assets	2 062	903
LIABILITIES	**526 468**	**410 458**
Deposits from banks incl.:	111 783	155 537
current accounts	*111 783*	*155 537*
Hedging derivatives	22 065	21 505
Financial liabilities held for trading	283 916	158 907
Deposits from customers	105 202	74 459
Other liabilities	3 502	50
INCOME	**737 372**	**215 508**
Interest income	13 046	7 585
Fee and commission income	2 283	823
Other operating income	614	-
Net trading income and revaluation	721 429	207 100
EXPENSES	**16 397**	**8 066**
Interest expenses	1 150	1 309
Fee and commission expenses	970	204
Operating expenses incl.:	14 277	6 553
Bank's staff, operating expenses and management costs	*14 277*	*6 553*
CONTINGENT LIABILITIES	**280**	**725**
Sanctioned:	280	725
- financial	*280*	*-*
- guarantees	*-*	*725*
DERIVATIVES' NOMINAL VALUES	**50 581 073**	**32 826 135**
Cross-currency interest rate swap – purchased amounts	3 704 776	3 052 808
Cross-currency interest rate swap – sold amounts	3 586 042	2 970 459
Single-currency interest rate swap	13 583 294	7 265 993
FRA	1 600 000	-
Options	3 626 907	1 669 031
FX swap – purchased amounts	4 412 806	2 920 096
FX swap – sold amounts	4 401 243	2 896 754
FX options -purchased CALL	3 563 906	3 002 819
FX options -purchased PUT	3 751 086	3 116 998
FX options -sold CALL	3 408 284	2 516 257
FX options -sold PUT	3 588 205	2 700 183
Spot-purchased	144 011	90 068
Spot-sold	143 917	90 297
Forward- purchased amounts	165 120	96 328
Forward- sold amounts	169 671	100 936
Capital derivatives contract - purchased	731 805	337 108

in thousands of PLN

Transactions with Members of Management and Supervisory Boards

Remuneration of Bank Zachodni WBK Management and Supervisory Board Members

31.12.2015

Remuneration of Bank Zachodni WBK Supervisory Board Members.

First and last name	Position	Period	PLN k
Gerry Byrne	Chairman of the Supervisory Board	01.01.2015-31.12.2015	-
Jose Garcia Cantera	Member of the Supervisory Board	23.04.2015-31.12.2015	-
Jose Antonio Alvarez	Member of the Supervisory Board	01.01.2015-05.02.2015	-
Danuta Dąbrowska	Member of the Supervisory Board	01.01.2015-31.12.2015	202,3
Witold Jurcewicz	Member of the Supervisory Board	01.01.2015-31.12.2015	207,9
Jose Luis De Mora	Member of the Supervisory Board	01.01.2015-31.12.2015	-
David Hexter	Member of the Supervisory Board	01.01.2015-31.12.2015	250,6
John Power	Member of the Supervisory Board	01.01.2015-31.12.2015	297,7
Jerzy Surma	Member of the Supervisory Board	01.01.2015-31.12.2015	216,3
Marynika Woroszylska-Sapieha	Member of the Supervisory Board	01.01.2015-31.12.2015	172,3
Jose Manuel Varela	Member of the Supervisory Board	01.01.2015-31.12.2015	187,8

Mr John Power received remuneration of PLN 31 k from subsidiaries for his membership in their Supervisory Boards.

In 2015 Mr Gerry Byrne, Mr Jose Garcia Cantera, Mr Jose Antonio Alvarez and Mr Jose Luis De Mora did not receive remuneration for their membership in the Supervisory Board.

Mr John Power received remuneration for the supervision of the merger process of BZ WBK and Kredyt Bank on behalf of the Supervisory Board in the amount of PLN 1,050.3 k.

Total remuneration and any additional benefits paid to the members of Bank Zachodni WBK Management Board.

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2015-09.11.2015	1 618,44	94,57
Andrzej Burliga	Member of the Managemet Board	01.01.2015-31.12.2015	1 012,95	109,51
Eamonn Crowley	Member of the Managemet Board	01.01.2015-31.12.2015	989,17	39,27
Beata Daszyńska-Muzyczka	Member of the Managemet Board	23.04.2015-31.12.2015	493,51	14,49
Michael McCarthy	Member of the Managemet Board	01.01.2015-31.12.2015	1 145,45	44,58
Piotr Partyga	Member of the Managemet Board	01.01.2015-23.04.2015	321,03	33,55
Carlos Polaino Izquierdo	Member of the Managemet Board	23.04.2015-31.12.2015	923,50	221,36
Juan de Porras Aguirre	Member of the Managemet Board	01.01.2015-31.12.2015	1 221,12	42,45
Marcin Prell	Member of the Managemet Board	01.01.2015-31.12.2015	912,09	95,77
Marco Antonio Silva Rojas	Member of the Managemet Board	01.01.2015-23.04.2015	544,60	27,77
Mirosław Skiba	Member of the Managemet Board	01.01.2015-31.12.2015	1 032,51	101,71
Feliks Szyszkowiak	Member of the Managemet Board	01.01.2015-31.12.2015	1 032,05	94,70
Paweł Wieczorek	Member of the Managemet Board	23.04.2015-31.12.2015	496,50	53,69

Additional benefits received by the Management Board members represent, among others, 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 2015, the Board members were paid the equivalent for unused annual leave in the amount of PLN 1,056.3k .

In addition, Mr. Piotr Partyga received additional compensation for termination of the contract and the non-competition clause in the amount of PLN 1,108.3k.

In 2015, none of the Members of the Management Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities.

in thousands of PLN

31.12.2014

Remuneration paid to the members of Bank Zachodni WBK Supervisory Board.

First and last name	Position	Period	PLN k
Gerry Byrne	Chairman of the Supervisory Board	01.01.2014-31.12.2014	-
Jose Antonio Alvarez	Member of the Supervisory Board	01.01.2014-31.12.2014	-
Danuta Dąbrowska	Member of the Supervisory Board	16.04.2014-31.12.2014	111,0
Witold Jurcewicz	Member of the Supervisory Board	01.01.2014-31.12.2014	177,0
Jose Luis De Mora	Member of the Supervisory Board	01.01.2014-31.12.2014	-
David Hexter	Member of the Supervisory Board	01.01.2014-31.12.2014	206,0
John Power	Member of the Supervisory Board	01.01.2014-31.12.2014	240,6
Jerzy Surma	Member of the Supervisory Board	01.01.2014-31.12.2014	173,0
Marynika Woroszylska-Sapieha	Member of the Supervisory Board	16.04.2014-31.12.2014	96,0
Jose Manuel Varela	Member of the Supervisory Board	01.01.2014-31.12.2014	100,2

Mr John Power received remuneration of PLN 33 k from subsidiaries for his membership in their Supervisory Boards.

In 2014 Mr Gerry Byrne, Mr Jose Antonio Alvarez and Mr Jose Luis De Mora did not receive remuneration for their membership in the Supervisory Board.

Mr John Power received remuneration for the supervision of the merger process of BZ WBK and Kredyt Bank on behalf of the Supervisory Board in the amount of PLN 2,012.4 k.

Total remuneration and any additional benefits paid to the members of Bank Zachodni WBK Management Board.

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2014-31.12.2014	1 761,18	92,90
Andrzej Burliga	Member of the Managemet Board	01.01.2014-31.12.2014	1 013,02	121,62
Eamonn Crowley	Member of the Managemet Board	01.01.2014-31.12.2014	954,00	45,63
Michael McCarthy	Member of the Managemet Board	01.01.2014-31.12.2014	1 110,67	58,10
Piotr Partyga	Member of the Managemet Board	01.01.2014-31.12.2014	962,19	100,15
Juan de Porras Aguirre	Member of the Managemet Board	01.01.2014-31.12.2014	1 221,10	110,73
Marcin Prell	Member of the Managemet Board	01.01.2014-31.12.2014	912,07	93,63
Marco Antonio Silva Rojas	Member of the Managemet Board	01.01.2014-31.12.2014	1 653,71	184,08
Mirosław Skiba	Member of the Managemet Board	01.01.2014-31.12.2014	1 032,69	107,40
Feliks Szyszkowiak	Member of the Managemet Board	01.01.2014-31.12.2014	1 032,06	96,37

Additional benefits received by the Management Board members represent, among others, life insurance cover without pension option and, in case of Mr Juan de Porras Aguirre and Mr Marco Antonio Silva Rojas also medical cover, accommodation, travel expenses and school fees.

Furthermore, selected members of the Management Board received additional remuneration of PLN 304.0 k for the completion of the integration process with Kredyt Bank.

In 2014, none of the Members of the Management Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities.

Members of the Management Board have signed non-competition agreements which remain in force after they step down from their function. If a Member of the Management Board is removed from their function or not appointed for another term, he/she is entitled to a once-off severance pay. The severance pay does not apply if the person accepts another function in the Bank.

31.12.2015

Loans and advances made by the Bank to the Members of the Management Board of BZ WBK and to their relatives as at 31.12.2015 totalled PLN 5,160 k. These facilities have been sanctioned on regular terms and conditions.

As at 31.12.2015, the total finance lease receivable provided to members of the Management Board of BZ WBK by the subsidiaries and associates totalled nil.

Social Fund loans and advances provided to the Members of the Management Board totalled nil.

31.12.2014

Loans and advances made by the Bank to the Members of the Management Board of BZ WBK and to their relatives as at 31.12.2014 totalled PLN 11,720 k. These facilities have been sanctioned on regular terms and conditions.

As at 31.12.2014, the total finance lease receivable provided to members of the Management Board of BZ WBK by the subsidiaries and associates totalled nil.

Social Fund loans and advances provided to the Members of the Management Board totalled nil.

Provisions for employee benefits disclosed in the Note 49 include respectively amounts related to the Management Board of the Bank Zachodni WBK.

31.12.2015

Provisions for retirement benefits in the amount of PLN 15.8 k, provision for unused holidays in the amount of PLN 852.4 k.

31.12.2014

Provisions for retirement benefits in the amount of PLN 15.6 k, provision for unused holidays in the amount of PLN 1,088 k.

45. Information of number and value of banking writs of executions

In 2015 Bank issued 55,925 banking writs of execution with total amount of PLN 839,948 k.

In 2014 Bank issued 41,227 banking writs of execution with total amount of PLN 1,174,274 k.

46. Incorporation of Dom Maklerski BZ WBK into Bank Zachodni WBK

On 10.06.2014, the KNF gave its consent to Bank Zachodni WBK to expand its stockbroking operations, which enabled the bank to work intensively towards division of Dom Maklerski BZ WBK ("Brokerage House"; DM BZ WBK) and incorporation of its organised part into the bank's structure.

On 30.09.2014, the Extraordinary General Meeting of Shareholders of Bank Zachodni WBK adopted a resolution on division of the Brokerage House, pursuant to the Division Plan of 24.07.2014.

The division has been completed by transferring to Bank Zachodni WBK (the acquiring company) an organised part of the enterprise of the Brokerage House (the divided company), whose business is provision of stockbroking services and other services that do not constitute advertising activity. At the same time, a company has been formed - Giełdokracja Sp. z o.o. - which took over the part of the Brokerage House business connected with provision of educational services related to the capital market, advertising and communication services, and maintenance of internet portals.

As Bank Zachodni WBK was the sole shareholder of the Brokerage House, the Division Plan did not provide for increasing the Bank's share capital through an issue and allocation of shares in exchange for the transferred part of the company's assets. The Bank took up all the stake in the newly formed company Giełdokracja Sp. z o.o., i.e. 1,000 shares with a nominal value of PLN 100 per share and a total nominal value of PLN 100 k.

On 31.10.2014, the Court registered the removal of The Brokerage House from the business register (KRS) without a liquidation procedure and on the same day Giełdokracja Sp. z o.o. was registered.

The Brokerage House is now a unit of the Bank, providing stockbroking services and will act as a brokerage office.

in thousands of PLN

47. Acquisition of controlling interest in Santander Consumer Bank S.A.

Transaction details

On 01.07.2014, Bank Zachodni WBK completed the acquisition of the controlling stake in Santander Consumer Bank S.A. ("Group SCB") following the execution of the Investment Agreement ("Purchase Agreement") of 27.11.2013 by Bank Zachodni WBK, Santander Consumer Finance S.A. (SCF) and Banco Santander S.A. (Santander) pursuant to which Bank Zachodni WBK SA agreed to acquire 3,120,000 shares (i.e. 1,040,001 preferred shares and 2,079,999 ordinary shares) with a nominal value of PLN 100 each in Santander Consumer Bank S.A. (SCB) with its registered office in Wrocław, constituting 60% of the share capital of SCB and ca. 67% of the votes at the General Meeting of SCB. The shares were acquired by way of a private placement and an in-kind contribution.

Under the Purchase Agreement, the Bank issued 5,383,902 (five million three hundred and eighty-three thousand nine hundred and two) ordinary registered series L shares in the Bank with a nominal value of PLN 10 each, which were offered to and subscribed for solely by Santander Consumer Finance as consideration for an in-kind contribution of the SCB shares.

The value of SCB shares as indicated in the Purchase Agreement is PLN 2,156,414,268.06, which is the purchase price for the SCB Group shares. The issuance of the new shares by way of private placement is addressed exclusively to SCF for the purpose of acquisition of the SCB shares by the Bank.

In addition, under the Acquisition Agreement, in 2015, the parties decided to convert preference shares of SCB into ordinary shares, as a result of which as at 31.12.2015 the bank has 60% stake in the SCB's share capital, representing 60% votes at the SCB General Meeting.

Assets and liabilities as at the acquisition date

As at 31.12.2015, the Bank made a final settlement of the take-over of control over SCB Group.

Since the transaction represents reorganisation of Santander Group under a joint control of Banco Santander, net assets of SCB will be recognised in the consolidated financial statements of Bank Zachodni WBK Group at their carrying value.

Below is an estimate of the carrying value of the acquired assets and liabilities.

as at:	01.07.2014
ASSETS	
Cash and balances with central banks	283 627
Loans and advances to banks	629 910
Hedging derivatives	6 423
Loans and advances to customers	11 879 394
Investment securities	1 794 312
Intangible assets	42 921
Property, plant and equipment	65 426
Net deferred tax assets	276 361
Other assets	108 449
Total assets	**15 086 823**
LIABILITIES	
Deposits from banks	(2 936 751)
Hedging derivatives	(6 027)
Deposits from customers	(7 122 868)
Subordinated liabilities	(100 144)
Debt securities in issue	(1 983 357)
Current income tax liabilities	(11 488)
Other liabilities	(438 540)
Total liabilities	**(12 599 175)**
Book value of identifiable net assets	**2 487 648**

Non-controlling interest

As at the acquisition, non-controlling interests represented 40% of the share capital and 33% of the votes at the General Meeting of Shareholders of SCB S.A. Their value estimated using the book value method was PLN 995,059 k.

in thousands of PLN

Preliminary estimate of the excess of the price paid over the net assets

as at	01.07.2014
Surplus of total consideration over book value of identifiable net asset	
Total consideration	2 156 414
Non-controlling interests	995 059
Less: book value of identifiable net assets	(2 487 648)
Total	**663 825**

The excess between the purchase price and carrying value of the acquired net assets represents the control premium and, at the same time, the adjustment to the share capital of the Group, reflecting the settlements between shareholders of SCB as part of the reorganisation of the Group under joint control.

48. Acquisitions and disposals of investments in subsidiaries

Acquisitions and disposals of investments in subsidiaries 2015 and 2014

The closing of the sale by the Bank of a 17% equity stake in BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. to AVIVA International Insurance Limited

On 27.02.2015, Bank Zachodni WBK S.A. lost control over insurance entities BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. („TUnŻ S.A.") and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogolnych S.A. („TUO S.A.") following the exercise of a call option by Aviva International Insurance Limited ("Aviva Ltd."). After the fulfilment of the conditions precedent, including the obtaining of the European Commission consent and a decision of the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego) confirming the absence of formal grounds for objecting to the direct acquisition by Aviva Ltd. and indirect acquisition by Aviva plc. of 17% of shares in TUnŻ S.A. and 17% of shares in TUO S.A., the ownership transfer of the abovementioned shares has been completed.

After the transfer, the Bank holds 49% of the total number of shares in the share capital and the total number of the votes at the general meetings of each of the Insurance Companies, with the remaining 51% of the shares and votes being held by Aviva Ltd.

The result on the transaction of the sale by the Bank of a 17% equity stake in BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. to AVIVA International Insurance Limited was PLN 234,391 k.

Deregistration of BFI Serwis Sp. z o.o. in liquidation

In November 2014, BFI Serwis Sp. z o.o. (subsidiary of Bank Zachodni WBK) was removed from the National Court Register.

Incorporation of Dom Maklerski BZ WBK into Bank Zachodni WBK

The incorporation of Dom Maklerski BZ WBK into Bank Zachodni WBK and the foundation of a company Giełdokracja Sp. z o.o has been described in detail in Note 46.

Acquisition of controlling interest in Santander Consumer Bank S.A.

Acquisition of controlling interest in Santander Consumer Bank S.A. has been described in detail in Note 47.

49. Employee benefits

Staff benefits include the following categories:

- Short-term benefits (remuneration, social security contributions, paid leaves, profit distributions and bonuses and non-cash benefits),
- Post-employment benefits (retirement benefits and similar payments, life insurance or medical care provided after the term of employment).

Within these categories, the Bank Zachodni WBK creates the following types of provisions:

in thousands of PLN

Provisions for unused holidays

Liabilities related to unused holidays are stated in the expected amount (based on current salaries) without discounting.

Provisions for employee bonuses

Liabilities related to bonuses system are stated in the amount of the probable payment without discounting.

Provisions for retirement allowances

Based on internal regulations in respect to remuneration, the employees of the Bank are entitled to defined benefits other than remuneration:

a) retirement benefits,
b) death-in-service benefits.

The present value of such obligations is measured by an independent actuary using the projected unit credit method.

The amount of the retirement benefits and death-in-service benefits is dependent on length of service and amount of remuneration. The expected present value of the benefits is calculated, taking into account the financial discount rate and the probability of an individual get to the retirement age or die while working respectively. The financial discount rate is determined by reference to up-to-date market yields of government bonds. The probability of an individual get to the retirement age or die while working is determined using the multiple decrement model, taking into consideration the following risks: possibility of dismissal from service, risk of total disability to work and risk of death.

These defined benefit plans expose the Bank to actuarial risk, such as:

- interest rate risk – the decrease in market yields on government bonds would increase the defined benefit plans obligations,
- remuneration risk – the increase in remuneration of the Bank's employees would increase the defined benefit plans obligations,
- mobility risk – changes in the staff rotation ratio,
- longevity risk – the increase in life expectancy of the Bank's employees would increase the defined benefit plans obligations.

The principal actuarial assumptions as at 31.12. 2015 are as follows:

- the discount rate at the level of 3.10% (2.6% as at 31.12.2014),
- the future salary growth rate at the level of 2.0% (2.5% as at 31.12.2014),
- the probable number of leaving employees calculated on the basis of historical data concerning personnel rotation in the Bank,
- the mortality adopted in accordance with Life Expectancy Tables for men and women, published the Central Statistical Office, adequately adjusted on the basis of historical data of the Bank.

Reconciliation of the present value of defined benefit plans obligations

The following table presents a reconciliation from the opening balances to closing balances for the present value of defined benefit plans obligations.

	31.12.2015	31.12.2014
Balance as at 1 January	65 825	48 354
Provision acquired in a business combination	-	1 105
Current service cost	1 769	453
Prior service cost	-	-
Interest expense	1 657	2 062
Actuarial (gains) and losses	(9 929)	13 851
Balance as at 31 December	**59 322**	**65 825**

Sensivity analysis

The following table presents how the impact on the defined benefits obligations would have increased (decreased) as a result of a change in the respective actuarial assumptions by one percent as at 31.12.2015.

Defined benefit plan obligations	1 percent increase	1 percent decrease
Discount rate	12,26%	-13,51%
Future salary growth rate	-13,57%	12,42%

in thousands of PLN

The following table presents how the impact on the defined benefits obligations would have increased (decreased) as a result of a change in the respective actuarial assumptions by one percent as at 31.12.2014.

Defined benefit plan obligations	1 percent increase	1 percent decrease
Discount rate	12,89%	-14,26%
Future salary growth rate	-14,19%	12,95%

Other staff-related provisions

These are provisions for the National Fund of Rehabilitation of the Disabled, redundancies, overtime and staff training. These liabilities are stated at the amounts of expected payment without discounting.

The balances of the respective provisions are shown in the table below:

Provisions	31.12.2015	31.12.2014
Provisions for unused holidays	51 700	49 700
Provisions for employee bonuses	200 014	181 674
Provisions for retirement allowances	59 322	65 825
Other staff-related provisions	7 964	9 304
Total	**319 000**	**306 503**

Detailed information about movements on staff-related provisions is available in Note 33.

BZ WBK Group applies the Policy on variable components of remuneration for individuals holding managerial positions in BZ WBK Group. The Policy has been approved by the bank's Management Board and Supervisory Board and is reviewed annually or each time significant organisational changes are made.

Persons holding managerial positions 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 applicable 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 referred to above is conditional and deferred for the period of three years (13.3% per annum). Variable remuneration is paid in arrears in equal annual instalments depending on individual performance in the period subject to assessment and the value of the phantom stock.

Awards for Members of BZ WBK Management Board paid in 2015.

The awards for 2015 paid to members of the bank's Management Board in 2015 included part of the award for 2014, 2013 and 2012 which was conditional and deferred in time.

First and last name	Position	Period	
Mateusz Morawiecki	President of the Management Board	01.01.2015-09.11.2015	1 358,43
Andrzej Burliga	Member of the Management Board	01.01.2015-31.12.2015	609,10
Eamonn Crowley	Member of the Management Board	01.01.2015-31.12.2015	577,03
Beata Daszyńska-Muzyczka	Member of the Management Board	23.04.2015 -31.12.2015	0,00
Michael McCarthy	Member of the Management Board	01.01.2015-31.12.2015	577,84
Piotr Partyga	Member of the Management Board	01.01.2015-23.04.2015	405,33
Carlos Polaino Izquierdo	Member of the Management Board	23.04.2015-31.12.2015	0,00
Juan de Porras Aguirre	Member of the Management Board	01.01.2015-31.12.2015	687,52
Marcin Prell	Member of the Management Board	01.01.2015-31.12.2015	467,39
Marco Antonio Silva Rojas	Member of the Management Board	01.01.2015-23.04.2015	438,06
Mirosław Skiba	Member of the Management Board	01.01.2015-31.12.2015	677,52
Feliks Szyszkowiak	Member of the Management Board	01.01.2015-31.12.2015	676,55
Paweł Wieczorek	Member of the Management Board	23.04.2015-31.12.2015	0,00

Pursuant to the bank's remuneration system, the Management Board members have a conditional right to a bonus for 2015 which could be paid in part in 2016 and in part thereafter, provided that certain criteria are met. As at the date of this report, a relevant decision has not yet been made by the bank's Supervisory Board.

in thousands of PLN

Awards for members of BZ WBK Management Board paid in 2014

The awards for 2013 paid to members of the bank's Management Board in 2014 might have included part of the award for 2012 which was conditional and deferred in time.

First and last name	Position	Period	
Mateusz Morawiecki	President of the Management Board	01.01.2014-31.12.2014	1 768,77
Andrzej Burliga	Member of the Management Board	01.01.2014-31.12.2014	789,97
Eamonn Crowley	Member of the Management Board	01.01.2014-31.12.2014	765,70
Michael McCarthy	Member of the Management Board	01.01.2014-31.12.2014	751,04
Piotr Partyga	Member of the Management Board	01.01.2014-31.12.2014	674,33
Juan de Porras Aguirre	Member of the Management Board	01.01.2014-31.12.2014	747,63
Marcin Prell	Member of the Management Board	01.01.2014-31.12.2014	602,53
Marco Antonio Silva Rojas	Member of the Management Board	01.01.2014-31.12.2014	691,04
Mirosław Skiba	Member of the Management Board	01.01.2014-31.12.2014	878,37
Feliks Szyszkowiak	Member of the Management Board	01.01.2014-31.12.2014	910,27

Pursuant to the bank's remuneration system, the Management Board members have a conditional right to a bonus for 2014 which could be paid in part in 2015 and in part thereafter, provided that certain criteria are met.

50. Share based incentive scheme

The fourth edition of the BZWBK incentive scheme closed as at 31.12.2013. It vested at the maximum level and its realization through issuance of new shares and their allocation to entitled individuals was processed in first half of 2014.

On the 30th of June 2014, Annual General Meeting of the Shareholders of Bank Zachodni WBK S.A. implemented three-year Incentive Scheme no. V which participants are key employees of the Bank Zachodni WBK Group (including Members of the Management Board), however not more than 500 individuals.

Vesting condition will be considered from two perspectives, separately for every year of operation of the scheme and on a cumulative basis after 3 years.

In every single year annual award not exceeding one third on total award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on profit after tax (PAT) growth. The range of the scale requires PAT growth between 7% and 11% in first year and between 17% and 26% in second and third year of duration of scheme.

Additionally, after 3 years cumulative award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on PAT compound annual growth rate in 3 years' time between 13.6% and 20.8%. If number of shares resulting from cumulative assessment will be higher than sum of annual awards vested to date, additional shares will be allocated to individuals up to the amount resulting from cumulative assessment.

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.

The Black Scholes model has been used to value awards granted at the grant date. The expected volatility is based on an analysis of historical volatility based on 160 sessions preceding the grant date. The following table details the assumptions used, and the resulting fair value.

Share based payments granted in 2014:

	2014
Number of share based payments	177 336
Share price in PLN	363,30
Excercise price PLN	10
Vesting period	2,8 years
Expected volatility	26,40%
Award life	3 lata
Risk free rate	2,29%
Fair value per award	PLN 322.39
Dividend yield	2,75%

in thousands of PLN

The following table summarizes the share based payments activity:

	12 months of 2015 Number of share based payments	12 months of 2014 Number of share based payments
Outstanding at 1 January	177 336	311 989
Granted	-	177 336
Exercised	-	(305 543)
Forfeited	(8 552)	(6 446)
Expired	-	-
Outstanding at 31 December	168 784	177 336
Exercisable at 31 December	-	-

Exercise price for all share based payments amounts to 10 PLN.

For the share based payments outstanding as at 31.12.2015 and 31.12.2014 the average remaining contractual life is approximately 1,5 years and 2,5 year respectively.

The total expense is recognized in profit and loss account in correspondence with other reserve capital and settlements with subsidiaries. For 12 months of 2015, 2014 increase of equity amounted to PLN 18,411 k, PLN 6,697 k respectively.

The tables above present detailed information about the number of conditional rights to shares vested in BZ WBK Management Board members under the 5th Incentive Scheme. The rights may be exercised only in part depending on the future performance of the Group. Information about the rights exercised in full or in part will be provided in the future reports.

No. of awards	2015
Outstanding at 1 January	24 073
Appointed for a new term	2 500
Termination of appointment	(4 798)
Resignation from the Management Board President function	(3 857)
Outstanding at 31 December	17 918
Exercisable at 31 December	-

Name	Status as at 01.01.2015	Termination of appointment	Resignation from the Management Board President function	Appointed for a new term	Status as at 31.12.2015
Mateusz Morawiecki	3 857	-	(3 857)	-	-
Andrzej Burliga	2 204	-	-	-	2 204
Eamonn Crowley	2 094	-	-	-	2 094
Beata Daszyńska-Muzyczka	-	-	-	700	700
Michael McCarthy	2 424	-	-	-	2 424
Carlos Polaino Izquierdo	-	-	-	1 000	1 000
Piotr Partyga	2 094	(2 094)	-	-	-
Juan de Porras Aguirre	2 217	-	-	-	2 217
Marcin Prell	1 983	-	-	-	1 983
Marco Antonio Silva Rojas	2 704	(2 704)	-	-	-
Mirosław Skiba	2 248	-	-	-	2 248
Feliks Szyszkowiak	2 248	-	-	-	2 248
Paweł Wieczorek	-	-	-	800	800
Total	**24 073**	**(4 798)**	**(3 857)**	**2 500**	**17 918**

No. of awards	2014
Outstanding at 1 January	38 570
Granted	24 073
Exercised	(38 570)
Expired	-
Outstanding at 31 December	24 073
Exercisable at 31 December	-

in thousands of PLN

Name	Status as at 01.01.2014	Exercised during 2014	Granted during 2014	Status as at 31.12.2014
Mateusz Morawiecki	10 120	(10 120)	3 857	3 857
Andrzej Burliga	4 282	(4 282)	2 204	2 204
Eamonn Crowley	4 003	(4 003)	2 094	2 094
Michael McCarthy	4 875	(4 875)	2 424	2 424
Piotr Partyga	2 855	(2 855)	2 094	2 094
Juan de Porras Aguirre	-	-	2 217	2 217
Marcin Prell	3 704	(3 704)	1 983	1 983
Marco Antonio Silva Rojas	-	-	2 704	2 704
Mirosław Skiba	4 282	(4 282)	2 248	2 248
Feliks Szyszkowiak	4 449	(4 449)	2 248	2 248
Total	**38 570**	**(38 570)**	**24 073**	**24 073**

51. Staff level

31.12.2015

As at 31.12.2015 the Bank employed 11,392 persons and 11,216 FTE's.
In 2015, the average staffing level in Bank Zachodni WBK was 11,425 FTE's.

31.12.2014

As at 31.12.2014 the Bank employed 11,838 persons and 11,688 FTE's.
In 2014, the average staffing level in Bank Zachodni WBK was 11,583 FTE's.

52. Dividend per share

As of the date of publication of this report, the Management Board of Bank Zachodni WBK has not finalised its analysis in respect of recommendation on dividend payout for 2015.

As at the date of publication of this report, the Management Board of Bank Zachodni WBK had yet to conclude its analysis of how to allocate the currently undistributed 2014 profit, the payment of which was deferred in accordance with the KNF's recommendation.

On 23.04.2015, The Annual General Meeting of Bank Zachodni WBK adopted a resolution to distribute the net profit of PLN 1,994,632 k in respect of 2014 as follows: PLN 1,041,980 k to be allocated to reserves and the remainder of PLN 952,652 k to be left undistributed.

53. Events which occurred subsequently to the end of the period

Estimated impact of the Act on Tax on Certain Financial Institutions on BZWBK's results in 2016

In connection with the Act on Tax on Certain Financial Institutions of 15.01.2016 (Journal of Laws item 68) that is to become effective on 01.02.2016, Bank Zachodni WBK. informed that according to preliminary estimations the tax will result in the Bank's profit-after-tax for 2016 being decreased by approx. PLN 405 m.

At the same time, the Bank noted that the estimated impact may change as it is based on certain factors that affect its certainty, namely: fluctuations of the items that affect the basis of calculation of the tax; the need for further interpretation of individual provisions of the Act; the opinion of the financial regulator regarding the items that affect the taxation basis; potential ratification of other laws and the Bank's future decisions, all of which may have an impact on the estimated tax figure and are not yet known at the time of publication of this financial statement for 2015.

The intention to amend the Bank's Statutes

On 26.01.2016 the Management Board of Bank Zachodni WBK provided the information planned amendments to the Bank's Statutes that will be presented at the General Meeting for its approval.

Signatures of Members of the Management Board			
Date	**Name**	**Function**	**Signature**
09.02.2016	Gerry Byrne	Acting President of BZ WBK Management Board	
09.02.2016	Andrzej Burliga	Member	
09.02.2016	Eamonn Crowley	Member	
09.02.2016	Beata Daszyńska-Muzyczka	Member	
09.02.2016	Michael McCarthy	Member	
09.02.2016	Carlos Polaino Izquierdo	Member	
09.02.2016	Juan de Porras Aguirre	Member	
09.02.2016	Marcin Prell	Member	
09.02.2016	Mirosław Skiba	Member	
09.02.2016	Feliks Szyszkowiak	Member	
09.02.2016	Paweł Wieczorek	Member	

Signature of a person who is responsible for maintaining the book of account			
Date	**Name**	**Function**	**Signature**
09.02.2016	Wojciech Skalski	Financial Accounting Area Director	