ANNUAL REPORT 2015
OF BANK ZACHODNI WBK GROUP

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
	Consolidated financial statements of Bank Zachodni WBK Group				
I	Net interest income	4 309 151	3 996 822	1 029 715	954 055
II	Net fee and commission income	1 938 100	1 847 761	463 128	441 067
III	Operating profit	3 150 581	2 638 656	752 863	629 856
IV	Profit before tax	3 178 292	2 640 041	759 485	630 187
V	Net profit attributable to owners of BZ WBK S.A.	2 327 273	1 914 711	556 125	457 048
VI	Total net cash flow	(853 283)	60 496	(203 901)	14 441
VII	Total assets	139 708 700	134 501 874	32 783 926	31 556 172
VIII	Deposits from banks	5 704 604	8 359 856	1 338 638	1 961 349
IX	Deposits from customers	101 865 376	94 981 809	23 903 643	22 284 168
X	Total liabilities	119 140 570	116 450 180	27 957 426	27 320 972
XI	Total equity	20 568 130	18 051 694	4 826 500	4 235 200
XII	Non-controlling interests in equity	1 176 101	1 520 799	275 983	356 802
XIII	Profit of the period attributable to non-controlling interests	207 278	132 581	49 531	31 648
XIV	Number of shares	99 234 534	99 234 534		
XV	Net book value per share in PLN/EUR	207,27	181,91	48,64	42,68
XVI	Capital ratio	14,62%	12,91%		
XVII	Profit per share in PLN/EUR	23,45	19,91	5,60	4,75
XVIII	Diluted earnings per share in PLN/EUR	23,41	19,86	5,59	4,74
XIX	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 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.

CONSOLIDATED FINANCIAL STATEMENTS OF BANK ZACHODNI WBK GROUP 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 Group strengthened its position among Poland's top financial institutions, with performance being well above the sector average across all of our chosen segments.

Overall, however, 2015 was a challenging year for the Polish financial services 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 growth 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 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 the 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 Group's core financial metrics are solid and moving in a positive direction.

During 2015, Bank Zachodni WBK Group 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 Group exceeded PLN 3.2bn, up 20% compared to 2014. The value of the Group's assets was PLN 139.7bn compared to PLN 134.5bn a year before. The Group's profit before tax was influenced by the sale of a part of its shareholding in the insurance companies BZ WBK-Aviva TUO S.A. and BZ WBK-Aviva TUnŻ S.A., which generated an additional PLN 523.0m. Despite a decline in interest rates and interchange fees, we generated a higher interest and fee income relative to the previous year.

Santander Consumer Bank remains a leader in Poland's consumer loans market. As at 31 December 2015, gross loans and advances originated by Santander Consumer Bank Group increased by PLN 557m (i.e. by 4.0%) compared with the end of 2014, mainly as a result of higher cash loan and credit card balances. The increase in cash loans is mainly attributable to their higher sales driven by reduced market interest rates and intensive marketing campaigns. Among the awards conferred on the bank in 2015 were "Grand Pearl of the Polish Economy" and "Customer Friendly Company Accolade".

The Group's interest income increased as a result of consolidating SCB Group as well as the organic growth of business volumes amid the economic recovery and record low interest rates.

Bank Zachodni WBK Group effectively managed these costs whilst maintaining strict budgetary discipline. In addition, it incurred mandatory costs as a result of its participation in the banking system and the deposit guarantee system.

At the end of 2015, Bank Zachodni WBK Group (meaning Bank Zachodni WBK Group and Santander Consumer Bank Group) had 6.4m customers in total. Bank Zachodni WBK opened more than 300k new personal accounts, including nearly 200k "Accounts Worth Recommending". In the SME sector, we observed a 12% increase in the number of customers with high transactional activity and who utilized 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.

The Group's loans to retail customers increased by 8.7% YoY and loans to business customers and public institutions increased by 10.7%.

In 2015, Bank Zachodni WBK Group 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.

Bank Zachodni WBK Group 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.

Santander Consumer Bank actively supports prominent sports figures. It is the main official sponsor of Justyna Kowalczyk – an outstandingly successful Polish sportswoman. Santander Group also sponsors Scuderia Ferrari, the most recognised team in the history of Formula 1®. In addition, the bank supports charitable institutions that help children, including the "Let's Help Children With Cancer" foundation, which is currently setting up the "Cape of Hope" clinic, a modern oncological facility that is expected to serve more than 2000 children.

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 increasing 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 will help us satisfy the needs of customers of Bank Zachodni WBK Group.

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 Group 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

Table of Contents

In thousands of PLN

Consolidated income statement

for reporting period:		01.01.2015 31.12.2015	01.01.2014 31.12.2014
Interest income		5 708 829	5 723 043
Interest expense		(1 399 678)	(1 726 221)
Net interest income	Note 6	**4 309 151**	**3 996 822**
Fee and commission income		2 358 072	2 211 332
Fee and commission expense		(419 972)	(363 571)
Net fee and commission income	Note 7	**1 938 100**	**1 847 761**
Dividend income	Note 8	105 278	80 229
Net gains/(losses) on subordinated entities	Note 49	522 995	10 602
Net trading income and revaluation	Note 9	223 642	101 043
Gains (losses) from other financial securities	Note 10	277 350	225 552
Other operating income	Note 11	163 607	317 034
Impairment losses on loans and advances	Note 12	(810 692)	(836 555)
Operating expenses incl.:		(3 578 850)	(3 103 832)
Bank's staff, operating expenses and management costs	*Notes 13, 14*	*(3 208 701)*	*(2 719 479)*
Depreciation/amortisation		*(256 561)*	*(308 022)*
Other operating expenses	*Note 15*	*(113 588)*	*(76 331)*
Operating profit		**3 150 581**	**2 638 656**
Share in net profits (loss) of entities accounted for by the equity method		27 711	1 385
Profit before tax		**3 178 292**	**2 640 041**
Corporate income tax	Note 16	(643 741)	(592 749)
Consolidated profit for the period		**2 534 551**	**2 047 292**
of which:			
attributable to owners of BZ WBK S.A.		*2 327 273*	*1 914 711*
attributable to non-controlling interests		*207 278*	*132 581*
Net earnings per share (PLN/share)	Note 17		
Basic earnings per share		23,45	19,91
Diluted earnings per share		23,41	19,86

Consolidated statement of comprehensive income

for reporting period:	01.01.2015 31.12.2015	01.01.2014 31.12.2014
Consolidated profit for the period	**2 534 551**	**2 047 292**
Other comprehensive income which can be transferred to the profit and loss account:	**(177 216)**	**256 216**
Available-for sale financial assets valuation	(111 009)	488 423
including deferred tax	*21 092*	*(92 800)*
Cash flow hedges valuation	(107 777)	(172 108)
including deferred tax	*20 478*	*32 701*
Other comprehensive income which can't be transferred to the profit and loss account:	**8 055**	**(11 670)**
Provision for retirement allowances – actuarial gains/losses	9 944	(14 408)
including deferred tax	*(1 889)*	*2 738*
Other comprehensive income for the period, net of income tax	**(169 161)**	**244 546**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**2 365 390**	**2 291 838**
Attributable to:		
owners of BZ WBK S.A.	*2 152 641*	*2 157 350*
non-controlling interests	*212 749*	*134 488*

Notes presented on pages 12 – 109 constitute an integral part of these Financial Statements.

In thousands of PLN

Consolidated statement of financial position

as at:		31.12.2015	31.12.2014
Assets			
Cash and balances with central banks	Note 18	6 229 853	6 806 521
Loans and advances to banks	Note 19	3 853 257	2 523 063
Financial assets held for trading	Note 20	4 165 511	5 238 741
Hedging derivatives	Note 21	164 777	238 889
Loans and advances to customers	Note 22	94 930 844	85 820 571
Investment securities	Note 23	24 622 078	27 057 093
Investments in associates	Note 24	831 142	42 792
Intangible assets	Note 25	465 687	505 385
Goodwill	Note 49	1 688 516	2 542 325
Property, plant and equipment	Note 26	830 493	756 950
Net deferred tax assets	Note 27	1 251 808	1 181 610
Assets classified as held for sale	Note 28	1 569	1 378
Other assets	Note 29	673 165	1 786 556
Total assets		**139 708 700**	**134 501 874**
Liabilities			
Deposits from banks	Note 30	5 704 604	8 359 856
Hedging derivatives	Note 21	2 079 805	1 258 224
Financial liabilities held for trading	Note 20	2 535 684	2 781 680
Deposits from customers	Note 31	101 865 376	94 981 809
Subordinated liabilities	Note 32	526 634	1 539 967
Debt securities in issue	Note 33	4 320 891	3 373 374
Current income tax liabilities		228 488	624 189
Other liabilities	Note 34	1 879 088	3 531 081
Total liabilities		**119 140 570**	**116 450 180**
Equity			
Equity attributable to owners of BZ WBK S.A.		**19 392 029**	**16 530 895**
Share capital	Note 35	992 345	992 345
Other reserve funds	Note 36	14 685 919	12 309 424
Revaluation reserve	Note 37	776 914	951 546
Retained earnings		609 578	362 869
Profit of the current period		2 327 273	1 914 711
Non-controlling interests in equity		**1 176 101**	**1 520 799**
Total equity		**20 568 130**	**18 051 694**
Total equity and liabilities		**139 708 700**	**134 501 874**

Notes presented on pages 12 – 109 constitute an integral part of these Financial Statements.

In thousands of PLN

Movements on consolidated equity

Consolidated statement of changes in equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Non-controlling interests in equity	Total
Note	35	36	37			
Opening balance as at 31.12.2014	**992 345**	**12 309 424**	**951 546**	**2 277 580**	**1 520 799**	**18 051 694**
Other comprehensive income which can be transferred to the profit and loss account	-	-	(182 687)	2 327 273	212 749	2 357 335
Other comprehensive income which can't be transferred to the profit and loss account:	-	-	8 055	-	-	8 055
Equity adjustment due to loss of control over BZ WBK-Aviva insurance companies	-	1 032 206	-	(342 467)	(540 854)	148 885
Transfer to other capital	-	1 329 746	-	(1 329 746)	-	-
Share scheme charge	-	18 754	-	-	-	18 754
Dividends	-	-	-	-	(16 593)	(16 593)
Other	-	(4 211)	-	4 211	-	-
As at 31.12.2015	**992 345**	**14 685 919**	**776 914**	**2 936 851**	**1 176 101**	**20 568 130**

As at the end of the period revaluation reserve in the amount of PLN 776 914 k comprises of debt securities and equity shares classified as available for sale of PLN 183 416 k and PLN 786 398 k respectively and additionally cash flow hedge activities of PLN (195 500) k and accumulated actuarial losses -provision for retirement allowances of PLN 2 600 k.

Consolidated statement of changes in equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Non-controlling interests in equity	Total
Note	35	36	37			
Opening balance at at 31.12.2013	**935 451**	**10 115 745**	**708 907**	**2 111 985**	**610 855**	**14 482 943**
Other comprehensive income which can be transferred to the profit and loss account	-	-	254 309	1 914 711	134 488	2 303 508
Other comprehensive income which can't be transferred to the profit and loss account:	-	-	(11 670)	-	-	(11 670)
Issue of shares*	56 894	2 102 575	-	-	-	2 159 469
Adjustment to equity from acquisition of controlling interest in Santander Consumer Bank	-	(663 825)	-	-	995 059	331 234
Transfer to other capital	-	750 915	-	(750 915)	-	-
Share scheme charge	-	6 846	-	-	-	6 846
Adjustment to equity from the incorporation of Dom Maklerski BZ WBK (Brokerage House) into the structure of Bank Zachodni WBK	-	(2 832)	-	2 832	-	-
Other		-	-	(101)	-	(101)
Dividends	-	-	-	(1 000 932)	(219 603)	(1 220 535)
As at 31.12.2014	**992 345**	**12 309 424**	**951 546**	**2 277 580**	**1 520 799**	**18 051 694**

As at the end of the period revaluation reserve in the amount of PLN 951 546 k comprises of debt securities and equity shares classified as available for sale of PLN 493 867 k and PLN 571 335 k respectively and additionally cash flow hedge activities of PLN (108 201) k and accumulated actuarial losses -provision for retirement allowances of PLN (5 455) k.

* Detailed information on "Issue of shares" in Note 35.

In thousands of PLN

Consolidated statement of cash flows

for the period	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Profit before tax	**3 178 292**	**2 640 041**
Total adjustments:		
Share in net profits (losses) of entities accounted for by the equity method	(27 711)	(1 385)
Depreciation/amortisation	256 561	308 022
Impairment losses	1 733	14 028
(Profit) loss from investing activities	(823 152)	(244 697)
	2 585 723	**2 716 009**
Changes:		
Provisions	(1 078 594)	(30 308)
Trading portfolio financial instruments	1 722 927	(415 159)
Loans and advances to banks	(246 273)	(404 211)
Loans and advances to customers	(9 110 273)	(5 809 053)
Deposits from banks	(2 669 542)	(124 276)
Deposits from customers	6 653 539	9 322 696
Liabilities arising from debt securities in issue	-	(171 366)
Other assets and liabilities	1 014 948	(273 321)
	(3 713 268)	**2 095 002**
Interests and similar charges	643 823	353 104
Dividend received	(103 899)	(80 278)
Paid income tax	(1 048 980)	(567 112)
Net cash flow from operating activities	**(1 636 601)**	**4 516 725**
Inflows	**125 797 137**	**252 427 064**
Sale of subordinated entities	244 316	2 592
Sale/maturity of investment securities	125 398 533	252 318 165
Sale of intangible assets and property, plant and equipment	50 389	26 029
Dividend received	103 899	80 278
Outflows	**(124 877 359)**	**(257 000 117)**
Purchase of investment securities	(124 527 238)	(256 692 323)
Purchase of intangible assets and property, plant and equipment	(350 121)	(307 794)
Net cash flow from investing activities	**919 778**	**(4 573 053)**
Inflows	**3 359 574**	**2 729 755**
Debt securities in issue	2 111 125	1 955 600
Drawing of loans	1 248 449	771 100
Proceeds from issuing shares	-	3 055
Outflows	**(3 496 034)**	**(2 612 931)**
Debt securities buy out	(728 200)	(902 863)
Repayment of loans	(2 143 089)	(194 952)
Dividends and other payments to shareholders	(16 593)	(1 220 537)
Other financing outflows	(608 152)	(294 579)
Net cash flow from financing activities	**(136 460)**	**116 824**
Total net cash flow	**(853 283)**	**60 496**
Cash at the beginning of the accounting period	**13 530 975**	**12 300 487**
Cash acquired in a business combination	**-**	**1 169 992**
Cash at the end of the accounting period *	**12 677 692**	**13 530 975**

* Cash components are presented in Note 44.

Notes presented on pages 12 – 109 constitute an integral part of these Financial Statements.

Additional notes to consolidated financial statements

1. General information about issuer

Bank Zachodni WBK S.A. 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.

Consolidated financial statements of Bank Zachodni WBK Group includes bank's stand alone financial information as well as information from its subsidiaries (all together called Group) and share of net assets of associated entities.

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

BZ WBK Group 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.

Bank Zachodni WBK Group consists of the following entities:

In thousands of PLN

Subsidiaries:

	Subsidiaries	Registered office	% of votes on AGM 31.12.2015	% of votes on AGM 31.12.2014
1.	BZ WBK Finanse Sp. z o.o.	Poznań	100.00	100.00
2.	BZ WBK Faktor Sp. z o.o.	Warszawa	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
3.	BZ WBK Leasing S.A.	Poznań	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
4.	BZ WBK Lease S.A.	Poznań	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
5.	Lizar Sp. z o.o. [1)]	Warszawa	-	100% of AGM votes are held by BZ WBK Lease S.A.
6.	BZ WBK Inwestycje Sp. z o.o.	Poznań	100.00	100.00
7.	Giełdokracja Sp. z o.o. [2)]	Poznań	100.00	100.00
8.	BZ WBK Nieruchomości S.A.	Zakrzewo	99.99	99.99
9.	BZ WBK Asset Management S.A. [3)]	Poznań	50.00	50.00
10.	BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.	Poznań	100% of AGM votes are held by BZ WBK Asset Management S.A.	100% of AGM votes are held by BZ WBK Asset Management S.A.
11.	BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. [4)]	Poznań	-	66.00
12.	BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A. [4)]	Poznań	-	66.00
13.	Santander Consumer Bank S.A. [5)]	Wrocław	60.00	66.67
14.	Santander Consumer Finanse Sp. z o.o.	Wrocław	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
15.	Santander Consumer Multirent Sp. z o.o.	Wrocław	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
16.	AKB Marketing Services Sp. z o.o. in liquidation	Poznań	100% of AGM votes are held by Santander Consumer Bank S.A.	100% of AGM votes are held by Santander Consumer Bank S.A.
17.	SC Poland Auto 2014-1 Limited [6)]	Dublin	subsidiary of Santander Consumer Bank S.A.	subsidiary of Santander Consumer Bank S.A.
18.	SC Poland Consumer 15-1 Sp. z.o.o. [7)]	Warszawa	subsidiary of Santander Consumer Bank S.A.	-

[1)] On 29 October 2015, BZ WBK Lease entered into an agreement with Poland Media Properties S.A. whereby it sold all its shares of Lizar Sp. z o.o. As a result, the company ceased to be a member of Bank Zachodni WBK Group.

[2)] Detailed information are described in Note 47.

[3)] As at 31 December 2015, Bank Zachodni WBK was a co-owner of BZ WBK Asset Management S.A., together with Banco Santander S.A. Both owners are members of Santander Group and each holds an equal stake of 50% in the company's share capital. In practice, Bank Zachodni WBK exercises control over the company and its subsidiary, BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., because through it Banco Santander pursues its policy in Poland. Consequently, the company is treated as a subsidiary.

[4)] On 27 February 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."). These both companies are now treated as associates. Detailed information are described in Note 49.

In thousands of PLN

5) Detailed information are described in Note 48.

6) SC Poland Auto 2014-1 Limited set up for the purpose of securitisation of a part of the loan portfolio; its shareholders are foreign individuals who have no ties with the Group; the company is controlled by Santander Consumer Bank, in accordance with the control criteria set out in IFRS 10.7.

7) SC Poland Consumer 15-1 Sp. z.o.o. set up for the purpose of securitisation of a part of the loan portfolio; its shareholder is foreign legal entity who has no ties with the Group; the company is controlled by Santander Consumer Bank, in accordance with the control criteria set out in IFRS 10.7.

On 1 July 2014, Bank Zachodni WBK S.A. took control over Santander Consumer Bank S.A.

The scope of activities Santander Consumer Bank includes amongst other:

- opening and keeping bank accounts,
- accepting saving and term deposits,
- performance of cash settlements,
- granting and contracting loans and advances,
- accepting and making money deposits in banks and other local and foreign financial institutions,
- granting and accepting bank sureties and guarantees,
- providing financial and investment advisory services as well as providing agency and representation services within the scope of operations of the Bank,
- purchasing, selling and intermediating in trade of receivables,
- purchasing and holding shares, bonds as well as other securities issued by companies and other legal entities, coordination and management of operations of such companies and other legal entities,
- founding or assistance with founding companies or other legal entities whose establishing will be considered as favorable for the Bank, as well as acquisition of shares or securities issued by these companies or legal entities in another form,
- performance of spot and forward transactions as well as other transactions on derivatives.

Additional SCB subsidiaries activities are:

- AKB Marketing Services Sp. z o.o. in liquidation - operations ancillary to banking activities,
- Santander Consumer Multirent Sp. z o.o. - leasing activities (finance & operating),
- Santander Consumer Finanse Sp. z o.o. - the Company's core business is investing cash surpluses and co-operation with TUiR Warta S.A. i TUŻ Warta S.A. as a financial agent,
- SC Poland Auto 2014-1 Limited - Special purpose vehicle set up for the purpose of issuing asset backed securities.
- SC Poland Consumer 15-1 Sp. z.o.o. - Special purpose vehicle set up for the purpose of issuing asset backed securities.

Associates:

	Associates	Registered office	% of votes on AGM 31.12.2015	% of votes on AGM 31.12.2014
1.	POLFUND - Fundusz Poręczeń Kredytowych S.A.	Szczecin	50.00	50.00
2.	Metrohouse Franchise S.A. 1) *	Warszawa	20.13	20.13
3.	BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. 2)	Poznań	49.00	-
4.	BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A. 2)	Poznań	49.00	-

1) Detailed information of Metrohouse Franchise S.A. is provided in Note 49 and in Note 54.

2) On 27 February 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 49.

*These are the associates of BZ WBK Inwestycje Sp. z o.o. - bank's subsidiary. They are accounted for using the equity method taking into account impairment charges. Purchase of shares was a part of building a portfolio of pre-IPO type own investment.

2. Basis of preparation of consolidated financial statements

Statement of compliance

The annual consolidated financial statements of BZ WBK Group for the year ended 31 December 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 that apply to the consolidated financial statements, applicable to BZ WBK Group.

These consolidated financial statements have been approved for publication by the bank's Management Board on 9 February 2016.

Changes in accounting policies

The accounting policies applied by the Group in these consolidated financial statements are the same as those applied by the Group in its consolidated financial statements for 2014.

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 February 2015, Bank Zachodni WBK lost control over BZ WBK-Aviva TUnŻ and BZ WBK-Aviva 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 49.

Changes in judgments and estimates

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

In thousands of PLN

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

IFRS	Description of changes	Effective in the European Union from	Impact on the Group
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 the accounting year 2015

IFRS	Description of changes	Effective in the European Union from	Impact on the Group
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 financial assets and financial liabilities measured at fair value through profit and loss, including derivative instruments 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.

The accounting policies have been applied consistently by Group entities.

Accounting principles

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 Group

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 BZ WBK Group 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 Group 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. A group-wide system for grading advances according to agreed credit criteria exists 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 Group ; 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 the customers of global corporate banking, 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 value of the fixed-assets of the Group is reviewed as 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 other long-term 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 Group's financial instruments are carried at fair value, including all derivatives, other financial assets at fair value through profit or loss and financial investments available for sale. Financial instruments are either priced with reference to a quoted market price for that instrument or 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 Group takes into account the need to identify additional adjustments to the fair value of the counterparty credit risk.

Other accounting estimates and judgements

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 50 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

Basis of consolidation

Subsidiaries

Subsidiaries are those enterprises which are controlled by BZ WBK. Control exists when the bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities.

It is assumed that bank as the investor exercises control over the entity in which the investment was made if and only if it:

- has the power over the investee;
- has the exposure, or rights, to variable returns from involvement with the investee; and
- has the ability to use power over the investee to affect the amount of the investor's returns.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Purchase (acquisition) method

BZ WBK Group applies the acquisition method to account for acquisition of subsidiaries. Under this method, the acquirer has to:

- recognise and measure all identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree as at the acquisition date (i.e. the date on which the acquirer obtains control of the acquiree);
- recognise and measure goodwill or gain from a bargain purchase.

The acquirer measures:

- identifiable assets acquired and liabilities assumed - at fair value as at the acquisition date;
- any non-controlling interest – at fair value or pro-rata to their share in the identifiable net assets of the acquiree.

Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of the total recognised gains and losses of joint ventures on an equity accounted basis.

Associates

Associates are those entities in which the Group has significant influence, but are not subsidiaries, neither joint ventures.

They are accounted for in accordance with the equity method in consolidated financial statements.

The consolidated financial statements include the Group's share of the total recognised gains and losses of associates on an equity accounted basis, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an associate, the Group's carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of an associate.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in the preparation of consolidated financial statements.

Foreign currency

Foreign currency transactions

PLN is the accounting currency in the Group.

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies, are translated at the foreign exchange rate ruling at the balance sheet date. Non-monetary assets and liabilities denominated in foreign currencies, which are stated at historical cost, are translated at the foreign exchange rate ruling 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 Group 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.

In thousands of PLN

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 Group at fair value through profit or loss. As at the balance sheet date the Group does not 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 Group's management has the positive intention and ability to hold to maturity. If the Group 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 Group would not utilise the held to maturity classification. As at the balance sheet date the Group 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. Loans and receivables also include finance lease receivables of Leasing Companies and factoring receivables of BZ WBK Faktor.

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 Group 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 provisions of the instrument.

Lease receivables of leasing companies are accounted for as of the date from which the lessee is entitled to exercise its rights to use the leased asset. Other agreements where the leased assets have not yet been made available to the lessee are recognised as contingent liabilities.

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.

In thousands of PLN

Derecognition

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

A regular way purchase or sale of a financial asset is derecognised using settlement date accounting. The method is applied consistently for all purchases and sales of financial assets.

The Group 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, 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 Group 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 Group 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.

Lease payment receivables of Leasing Companies are accounted for in the statement of financial position at an amount equal to the net investment in the lease. Receivables are measured at amortised cost using the effective interest rate.

A calculation based on the effective interest rate is made monthly on the basis of inflows and expenses arising from the lease agreement.

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 Group 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.

In thousands of PLN

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 directly in other comprehensive income, until the financial asset is derecognised, at which time the comprehensive income previously recognised in equity 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.

Repurchase and reverse repurchase transactions

The Group 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 transaction”) are not derecognised 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.

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

The Group 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 Group 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 Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the Group 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 Group, or
    (ii) national or local economic conditions that correlate with defaults on the assets in the Group.

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 establishing 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 Group 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, which is assessed jointly (collective approach), is verified monthly. The Group 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 after an indication of impairment has 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 Group 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 Group 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 Group's credit risk evaluation or the Group'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 Group 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 Group;
- 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 either directly or 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.

Impairment calculation methods are standardised across the Group.

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 as a loss.

Contingent liabilities

The Group creates provisions for impairment 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.

In thousands of PLN

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 Group assumes substantially all the risks and rewards of ownership are classified as finance leases. The 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 Group 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 Group 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 part of an item of property, plant and equipment.

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 Group 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 Group, 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 Group are stated at cost less accumulated amortisation and total 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.

In thousands of PLN

Other items of the 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.

Non-controlling interests are also recognised in Group capital.

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

Share based payments

BZ WBK Group operates a share based compensation plan. For share options after 7 November 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 Group 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 statement of financial position when the Group 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.

Technical–insurance provisions for unpaid claims, benefits and premiums concern insurance activity.

Provision for unpaid claims and benefits is created in the amount of the established or expected final value of the future claims and benefits paid in connection with events before the reporting period date, including related claims handling costs.

Provision for unpaid claims and benefits which were notified to the insurer, is created individually.

Provision for premiums is created individually for each insurance contract as premium written, attributed to subsequent reporting periods, proportionally to the period for which the premium was written on the daily basis. However, in case of insurance contracts whose risk is not evenly apportioned over the period of duration of insurance, provision is created proportionally to the expected risk in subsequent reporting periods.

At each reporting period, the Group tests the adequacy of technical-insurance provisions to confirm whether the provisions deducted by deferred acquisition costs are sufficient. The adequacy test is carried out using up-to-date estimates of future cash flows arising from insurance contracts, including costs of claims handling and policy-related costs.

If the assessment reveals that the technical-insurance provisions are insufficient in relation to estimated future cash flows, then the whole disparity is promptly recognised in the consolidated income statement through impairment of deferred acquisition costs or/and supplementary provisions.

Net income on bancassurance

For the selected loan products, where direct linkage to the insurance product has been identified, the Group splits realised income into a portion recognised as interest income according to effective interest rate method and a portion recognised as fee income. The Group 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 Group 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 Group as fee income when the fee is charged for sales of an insurance product.
The Group 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 Group 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 Group 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) 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 Group splits realised income into a portion recognised as interest income according to effective interest rate method and a portion recognised as fee income. The Group 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 Group 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 the 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 profit and loss account at the moment of acquiring rights to them provided that it is probable that the economic benefits will flow to the Group 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 Group. 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 values arising from the statement of financial position. 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 each reporting date 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.

Insurance

Insurance income

Insurance income is disclosed at the value of premium accrued as of the due date. The written premium is recognised in full amount, inclusive of any add-ons and supplementary payments for the previous periods and exclusive of reversed or returned payments, discounts or price reductions as well as taxes or tax-type charges.

Written premium is understood as premium due under insurance agreement in a reporting period, regardless of whether it was paid or not. Insurance agreements provide for the amount of premiums and dates of payment. The written premiums are disclosed on net basis, after reinsurance costs provided for in reinsurance agreements.

In BZ WBK-AVIVA TUO, written premiums are adjusted for change in the balance of the premium reserve (premium reserve as at the end of the reporting period less premium reserve as at the beginning of the reporting period) and recognised as earned premiums (before and after reinsurance costs, respectively).

In thousands of PLN

Claims

This item includes claims paid under insurance agreements during a reporting period for loss or accident which occurred in the current or previous reporting period(s) increased by movements in the balance of the reserve for claims reported to the insurer but not paid as well as claims that have not been reported (IBNR) before the balance sheet date. Such amounts are added to direct or indirect loss adjustment costs, which include also the cost of a potential dispute.

The value of claims is assigned directly to the group and type of insurance they refer to. The same approach is applied to direct adjustment costs, while indirect costs are settled pro rata to claims paid.

BZ WBK Aviva insurance companies do not recognise separately internal adjustment costs. Loss adjustment costs are recognised as external costs associated to the insurance activity of the insurer.

Compensations and benefits are recognised at their gross amount and less the reinsurer's contribution (i.e. at the net amount), in accordance with applicable reinsurance agreements. The reinsurers' contribution to compensations and benefits reduces the gross cost of these items.

In thousands of PLN

3. Segment reporting

Operational activity of Bank Zachodni WBK Group has been divided into five segments: Retail Banking, Business and Corporate Banking, Global Corporate Banking (in 3rd quarter of 2015 the name of Global Banking and Markets business segment was changed to Global Corporate Banking, the criteria of customers assignment to this business segment was maintained unchanged), ALM (Assets and Liabilities Management) and Centre, and Santander Consumer. They were identified based on customers and product types.

Income and costs assigned to a given segment are generated on sale and service of products or services in the segment, according to description presented below. Such income and costs are recognized in the profit and loss account for the Group and may be assigned to a given segment either directly or based on reasonable assumptions.

Settlements among business segments relate to rewarding for delivered services and include:

- sale and/or service of customers assigned to a given segment, via sale/service channels operated by another segment;
- sharing of income and costs on transactions in cases where a transaction is processed for a customer assigned to a different segment;
- sharing of income and cost of delivery of common projects.

Income and cost allocations are regulated by agreements between segments, which are based on single rates for specific services or breakdown of total income and/or cost.
Assets and liabilities of a given segment are used for the operational activity and may be assigned to the segment directly or on a reasonable basis.

In 2015 introduced the following changes:

- change of the methodology of capital and income from capital allocation between business segments;
- change of the methodology of obligatory reserve allocation and results on obligatory reserve;
- customer resegmentation between business segments;
- in 3rd quarter of 2015 the name of Global Banking and Markets business segment was changed to Global Corporate Banking, the criteria of customers assignment to this business segment was maintained unchanged.

In all cases comparable data are adjusted accordingly.

The principles of income and cost identification, as well as assets and liabilities for segmental reporting purposes are consistent with the accounting policy applied in Bank Zachodni WBK Group.

Result on the sale by the Bank of a 17% equity stake in BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. oraz BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. to AVIVA International Insurance Limited (described in Note 49) is presented in ALM and Centre segment.

Retail Banking

Retail Banking generates income from the sale of products and services to personal customers and small and medium companies. In the offer for customers of this segment there are a wide range of savings products, consumer and mortgage loans, credit and debit cards, insurance and investment products, clearing services, GSM phones top-ups, foreign payments and Western Union and private-banking services. For small and medium companies, the segment provides, among others, lending and deposit taking services, cash management services, leasing, factoring, letters of credit and guarantees. Furthermore, the Retail Banking segment generates income through offering asset management services within investment funds and private portfolios. It also covers insourcing services provided to retail customers based on mutual agreements with other banks and financial institutions.

In thousands of PLN

Business and Corporate Banking

Business and Corporate Banking segment covers products and activities targeted at business entities, local governments and the public sector. In addition to banking services covering lending and deposit activities, the segment provides services in the areas of cash management, leasing, factoring, trade financing and guarantees.

Global Corporate Banking

In the Global Corporate Banking segment, the Group derives income from the sale of products and services to the largest international and local corporations, including:

- transactional banking with such products as cash management, deposits, leasing, factoring, letters of credit, guarantees, bilateral lending and trade finance;
- lending, including project finance, syndicated facilities and bond issues;
- FX and interest rate risk management products provided to all the Bank's customers (segment allocates revenues and costs from this activity to other segments, the allocation level may be subject to changes in consecutive years);
- underwriting and financing of securities issues, financial advice and brokerage services (until the incorporation of Brokerage House into the structure of the Bank at 31.10.2014, above services related to the activities of the Brokerage Office).

Through its presence in the wholesale market, Global Corporate Banking also generates revenues from interest rate and FX risk positioning activity.

ALM and Centre

The segment covers central operations such as financing of other Group's segments, including liquidity, interest rate risk and FX risk management. It also includes managing the Bank's strategic investments and transactions generating income and/or costs that cannot be directly or reasonably assigned to a given segment.

Santander Consumer

Santander Consumer business segment includes activities of the Santander Consumer Group, which was consolidated to the BZ WBK Group from 01.07.2014.

Activities of this segment focus on selling products and services addressed to both individual and business customers. This segment focuses mainly on loans products, i.e. car loans, credit cards, cash loans, installment loans and lease products. In addition, Santander Consumer segment includes term deposits and insurance products (mainly related to loans products).

In thousands of PLN

Consolidated income statement (by business segments)

01.01.2015-31.12.2015	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	**1 967 566**	**535 473**	**124 524**	**629 380**	**1 052 208**	**4 309 151**
incl. internal transactions	(83 786)	(34 068)	125	124 227	(6 498)	-
Other income	**1 392 090**	**295 606**	**333 461**	**894 234**	**210 303**	**3 125 694**
incl. internal transactions	53 782	79 208	(124 282)	45 824	(54 532)	-
Dividend income	-	-	**1 511**	**103 761**	**6**	**105 278**
Operating costs	**(1 931 675)**	**(303 706)**	**(217 030)**	**(323 976)**	**(545 902)**	**(3 322 289)**
incl. internal transactions	(12 762)	(1 157)	(6)	16 301	(2 376)	-
Depreciation/amortisation	**(111 829)**	**(14 952)**	**(18 791)**	**(73 243)**	**(37 746)**	**(256 561)**
Impairment losses on loans and advances	**(514 908)**	**(177 478)**	**1 611**	**3 598**	**(123 515)**	**(810 692)**
Share in net profits (loss) of entities accounted for by the equity method	**27 700**	-	-	**11**	-	**27 711**
Profit before tax	**828 944**	**334 943**	**225 286**	**1 233 765**	**555 354**	**3 178 292**
Corporate income tax						(643 741)
Non-controlling interests						(207 278)
Profit for the period						**2 327 273**

Consolidated statement of financial position (by business segment)

31.12.2015	Segment Retail Banking *	Segment Business and Corporate Banking	Segment Global Corporate Banking	Segment ALM and Centre	Segment Santander Consumer	Total
Loans and advances to customers	49 252 776	25 572 209	7 124 921	79 225	12 901 713	94 930 844
Investments in associates	14 129	-	-	817 013	-	831 142
Other assets	7 038 655	1 543 655	5 806 180	26 552 429	3 005 795	43 946 714
Total assets	**56 305 560**	**27 115 864**	**12 931 101**	**27 448 667**	**15 907 508**	**139 708 700**
Deposits from customers	65 733 857	18 662 374	7 348 697	1 200 108	8 920 340	101 865 376
Other liabilities and equity	3 873 763	2 808 843	3 903 254	17 017 309	10 240 155	37 843 324
Total equity and liabilities	**69 607 620**	**21 471 217**	**11 251 951**	**18 217 417**	**19 160 495**	**139 708 700**

*Includes individual customers and small & micro companies.

In thousands of PLN

Consolidated income statement (by business segments)

01.01.2014-31.12.2014	Segment Retail Banking *	Segment Business and Corporate Banking	Global Banking & Markets	Segment ALM and Centre	Segment Santander Consumer	Total
Net interest income	**2 192 209**	**599 343**	**152 164**	**545 298**	**507 808**	**3 996 822**
incl. internal transactions	(88 532)	(42 324)	22 736	119 281	(11 161)	-
Other income	**1 520 600**	**270 489**	**342 047**	**272 172**	**96 684**	**2 501 992**
incl. internal transactions	52 390	64 303	(120 276)	(808)	4 391	-
Dividend income	**-**	**-**	**1 009**	**79 216**	**4**	**80 229**
Operating costs	**(1 837 724)**	**(259 910)**	**(197 847)**	**(263 569)**	**(236 760)**	**(2 795 810)**
incl. internal transactions	(10 610)	(1 097)	(3 604)	15 318	(7)	-
Depreciation/amortisation	**(113 881)**	**(16 005)**	**(14 724)**	**(142 730)**	**(20 682)**	**(308 022)**
Impairment losses on loans and advances	**(435 772)**	**(288 354)**	**(45 754)**	**11 442**	**(78 117)**	**(836 555)**
Share in net profits (loss) of entities accounted for by the equity method	**-**	**-**	**1 195**	**190**	**-**	**1 385**
Profit before tax	**1 325 432**	**305 563**	**238 090**	**502 019**	**268 937**	**2 640 041**
Corporate income tax						(592 749)
Non-controlling interests						(132 581)
Profit for the period						**1 914 711**

Consolidated statement of financial position (by business segment)

31.12.2014	Segment Retail Banking *	Segment Business and Corporate Banking	Global Banking & Markets	Segment ALM and Centre	Segment Santander Consumer	Total
Loans and advances to customers	44 106 247	22 535 013	6 782 533	51 119	12 345 659	85 820 571
Investments in associates	14 129	-	-	28 663	-	42 792
Other assets	9 422 075	1 407 799	7 603 327	26 992 878	3 212 432	48 638 511
Total assets	**53 542 451**	**23 942 812**	**14 385 860**	**27 072 660**	**15 558 091**	**134 501 874**
Deposits from customers	63 504 476	14 954 903	7 224 842	2 429 971	6 867 617	94 981 809
Other liabilities and equity	5 180 928	2 428 214	5 126 481	18 093 968	8 690 474	39 520 065
Total equity and liabilities	**68 685 404**	**17 383 117**	**12 351 323**	**20 523 939**	**15 558 091**	**134 501 874**

*Includes individual customers and small & micro companies.

4. Risk management

Bank Zachodni WBK Capital Group is exposed to a variety of risks in its ordinary business activities. The role of risk management is to ensure that BZ WBK Group 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 BZ WBK Group'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 appropriate risk limits, which restrict the risk exposure. BZ WBK Group continues to modify and enhance its risk management practices to reflect changes in Group's risk profile, economic environment, regulatory requirements and evolving best practice.

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.

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 supports the Supervisory Board in its supervisory activities. The Committee annually reviews the internal controls in financial reporting, accepts the reports on 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 Group.

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 Group. 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 BZ WBK Group. The Risk Management Committee has a supervisory role for all the committees responsible for managing the risks identified in the Group'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 BZ WBK Group.

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 BZ WBK Group, including business continuity management, information security and fraud prevention.

Assets and Liabilities Committee (ALCO) supervises the activity on the banking book, manages liquidity interest rate risk in 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 Group'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.

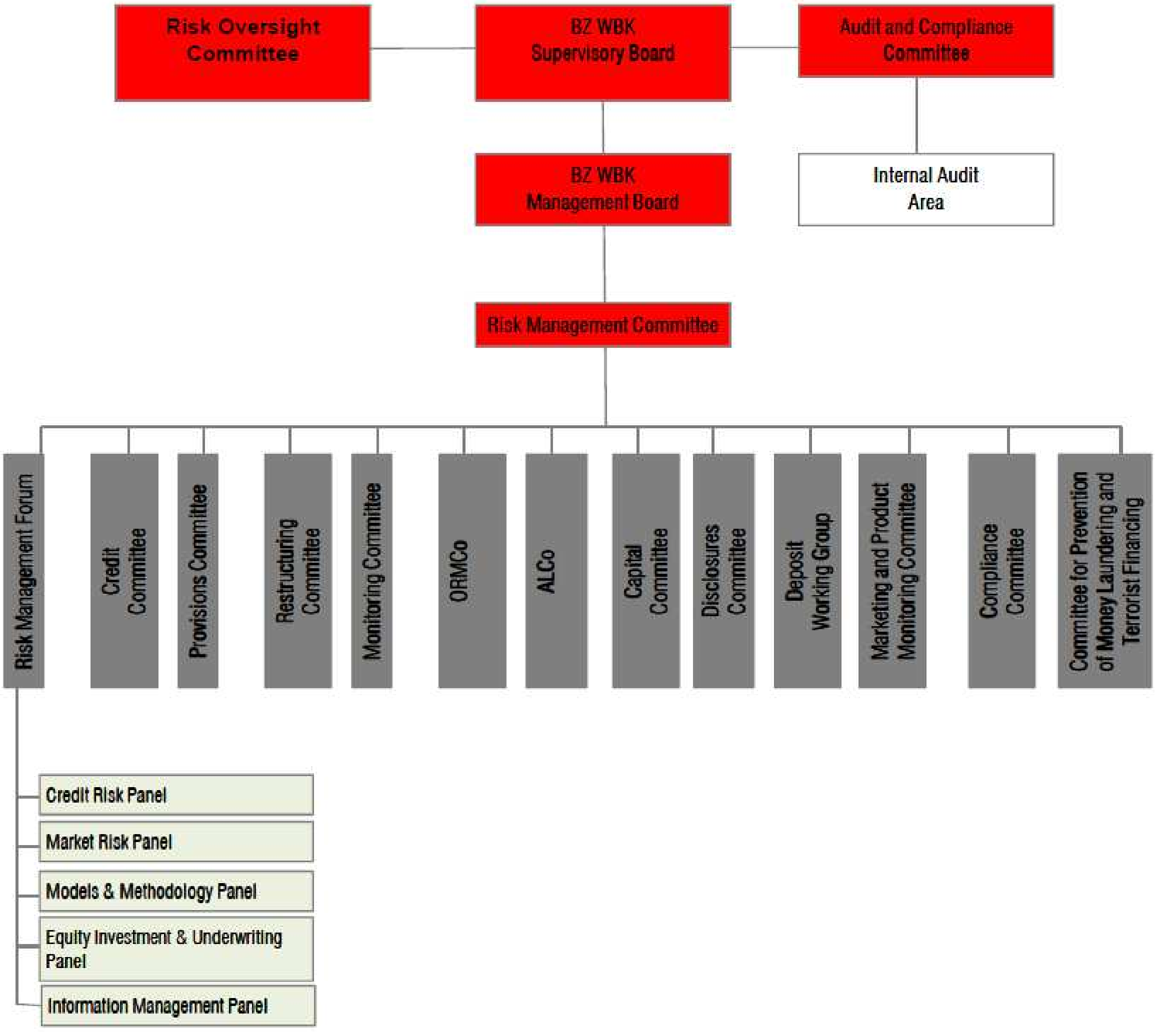
Product Marketing and Monitoring Committee approves new products and services to be implemented in the market, taking into account the reputation risk analysis.

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

Anti-Money Laundering and Terrorism Financing Committee approves the Group'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.

BZ WBK Group is exposed to a variety of risks impacting the strategic goals. The Group continuously analyses the risks, identifies their sources, creates the relevant risk management mechanisms including among others the measurement, control, mitigation and reporting. Within the risks of the most importance to the BZ WBK Group are the following:

- credit risk,
- concentration risk,
- market risk in the banking and trading book,
- liquidity risk,
- operational risk,
- compliance risk.

Detailed principles, roles and responsibilities of the BZ WBK Group have been described in relevant internal policies on the management of the particular risks.

BZ WBK Group pays special attention to the consistency of risk management processes across the Group, which allows for adequate control of the risk exposure. The subsidiaries implement risk management policies and procedures reflecting the principles adopted by the BZ WBK Group.

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

Credit risk

BZ WBK Group's credit activities focus on growing a high quality loan book with a good yield and customer satisfaction.

Credit risk is defined as the possibility of suffering a loss as a result that a borrower will fail to meet its credit obligation, including interest and fees. Credit risk arises from the impairment of credit assets and contingent liabilities, resulting from worsening of the borrower's credit quality. Credit risk measurement is based on the estimation of credit risk weighted assets, with the relevant risk weights representing both the probability of default and the potential loss given default of the borrower.

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

The Group 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 Group'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 Group 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 Group 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 Group 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 Group also introduced changes to its pricing policy in response to falling reference rates.

Risk Management Forum

The credit risk oversight in BZ WBK Group 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 Group'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 Group reviews and updates its credit policies on a regular basis, aiming to bring them in line with the Group'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 25m are referred to the Credit Committee composed of senior management and top executives.

The BZ WBK Group 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 BZ WBK Group 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 Group 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 Group 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 Group'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 security valuation – assessment of the security value,
- assessment of the legal status of the security,
- assessment of the investment process for the properties,
- seeking legal advises on the proposed securities.

The Securities Centre actively participates in credit processes, executing tasks including:

- providing draft credit documentation,
- verification and assessment that the signed documentation is accurate and compliant,
- verification of the data in information systems,
- collateral monitoring and reporting,
- releasing of the security.

In managing its receivables, BZ WBK Group carries out the process of collateral execution. Selection of proper action towards execution of specific collateral depends on the type of the collateral (personal or tangible). In principle the Group aims at voluntary proceedings in the course of collateral execution. When there is no evidence of cooperation with a collateral provider, the Group's rights are fulfilled in compliance with the law and internal regulations in the bankruptcy and enforcement proceedings.

Credit risk stress testing

Stress testing is a part of the credit risk management process used to evaluate potential effects of specific events or movement of a set of financial and macroeconomic variables or change in risk profile on BZ WBK Group's condition. Stress tests are composed of assessment of potential changes in credit portfolio quality when faced with adverse conditions. The process also delivers management information about adequacy of agreed limit and internal capital allocation.

Calculation of Impairment

In BZ WBK Group, charges updating impairment are recognised in accordance with the International Accounting Standards/International Financial Reporting Standards (IAS/IFRS). The charges reflect credit impairment, which is recognised if the Group presents objective evidence that such amounts cannot be recovered in line with the signed loan agreement. Objective evidences of impairment were defined in accordance with recommendation of Basel Committee, with the International Accounting Standards (IAS 39) and Recommendation R.

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

Twice a year, the Group compares the assumptions and parameters used for loss calculations with the actual situation. The comparison includes changes of economic conditions, amendments to Group's credit policies and recovery process. The process provides assurance that impairments are recognized correctly. The responsibility for adequate level of charges rests with the Provisions Committee.

In thousands of PLN

The tables below present BZ WBK Group'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%	1 843 684	-	-	-
	50% - 70%	569 530	-	-	-
	70% - 85%	206 632	-	-	-
	over 85%	666 603	-	-	-
Gross amount		**3 286 449**	**-**	**-**	**-**
Impairment		(1 487 149)	-	-	-
Net amount		**1 799 300**	**-**	**-**	**-**
Collectively impaired					
	up to 50%	823 145	-	-	-
	50% - 70%	545 530	-	-	-
	70% - 85%	876 338	-	-	-
	over 85%	1 736 821	-	-	-
Gross amount		**3 981 834**	**-**	**-**	**-**
Impairment		(2 984 488)	-	-	-
Net amount		**997 346**	**-**	**-**	**-**
IBNR portfolio (past due&non past due)					
	up to 0,10%	39 355 822	3 853 258	24 622 078	4 165 511
	0,10% - 0,30%	24 656 597	-	-	-
	0,30% - 0,65%	12 005 852	-	-	-
	over 0,65%	16 645 851	-	-	-
Gross amount		**92 664 122**	**3 853 258**	**24 622 078**	**4 165 511**
Impairment		(659 526)	(1)	-	-
Net amount		**92 004 596**	**3 853 257**	**24 622 078**	**4 165 511**
Other receivables		**129 602**	**-**	**-**	**-**
Off-balance sheet exposures					
Financing granted		21 917 739	-	-	-
Guarantees		4 425 961	-	-	-
Nominal value of derivatives - purchased		-	-	-	201 106 392
Allowance for impairment		(75 340)	-	-	-
Off-balance sheet exposures - total		**26 268 360**	**-**	**-**	**201 106 392**

*The value of financial assets held for trading includes adjustment of the fair value as described in Note 20

In 2015, the Group undertook to issue loans of PLN 1,746,957 k 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%	2 341 427	-	-	-
	50% - 70%	521 469	-	-	-
	70% - 85%	281 069	-	-	-
	over 85%	817 380	-	-	-
Gross amount		**3 961 345**	**-**	**-**	**-**
Impairment		(1 771 267)	-	-	-
Net amount		**2 190 078**	**-**	**-**	**-**
Collectively impaired					
	up to 50%	780 779	-	-	-
	50% - 70%	576 815	-	-	-
	70% - 85%	844 420	-	-	-
	over 85%	1 446 643	-	-	-
Gross amount		**3 648 657**	**-**	**-**	**-**
Impairment		(2 675 337)	-	-	-
Net amount		**973 320**	**-**	**-**	**-**
IBNR portfolio (past due&non past due)					
	up to 0,10%	34 253 201	2 523 117	27 057 093	5 238 741
	0,10% - 0,30%	21 091 178	-	-	-
	0,30% - 0,65%	9 950 391	-	-	-
	over 0,65%	17 939 218	-	-	-
Gross amount		**83 233 988**	**2 523 117**	**27 057 093**	**5 238 741**
Impairment		(679 906)	(54)	-	-
Net amount		**82 554 082**	**2 523 063**	**27 057 093**	**5 238 741**
Other receivables		**103 091**	**-**	**-**	**-**
Off-balance sheet exposures					
Financing granted		20 009 637	-	-	-
Guarantees		4 420 907	-	-	-
Nominal value of derivatives - purchased		-	-	-	139 414 357
Allowance for impairment		(87 517)	-	-	-
Off-balance sheet exposures - total		**24 343 027**	**-**	**-**	**139 414 357**

*The value of financial assets held for trading includes adjustment of the fair value as described in Note 20

IBNR portfolio

	Loans and advances to customers	
	31.12.2015	31.12.2014
Non-past due	**88 021 474**	**78 385 407**
Past-due	**4 642 648**	**4 848 581**
1-30 days	3 780 417	3 829 735
31-60 days	620 103	647 857
61-90 days	228 795	359 232
> 90 days	13 333	11 757
Gross amount	**92 664 122**	**83 233 988**

In thousands of PLN

Allowances for impairment by classes

Provision cover	Loans and advances to customers		Loans and advances to banks	
	31.12.2015	31.12.2014	31.12.2015	31.12.2014
Individual allowance for impairment				
up to 50%	(361 251)	(477 016)	-	-
50% - 70%	(342 949)	(309 882)	-	-
70% - 85%	(152 007)	(212 985)	-	-
over 85%	(630 942)	(771 384)	-	-
Total individual allowance for impairment	**(1 487 149)**	**(1 771 267)**	**-**	**-**
Collective allowance for impairment				
up to 50%	(278 631)	(249 820)	-	-
50% - 70%	(331 738)	(352 230)	-	-
70% - 85%	(682 498)	(653 518)	-	-
over 85%	(1 691 621)	(1 419 769)	-	-
Total collective allowance for impairment	**(2 984 488)**	**(2 675 337)**	**-**	**-**
IBNR				
up to 0,10%	(13 483)	(11 249)	(1)	(54)
0,10%-0,30%	(46 675)	(33 686)	-	-
0,30%-0,65%	(58 580)	(46 791)	-	-
over 0,65%	(540 788)	(588 180)	-	-
Total IBNR	**(659 526)**	**(679 906)**	**(1)**	**(54)**
Total allowance for impairment	**(5 131 163)**	**(5 126 510)**	**(1)**	**(54)**

Credit risk concentration

Bank Zachodni WBK Group 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 Group amounted to:

- PLN 3 995 091 k (25% of Group's own funds).

The policy pursued by the Group 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 Group's exposures in terms of sector concentrations, carried out at the end of 31 December 2015, proved that the Group 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 capital-related group of borrowers) of Bank Zachodni WBK Group (performing loans) as at 31.12.2015 (including exposures of individual customers towards subsidiaries of BZ WBK).

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure incl. towards subsidiaries	Committed credit lines, guarantees, treasury limits and capital investments
61	TELECOMMUNICATION	1 419 999	1 129 054	290 945
35	POWER INDUSTRY	1 250 988	72 206	1 178 782
35	POWER INDUSTRY	970 115	185 115	785 000
47	RETAIL	935 124	680 160	254 964
07	MINING	840 136	154 719	685 417
19	RAFINERY	761 910	404 167	357 743
19	RAFINERY	656 772	174 921	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	-
33	MACHINE INDUSTRY	371 631	28 189	343 442
68	REAL ESTATE SERVICES	354 789	226 921	127 868
41	CONSTRUCTION	351 974	351 714	260
Total gross exposure		**12 209 139**	**5 855 650**	**6 353 489**

A list of the 20 largest borrowers (or capital-related group of borrowers) of Bank Zachodni WBK Group (performing loans) as at 31.12.2014 (including exposures of individual customers towards subsidiaries of BZ WBK).

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure incl. towards subsidiaries	Committed credit lines, guarantees, treasury limits and capital investments
07	MINING	1 297 011	234 317	1 062 694
61	TELECOMMUNICATION	1 294 195	1 090 902	203 293
19	RAFINERY	1 201 133	875 135	325 998
35	POWER INDUSTRY	1 197 708	29 579	1 168 129
35	POWER INDUSTRY	751 000	-	751 000
68	REAL ESTATE SERVICES	743 207	742 949	258
47	RETAIL	688 268	668 776	19 492
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
16	WOOD INDUSTRY	345 425	336 705	8 720
47	RETAIL	338 247	285 445	52 802
Total gross exposure		**12 973 679**	**6 924 842**	**6 048 837**

In thousands of PLN

Industry concentration

The credit policy of Bank Zachodni WBK Group 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 Group 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 "distribution" sector (12% of the BZ WBK Group exposure), "manufacturing" (11%) and "property" (10%).

Groups of PKD by industries:

	Industry	Gross exposure	
		31.12.2015	31.12.2014
	Distribution	11 625 207	11 092 677
	Manufacturing	10 753 999	9 382 481
	Property	9 756 912	8 998 650
	Agriculture	2 049 250	1 854 129
	Transportation	2 085 106	1 777 227
	Energy	2 082 326	1 717 414
	Construction	1 169 834	1 357 360
	Financial sector	1 818 544	921 974
	Other industries	6 626 804	5 721 356
A	**Total Business Loans**	**47 967 982**	**42 823 268**
B	**Retail (including mortgage loans)**	**51 964 349**	**48 020 721**
A+B	**BZ WBK Group portfolio**	**99 932 331**	**90 843 989**
C	**Other receivables (commercial bonds, reverse repo)**	**129 602**	**103 091**
A+B+C	**Total BZ WBK Group**	**100 061 933**	**90 947 080**

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 prospect difficulties which threaten the repayment of debt towards BZ WBK Group 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 25m. Decisions concerning corporate credit exposures above PLN 25m 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:		**4 348 559**	**4 139 697**
	corporate exposures	3 080 037	3 192 091
	mortgage exposures	1 099 200	800 082
	individuals exposures	169 322	147 524
Allowance for impairment - forbearance clients		**(1 363 683)**	**(1 330 944)**
of which:	individually impaired	(931 812)	(981 876)
Loans and advances to forebearance clients- net amount		**2 984 876**	**2 808 753**

Analysis of credit quality of financial assets subject to forbearance:

Loans and advances to customers under forebearance	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	2 869 493	3 083 272	4 610 960	4 381 729	(1 291 777)	(1 255 044)
Loans and advances -unimpaired	1 479 066	1 056 425	3 418 509	2 902 449	(71 906)	(75 900)
non-overdue	1 112 524	753 045	2 344 532	2 241 131	(42 255)	(43 931)
from 1 to 30 days overdue	249 801	173 990	844 386	275 874	(15 124)	(11 618)
from 31 to 60 days overdue	79 954	67 396	177 125	296 773	(8 143)	(10 597)
from 61 to 90 days overdue	36 786	62 906	52 506	89 739	(6 385)	(9 846)
Total gross amount	**4 348 559**	**4 139 697**	**8 029 469**	**7 284 178**	**(1 363 683)**	**(1 330 944)**

Interest income on assets subject to forbearance was PLN 119,732 k as at 31 December 2015 and PLN 97,634 k as at 31 December 2014.

Loans and advances to customers under forbearance by geographical region (gross amount)	31.12.2015	31.12.2014
Dolnośląskie	305 051	251 402
Kujawsko-Pomorskie	70 536	63 646
Lubelskie	48 385	42 383
Lubuskie	67 362	45 792
Mazowieckie	1 880 807	1 909 223
Małopolskie	311 123	394 146
Opolskie	25 221	15 747
Podkarpackie	30 510	21 734
Podlaskie	22 897	13 696
Pomorskie	152 685	105 597
Warmińsko-Mazurskie	39 377	31 490
Wielkopolskie	294 016	255 205
Zachodniopomorskie	82 909	57 658
Śląskie	626 978	575 573
Świętokrzyskie	276 448	269 097
Łódzkie	114 254	87 308
Total	**4 348 559**	**4 139 697**

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	593 763	690 574
Property	912 205	1 142 042
Manufacturing	303 185	215 387
Agriculture	8 409	1 627
Transportation	37 795	42 445
Individuals	1 268 522	947 606
Total	**4 348 559**	**4 139 697**

	31.12.2015 *
Net carrying amont as at 31.12.2014	2 808 753
Allowance for impairment	(32 740)
Loans and advances derecognised during the period	(33 356)
Loans and advances recognised during the period	1 352 572
Other changes/repayments	(1 110 353)
Net carrying amount as at 31.12.2015	**2 984 876**

*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).

BZ WBK Group is exposed to market risk arising from its activity on money and capital markets and services provided to customers. Additionally the Group 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 Group is to reduce the impact of interest and FX rate changes on the Group's profitability and market value as well as to grow income within the strictly defined risk limits while ensuring the Group's liquidity.

BZ WBK Group's market risk policies establish a number of measurement and risk limitation parameters in the form of limits, mandatory and monitoring ratios. Risk limits are periodically reviewed to align them with the Group's strategy and the current objectives of the Group.

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 Group'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.

In thousands of PLN

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 Group. 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.

The market risk of equity instruments held by Brokerage Office (shares, index-linked securities) is managed by the Brokerage Office itself and supervised by BZ WBK Risk Management Forum.

Assessment methods

BZ WBK Group 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).

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. VaR is calculated separately for interest rate risk, FX risk and the repricing risk of the equity instruments portfolio of Brokerage Office.

Due to the limitations of the VaR methodology, the Group 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 Group'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 bank's subsidiaries also mitigate their exposure to the interest rate risk. If there is a mismatch between the repricing of assets and liabilities, the company enters into appropriate transactions via the standard bank accounts held with the Bank or makes derivative transactions with the bank, which from the transaction date manages the risk as part of the global limit of BZ WBK Group.

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.

In thousands of PLN

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 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.

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 Group’s trading portfolio and by Brokerage Office which has been granted an FX VaR limit, used for managing the open positions linked to the market maker activity. 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 Group 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.

Open positions of subsidiaries are negligible and are not included in the daily risk assessment.

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 backtesting 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.

In thousands of PLN

FX Balance Sheet

In 2015, the share of FX assets on the balance sheet was similar to that 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 Group'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.

The tables below present the Group's key FX positions as at 31 December 2015 and in the comparable period.

31.12.2015	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	5 900 563	202 996	16 367	109 927	6 229 853
Loans and advances to banks	782 061	2 687 425	17 029	366 742	3 853 257
Loans and advances to customers	63 016 752	16 916 558	13 901 092	1 096 442	94 930 844
Investment securities	23 386 981	1 026 241	-	208 856	24 622 078
Selected assets	**93 086 357**	**20 833 220**	**13 934 488**	**1 781 967**	**129 636 032**
LIABILITIES					
Deposits from banks	2 110 432	856 593	2 539 076	198 503	5 704 604
Deposits from customers	88 341 076	9 781 898	689 799	3 052 603	101 865 376
Subordinated liabilities	100 127	426 507	-	-	526 634
Selected liabilities	**90 551 635**	**11 064 998**	**3 228 875**	**3 251 106**	**108 096 614**

31.12.2014	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	6 232 514	380 981	26 100	166 926	6 806 521
Loans and advances to banks	758 875	1 505 728	9 073	249 387	2 523 063
Loans and advances to customers	56 049 687	14 712 436	13 507 740	1 550 708	85 820 571
Investment securities	25 960 811	679 013	-	417 269	27 057 093
Selected assets	**89 001 887**	**17 278 158**	**13 542 913**	**2 384 290**	**122 207 248**
LIABILITIES					
Deposits from banks	4 565 405	154 067	3 533 839	106 545	8 359 856
Deposits from customers	83 414 931	8 207 140	1 023 564	2 336 174	94 981 809
Subordinated liabilities	175 059	426 290	938 618	-	1 539 967
Selected liabilities	**88 155 395**	**8 787 497**	**5 496 021**	**2 442 719**	**104 881 632**

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 Office, 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 Group 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 within the Group;
- 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 Group 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 Group's business by maintaining liquidity ratios at pre-defined levels. The Group 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 172.01% and NSFR ratio amounted to 85.23%.In terms of the long-term liquidity, in addition to the internal measures, the Group 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 Group has a scenario-based contingency plan approved by the Management Board to cater for unexpected liquidity problems, whether caused by external or internal factors. The plan also contains stress test with system and idiosyncratic scenarios. ALCO supervises liquidity risk management process in subsidiaries.

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 Group'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 Group focused on keeping its loan-to-deposit ratio at a comfortable level (which totalled 93% as at 31 December 2015) and controlling key short- and long-term liquidity measures.

BZ WBK Group 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 Group were maintained at the required levels.

In thousands of PLN

Contractual gap analysis based on remaining time maturity as at 31.12.2015 and 31.12.2014:

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	6 229 853	-	-	-	-	-	-	6 229 853
Loans and advances to banks	3 848 596	-	4 608	48	5	-	-	3 853 257
Financial assets held for trading	517 962	176 511	1 327 212	882 830	576 151	653 660	31 185	4 165 511
Loans and advances to customers	7 554 841	7 242 123	18 320 248	23 385 434	12 872 470	30 686 891	(5 131 163)	94 930 844
Investment securities	2 708 756	-	1 146 693	7 054 449	3 869 974	8 683 762	1 158 444	24 622 078
Other items	-	-	-	-	-	-	5 907 157	5 907 157
Long position	**20 860 008**	**7 418 634**	**20 798 761**	**31 322 761**	**17 318 600**	**40 024 313**	**1 965 623**	**139 708 700**
Deposits from banks	3 493 244	708 930	610 349	892 081	-	-	-	5 704 604
Financial liabilities held for trading	612 404	227 031	473 991	475 753	435 991	310 332	182	2 535 684
Deposits from customers	63 486 678	14 608 044	17 407 491	4 720 936	1 069 259	572 968	-	101 865 376
Subordinated liabilities	-	-	100 127	-	426 507	-	-	526 634
Other items	-	-	-	-	-	-	29 076 402	29 076 402
Short position	**67 592 326**	**15 544 005**	**18 591 958**	**6 088 770**	**1 931 757**	**883 300**	**29 076 584**	**139 708 700**
Gap-balance sheet	**(46 732 318)**	**(8 125 371)**	**2 206 803**	**25 233 991**	**15 386 843**	**39 141 013**	**(27 110 961)**	
Contingent liabilities- sanctioned								
Financing related	384 874	2 216 442	11 773 790	2 835 937	3 390 335	1 316 360	(47 009)	**21 870 729**
Guarantees	602	585 938	1 825 393	1 608 688	186 461	218 880	(28 331)	**4 397 631**
Derivatives settled in gross terms								
Inflows	12 069 341	6 546 566	16 752 047	13 700 572	7 087 351	12 252 630	-	**68 408 507**
Outflows	11 992 944	6 513 308	16 698 741	14 690 751	6 910 918	12 480 275	-	**69 286 937**
Gap – off-balance sheet	**(309 079)**	**(2 769 122)**	**(13 545 877)**	**(5 434 804)**	**(3 400 363)**	**(1 762 885)**	**75 340**	

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	6 806 521	-	-	-	-	-	-	6 806 521
Loans and advances to banks	2 504 808	16 820	1 435	-	-	-	-	2 523 063
Financial assets held for trading	110 929	153 549	403 443	1 617 904	1 982 856	881 522	88 538	5 238 741
Loans and advances to customers	7 715 234	6 643 007	17 333 914	20 250 513	11 875 607	27 128 806	(5 126 510)	85 820 571
Investment securities	4 223 213	-	1 832 043	4 149 671	5 461 532	10 485 722	904 912	27 057 093
Other items	-	-	-	-	-	-	7 055 885	7 055 885
Long position	**21 360 705**	**6 813 376**	**19 570 835**	**26 018 088**	**19 319 995**	**38 496 050**	**2 922 825**	**134 501 874**
Deposits from banks	4 968 383	284 571	253 783	2 502 536	350 583	-	-	8 359 856
Financial liabilities held for trading	578 087	132 000	650 841	763 538	326 575	307 120	23 519	2 781 680
Deposits from customers	59 810 806	13 936 245	15 910 096	3 413 091	1 046 459	865 112	-	94 981 809
Subordinated liabilities	4 323	-	-	100 133	1 013 543	421 968	-	1 539 967
Other items	-	-	-	-	-	-	26 838 562	26 838 562
Short position	**65 361 599**	**14 352 816**	**16 814 720**	**6 779 298**	**2 737 160**	**1 594 200**	**26 862 081**	**134 501 874**
Gap-balance sheet	**(44 000 894)**	**(7 539 440)**	**2 756 115**	**19 238 790**	**16 582 835**	**36 901 850**	**(23 939 256)**	
Contingent liabilities- sanctioned								
Financing related	159 794	1 741 069	10 100 995	4 199 356	1 540 826	2 267 596	(49 693)	**19 959 943**
Guarantees	5 043	401 480	1 104 482	1 923 618	391 228	595 500	(38 267)	**4 383 084**
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	**(156 508)**	**(2 093 618)**	**(11 706 640)**	**(7 221 016)**	**(2 068 896)**	**(2 771 883)**	**87 960**	

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 (excluding Santander Consumer Group):

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)**

As Santander Consumer Bank Group is conducting independently measurement of their liquidity position, their Liquidity Policy Report as at 31 December 2015 and 2014 is presented underneath:

Liquidity risk	<1W	<1M	>1M
31.12.2015			
Qualifying Liquid Assets	750 000	22 759	1 231 000
Treasury inflows	345 993	-	-
Other inflows	354 970	1 064 910	14 082 298
Treasury outflows	(21 193)	(130 639)	(5 354 742)
Other outflows	(304 199)	(912 595)	(11 128 562)
GAP	**1 125 571**	**44 435**	**(1 170 006)**
Cumulative GAP	**1 125 571**	**1 170 006**	**-**

Liquidity risk	<1W	<1M	>1M
31.12.2014			
Qualifying Liquid Assets	960 000	52 014	970 000
Treasury inflows	161 314	263 042	-
Other inflows	357 453	1 072 359	11 910 605
Treasury outflows	(146 370)	(165 408)	(5 450 394)
Other outflows	(261 029)	(783 087)	(8 940 500)
GAP	**1 071 368**	**438 920**	**(1 510 289)**
Cumulative GAP	**1 071 368**	**1 510 288**	**-**

Operational Risk

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

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

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

BZ WBK Group has defined “the Operational Risk Management Strategy” 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 Group. 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.

BZ WBK Group uses the following tools:

- Identification and assessment of operational risk

In the self-assessment process, BZ WBK Group 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 Group runs a database of operational incidents identified across BZ WBK Group. The data are used to analyse the root cause and consequences of the incidents, capture lessons learned and take preventive and corrective measures.

The Group also makes inputs to the external database of operational events run by the Polish Banks Association and uses information about external events from a number of sources. The analysis of external events allows for benchmarking and lesson learning from events identified outside the Group.

- Analysis of risk indicators

BZ WBK Group 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 Group.

- Business continuity management (BCM)

Each organisational unit is required to develop and update its business continuity management plans to ensure that critical business processes remain uninterrupted following an unplanned disruption. BCM plans are tested on a regular basis to provide assurance to BZ WBK Group that critical business processes may be restored at the required service level and within the agreed timeframe. BZ WBK Group has backup locations in place where critical processes can be restored and continued should an incident occur.

- Insurance

For the purpose of operational risk mitigation, BZ WBK Group 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 Group’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, BZ 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 Group, including in connection with membership in domestic or international trade associations.

In Bank Zachodni WBK Group, 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 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 as well as 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 and BZ WBK Group companies 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 Group companies. These tasks are delivered through:

- independent identification, assessment and monitoring of compliance risk that the Group 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 Group 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 and other companies from Bank Zachodni WBK Group 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 BZ WBK Group 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 Group and to limit and eliminate negative events which affect the image and financial results of Bank Zachodni WBK Group.

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 BZ WBK Group'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 Group through the analysis of customer complaints, sales volumes, number of customers and rate of return(Compliance Area).

5. Capital management

Introduction

It is the policy of the Bank Zachodni WBK Group 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 BZ WBK Group and capital requirements estimated for the unexpected loss is determined in accordance with the CRD IV / CRR package implemented on 1 January 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 and the Group, 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 both for the Bank and the Group. Any ultimate decisions regarding increase or decrease of capital are taken by relevant authorities of the bank and subsidiaries in accordance with the applicable law and the Bank's Statutes.
With respect to capital adequacy, on 1 January 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 June 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 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.

Capital Policy

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

In thousands of PLN

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 December 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 October 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. Santander Consumer Bank S.A (belonging to the Bank Zachodni Group SA) maintains own funds at a level that ensures coverage of additional capital requirement of 1.07 p.p. to secure the risk arising from foreign currency mortgage loans for households.

The Act of 5 August 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 1 January 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 for BZ WBK Group 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 June 2013 on prudential requirements for credit institutions and investment firms as well as KNF recommendation 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 Group as of 31 December 2015 and 2014:

		31.12.2015	31.12.2014
I	**Total Capital requirement (Ia+Ib+Ic+Id+Ie)**, of which:	**8 745 248**	**8 082 444**
Ia	- due to credit risk & counterparty credit risk	7 508 111	6 956 272
Ib	- due to market risk	152 863	84 493
Ic	- due to credit valuation ajdustment risk	120 250	101 862
Id	- due to operational risk	964 024	939 817
II	Total own funds*	18 902 570	16 482 586
III	Reductions	2 922 207	3 437 661
IV	**Own funds after reductions (II-III)**	**15 980 363**	**13 044 925**
V	**CAD [IV/(I*12.5)]**	**14,62%**	**12,91%**

* Total own funds as at 31.12.2014 includes part of the current year profit in the amount of PLN 370 947 k as permitted 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.

In thousands of PLN

Internal Capital

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

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

For the purpose of the ICAAP process, the Group 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 BZ WBK Group 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 Group's strategy.

BZ WBK Group 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 Group's business and to take account of any new risks and the management judgement.

The review and assessment is the responsibility of the Group'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 December 2013, subordinated liabilities arising from the 10-year registered bonds bearing a floating interest rate issued on 5 August 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 October 2010.

Since 1 January 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 32.

In thousands of PLN

6. Net interest income

Interest income	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Loans and advances to enterprises	1 573 719	1 725 168
Loans and advances to individuals, of which:	2 958 356	2 621 114
Home mortgage loans	*841 186*	*891 251*
Debt securities incl.:	629 607	770 291
Investment portfolio available for sale	*597 025*	*719 755*
Trading portfolio	*32 582*	*50 536*
Leasing agreements	165 422	164 026
Loans and advances to banks	62 525	101 600
Public sector	7 865	14 325
Reverse repo transactions	9 602	25 966
Interest recorded on hedging IRS	301 733	300 553
Total	**5 708 829**	**5 723 043**
Interest expenses	**01.01.2015-31.12.2015**	**01.01.2014-31.12.2014**
Deposits from individuals	(744 172)	(952 507)
Deposits from enterprises	(356 696)	(433 325)
Repo transactions	(58 967)	(79 553)
Deposits from public sector	(58 465)	(85 047)
Deposits from banks	(29 482)	(34 404)
Subordinated liabilities and issue of securities	(151 896)	(141 385)
Total	**(1 399 678)**	**(1 726 221)**
Net interest income	**4 309 151**	**3 996 822**

As at 31.12.2015 net interest income includes interest on impaired loans of PLN 334,801 k (as at 31.12.2014 - PLN 484,014 k).

In thousands of PLN

7. Net fee and commission income

Fee and commission income	01.01.2015-31.12.2015	01.01.2014-31.12.2014
eBusiness & payments	540 965	593 815
Current accounts and money transfer	338 547	315 801
Asset management fees	277 876	262 620
Foreign exchange commissions	312 907	332 584
Credit commissions	286 963	292 485
Insurance commissions	293 356	125 094
Brokerage commissions	70 087	84 230
Credit cards	147 435	123 492
Off-balance sheet guarantee commissions	42 175	40 897
Finance lease commissions	12 982	9 543
Issue arrangement fees	14 878	4 607
Distribution fees	7 585	10 653
Other commissions	12 316	15 511
Total	**2 358 072**	**2 211 332**
Fee and commission expenses	**01.01.2015-31.12.2015**	**01.01.2014-31.12.2014**
eBusiness & payments	(173 807)	(157 211)
Distribution fees	(26 948)	(27 744)
Brokerage commissions	(11 579)	(13 648)
Credit cards	(43 611)	(23 922)
Credit commissions paid	(57 564)	(48 205)
Insurance commissions	(23 365)	(13 526)
Finance lease commissions	(25 137)	(17 580)
Asset management fees and other costs	(6 959)	(8 115)
Other	(51 002)	(53 620)
Total	**(419 972)**	**(363 571)**
Net fee and commission income	**1 938 100**	**1 847 761**

Included above is fee and commission income on credits, credits cards, off-balance sheet guarantees and finance leases of PLN 489 555 k (31.12.2014: PLN 466 417 k) and fee and commission expenses on credit cards, finance leases and paid to credit agents of PLN (126 312) k (31.12.2014: PLN (89 707) k) other than fees included in determining the effective interest rate, relating to financial assets and liabilities not carried at fair value through profit and 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.

8. Dividend income

Dividend income	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Dividends from investment portfolio entities	103 899	79 436
Dividends from trading portfolio entities	1 379	793
Total	**105 278**	**80 229**

In thousands of PLN

9. 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	231 511	31 781
Other FX related income	18 977	62 818
Profit on equity instruments	(10 273)	(6 308)
Profit on debt instruments	(16 573)	12 752
Total	**223 642**	**101 043**

Net trading income and revaluation includes the write-back of adjustments of derivatives resulting from counterparty risk in the amount of PLN 7,049 k for 2015 and the write-back of adjustments of derivatives resulting from counterparty risk in the amount of PLN 8,752 k for 2014.

10. 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	11 579	16 720
Profit on sale of debt securities	272 048	217 897
Charge due to impairment losses	(1 734)	(6 850)
Total profit (losses) on financial instruments	**281 893**	**227 767**
Change in fair value of hedging instruments	46 294	(244 820)
Change in fair value of underlying hedged positions	(50 837)	242 605
Total profit (losses) on hedging and hedged instruments	**(4 543)**	**(2 215)**
Total	**277 350**	**225 552**

11. Other operating income

Other operating income	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Income on sale of services	12 051	18 630
Insurance indemnity received	1 980	1 495
Reimbursements of BGF charges	39 683	16 949
Release of provision for legal cases and other assets	26 652	40 501
Settlements of leasing agreements	2 986	1 529
Recovery of other receivables	5 823	9 113
Income on sales or liquidation of fixed assets, intangible assets and assets for disposal	16 530	13 562
Income from net insurance activities	26 296	178 083
Received compensations, penalties and fines	892	1 495
Other	30 714	35 677
Total	**163 607**	**317 034**

Untill 27 February 2015 the Bank exercised control over the companies BZ WBK-AVIVA TUO S.A. and BZ WBK-AVIVA TUŻ S.A., and recognized income from insurance activities on a consolidated basis.

In thousands of PLN

Income from net insurance activities	01.01.2015-27.02.2015*	01.01.2014-31.12.2014
Written premiums	46 050	413 864
Reinsurers' share in written premium	(16 842)	(3 217)
Total premiums written and reinsurers' share in written premium	**29 208**	**410 647**
Indemnity payments and insurance benefits paid	(37 036)	(256 506)
Reinsurers' share in indemnity payments and insurance benefits paid	182	1 853
Change in the balance of premium provisions and unexpired risks provisions	6 161	31 431
Change in the balance of premium provisions - reinsurers' share	15 930	-
Change in the balance of provisions for life insurance in respect of deductible	(5 757)	(22 843)
Change in the balance of provisions for life insurance in respect of deductible – reinsurers' share	857	(9 281)
Change in the balance of provisions for life insurance in respect of policyholder's risk	15 859	20 739
Net insurance benefits and indemnity payments	**(3 804)**	**(234 607)**
Other net insurance income	**892**	**2 043**
Net income from insurance operations	**26 296**	**178 083**

* On 27 February 2015, Bank Zachodni WBK S.A. lost control over insurance entities BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogolnych S.A. following the exercise of a call option by Aviva International Insurance Limited ("Aviva Ltd."). Detailed information are described in Note 49.

12. 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	(926 315)	(975 342)
Incurred but not reported losses charge	22 813	98 774
Recoveries of loans previously written off	80 381	11 971
Off-balance sheet credit related facilities	12 429	28 042
Total	**(810 692)**	**(836 555)**

13. Employee costs

Employee costs	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Salaries and bonuses	(1 269 147)	(1 138 579)
Salary related costs	(212 716)	(187 989)
Staff benefits costs	(37 351)	(35 500)
Professional trainings	(20 896)	(16 119)
Retirement fund, holiday provisions and other employee costs	(3 997)	(2 365)
Integration costs *	113	(69 030)
Total	**(1 543 994)**	**(1 449 582)**

*In addition to the integration costs included in Notes 13 and 14, the amortization /depreciation related to the cost of integration for 2015 was PLN 34,599 k and PLN 15,078 k for 2014.

In thousands of PLN

14. 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	(357 309)	(352 724)
Marketing and representation	(187 847)	(164 729)
IT systems costs	(189 914)	(157 700)
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities**	(468 999)	(109 235)
Postal and telecommunication costs	(55 601)	(52 648)
Consulting fees	(44 557)	(30 137)
Cars, transport expenses, carriage of cash	(68 164)	(71 139)
Other external services	(99 125)	(86 279)
Stationery, cards, cheques etc.	(29 478)	(32 691)
Sundry taxes	(34 471)	(26 886)
Data transmission	(20 152)	(20 542)
KIR, SWIFT settlements	(26 070)	(20 937)
Security costs	(19 925)	(20 037)
Costs of repairs	(10 115)	(9 564)
Integration costs*	(27 047)	(93 153)
Other	(25 933)	(21 496)
Total	**(1 664 707)**	**(1 269 897)**

*In addition to the integration costs included in Notes 13 and 14, the amortization /depreciation related to the cost of integration for 2015 was PLN 34,599 k and PLN 15,078 k for 2014.

**In 2015, the total cost of the Banking Guarantee Fund paid by Bank Zachodni WBK Group was PLN 455,545 k compared with PLN 104,409 k reported in 2014,

of which in 2015:

- 183,869 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,
- 40,750 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 Group was PLN 14,316 k compared with PLN 11,217 k reported in 2014.

15. 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	(75 760)	(41 115)
Impairment loss on property, plant, equipment and intangible assets	(10 767)	(970)
Costs of purchased services	(1 703)	(3 454)
Other memebership fees	(977)	(984)
Paid compensations, penalties and fines	(4 164)	(5 292)
Donation paid	(5 569)	(5 498)
Other	(14 648)	(19 018)
Total	**(113 588)**	**(76 331)**

In thousands of PLN

16. Corporate income tax

Corporate income tax	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Current tax charge	(680 090)	(1 078 849)
Deferred tax	36 349	486 100
Total	**(643 741)**	**(592 749)**

Corporate total tax charge information	01.01.2015-31.12.2015	01.01.2014-31.12.2014
Profit before tax	3 178 292	2 640 041
Tax rate	19%	19%
Tax calculated at the tax rate	(603 875)	(501 608)
Non-deductible expenses	(32 530)	(24 609)
Sale of receivables	(29 110)	(61 684)
Non-tax income (dividends)	20 973	15 051
Non-tax deductible bad debt provisions	(4 860)	(8 527)
Adjustment of prior year tax incl. technological relief	10 431	(13 274)
Consolidation adjustments	(5 567)	3 449
Other	797	(1 547)
Total income tax expense	**(643 741)**	**(592 749)**

Deferred tax recognised directly in equity	31.12.2015	31.12.2014
Relating to equity securities available-for-sale	(184 416)	(133 969)
Relating to debt securities available-for-sale	(43 023)	(116 251)
Relating to cash flow hedging activity	45 858	25 381
Relating to valuation of defined benefit plans	(610)	1 279
Total	**(182 191)**	**(223 560)**

17. 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	2 327 273	1 914 711
Weighted average number of ordinary shares	99 234 534	96 154 065
Net earnings per share (PLN)	**23,45**	**19,91**
Profit attributable to ordinary shares	2 327 273	1 914 711
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)	**23,41**	**19,86**

* The weighted average number of potential ordinary shares takes into account the number of share options granted under the incentive scheme described in Note 51.

18. Cash and balances with central banks

Cash and balances with central banks	31.12.2015	31.12.2014
Cash	2 026 206	2 455 976
Current accounts in central banks	4 203 647	4 350 545
Total	**6 229 853**	**6 806 521**

In thousands of PLN

Bank Zachodni WBK and Santander Consumer Bank hold an obligatory reserve in 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.

19. Loans and advances to banks

Loans and advances to banks	31.12.2015	31.12.2014
Loans and advances	603 360	317 986
Current accounts	2 977 598	1 808 114
Buy-sell-back transactions	272 300	397 017
Gross receivables	**3 853 258**	**2 523 117**
Impairment write down	(1)	(54)
Total	**3 853 257**	**2 523 063**

Fair value of loans and advances to banks is presented in Note 40.

In thousands of PLN

20. 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	**2 065 688**	**2 011 486**	**1 919 323**	**2 304 675**
Interest rate operations	**1 296 009**	**1 261 947**	**1 280 091**	**1 635 916**
Forward	-	-	-	139
Options	9 638	9 639	1 798	1 798
IRS	1 282 734	1 247 065	1 270 908	1 626 173
FRA	3 637	5 243	7 385	7 806
Transactions on equity instruments	**13 099**	**13 099**	**9 956**	**33 400**
Options	13 099	13 099	9 956	33 400
FX operations	**756 580**	**736 440**	**629 276**	**635 359**
CIRS	117 879	171 575	129 987	169 956
Forward	35 472	36 408	38 428	34 840
FX Swap	392 673	324 068	310 711	287 270
Spot	1 913	1 704	4 731	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**	**-**	**3 319 418**	**-**
Debt securities	**2 074 899**	**-**	**3 235 504**	**-**
Government securities:	2 073 995	-	3 230 890	-
- bonds	2 073 995	-	3 230 890	-
Commercial securities:	904	-	4 614	-
- bonds	904	-	4 614	-
Equity securities:	**24 924**	**-**	**83 914**	**-**
- listed	24 924	-	83 914	-
Short sale	**-**	**524 198**	**-**	**477 005**
Total financial assets/liabilities	**4 165 511**	**2 535 684**	**5 238 741**	**2 781 680**

Financial assets and liabilities held for trading - trading derivatives include the value of adjustments resulting from counterparty risk in the amount of PLN 14,214 k as at 31.12.2015 and PLN 6,116 k 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 consolidated 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. 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)**	**37 200 049**	**35 207 413**
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)	15 012 938	14 369 815
d)	Macro cash flow hedge -sold (CIRS)	16 572 749	15 109 175
2.	**Term derivatives (trading)**	**250 073 754**	**178 576 882**
a)	Interest rate operations	147 668 316	94 948 232
	Single-currency interest rate swap	130 621 773	86 269 606
	FRA - purchased amounts	13 375 000	6 450 000
	Options	3 671 543	1 792 126
	Forward- sold amounts	-	436 500
b)	FX operations	102 405 438	83 628 650
	FX swap – purchased amounts	22 949 839	20 757 332
	FX swap – sold amounts	22 881 247	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	9 061 073	6 331 120
	Cross-currency interest rate swap – sold amounts	9 118 586	6 372 837
	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**	**3 022 127**	**4 653 161**
	Spot-purchased	1 511 171	2 327 749
	Spot-sold	1 510 956	2 325 412
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	**291 780 993**	**219 444 574**

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

21. 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	164 661	1 887 413	238 889	1 006 827
Total hedging derivatives	**164 777**	**2 079 805**	**238 889**	**1 258 224**

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 the Group 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. The Group 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

22. Loans and advances to customers

Loans and advances to customers	31.12.2015	31.12.2014
Loans and advances to enterprises	43 307 122	39 149 855
Loans and advances to individuals, of which:	51 950 070	47 784 052
Home mortgage loans	*33 720 581*	*30 860 840*
Finance lease receivables	4 545 711	3 815 843
Loans and advances to public sector	235 177	190 811
Buy-sell-back transactions	17 060	100
Other	6 867	6 420
Gross receivables	**100 062 007**	**90 947 081**
Impairment write down	(5 131 163)	(5 126 510)
Total	**94 930 844**	**85 820 571**

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 individual loans was PLN 19 539 k.

Finance lease receivables are presented in Note 43. Fair value of loans and advances to customers is presented in Note 40.

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	(4 446 607)	(3 036 549)
Individual and collective impairment acquired in a business combination	-	(1 287 435)
Charge/write back of current period	(926 317)	(975 342)
Write off/Sale of receivables	873 273	815 289
Transfer	36 393	50 920
F/X differences	(8 309)	(13 490)
Balance at the end of the period	**(4 471 567)**	**(4 446 607)**
IBNR		
As at the beginning of the period	(679 903)	(453 176)
IBNR acquired in a business combination	-	(302 550)
Charge/write back of current period	22 761	98 636
Transfer	193	(19 104)
F/X differences	(2 647)	(3 709)
Balance at the end of the period	**(659 596)**	**(679 903)**
Allowance for impairment	**(5 131 163)**	**(5 126 510)**

In June 2014, Santander Consumer Bank completed the securitisation of a car and hire purchase loan portfolio of PLN 1,751,436 k as at the transaction date. The transaction was executed as a traditional securitisation scheme involving transfer of securitised receivables to SC Poland Auto 2014-1 Limited (SPV1), a special purpose vehicle registered in Ireland.

Based on the securitised assets, SPV1 issued two classes of bonds of PLN 1,367 m in total secured by a registered pledge on SPV1 assets. Interest on bonds consists of 1M WIBOR plus margin. Initially, the bonds were taken up by SCB in full. Subsequently, Class A and Class B bonds were sold to third parties in unconditional and repo transactions. As a result of securitisation, SCB raised funding in exchange for transfer of future cash flows from the securitised credit portfolio. The bonds are planned to be redeemed in full by 20 June 2025, however, SCB expects that it will take place no later than 3 years after the date of transaction.

The transaction was financed from a loan of PLN 391,728 k granted by SCB to SPV1, which is subordinated to senior secured bonds. Interest on the loan is fixed and paid from SPV1 funds, while the principal will be repaid upon the full redemption of bonds. The value of securitisation bonds held by SCB as at 31.12.2015 was PLN 119,990 k.

In September 2015, Santander Consumer Bank completed the securitisation of a hire purchase loan portfolio. The transaction was executed as a traditional and revolving securitisation scheme involving transfer of securitised receivables to SC Poland Consumer 2015-1 sp. z o.o. (SPV2), a special purpose vehicle registered in Poland.

In thousands of PLN

Based on the securitised assets, SPV2 issued bonds of PLN 1,051,125,000 in total secured by a registered pledge on SPV2 assets. Interest on bonds consists of 1M WIBOR plus margin. As a result of securitisation, SCB raised funding in exchange for transfer of future cash flows from the securitised credit portfolio. The bonds are planned to be redeemed in full by 19 August 2025, however, SCB expects that it will take place no later than 2 years after the date of transaction.

The transaction was financed from a loan of PLN 228,643 k granted by SCB to SPV2, which is subordinated to senior secured bonds. Interest on the loan is fixed and paid from SPV2 funds, while the principal will be repaid upon the full redemption of bonds.

The contractual terms of securitisation do not satisfy the criteria for derecognition of securitised assets from SCB financial statements pursuant to IAS 39. Consequently, as at 31.12.2015, SCB recognised the securitised assets of PLN 1,586,946 k net under Loans and advances to customers, and liability of PLN 1,792,283 k under Deposits from customers in respect of cash flows on account of securitisation.

The impact of the Swiss National Bank decision on the FX mortgage loans

Pursuant to the decision of the Swiss National Bank as a result of the decision of the Swiss National Bank to abandon the cap on the franc's value against the euro, in January 2015, there occurred a material depreciation of the zloty against the Swiss franc. The official NBP PLN/CHF exchange rate as at 31 December 2014 was 3.5447 vs. 3.9394 as at 31 December 2015. The exchange rate movement affected the value and the risk profile of assets, liabilities and off-balance sheet financial instruments denominated in the currency under review.

The table below presents the impact of the change in the CHF/PLN exchange rate on the PLN equivalent of the mortgage loan-book value of Bank Zachodni WBK Group as at 31 December 2014 and 31 December 2015.

Gross mortgage loans by currency	31.12.2015	31.12.2014
CHF denominated mortgage loans, of which:	13 853 060	13 405 583
Bank Zachodni WBK	*10 809 116*	*10 444 894*
Santander Consumer Bank	*3 043 944*	*2 960 689*
Mortgage loans denominated in other currencies, of which:	19 867 521	17 455 257
w PLN	17 536 095	14 955 125
Total	**33 720 581**	**30 860 840**

Bank Zachodni WBK Group actively manages the CHF position using derivative instruments (swaps) and direct financing including loans and repo transactions. As at the end of December 2015, the volume of the above instruments added up to CHF 2.7 bn and CHF 0.9 bn, respectively.

Risk profile of CHF-indexed/denominated loans

CHF gross mortgage loans as at 31.12.2015	Gross amount	Impairment losses	Coverage ratio
Performing loans	13 648 460	98 587	0,72%
Non-performing loans	204 600	92 173	45,05%
Total	**13 853 060**	**190 760**	

Average LTV ratio and NPL ratio amounted to 114% and 1.5%, respectively. As at 31 December 2015, 99% of CHF loans were sanctioned before 2009.

In accordance with the recommendation of the Polish Financial Supervision Authority (KNF) of 23 October 2015:

- Bank Zachodni WBK SA 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,
- Santander Consumer Bank S.A (belonging to the Bank Zachodni Group SA) maintains own funds at a level that ensures coverage of additional capital requirement of 1.07 p.p. to secure the risk arising from foreign currency mortgage loans for households.

In thousands of PLN

23. 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	**23 463 634**	**26 152 181**
Government securities:	18 621 755	19 971 450
- bonds	18 621 755	19 971 450
Central Bank securities:	2 599 243	3 959 781
- bills	2 599 243	3 959 781
Commercial securities:	2 242 636	2 220 950
- bonds	2 242 636	2 220 950
Equity securities	**1 149 147**	**886 937**
- listed	70 670	66 406
- unlisted	1 078 477	820 531
Investment certificates	**9 297**	**17 975**
Total	**24 622 078**	**27 057 093**

As at 31.12.2015 fixed interest rate debt securities measured at fair value amount to PLN 17,149,239 k, variable interest rate securities amount to PLN 6,314,394 k.

As at 31.12.2014 fixed interest rate debt securities measured at fair value amount to PLN 19,581,097 k, variable interest rate securities amount to PLN 6,571,084 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 Group 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., BZ WBK Group, as holder of 2 shares (BZ WBK and SCB) of Visa Europe with nominal value of 10 EUR each, is entitled to consideration resulting from the transaction in total amount of 64 865 183 euro, comprising:

- Cash 48 293 121 EUR and

- Shares of Visa Inc. 16 572 062 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 BZ WBK Group'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, BZWBK Group has recognized change in fair value of the share in holding in the amount of 62 m EUR i.e. PLN 264.2m. 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 40.

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 1 March 2016 and is expected to be settled by 30 June 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.

In thousands of PLN

Fair value of „Investment securities available for sale" is presented in Note 40.

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2015	**26 152 181**	**904 912**	**27 057 093**
Additions	124 520 434	6 805	124 527 239
Disposals (sale and maturity)	(126 454 096)	(21 346)	(126 475 442)
Fair value adjustment	(416 286)	269 806	(146 480)
Movements on interest accrued	(37 741)	-	(37 741)
Allowances for impairment	-	(1 733)	(1 733)
F/X differences	34 657	-	34 657
Investment securities adjustment due to loss of control over BZ WBK-Aviva insurance companies.	(335 515)	-	(335 515)
As at 31 December 2015	**23 463 634**	**1 158 444**	**24 622 078**

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2014	**21 217 376**	**873 388**	**22 090 764**
Investment securities available for sale aquired in a business combination	1 793 202	1 111	1 794 313
Additions	256 677 919	44 474	256 722 393
Disposals (sale and maturity)	(254 259 306)	(10 962)	(254 270 268)
Fair value adjustment	710 816	3 751	714 567
Movements on interest accrued	(58 524)	-	(58 524)
Allowances for impairment	-	(6 850)	(6 850)
F/X differences	70 698	-	70 698
As at 31 December 2014	**26 152 181**	**904 912**	**27 057 093**

24. Investments in associates

Investments in associates	31.12.2015	31.12.2014
Associates	831 142	42 792
Total	**831 142**	**42 792**

Movements on investments in associates	31.12.2015	31.12.2014
Balance as at 1 January	**42 792**	**63 444**
Share of profits/(losses)	27 711	1 385
Dividends	(5 721)	-
Impairment	-	(4 095)
Reclassification*	766 360	(17 942)
Balance at the end of the period	**831 142**	**42 792**

* On 27 February 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."). Details have been described in Note 49.

Information about the reclassification of Krynicki Recykling S.A. and Metrohouse Franchise S.A. as at 31.12.2014 are included in Note 49.

Fair value of "Investment in associates" is presented in Note 40.

In thousands of PLN

Investments in associates as at 31.12.2015

Name of entity	POLFUND - Fundusz Poręczeń Kredytowych S.A.*	Metrohouse Franchise S.A. **	BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	Total
Registered office	Szczecin	Warszawa	Poznań	Poznań	
Type of connection	Associate	Associate	Associate	Associate	
% of holding* **	50.00	20.13	49.00	49.00	
Balance sheet value	42 803	-	390 892	397 447	**831 142**
Total assets	95 408	25 260	935 896	315 012	**1 371 576**
Own funds of entity, of which:	85 605	21 267	78 929	138 033	**323 834**
Share capital	16 000	20 678	24 250	27 000	**87 928**
Other own funds, of which:	69 605	589	54 679	111 033	**235 906**
from previous years	-	*381*	-	-	**381**
net profit (loss)	*1 541*	*175*	*30 688*	*40 312*	**72 716**
Liabilities of entity	9 803	3 993	856 967	176 979	**1 047 742**
Revenue	8 885	3 624	239 430	164 415	**416 354**
Costs	6 966	3 360	(201 500)	(114 223)	**(305 397)**

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

Name of entity	Business
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
Metrohouse Franchise S.A.	intermediation in property transactions; other publishing activity; data processing, website management; operations of online portals; operations of advertising agencies; other activity

In thousands of PLN

Investments in associates as at 31.12.2014

Name of entity	POLFUND - Fundusz Poręczeń Kredytowych S.A.*	Metrohouse Franchise S.A. **	Total
Registered office	Szczecin	Warszawa	
Type of connection	Associate	Associate	
% of holding* **	50.00	20.13	
Balance sheet value	42 792	-	**42 792**
Total assets	93 705	21 617	**115 322**
Own funds of entity, of which:	85 583	20 341	**105 924**
Share capital	16 000	20 226	**36 226**
Other own funds, of which:	69 583	115	**69 698**
from previous years	-	-	**-**
net profit (loss)	*2 602*	*115*	**2 717**
Liabilities of entity	8 122	1 276	**9 398**
Revenue	9 069	716	**9 785**
Costs	5 982	571	**6 553**

*selected financial information as at end of November 2014
**selected financial information as at end of September 2014
***states percentage share of associates

Name of entity	Business
POLFUND - Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management
Metrohouse Franchise S.A.	a franchise chain of real estate agencies providing services with respect to sale, purchase and lease of property

In thousands of PLN

25. Intangible assets

Intangible assets Year 2015	Licences, patents etc.	Other	Expenditure on intangible assets	Total
Gross value - beginning of the period	**1 206 042**	**562 406**	**185 900**	**1 954 348**
Additions from:				
- purchases	-	-	165 691	**165 691**
- intangible assets taken for use	150 855	20 630	-	**171 485**
- transfers	(396)	-	3 941	**3 545**
Disposals from:				
- liquidation	(45 631)	(1 352)	(17)	**(47 000)**
- intangible assets taken for use	-	-	(171 485)	**(171 485)**
- transfers	6	767	(13 377)	**(12 604)**
- loss of control over BZ WBK-Aviva insurance companies	(3 217)	(153 424)	-	**(156 641)**
Gross value - end of the period	**1 307 659**	**429 027**	**170 653**	**1 907 339**
Accumulated depreciation - beginning of the period	**(1 089 574)**	**(359 389)**	**-**	**(1 448 963)**
Additions/disposals from:				
- current year	(99 381)	(31 190)	-	**(130 571)**
- liquidation	45 525	585	-	**46 110**
- transfers	18 138	(3 324)	-	**14 814**
- loss of control over BZ WBK-Aviva insurance companies	2 914	84 553	-	**87 467**
Write down/Reversal of impairment write down	-	(10 509)	-	**(10 509)**
Accumulated depreciation- end of the period	**(1 122 378)**	**(319 274)**	**-**	**(1 441 652)**
Balance sheet value				
Purchase value	1 307 659	429 027	170 653	**1 907 339**
Accumulated depreciation	(1 122 378)	(319 274)	-	**(1 441 652)**
As at 31 December 2015	**185 281**	**109 753**	**170 653**	**465 687**

In thousands of PLN

Intangible assets Year 2014	Licences, patents etc.	Other	Expenditure on intangible assets	Total
Gross value - beginning of the period	**1 123 931**	**367 043**	**100 986**	**1 591 960**
Intangible assets acquired in a business combination	**3 477**	**192 911**	**22 666**	**219 054**
Additions from:				
- purchases	-	-	160 767	**160 767**
- donation	64	-	-	**64**
- intangible assets taken for use	98 393	2 333	-	**100 726**
- transfers	17 118	125	3 449	**20 692**
Disposals from:				
- liquidation	(19 429)	(1)	(73)	**(19 503)**
- intangible assets taken for use	-	-	(100 726)	**(100 726)**
- transfers	(17 512)	(5)	(1 169)	**(18 686)**
Gross value - end of the period	**1 206 042**	**562 406**	**185 900**	**1 954 348**
Accumulated depreciation - beginning of the period	**(1 032 704)**	**(52 464)**	**-**	**(1 085 168)**
Accumulated depreciation acquired in a business combinations	**(3 280)**	**(172 853)**	**-**	**(176 133)**
Additions/disposals from:				
- current year	(82 152)	(123 034)	-	**(205 186)**
- liquidation	19 264	1	-	**19 265**
- transfers	9 298	(10 095)	-	**(797)**
Write down/Reversal of impairment write down	-	(944)	-	**(944)**
Accumulated depreciation- end of the period	**(1 089 574)**	**(359 389)**	**-**	**(1 448 963)**
Balance sheet value				
Purchase value	1 206 042	562 406	185 900	**1 954 348**
Accumulated depreciation	(1 089 574)	(359 389)	-	**(1 448 963)**
As at 31 December 2014	**116 468**	**203 017**	**185 900**	**505 385**

In thousands of PLN

26. 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	**1 056 026**	**-**	**728 128**	**90 590**	**361 115**	**-**	**93 439**	**2 329 298**
Additions from:								
- purchases	-	-	-	-	-	3 067	181 364	**184 431**
- leasing	-	39 480	-	40 113	-	-	-	**79 593**
- fixed assets taken for use	25 772	-	89 217	12 087	11 564	-	-	**138 640**
- transfers	1 374	-	35 379	2 255	(10 978)	-	11	**28 041**
Disposals from:								
- sale, liquidation, donation	(137 201)	-	(203 351)	(8 142)	(49 890)	-	(1 837)	**(400 421)**
- fixed assets taken for use	-	-	-	-	-	-	(138 640)	**(138 640)**
- transfers	-	-	(23 909)	(15 290)	-	-	(4 441)	**(43 640)**
- loss of control over BZ WBK-Aviva insurance companies	-	-	(422)	(1 239)	(889)	-	(36)	**(2 586)**
Gross value - end of the period	**945 971**	**39 480**	**625 042**	**120 374**	**310 922**	**3 067**	**129 860**	**2 174 716**
Accumulated depreciation - beginning of the period	**(660 770)**	**-**	**(570 174)**	**(33 422)**	**(307 982)**	**-**	**-**	**(1 572 348)**
Additions/disposals from:								
- current year	(34 068)	(660)	(54 200)	(15 812)	(15 020)	-	-	**(119 760)**
- sale, liquidation, donation	82 593	-	203 133	5 462	46 841	-	-	**338 029**
- transfers	(424)	-	(12 476)	8 580	10 717	-	-	**6 397**
- loss of control over BZ WBK-Aviva insurance companies	-	-	317	538	419	-	-	**1 274**
Write down/Reversal of impairment write down	-	-	-	(10)	2 195	-	-	**2 185**
Accumulated depreciation- end of the period	**(612 669)**	**(660)**	**(433 400)**	**(34 664)**	**(262 830)**	**-**	**-**	**(1 344 223)**
Balance sheet value								
Purchase value	945 971	39 480	625 042	120 374	310 922	3 067	129 860	**2 174 716**
Accumulated depreciation	(612 669)	(660)	(433 400)	(34 664)	(262 830)	-	-	**(1 344 223)**
As at 31 December 2015	**333 302**	**38 820**	**191 642**	**85 710**	**48 092**	**3 067**	**129 860**	**830 493**

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	**1 002 415**	**729 898**	**56 714**	**297 438**	**58 245**	**2 144 710**
Property, plant and equipment acquired in a business combination	**76 584**	**12 250**	**17 391**	**63 269**	**424**	**169 918**
Additions from:						
- purchases	-	-	-	-	147 039	**147 039**
- leasing	-	-	13 893	-	-	**13 893**
- fixed assets taken for use	2 718	85 460	9 469	14 171	-	**111 818**
- transfers	20 519	11 448	6 478	4 125	759	**43 329**
Disposals from:						
- sale, liquidation, donation	(45 124)	(98 924)	(3 545)	(14 501)	-	**(162 094)**
- fixed assets taken for use	-	-	-	-	(111 818)	**(111 818)**
- transfers	(1 086)	(12 004)	(9 810)	(3 387)	(1 210)	**(27 497)**
Gross value - end of the period	**1 056 026**	**728 128**	**90 590**	**361 115**	**93 439**	**2 329 298**
Accumulated depreciation - beginning of the period	**(621 009)**	**(615 500)**	**(18 951)**	**(256 608)**	**-**	**(1 512 068)**
Accumulated depreciation acquired in a business combinations	**(38 832)**	**(7 065)**	**(8 939)**	**(49 658)**	**-**	**(104 494)**
Additions/disposals from:						
- current year	(31 092)	(46 358)	(11 071)	(14 198)	-	**(102 719)**
- sale, liquidation, donation	32 954	98 705	1 920	13 978	-	**147 557**
- transfers	(2 809)	44	3 632	(1 512)	-	**(645)**
Write down/Reversal of impairment write down	19	-	(14)	16	-	**21**
Accumulated depreciation- end of the period	**(660 769)**	**(570 174)**	**(33 423)**	**(307 982)**	**-**	**(1 572 348)**
Balance sheet value						
Purchase value	1 056 026	728 128	90 590	361 115	93 439	**2 329 298**
Accumulated depreciation	(660 769)	(570 174)	(33 423)	(307 982)	-	**(1 572 348)**
As at 31 December 2014	**395 257**	**157 954**	**57 167**	**53 133**	**93 439**	**756 950**

In thousands of PLN

27. Net deferred tax assets

Deferred tax assets	31.12.2015	31.12.2014
Provisions for loans	608 733	632 421
Unrealized liabilities due to derivatives	767 844	681 206
Other provisions which are not taxable costs	142 925	104 450
Deferred income	406 727	357 322
Difference between balance sheet and taxable value of leasing portfolio	190 921	148 660
Unrealised interest expense on loans, deposits and securities	89 897	187 002
Difference between balance sheet and taxable value of unfinancial value assets	212	(358)
Other	14 647	18 131
Total	**2 221 906**	**2 128 834**

Deferred tax liabilities	31.12.2015	31.12.2014
Revaluation of financial instruments available for sale*	(180 535)	(223 373)
Unrealised receivables on derivatives	(423 608)	(411 875)
Unrealised interest income on loans, securities and interbank deposits	(182 660)	(201 987)
Provision due to application of investment relief	(2 203)	(3 227)
Unrealised FX translation differences from b/s valuation of receivables and liabilities	(8 492)	(6 228)
Valuation of investments in subsidiaries	(152 664)	(84 680)
Other	(19 936)	(15 854)
Total	**(970 098)**	**(947 224)**

Net deferred tax assets	1 251 808	1 181 610

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

As at 31 December 2015 the calculation of deferred tax assets 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 December 2014 the calculation of deferred tax assets did not include purchased receivables of PLN 11 874 k and loans that will not be realised of PLN 95 001 k.

Movements on net deferred tax	31.12.2015	31.12.2014
As at the beginning of the period	1 181 610	476 430
Changes on net deferred tax in a business combination	-	276 441
Changes recognised in income statement	36 349	486 100
Changes recognised in other net comprehensive income	39 681	(57 361)
Transfer	(5 832)	-
Balance at the end of the period	**1 251 808**	**1 181 610**

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 allowance for impairment of loans and receivables and assets in the course of business.

28. Assets classified as held for sale

Assets classified as held for sale	31.12.2015	31.12.2014
Land and buildings	638	638
Other fixed assets	931	740
Total	**1 569**	**1 378**

In thousands of PLN

29. Other assets

Other assets	31.12.2015	31.12.2014
Receivables arising from insurance contracts*	-	749 309
Interbank and interbranch settlements	120 024	456 910
Sundry debtors	353 994	382 925
Prepayments	133 667	125 754
Repossessed assets	37 364	41 425
Settlements of stock exchange transactions	23 508	22 615
Other	4 608	7 618
Total	**673 165**	**1 786 556**

* On 27 February 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."). Details have been described in Note 49.

In the period of 31.12.2014 were recognized receivables arising from insurance contracts.

30. Deposits from banks

Deposits from banks	31.12.2015	31.12.2014
Repo/sell-buy-back transactions	4 637 841	7 045 487
Term deposits	179 260	399 402
Loans from other banks	574 693	548 545
Current accounts	312 810	366 422
Total	**5 704 604**	**8 359 856**

As at 31.12.2015 fair value adjustment for hedged deposit totaled PLN nil (as at 31.12.2014 – PLN nil).
Fair value of "Deposits from banks" is presented in Note 40.

31. Deposits from customers

Deposits from customers	31.12.2015	31.12.2014
Deposits from individuals	**59 200 715**	**58 257 053**
Term deposits	26 967 411	30 938 819
Current accounts	32 087 123	27 204 883
Other	146 181	113 351
Deposits from enterprises	**39 306 710**	**33 150 169**
Term deposits	20 119 828	16 164 448
Current accounts	14 957 442	13 640 292
Sell-buy-back transactions	519 052	157 134
Loans	3 002 047	2 668 541
Other	708 341	519 754
Deposits from public sector	**3 357 951**	**3 574 587**
Term deposits	1 476 264	1 371 671
Current accounts	1 668 272	2 202 706
Sell-buy-back transactions	101 138	-
Other	112 277	210
Total	**101 865 376**	**94 981 809**

As at 31.12.2015 deposits held as collateral totaled PLN 505,528 k (as at 31.12.2014 - PLN 395,164 k).
Fair value of "Deposits from customers" is presented in Note 40.

In thousands of PLN

32. Subordinated liabilities

Subordinated liabilities	Redemption date	Currency	Nominal value
Tranche 1	05.08.2020	EUR	100 000
Tranche 2 *	14.12.2016	PLN	100 000

* Concerns Santander Consumer Bank

Movements in subordinated liabilities	31.12.2015	31.12.2014
As at the beginning of the period	**1 539 967**	**1 384 719**
Subordinated liabilities acquired in a business combination	**-**	**100 144**
Increase (due to):	**168 913**	**118 364**
- interest on subordinated loan	45 260	63 659
- FX differences	123 653	54 705
Decrease (due to):	**(1 182 246)**	**(63 260)**
- subordinated loans repayment	(1 138 338)	-
- interest repayment	(43 908)	(63 260)
Subordinated liabilities - as at the end of the period	**526 634**	**1 539 967**
Short-term	2 285	4 903
Long-term (over 1 year)	524 349	1 535 064

Other details on these liabilities are disclosued in Note 5.

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

In thousands of PLN

33. Debt securities in issue

Debt securities in issue	ISIN	Nominal value	Currency	Redemption date	31.12.2015
SCB00013	not quoted	25 000	PLN	27.01.2016	
SCBP00330500	not quoted	50 000	PLN	29.01.2016	
SCBP00310038	not quoted	38 000	PLN	29.01.2016	
SCB00014	not quoted	10 000	PLN	03.02.2016	
SCBP00360217	not quoted	21 700	PLN	12.02.2016	
SCBP00340050	not quoted	50 000	PLN	12.02.2016	
Series A bank securities	PLBZ00000184	230 000	PLN	17.02.2016	
SCB00016	not quoted	50 000	PLN	24.02.2016	
SCB00030	not quoted	40 000	PLN	24.03.2016	
SCB00001	not quoted	60 000	PLN	29.04.2016	
SCB00002	not quoted	10 000	PLN	29.04.2016	
SCB00027	not quoted	50 000	PLN	29.04.2016	
SCB00028	not quoted	20 000	PLN	29.04.2016	
SCB00029	not quoted	50 000	PLN	13.05.2016	
SCB00005	PLSNTND00026	100 000	PLN	08.08.2016	
Series A	PLBZ00000150	500 000	PLN	19.12.2016	
Series B	PLBZ00000168	475 000	PLN	17.07.2017	
SCB00006	PLSNTND00034	100 000	PLN	07.08.2017	
SCB00008	not quoted	110 000	PLN	30.08.2017	
SCB00010	not quoted	20 000	PLN	30.08.2017	
SCB00012	PLSNTND00042	215 000	PLN	04.10.2017	
SCB00019	PLSNTND00083	220 000	PLN	30.10.2017	
SCB00022	PLSNTND00091	100 000	PLN	16.02.2018	
SCB00017	PLSNTND00059	50 000	PLN	18.06.2018	
Series C	PLBZ00000176	485 000	PLN	25.06.2018	
SCB00018	PLSNTND00067	170 000	PLN	12.08.2019	
Securitized bonds Float sale	XS1275288295	1 051 125	PLN	19.08.2025	
Debt securities in issue - as at the end of the period					**4 320 891**

In thousands of PLN

34. Other liabilities

Other liabilities	31.12.2015	31.12.2014
Settlements of stock exchange transactions	25 376	48 377
Interbank and interbranch settlements	202 317	239 148
Provisions:	516 600	1 595 194
Employee provisions	*380 724*	*365 083*
Provisions for legal claims	*48 582*	*53 128*
Provisions for off-balance sheet credit facilities	*75 340*	*87 517*
*Technical insurance provisions **	-	*1 074 445*
*Provisions for restructuring ***	*8 648*	*11 721*
Other	*3 306*	*3 300*
Sundry creditors	342 341	332 202
Other deferred and suspended income	232 127	165 124
Public and law settlements	52 119	58 952
Accrued liabilities	429 113	362 563
Finance lease related settlements	78 866	29 595
Liabilities from insurance contracts and other *	229	854
Share purchase mandate adjustment *	-	699 072
Total	**1 879 088**	**3 531 081**

* As a result of the controlling stake at the companies BZ WBK-AVIVA TUO S.A. and BZ WBK-AVIVA TUŻ S.A. the Group recognized share purchase mandate adjustment, technical insurance provisions and liabilities from insurance contracts.

On 27 February 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."). Details have been described in Note 49.

** Provision acquired as a result of the acquisition of control over Santander Consumer Bank on July 1, 2014 in the amount of PLN 15,547 k (as at 31.12.2015 in the amount of PLN 8,648 k) referred to:

- restructuring of employment in the bank PLN 3 323 k (as at 31.12.2015 in the amount of PLN 2,944 k),
- liquidation of branches PLN 12,224 k. (as at 31.12.2015 in the amount of PLN 5,704 k).

The restructuring is related to the business reorganisation plan for Santander Consumer Finance (SCF) in Poland which was adopted by the Group in 2010. The plan was adopted after SCF Group had taken control over AIG Bank Polska S.A. and in the wake of subsequent restructuring actions carried out in the years 2013-2014 (amongst others, restructuring of the business transferred from Santander Consumer Finanse Sp z o.o.). Provision has also been associated with the implementation of the Operational Excellence Programme in 2015.

It is expected that most of cash flows related to the raised restructuring provision will materialise in the years 2016-2018.

The Group 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 50.

In thousands of PLN

Change in provisions	31.12.2015	31.12.2014
As at the beginning of the period	**1 595 194**	**1 555 371**
Employee provisions	365 083	293 962
Provisions for legal claims	53 128	45 104
Provisions for off-balance sheet credit facilities	87 517	95 934
Technical insurance provisions	1 074 445	1 117 071
Provisions for restructuring	11 721	-
Other	3 300	3 300
Provision acquired in a business combination	**-**	**81 230**
Employee provisions	-	36 243
Provisions for legal claims	-	11 309
Provisions for off-balance sheet credit facilities	-	18 131
Technical insurance provisions	-	-
Provisions for restructuring	-	15 547
Other	-	-
Provision charge	**426 999**	**495 283**
Employee provisions	297 134	312 857
Provisions for legal claims	12 320	13 527
Provisions for off-balance sheet credit facilities	115 734	167 454
Technical insurance provisions	-	-
Provisions for restructuring	1 805	1 445
Other	6	-
Utilization	**(243 547)**	**(256 263)**
Employee provisions	(236 171)	(257 891)
Provisions for legal claims	(7 628)	(254)
Provisions for off-balance sheet credit facilities	252	1 882
Technical insurance provisions	-	-
Provisions for restructuring	-	-
Other	-	-
Write back	**(1 262 363)**	**(280 427)**
Employee provisions	(45 639)	(20 088)
Provisions for legal claims	(9 238)	(16 558)
Provisions for off-balance sheet credit facilities	(128 163)	(195 884)
Technical insurance provisions	(1 074 445)	(42 626)
Provisions for restructuring	(4 878)	(5 271)
Other	-	-
Other changes	**317**	**-**
Employee provisions	317	-
Provisions for legal claims	-	-
Provisions for off-balance sheet credit facilities	-	-
Provisions for restructuring	-	-
Other	-	-
Balance at the end of the period	**516 600**	**1 595 194**
Employee provisions	**380 724**	**365 083**
Provisions for legal claims	**48 582**	**53 128**
Provisions for off-balance sheet credit facilities	**75 340**	**87 517**
Technical insurance provisions	**-**	**1 074 445**
Provisions for restructuring	**8 648**	**11 721**
Other	**3 306**	**3 300**

In thousands of PLN

35. 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 July 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 July 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

36. 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:	7 000 685	4 624 190
*Reserve capital ***	*7 028 781*	*5 618 518*
Supplementary capital	*635 729*	*353 785*
Adjustment to equity from acquisition of controlling interest in Santander Consumer Bank	*(663 825)*	*(663 825)*
*Share purchase mandate adjustment **	*-*	*(684 288)*
Total	**14 685 919**	**12 309 424**

* As a result of the controlling stake at the companies BZ WBK AVIVA TUO S.A. and BZ WBK AVIVA TUŻ S.A. the Group recognized share purchase mandate adjustment.

**On 27 February 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."). Details have been described in Note 49.

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 and reserve capital as at 31.12.2014 includes share scheme charge of PLN 85 782 k.

Other movements of other reserve funds are presented in "movements on consolidated 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.

37. Revaluation reserve

Revaluation reserve	31.12.2015	31.12.2014
As at 31 December	951 546	708 907
Change in available for sale investments	163 308	706 961
Gross valuation related to cash flow hedge	(107 777)	(172 108)
Actuarial gains/losses on retirement allowances	8 055	(14 408)
Decrease in revaluation reserve related to sale of investments	(276 368)	(220 445)
Deferred tax adjustment	38 150	(57 361)
Total	**776 914**	**951 546**

In thousands of PLN

38. Hedge accounting

Bank Zachodni WBK Group applies hedge accounting in line with the risk management assumptions described in Note 4 of the annual consolidated financial statements.

Fair value hedges

Bank Zachodni WBK Group 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.

The tables below contain details about individual groups of hedge transactions for 2015 and 2014:

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 asset/(liability)	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 asset/(liability)	216 207	19 540
Hedged 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 7,148k. 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 Group 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 Group's hedging strategies are designed to protect the Group'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, FX 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 December 2015, the nominal value of the hedging item was PLN 20 071 496 k (31 December 2014 – PLN 17 849 598 k). Adjustment to fair value of the hedging instrument was PLN (241 359) k (31 December 2014 – PLN (133 582 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.

In thousands of PLN

The non-effective portion of measurement of the cash flow hedge was PLN (11 582) k as of 31.12.2015 and PLN (12 176) k as of 31.12.2014. It was taken to the 'Net trading income and revaluation' line of the profit and loss account.

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

The Group 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 Group's balance sheet portfolio.

The foregoing items are not removed from the balance sheet, because the Group 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):	5 258 031	7 202 621
Treasury bonds held on the assets side	5 187 346	7 195 004
Buy-sell-back transactions	289 260	397 017

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 Group, as well as power to dispose them.

The Group 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 Group does not retain any rewards or risks attaching to these assets.

These instruments represent a security cover accepted by the Group 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 31.12.2014, SCB had financial instruments in place serving as collateral for repo transactions of PLN 263,432k whose maturity period is shorter than that of the underlying transaction. As at 31.12.2015, SCB had no financial instruments in place serving as collateral for repo transactions whose maturity period is shorter than that of the underlying transaction.

In thousands of PLN

40. Fair value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

	31.12.2015		31.12.2014	
Assets	Book Value	Fair Value	Book Value	Fair Value
Cash and balances with central banks	6 229 853	6 229 853	6 806 521	6 806 521
Loans and advances to banks	3 853 257	3 853 257	2 523 063	2 523 063
Financial assets held for trading	4 165 511	4 165 511	5 238 741	5 238 741
Hedging derivatives	164 777	164 777	238 889	238 889
Loans and advances to customers	94 930 844	95 615 899	85 820 571	85 835 391
Investment securities	24 622 078	24 622 078	27 057 093	27 057 093
Investments in associates	831 142	831 142	42 792	42 792
Liabilities				
Deposits from banks	5 704 604	5 704 604	8 359 856	8 359 856
Hedging derivatives	2 079 805	2 079 805	1 258 224	1 258 224
Financial liabilities held for trading	2 535 684	2 535 684	2 781 680	2 781 680
Subordinated liabilities	526 634	603 709	1 539 967	1 789 755
Deposits from customers	101 865 376	101 891 082	94 981 809	94 975 685

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 Group has financial instruments which in accordance with the IFRS are not carried at fair value in the consolidated financial statements. 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 the case of 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 Group 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.

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.

In thousands of PLN

The fair value of these instruments is not significantly different from their balance sheet value.

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 Group 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 Group 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. Level II also classifies 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): This 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 periods the Group 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	1 743 074	2 420 598	1 839	4 165 511
Hedging derivatives	-	164 777	-	164 777
Financial investment assets - debt securities	15 299 779	8 163 855	-	23 463 634
Financial investment assets - equity securities	51 754	-	1 106 690	1 158 444
Total	**17 094 607**	**10 749 230**	**1 108 529**	**28 952 366**
Financial liabilities				
Financial liabilities held for trading	524 198	2 011 486	-	2 535 684
Hedging derivatives	-	2 079 805	-	2 079 805
Total	**524 198**	**4 091 291**	**-**	**4 615 489**

31.12.2014	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	1 878 034	3 359 317	1 390	5 238 741
Hedging derivatives	-	238 889	-	238 889
Financial investment assets - debt securities	16 581 263	9 570 918	-	26 152 181
Financial investment assets - equity securities	54 155	-	850 757	904 912
Total	**18 513 452**	**13 169 124**	**852 147**	**32 534 723**
Financial liabilities				
Financial liabilities held for trading	477 005	2 304 675	-	2 781 680
Hedging derivatives	-	1 258 224	-	1 258 224
Total	**477 005**	**3 562 899**	**-**	**4 039 904**

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**	**-**	**850 757**	**-**
Profits or losses	23	-	262 004	-
recognised in income statement	*23*	-	-	-
recognised in equity	-	-	*262 004*	-
Purchase	1 278	-	6 597	-
Sale	(852)	-	(15 820)	-
Matured	-	-	-	-
Impairment	-	-	-	-
Transfer	-	-	3 152	-
At the period end	**1 839**	**-**	**1 106 690**	**-**

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	**-**	**-**	**836 536**	**-**
Profits or losses	-	-	-	-
recognised in income statement	-	-	-	-
recognised in equity	-	-	-	-
Purchase	-	-	5 868	-
Sale	-	-	(100)	-
Matured	-	-	-	-
Impairment	-	-	(3 799)	-
Transfer	1 390	-	12 252	-
At the period end	**1 390**	**-**	**850 757**	**-**

41. Contingent liabilities

Significant court proceedings

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 or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 483 466 k, which is ca 2.35% of the Group's equity. This amount includes PLN 256 443 k claimed by the Group, PLN 211 811 k in claims against the Group and PLN 15 212 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 31.12.2015 the amount of significant court proceedings which had been completed amounted to PLN 80 040 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 or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 364 074 k, which is ca 2.02% of the Group's equity. This amount includes PLN 176 684 k claimed by the Group, PLN 182 274 k in claims against the Group and PLN 5 116 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 31.12.2014 the amount of significant court proceedings which had been completed amounted to PLN 187 263 k.

In thousands of PLN

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 34.

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	**21 870 729**	**19 959 943**
- credit lines	18 462 963	17 047 109
- credit cards debits	2 966 977	2 367 098
- import letters of credit	437 988	413 654
- term deposits with future commencement term	2 801	132 082
- guarantees	**4 397 631**	**4 383 084**
Total	**26 268 360**	**24 343 027**

As at 31.12.2015 provisions for off-balance sheet liabilities amounted to PLN (75,340) k, as at 31.12.2014: PLN (87,960) k.

In 2015, the Group 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.

42. Assets and liabilities pledged as collateral

A guaranteed protection fund established by the BZ WBK Group is collateralized by the debt securities.

Under the Bank Guarantee Fund Act, the Bank Zachodni WBK and Santander Consumer Bank calculated this fund using 0.55% (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 December 2015 BZ WBK Group pledged as collateral PLN 557,977 k of debt securieties (PLN 534,399 k as at 31.12.2014).

In 2015 a deposit for PLN 2,345,259 k was placed with another financial institutions as a collateral for the day-to-day business (in 2014 it was PLN 1 659 022 k).

In 2015 BZ WBK Group hold a deposit for PLN 202,918 k (in 2014 it was PLN 155,363 k) as a collateral for the day-to-day business.

Other assets pledged and liabilities accepted as collateral are disclosed in Notes 31 and 39.

43. Finance and operating leases

Finance leases

Lease agreements where the Group acts as a leasor

Bank Zachodni WBK Group operates on the leasing market through leasing companies BZ WBK Leasing S.A., BZ WBK Lease S.A. and Santander Consumer Multirent Sp. z o.o. which specialise in funding vehicles, machines and equipment for businesses and personal customers and property.

In thousands of PLN

The item “receivables from customers” contains the following amounts relating to the finance lease obligations:

Finance leases gross receivables - maturity	31.12.2015	31.12.2014
less than 1 year	1 763 670	1 530 223
between 1 and 5 years	2 997 371	2 488 324
over 5 years	133 967	164 766
Total	**4 895 008**	**4 183 313**

Present value of minimum lease payments - maturity	31.12.2015	31.12.2014
less than 1 year	1 708 814	1 481 187
between 1 and 5 years	2 748 416	2 233 130
over 5 years	88 481	101 526
Total	**4 545 711**	**3 815 843**

Reconciliation between the gross investment and the present value of minimum lease payments	31.12.2015	31.12.2014
Finance lease gross receivables	4 895 008	4 183 313
Unearned finance income	(349 297)	(367 470)
Impairment of finance lease receivables	(79 952)	(98 244)
Present value of minimum lease payments, net	**4 465 759**	**3 717 599**

Lease agreements where the Group acts as a lessee

The BZ WBK Group companies also avail of lease arrangements as lessees, however as the leases are between related entities they were eliminated from the consolidated statement of financial position and profit and loss account.

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 Group. In 2015 and 2014 rentals totalled PLN 262,979 k and PLN 261 639 k, respectively. These payments are presented in the profit and loss account under “operating expenses”.

The majority of lease agreements signed by SCB were concluded for a definite period of time ranging from three to five years. As regards the premises for mobile units, the lease agreements were entered for an indefinite period subject to one up to three months’ notice.

In 2014, BZ WBK Leasing signed operating lease agreements with leasing/financial advisors for lease of vehicles for operational purposes. The agreements were concluded for the period of three years.

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

Payments - maturity	31.12.2015	31.12.2014
less than 1 year	258 473	281 798
between 1 and 5 years	478 038	602 414
over 5 years	421 770	345 356
Total	**1 158 281**	**1 229 568**

In thousands of PLN

44. Consolidated statement of cash flow- additional information

The table below specifies components of cash balances of BZ WBK Group.

Cash components	31.12.2015	31.12.2014
Cash and balances with central banks	6 229 853	6 806 521
Deposits in other banks, current account	3 848 596	2 764 675
Investment securities	2 599 243	3 959 779
Total	**12 677 692**	**13 530 975**

Bank Zachodni WBK and Santander Consumer Bank have restricted cash in the form of a mandatory reserve held on account with the Central Bank.

45. Related party disclosures

The tables below present intercompany transactions. They are effected between associates and parent entity. Most of the transactions are banking transactions made as part of ordinary business activities and mainly include loans, deposits and guarantees, leasing. Intercompany transactions effected by the bank and its subsidiaries have been eliminated during the consolidation process.

On 27 February 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 49.

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 1 March to 31 December 2015.

Transactions with associates	31.12.2015	31.12.2014
Assets	**68**	**-**
Other assets	68	-
Liabilities	**60 351**	**2 931**
Deposits from customers	60 075	2 931
Other liabilities	276	-
Income	**49 561**	**3**
Fee and commission income	49 561	3
Expenses	**7 689**	**201**
Interest expense	1 237	201
Fee and commission expense	3 480	-
Operating expenses incl.:	2 972	-
general and administrative expenses	*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
Other assets	2 062	903
Liabilities	**526 784**	**410 462**
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	3 818	54
Income	**737 372**	**219 596**
Interest income	13 046	7 585
Fee and commission income	2 283	4 911
Other operating income	614	-
Net trading income and revaluation	721 429	207 100
Expenses	**17 535**	**8 309**
Interest expense	1 150	1 309
Fee and commission expense	1 159	204
Operating expenses incl.:	15 226	6 796
Bank's staff, operating expenses and management costs	*15 016*	*6 796*
Other operating expenses	*210*	-
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 - purchased amounts	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 of Bank Zachodni WBK Supervisory Board Members.

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.

In thousands of PLN

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 50 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.

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

In 2015 Bank issued 75 208 banking writs of execution with total amount of PLN 997 476 k.

In 2014 Bank issued 51 025 banking writs of execution with total amount of PLN 1 241 835 k.

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

On 10 June 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 September 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 July 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 October 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

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

Transaction details

On 1 July 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 November 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 (ten) 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**

In thousands of PLN

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.

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.

49. Acquisitions and disposals of investments in subsidiaries and associates

Acquisitions and disposals of investments in subsidiaries and associates in 2015 and in 2014

Registration of SC Poland Consumer 15-1 sp. z o.o.

On 7 July 2015, a subsidiary of Santander Consumer Bank trading as SC Poland Consumer 15-1 sp. z o.o. was registered. This is a special-purpose vehicle formed for the purpose of securitisation of a part of the credit portfolio, its shareholder being a foreign legal person that is not associated with the Group. As the control criteria set out in IFRS 10.7 are met, the company is considered as an entity controlled by Santander Consumer Bank.

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 February 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 Ogólnych 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.

In thousands of PLN

Tables below present an analysis of assets and liabilities which were transferred upon the control loss and total profit before tax on the transaction.

as at 27.02.2015	BZ WBK-Aviva TUO S.A.	BZ WBK-Aviva TUŻ S.A.
ASSETS		
Loans and advances to banks	17 629	52 187
Financial assets held for trading	5 784	27 493
Investment securities	234 773	104 897
Intangible assets	179	180
Property, plant and equipment	552	786
Net deferred tax assets	(1 613)	(93)
Other assets	58 228	743 166
Total assets	**315 532**	**928 616**
LIABILITIES		
Current income tax liabilities	(9 626)	(3 470)
Other liabilities	(196 992)	(861 955)
Total liabilities	**(206 618)**	**(865 425)**
Book value of net assets	**108 914**	**63 191**

Total profit before tax on the transaction	as at 27.02.2015
Fair value of consideration received	244 317
Revaluation of retained non-controlling interest	766 360
Non-controlling interests derecognised	540 854
Less: book value of identifiable net assets	(172 105)
Less: derecognition of goodwill	(853 809)
Other consolidation adjustments	(2 622)
Gain on sale of subordinated entities	**522 995**
Other adjustments related to loss of controll	38 226
Total	**561 221**

Changes to the shareholding of Krynicki Recycling S.A.

On 9 December 2014, 320,000 ordinary bearer shares in Krynicki Recycling S.A. were sold on the regulated market. As a result, BZ WBK Inwestycje currently holds 3,332,648 shares in the company, representing 19.96% of its share capital. Consequently, Krynicki Recycling S.A. was no longer an associated undertaking of BZ WBK Inwestycje.

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 47.

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 48.

Registration of Metrohouse Franchise S.A.

1 July 2014 the company Metrohouse Franchise S.A. was registered.
In September 2014, the shares of Metrohouse S.A. were contributed to Metrohouse Franchise S.A. in exchange for the newly issued shares of MHF. As a result, on 30 September 2014, BZ WBK Inwestycje Sp. z o.o. held 20.58% stake in Metrohouse Franchise S.A. Following the registration of an increase in the share capital of MHF, BZ WBK Inwestycje Sp. z o.o. held a 20.13% stake in the share capital and voting power in the company.

In thousands of PLN

Subsidiaries Metrohouse Franchise S.A.: MH-Usługi Wspólne S.A., MH Warszawa Sp. z o.o. and MH Kraków Sp. z o.o. are active in the real estate brokerage franchise, Metrofinance Sp. z o.o. additional is engaged in financial advisory to real estate clients.

50. 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 companies of the BZ WBK Group create the following types of provisions:

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 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 Group 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 December 2015 are as follows:

- the discount rate at the level of 3.1% (2.6% as at 31 December 2014),
- the future salary growth rate at the level of 2.0% (2,5% as at 31 December 2014),
- the probable number of leaving employees calculated on the basis of historical data concerning personnel rotation in the Group,
- 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.

In thousands of PLN

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
As at the beginning of the period	**69 778**	**49 533**
Provision acquired in a business combination	-	3 640
Current service cost	1 790	148
Interest expense	1 585	2 049
Actuarial (gains) and losses	(9 944)	14 408
Balance at the end of the period	**63 209**	**69 778**

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 December 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%

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	63 465	61 038
Provisions for employee bonuses	240 073	220 910
Provisions for retirement allowances	63 209	69 778
Other staff-related provisions	13 977	13 357
Total	**380 724**	**365 083**

Detailed information about movements on staff-related provisions is available in additional Note 34.

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.

In thousands of PLN

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.

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.

51. Share based incentive scheme

The fourth edition of the BZ WBK 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.

In thousands of PLN

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 (PLN)	363,30
Excercise price (PLN)	10
Vesting period	2,8 years
Expected volatility	26,40%
Award life	3 years
Risk free rate	2,29%
Fair value per award	PLN 322.39
Dividend yield	2,75%

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 December 2014 and 31 December 2013 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 18 754 k, PLN 6 846 k respectively.

In thousands of PLN

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
Granted	-
Appointed for a new term	2 500
Exercised	-
Expired	-
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	**-**

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**

In thousands of PLN

52. Staff level

As at 31 December 2015 the Bank employed 11 392 persons and 11 216 FTE's.
As at this date, in subsidiaries there were 3 112 persons employed (incl. 96 persons in the Bank) and 3 002 FTE's.
In 2015, the average staffing level in Bank Zachodni WBK was 11 425 FTE's whereas the average staffing level in subsidiaries was 3 043 FTE's.

As at 31 December 2014 the Bank employed 11 838 persons and 11 688 FTE's.
As at this date, in subsidiaries there were 3 290 persons employed (incl. 107 persons in the Bank) and 3 147 FTE's.
In 2014, the average staffing level in Bank Zachodni WBK was 11 583 FTE's whereas the average staffing level in subsidiaries was 3 124 FTE's.

53. Dividend per share

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 concluded 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 1,994,632k 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.

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

Estimated impact of the Act on Tax on Certain Financial Institutions on BZWBK's and SCB'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 has made preliminary estimations indicating that the tax will result in the Bank's profit-after-tax for 2016 being decreased by approx. PLN 405m and in SCB profit-after-tax for 2016 being decreased by approx. PLN 34m.

At the same time, BZ WBK Group 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 BZ WBK Group'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 these consolidated financial statements for 2015.

Metrohouse Franchise S.A. shares sale transaction

On 22.01.2016, BZ WBK Inwestycje Sp. z o.o. sold all its shares of Metrohouse Franchise S.A. and ceased to be a shareholder of Metrohouse Franchise S.A.

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	