2013 ANNUAL REPORT

Bank Zachodni WBK
Grupa Santander

FINANCIAL HIGHLIGHTS

		PLN k		EUR k	
	for reporting period ended:	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**
	Consolidated financial statements				
I	Net interest income	3 276 560	2 301 077	778 095	551 341
II	Net fee and commission income	1 778 556	1 384 986	422 360	331 844
III	Operating profit	2 498 420	1 817 293	593 308	435 426
IV	Profit before tax	2 514 717	1 837 039	597 178	440 157
V	Net profit attributable to owners of BZ WBK S.A.	1 982 328	1 433 847	470 750	343 552
VI	Total net cash flow	2 761 208	446 962	655 713	107 093
VII	Total assets	106 089 036	60 019 177	25 580 883	14 681 077
VIII	Deposits from banks	6 278 797	1 351 050	1 513 985	330 476
IX	Deposits from customers	78 542 982	47 077 094	18 938 798	11 515 360
X	Total liabilities	91 606 093	51 041 463	22 088 661	12 485 070
XI	Total equity	14 482 943	8 977 714	3 492 222	2 196 007
XII	Non-controlling interests in equity	610 855	93 347	147 293	22 833
XIII	Profit of the period attributable to non-controlling interests	32 283	28 788	7 666	6 898
XIV	Number of shares	93 545 089	74 637 631		
XV	Net book value per share in PLN/EUR	154.82	120.28	37.33	29.42
XVI	Solvency ratio	13.92%	16.53%		
XVII	Profit per share in PLN/EUR	21.24	19.42	5.04	4.65
XVIII	Diluted earnings per share in PLN/EUR	21.17	19.34	5.03	4.63
XIX	Declared or paid dividend per share in PLN/EUR	10.70	7.60	2.58	1.86

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

- for balance sheet items – 4.1472 PLN rate to EUR as at 31.12.2013 stated by National Bank of Poland (NBP), 4.0882 PLN rate to EUR as at 31.12.2012
- for profit and loss items – as at 31.12.2013: 4.2110 (an average PLN mid-rate to EUR in NBP on the last day of each month in 2013), as at 31.12.2012: 4.1736 (an average PLN mid-rate to EUR in NBP on the last day of each month in 2012)

As at 31.12.2013, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 251/A/NBP/2013 dd. 31.12.2013.

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Dear All,

2013 was a historic year for our Bank as a result of the merger with Kredyt Bank, placing Bank Zachodni WBK S.A. as a top tier Bank in the Polish market.

Against this background I am pleased to report that Bank Zachondi WBK's statutory profit for the 2013 financial year was PLN 1,982.3m up 38.3%. This is a very strong performance, the result of a focused long term strategy on business growth, targeted expansion through acquisition and leveraging the value of investments. All of this has been achieved as a result of the expertise and commitment of our staff.

These strong results are all the more credible in the light of the overall tough European economic environment. The Polish economy was finally impacted by the negative growth conditions in the euro zone markets and the economy slowed significantly in the first six months. The second six months has shown a return to growth.

In 2013, the dividend of PLN 7.6 per share paid from the profit earned in 2012 together with the share price increase through the year delivered a total return for shareholders of 63%. As a result of the secondary offering in March 2013 the Bank's free float increased to 30% which facilitated the readmission of the shares to the main stock indices, a welcome development for our shareholders. In 2013 the share price performance ranked as the best investment return on the WIG20 index.

We continue to operate from a strong financial position. The Bank maximises the experience, expertise and market knowledge of Santander Group, our strategic main investor. Our capital and liquidity positions are solid for the continued growth of our businesses in retail, business and capital markets banking. We continue to realise synergies from the merger with Kredyt Bank and our franchise has expanded to 830 branches across all regions in Poland.

Delivering Our Strategy Into The Future

We will continue to focus on our core retail, business and capital markets banking in 2014 where we see significant growth opportunities. The pace of economic growth continues to improve and we believe that the GDP outlook for 2014 is positive which will lead to increased business activity and continued inward investment into the Polish economy.

The focus is to improve our customers' experience making Bank Zachodni WBK S.A. the first choice for their banking requirements. This together with strong risk management, cost and capital management, will contribute to the continued growth of our business and will deliver enhanced earnings to our shareholders in 2014.

2014 will see the full completion of the Kredyt Bank merger, the Santander Consumer Bank incorporation into the Bank Zachodni WBK Group and the restructuring of our Asset Management business. The completion of these transactions will consolidate the Bank's position as the leading third banking group in Poland.

Supervisory Board Changes

As a result of the Kredyt Bank merger and the EBRD investment in 2013 Mr. Guy Libot and Mr. David Hexter respectively joined the Supervisory Board on the 13th February 2013. Following the sale by KBC of their shareholding Mr. Guy Libot subsequently resigned from the Supervisory Board. The Supervisory Board will continue to review its composition to ensure that it has the necessary skills and succession plans in place.

Outlook

The European economy continues to strengthen and the Polish economy is expected to accelerate its growth in 2014. GDP growth in Poland is expected to reach 3.5% in 2014 with improving consumer and business confidence.

Bank Zachodni WBK S.A. is well positioned to benefit from the strengthening economic environment with our enhanced franchise and solid capital & liquidity ratios. Our goal will be to generate increased loyalty from our customers through quality services and products that meets our customers' specific needs. The Supervisory Board is confident that the Management Board has developed the requisite business plans to successfully deliver increased value for our shareholders in 2014.

In 2014, Bank Zachodni WBK S.A. will participate in European Banking Authority and Polish regulatory asset quality reviews, the results of which will be published in autumn 2014. The Supervisory Board will monitor closely the output of these results but we do not expect any material impact on the continued delivery of our short and medium term strategy.

Finally, on behalf of the Supervisory Board, I would like to acknowledge the great efforts and dedication of the Management Board and all the staff who realized the ambitious business plans while also successfully managing the complex integration projects throughout 2013.

Gerry Byrne

Chairman of the Supervisory Board

Bank Zachodni WBK

Dear All,

For the European economies, especially of the euro zone, 2013 was the year of searching for a way out from the macroeconomic stagnation. The Polish economy started the year with pessimistic results for Q1 (the GDP growth of 0.5%) and ended the year with an optimistic growth rate at 2.7% in Q4. In 2013, the banking sector confirmed that it was one of the strongest foundations of the Polish economy, able to achieve satisfactory results in difficult conditions driven by the external factors. It was not only a very good year for Bank Zachodni WBK S.A., but in fact a breakthrough year. Within less than 12 months we conducted an effective and holistic merger with the former Kredyt Bank, achieving business synergies not only much earlier than originally planned, but also outperforming the assumptions of the adopted integration schedule. What makes us extremely happy is the fact that despite the ongoing merger process, our banking business grew to record levels while we increased our efficiency and capacity to generate profits. At the same time, we effectively built our competitive position in the core streams of the Bank's business.

Last year, the Polish economy kept growing, however Q1 saw the continued decline in growth that began in H2 2012. During the first two quarters, the export sector was not only the main but the only engine of the Polish economy growth. The still stagnating, and in some cases even recessionary, situation of the European economies certainly did not help fading economic activity in the Polish economy. The last two quarters of 2013 witnessed the return of the Polish economy to a rapid growth path. Especially the last three months of the year proved increasingly better and diversified quality of the economic growth – investments and consumption returned to the Polish GDP growing portfolio. Also the stable situation of the German economy and signs of the improved standing of such important countries as Spain in the second half of the year, contributed to creating a more optimistic growth scenario for Poland, and more broadly, for Europe.

As for the whole Polish economy and for the domestic banking sector, the past year was the time of verifying the development strategies and a tough test of standing for individual financial institutions. The dynamically changing macroeconomic environment and Monetary Policy Council decisions on interest rate cuts (reference rate declined from 4.25 to 2.50 p.p. throughout 2013) communicated six times to the market, made the last year the most challenging one for the banking sector for more than a decade.

In such a macroeconomic environment, at the beginning of January 2013, the acquisition of the former Kredyt Bank S.A. by Bank Zachodni WBK S.A. formally became a reality – BZ WBK S.A. obtained consent to complete the legal merger and it assumed all rights and obligations of the former Kredyt Bank. The integration of Bank Zachodni WBK S.A. with the former Kredyt Bank was a huge challenge in terms of planning, business, information technology and communication. The process has been divided into 4 stages, including legal merger, network integration, brand migration and migration of systems. In accordance with the approved schedule, by the end of 2013, the Bank completed the first 3 stages and proceeded to implement the last one, which provides for the merger of IT systems and will last until the end of 2014. Looking from the perspective of one year that has passed since the start of the largest M&A project in the Polish banking sector in 2013, one can definitely say that this undertaking is beneficial for the stabilization of the banking sector as well as the one that strengthens the Polish economy through the readiness of stronger Bank Zachodni WBK S.A. to participate in the delivery of the strategic investments for the state. The merger allowed Bank Zachodni WBK S.A. to significantly grow its market footprint and dynamically expand in many segments. Achieving higher than initially expected income and cost synergies proved the legitimacy and effectiveness of the merger. BZ WBK S.A. has become the third largest bank in Poland in terms of financial strength and branch network. The combination of the network of branches (we have 940 branches including partner outlets) drove up the number of customers to 4.3 million, thus strengthening the sales potential and the Bank’s possibilities in terms of market penetration.

Thanks to the consistent organic growth and the positive effects of the merger, Bank Zachodni WBK S.A. recorded financial results for 2013 above the average in the entire sector. Our Bank generated a profit before tax of PLN 2.0bn, i.e. an increase of 15.6% as compared to 2012. In 2013, sales of cash loans in the Bank increased by 25%, which triggered the portfolio growth by 32%. The number of users of the Bank’s electronic banking service amounted to nearly 3 million (+35.3% y/y) whilst BZ WBK S.A. payment cards base included 3.7 million debit cards (37.7% y/y) and 0.6 million credit cards (52.5% y/y). At the end of December 2013, the Bank's share in key areas of the sector according to the NBP statistics was as follows: 7.4% in the case of loans (4.3% at 2012- end) and 8.4% in the case of deposits (5.2%). Return on equity (13.8%) and the cost to income ratio (50%) are among the best on the market.

Along with the Bank, the wider Group was also growing. The annual growth in assets under management was PLN 1.15bn, the best performance on the market. At the end of the year, the total value of assets managed by BZ WBK TFI S.A. totaled PLN 11.2bn, an increase of 11.5% year on year.

Also business and corporate banking strengthened their position in the past year. It is worth emphasizing that since August 2013 BZ WBK S.A. ranks second in the country in terms of government backed "de minimis" guarantee scheme for Polish companies, and in September it received a permit from BGK (a state agency) to increase the total value of granted "de minimis" guarantees from PLN 0.5bn to PLN 1.2bn. And in recognition for its consistent support of the development of Polish companies and effectiveness in financing Polish infrastructure, BZ WBK S.A. was awarded with the title "Company of the Year 2013" at the Economic Forum in Krynica.

As a result of the merger, the Bank operates 12 corporate customer service centers and 12 SME service centers located in the largest Polish cities. The Global Banking & Markets Division (GBM), which services the customer portfolio consisting of leading national and international companies and groups of companies, successfully expanded its market activity. At the end of 2013, the base of GBM active customers consisted of ca. 100 groups operating, among others, in the energy, financial, FMCG, pharmaceutical and shipbuilding sectors. Effective measures were taken generating growth in sales of leasing (27.3% y/y) and factoring (increase by as much as 159% y/y).

A major event in Bank Zachodni WBK Group’s operations was the agreement with Aviva International Insurance Limited (Aviva) in December 2013. Pursuant to this agreement, BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogolnych S.A. (General) and BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. (Life) changed their status from joint ventures to subsidiaries of Bank Zachodni WBK Group which currently holds 66% of shares in the two insurance companies.

Last year's activity and growth of Bank Zachodni WBK S.A. position in the Polish banking sector was also recognized by the market and investors. Throughout 2013, the Bank's shares listed on the Warsaw Stock Exchange rose by over 60%. In the same period, the industry Bank Index increased by 21%.

Though the entire financial sector invested more in mobile banking, Bank Zachodni WBK S.A. proved last year that it is one of the most innovative banks in Poland. The mobile banking function made available to customers as early as in 2012 was enriched with new services and facilities, like a wide range of purchases, transfers via the phone without the account number, ATM withdrawals without a payment card, bill payments by scanning the QR code, or the use of electronic banking on one's TV set. At the end of December 2013, mobile banking was actively used by 239 thousand customers, an increase of 91.7% y/y. The advantages and usability of our mobile banking were recognized by experts – we won the first place in the review of banking applications conducted by "Puls Biznesu". BZ WBK S.A. is also a signatory to the unique arrangements of six Polish banks that will create a common infrastructure for mobile payments in Poland. We will offer a new standard for authorization and settlements, which will be available to many market participants, including other banks and acquirers.

For years, Bank Zachodni WBK S.A. has been guided in its activities by social responsibility. After two years of Santander Universidades operations in Poland, we have created the largest program of cooperation between universities and the business world in the country. Already 39 universities participate in the program and 56 specific scholar projects funded by us. In support of these activities, the Bank allocated PLN 1.8m in 2013. The "School Card" program addressed to junior high schools and high schools was joined last year by 71 schools (126 schools participate in the program altogether). In 2013, together with Banco Santander Foundation and the National Museum in Wroclaw, Bank Zachodni WBK S.A. prepared the exhibition "From Cranach to Picasso. Santander Collection", which within three months was visited by a record number of people (more than 80 thousand). Also the Bank Zachodni WBK Foundation is very active, among others, it delivers such projects as: Bank of Children's Smiles, Bank of the Ambitious Youth, Reading Room with a Smile. Moreover, we fight against the social exclusion of the disabled by "Service Without Barriers" pioneer program at our branches which serve people with physical disabilities and visual impairments.

Bank Zachodni WBK S.A. has a realistic and ambitious growth strategy in place. As part of the organic growth, we want to put even more focus on customers and their needs, effectiveness, multi-channel service, quality of our customers' service which is supported by the "Next Generation Bank" program pursued by the employees of our Bank. In mid-2014, we also plan to incorporate Santander Consumer Bank into the Bank Zachodni WBK Group. Santander Consumer Bank will become the Bank's subsidiary.

All the above mentioned achievements and plans predispose the Bank Zachodni WBK Group to increase its role in the Polish financial sector.

On my part, I would like to emphasize one thing above all – it is not possible to pursue any development strategy without people and faith in people. One can have great systems, perfect procedures, complementary network of branches, but without a professional, motivated and dedicated staff the set target will not be achieved. Therefore, I address special thanks for the past, difficult and challenging year to all employees of Bank Zachodni WBK S.A. – from the headquarters to the smallest branches. On behalf of the Management Board I would also like to thank the Supervisory Board for a very successful cooperation.

I wish Bank Zachodni WBK S.A., the whole banking sector and our economy, many positive surprises in 2014 and results matching up the golden achievements of the Polish Olympic Athletes at the 2014 Winter Olympics.

Mateusz Morawiecki

President of the Management Board

ASSESSMENT OF THE BANK ZACHODNI WBK GROUP'S OPERATIONS IN 2013

Bank Zachodni WBK
Grupa Santander

ASSESSMENT OF THE BANK ZACHODNI WBK S.A. GROUP'S OPERATIONS IN 2013

1. MERGER OF BANK ZACHODNI WBK S.A. AND KREDYT BANK S.A.

On 27 February 2012, Banco Santander S.A. and KBC Bank NV signed an investment agreement, in which the parties expressed their intention to merge Bank Zachodni WBK S.A. and Kredyt Bank S.A. On 4 January 2013, the merger between Bank Zachodni WBK S.A. and Kredyt Bank S.A. was entered to the National Court Register. Bank Zachodni WBK S.A. assumed all rights and obligations of Kredyt Bank S.A. which was wound up without a formal liquidation.

The merger was carried out under Article 492 § 1(1) of the Commercial Companies Code, i.e. by transferring all the assets of Kredyt Bank to Bank Zachodni WBK S.A. (merger through acquisition) in exchange for the newly issued series J shares allocated to all the shareholders of Kredyt Bank in accordance with the following exchange ratio: 6.96 of merger shares for 100 shares of Kredyt Bank. On 8 January 2013, 18,907,458 merger shares were accepted in the National Depository of Securities (KDPW). The shares were recorded in the KDPW and marked with PLBZ00000044 code on 25January 2013, after the Management Board of the Warsaw Stock Exchange adopted a resolution (22 January 2013) approving their admission and introduction to public trading on the main market under ordinary procedure, effective from 25 January 2013.

As a result of the issue of series J shares, the registered capital of Bank Zachodni WBK S.A. increased from PLN 746,376,310 to PLN 935,450,890 (i.e. by PLN 189,074,580), divided into 93,545,089 ordinary bearer shares with a nominal value of PLN 10 each.

On 22 March 2013, KBC Bank NV and Banco Santander S.A. announced a secondary offering for the shares of Bank Zachodni WBK S.A. The offering was for 19,978,913 shares representing 21.36% of the Bank's share capital, with 15.125,964 shares owned by KBC Bank NV, and 4,852,949 owned by Banco Santander S.A. The final price per share was set in the book-building process at PLN 245. The total value of the offering was PLN 4.9bn. The offering was addressed to selected institutional investors in Poland and abroad, including in the United States.

On 28 March 2013, Bank Zachodni WBK S.A. was advised that 15.125,964 shares held by KBC Bank NV, representing 16.17% of the Bank's registered capital, had been sold. On the same day, the Bank also received a notice about the disposal of 4,852,949 shares of Bank Zachodni WBK S.A. held by Banco Santander S.A. and reduction of the latter's share in the Bank's registered capital and votes at the General Meeting by 5.19% to 70%.

As a result of the transaction, the free-float increased to 30% and Bank Zachodni WBK S.A. re-joined the stock indices.

2. BZ WBK S.A. GROUP'S FINANCIAL STANDING IN 2013

Polish economic growth slowed in the first half of 2013 and started to rise in the second half stimulated by growing exports, supported by the revival of the global economy and by the penetration of new export markets. However, uncertainty concerning economic prospects caused Polish consumers and entrepreneurs to remain cautious hence economic growth was almost solely based on exports. A strong rate of export growth, combined with weak imports, resulted in a considerable improvement in the foreign trade balance, bringing the current account deficit down to 1.5% of GDP (the lowest level since 1995).

The pace of GDP growth accelerated throughout the year – from 0.5%YoY in Q1 to almost 3% in Q4. In effect, the GDP growth amounted to 1.6% in 2013 and was slightly lower than in 2012 (1.9%).

Profit and Loss Account

In 2013, the Bank Zachodni WBK Group generated a profit-before-tax of PLN 2,514.7m, an increase of 36.9% y-o-y. The net profit attributable to Bank Zachodni WBK S.A. shareholders was PLN 1,982.3m and was 38.3% higher YoY.

Income

The total income in 2013 was PLN 6,089.9m, an increase of 47.2% YoY. Excluding the net gains on the shares in connected entities, the income statement line which in 2013 represented the effect of restatement of the Bank's shares in BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ of PLN 419m, the total recurring income increased by 37.1% YoY.

In 2013, interest income was PLN 5,215.2 and increased by 34.8% YoY, exceeding the growth rate of interest expense which increased by 23.8% YoY to PLN 1,938.6m leading to net interest income increasing by 42.4% YoY to PLN 3,276.6m.

Despite the reduction in interest rates during 2013 (the reference rate reduced from 4.00% in January 2013 to 2.5% in July 2013), the quarterly net interest margin grew steadily in the first three quarters, reaching 3.59% in Q3. It was only in the last quarter of the year that the net interest margin reduced slightly (by 0.05%) as a result of the growing competition in the deposit market, measures undertaken by the Group to strengthen its long-term deposit base and changes in the structure of interest-bearing assets (including the growth in investment securities).

In 2013, fee and commission income was PLN 1,778.6m, increasing by 28.4% YoY as a result of the Group's business expansion provided by the merger and by organic growth.

Costs

In 2013, the total costs amounted to PLN 2,862.1m, and were 57.5% higher YoY as a result of the Group's increased business size following the merger and the intensive integration process. Integration costs of PLN 264.4m incurred in 2013 resulted from the continued rationalisation of Bank outlets; consultancy services arising from the Integration Programme; advertising and brand-building PR campaigns supporting the Bank's new market position, the promotion of selected products and the fulfilment of the Bank's obligations undertaken in the legal merger with Kredyt Bank. Excluding integration costs, the Group's underlying cost base increased by 46% YoY to PLN 2,597.7m.

Assets and Liabilities

As at 31 December 2013, total assets amounted to PLN 106,089.0m, an increase of 76.8% YoY. The consolidated equity and liabilities as at 31 December 2013 include a material increase in deposits from banks (+364.7% YoY), an effect of the Bank's increased activity in the money and repo markets. Subordinated liabilities (+238.5% YoY) increased by the addition of subordinated loans that the former Kredyt Bank had received from KBC NV, Dublin Branch, with a book value of PLN 970.2m.

Deposits

Last year, deposits from individuals increased by 67.6% YoY to PLN 47,999.1m. Savings account and other current account balances increased by 103% YoY.Term deposits grew by 39.7% YoY however, in the context of the ongoing interest rate reductions and developments in the financial markets, customers were more inclined to access alternative savings and investment products. To strengthen the stability of its deposit base, the Group took measures to attract long-term deposits by making price adjustments and offering attractive medium-term deposit products.

Deposits from enterprises & public sector customers increased by 65.5% YoY to PLN 30,543.9m, mainly as a result of current account balances +92.4% YoY and term deposits + 44.7% YoY. In the total amount of deposits from customers, term deposits amounted to PLN 36,842.3m, up 42.4% YoY, current accounts amounted to PLN 38,737.5m, up 98.9% YoY, and other liabilities increased by 70.6% YoY to PLN 2,963m. The last item represents credit facilities extended by the European Investment Bank to Bank Zachodni WBK S.A. and the former Kredyt Bank to support SME lending activity.

Loans

As at 31 December 2013, gross loans and advances to customers amounted to PLN 71,621.9m, an increase of 73% YoY. The strongest growth was noted in loans and advances to individuals +148.3% YoY which at the end of 2013 amounted to PLN 34,041.4m. Cash loans, increased to PLN 5,646.3m from PLN 4.196.4m at the end of 2012. Loans and advances to business and public sector customers of PLN 34,478.3m grew by 35.8% YoY as the former Kredyt Bank had a lower credit exposure to business customers.

In 2013, the Bank carried on effective lending activity via all its segments, including Branch Banking, Business & Corporate Banking and Global Banking & Markets. A high level of growth (111.3% YoY) was achieved in the

Global Banking & Markets segment, which is responsible for the largest corporate clients of the Bank.

The loan to deposit ratio was at the level of 86.7% as at 31 December 2013 in comparison to 84.7% as at 31 December 2012.

Share Price of Bank Zachodni WBK S.A.

In 2013, the share price increased at a steady pace (from PLN 241.9 as at 28 December 2012 to PLN 387.6 as at 30 December 2013) yielding an impressive return of 60.2% p.a. (i.e. from PLN 241.9 on 28 December 2012 to PLN 387.6 on 30 December 2013) for investors. As a result of the secondary offering held in March 2013, with nearly 20 million shares with a value of PLN 4.9bn were placed on the market by KBC NV and Santander Bank, the Bank's free-float increased to 30%. The Bank was re-admitted to the main stock indices including MSCI Poland, WIG, WIG Poland, WIG20, WIG 30, WIG Banks, WIGdiv and Respect Index.

Pursuant to GM resolution of 17 April 2013, in May the Bank paid out a dividend at PLN 7.6 per share out of the profit earned in 2012, which further enhanced an annual return on investment in the Bank's stock. Over the same period, WIG Banks gained 21%, WIG went up by 8%, while WIG-20 lost 7%.

The Bank's record-breaking stock market performance was not only driven by the overall strong investor sentiment towards the banking sector but also by positive publicity on the operational merger with the former Kredyt Bank and the execution of strategic plans outlined by Management at the time of the merger. An investment agreement under which the Bank will acquire a 60% stake in Santander Consumer Bank in 2014 was announced in November leading the share to increase to an all-time high of PLN 418.

The 2013 share price performance ranked the Bank shares as the best investment in the WIG20 index.

Rating

On 10th January 2013 – following the legal merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A. – Fitch Ratings issued an announcement in which the ratings of Bank Zachodni WBK S.A. issued on the 14th June 2012 were confirmed and the Kredyt Bank S.A ratings were withdrawn. Ratings were as follows: Long-term foreign currency IDR: affirmed at 'BBB', Outlook Stable; Short-term foreign currency IDR: affirmed at 'F3'; Viability Rating: affirmed at 'bbb'; Support Rating: affirmed at '2'.

On 4th December 2013 Fitch Ratings affirmed Bank Zachodni WBK S.A.'s (BZ WBK S.A.), Long-term Issuer Default Rating (IDR) at 'BBB' with a Stable Outlook. The agency has also assigned a Long-Term National Rating of 'A+(pol)EXP' to the Bank's issuance of PLN500m senior unsecured bonds.

BZ WBK Group in 2014

On 27 November 2013, the Bank entered into an investment agreement with Santander Consumer Finance S.A. (SCF) and Banco Santander S.A., whereby it undertook to buy 3.120,000 ordinary and preference shares of Santander Consumer Bank S.A. (SCB) of Wrocław, with a nominal value of PLN 100 each, representing 60% of share capital of SCB and approximately 67% of votes at the General Meeting of SCB shareholders. Under the agreement, within three months of closing, the parties will use their best endeavours to eliminate the preference feature of the SCB shares, which will result in the Bank holding 60% stake in the SCB share capital and 60% votes at the General Meeting of SCB.

The Bank promised to issue new shares to be offered to and acquired solely by SCF in exchange for a non-cash consideration in the form of SCB shares. The value of SCB shares specified in the agreement is PLN 2.156,414,400. The number of new shares to be issued by the Bank in exchange for the SCB shares will be determined using a stated formula, after receipt of the KNF's decision confirming it does not object to the transaction.

Conditions precedent to the transaction, as specified in the agreement, include receipt of regulatory approvals, i.e. the KNF's decision on the lack of formal grounds for objection to the direct purchase by the Bank of SCB shares representing more than 50% in the share capital and voting power in SCB (the KNF's no-objection decision) and the KNF's consent to changes in the Bank's Statutes with respect to the share capital increase due to the issue of new stock.

The transaction is in furtherance of the obligation that Banco Santander S.A. undertook towards the KNF (as the Bank advised in its Current Report no. 38/2012 of 4 December 2012), whereby Banco Santander S.A. promised to use its best endeavours to make SCB a direct subsidiary of Bank Zachodni WBK S.A. by 31 March 2014.

On 30 July 2013, the Management Board of Bank Zachodni WBK S.A. approved the sale of 67,500 preference registered shares of BZ WBK Asset Management S.A. of Poznań (representing 50% of votes at the General Meeting of the company) to Santander Asset Management Investment Holdings Limited of Jersey for a price of PLN 156,750k. The price may be adjusted on the day of closing to take account of changes to the book value of the company.

The transaction is conditional on receipt of regulatory approvals, including no objection from the KNF to the acquisition of shares in BZ WBK Asset Management S.A. by SAM Investment Holdings.

3. ASSESSMENT OF THE INTERNAL CONTROL SYSTEM

As required by the Statutes, the Bank operates an internal control system which supports the decision-making processes and contributes to the Bank’s efficient operation, reliability of financial reporting as well as compliance with the law and internal regulations.

The Bank’s internal control system is adjusted to the Bank’s organisational structure and risk management system as well as to the size and complexity of the Bank’s business. It covers all units across the Bank as well as its subsidiaries.

Internal control and risk management systems are structured into three lines of defence. Control measures under the first line check compliance with procedures and ad hoc/on-going response to any identified deficiencies or shortcomings. It underlies reviews of procedures and effectiveness of controls across the organization.

The second line of defence is formed by specialist units performing control functions which support the Bank’s management in risk identification and management and serve assessment of the first line controls.

The third line of defence is the Internal Audit Area which provides independent and objective examination as well as assurance on the first and second tier controls as well as on the Bank’s management system, including the effectiveness of managing the risk related to the Bank’s business. For that matter, Internal Audit verifies the adequate coverage of the Group’s risks, in compliance with top management policies, applicable procedures and internal and external regulations. Using its own risk matrix and knowledge, IAA performs a regular assessment of the present and future risk across the Bank and BZ WBK S.A. Group, developing annual audit plans to cover them. Also, priorities highlighted by the Bank’s management, the Audit and Compliance Committee, the external auditor, and banking supervision institutions are taken into account.

The Audit and Compliance Committee of the Supervisory Board is responsible for overseeing the Internal Audit Area. The Audit and Compliance Committee approves an annual audit plan and is regularly updated on management of audit function, audit results and progress in management actions.

As a result of the third line activity, the Management Board and the Supervisory Board receive current and accurate information on compliance with the law and internal regulations applicable in the Bank, effectiveness of identifying errors and irregularities as part of the internal control system, efficient management actions, completeness and correctness of accounting procedures as well as adequacy, functionality and security of the IT system. The Risk Management Committee and the Audit and Compliance Committee are updated on a regular basis on the operation of the internal control system from the units of the second and third lines of defence which facilitates the on-going monitoring of the system’s effectiveness.

The control findings are taken account of and used to improve the existing processes and safety by making relevant changes to internal processes and regulations. The implementation of a necessary new process is regularly verified by Internal Audit Area.

4. ASSESSMENT OF THE RISK MANAGEMENT SYSTEM

Bank Zachodni WBK S.A. has an integrated risk management framework ensuring that all risks having material impact on the Bank's operations are identified, measured, monitored and controlled. In the Supervisory Board's opinion, this framework is appropriately matched to the Bank's size and risk profile. The Bank optimizes the risk management framework on a regular basis, adapting it to the changing environment and risk profile associated with the planned strategy.

The responsibility for the management of individual risks was split between the Bank's organizational units that are supported by relevant Committees. The risk management strategy is set by the Risk Management Committee (RMC) overseeing the activity of other Committees having risk management authority. The fact that Members of Management Board and senior management sit on key Committees ensures senior management engagement in the risk management of the Bank.

One of the basic elements of the risk management framework of Bank Zachodni WBK S.A. is setting the levels of risk that the Bank is ready to accept in its day-to-day business. The acceptable risk level is expressed in the form of quantifiable limits set out in the "BZWBK Group Risk Appetite Statement" approved by the Management Board and the Supervisory Board. The Bank conducts a detailed review of the limits with regard to the existing and potential risks, market conditions as well as the financial and capital plan at least once a year. Stress-testing and scenario analyses represent the key tool used to analyse the limits and ensure that the Bank retains an adequate capital position even in extreme and severe circumstances.

The Bank has methodologies and processes in place to identify and assess risks to determine their potential impact on the Bank's operations now and in the foreseeable future. With a view to identifying and assessing risks for the entire organisation, the review of material risks is carried out as part of the ICAAP process. Identified risks are managed using policies and best practices to keep them at an acceptable level. The Bank uses various risk assessment and measurement techniques depending on risk type and materiality, including:

- Customer and/or transaction grading models – for credit risk assessment purposes;
- VAR methodology for market risk; and
- Operational risk self-assessment methodologies.

The comprehensive risk management framework is supported by a consistent and transparent system aimed at monitoring and reporting risk levels and excesses against defined limits. The reporting system covers key management levels. The Supervisory Board receives regular reports assessing the level of identified risks and reports assessing the effectiveness of actions taken by the Bank's Management Board.

The Bank aims to keep the right risk/reward balance. Support for the Bank's development strategy, while retaining best in class risk management standards and compliance with the regulatory environment, is amongst the key assumptions underlying the risk management process.

2013 was another year of economic slowdown, paralleled by a deterioration of customers' financial standing, in particular noticeable in the corporate segment, as well as, by the higher cost of risk. The Bank thoroughly analysed the macroeconomic market fluctuations, including the reduction in base interest rates, and closely monitored the risk exposure, thus adjusting, on an on-going basis, the risk management policy parameters to reflect the changing market climate.

The Bank continued its ongoing work aimed at strengthening the risk assessment tools, in particular by introducing innovative data sources in risk analysis. With regard to the lending process, the work optimising the corporate lending process (acceleration and simplification of the process by way of preparing the launch of 'one-day credit decision'), an early warning system and the utilisation of external data sources in risk assessment, should be mentioned.

In 2013, the Bank ensured compliance with the implemented amendments to the KNF Recommendations (Recommendation J, M, S and T). Moreover, work was continued to adjust the Bank to the requirements of CRD 4 / CRR, in particular with regard to setting new liquidity measures, along with adequate liquidity risk reporting system. The Bank also analysed the assumptions behind the Bank Union (Single Supervisory Mechanism), especially the Recovery and Resolution Regime. The Bank commenced the development of an individual Recovery Plan, the so-called "Living Will", which describes the actions that the Bank would take to maintain adequate capital and liquidity position in the event of a crisis or a severe stress event.

One of the key tasks accomplished by the Bank in 2013 was the effective merger with Kredyt Bank S.A. and the resultant integration of methodologies, policies, processes and risk management tools. According to the merger schedule, the implementation of technological processes aimed at launching solutions and fully integrating IT systems supporting the risk management process, will be completed in 2014.

To reinforce the supervision over the risk management, the Capital Committee and the Stress Test Forum were established. The Risk Assessment Methodology Validation Department was formed within the Risk Management Division.

Summary:

The Supervisory Board assesses the situation of the Bank as good and stable. The assessment is justified by:

1) the execution of the Kredyt Bank merger plan on time and achieving benefits ahead of target,
2) good financial results in a challenging economic environment,
3) excellent cost management,
4) effective risk management,
5) strong capital and funding position, and
6) strong internal control system.

MANAGEMENT BOARD REPORT ON BANK ZACHODNI WBK GROUP PERFORMANCE IN 2013

Bank Zachodni WBK
Grupa Santander

CONTENTS

I. OVERVIEW OF BANK ZACHODNI WBK GROUP PERFORMANCE IN 2013

This section provides an overview of the activity of Bank Zachodni WBK Group (BZ WBK Group) in 2013. It presents the financial, business and organisational performance compared with the previous year as well as shows internal and external factors affecting the Group's activity.

FINANCIAL AND BUSINESS HIGHLIGHTS

The consolidated financial statements included in the Annual Report 2013 of Bank Zachodni WBK Group are the first statements prepared for the 12 month-period after the merger with Kredyt Bank S.A. (KB S.A.) on 4 January 2013. Figures for the comparable year (prior to the legal merger) are derived from consolidated financial statements of Bank Zachodni WBK S.A. as the acquiring entity, which explains the dynamic year-over-year growth of specific financial items.

- Total income of Bank Zachodni WBK Group increased by 47.2% YoY to PLN 6,089.9m.
- Total costs grew by 57.5% YoY to PLN 2,862.1m.
- Profit-before-tax was PLN 2,514.7m and up 36.9% YoY.
- Profit attributable to the shareholders of Bank Zachodni WBK S.A. was PLN 1,982.3m and 38.3% higher YoY.
- Capital Adequacy Ratio stood at 13.9% for the Group (16.5% as at 31 December 2012) and 15.2% for the Bank (16.5% as at 31 December 2012).
- Return on Equity was 16.6% (21.1% as at 31 December 2012), and 15.6% excluding non-recurring items (the cost of integration with Kredyt Bank S.A. and net gain on the liquidation/revaluation of connected entities). The YoY decrease in ROE was driven by significant increase in BZ WBK Group capital through the issue of 18.9m merger shares.
- Cost to income ratio was 47.0% (43.9% in 2012), and 45.8% excluding the non-recurring items (43.0% in 2012).
- Net impairment losses on loans and advances amounted to PLN 729.3m compared with PLN 501.8m in 2012.
- NPL ratio was 7.9% (5.4% as at 31 December 2012), while the ratio of impairment losses to the average gross credit volumes was 1.0% (1.2% as at 31 December 2012).
- Loans to deposits ratio was 86.7% as at 31 December 2013 compared with 84.7% as at 31 December 2012.
- Gross loans to customers increased by 73.0% YoY to PLN 71,621.9m due to the expansion of personal loans (+148.3% YoY) and loans to enterprises & public sector (+35.8% YoY) to PLN 34,041.4m and PLN 34,478.3m, respectively.
- Deposits from customers increased by 66.8% YoY to PLN 78,543.0m as a combined effect of the expansion of personal deposits (by 67.6% YoY to PLN 47,999.1m) and enterprises & public sector (by 65.6% YoY to PLN 30,543.9m).
- Net value of assets in mutual funds and private portfolios grew by 9.2% YoY to PLN 11.6bn.
- The number of customers using BZWBK24 and KB24 electronic banking services amounted to 3m (+35.3% YoY), while the BZ WBK S.A. payment card base included 3.7m debit cards (+37.7% YoY) and 0.6m credit cards (+52.5% YoY).
- The number of personal and business current accounts was 4.3m as at 31 December 2013.

KEY DEVELOPMENTS AND ACHIEVEMENTS

	REVIEW OF MAJOR 2013 CORPORATE EVENTS
JANUARY	■ The legal merger of BZ WBK S.A. and Kredyt Bank S.A. (KB S.A.) was finalised on 4 January 2013. ■ 18,907,458 series J merger shares were issued to all eligible shareholders of KB in accordance with the agreed exchange ratio. On 25 January 2013, merger shares were registered in the National Depository for Securities (KDPW) and admitted to trading on the primary market. ■ On 10 January 2013, Fitch Ratings affirmed the international ratings for merged Bank Zachodni WBK S.A. based on the Bank's intrinsic strength and assessment of the propensity of the majority owner to provide support.
FEBRUARY	■ BZ WBK S.A. Extraordinary General Meeting of Shareholders convened on 13 February 2013 and appointed two new members of the Supervisory Board: Mr. David R. Hexter and Mr. Guy Libot nominated by EBRD and KBC Bank NV, respectively.
MARCH	■ On 22 March 2013, KBC Bank NV and Banco Santander S.A. announced a secondary offering for 19,978,913 BZ WBK S.A. shares, representing 21.4% of the Bank's share capital. As a result: – KBC Bank NV sold 15.125,964 BZ WBK S.A. shares and Banco Santander S.A. sold 4,852,949 BZ WBK S.A. shares. – Banco Santander S.A.'s share in the Bank's registered capital and votes at its General Meeting was reduced to 70%. – The total number of BZ WBK's shares in free float increased to 30% and consequently the Bank was re-admitted to the stock indices. ■ Mr Guy Libot resigned as a member of the Supervisory Board due to the sale of the Bank's shares held by KBC Bank NV. ■ The open-ended pension fund ING OFE purchased the Bank's shares and exceeded 5% of the total number of votes at the Bank's General Meeting. ■ On 15 March 2013, the proposition was extended to include a new personal account – Account Worth Recommending (Konto Godne Polecenia), the first product launched in the BZ WBK S.A. and ex KB network which turned a huge sales success.
APRIL	■ On 1 April 2013, the marketing campaign was launched to promote the Account Worth Recommending. ■ BZ WBK S.A. Annual General Meeting of Shareholders convened on 17 April 2013 approved the proposed dividend pay-out from 2012 profit at PLN 7.6 per share. ■ Branch Banking integration process finalised and operations improved under a new branch network management system. ■ The structures of Business and Corporate Banking were fully integrated and a new operating model was implemented.
MAY	■ On 17 May 2013, the dividend was paid to BZ WBK S.A. shareholders pursuant to GM Resolution of 17 April 2013.
JUNE	■ BZ WBK S.A. was re-admitted to WIG 20.
JULY	■ On 8 July 2013, the first stage of the migration project was completed, including implementation of a standardised product proposition and uniform central service model for retail, business and corporate customers. ■ On 30 July 2013, Management Board of BZ WBK S.A. adopted a resolution giving consent to sell 67,500 privileged, registered shares of BZ WBK S.A. Asset Management S.A. (representing 50% share in the total number of votes at the company's GM) to Santander Asset Management Investment Holdings Limited for the total price of PLN 156,750,000 pursuant to an agreement concluded on 30 May 2013 by Banco Santander S.A. with Warburg Pincus and General Atlantic. ■ The open-ended pension fund ING OFE sold BZ WBK S.A. shares, reducing to below 5% its share in the total number of votes at the Bank's GM.
AUGUST	■ On 1 August 2013, BZ WBK Aviva International Insurance Limited (Aviva) and Aviva Group members, i.e. BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. (BZ WBK-Aviva TUnŻ) and BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. BZ WBK-Aviva TUO) entered into agreements to amend and extend their strategic co-operation in the bancassurance business in Poland. The agreement came into force on 20 December 2013.
SEPTEMBER	■ On 9 September 2013, the second stage of the brand migration project was completed: the risk and credit capacity assessment processes were harmonised, and branches and electronic channels were rebranded. ■ The biggest ever BZ WBK S.A. advertising campaign was launched to promote products and reinforce the Bank's positioning as the third banking institution in Poland, while focusing on such aspects as modernity, innovation, customer comfort and satisfaction. ■ The product proposition was expanded to include 1|2|3 Account.
OCTOBER	■ The Bank introduced the Fast Earning Business Deposit (Lokata Biznes Dynamicznie Zarabiająca) which is the first deposit for small companies offering a progressive interest rate.
NOVEMBER	■ On 27 November 2013, BZ WBK S.A., Santander Consumer Finance S.A. (SCF) and Banco Santander S.A. concluded an investment agreement under which the Bank agreed to acquire 3.120,000 ordinary and privileged shares in Santander Consumer Bank S.A. (SCB) with a nominal value of PLN 100 each, representing 60% of the share capital of SCB and approximately 67% of the votes at the general meeting of the shareholders of SCB. ■ The Bank introduced a new 12-month and 24-month Easy Earning Deposit – New Funds (Lokata Swobodnie Zarabiająca-nowe środki) for personal customers.
DECEMBER	■ On 4 December 2013, Fitch Ratings affirmed the international ratings of Bank Zachodni WBK S.A. and assigned a National Long-term rating of "A+(pol)EXP" to the Bank's planned issue of senior unsecured bonds. ■ To diversify the sources of funding, on 19 December 2013, the Bank issued unsecured bearer bonds in a non-public offer, for the total amount of PLN 500m, with a three year maturity and a variable interest rate. All bonds were acquired by bondholders. ■ On 20 December 2013, Bank Zachodni WBK S.A. and Aviva International Insurance Limited ("Aviva") entered into a final transfer agreement (pursuant to the agreement of 1 August 2013) and transferred the ownership of 16% of the shares in BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO, thus increasing the Bank's share in the registered capital and voting power in each of the above insurance companies to 66%. The remaining shares are held by Aviva which was granted a call option to purchase 17% of the share capital held by the Bank in each of the above-mentioned companies.

EXTERNAL FACTORS IMPACTING THE GROUP'S ACTIVITY AND RESULTS

- Acceleration of economic growth, resulting both from stronger external demand and recovery of domestic demand (in the second half of the year), including consumption and investment.
- Improvement of growth rates in the industrial as well as construction and assembly sectors' output.
- Rising pace of growth in retail sales and accelerating growth in private consumption. Increase in real income of households.

- Improvement of situation on the labour market. Gradual rise of employment in the corporate sector.
- Strong expansion of Polish exporters. Decline of the current account deficit to 1.5% of the GDP.
- Amendment of the budget bill and slight tightening of the fiscal policy. Changes in the pension system.
- Cut of the NBP interest rate by 175 basis points, with the reference rate declining to the all-time low level of 2.50%.
- FX market volatility – weakening of the zloty at the start of the year and strengthening in the second half of the year amid better macroeconomic data.
- High volatility of yields on the debt market due to swings in market sentiments, substantial inflows and outflows of foreign capital as well as monetary policy prospects.
- Slight improvement in the loan growth, but only in some segments.
- Discontinuation of the downward trend in home prices in most of the main cities, resulting from reduced supply of housing units and some revival in the demand.

II. BASIC INFORMATION

1. HISTORY AND PROFILE OF BANK ZACHODNI WBK GROUP

HISTORY AND PROFILE

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

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

On 10 September 2010, the Board of Allied Irish Banks decided to sell the Polish assets of AIB, i.e. 70.36% of share capital in Bank Zachodni WBK S.A. and 50% stake in BZ WBK S.A. AIB Asset Management S.A. On 1 April 2011, Banco Santander S.A. finalised the purchase of Bank Zachodni WBK S.A. in the tender for the Bank's shares. As a result, Banco Santander S.A. acquired a 95.67% stake in the Bank. On exceeding 90% share in the total voting power at the General Meeting of Shareholders of Bank Zachodni WBK S.A., the new majority shareholder was bound to acquire a block of shares at the request of non-controlling shareholders, which increased its shareholding and voting power in Bank Zachodni WBK S.A. to 96.25%. On 30 August 2012, this shareholding decreased to 94.23% following an increase of the share capital of Bank Zachodni WBK S.A. through the issue of ordinary series I shares taken up by EBRD in terms of the private placement.

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

The merger process led to further changes in the shareholding structure resulting in a reduction of the Banco Santander S.A.'s stake to 70% and an increase in the free-float shares to 30% (more details about the merger, integration processes and changes to the shareholding structure are provided in Chapter IV "Legal Merger and Integration Processes").

SCOPE OF ACTIVITIES OF BANK ZACHODNI WBK GROUP

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

The financial services of Bank Zachodni WBK S.A. also include trade finance and transactions in the capital, FX and money markets, derivative transactions, as well as custody services.

The Bank's own product range is complemented by specialist products offered by its connected companies, including: Dom Maklerski BZ WBK S.A., BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., BZ WBK Asset Management S.A., BZ WBK Leasing S.A., BZ WBK Faktor Sp. z o.o., BZ WBK-Aviva TUO S.A. and BZ WBK-Aviva TUnŻ S.A. In co-operation with all these companies, the Bank offers its customers access to brokerage services, mutual funds, insurance, leasing and factoring products.

BUSINESS MODEL OF BANK ZACHODNI WBK GROUP

Bank Zachodni WBK S.A. provides services to customers through its Retail Banking Division, Business & Corporate Banking Division and Global Banking & Markets Division. The above units, together with the co-operating subsidiaries, form separate business segments and their results are disclosed under segment reporting framework.

Retail Banking offers services and solutions to personal customers and small and micro companies. The responsibility for relationships with retail customers rests mainly with branches. As at 31 December 2013, Bank Zachodni WBK S.A. operated country-wide through 830 outlets (519 as at 31 December 2012). The Bank's distribution network also included 113 partner outlets (109 as at 31 December 2012) and 1,385 ATMs (1,059 as at 31 December 2012). The Wealth Management Department in the Retail Banking Division provides services to high net worth customers through dedicated advisers operating from 14 offices located Poland-wide.

Services to large and medium-sized business customers are supervised by Business & Corporate Banking Division and are provided through 12 Corporate Business Centres operating nationwide, and two departments: Large Corporate Department and Corporate Property Department (central units operating Poland-wide).

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

Bank Zachodni WBK S.A. offers a modern platform of electronic banking services called BZWBK24, which gives retail and business customers a convenient and safe access to their accounts and products via the Internet, phone or mobile. Mobile banking is provided via mobile web and dedicated applications for key operating systems. The Bank has also launched a specialised iBiznes24 electronic banking platform for businesses and corporations, a tool that can be used to carry out a wide range of transactions and safely manage the company’s finances.

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

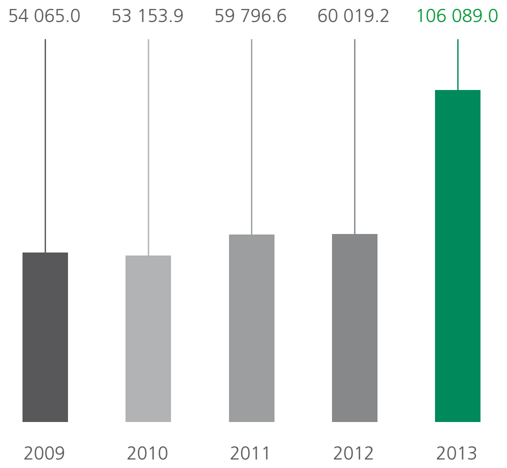
DEVELOPMENT OF BANK ZACHODNI WBK GROUP IN YEARS 2009-2013

Selected data illustrating performance of Bank Zachodni WBK Group in years 2009-2013

Selected Financial Data (PLN m)	2013	2012	2011	2010	2009
Total Assets	106 089.0	60 019.2	59 796.6	53 153.9	54 065.0
Loans and Advances to Customers	68 132.1	39 867.6	38 017.2	32 838.4	34 569.5
Deposits from Customers	78 543.0	47 077.1	46 829.5	41 970.5	41 222.9
Total Equity	14 482.9	8 977.7	7 483.0	6 773.6	6 036.5
Profit Before Tax	2 514.7	1 837.0	1 542.4	1 357.2	1 161.8
Profit Attributable to Owners of BZ WBK S.A.	1 982.3	1 433.8	1 184.3	974.2	885.3
Selected Ratios	2013	2012	2011	2010	2009
Cost to Income Ratio	47.0%	43.9%	50.2%	49.9%	50.0%
Capital Adequacy Ratio	13.9%	16.5%	15.1%	15.8%	13.0%
NPL Ratio	7.9%	5.4%	5.5%	6.8%	5.5%
Earnings per Share (PLN)	21.2	19.4	16.2	13.3	12.1
Net Book Value per Share (PLN)	154.8	120.3	102.4	92.7	82.6
Selected Non-Financial Data	2013	2012	2011	2010	2009
Number of Branches	830	519	526	527	512
Number of FTEs	12 612	8 835	9 383	9 840	9 453
Dividend (PLN)	10.7	7.6	8.0	8.0	4.0
Number of Shares at the Year-End	93 545 089	74 637 631	73 076 013	73 076 013	73 076 013
Closing Share Price at the Year-End (PLN)	387.6	241.9	226.0	214.9	190.0

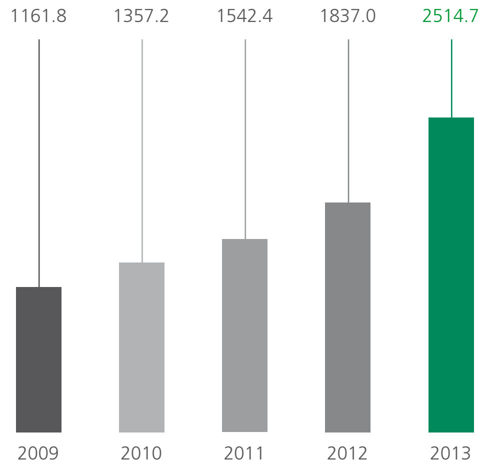
Total Assets of BZ WBK Group
(PLN bn) as at 31 Dec. in Years 2009-2013

+ 14.4%
CAGR*



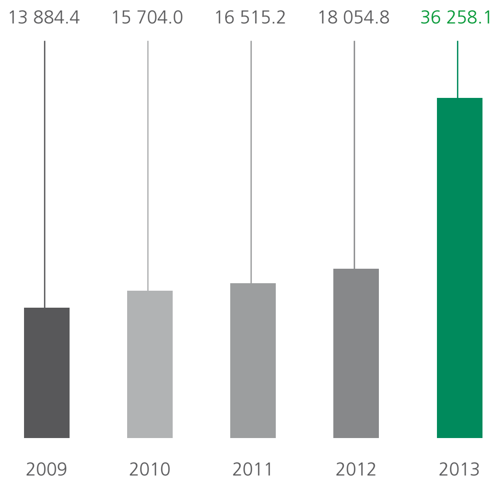
Profit-Before-Tax of BZ WBK Group
(PLN m) in Years 2009-2013

+ 16.7%
CAGR*



Capitalisation of BZ WBK (PLN bn)
as at 31 Dec. in Years 2009-2013

+ 21.2%
CAGR*



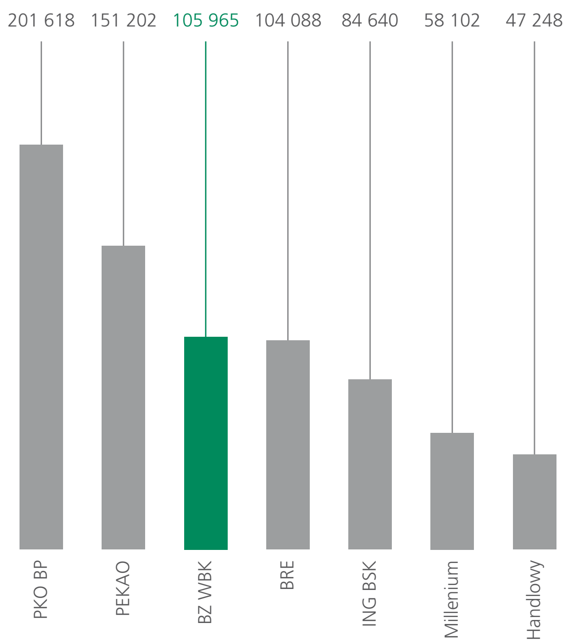
* CAGR – Compound Annual Growth Rate

POSITION OF BZ WBK GROUP IN THE POLISH BANKING SECTOR

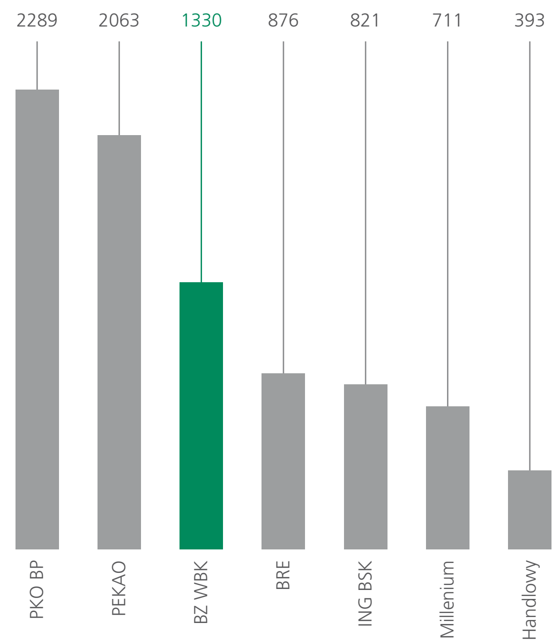
According to the financial information as at the end of Q3 2013, which at the date of approval of this report (26 February 2014) is the most up-to-date source of comparable data on the banking sector in Poland, Bank Zachodni WBK Group was the third banking group in Poland in terms of the total assets, equity, loans, deposits and PBT. The Group was also the leader of the Polish banking sector in terms of underlying ROE (15.8%) and cost-to-income (41.5%) ratio. The post-merger Group has stable sources of funding and solid capital and liquidity position. According to the NBP statistics, as at the end of December 2013 the Group's share in core banking sector areas was 7.4% for loans (4.3% as at 31 December 2012) and 8.4% for deposits (5.2% as at 31 December 2012).

This strong market position has been secured through good historical performance driven by clear strategic vision, efficient and straightforward business model, critical mass gained by integration with Kredyt Bank S.A., as well as benefits and synergies achieved by the Bank as a member of Santander Group.

Total Assets of BZ WBK Group (PLN m) vs. Peers as at 30 Sept. 2013



Profit Attributable to BZ WBK Shareholders for Q1-Q3 2013 vs. Peers (PLN m)



POSITION OF BANCO SANTANDER S.A.

Banco Santander S.A. – a parent entity of Bank Zachodni WBK S.A. – is a commercial bank with a history of over 150 years, having its registered office in Santander and operational headquarters in Madrid (Spain). While it specialises in retail banking services, the Bank is also active on the corporate, asset management and insurance market. Banco Santander S.A. is characterised by geographic diversification of its business. It currently focuses on its 10 key markets – both developed and emerging ones. According to the data as at the end of December 2013, it was one of the leading banks in the Euro zone and ranked among top 20 banking institutions worldwide in terms of capitalization. On a consolidated basis the Bank managed EUR 1,240.8bn worth of customer funds, provided services to over 100 million customers via a distribution network of 13,927 branches, and employed 183 thousand people. In 2013, the net profit attributable to Banco Santander S.A.'s shareholders came in at EUR 1,060m. Santander is the leading group in Spain and South America. It also enjoys a strong market position in selected segments in the UK, north-eastern coast of the US as well as in Germany and Poland.

2. ENTITIES RELATED WITH BANK ZACHODNI WBK

SUBSIDIARIES

As at 31 December 2013, Bank Zachodni WBK S.A. formed a Group with the following thirteen subsidiaries. These were:

- BFI Serwis Sp. z o.o. in liquidation
- BZ WBK Asset Management S.A.
- BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. – subsidiary of BZ WBK Asset Management S.A.
- BZ WBK Inwestycje Sp. z o.o.
- BZ WBK Faktor Sp. z o.o. – subsidiary of BZ WBK Finanse Sp. z o.o.
- BZ WBK Finanse Sp. z o.o.
- BZ WBK Leasing S.A. – subsidiary of BZ WBK Finanse Sp. z o.o.
- BZ WBK Nieruchomości S.A.
- Dom Maklerski BZ WBK S.A.
- Kredyt Lease S.A. – subsidiary of BZ WBK Finanse Sp. z o.o.
- Lizar Sp. z o.o. – subsidiary of Kredyt Lease S.A.
- BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.
- BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.

As a result of the merger of 4 January 2013, Bank Zachodni WBK Group was extended by four subsidiaries acquired together with Kredyt Bank S.A.: Kredyt Lease, Lizar, BFI Serwis in liquidation and Kredyt Trade in liquidation.

During 2013, the following entities were removed from the list of subsidiaries:

- BZ WBK Finanse & Leasing following the merger with BZ WBK Leasing of 29 March 2013 (for more details, see Chapter V "Business Development", the "Business & Corporate Banking" section).

- Kredyt Trade in liquidation, as the entity was struck off the National Court Register on 22 August 2013 by resolution of the company's Extraordinary General Meeting of 29 June 2012.

At the same time, BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych (BZ WBK-Aviva TUO) and BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie (BZ WBK-Aviva TUnŻ) changed their status from joint-ventures to subsidiaries under the agreement of 20 December 2013 between Bank Zachodni WBK S.A. and Aviva International Insurance Limited (Aviva), whereby ownership of 16% stake in BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ was transferred to the Bank. In consequence, the Bank has 66% shareholding and 66% voting power in either company, while the remaining 34% voting power is held by Aviva. Aviva was granted the call option that entitles it or another Aviva Group entity that it might indicate to acquire from the Bank 17% stake in the registered capital of either company. These actions were performed to fulfil the obligations undertaken by the above-mentioned parties in the agreement of 1 August 2013 regarding the modification and extension of their strategic bancassurance co-operation in Poland until the end of 2033.

Except one company, all the entities within Bank Zachodni WBK Group are consolidated with the Bank in accordance with IAS 27. Lizar has been excluded from the consolidation given its small business size and the immaterial financial performance.

ASSOCIATES

In the consolidated financial statements of Bank Zachodni WBK S.A. for the period ended 31 December 2013, the following companies are accounted for using the equity method in accordance with IAS 28:

1) Krynicki Recykling S.A. – associated undertaking of BZ WBK Inwestycje Sp. z o.o.

2) Metrohouse S.A. – associated undertaking of BZ WBK Inwestycje Sp. z o.o.

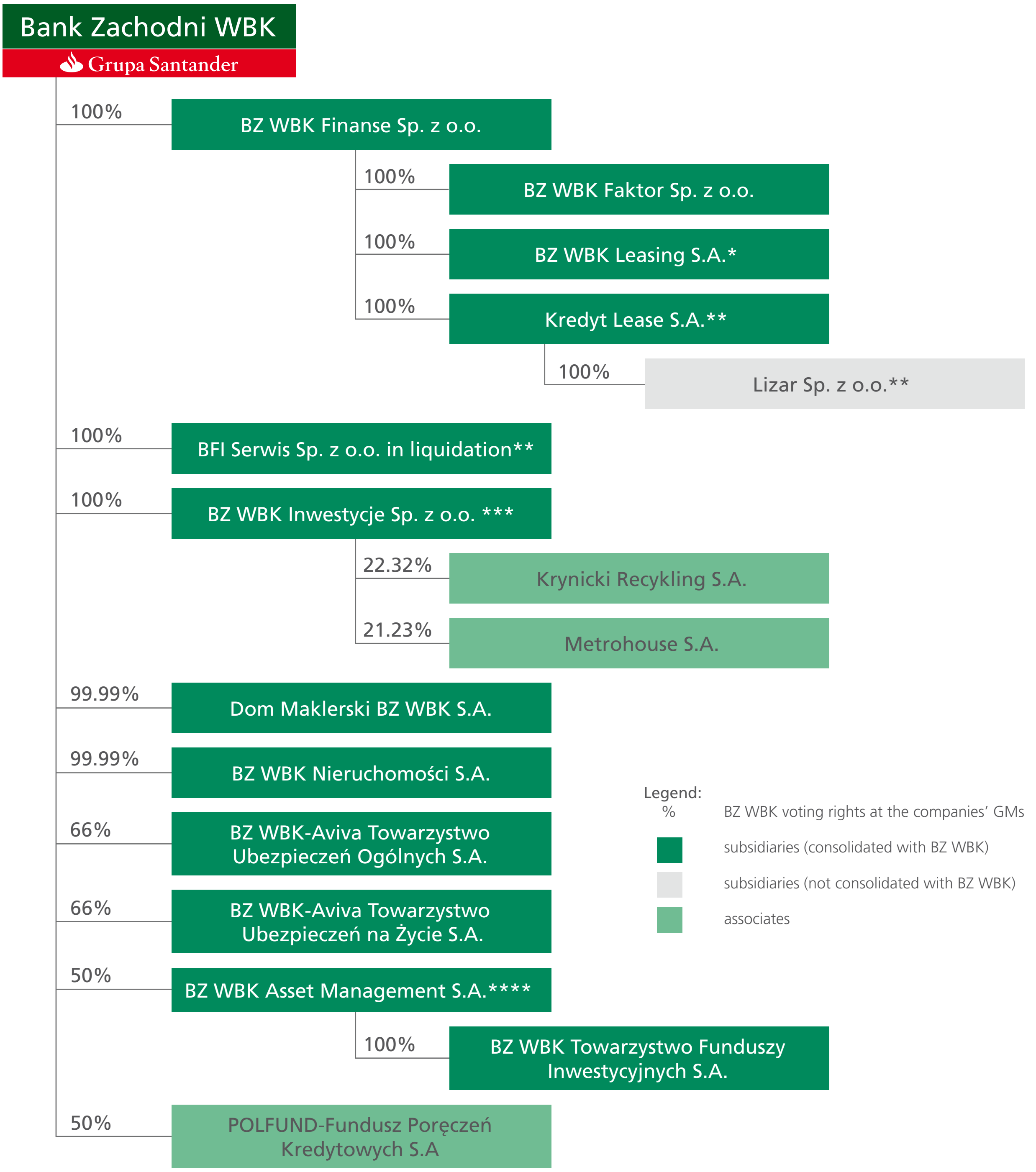
3) POLFUND – Fundusz Poręczeń Kredytowych S.A.

Compared with 31 December 2012, no changes took place in the portfolio of associated undertakings.

As a result of an increase in the share capital of Krynicki Recykling S.A., the number of votes held by BZ WBK Inwestycje Sp. z o.o. at the company's General Meeting decreased from 24.54% to 22.32%.

Until December 2013, BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ operated as joint ventures, and in accordance with IAS 31 were accounted for using the equity method. When the Bank took control over the two entities, their status changed into subsidiaries and therefore they were consolidated in the statement of Bank Zachodni WBK Group financial position as at 31 December 2013.

ORGANISATIONAL CHART OF ENTITIES RELATED WITH BZ WBK S.A. AS AT 31.12.2013



* On 29 March 2013, BZ WBK Leasing merged with BZ WBK Finanse & Leasing whereby the latter company transferred its assets to the former in exchange for its shares.

** The subsidiaries: Kredyt Lease, BFI Serwis in liquidation and Lizar were acquired as a result of the merger between BZ WBK and KB. Lizar is not consolidated given the immaterial nature of its business and financials.

*** The subsidiaries of BZ WBK Inwestycje, i.e. Metrohouse and Krynicki Recykling were classified as associates since the Bank has a significant impact on their operations. The respective shareholdings were acquired as part of the Bank's strategy to build a portfolio of pre-IPO investments.

**** As at 30.12.2013, Bank Zachodni WBK S.A. was a co-owner of BZ WBK Asset Management together with Banco Santander S.A. Both owners are members of Santander Group and each holds 50% stake in the company's share capital. In practice, Bank Zachodni WBK exercises control over the company and its subsidiary, BZ WBK Towarzystwo Funduszy Inwestycyjnych because through it Banco Santander S.A. pursues its policy in Poland. Consequently, the company is treated as a subsidiary

3. OTHER EQUITY INVESTMENTS

As at 31 December 2013 (compared with 31 December 2012), Bank Zachodni WBK Group owned at least 5% of share capital or voting rights in the following companies.

Ref.	Company	% in the Share Capital	Voting Power at AGM	% in the Share Capital	Voting Power at AGM
		31.12.2013		31.12.2012	
1.	Reliz Sp. z o.o. in liquidation[1)]	100.00%	100.00%	-	-
2.	Zakłady Przemysłu Jedwabniczego DOLWIS S.A. in liquidation[1)]	44.00%	44.00%	-	-
3.	Invico S.A.[2)]	21.09%	12.21%	21.09%	12.21%
4.	Masterform S.A.[2)]	19.88%	11.72%	19.88%	11.72%
5.	Kuźnia Polska S.A.	16.67%	16.67%	16.67%	16.67%
6.	Chronos Film Sp. z o.o.	16.67%	16.67%	-	-
7.	i3D S.A.[2)]	15.77%	15.77%	15.77%	15.77%
8.	Krajowa Izba Rozliczeniowa S.A.	14.23%	14.23%	11.48%	11.48%
9.	Agencja Wspierania Rozwoju Infrastruktury Lokalnej Sp. z o.o.	12.00%	12.00%	-	-
10.	Polski Koncern Mięsny DUDA S.A.	10.51%	10.51%	0.25%	0.25%
11.	Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A.	10.00%	10.00%	10.00%	10.00%
12.	Aviva Towarzystwo Ubezpieczeń na Życie S.A.	10.00%	10.00%	10.00%	10.00%
13.	Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	10.00%	10.00%	10.00%	10.00%
14.	Biuro Informacji Kredytowej S.A.	7.71%	7.71%	5.14%	5.14%
15.	Infosystems S.A.[2)]	7.50%	7.50%	7.50%	7.50%
16.	Hortico S.A.[2)]	6.71%	6.71%	6.71%	6.71%
17.	AWSA Holland II B.V.	5.44%	5.44%	5.44%	5.44%
18.	Zakłady Remontowe Energetyki KATOWICE S.A.	5.00%	5.00%	-	-
19.	Gorzowski Rynek Hurtowy S.A.[2)]	4.10%	6.53%	4.10%	6.53%

1) Companies under control of a trustee in bankruptcy

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

As a result of the merger with Kredyt Bank S.A., Bank Zachodni WBK S.A. increased its shareholdings in the following companies: Reliz in liquidation, Zakłady Przemysłu Jedwabniczego DOLWIS in liquidation, Krajowa Izba Rozliczeniowa, Zakłady Remontowe Energetyki KATOWICE, Agencja Wspierania Rozwoju Infrastruktury Lokalnej, Polski Koncern Mięsny DUDA oraz Biuro Informacji Kredytowej.

III. MACROECONOMIC ENVIRONMENT IN 2013

ECONOMIC GROWTH

In 2013, the economic growth in Poland was accelerating gradually, yet the output gap remained negative. Recovery of economic activity in Poland was stimulated by exports results, supported by the reviving global economy and by penetration of new markets. However, uncertainty about the economic prospects caused the Polish consumers and entrepreneurs to remain cautious, hence the economic growth was solely based on net exports. A good growth rate of exports, combined with weak imports, resulted in a considerable improvement in the foreign trade balance, bringing the current account deficit down to 1.5% of the GDP (the lowest level since 1995). Only in the second half of the year economic recovery began to be visible also in the domestic demand, which had been stagnant before, and it spread to most economic sectors, including the labour market. Business climate and consumer confidence indices also improved considerably, with some of them even reaching the highest levels in recent years.

The pace of the GDP growth was accelerating throughout the year – from 0.5% YoY in Q1 to 2.7% in Q4. In due course, the GDP growth amounted to 1.6% in 2013 and was slightly lower than in 2012 (1.9%).

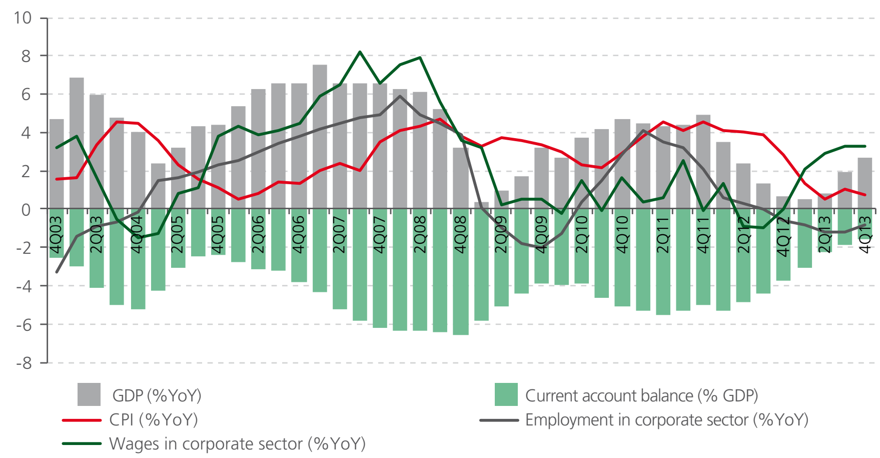
LABOUR MARKET

In the first half of the year the labour market was stagnating, but improving economic conditions triggered the demand for labour in the second half of the year. This translated into rising employment in the corporate sector (after two years of downward trend). The registered unemployment rate remained above last year's levels, but detailed data showed an improvement also in this statistic – rising number of job offers as well as the unemployed finding a job and declining number of the new unemployment registration. The seasonally adjusted unemployment rate calculated according to Labour Force Survey (LFS) fell to 10.1% (down from 10.6% at the end of 2012). Nominal wage growth was moderate throughout the year (2.9% on average). Thanks to low inflation real wages increased somewhat, which on one hand supported consumption but on the other did not generate an increase in company costs.

INFLATION

Inflation rate was running clearly below the NBP target throughout the year. In June 2013, CPI inflation fell even to 0.2% YoY, the lowest level since comparable data have been available (1990). At the end of the year CPI inflation was at 0.7% YoY. Minute pressure on prices was primarily due to the negative output gap, which was not closed despite the economic recovery. Other inflation gauges also followed the same trend – at the year-end core inflation excluding food and energy prices was at 1.0% YoY, while producer prices' inflation (PPI) was negative and reached -0.9% YoY.

Selected Macroeconomic Indicators



MONETARY POLICY

The considerable economic slowdown in Poland in 2012 and weakness of recovery abroad, together with strong decline of inflation encouraged the Monetary Policy Council to aggressively ease its policy in 2013. The NBP interest rates were cut by 175 basis points until July, while the reference rate decreased from 4.25% to 2.50%. In the following months the MPC pledged to keep rates unchanged at least until mid-2014, i.e. implemented a forward guidance policy, which is a precedent in Poland.

FISCAL POLICY

Although the economic growth was accelerating, it proved lower than assumed by the government while accepting the budget bill. Thus, a budget amendment was necessary and deficit limit was raised by PLN 16bn, to PLN 51.6bn (eventually the year closed with deficit at PLN 42.5bn). The scale of cuts in spending was not substantial. The government changed also the Public Finance Act, suspending the 50% safety threshold and implementing a new stabilizing spending rule. Moreover, the parliament decided to overhaul the pension system – open pension funds (OFE) were obliged to transfer 51.5% of their assets to ZUS, i.e. the sum corresponding to share of T-bonds in their portfolios. OFE will be banned from investing in T-bonds and papers transferred at the beginning of 2014 were cancelled, which lowered the public debt by ca. 7.6% of the GDP under domestic definition and by ca. 8.5% of the GDP under Eurostat definition. 50% and 55% safety thresholds, lowered by the value of transferred bonds, were embodied into the new spending rule.

CREDIT MARKET

The credit market recorded some improvement of situation in 2013, but it was visible only in some of its segments. The total growth rate of corporate loans (data adjusted for FX fluctuations) declined from 2.1% YoY in January to -0.1% YoY in December. However, a notable improvement was recorded in the case of investment loans which accelerated from -1.0% to +8.1%, while working capital and property loans still showed negative growth rates. The total loans for households accelerated somewhat, to 4.3% YoY from 2.9% YoY at the start of the year, with an improvement in consumer loans (to 4.7% YoY from -4.0% YoY at the start of the year), along with weakening (and reaching the lowest levels since comparable data have been available) growth of housing loans (3.7% YoY in December).

FINANCIAL MARKET

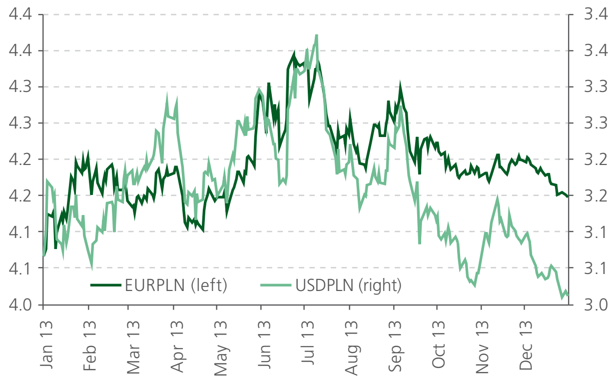
Financial market improved in 2013, especially in the later part of the year, when the signs of economic recovery in the world's main economies became more evident. Even though the decrease in risk aversion was dominating throughout the year, there were numerous risk factors, which were temporarily rising investors' uncertainty and fuelling volatility of asset prices. These risk factors included, among others: crisis in Cyprus, election and political deadlock in Italy, risk of military intervention in Syria, budgetary talks in the USA and US government shutdown. However, the most considerable impact on markets was put by worries that the Federal Reserve will lower the scale of asset purchases conducted under the quantitative easing of monetary policy (QE3). Such a decision was finally taken in December (monthly purchases of QE3 were cut to USD 75bn from USD 85bn), which caused worries about outflow of capital from the emerging markets, including Poland. On the other hand, the main central banks were still easing their policies, e.g. the Bank of Japan decided to increase the scale of asset purchases, while the ECB cut the main interest rate from 0.50% to 0.25% and suggested a possibility of lowering the deposit rate below zero.

At the start of the year the zloty was relatively stable against the main currencies, EUR/PLN exchange rate was oscillating around 4.05. In the following months the Polish currency was weakening, among other factors due to worries that QE3 will be reduced by the Fed. Elevated volatility of the PLN even made the NBP intervene on the FX market in early June. In July, the EUR/PLN rate approached 4.35 and then began to fall, supported by an improving economic climate in Poland and amounted to 4.15 at the year-end. Changes of USD/PLN rate were following a similar trend, yet were a bit stronger due to changes in EUR/USD exchange rate. Yields of Polish bonds were quite stable at the start of the year and were oscillating in the range of 3.80-4.00% in case of 10Y tenor. In April and May, a considerable strengthening of the debt market was recorded (decline of yields to ca. 3.00% – the lowest level in history) under the impact of expectations of interest rate cuts, strengthening of bonds on the core markets and capital inflow from Japan. Later this tendency was reversed as the MPC suggested an end of the cutting cycle and investors once again began to fear QE3 reduction and started to retreat from the emerging markets.

The government's plans to overhaul the pension system (transfer of T-bonds from OFE to ZUS) put some pressure on the domestic bond market as investors worried that it may undermine the liquidity of the Polish government bonds. At the end of the year yields of 10Y bonds were in the range of 4.00-4.60%. At the start of the year the non-residents' engagement in the Polish T-bonds was rising, reaching ca. PLN 207bn in April (the highest level ever). In the later part of the year the Polish assets were sold off by non-resident investors, so the value of their portfolio fell to PLN 193bn (ca. 34% of total).

Yields of Polish Treasury Bonds (%)

Exchange Rate of the Zloty vs. Dollar and Euro



EQUITY MARKET

The start of 2013 was not favourable for the main equity indices in Warsaw, as the market was worried about the economic growth. Increases began to predominate on the market in the later part of the year, yet they were temporarily disrupted by the uncertainty about the government's plans about the amendments to the pension scheme system (OFE). The proposal that citizens will be able to choose if their contributions will be transferred to OFE or to ZUS caused worries about the outflow of cash from the Warsaw Stock Exchange, driving WIG20 index down by over 7% in a few days. In the following months upward tendencies resumed, but they were mostly visible in small and medium companies – mWIG40 climbed by 30% over the year, sWIG80 by 36%, WIG by 7%, while the indices covering the largest companies posted declines – WIG20 by 8% and WIG30 (new index intended to replace WIG20) by 3%.

LEGAL ENVIRONMENT

The most significant changes in the regulatory environment pertaining to the Polish banking sector in 2013 involved amendments to the recommendations issued by the Polish Financial Supervision Authority (KNF) and implementation of new and amended general laws.

Among the most noteworthy is KNF Recommendation T of 26 February 2013 regarding risk management of retail credit exposures (effective as of 31 July 2013) which introduced a number of significant changes. In particular, it allowed banks to use simplified repayment capacity assessment criteria for retail customers applying for loans up to a pre-defined amount, it pointed to the necessity to use external databases in the retail credit assessment and tightened the requirements related to the sanction and management of FX credit exposures.

The Banks were also subject to the Act of 26 July 2013 amending the Act on the Bank Guarantee Fund and certain other acts (effective as of 4 October 2013) whereby BGF may grant recapitalisation guarantees to increase the equity funds of domestic banks which conduct restructuring. To that end, a new stabilisation fund was created from prudential fees paid by banks covered by the guarantee scheme (calculated as a product of maximum 0.2% rate and basis for calculation of the annual fee).

Effective as of 27 November 2013, the Act on the state subsidy for first time home buyers laid down the principles of the new "Flat for the Young" ("Mieszkanie dla młodych") programme for 2014-2018. The programme is open to married couples and singles under 35 years of age. The state support will take the form of co-financing the borrower's own contribution (from 10% to 20% depending on the number of children) when buying a flat or a single family house on the primary market.

On 1 January 2014, two new regulations came into force which are bound to have impact on operations of banks in the upcoming reporting periods. The first one is the amendment to the Payment Services Act (effective as of 1 January 2014) which sets the amount of the interchange fee charged by issuing banks from merchants via acquirers for the acceptance of card-based transactions at max 0.5% of the transaction value.
The other one is KNF Recommendation S of 18 June 2013 regarding the best practice in management of mortgage-backed credit exposures which promotes sustainable mortgage-backed lending while focusing on the security and the borrower's interests in the relationship with the Bank. KNF recommended further reduction of the FX loan book and introduced more stringent requirements relating to the LtV ratio and the lending period.

IV. LEGAL MERGER AND INTEGRATION PROCESS

1. LEGAL MERGER AND THE ISSUE OF MERGER SHARES

On 4 January 2013, the District Court for Wrocław-Fabryczna, 6th Commercial Division of the National Court Register, registered the merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A., the increase in the share capital of the merged bank and the amendment to its statutes passed by the Extraordinary General Meeting of Shareholders of 30 July 2012. At the same time, Bank Zachodni WBK S.A. (the acquiring bank) assumed all rights and obligations of Kredyt Bank S.A. (the acquired bank) which had been dissolved without a liquidation procedure.

The merger was carried out under Article 492 § 1(1) of the Commercial Companies Code, i.e. by transferring all the assets of Kredyt Bank S.A. to Bank Zachodni WBK S.A. (merger through acquisition) in exchange for the newly issued series J shares allocated to all the shareholders of Kredyt Bank S.A. in accordance with the following exchange ratio: 6.96 of merger shares for 100 shares of Kredyt Bank S.A. On 8 January 2013, 18,907,458 merger shares (code PLBZ00000044) were recorded in the National Depository of Securities (KDPW). The registration took place after the Management Board of the Warsaw Stock Exchange adopted a resolution, dated 22 January 2013, on introducing the shares to the public trading on the main stock exchange market in the ordinary procedure, effective from 25 January 2013.

As a result of the issue of series J shares, the registered capital of Bank Zachodni WBK S.A. increased from PLN 746,376,310 to PLN 935,450,890 (i.e. by PLN 189,074,580), divided into 93,545,089 ordinary bearer shares with a nominal value of PLN 10 each.

2. CHANGES IN THE SHARE CAPITAL STRUCTURE AFTER THE LEGAL MERGER

SECONDARY OFFERING OF SHARES

On 22 March 2013, KBC Bank NV and Banco Santander S.A. announced a secondary offering of the shares of Bank Zachodni WBK S.A. The offering was for 19,978,913 shares representing 21.36% of the Bank's share capital, with 15.125,964 shares owned by KBC Bank NV, and 4,852,949 owned by Banco Santander S.A. The final price per share was set in a book-building process at PLN 245. The total value of the offering was PLN 4.9bn.

The offering was addressed to selected institutional investors in Poland and abroad, including the United States. Participants in the transaction included reputable financial institutions acting as underwriters, managers or global co-ordinators: Deutsche Bank AG (London Branch), CitiGroup Global Markets Limited, Morgan Stanley & Co. International plc, Merrill Lynch International, Credit Swiss Securities (Europe) Limited, KBC Securities NV, Santander Investment S.A., Goldman Sachs International, UBS Limited, RBC Europe Limited, Powszechna Kasa Oszczędności Bank Polski S.A., Dom Maklerski PKO Banku Polskiego w Warszawie, ING Bank NV, Société Générale, Dom Maklerski Banku Handlowego S.A., Dom Maklerski BZ WBK S.A. and ING Securities S.A. Under the underwriting agreement of 22 March 2013 between KBC Bank NV, Banco Santander S.A. and Bank Zachodni WBK S.A., the above-named entities undertook to take actions to acquire buyers for the offered shares, and if such efforts turned out to be unsuccessful – to acquire a stated number of the shares offered. Furthermore, Deutsche Bank AG (London Branch) was authorised to act as a stabilisation manager, i.e. to buy on the Warsaw Stock Exchange, during the close period, up to 10% of the offered shares of Bank Zachodni WBK S.A. to stabilise their market price. The stabilisation by Deutsche Bank AG (London Branch) was completed on 11 April 2013.

On 28 March 2013, Bank Zachodni WBK S.A. was advised that all of its 15.125,964 shares held by KBC Bank NV, representing 16.17% of the Bank's registered capital, had been sold directly. On the same day, the Bank also received a notice about the disposal of 4,852,949 shares of Bank Zachodni WBK S.A. held by Banco Santander S.A. and consequent reduction of the latter's share in the Bank's registered capital and votes at the General Meeting by 5.19 p.p. to 70%.

As a result of the transaction, the free-float increased to 30% and Bank Zachodni WBK S.A. re-joined the stock indices.

CHANGES TO THE VOTING SHARE OF OPEN-ENDED PENSION FUND ING OFE

On 2 April 2013, Bank Zachodni WBK S.A. was notified by the open-ended pension fund ING OFE that it had purchased the Bank's shares and consequently exceeded 5% of the total number of votes at the Bank's General Meeting. As at 27 March 2013, ING OFE held 4,966,506 shares of Bank Zachodni WBK S.A., representing 5.31% of the share capital and the number of votes at the General Meeting of the Bank.

On 31 July 2013, ING OFE informed about the sale of BZ WBK S.A. shares, as a result of which the share in the total number of votes at the General Meeting of Bank Zachodni WBK S.A. decreased below 5%.

SUMMARY OF CHANGES IN THE SHARE CAPITAL IN 2013

The table below summarises the changes in the share capital structure of Bank Zachodni WBK S.A., based on data as at the dates of publication of the successive financial reports, starting from 25 October 2012 when the share capital was the same as at 31 December 2012.

Shareholders Holding over 5% of Voting Rights at AGM	Number of Shares and Votes at AGM as at the release dates of consecutive quarterly reports				% in the Share Capital & Voting Power at AGM as at the release dates of consecutive quarterly reports			
	24.10.2013* 30.01.2014	25.04.2013 30.07.2013	31.01.2013	25.10.2012**	24.10.2013* 30.01.2014	25.04.2013 30.07.2013	31.01.2013	25.10.2012**
Banco Santander S.A.	65 481 563	65 481 563	70 334 512	70 334 512	70.00%	70.00%	75.19%	94.23%
ING OFE		4 966 506				5.31%		
KBC NV			15 125 964				16.17%	
Others	28 063 526	23 097 020	8 084 613	4 303 119	30.00%	24.69%	8.64%	5.77%
Total	93 545 089	93 545 089	93 545 089	74 637 631	100.0%	100.0%	100.0%	100.0%

* valid as at 31.12.2013

** valid as at 31.12.2012

3. INTEGRATION OF BANK ZACHODNI WBK S.A. WITH THE FORMER KREDYT BANK

INTEGRATION PROCESS

Stages of the Integration Proces

The integration of Bank Zachodni WBK S.A. with Kredyt Bank S.A. was a big challenge in terms of planning, business, IT and communication. The process was divided into four stages: legal merger, branch network integration, brand migration and system migration. In line with the project schedule, until the end of 2013, the Bank completed the first three stages and entered the last one – merger of IT systems – which is expected to be delivered by the end of 2014.

Given the number and complexity of business and IT projects run as part of the integration programme (UNO Programme), strong emphasis was put on the project and operational risk management when planning and implementing changes. The Bank made every effort not to affect customers' banking experience by any inconveniences resulting from the integration process. Considering the scope of IT changes introduced by the Bank, the process ran smoothly from business requirements to implementation while operational stability and security of the systems was maintained.

Delivery of the Integration Process in 2013

The legal merger marked the formal integration of the central units of both banks. At the beginning of January a common branch network management system was implemented, which accelerated the full integration of

Branch Banking. In April 2013, the implementation of a new operating model for Business & Corporate Banking and integration of its structures were completed.

In the transition period following the legal merger, each bank had its separate products, fees and charges, internal processes and regulations while the branch network operated under the two brands. From the very beginning, however, measures were taken to standardise the product proposition, procedures and customer service model. As early as in Q1, the Bank enabled handling of domestic and foreign payments through a single settlement system. Customers were offered free transfers between accounts held in both branch networks and free-of-charge withdrawals from the ATMs of the merged entity. The branches of the former Kredyt Bank S.A. started to offer Western Union Money Transfers, cash loan, the new Account Worth Recommending with its ancillary products, Arka mutual funds, structured deposits and negotiated deposits.

In September 2013, Bank Zachodni WBK S.A. closed the two-stage brand migration project aimed at full standardisation of the Bank's offer and image. In line with the project schedule, on 8 July 2013, a uniform product proposition was implemented for retail, business and corporate customers, including the central customer service model. The second stage of the project was completed on 9 September 2013 and involved harmonisation of the risk and repayment capacity assessment processes and physical rebranding of branches and electronic channels (Kredyt Bank S.A. logo was replaced with BZ WBK S.A. brand and corporate colours). The Bank replaced external signage and changed internal design of 318 branches in four weeks' time only.

The culmination of the brand migration process was the biggest ever advertising campaign launched by the Bank in late September to reinforce the Bank's positioning as the third banking institution in Poland, while focusing on such aspects as efficiency, modernity, innovation and customer satisfaction. A number of products were promoted as part of the campaign, including Account Worth Recommending (Konto Godne Polecenia), mobile banking and business loan.

So far, delivery of the UNO Programme has helped the Bank achieve fully integrated organisational structures, introduce uniform products and services, implement standardised customer service in terms of quality and procedures and adopt a single brand "Bank Zachodni WBK". The next step towards the full integration is the migration of two operating systems into one IT platform, which involves transfer of customer and transaction details to the target systems, withdrawal of certain source systems and data storage.

IMPACT OF THE MERGER ON THE POSITION OF BANK ZACHODNI WBK GROUP

As a consequence of Kredyt Bank S.A. acquisition, Bank Zachodni WBK S.A. enhanced its market presence and competitive edge as the third largest banking institution in Poland in terms of total assets, equity, loans, deposits and PBT. Thanks to combining complementary branch networks the customer base increased to 4.3m, which has reinforced the Bank's sales potential and made it well-positioned for further market penetration. Similar business profile of the two banks along with effective UNO Programme management and significant staff commitment ensured smooth delivery of the integration process. With a uniform operating model, product proposition, customer service procedures and technological processes, the Bank may now gradually leverage off synergy effects. Cost synergies result mainly from the integration and streamlining of organisational structures, implementation of optimum operational solutions, gradual integration of IT systems and economies of scale in terms of management of agreements and costs. Revenue synergies come from the harmonisation of the operating and service models, increased sales efficiency, improved cross-selling and growing activity of customers.

On a year-on-year basis, the value of the Group's assets went up by 76.8% to PLN 106.1bn, the loan book grew by 73% to PLN 71.6bn, and the deposit base increased by 66.8% reaching PLN 78.5bn. The Bank has a stable deposit-based structure of funding. Solid capital position provides a buffer against the expanded loan portfolio and supports the dynamic business growth going forward. 12 months after the merger, the Bank maintains satisfactory profitability and efficiency ratios. Both return on equity (16.6%) and cost to income ratio (47%) place the Bank well in the performance league table.

As a result of changes in the structure of the Bank's equity, the number of Bank Zachodni WBK S.A. shares in free float increased, improving the liquidity of the Bank's stock and its attractiveness to investors. The feedback on the merger and processes delivered by the Bank is positive, as evidenced by the increase in Bank Zachodni WBK S.A. share price.

V. BUSINESS DEVELOPMENT

1. RETAIL BANKING

CUSTOMER RELATIONSHIP

Integrated Bank Zachodni WBK S.A. provides banking services to approximately 4 million personal customers and 0.3 million small companies.

In order to meet the needs of these customers in the best way possible, a business relationship management system was implemented on the basis of best practices in the following three key streams:

- Management of retail customer segments;
- Customer lifecycle management;
- Operational management of the contacts initiated by the Bank.

Furthermore, the Bank completed the process of allocating personal customers to the portfolios managed by advisors in branches, so that now each customer has a named relationship manager. Branch-based advisors are also available to customers from the small companies segment. The key customers from this segment are managed in macroregional offices by dedicated advisors supported by credit partners.

As part of the CRM system, in 2013 a number of pro-active measures were undertaken to enhance customers' satisfaction with the Bank's products and services, increase the cross-sell and build long-term relations with them. In order to manage relationships with a diversified group of several million customers, the tools were applied to facilitate the following:

- Customised offer, including pre-sanctioning offer for credit facilities;
- Choosing the appropriate time to contact the customer;
- Using the most effective forms of contact;
- Adherence to the agreed rules in respect of contact frequency and prioritisation.

The scope, time-frame and form of contacts with the group of mass customers were determined in a uniform manner in line with the principles of customer lifecycle management.

KEY BUSINESS AREAS

In Retail Banking, like in other business segments, the Bank pursued its business and development objectives while harmonising its product range and integrating service processes. In September, an advanced integration stage was achieved along with a greater transparency of the offering, improvement of the operating and management processes and increased market perception of the merged bank as a single organisation.

During the period of intensive change, the key priority was to maintain the existing customers and attract new ones. This was achieved thanks to the distinctive range of personal accounts, notably the Account Worth Recommending (Konto Godne Polecenia), which was the first product to become available to customers in both branch networks at the same time. Owing to its attributes and the supporting promotional campaigns, the new account became a huge success with 366k accounts opened, representing the majority of 460k personal accounts acquired in 2013. The Bank also mitigated the risk of attrition of Kredyt Bank S.A. customers by communication and advertising initiatives and by reducing to the minimum the inconvenience that the customers might experience during the integration process.

As part of the deposit base management, the Bank was flexibly adapting its proposition (both price and product-wise) to the changing environment and own objectives in terms of liquidity, sources of funding and financial performance. The actions taken allowed not only to retain the deposited funds but also to attain a considerable growth on a yearly basis. This was achieved in spite of the downward trend in interest rates (that continued for a major part of the year) and the growing attractiveness of investment products earning higher rates of return. In the last quarter of the year, after the introduction of new deposit products for mass customers and increasing the attractiveness of the existing ones, the Bank attracted substantial long-term volumes (+PLN 2.4bn), thus improving its asset funding structure.

In accordance with selective management of business volumes, the more affluent customers were offered negotiable deposits and a comprehensive proposal of the 1|2|3 Account, while VIP and Wealth Management customers could avail of a special range of savings and investment products.

The Group was consolidating its position in the market of investment products, providing a comprehensive offer, including mutual funds, equity insurance funds and structured products. In the first half of 2013, the entire product portfolio was made available to customers and the respective delivery model was unified.

Together with the BZ WBK-Aviva insurance companies, the Group continued the development of the lines of insurance products for personal and SME customers. Changes were also made to the terms of co-operation between Bank Zachodni WBK S.A. and BZ WBK-Aviva companies in accordance with the agreements signed.

The management of retail loans was focused on sales processes and on maintenance of appropriate sales dynamics. The expanded organisation centralised and integrated its sales and after-sales processes for mortgage loans, ensuring high quality of the exposures and uniform standards. The mortgage sales volumes achieved in 2013 were satisfactory as they exceeded the plan and outperformed the market where downward trend prevailed. Robust sales were also reported in the area of cash loans and overdrafts.

The development of the Group's offering and other achievements in the individual product lines within the Retail Banking is presented below:

SETTLEMENT PRODUCTS

Personal Accounts

On 8 July 2013, the personal accounts proposition of Bank Zachodni WBK S.A. was harmonised. The Account<30 as well as the accounts offered solely in the branches of the former Kredyt Bank S.A. were removed from the offer.

In response to the customers' expectations, the array of personal accounts was expanded with two new proposals: the Account Worth Recommending (March 2013) and the 1|2|3 Account (September 2013):

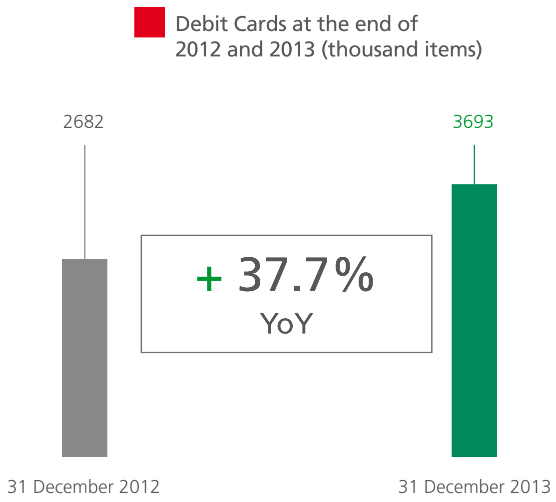
- The Account Worth Recommending is a value-adding product that is unique in the market. The account is maintained free-of-charge, regardless of the amount of monthly inflows. Likewise, no fees are charged for the associated products and services, including: debit card, a sticker for contactless payments, Elixir transfers via BZWBK24 electronic banking, standing orders, direct debits, withdrawals from the ATMs of BZ WBK, Kredyt Bank S.A. and PKO BP. The account comes with debit cards (MasterCard Omni or MasterCard PAYBACK Omni) and modern stickers for contactless payments (MasterCard Omni or MasterCard PAYBACK Omni).
- The Account 1|2|3 is a comprehensive package addressed to demanding customers, who make a lot of transactions and meet certain income criteria. In addition to earning interest, the account helps customers reduce their rent and utility bills due to a money-back mechanism. With the credit card 1|2|3, the customers may also reduce their daily living expenses by a fraction of each non-cash transaction made in specific categories of retail outlets (POS). Other elements of the account package are as follows:
  - MasterCard Supri debit card for contactless (PayPass) and online payments (3D Secured) as well as the CashBack services;
  - attractively priced overdraft;
  - 3M 1|2|3 Welcome Deposit ("Lokata Powitalna");
  - Family Care ("Opiekun Rodzinny") insurance.

The Bank run two Poland-wide campaigns to support the sale of the Account Worth Recommending. The advertising message of both the spring and autumn edition highlighted the cost-free nature of the account (nil fee) and the award of up to PLN 700 for the most active customers. The second edition of the promotion titled "PLN 700 is waiting for you" ("700 zł czeka na Ciebie") was also addressed to the customers of the new 1|2|3 Account.

As a result of the effective acquisition, at the end of 2013, the Bank had 3.7 million personal accounts.

Supporting Products and Services

In the area of debit cards, in 2013 Bank Zachodni WBK S.A. mainly focused on a wide promotion of card payments and encouraging the activity of card users. The Bank operated a dual model of debit cards management, maintaining the card propositions of both merged entities and expanding them with new products linked to the newly implemented personal accounts (MasterCard Omni card and MaserCard Supri card). The cards of the former Kredyt Bank S.A. were ultimately removed from the offer on 25 November 2013.



BANK DEPOSITS

The merger of Bank Zachodni WBK S.A. with Kredyt Bank S.A. marked the beginning of harmonisation of savings products for retail customers, which was finalised on 8 July 2013.

In an on-going effort to align its product proposition to customers' expectations, external conditions and the organisation's goals in the management of funding sources, balance sheet structure, risk, capital and financial performance, the Bank launched a number of new deposit products addressed to retail customers. The new deposits offered a flexible access to the funds, allowing customers to make withdrawals at any time while keeping the whole or a portion of accrued interest. The new deposits include:

- 5-month Fast Earning Business Deposit (Lokata Biznes Dynamicznie Zarabiająca), introduced in January 2013, offering progressive interest rates and a monthly interest capitalisation;
- 6-month Easy Earning Deposit (Nowa Lokata Swobodnie Zarabiająca), introduced in July 2013, with interest rates linked to the deposit amount;
- 3-month 1|2|3 Welcome Deposit (Lokata Powitalna), coming with the 1|2|3 Account package, offering progressive interest rates and a monthly interest capitalisation;
- attractively priced 12 and 24-month Easy Earning Deposit – New Money, introduced in November 2013.

The 12- and 24-month Easy Earning Deposits – New Money were launched at the year-end to strengthen the Bank's long-term deposit base. The sale of deposit products was supported by the "Big Yield from the Big Bank" campaign ("Duży procent w dużym Banku") run in the various customer communication channels. In order to attract medium and long-term money, the Bank increased the interest rates on its 12 and 24-month Impet deposits available, among others, via electronic channels. In addition, the deposit terms were extended for "Investment with a Bonus" offer ("Inwestycja z bonusem") designed for customers investing in Arka funds or InPlus Investment Programme which allows them to put a portion of funds on a high-interest paying deposit.

In 2013, the Bank also focused on accommodating the needs of its key personal customer segments. Already in January 2013, the range of negotiable deposits was standardised in the merged bank so that all customers could negotiate individual terms on the same rules. In the fourth quarter, the Bank launched tools for the new negotiated deposit model to offer more flexible pricing and deposit terms aligned with the Group's deposit management objectives.

INVESTMENT PRODUCTS

Structured Deposits

In 2013, Bank Zachodni WBK S.A. remained active in the segment of structured deposits. Starting from 8 February 2013, structured deposits were issued simultaneously and on the same conditions in both branch networks. Since July the issues had been managed through a single system, operational and regulatory platform.

During the year, the Bank offered 3, 6, 12 and 18-month deposits with the interest rate linked to the currency rates or stock indices, while ensuring 100% capital protection at maturity. The total of 32 subscriptions took place with 76 products made available to customers, including:

- 28 subscriptions prepared for all the Bank's customers:
  – In 21 of the subscriptions, the Bank offered deposits with the interest rate linked to the EUR/PLN or USD/PLN rate. The customers could choose between three investment strategy options: FX rate increase, decrease or stabilisation.
  – in 7 subscriptions the yield was linked to movements in stock indices, namely S&P500, WIG 20 and SX5E.

- Two subscriptions were addressed exclusively to VIP personal customers, with interest dependent on the volatility of the USD/PLN exchange rate.

- Two other subscriptions were addressed to the Wealth Management customers with the offered yield linked to stock indices: SPX and SX5E.

In total, PLN 1.7bn worth of deposit funds was acquired in the above-mentioned subscriptions.

During the 11th edition of the European Structured Products Conference held in February, Bank Zachodni WBK S.A. received the "Best in Sales" award for the largest distributor of structured products in Poland. This distinction and the award for the best distributor of structured products "Best in Central and Eastern Europe" (received in November 2013) confirms the Bank's position among the top players in the structured products market.

INVESTMENT FUNDS

Introduction of Investment Products in the Acquired Branch Network

On 21 January 2013, the Bank started to sell a full range of products of BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. (BZ WBK TFI) in the selected branches of the former Kredyt Bank S.A. The offer included the open-ended umbrella Arka BZ WBK FIO fund, the open-ended specialist umbrella Arka Prestiż SFIO fund, Arka Optima – a programme for optimisation of investments in equity funds, Personal Pension Accounts and Systematic Savings Programmes. During the year, the products of BZ WBK TFI were being gradually rolled out across the branch network.

Performance of BZ WBK TFI in 2013

As at 31 December 2013, the total net value of assets under management of BZ WBK TFI was PLN 11.2bn and higher by 11.5% YoY.

As the customers were more inclined to make conservative choices, the highest sales were posted by Arka BZ WBK Ochrony Kapitału (money market subfund), Arka BZ WBK Obligacji Korporacyjnych (corporate bond subfund) and Arka Prestiż Obligacji Korporacyjnych (corporate bond subfund). All three of them were among ten most popular retail mutual funds in the Polish market. In response to the customers demand for lower risk money market funds on 22 November 2013, BZ WBK TFI S.A. launched Arka Prestiż Gotówkowy (money market subfund), which attracted PLN 119m worth of assets by the year-end. The subfund invests mainly in debt securities and money market instruments to ensure adequate safety of the investments. The subfund's investment strategy is to protect the real value of its assets.

Given the prevalence of downward trends in the treasury bonds market, the fastest outflow of funds during the year was posted by the Arka Prestiż Obligacji Skarbowych (corporate bonds subfund).

From among Arka funds the highest annual rate of return was recorded by Arka Prestiż Akcji Polskich (Polish equity subfund) which topped the league of the best Polish equity funds with its 16.6%. The runner-up was Arka BZ WBK Funduszy Akcji Zagranicznych (international equity subfund) with a performance of 14.5% (in PLN). All the Arka subfunds managed by BZ WBK TFI beat their benchmarks in terms of gross annual investment results.

In Plus Investment Programme

In July 2013, the In Plus Investment Program (the product of BZ WBK-Aviva TUnŻ S.A.) was made available in the entire network of the integrated Bank.

In November 2013, the list of unit-linked insurance funds available within the Programme was extended to include four new investment plans, two of them offering investments in the funds of Aviva Investors Poland TFI, and two other in the specialist funds of BZ WBK TFI.

BANCASSURANCE

On 1 August 2013, Bank Zachodni WBK S.A. entered into agreements with Aviva International Insurance Limited (Aviva), BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. (BZ WBK TUnŻ) and BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. (BZ WBK Aviva TUO) in order to change and extend the strategic bancassurance co-operation in Poland to 31 December 2033 (for more details, see "Organisational Changes", chapter VII "Organisational and Technological Changes"). The agreements became effective on 20 December 2013.

The harmonisation of the insurance products of the merged Bank was completed in Q3 2013.

In co-operation with the BZ WBK-Aviva companies, the Bank's proposition was expanded to include a new insurance product – life insurance "Family Care" ("Opiekun Rodziny").

The business loan insurance offer Biznes Gwarant was streamlined in line with customer expectations. Also, an increased insurance protection was afforded under the "Safe Money" ("Pewne Pieniądze") Financial Insurance Package and the rules were improved for payment of claims under "Your Safety"("Twoje Bezpieczeństwo") insurance for credit card holders. During the year, a number of initiatives were carried out to support the sales of selected insurance products, including the "Worry-Free Loan" ("Spokojny Kredyt"), insurance for cash loan borrowers.

WEALTH MANAGEMENT

Bank Zachodni WBK S.A. renders wealth management services to customers who have signed relevant agreements with the Bank. In June 2013, the Wealth Management Department merged with the Private Brokerage team of Dom Maklerski BZ WBK S.A., which apart from ensuring the higher number of advisors and a stronger geographical presence (14 offices nationwide) allowed for providing more comprehensive offering along with a larger and more diverse portfolio of assets under management. At the end of December 2013, the Department had nearly 2.7k customers, whose investments were in the order of PLN 7.6bn.

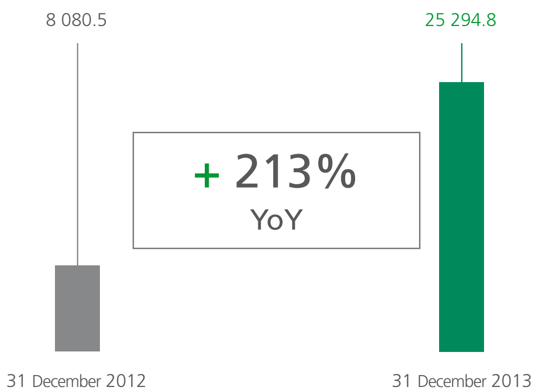
The development strategy of the Wealth Management business is to strengthen the integration with the entities from Bank Zachodni WBK Group, increase customer awareness about the Wealth Management offer and to leverage to a greater extent the experience and the solutions of Santander Group.

PERSONAL LOANS

Mortgage Loans

In 2013, the Bank was selling mortgage loans through its own branch network and through credit agents. The credit delivery was strong, primarily thanks to attractive products, high-quality service (by properly trained advisors) and effective credit processes that reduced the turnaround times to the minimum. High quality of the new exposures was ensured by the responsible lending and security policies as well as a sound analysis of the transaction risks. Housing loans represent 93% of the total sales, while the remaining 7% are equity releases available for any purpose, secured on the residential properties owned by the borrowers. Foreign currency loans account for 1% of the new loans, which is an effect of the Bank's prudential policy and the fall in demand for FX loans as the interest rates are kept low and the borrowers are increasingly aware of the FX risk. The Bank has around 8% share in the mortgage loans market.

Mortgage Loans as at the end of 2012 and 2013 (PLN m)

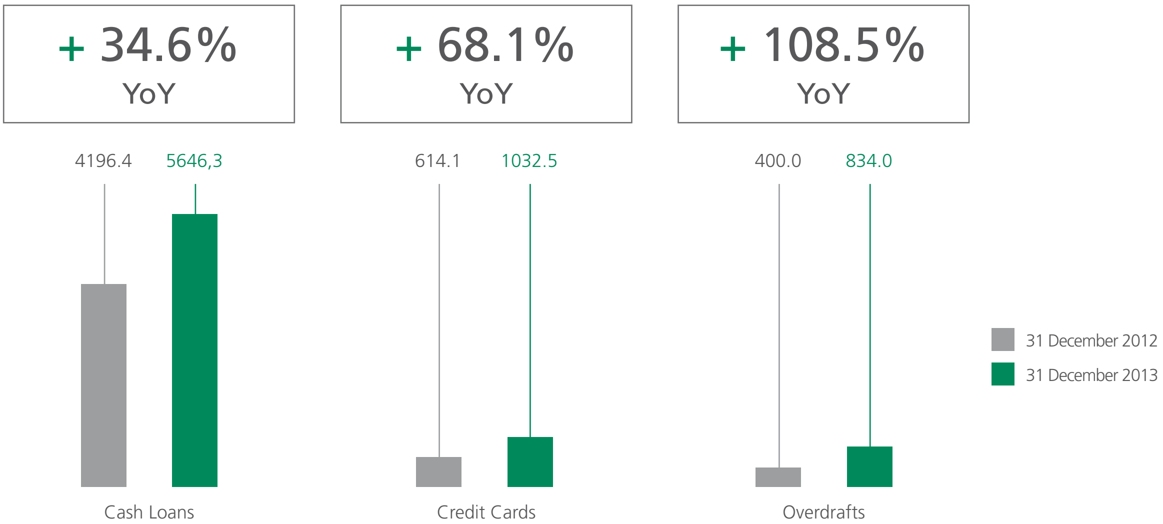


The key highlights of the Bank's mortgage business in 2013 are as follows:

- The implementation of a harmonised mortgage proposition and underwriting process across the network of the merged bank early in April.
- Building a profitable PLN mortgage portfolio and increasing the average margin on new loans.
- Taking steps to reduce the CHF portfolio, including the implementation of an attractive proposal of CHF to PLN conversion, innovative proposal encouraging the borrowers to prepay their loans and the campaign titled "Change your flat for a bigger one" ("Zamień mieszkanie na większe") whereby borrowers could prepay their CHF loans and refinance their property with a PLN loan obtained on preferential terms.
- Preparation of a new proposal that allowed borrowers to change a variable rate on their loans into a fixed rate on attractive terms.

CONSUMER LOANS

Consumer Loans for Personal Customers as at the end of 2012 and 2013 (PLN m)



Cash Loans and Overdrafts

In February 2013, the Bank standardised the cash loan parameters in the branch networks of both banks and harmonised the credit processes.

The cash loans offered by Bank Zachodni WBK S.A. are individually priced (depending on the risk level, assessed on a case-by-case basis), with the minimum interest rate of 7.99% p.a., which is one of the lowest in the market. The Bank's cash loan proposition is distinctive by its efficient processes, especially the short turnaround times.

The sale of cash loans increased by 25% YoY, driven by multi-media advertising campaigns addressed to personal customers of the merged Bank under the following slogans "Hurry up – the cash is waiting!"/"Nie zwlekaj, gotówka czeka!" (February to March 2013), "Consolidate your debt and save"/"Połącz kredyty i zyskaj" (May to July 2013) and the campaign "Cash before Christmas appeals to everybody"/"Gotówka przed świętami przemawia do każdego" (November-December 2013). In November, the pricing parameters of the cash loan were made more attractive within the Seasonal Loan proposal and the special offers designed for selected customers segments.

The sales of overdrafts were particularly strong, growing by 194% YoY, mainly as a result of a fee waiver for new limits as part of the promotional campaign.

Credit Cards

As planned under the harmonisation scenario for the credit cards portfolio, the Bank entered the last integration phase. Starting from 9 September 2013, all the Bank's branches have had a standardised sales and after-sales process for credit cards. The cards of the former Kredyt Bank S.A. were removed from distribution, and customers were given the possibility of replacing their existing cards with any other credit card currently on offer. The migration of the former Kredyt Bank S.A. customers to credit cards of Bank Zachodni WBK S.A. was progressed on a phased basis.

In 2013, Bank Zachodni WBK S.A. changed several parameters of its credit cards. Since 1 February 2013, interest on the utilised credit limit has been charged at a variable interest rate, linked to the NBP Lombard Loan rate. Furthermore, the validity period of credit cards was extended from two to four years.

In 2013, the Bank implemented the new 1|2|3 credit card, offered as a part of the 1|2|3 package or as a stand-alone product. The card is addressed to the customers from the Mass Affluent segment. In addition to the standard features of the BZ WBK S.A. credit cards, the new instrument allows its holders to win prizes in the form of a refund of 1%-3% of the non-cash transactions made in Poland in the POSs representing three categories of the retail business: grocery supermarkets, gas stations and restaurants & fast-food outlets. The refund is paid monthly provided that the customer uses the option of an automatic minimum debt repayment on the credit card accounts.

DEVELOPMENT OF OFFERING FOR SMALL FIRMS

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

Since 9 September 2013, the entire network of Bank Zachodni WBK S.A. has had the same range of banking products (deposit, settlement and credit products) and a standardised credit assessment process for SME customers. In 2013, the Bank's proposal for small firms was expanded to include several new items:

- In September, customers were offered an automatic renewal of overdrafts without having to contact the Bank or submit financial documents;
- In October, the Bank introduced the Fast Earning Business Deposit (Lokata Biznes Dynamicznie Zarabiająca), which is the first deposit for micro and small companies offering a progressive interest rate;
- In November, the Bank extended its proposition to include new MasterCard Business Debit card.

Furthermore, on 3 June 2013, Bank Zachodni WBK S.A. joined the government de minimis guarantee programme, whereby the State provides a partial guarantee for micro, small and medium-sized enterprises to facilitate their access to working capital finance. Since August 2013, the Bank has been ranked second in Poland (next to PKO BP) in the ranking of banks offering this product. In September 2013, a consent from BGK was obtained to increase the total limit of the guarantees offered from PLN 0.5bn to PLN 1.2bn.

In addition, since Q3 2013, the micro, small and medium-sized enterprises seeking a term loan or a working capital loan from Bank Zachodni WBK S.A. have been covered by the government's loan repayment guarantees programme called JEREMIE. The guarantees are distributed by the Bank's associate Fundusz Poręczeń Kredytowych POLFUND S.A.

In 2013, despite the difficult market, the segment of small firms was steadily increasing its deposit volumes while flexibly managing the deposit margin. The Bank also continued its rational SME credit policy without tightening the lending terms. Traditionally, the overdraft was the most popular credit product on account of flexible drawdowns of the sanctioned limit. There was also a demand for Business Express loan which can be used for any business-related purpose.

SELECTED DISTRIBUTION CHANNELS FOR RETAIL CUSTOMERS

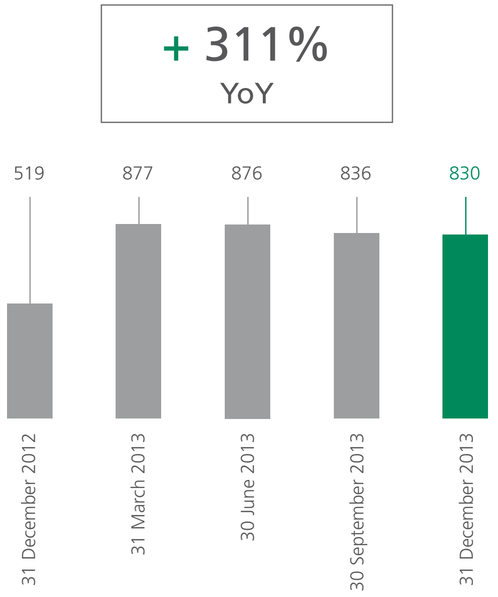
Branch Network and Complementary Channels

As a result of the merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A., the geographically complementary branch networks of the two banks were combined. As a result, Bank Zachodni WBK S.A. consolidated its position as the owner of the third largest traditional retail banking network in Poland. At the beginning of 2013, a new management structure, comprising 85 regions managed by 12 macro-regions, was implemented in the Branch Banking.

As at 31 December 2013, Bank Zachodni WBK S.A. had a network of 830 branches (locations). For comparison, as at the merger date (4 January 2012), the Bank had 889 branches, including 519 branches of Bank Zachodni WBK S.A. and 370 branches of Kredyt Bank S.A. The lower number of branches is an effect of the planned rationalisation of the branch network in terms of profitability, number of customers and catchment area.

At the end of December 2013, the Bank's branch network was supported by 113 Partner outlets (109 outlets as at 31 December 2012).

BZ WBK Branch Network as at the End of Successive Quarters from 31 Dec. 2012 to 31 Dec. 2013



Geographic Location of BZ WBK Branches in Poland as at 31 Dec. 2013

ATM network

At the end of June 2013, the ATM network of Bank Zachodni WBK S.A. comprised 1,385 machines (1,059 at the end of December 2012). As a result of integrating the ATM networks of the two banks, all the customers gained access to a uniform range of services effective from 1 September 2013. The Bank was continually upgrading its ATM network, replacing old ATMs with new generation machines. Selected ATMs were also being moved to the locations that ensured higher transaction numbers. In August 2013, the Bank implemented an ATM functionality for cash withdrawal without a card based on instructions issued via the Bank's mobile application.

The Bank also continued to expand its cash deposit machines network, which at the end of December 2013 consisted of 43 units.

Telephone and Electronic Banking Centre (TEBC)

In 2013, the Lublin Call Centre Department of the former Kredyt Bank S.A. was operationally merged with the Telephone and Electronic Banking Centre in Poznań and Środa Wielkopolska. In this way, products of the former Kredyt Bank S.A. and Bank Zachodni WBK S.A. customers could be serviced through all the three locations. The centres also started joint sales and service activities.

The TEBC supported the integration of the two banks by providing customers with effective communication on brand migration, harmonisation of products and services in the Branch Network and card migration, and also by attracting customers with a valuable retention proposal. Furthermore, by establishing the Insurance Sales Team the Centre also enhanced the quality of its insurance sales service.

In 2013, the TEBC recorded improved performance in nearly all of its sales areas.

In the last quarter of 2013, the Centre's operating model was extended in respect of customer and sales processes. Among other initiatives, TEBC piloted the service of branch customers and accessed the national system of cancellation of lost / stolen cards. On 7 October 2013, an agreement was signed with Finance Care Sp. z o.o. to take over certain services provided by TEBC.

Mobile Banking

In 2013, a particular focus was placed on the mobile banking development, with a number of new services offered to customers, including:

- Transfer to any external account;
- Transfer to a mobile (phone number);
- "Scan & Pay" transfer without entering beneficiary's details (by scanning the QR code);
- Purchase of travel insurance;

- Mobile purchases – possibility to buy different products and services from Partners;
- Cash withdrawal from an ATM without a card;
- Express Elixir transfers in the mobile banking;
- Mobile banking services for the customers of BZWBK24 Mini Firma.

In addition, the application graphical layout was changed to ensure a more intuitive navigation.

At the end of December 2013, the Bank's mobile banking had 239 thousand users, 91.7% more than a year before.

BZ WBK24 Electronic and Internet Banking for Retail Customers

In 2013, a new communication channel was launched – BZWBK24 TV, an application for Samsung TV with the SmartTV function. With this applications customers can monitor information about their accounts and cards, check transaction history and currency rates.

On 15 March 2013, Internet applications for a new product package became available on the web sites bzwbk.pl and kredytbank.pl. The package includes the Account Worth Recommending ("Konto Godne Polecenia") with its associated electronic banking services, a card and a sticker for contactless payments. The Account Worth Recommending was also being sold in the "buy-by-click" formula.

The online sale of credit facilities was gradually increasing, making the Internet the second most effective channel after the branch network. In 2013, the value of "buy-by-click" loans was PLN 216m, and up by 103% YoY.

In 2013, a number of promotional campaigns were held to encourage a stronger customer activity and to increase the value of non-cash transactions. The campaigns were targeted both at selected customer groups and the entire population.

BZ WBK24 Electronic Banking for Business Customers

In 2013, the Bank offered its customers a simple transaction service called BZWBK24 Mini Firma, which can be used to make transactions to own accounts and defined external accounts, top up GSM mobiles and check information on accounts and cards.

The business customers using the Bank's cards and/or electronic banking services were targeted with many promotional and incentive initiatives.

SERVICES FOR FINANCIAL INSTITUTIONS

Bank Zachodni WBK S.A. is a major service provider for banks and financial institutions with regard to domestic and international payments, cash services, card personalisation, issuance and handling, ATM network management and financial fraud prevention. Using own experience, the Bank enhances its products and functionalities to suit the requirements of its customers and gradually expands its offering.

In 2013, the Bank started to operate ATM networks of its new partners and also made its own network available through a network-sharing agreement. The DCC (Dynamic Currency Conversion) services and back-up cash management services in foreign currency were launched for a number of new customers. Furthermore, the Bank actively participated, together with Elavon as the partner merchant, in the expansion of the card payments market by installation of new POS terminals.

As at 31 December 2013, Bank Zachodni WBK S.A. co-operated with more than 20 banks. The Bank managed a network of over 780 third party ATMs and handled 2.9m Visa/MasterCard cards for third party institutions.

The Bank is trying to expand its card and ATM services as the key business lines in co-operation with financial institutions. New products are being prepared to be offered to partner banks.

2. BUSINESS & CORPORATE BANKING

CHANGES IN SEGMENTATION, ORGANISATIONAL STRUCTURE AND SERVICE MODEL

Following the legal merger, the corporate part of the Business Banking Division of the former Kredyt Bank S.A. was incorporated into the organisational structure of Business & Corporate Banking of Bank Zachodni WBK S.A. This led to more than a double growth of the customer base (from 4.2k as at 31 December 2012 to 8.9k as at 31 December 2013), larger team of corporate customer relationship managers and the Bank's stronger presence in some regions of the country. In order to improve efficiency in the target market segment and accelerate the integration process, a new organisational structure and operating model for the Division were implemented on 1 April 2013.

The new organizational structure and operating model have been based on new customer segmentation assumptions. The customer base was divided into three basic segments based on the turnover volumes:

- Corporate segment with turnover at PLN 40-500m;
- Large corporate segment with turnover over PLN 500m (except for customers fitting in the GBM segment definition);
- Property finance segment.

In the new structure, services for large companies are centralised in the Large Corporate Department, while the property sector is handled by the Corporate Property Department. The Corporate Banking Area provides services to corporate customers and is divided into three regions (North, Central, South) which match respective provinces. Each region has four Corporate Banking Centres. On top of that, a newly established Product Sales Department is responsible for the growth of cross-sales and non-interest income from transactional banking, trade finance and treasury products. It targets all customer segments via its sales staff working in 12 Corporate Banking Centres, Large Corporate Department and Corporate Property Department. The Business & Corporate Banking also covers Product Development and Operations Department.

In the adopted service model, the relationship manager works in a relatively close vicinity of the customer's business seat and his/her responsibilities include the management of relationship with customers assigned to their portfolio along with provision of tailored solutions from the Bank's comprehensive product offering (loans, deposits, liquidity management services, transactional banking, capital market and treasury operations). To ensure top quality services, the relationship manager closely cooperates with credit partners, product experts and central operational units (Business Service Centre, Central Settlements Area, Securities Centre). Services for corporates and large companies represent a growing source of the Bank's competitive edge which is driven by such features as: a wide network of advisors operating close to customers' premises, sound knowledge of the local market, speed of the credit decision-making process, tailored and innovative product offers and a dedicated transactional platform iBiznes24.

INTEGRATION PROCESSES AND PRODUCT OFFER DEVELOPMENT

In early 2013, the Bank organised a series of roadshows for corporate customers as part of a wide information campaign, presenting the grounds for the merger, the ensuing benefits for customers and prospects for further development of the organisation. Meetings were run by the Bank's top executives and were held in 12 cities which host Corporate Banking Centres of Bank Zachodni WBK S.A.

In 2013, customers of the former Kredyt Bank S.A. were gradually incorporated into the new service model adopted by the Business & Corporate Banking Division.

As part of the integration process for Business & Corporate Banking products and services, all customers were provided with access to the full offer of leasing and factoring products. Based on the review and analysis of the products as well as the experience of the merged banks, the best solutions were selected to ensure the highest quality of service for customers and increase competitive edge for the Bank. The changes included: harmonisation of the range of accounts and deposits offered to corporate customers; unification of the credit delivery process; improvement of the guarantees and L/Cs handling process; introduction of an automatic renewal option for overdrafts and revolving loans; implementation of a new cash management process and extension of functionality of the iBiznes24 electronic platform to include support for domestic and cross-border guarantees, payment orders for import collections with a future date and notifications about the registration of new instructions. Furthermore, customers were provided with an opportunity to check the balance of multi-purpose/multi-currency line online, approve several payment instructions with a single signature and generate reports in new formats. The key integration stage with regard to processes, procedures and products for business and corporate customers was reached on 9 September 2013.

With the new operating model in place and well-advanced integration process underway, the next steps towards transformation of the Business & Corporate Banking Business will focus on sales efficiency, cross-selling tools and processes, targets and incentive schemes, and customer service.

DEVELOPMENT OF PRODUCT OFFER AND SCOPE OF SERVICES

In parallel with delivery of the integration process, the Bank's offer for business customers was extended to include MasterCard Corporate Card (debit and charge card) which facilitates non-cash payments (including online transactions) and ATM withdrawals worldwide.

This product gives companies full control over expenses through individual limits and real-time view of transactions in iBiznes24 electronic banking system. MasterCard Corporate Charge cards also have a 21-day non-interest bearing period.

In pursuit of the agreement with Poland's state-owned Bank Gospodarstwa Krajowego (BGK), on 3 June 2013 Bank Zachodni WBK S.A. launched the "de minimis" Credit Guarantee Programme, which enables SMEs easier access to working capital financing by providing partial credit guarantees of the State Treasury. Under the BGK Portfolio Guarantee Line, the "de minimis" guarantee, which originally was earmarked for cash loans only, has also become available to cover investment loans (guarantees up to PLN 3.5m for a term no longer than 8 years).

In Q3 2013, the Bank joined the trade support programmes operated by the European Bank for Reconstruction and Development and the International Finance Corporation. The participation in the programmes enables the Bank to receive from both institutions guarantees securing trade finance transactions (L/C discounts and confirmations, guarantees issued under counter-guarantees). In addition, a framework agreement was signed with KUKE (export credit insurer), whereby the entity will be providing the Bank with payment guarantees for the liabilities arising from confirmations and discounts of export L/Cs.

INTERNATIONAL DESK

In 2013, International Desk in Business & Corporate Banking Division continued to acquire and maintain business relations with international clients, offering them access to new markets and support with expansion into all the geographies where Santander Group is present. As part of this activity several transactions were completed in the period under review, involving among others the Italian, Spanish and Argentinian market.

LEASING BUSINESS

In line with Bank Zachodni WBK Group strategy aimed at providing a full leasing offer via a single specialised entity, BZ WBK Leasing and BZ WBK Finanse & Leasing were merged on 29 March 2013 under Article 492 §1(1) of the Commercial Companies Code, i.e. all assets of BZ WBK Finance & Leasing were transferred to BZ WBK Leasing (merger through acquisition) in exchange for 868 600 registered shares with the par value of PLN 100 each issued to BZ WBK Finanse, the shareholder of BZ WBK Finance & Leasing.

In addition, the operational merger of BZ WBK Leasing and Kredyt Lease, a subsidiary of the former Kredyt Bank S.A., was completed. The business integration started with the harmonisation of the sales process and customer service standards, followed by the standardisation of credit risk assessment and IT system. This helped the Bank achieve cost synergy and improve its sales potential.

In 2013, post-merger BZ WBK Leasing focused on operations supporting the growth of sales to the agricultural sector (e.g. agricultural loan "2.99% and no fee"/"2,99% bez prowizji"), enhancement of co-operation with enterprises as part of attractive industrial equipment leasing programmes and expansion of the complementary offer (e.g. GAP index 20% insurance).

In the reporting period, BZ WBK Leasing (merged with BZ WBK Finanse & Leasing and Kredyt Lease) financed PLN 2.173.7m worth of net assets, up by 27.3% on the previous year. The most pronounced sales growth (+34.7% YoY) was reported by the vehicles segment, which increased to PLN 930.3m, while the sales in the plant & equipment segment grew by 25.2% YoY to PLN 1.154.9m.

FACTORING BUSINESS

In 2013, the turnover of BZ WBK Faktor came in at PLN 10.9bn and increased by 159% YoY, significantly exceeding the market growth rate of 16% YoY. This gave the company a market share of 11% and the fourth position in the ranking of the members of the Polish Association of Factoring Companies. At the end of December 2013, the company's exposure was PLN 1,686.7m and higher by 74.5% YoY. The growth of factoring turnover and receivables was driven by increasing popularity of factoring solutions as a tool for working capital financing, effective business acquisition in the Bank distribution channels and extension of the sales network after the legal merger.

3. GLOBAL BANKING & MARKETS

The Global Banking & Markets Division (GBM Division) provides an end-to-end support to leading local and global entities and groups of companies allocated to that segment based on their turnover. As at 31 December 2013, the GBM Division cooperated with ca. 100 groups from the energy, financial, FMCG, pharmaceutical, and shipbuilding sectors. The merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A. extended the offering to include custody services provided by the acquired bank.

The GBM Division operates within the global framework of the Santander Group, which facilitates entering into and maintaining relationships with customers.

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

- transactional banking products (Global Transactional Banking);
- credit facilities (Credit Markets);
- treasury products (Rates);
- investment products (Equity).

Selected units of the Division, in particular the Rates Area and Dom Maklerski BZ WBK S.A., render specialist services to all customers of the Bank. The Division steadily grows its business by delivering initiatives in individual product lines and groups which are also targeted at other segments through cross-selling.

2013 was the second full operational year of the GBM Division. The Division took intensive efforts aimed at full integration with units of the former Kredyt Bank S.A. Actions were also taken to develop and refine internal procedures.

At the business level, the GBM Division focused on enhancing the relationship with the existing customers as well as acquiring new business. On top of that, measures were taken to optimise the assets assigned to the Division.

GLOBAL TRANSACTIONAL BANKING

The Global Transactional Banking provides support to the Division's customers in respect of current accounts, deposits and working capital needs. The proposition also includes factoring, guarantees, trade finance, cash management and confirming.

In 2013, several financing transactions were finalised, which had a positive impact on the bottom line. Among other things, the Bank provided financing to companies from the energy, retail trade, shipbuilding and finance sectors and closed two inventory financing deals.

In 2013, Global Transactional Banking reported a year-over-year growth in the GBM deposit base. At the year-end the value of deposits and current account balances amounted to PLN 4.3bn.

Factoring receivables increased significantly year-over-year. The value of finance leases and guarantees remained on the similar level as at the end of December 2012.

CREDIT MARKETS

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

In 2013, the GBM Credit Markets Department entered into a number of new agreements with customers from the mining, trade, services and telecommunications sectors, including ca. PLN 1bn worth of participation in the record-high syndicated loan agreement in the Bank's history. This led to an increase in the credit liabilities of GBM customers. The Department also co-financed and provided advisory services to Polish and international groups of companies.

As at 31 December 2013, the Credit Markets loan-book, defined as a sum of open credit lines, totalled PLN 5.8bn.

RATES

The Rates Area provides specialist services to all Bank customers. The treasury product proposition includes interest rate and currency hedging instruments.

In the wake of the merger with Kredyt Bank S.A., the treasury-related operations of both banks were integrated in the Rates Area at the start of January 2013 by a physical merger of dealing rooms.

In 2013, the Rates Area continued the income diversification strategy supported by the development of interest rate products. It also launched an intensive campaign targeted at corporate and SME customers to promote the Bank's offer in the area of interest rate and currency hedges.

Transactions delivered by the Rates Area in 2013 included, in particular, the interest rate hedge for a company from the retail trade sector serviced by Santander GBM and interest rate hedges for companies from the fuel and telecommunications sectors.

EQUITY

The investment banking activity was pursued by the Corporate Finance Area, composed of Equity Area, BZ WBK Inwestycje, and Dom Maklerski BZ WBK (BZ WBK Brokerage House, DM BZ WBK).

Corporate Finance Area and Dom Maklerski BZ WBK S.A.

In 2013, the Corporate Finance Area acted as an advisor in a number of transactions, mainly mergers and acquisitions, public offerings and private placements. The Area successfully finalised the purchase of the stake in Zelmer S.A., the purchase of wind farms on behalf of PGE and successfully completed a M&A transaction in the construction sector. This gave the Bank the leading position among advisors on the mergers and acquisitions market.

Both the Corporate Finance Area and DM BZ WBK S.A. participated in the sale of shares of Bank Zachodni WBK S.A. – announced by KBC Bank NV and Banco Santander S.A. – for a total value of PLN 4.9bn (21.4% of the Bank's capital share). DM BZ WBK S.A. acted as one of the offering parties and one of global coordinators responsible for book-building.

Other transactions arranged by the Corporate Finance Area and DM BZ WBK S.A. in 2013 included: IPO of Polski Holding Nieruchomości S.A., sale of Kruk S.A. shares via a private equity fund, floating of International Personal Finance plc. and issue of Alior Bank shares.

As the manager of the JESSICA Programme (Urban Regeneration Fund for the Greater Szczecin), the Corporate Finance Area entered into another three JESSICA loan agreements for the purpose of revitalisation of heritage buildings in Szczecin. Consequently, the total pool of funds under management was contracted in 2013, which means that the Bank met its obligations arising from the Fund Investment and Management Agreement signed with the European Investment Bank on 29 March 2011.

The performance of DM BZ WBK S.A. in 2013, as measured by the trading volumes in the main WSE markets, can be summarised as follows:

- Equity market: 5th position maintained with the share in the stock trading at 7.1% (slight increase year-on-year).
- Futures market: 3rd position with the market share at 10.9%.

VI. DEVELOPMENT STRATEGY

1. DELIVERY OF BANK ZACHODNI WBK S.A. STRATEGY FOR 2013-2015

In 2013, Bank Zachodni WBK Group pursued its strategy for 2013-2015 and initiated works on the Next Generation Bank Programme.

The key strategic goal of Bank Zachodni WBK Group is to enhance its leading position as a universal financial institution providing a full array of financial services in the area of retail, business and investment banking. As part of its strategic vision, the Group intends to:

- Provide unparalleled customer service to build customer loyalty and satisfaction;
- Significantly diversify its income sources, while maintaining sound capital and liquidity position;
- Continue the prudent management of risk and asset quality;
- Improve efficiency on the back of top-notch IT systems and fast-track customer service;
- Achieve best-in-class profitability ratios;
- Increase employee satisfaction on the basis of robust corporate culture and support from the strong management team.

To deliver on the strategy, Bank Zachodni WBK Group will pursue the following goals:

- Enhance its presence in the Polish banking sector; strengthen the market position as the third largest bank in Poland; expand the range of products and services; improve customer service and overall customer experience;
- Maintain strong profitability ratios on the back of diversified income sources, effective cost management policy and revenue synergies;
- Gradually improve its total assets, ensure stable funding sources, and maintain solid capital position, as evidenced by a comfortable capital adequacy ratio;
- Achieve best-in-class efficiency and productivity ratios by leveraging Santander Group’s economies of scale;
- Build up the reputation of the best employer in the Polish banking sector by continuously developing the staff expertise;
- Maintain the loans-to-deposits ratio below 100%;
- Further reduce the cost-to-income ratio through active management of revenues and expenses;
- Capitalise on the alliances and acquisitions to reinforce the Group’s market position in Poland.

2. THE NEW GENERATION BANK PROGRAMME

NEXT GENERATION BANK

In October 2013, Bank Zachodni WBK S.A. launched the Next Generation Bank Programme to strengthen its position as the first-choice bank. To that end, greater than ever focus is to be placed on expectations and needs of the Bank’s customers and stronger co-operation is needed across the entire organisation. In the first months of the Programme, changes were developed mainly in the areas of Retail Banking, Business & Corporate Banking, Global Banking & Markets (GBM) and Human Resources (HR). Ultimately, this enterprise-wide initiative will have an impact on all aspects of the Bank’s business. It is also the fundamental element of the business strategy for 2014-2016.

In the Retail Banking works have been launched to implement a new approach to customer segmentation to ensure that products and services are better tailored to customers' needs. One of the main changes is the assignment of customers to Relationship Managers (RM) who from now on will manage their customer portfolios using appropriate CRM tools. Works are also underway to improve the quality of customer service (both in terms of service standards and simplification of processes and procedures) and to modify the incentive scheme so as to effectively enhance the implemented changes.

Business & Corporate Banking has developed a comprehensive programme to improve sales efficiency which will be implemented starting from Q1 2014. In addition, a new incentive scheme was put in place to award customer acquisition efforts, effective use of capital, increase in non-credit income and development of the customer relationship through product portfolio diversification that creates value for the customer. Currently, solutions are being developed to improve the efficiency of key sales and after-sales processes.

In the GBM Division, works are underway to promote and increase the sales of GBM products to other business segments.

A number of HR initiatives have also been launched. In Q4 2013, a series of focus meetings with branch employees were organised (about 1.5 thousand employees involved) to share the ideas supporting the Programme. Selected ideas are now being implemented or will be implemented in the future, in accordance with the customer-centric approach. Additionally, measures have been taken to modify career paths, reshape recruitment models and induction programs, and introduce changes to the performance management process.

3. FORECAST BUSINESS DEVELOPMENT ENVIRONMENT IN 2014

Economic recovery, initiated in 2013, should continue in 2014. Further acceleration of domestic demand is forecast both in private consumption and fixed investment. At the end of the year the pace of economic growth may be close to 4% YoY, averaging out at ca. 3.5% p.a.

The world economy, and in particular the euro area, is expected to continue its recovery. An improvement of the situation for the Poland's main trading partners will positively affect exports to those countries. This, coupled with the expected slight appreciation of the zloty, should cause that the net exports will continue to be an important contributor to economic growth. However, the importance of this factor may be weakening in the subsequent quarters due to the accelerated imports growth. The improvement of the economic situation will result in further recovery on the labour market, which in turn will favour acceleration in private consumption growth, supporting demand for consumer credit and mortgage loans. An improving assessment of the economic outlook should also stimulate investment growth, especially that interest rates will remain low. Economic recovery will be evident across economic sectors and will be based on stronger fundamentals than in 2013.

The zloty will be gradually appreciating throughout the year, due to an improving economic climate. However, temporary periods of depreciation are possible in case of turbulences in the world's financial markets. We expect that at the end of the year the EUR/PLN will be close to 4.00.

Inflation will be increasing gradually, however, it is expected to stay below the NBP target until the end of the year. Despite the improvement of economic growth, the output gap remains negative, which is why a strong surge of inflationary pressure should not be expected in the near term. Weak inflation growth will be favoured by sluggish price growth in the world economy and low pressure from commodity prices.

The main interest rates will remain stable at least until the middle of 2014, as declared by the Monetary Policy Council in its forward guidance. In the following months the MPC will start analysing the situation on a "month-to-month" basis. Significant acceleration of economic growth and some rise in inflation should encourage this authority to consider interest rate hikes. This year two hikes and a rise of the reference rate to 3.00% can be expected. However, the possible extension of the MPC (proposal of the Finance Ministry) may affect the expected path of monetary tightening.

VII. HUMAN RESOURCES AND CORPORATE CULTURE

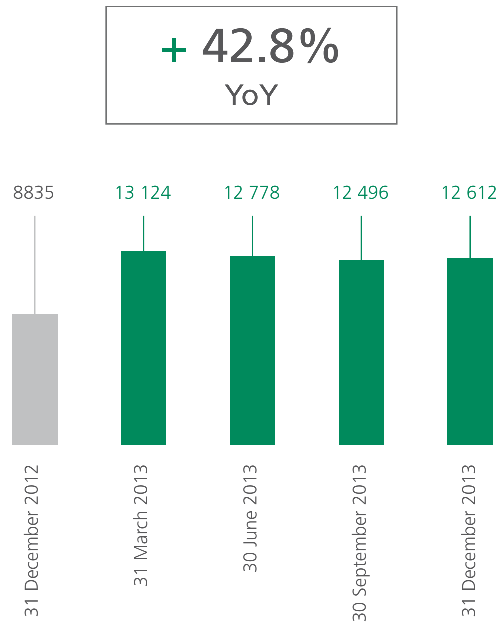
1. HUMAN RESOURCES MANAGEMENT

HUMAN RESOURCES

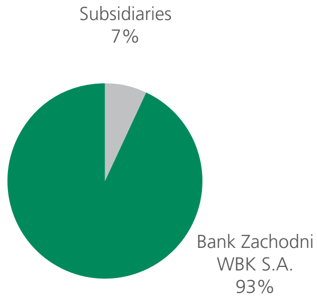
As at 31 December 2013, the number of FTEs in Bank Zachodni WBK Group was 12,612, i.e. 3,777 higher YoY, as a result of acquisition of Kredyt Bank S.A. and gaining control over BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ.

In 2013, the Bank continued streamlining organisational units in the Business Support Centre and Branch Banking, with due regard to optimisation targets, current business needs and market environment.

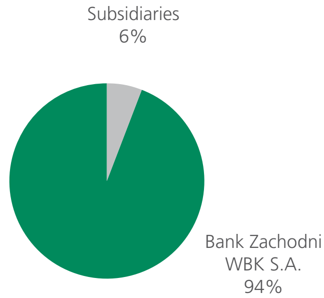
Employment in BZ WBK Group at the end of consecutive quarters from 31.12.2012 to 31.12.2013 (in FTEs)



Employment Structure in BZ WBK Group as at 31.12.2012



Employment Structure in BZ WBK Group as at 31.12.2013



HR INITIATIVES

Career Paths

In 2013, as part of the integration process, the Bank offered highly committed and motivated employees an opportunity for professional reorientation. To that end, the Inplacement Programme was launched to support employees who decide to transfer to a new unit within the Bank, e.g. between the Business Support Centre and the Branch Banking. The employees were offered assistance in relation to the change of their job role, including assessment of their aptitude, training and internship options.

Management of Employee Relationships

In June 2013, the Bank carried out another edition of the Staff Attitude Survey – PULS BZ WBK. Each staff member had the opportunity to give their opinion (via an electronic questionnaire) regarding the corporate culture, training, remuneration system, management style, management team and other issues. The purpose of this anonymous and confidential survey was to help understand the main factors impacting staff commitment as well as to gather feedback about the required support following the merger between Bank Zachodni WBK S.A. and Kredyt Bank S.A.

Staff Performance Management Process

Bank Zachodni WBK Group continues its Performance Management Process, based on the objectives set in three performance areas: business focus, customer focus and people focus. In 2013, the performance review system was standardised. In April, the managers from the former Kredyt Bank S.A. were trained on the Performance Management Process so that it could be delivered across the entire organisation.

Other HR Initiatives

In 2013, a project was launched to migrate the data of the former Kredyt Bank S.A. employees to SAP HR, the IT system used in Bank Zachodni WBK S.A. for human resource management purposes. Stage I of this initiative (standardisation of the personnel and payroll module) was successfully completed, thus ensuring a shared standard of services for employees across the Bank.

REMUNERATION SYSTEM

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

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

PERFORMANCE SHARE PROGRAMME

In 2013, BZ WBK Group continued the three-year 4th Incentive Scheme which had been launched on 20 April 2011 by the Annual General Meeting of Shareholders as a continuation of the existing Group's Performance Share Programme aimed at motivating and retaining the top-performing executives. Initially, the scheme covered 496 key employees of BZ WBK Group. Over the years 2011-2012 five other persons were qualified to join the programme. Having executed an agreement with the Bank, the participants are eligible to subscribe for and acquire a defined number of shares at the nominal value of PLN 10 provided that certain economic criteria are met. The shares may be vested depending on the Bank's performance in the years 2011-2013. To exercise the rights, the Bank will issue up to 400,000 of performance shares.

The three-year long 4th Incentive Scheme, is monitored to check if any of the employees might have lost their participant status. So far, the only reason for losing the status was the termination of the employment relationship, either with the Bank or another entity of BZ WBK Group. As at 31 December 2013, there were 473 participants. 28 participants of the 4th Incentive Scheme lost their participant status.

TRAINING

In 2013, intensive training was delivered to support the integration process. A number of projects were launched for employees of the former Kredyt Bank S.A. to ensure full standardisation of operational activity and infusion of the corporate organisational culture. These initiatives included, among others, the integration support programme focused on organisational and teamwork-related aspects and an induction program for former Kredyt Bank S.A. employees by way of a series of meetings on the corporate values of Bank Zachodni WBK S.A. and challenges facing the new organisation. The largest project was addressed to the branch banking network employees and its objective was to facilitate harmonisation of the operational activity of the merged Bank as well as to ensure timely delivery of the brand migration process. The employees were trained in the products and services, systems and applications supporting customer service, SME lending and operational security of branches.

The training activities were underpinned by two independent e-learning platforms – SAP for employees of pre-merger Bank Zachodni WBK S.A. and LearnWay for employees of the former Kredyt Bank S.A. Training was delivered to all employees of the merged Bank. The Bank also continued actions aimed to develop the competences of BZ WBK Partner outlet agents.

In 2013, the Bank delivered 215 workshops and 146 e-learning courses for the staff of Branch Banking and Business Support Centre. The number of training hours came in to the total of 483,4k, i.e. 40 hours or 5 days on average per each employee. The number of attendants totalled 107.3k, 17% of which related to workshop courses.

Bank Zachodni WBK S.A. also continued the development programmes such as: Leaders of the Future (an initiative supporting the development of outstanding employees with a potential to take up managerial and expert roles across the Bank), Mentoring (addressed to the top-performing employees), the program for the newly appointed managers, and local development initiatives (responding to specific needs of divisions and regions). In 2013, the Bank also carried on with the "Leader's Academy" project initiated by Kredyt Bank S.A., co-financed from the European Social Fund. Five training modules of Harvard Business Review were adapted and the "Successful Manager" module was implemented to meet the specific needs of the organisation and the expectations of the key executives at the time of merger and change. In total, 838 people participated in the project.

2. BUSINESS ETHICS

Bank Zachodni WBK Group endeavours to maintain the highest ethical standards across all its activities.

For many years, the Group followed the Code of Business Ethics, which set out the general standards of behaviour underpinning its corporate culture. In 2013, the General Code of Conduct was implemented across Bank Zachodni WBK Group which promotes such values as: equal opportunities, respect, work-life balance, health and safety at work, environmental protection and collective rights. Compared to the previous Code, the new one is more extensive and includes not only general ethical standards but also specific rules on relations with employees, customers and suppliers, conflicts of interests, information security and fraud. It is supplemented with detailed guidelines to facilitate its interpretation.

In line with the binding ethical standards, the Group complies with law and acts in accordance with the best corporate governance and risk management models. A number of training initiatives have been developed and addressed to all employees with the specific aim of protecting the Group's reputation. The ethics and compliance e-learning programme launched a few years ago helps reinforce the best ethical behaviours among employees.

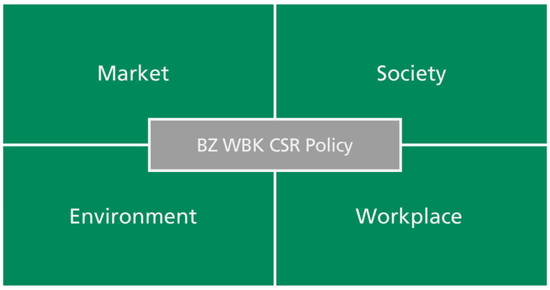
The Group also promotes open and sincere communication, encouraging staff to speak up about any issues of concern. To that end, the Bank maintains dedicated communication channels for the staff to raise any matters, such as the breach of ethical standards.

3. CORPORATE SOCIAL RESPONSIBILITY OF BANK ZACHODNI WBK S.A.

For many years now, Bank Zachodni WBK S.A. has been committed to corporate social responsibility. Initially, the Bank focused on the philanthropic and charity initiatives which evolved into what has become the fundamental aspect of the Bank's strategy. In 2012, the Bank implemented the Corporate Social Responsibility and Sustainable Development Policy in which it undertook to give due respect to social interests and ethical and environmental considerations in each and every action it takes. This approach is an integral part of the business management, long-term commitment and investment for the future.

In 2013, Bank Zachodni WBK S.A. was re-admitted to RESPECT Index, a Warsaw Stock Exchange index of the most socially responsible corporate citizens.

FOUR AREAS OF CORPORATE SOCIAL RESPONSIBILITY OF BANK ZACHODNI WBK S.A.



Below is an overview of the key CSR initiatives launched or continued by Bank Zachodni WBK Group in 2013.

FINANCIAL EDUCATION

Educational series published in the Polish press.

- "School Card" – a project aimed to enhance security in schools, promote cutting-edge solutions and teach economics. The Bank provides schools with an access control system and school cards for all students, teachers and administration staff which combine the features of an ID card used to enter and leave the school premises and a payment card (once it is topped up). In 2013, the programme was joined by 71 schools (126 schools in total).

- Economics cartoon – a competition organised in co-operation with the Civil Development Forum. The winning entries will be used to draft lesson plans about entrepreneurship and economics which will then be available for teachers free-of-charge.

ENVIRONMENTAL PROTECTION INITIATIVES

- "Donate your old mobile phone" ("Komórki do zbiórki") – an initiative taken together with Our Earth Foundation to collect old mobile phones at the Bank's branches. The proceeds from recycling and sales were used to replace household appliances in the child support institutions.

- Green branches – another 30 branches of Bank Zachodni WBK S.A. were certified as Green Branches by the Environmental Partnership Foundation to confirm that they meet ecological standards (33 branches in total as at the end of 2013).

- Ecological workshops for children of BZ WBK S.A. employees.

BARRIER-FREE BANKING

Since 2010, the Bank has continued the "Barrier-free Banking" programme to enhance the disabled customers' experience with BZ WBK S.A. in all contact channels. The Bank systematically breaks down barriers and introduces facilities for disabled customers. The following projects were completed within the framework of the programme until the end of 2013:

- Architectural barriers were eliminated from 100 branches (as confirmed by the Certificates of Availability issued by the Integration Association).

- 215 ATMs designed for the visually impaired were made available.

- BZWBK24 home banking services were certified for accessibility to visually impaired customers.

The standards of services for the disabled customers include the opportunity to arrange the advisor's visit at the customer's place, and dedicated points in branches certified for availability where the disabled customers are served first. The "Traineeship Without Barriers" programme was implemented to enable the disabled students to work as trainees in the Bank. The project was awarded an accolade in 2013 by the Student Parliament of Poland.

PATRONAGE OF CULTURE AND ARTS

Patronage of the arts and culture is an integral part of social actions taken by Bank Zachodni WBK S.A. In 2013, under the joint patronage of the Bank and Banco Santander Foundation, "From Cranach to Picasso. Santander Collection" exhibition was organised in the Wrocław National Museum, presenting several dozens of the most important works of the Spanish painters and court artists from 16th century to 1970s. The exhibition turned out to be a high-profile event which attracted a record high number of visitors.

In 2013, the Bank organised the 9th edition of the prestigious BZ WBK Press Photo contest. In connection with this event, photography workshops were organised for young photographers in a dozen or so Polish cities.

The Bank proactively engages in various cultural events addressed to the disabled people. In 2013, it supported the next edition of the educational project "5 senses. EMOTION" – theatre and dance workshops for the hearing-impaired, visually-impaired and intellectually disabled. As part of the initiative, professional dancers from the Polish Dance Theatre were joined by the disabled participants to give a performance, an unprecedented event of this type in Poland. The Bank also contributed to the 4th edition of the HumanDoc International Documentary Film Festival which, apart from traditional screenings, featured films for the visually or hearing-impaired audience under the patronage of Bank Zachodni WBK S.A.

SANTANDER UNIVERSIDADES

Santander
UNIVERSIDADES

The Santander Universidades Programme was launched in Poland in December 2011 as part of the Santander Group's global initiative delivered for more than 15 years. The Programme has earned the Group a reputation of the financial institution which is most committed to higher education.

Santander Universidades cooperates with 39 universities in Poland, 8 of which joined the programme in 2013. The Bank signed detailed agreements with 22 universities under which 56 projects were launched including research, educational, development and technological projects as well as initiatives that promote entrepreneurship and mobility among students, graduates and academics. In 2013, Bank Zachodni WBK S.A. allocated PLN 1.8m for that purpose.

One of the pillars of the Santander Universidades Programme are the Global Programmes which offer Polish institutions an opportunity to co-operate and share knowledge with the world's most prestigious universities. Bank Zachodni WBK S.A. also promotes the co-operation between academic and business communities and engages in internship and scholarship initiatives. On top of that, the Bank offers an extensive array of products, services and distribution channels tailored to meet the needs of customers from the university segment, i.e. students, graduates, academics and administration staff.

CHARITY AND EDUCATIONAL ACTIVITIES OF BANK ZACHODNI WBK FOUNDATION

Bank Zachodni WBK Foundation was set up in December 1997 to aid the disadvantaged children. In the course of time, it has slightly changed its profile to include the support for the ambitious youth. The grant programmes include:

- The "Bank of Children's Smiles" initiative launched in 2004 to help children from dysfunctional families. The Foundation offers mini-grants to institutions and organisations for educational projects. In 2013, the financial support was provided to 166 organisations.

- The "Bank of Ambitious Youth" initiative undertaken in 2010 to support the ambitious young people engaged in educational, public and social projects. The purpose of the programme is to unlock the potential of the young creative Poles who cannot turn their ideas into reality without the financial support. In 2013, the Foundation supported 160 projects.

- Furthermore, the Foundation coordinates the corporate volunteering initiatives by providing advice and funding to bank employees who are committed to help others or engage in important social events.

4. CUSTOMER RELATIONSHIPS

QUALITY MANAGEMENT

The quality of customer service is the fundamental element of the customer-focus strategy pursued by Bank Zachodni WBK Group. The key assumptions are as follows:

- Customer-centric approach – all actions are aimed to tailor the products and service model to the needs of the customers.

- Two-way communication aimed to receive customer feedback to understand and meet customer expectations (also on the basis of Customer Satisfaction Index surveys).

- Access to all products and services in each contact point.

- Diversification of distribution channels with a particular focus on development of mobile and electronic banking.

- High customer satisfaction index despite the ongoing integration process.

In 2013, the Bank recorded high Customer Satisfaction Indices (CSI) in two surveys carried out in the periods from March to May and from July to September. As the survey methodology was modified in the reporting period, the results cannot be compared with the previous years' outcome.

The customer satisfaction surveys focus on quality attributes classified into categories such as brand image, customer relationship, service quality, range and parameters of products and services as well as key distribution channels and critical customer segments. The Bank's approach was significantly revised. Consequently, the scope of analysis was extended to establish reasons for customer satisfaction/dissatisfaction with services provided via the branch network, Internet, ATMs, or helpline. In addition, in 2013 projects were launched to assess customer satisfaction at the key stages of the relationship with the Bank such as account opening, complaint filing or credit card purchase.

To ensure customer excellence, the quality of services rendered by branches and the telephone banking centre at the time of integration were monitored in the form of mystery shopping. In 2013, four mystery shopping exercises were conducted in each branch.

Based on the results of the customer surveys delivered under different methods, corrective measures and improvement initiatives were taken, both in branches and other distribution channels.

MARKETING AND COMMUNICATION CAMPAIGNS

2013 was marked by record-high marketing activity aimed to enhance the position of Bank Zachodni WBK S.A. as the third largest banking institution in Poland following the merger with Kredyt Bank S.A.

In H1 2013, the Bank ran Poland-wide marketing campaigns to promote cash loan, consolidation loan and Account Worth Recommending (Konto Godne Polecenia), as well as numerous customer acquisition initiatives and special offers. Communication campaigns were delivered to gradually build the awareness of Bank Zachodni WBK S.A. brand among the customers of the former Kredyt Bank S.A. In view of the upcoming rebranding of branches and the Internet banking platform, in July and August an additional information campaign was launched for the customers of the former Kredyt Bank S.A. in order to retain customer relationships and minimise the attrition rate.

In H2 2013, the Bank launched the biggest ever image-building and sales campaign to capitalise on the new positioning of Bank Zachodni WBK: Account Worth Recommending (Konto Godne Polecenia), mobile phone-enabled current accounts, SME loan and cash loan.

In 2013, the Bank took actions to enhance relationship with business and corporate customers, including road-shows for 2.5k customers in relation to the merger with Kredyt Bank S.A., corporate banking campaign and relationship meetings with around 700 customers in three locations in Poland.

5. AWARDS, RECOGNITIONS, POSITIONS IN RANKINGS

BANK ZACHODNI WBK S.A. (BZ WBK S.A.)	
FINANCIAL BRAND OF 2013, IN THE "BANK" CATEGORY	▪ Award received from the Gazeta Finansowa weekly. The Bank was recognised for the sustainable and coherent development, innovation and friendly relationship with personal and business customers. The smooth delivery of the merger with Kredyt Bank S.A. was acknowledged as well.
SOCIALLY DEVOTED	▪ Certificate from Socialbakers (social media analytics platform), in recognition of the top customer communication standards in social media (January 2013).
2012 IT LEADER OF FINANCIAL INSTITUTION AWARDS	▪ An accolade in the 11th edition of the IT Leader of Financial Institution Awards, a competition organised by Gazeta Bankowa, in the "Back-office Systems" category for end-to-end design and implementation of MIS Corpo for the BZ WBK Business and Corporate Banking Division.
HITS OF THE YEAR 2013	▪ An award in the 6th edition of the technological competition of Gazeta Bankowa ("Hits of the Year 2013") in the "Products" category for credit products available in the "buy-by-click" formula (March 2013).
BEST BANK 2013	▪ Recognition for BZ WBK's effectiveness in the "Large Bank" category in the 21st edition of the 2013 Best Bank contest (May 2013).
TRUSTED BRAND	▪ The Crystal Trusted Brand Emblem and Crystal Trusted Brand Statuette awarded in the "Bank" category, based on consumer surveys organised by Reader's Digest (May 2013).
COMPANY OF THE YEAR 2013	▪ At the Economic Forum in Krynica, the Bank was named the "Company of the Year 2013" in recognition of sustainable support for Polish companies and effective financing of Polish infrastructure in 2013 (September 2013).
TOP BRAND CONSUMER AWARDS 2013	▪ Top accolade in the "Bank accounts for seniors" category for Konto Aktywni 50+ (Active 50+ Account) in the 9th edition of the Poland-wide ranking "Top Brand Consumer Awards 2013".
"TOP 30" UNIVERSUM STUDENT SURVEY	▪ Bank Zachodni WBK S.A. was ranked among the best 30 Polish employers in the "business" category of the Universum Student Survey (the largest survey among students in Poland).
BZWBK24 MOBILE NAMED THE BEST MOBILE APPLICATION	▪ The Bank took the 1st position in the Bank applications ranking conducted by Puls Biznesu, in recognition of the unparalleled functionalities and ATM/branch locator available in satellite or standard mode (November 2013).
BEST IN CENTRAL & EASTERN EUROPE	▪ The award for the best distributor of structured products in Central in Eastern Europe (November 2013) granted by Incisive Media (international business-to-business information provider).
SUPERCESSIO 2013 AWARD	▪ The Bank received the 1st award in the financial creditors category at the 4th Debt Management Conference (November 2013) in recognition of the property bidding procedure.
DOM MAKLERSKI BZ WBK S.A. (BZ WBK S.A. BROKERAGE HOUSE/DM BZ WBK S.A.)	
3RD PLACE IN THE RANKING OF THE BEST BROKERAGE ACCOUNTS FOR PRIVATE INVESTORS	▪ DM BZ WBK S.A. was recognised by Puls Biznesu for the high quality of customer service (mobile application, long business hours of the call centre, availability of customer service points and the AmiBroker program for technical analysis).
RECOGNITION OF ANALYSTS' PERFORMANCE	▪ DM analysts were evaluated as follows in the ranking of the best analysts published by Parkiet: 1st place: production sector, incl. chemical industry, 3rd place in the telecommunications, IT and media sectors, and 2nd place among technical analysts (21 January 2013).
WSE AWARD FOR THE MOST ACTIVE BROKERS	▪ WSE award for the highest share in the volume of transactions (futures and options) in 2012, excluding market maker transactions (21 February 2013).
THIRD TOP PERFORMANCE IN THE SECTOR	▪ Third position in the ranking of domestic brokerage houses reporting the highest net profit (Parkiet, 23-24 March 2013).
BEST BROKER	▪ Individual investors named DM BZ WBK S.A. the best broker in the ranking of brokerage houses published by Forbes in October 2013. The company scored particularly well for the reliability, speed and functionality of its platform. Customers also appreciated the professionalism of the company's experts and its direct service quality.
DM BZ WBK TEAM – ANALYSTS OF THE YEAR	▪ DM BZ WBK S.A. analyst team topped the annual ranking of Parkiet daily published in January 2014, with the highest score achieved in the corporate access category. The accolade was also given to individual analysts of DM BZ WBK S.A.
BZ WBK TOWARZYSTWO FUNDUSZY INWESTYCYJNYCH (BZ WBK MUTUAL FUND CORPORATION/ BZ WBK TFI)	
ARKA BZ WBK AKCJI TURECKICH (TURKISH EQUITY SUBFUND) – INVESTMENT FUND OF THE YEAR (PULS BIZNESU)	▪ Arka BZ WBK Akcji Tureckich (Turkish Equity Subfund) was recognised as the investment fund of the year as it topped the ranking compiled by Puls Biznesu (7.01.2013: "Brokers well-poised for the bull market") with the highest annual rate of return (49.5% in PLN). Awards were also received by Arka BZ WBK Zrównoważony (21.0%, 3rd place in the ranking of balanced funds) and Arka BZ WBK Stabilnego Wzrostu (18.2%, 3rd place in the ranking of stable growth funds). ▪ The manager of the Turkish Equity Subfund received the Golden Portfolio award in recognition of the best financial result earned on the investment fund market in 2012 (49.5% in PLN). This above-average performance resulted from good economic climate on the Turkish market and well-chosen portfolio of companies managed by the sub-fund.
ARKA AMONG THE MOST POPULAR INVESTMENT FUNDS IN Q1 2013	▪ According to Analizy Online, the top three most popular products (in terms of net sales for Q1 2013) included two Arka sub-funds: Arka Prestiż Obligacji Korporacyjnych (1st place) and Arka BZ WBK Ochrony Kapitału (3rd place).
BZ WBK LEASING	
BUSINESS GAZELLE	▪ Award granted by Puls Biznesu to Polish companies demonstrating the most dynamic business growth.
ENGINE OF POLISH ECONOMY	▪ BZ WBK Leasing was recognised for its AUTOLEASING service (quick and simple financing of vehicles) by Gazeta Finansowa which awards best products addressed to SME customers.

VIII. ORGANISATIONAL AND TECHNOLOGICAL DEVELOPMENT

1. ORGANISATIONAL CHANGES

BRANCH BANKING AND BUSINESS SUPPORT BANKING OF BANK ZACHODNI WBK S.A.

The integration process following the legal merger with Kredyt Bank S.A. produced a number of changes aimed to adjust and optimise the customer service models and the organisational structure of Business Support Centre and Branch Banking.

At the start of January 2013, the Bank introduced a new organisational structure of BZ WBK Branch Banking to facilitate the management of the combined network and to foster development of the Bank's sales potential. Branches were allocated to 85 regions reporting to 12 macroregions.

The analyses of network efficiency, which took into account, among other things, profitability of outlets, the number of customers serviced and the overlapping catchment areas, revealed a lot of potential for optimisation, which became reflected in the branch restructuring plan. In 2013, 61 branches were restructured, originating both from Kredyt Bank S.A. and Bank Zachodni WBK S.A. networks. 19 branches were closed and other 42 branches were transferred to the acquiring branches where two branches continued to operate in the same location under their own sorting codes. The rationalisation was designed to bring maximum cost synergies and achieve a stronger business concentration in individual branches. Delivery of the plan will be carried on in 2014.

In Business & Corporate Banking a new corporate model and a new organisation structure were implemented based on the modified customer segmentation. Management of relationships with the largest corporate customers was centralised in Large Corporate Department, while Corporate Property Department became responsible for servicing the property sector. Corporate Banking Area, providing services to the segment of corporate customers, was divided into three regions with four Corporate Banking Centres in each. Also, Product Sales Department and Product Development and Operations Department were established to support, within their respective areas of responsibility, all the customer segments managed by Business & Corporate Banking Division.

In Business Support Division, Test and Quality Assurance Department was created, which previously formed a part of IT Area. Central Settlement Services Area and Banking Operations Management Area were merged into a new Settlements Area, which also includes custody services unit of the former Kredyt Bank S.A. In Q2 2013, System Development Area was reorganised as a result of establishing the Mobile and Internet Banking Area. The new Area includes Application Development Department and Corporate and Cards Systems Department. Operational Risk Management Department was transferred from Business Support Division to Risk Management Division.

In the HR Management Division a new unit was established: Compensations and Benefits Department which incorporates the former Compensation and Benefits Team. To be better positioned to meet new challenges, two units were established: Recruitment and Outplacement Office in the Business Partnership Area and the Branch Banking Development and Optimisation Team, which forms part of the Logistics and Property Management Area and is responsible for a comprehensive delivery of the branch network rationalisation processes.

EXPECTED DEVELOPMENT OF THE STRUCTURE OF BANK ZACHODNI WBK GROUP

In 2014, Bank Zachodni WBK S.A. plans to acquire a 60% stake in Santander Consumer Bank and sell its stake in BZ WBK Asset Management. The intended transactions will be carried out based on the existing agreements and resolutions of the respective governing bodies, in accordance with the details presented below.

Investment Agreement between Bank Zachodni WBK S.A., Santander Consumer Finance. and Banco Santander Relating to the Acquisition of Shares in Santander Consumer Bank by Bank Zachodni WBK S.A.

On 27 November 2013, Bank Zachodni WBK S.A. entered into an investment agreement with Santander Consumer Finance S.A. (SCF) and Banco Santander S.A., whereby it undertook to buy 3.120,000 ordinary and privileged shares of Santander Consumer Bank S.A.

(SCB) seated in Wrocław, with a nominal value of PLN 100 each, representing 60% of share capital of SCB and approximately 67% of votes at the General Meeting of SCB shareholders. Under the agreement, within three months of closing, the parties will use their best endeavours to eliminate the privileged feature of the SCB shares, which will result in the Bank holding 60% stake in the SCB share capital and 60% votes at the General Meeting of SCB.

The Bank promised to issue new shares to be offered to and acquired solely by SCF in exchange for a non-cash consideration in the form of SCB shares. The value of SCB shares specified in the agreement is PLN 2.156,414,400. The number of new shares to be issued by the Bank in exchange for the SCB shares will be determined using a stated formula, after the receipt of KNF's decision confirming it does not object to the transaction.

Conditions precedent to the transaction, as specified in the agreement, include the receipt of regulatory approvals, i.e. KNF's decision on the lack of formal grounds for objection to the direct purchase by the Bank of SCB shares representing more than 50% in the share capital and voting power in SCB (KNF's no-objection decision) and KNF's consent to changes in the Bank's Statutes with respect to the share capital increase due to the issue of new stock.

The transaction discharges the obligation that Banco Santander S.A. undertook towards KNF (as the Bank advised in its Current Report no. 38/2012 of 4 December 2012), whereby Banco Santander S.A. undertook to use its best endeavours to make SCB a direct subsidiary of Bank Zachodni WBK S.A. by 31 March 2014.

Resolution of the Management Board of Bank Zachodni WBK S.A. on the sale of shares in BZ WBK Asset Management S.A.

On 30 July 2013, the Management Board of Bank Zachodni WBK S.A. approved the sale of 67,500 preference registered shares of BZ WBK Asset Management S.A. (representing 50% of votes at the General Meeting of the company) to Santander Asset Management Investment Holdings Limited of Jersey for a price of PLN 156,750k. The price may be adjusted on the day of closing in the event of changes to the figures underlying the valuation.

The transaction is conditional on the receipt of regulatory approvals, including no objection from KNF to the acquisition of shares in BZ WBK Asset Management S.A. by SAM Investment Holdings.

The transaction will be carried out on the basis of the agreement between Banco Santander S.A. and the subsidiaries of the world's leading private equity funds, including Warburg Pincus and General Atlantic. Both funds are going to take up jointly 50% stake in the holding entity Santander Asset Management Investment Holdings Limited, which embraces 11 asset management companies owned by Santander Asset Management and operates mainly in Europe and South America. The other 50% shareholding will be retained by Santander Group. A full update on the agreement was released on 30 May 2013 in Bank Zachodni WBK's current report no. 32/2013.

2. IT DEVELOPMENT

As part of preparations for the integration of IT systems of both banks, in spring 2013 extensive changes were made to the central IT system of Bank Zachodni WBK S.A.

With a number of integration initiatives running simultaneously, continuity of operations and an adequate IT security level were ensured. Both the adopted approach to the infrastructure and the management and operational processes employed proved successful. The complex conglomerate of IT systems used in Kredyt Bank S.A. for the management of consumer loans (under the Żagiel scheme) was smoothly taken over. Also, a number of useful applications originating from the acquired bank were put in operation.

Work is underway to design a process and tools for the retention of data from the Kredyt Bank S.A. systems that are to be decommissioned.

In addition to the integration activities and the actions undertaken in response to the legal and regulatory requirements (KNF's Recommendation D, the U.S. Foreign Account Tax Compliance Act/FATCA), the Group was developing its existing IT solutions. New business concepts were put in place and the IT infrastructure with its associated software was upgraded. At the same time, a uniform IT Governance framework was implemented.

To ensure security and continuity of operations, the Bank maintains two data centres located distantly from each other (in Wrocław and Poznań). The facilities are being constantly optimised and adapted to the current needs and requirements.

Software development is undertaken in-house and with the assistance from external experts strictly controlled by the Bank. One of such initiatives is the consolidation of different data sources taking into account regulatory requirements as well as current and future business needs.

The Bank is working on a mobile banking development programme that currently encompasses 20 projects. The Bank also participates in the joint efforts of the banking industry to create and promote mobile banking services and the related standards.

The Bank's IT function has the required resources, capacity and performance to support further business growth.

3. CAPITAL EXPENDITURE

In 2013, Bank Zachodni WBK Group spent PLN 173.8m (compared to PLN 82.6m in 2012) on the delivery of investment projects, mainly the ones related to the merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A., development and management of IT systems, IT equipment, Branch Banking development, Internet, mobile banking, ATMs and cash-deposit machines.

Integration with Kredyt Bank S.A.

As part of the Integration Programme, the image of the Bank's branches was changed in that the "Kredyt Bank S.A." logo was replaced with the brand and corporate colours of Bank Zachodni WBK S.A. Also, IT systems were integrated and expanded, and 406 ATMs of the former Kredyt Bank S.A. were added to the BZ WBK S.A. network, with the most faulty machines replaced. The acquired ATMs were equipped with a new version of the application and other components compliant with the applicable network standards. Since 1 September 2013, the Bank's has had a uniform network of ATMs.

IT Systems Development and Management/IT Equipment

In 2013, Bank Zachodni WBK S.A. was working on extending its IT infrastructure, increasing performance of its central systems and expanding its hardware resources, including servers and disc arrays needed to support test and production systems. The Bank also expanded its backup systems, increased the data warehouse capacity and extended its license resources to be able to access the latest software versions.

Branch Banking Development

In order to maintain a high service standard and security for customers, in 2013 the Bank was actively upgrading its branch network. The branch IT infrastructure was refreshed, branches were provided with multi-functional scanning and printing devices and employees received laptop computers. The system security infrastructure was made more effective and the HVAC and electrical installations were upgraded.

Development of Internet and Mobile Banking

In 2013, the Bank expanded the functionality of the BZWBK24 system, increasing its security and performance. A particular focus was placed on the mobile banking development, with a number of new services offered to customers.

ATMs/Cash-Deposit Machines

In 2013, 76 new ATMs were purchased to replace the oldest and the most worn-out machines, including 22 multi-functional ATMs that can also be used to make deposits. The deposit function in these machines will be activated in the second half of 2014. The project is another stage of the Bank's consistent efforts to upgrade its ATM network.

As part of the continued development of the cash-deposit machines network, the Bank purchased 60 machines for another group of branches. Once all the machines have been put in place, the Bank's network will increase to 100 cash-deposit machines.

Other

Moreover, in 2013, the Bank was developing its phone banking (extending the call-centre infrastructure), HR and payroll systems, card services, risk management systems as well as credit and financial systems.

The Bank's capital expenditure plan for 2014 includes further initiatives connected with the merger with Kredyt Bank S.A., including adaptation and integration of IT systems, development of systems and applications, rationalisation of branches and head office units. Other expected expense areas for 2014 include provision of hardware resources for the purpose of ongoing development of the Bank's production systems, further development of electronic banking, risk management system and HR and payroll systems.

IX. FINANCIAL SITUATION

1. INCOME STATEMENT OF BANK ZACHODNI WBK GROUP

PROFIT EARNED BY BANK ZACHODNI WBK GROUP IN 2013

The table below shows changes in the key items of the consolidated income statement of Bank Zachodni WBK S.A. in 2013 compared with the previous year.

PLN m

Condensed Income Statement (for analytical purposes)	2013	2012*	YoY Change
Total income	**6 089.9**	**4 136.3**	**47.2%**
– Net interest income	3 276.6	2 301.1	42.4%
– Net fee & commission income	1 778.6	1 385.0	28.4%
– Other income	1 034.7	450.2	129.8%
Total costs	**(2 862.1)**	**(1 817.2)**	**57.5%**
– Staff, general and administrative expenses	(2 607.6)	(1 653.1)	57.7%
– Depreciation/amortisation	(219.3)	(137.9)	59.0%
– Other operating expenses	(35.2)	(26.2)	34.4%
Impairment losses on loans and advances	**(729.3)**	**(501.8)**	**45.3%**
Profit/loss attributable to the entities accounted for using equity method	16.2	19.7	-17.8%
Profit-before-tax	**2 514.7**	**1 837.0**	**36.9%**
Tax charges	(500.1)	(374.4)	33.6%
Net profit for the period	**2 014.6**	**1 462.6**	**37.7%**
– Net profit attributable to BZ WBK S.A. shareholders	1 982.3	1 433.8	38.3%
– Net profit attributable to non-controlling interests	32.3	28.8	12.2%

* Financial data for 2012 represent BZ WBK Group's pre-merger performance (excluding former Kredyt Bank S.A.)

In 2013, Bank Zachodni WBK Group posted a profit-before-tax of PLN 2,514.7m, up 36.9% YoY. The net profit attributable to Bank Zachodni WBK S.A. shareholders was PLN 1,982.3m and higher by 38.3% YoY.

Key Factors Affecting the Profit of Bank Zachodni WBK Group in 2013

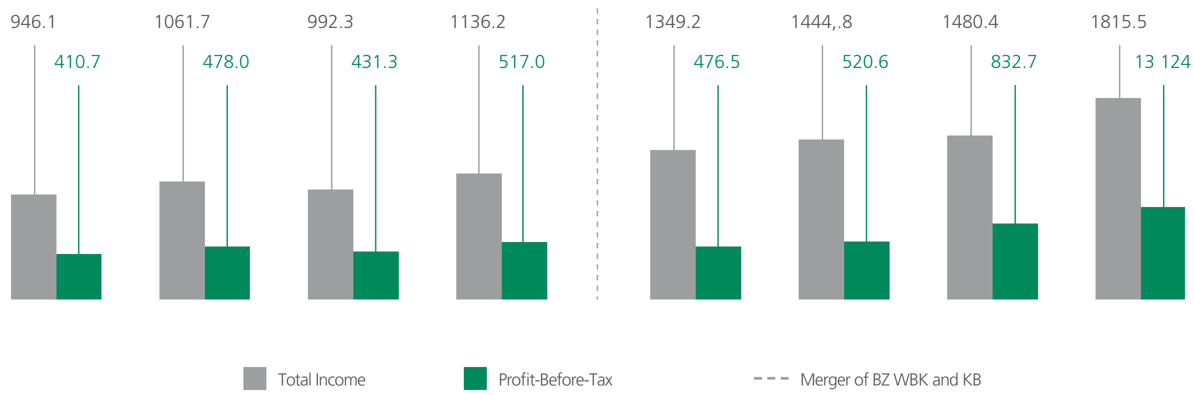
- The Group's earnings in 2013 were primarily affected by the mode of expansion pursued:
  - On acquisition of Kredyt Bank S.A. on 4 January 2013, Bank Zachodni WBK Group significantly grew in size, which was reflected in the annual growth of its key business volumes and individual income and cost items. As the acquired entity had a similar business profile, the merger did not result in any serious restructure of the Group's statement of financial position or its operating profit. At the level of business portfolios, the biggest change was noted in mortgages due to a considerable value of the acquired mortgage loan-book.
  - As a result of transferring 16% of shares in BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ from Aviva to Bank Zachodni WBK S.A., the Bank's former stake in both companies (50% each) was restated to its fair value at the date of gaining control, which increased the Group's profit-before-tax by PLN 419m.
  - In 2013, expenses were incurred in relation to the continued integration process. The total charge to the income statement was PLN 264.4m vs. PLN 37.8m in 2012.

- The Group's financial performance was to a large extent influenced by the economic environment and the situation in financial markets.
  - In 2013, the Group actively managed the structure of its expanded portfolio of the available-for-sale securities, successfully exploiting the market

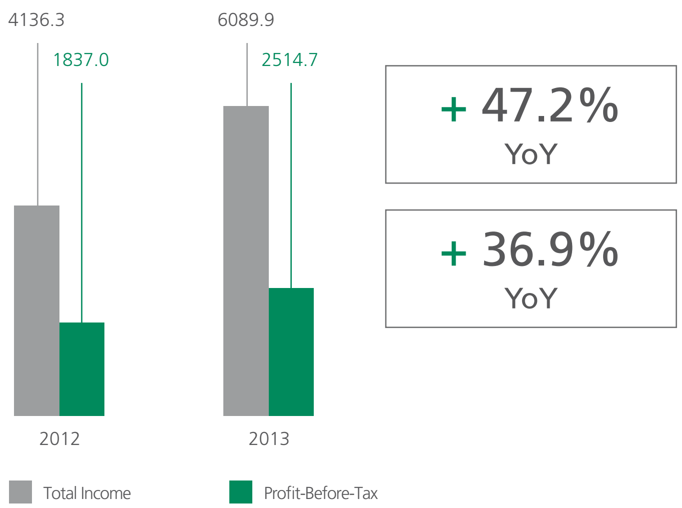
dynamics. Consequently, the gains on debt securities were PLN 125.2m higher than a year before.

- The downward trend in the NBP interest rates in the first half of the year followed by their stabilisation at record lows, had a moderately negative impact on the net interest margin. Despite the substantial narrowing of the net interest margin at the beginning of the year, in the following quarters it remained in the 3.3%-3.5% band. With higher business volumes and quickly evolving balance sheet structure, the Group's net interest income increased by PLN 975.5m YoY.
- The deposit base development was shaped by improving moods in financial markets and downward trends in interest rates, which encouraged customers to put money in current accounts (including savings accounts) or invest in mutual funds, while curbing the growth of term deposits (particularly in the first half of the year). The Group's credit delivery was strongly correlated with the economic developments and the overall investment climate.
- Volatile financial standing of enterprises, especially from the higher risk sectors, as well as restatements and methodological adjustments arising from the Group's conservative approach to credit risk management, led to an increase in the credit impairment charges by PLN 227.5m YoY.

Total Income and Profit-Before-Tax by Quarters in 2012 and 2013 (in PLN m)



Total Income and Profit-Before-Tax in 2012 and 2013 (PLN m)



Structure of PBT Earned by BZ WBK Group – by Companies

The table below shows the profit contribution of respective members of Bank Zachodni WBK Group (based on the Group's composition as at 31 December 2013) to the consolidated income statement for 2013.

PLNm

Stand-Alone Profit-Before-Tax of Subsidiaries Consolidated in the Income Statement for Q4 and Q3 2013	2013	2012[5)]	Change QoQ
Bank Zachodni WBK S.A.	1 969.4	1 704.0	15.6%
Existing subsidiary undertakings:	209.6	235.7	-11.1%
BZ WBK Asset Management S.A. and			
BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.	101.8	126.7	-19.7%
BZ WBK Leasing S.A., Kredyt Lease S.A. and			
Finanse Sp. z o.o.[1)]	48.4	64.2	-24.6%
Dom Maklerski BZ WBK S.A.	41.2	34.6	19.1%
Faktor Sp. z o.o.	16.7	6.9	142.0%
Other subsidiary undertakings[2)]	1.5	3.3	-54.5%
Intercompany and consolidation adjustments[3)]	335.7	-102.7	-426.9%
Total	2 514.7	1 837.0	36.9%
Entities Accounted for Using the Equity Method in the Income Statement for Q4 and Q3 2013	2013	2012 [5)]	Change QoQ
BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.,			
BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. 4)	14.5	15.2	-4.6%

1) Kredyt Lease S.A. is a company acquired by Bank Zachodni WBK together with Kredyt Bank S.A. on 4 April 2013 BZ WBK Leasing acquired BZ WBK Finanse & Leasing on 29 March 2013"
2) Included here are: BZ WBK Inwestycje Sp. z o.o., BZ WBK Nieruchomości S.A., BFI Sewis Sp. z o.o. in liquidation and Kredyt Trade Sp. z o.o. in liquidation. The last two companies have been acquired together with Kredyt Bank S.A. Kredyt Trade Sp. z o.o. in liquidation has been removed from the commercial register on 22 August 2013.
3) Includes the impact of fair value restatement of Bank Zachodni WBK S.A. shares in BZ WBK Aviva companies as at the date of gaining control over them (PLN 419m).
4) BZ WBK-Aviva TUO S.A. and BZ WBK-Aviva TUnŻ S.A. changed their status from joint ventures to subsidiary undertakings at the end of 2013. Throughout 2013 both entities were accounted for using the equity method. As at 31.12.2013 only their statements of financial position were consolidated with Bank Zachodni WBK S.A.
5) Financial data for 2012 present BZ WBK Group's performance prior to the merger (excl. Kredyt Bank S.A.).

The unconsolidated profit-before-tax of Bank Zachodni WBK S.A. for 2013 increased by 15.6% YoY driven mainly by high increases in the net interest income (+45.2% YoY), net commission income (+30.4% YoY) and gains on other financial instruments (+66.8% YoY). The growth in those income lines is a combined effect of the merger, effective management of the balance sheet structure and a flexible pricing policy in the changing external environment. As the Group's scale of business was larger, so was the cost of credit risk (+43% YoY) and operating costs (+61.7% YoY) generated, among others, by integration and development projects (PLN 261.2m).

The consolidated subsidiaries of Bank Zachodni WBK S.A. reported a lower profit-before-tax (-11.1% YoY) on account of a smaller dividend paid by BZ WBK TFI to BZ WBK AM in 2013 (-PLN 31m YoY). This dividend was eliminated from the Group's consolidated accounts along with the dividend pay-outs allocated to the Bank by the other subsidiary and associated undertakings.

Excluding the dividend of PLN 23.2m in 2013 and PLN 54.2m in 2012, the total profit-before-tax of BZ WBK AM and BZ WBK TFI increased by 8.4% YoY due to a larger value of net assets under management, which reflects higher customers' propensity to invest in mutual funds given the declining interest rates (reducing the pricing of deposits), the upward trend in share prices that had continued since spring (mainly with respect to small and medium-sized companies) and the growing attractiveness of commercial bonds and cash funds.

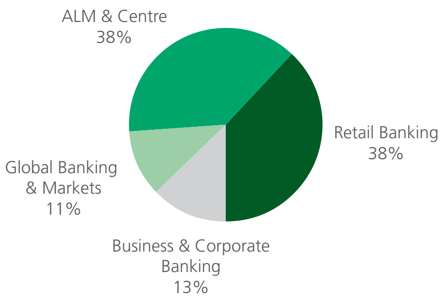
The factoring company's profit increased by 142% YoY as a result of dynamic business growth, competitive advantage in terms of distribution network and customer service as well as efficient risk monitoring and cost management.

The profit-before-tax posted by Dom Maklerski BZ WBK S.A. was up by 19.1% YoY due to the higher fee and commission income earned in the secondary market, including the fees for the participation in the process of selling the shares of Bank Zachodni WBK S.A. held by Banco Santander S.A. and KBC Bank NV for a total amount of PLN 4.9bn.

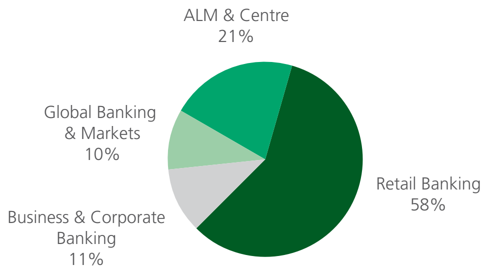
Leasing companies, with their controlling entity BZ WBK S.A. Finanse, generated a 24.6% lower pre-tax-profit on a YoY basis as a result of the erosion of the net interest income in the environment of low interest rates and decreasing sales margins (with a strong growth in the value of the assets financed). Furthermore, in 2013 higher charges were posted in relation to the operating integration with Kredyt Lease, including integration costs and provisioning charges arising from the validation of the company's impairment model.

Structure of PBT Earned by BZ WBK Group – by Segments

Profit-Before-Tax by Business Segments in 2013



Profit-Before-Tax by Business Segments in 2012

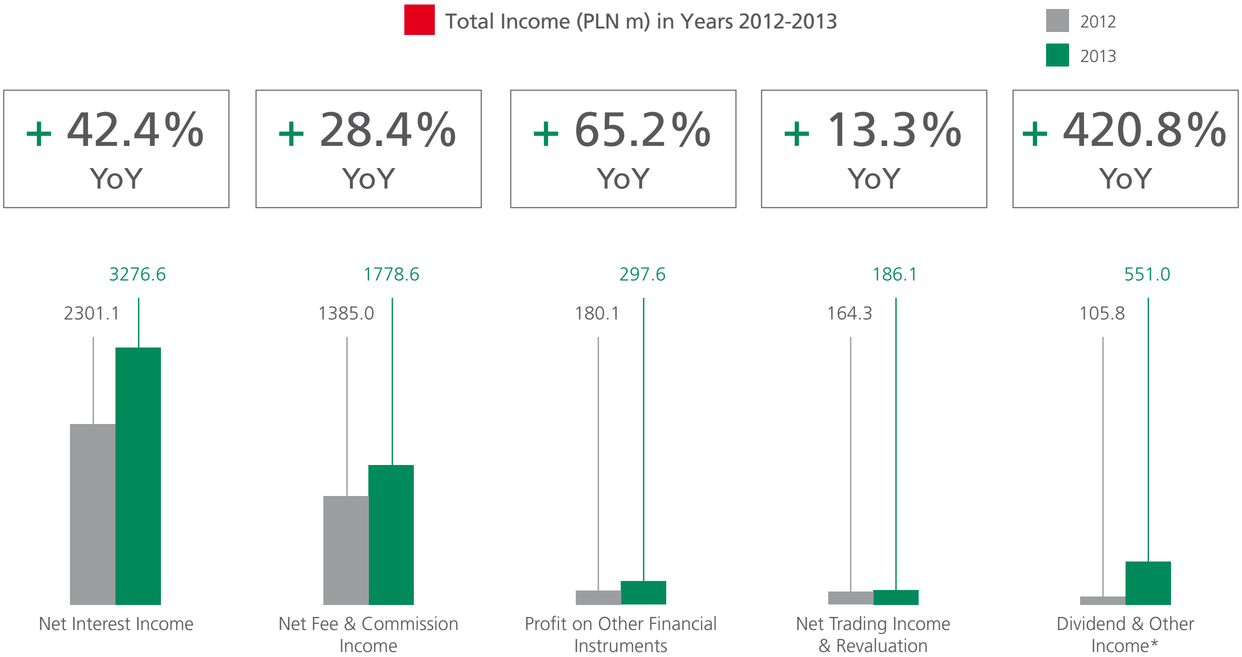


The contribution of the ALM and Central Operations segment to the Group's pre-tax-profit increased in 2013 as it includes higher gains on debt securities (+PLN 125.2m YoY) earned as part of liquidity management and the profit-before-tax of PLN 419m from the revaluation of the shares in BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO.

TOTAL INCOME

The total income achieved by Bank Zachodni WBK Group in 2013 was PLN 6,089.9m and up 47.2% YoY. Excluding the net gains on the shares in connected entities, i.e. the income statement line which in 2013 represents the effect of restatement of the Bank's shares in BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ of PLN 419m, the total recurring income increased by 37.1% YoY.

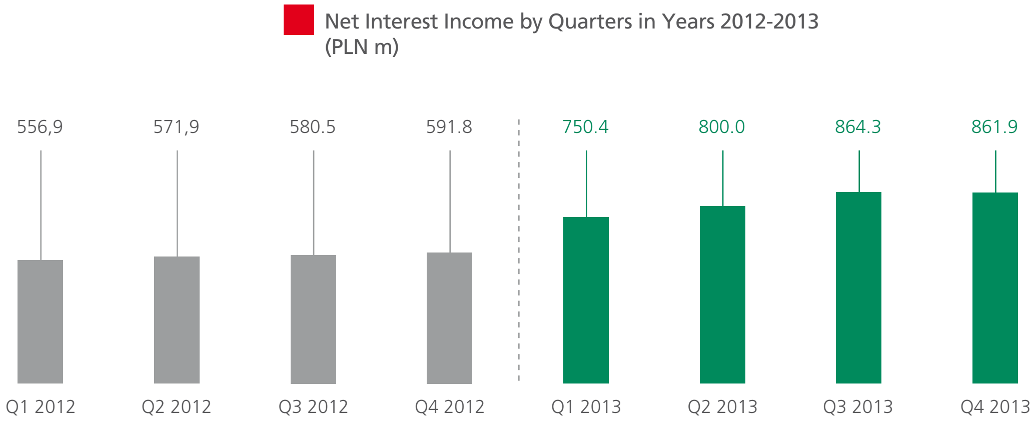
Total Income (PLN m) in Years 2012-2013



* "Dividends and other income" include the dividend income, net gain on subordinated entities and other operating income

Net Interest Income

The net interest income increased by 42.4% YoY to PLN 3,276.6m.



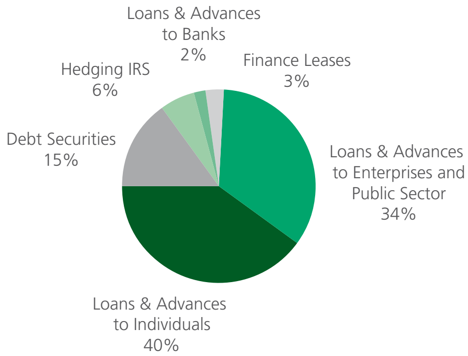
The net interest income includes the interest income of PLN 254.4m (PLN 158.7m in 2012) from CIRS transactions designated as hedging instruments under cash flow hedge accounting. The respective amount was disclosed in the Consolidated Financial Statements of Bank Zachodni WBK Group for 2013, in Note 6 "Net interest income" under "Interest income from IRS hedges", which in 2013 amounted to PLN 314.7m compared with PLN 177.2m in 2012.

Taking into account the Group's other non-hedging income from CIRS and IRS transactions (PLN 13.9m for 2013 and PLN 14.9m for 2012), reported under "Net trading income and revaluation", the underlying net interest income increased by 42.1% YoY. In 2013, the Bank conducted a revision of swap points allocation used for calculation of adjusted net interest margin. As a result, the allocation has been limited to derivative instruments dedicated solely for the liquidity management purposes.

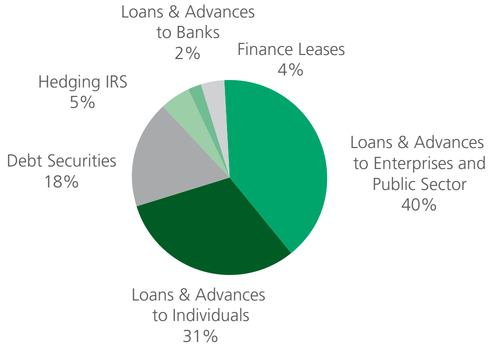
In 2013, interest income was PLN 5,215.2 and increased by 34.8% YoY, exceeding the growth rate of interest expenses which went up 23.8% YoY to PLN 1,938.6m.

The growth of interest income was driven by mortgage loans (+99.9% YoY), other retail loans (+56.1% YoY), IRS hedging transactions (+77.6% YoY) and business loans (+15% YoY).

Structure of Interest Revenues in 2013

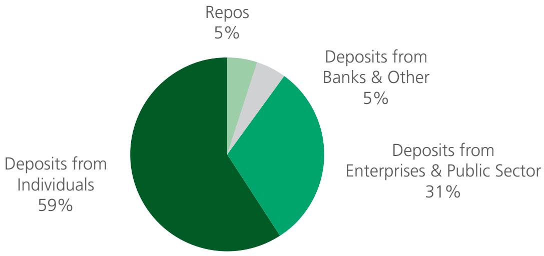


Structure of Interest Revenues in 2012

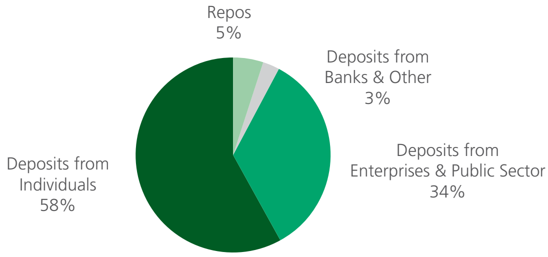


The interest expenses were primarily generated by retail deposits (+26.5% YoY), reverse-repo transactions (+25.7% YoY), business deposits (+13.7% YoY) and subordinated obligations (+164.5% YoY).

Structure of Interest Expense in 2013

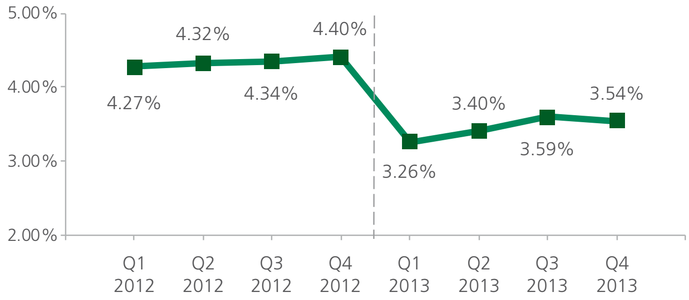


Structure of Interest Expense in 2012



Despite sharp interest rate reductions (the NBP reference rate cut from 4.0% in January 2013 to 2.5% in July 2013), for most of 2013, the quarterly net interest margin of Bank Zachodni WBK Group was growing steadily, reaching 3.59% in Q3. It was only in the last quarter of the year that the net interest margin narrowed slightly (by 0.05 p.p.) as a result of the competition in the deposit market, the measures undertaken by the Group to strengthen its long-term deposit base and changes in the structure of interest-bearing assets (including a growth in the investment securities).

Net Interest Margin by Quarters in Years 2012-2013
(including SWAP points*)



* In 2013 the Bank conducted a revision of swap points allocation used for calculation of adjusted net interest margin. As a result, the allocation has been limited to derivative instruments dedicated solely for the liquidity management purposes, which caused a decrease in the adjustment and significantly limited volatility of reported margins.

In the whole of 2013, the net interest margin was at 3.5% vs. 4.3% in 2012.

Loans to customers brought a yearly average nominal interest income of 5.6% compared with 7.2% in 2012. Customer deposits carried a yearly average nominal interest cost of 2.3% compared with 3.1% a year before.

In 2013, Bank Zachodni WBK Group modified its pricing proposal to match the changing market and attain a balance between customer expectations, competitive pressure, regulatory requirements and own goals regarding the management of funding sources, balance sheet structure, risk, capital and financial result. The Group was also shaping its margins as part of its balance sheet and liquidity management processes. With the wide-ranging measures designed to increase the deposit base, the Group managed to retain the customer deposits and attracted new ones, placing a particular focus on the key customer segments and the long-term deposit products. The mildly fluctuating credit portfolio generated a relatively stable interest income throughout the year. At the same time, portfolio of the available-for-sale debt securities was redeveloped and expanded, achieving a better duration structure and a higher profitability compared with the previous year.

Net Fee and Commission Income

PLN m

Net Fee and Commission Income	2013	2012[5]	YoY Change
E-Business and payments[1]	455.3	346.5	31.4%
Account maintenance and cash transactions[2]	303.3	244.2	24.2%
FX fees	296.7	233.8	26.9%
Asset management and distribution	233.5	187.6	24.5%
Credit fees[3]	211.3	139.0	52.0%
Insurance fees	106.0	108.4	-2.2%
Brokerage fees	89.3	66.1	35.1%
Other[4]	83.2	59.4	40.1%
Total	**1 778.6**	**1 385.0**	**28.4%**

Includes:

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

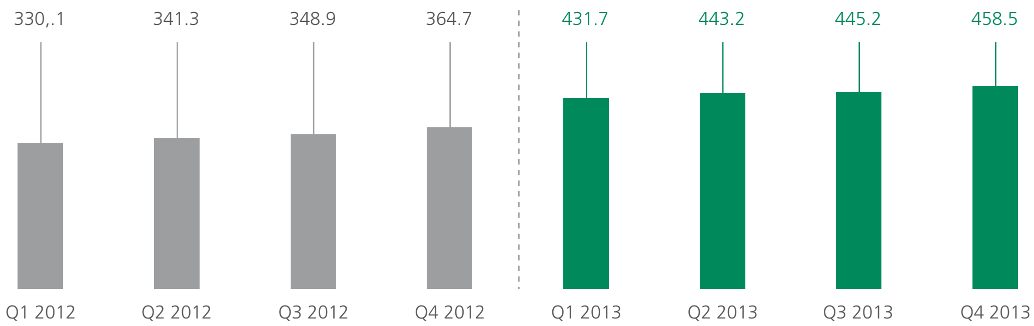
2) Fee income from account maintenance and cash transactions has been reduced by the corresponding expenses which in Note 7 "Net Fee and Commission Income" are included in the line item "Other Commissions".

3) Fees related to lending, leasing and factoring activities which are not amortised to interest income.

4) Credit card fees, guarantees & sureties, issue arrangement fees and others.

5) Financial data for 2012 present BZ WBK S.A. performance prior to the merger (excl. Kredyt Bank S.A.).

Net Fee & Commission Income by Quarters in Years 2012-2013 (PLN m)



In 2013, the fee and commission income was PLN 1,778.6m, increasing by 28.4% YoY as a result of the Group's business expansion through the merger and organic growth.

The highest growth in percentage terms was noted in the credit fee income (+52.0% YoY), an effect of the services provided by the Group to large corporate clients, especially those from the Global Banking & Markets portfolio.

The high increase in brokerage fees (+35.1% YoY) is mainly the effect of the higher income earned by Dom Maklerski BZ WBK S.A. from the brokerage services rendered on the secondary market, including the fees for its involvement in the sale of Bank Zachodni WBK S.A. shares held by Banco Santander S.A. and KBC Bank NV.

The net fee and commission income reported under "eBusiness and payments" increased substantially (+31.4% YoY) on the back of the merged debit cards base, which during the year was expanded with the OMNI cards accompanying the Account Worth Recommending ("Konto Godne Polecenia"). As the number of cards increased, so did the number of transactions, particularly the non-cash turnover generated in POS-es. The fast development of the card business mitigated the impact of the interchange fee reduction (early in 2013) for the domestic non-cash Visa and MasterCard transactions. The growth of "eBusiness and payments" was additionally supported by the growing turnover in international payments and trade finance.

The income from FX fees increased by 26.9% YoY driven by higher customer FX trading volumes in the volatile currency market.

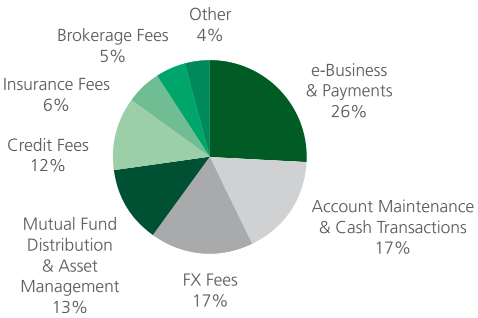
Net fee and commission income from account maintenance and cash transactions increased notably (+24.2% YoY) as a result of the customer base expansion and harmonisation of the range of products offered to retail and business customers. Under this line of products the following developments are worth highlighting: the growth in the income from electronic transfers and the strong sales of the free-of-charge Account Worth Recommending, which is neutral fee income-wise, yet generates promotion-related costs.

The higher net income from mutual funds' distribution and asset management is attributable to an increase in the value of net assets under management of BZ WBK TFI, which recorded a major inflow of assets year-on-year (+11.5% YoY) and found itself among the players that benefited most from the significant growth of mutual fund sales in 2013.

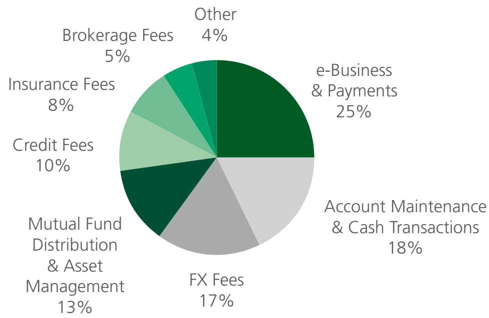
The slight decrease in the underlying net income from the bancassurance business (-2.2% YoY) results from the lower income achieved from the insurance for cash loan borrowers due to the premium reimbursements on account of loan prepayments.

Other fees increased by 40.1%, mainly driven by the fee income from the management of credit cards (+15.6% YoY) and the issue arrangement income (+139.9% YoY).

Net Commission Income Structure 2013



Net Commission Income Structure in 2012



Gains on Other Financial Instruments

The gains on other financial instruments increased by 65.2% YoY to PLN 297.6m as a result of higher profit on the sale of treasury bonds (+PLN 125.2m YoY) as part of duration management on the available-for-sale debt securities portfolio, a process which depends on the market conditions and the Group's risk and liquidity management objectives.

Net Trading Income and Revaluation

Net trading income and revaluation ("Net trading income") amounted to PLN 186.1m and increased by 13.3% YoY in line with the market evolution.

The largest element under this line, net income on interbank FX and derivative trading, reached PLN 180.7m vs. PLN 147.9m in the corresponding period. The growth under this line was chiefly supported by the income on FX interbank transaction, which increased four-fold during the year to PLN 72.4m.

The other significant component of the net trading income and revaluation, other currency transactions, reported a loss of PLN 3.2m, while in the comparable period this business line yielded a profit of PLN 13.6m.

The financial performance presented above reflects the situation in the currency and interest rate market, which was characterised by fluctuations. As a result of the changes that occurred during the year, the IRS curve steepened in line with the growing IRS rates for 5Y and 10Y instruments and the decline at the short end of the curve (2Y instruments). The zloty appreciated in December, ending the year at the strongest level since May 2013.

The result on interbank FX and derivative trading includes an interest-related income of PLN 13.9m on non-hedging CIRS and IRS transactions (PLN 14.9m in 2012). It excludes, however, the interest income from the CIRS transactions designated as hedging instruments under the cash flow hedge accounting (PLN 254.4m in 2013 vs. PLN 158.7m in 2012), which is disclosed in the Consolidated Financial Statements of Bank Zachodni WBK Group for 2013, in Note 6 "Net interest income" under "Interest income from IRS hedges".

Other Income Items

Dividend and other income amounted to PLN 551m, of which:

- PLN 418.7m is the net gain on the Bank's shareholdings in subordinated entities, which includes PLN 419m representing the impact of fair valuation of the Bank's original stake in BZ WBK-Aviva TUO and BZ WBK-Aviva TUŻ (50% each) as at the date when the control was gained over both, and a loss of PLN 0.3m resulting from the liquidation of Kredyt Trade.
- PLN 73.6m is other operating income, compared with PLN 49.7m reported in 2012.
- PLN 58.7m is dividend income, deriving mainly from non-controlling equity investment in Aviva Group companies. In 2012, the corresponding income was PLN 55.7m.

IMPAIRMENT CHARGES

PLN m

Impairment Losses on Loans and Advances	2013	2012[1)]
Collective and individual impairment charge	(890.8)	(538.9)
Impaired but not reported losses charge	174.6	19.3
Recoveries of loans previously written off	3.3	13.3
Off-balance sheet credit related facilities	(16.4)	4.5
Total	**(729.3)**	**(501.8)**

1) Financial data prior to the legal merger (excl. Kredyt Bank S.A.).

In 2013, the loan impairment charge to the profit and loss account was PLN 729.3m, up 45.3% YoY. The changes in the value and structure of impairment charges are a result of the Group's prudential approach to credit risk management.

During the year, selected exposures and credit portfolio of the Group were transferred from the portfolio of debts without identified indications of impairment to the impaired portfolio, which resulted in a positive balance of the incurred by not reported (IBNR) charges of PLN 174.6m accompanied by an increase in the negative balance of the collective and individual impairment charges of PLN 890.8m. This transfer was primarily due to revision of the parameters and models used for the calculation of individual and collective impairment while individual cases became impaired to reflect deterioration of the borrowers' performance, mainly companies from higher credit risk sectors.

In 2013, the Group sold overdue retail and SME receivables in the principal amount of PLN 693.9m vs. PLN 393.9m in the corresponding period, which increased the net profit by PLN 3.5m.

The charges posted for off-balance sheet commitments primarily resulted from the validation of risk parameters.

As at 31 December 2013, Bank Zachodni WBK Group's NPL ratio was 7.9% compared with 5.4% at the end of 2012. The cost of risk ratio was 1.0% vs. 1.2% in 2012.

TOTAL COSTS

PLN m

Total costs	2013	2012[1)]	YoY Change
Staff, general and administrative expenses, of which:	(2 607.6)	(1 653.1)	57.7%
– Staff expenses	(1 375.5)	(953.1)	44.3%
– General and administrative expenses	(1 232.1)	(700.0)	76.0%
Depreciation/amortisation	(219.3)	(137.9)	59.0%
Other operating expenses	(35.2)	(26.2)	34.4%
Total costs	**(2 862.1)**	**(1 817.2)**	**57.5%**
Integration costs	(264.4)	(37.8)	599.5%
Underlying total costs	**(2 597.7)**	**(1 779.4)**	**46.0%**

1) Financial data prior to the legal merger (excl. Kredyt Bank S.A.).

In 2013, the total costs of Bank Zachodni WBK Group amounted to PLN 2,862.1m, and were 57.5% higher YoY as a result of the Group's increased business size following the merger and the intensive integration process whose aim is to create a uniform, effective and modern financial organisation. The integration costs of PLN 264.4m incurred in 2013 particularly resulted from:

- continued rationalisation of banking outlets (merging or liquidation of overlapping or loss-making branches to optimise the Bank's distribution network);
- consultancy services for the individual stages of the Integration Programme;
- advertising and image-building campaign supporting the Bank's new market positioning, and the promotion of selected products (Account Worth Recommending, mobile banking, SME loans and cash loans);

- IT services for the Mass Data Migration Programme;
- fulfilment of the Bank's obligations undertaken in the legal merger with Kredyt Bank S.A.

Excluding the integration costs, the Group's underlying cost base increased by 46% to PLN 2,597.7m.

As the growth in costs (+57.5% YoY) outpaced the growth in income (+47.2% YoY), the Group's efficiency (cost-to-income) ratio increased from 43.9% in 2012 to 47% in 2013. Excluding the non-recurring items (e.g. the integration costs or the gains on investments in connected entities), the adjusted cost-to-income ratio was 45.8% vs. 43% in 2012.

General and Administrative Expenses

The total general and administrative expenses of Bank Zachodni WBK S.A. were PLN 1,232.1m, up by 76% YoY.

The merger along with the integration and development projects had the strongest impact on the following cost lines of the Group: consultancy and advisory services (+192.5% YoY), maintenance and lease of premises (+69.4% YoY), marketing and entertainment (+63.2% YoY) and IT usage (+61.3% YoY).

In 2013, substantially higher fees were paid to the market regulators (+75.1% YoY), which resulted from the higher basis of their calculation in effect of amalgamating the business volumes of the merged entities and implementing the amended Act on the Banking Guarantee Fund (October 2013), which set up a stabilisation fund created from the prudential fees paid by the Banks participating in the guarantee system. An increase was also reported in the cost of consumables, cheques and cards (+72% YoY), partly attributable to the migration of customers to the cards of Bank Zachodni WBK S.A. The higher postal and telecommunications fees (+40.0% YoY) result from the mass communication campaigns addressed to customers in connection with the modification and harmonisation of products.

In 2013, Bank Zachodni WBK Group continued the process of procurement and expenses management, which led to major reductions in the cost base. The Bank's procurement policy and the expenses management model were also implemented in the acquired entities. The Bank completed the planned savings initiatives and purchasing projects, renegotiated contracts with suppliers and reduced their number. New efficiency and cost optimisation areas are being identified on an on-going basis.

Staff Expenses

Staff expenses increased by 44.3% YoY to PLN 1,375.5m as a result of taking over employees of Kredyt Bank S.A. In 2013, employment in the Group increased by 50.6% YoY to 12,612 FTEs. The staff expenses contain a portion of the integration costs.

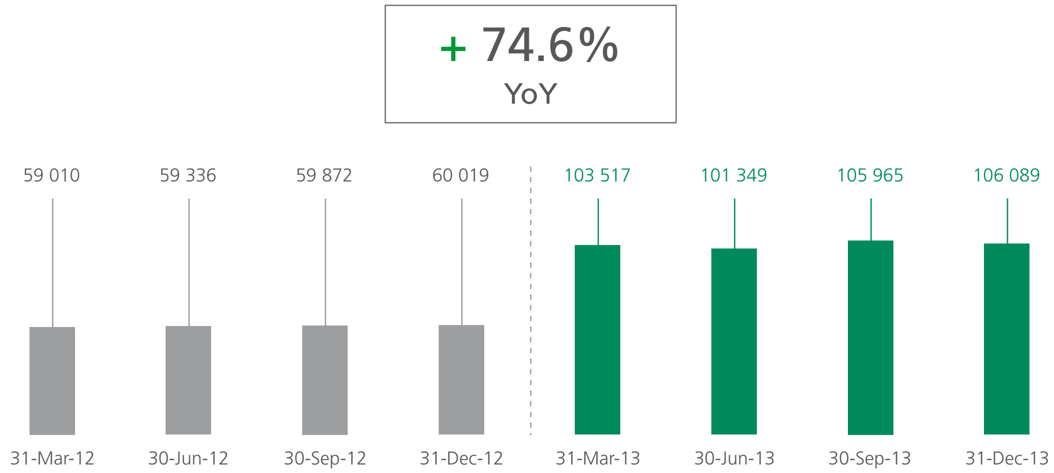
The key increases in this cost category were noted in the accruals for unutilised leaves, the cost of social benefits (+50.8% YoY), statutory deductions from salaries (+46.7% YoY) and salaries and bonuses (+43% YoY).

2. FINANCIAL POSITION

ASSETS

As at 31 December 2013, total assets of Bank Zachodni WBK Group amounted to PLN 106,089.0m, and were higher by 76.8% YoY. The value and structure of the Group's statement of financial position is mainly affected by the parent company, which accounts for 97.4% of the consolidated total assets.

Total Assets at the End of Consecutive Quarters in Years 2012-2013 (PLN m)



The table below presents major developments in the key categories of the consolidated assets of Bank Zachodni WBK Group as at 31 December 2013 versus the end of 2012.

PLN m

Assets (condensed presentation for analytical purposes)	31.12.2013	Structure 31.12.2013	31.12.2012	Structure 31.12.2012	Change YoY
	1	2	3[1)]	4[1)]	1/3
Loans and advances to customers[2)]	68 132.1	64.2%	39 867.6	66.4%	70.9%
Investment securities	22 090.8	20.8%	11 716.1	19.5%	88.6%
Cash and operations with Central Banks	5149.7	4.9%	4 157.3	6.9%	23.9%
Financial assets held for trading and hedging derivatives	2 666.8	2.5%	1 085.3	1.8%	145.7%
Loans and advances to banks	2 212.7	2.1%	1 458.1	2.4%	51.8%
Fixed assets, intangibles and goodwill	3 681.8	3.5%	607.1	1.0%	506.5%
Other assets	2 155.1	2.0%	1 127.7	2.0%	91.1%
Total	**106 089.0**	**100.0%**	**60 019.2**	**100.0%**	**76.8%**

1) Financial data of BZ WBK Group as at 31.12.2012 prior to the merger with Kredyt Bank S.A. of 4.01.2013.

2) Includes impairment write-down.

The year-on-year increases in the individual items of the consolidated assets are largely attributable to the expansion of the Group's business in the wake of the merger with Kredyt Bank S.A. However, as the acquired entity had a similar business profile, the existing asset structure was not significantly affected.

The highest increase (+506.5% YoY) was noted in "Fixed assets, intangibles and goodwill" as a result of the goodwill of PLN 1,688.5m arising on acquisition of Kredyt Bank S.A. and the goodwill arising on acquisition of the controlling stake in the BZ WBK-Aviva insurance companies that was provisionally settled at PLN 853.8m.

The statement of financial position of Bank Zachodni WBK Group as at 31 December 2013 consolidates for the first time the insurance companies referred to above, which led to an increase in certain categories of consolidated assets, especially other assets (PLN 930.9m), investment securities (PLN 148.0m) and financial assets held for trading (PLN 123.2m).

As the Group's balance sheet expanded (both through a legal merger and organic growth), an increase was observed in the volumes used in the process of managing its structure and liquidity, including the financial assets held for trading (+181.9% YoY), investment securities (+88.6% YoY), loans to banks (+51.8% YoY) and cash and operations with central banks (+23.9% YoY).

Net loans and advances to customers increased by 70.9% to PLN 68.132.1m, representing 86.7% of the deposits from non-financial entities funding them, as compared with 84.7% at the end of December 2012.

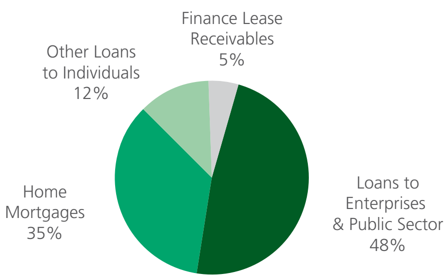
Credit Portfolio

PLN m

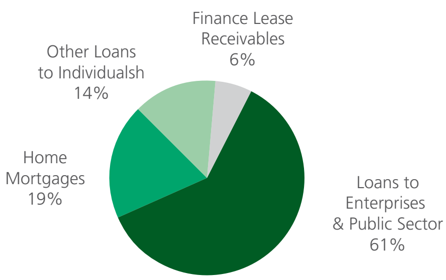
Gross Loans and Advances to Customers	31.12.2013	31.12.2012[1)]	Change YoY
Loans and advances to enterprises and public sector customers	34 478.3	25 386.0	35.8%
Loans and advances to individuals	34 041.4	13 708.6	148.3%
Finance lease receivables	3 052.1	2 289.9	33.3%
Other	50.1	27.3	83.5%
Total	71 621.9	41 411.8	73.0%

1) Financial data of BZ WBK Group as at 31.12.2012 prior to the merger with Kredyt Bank S.A. of 4.01.2013.

Structure of Loans & Advances to Customers as at 31.12.2013



Structure of Loans & Advances to Customers as at 31.12.2012



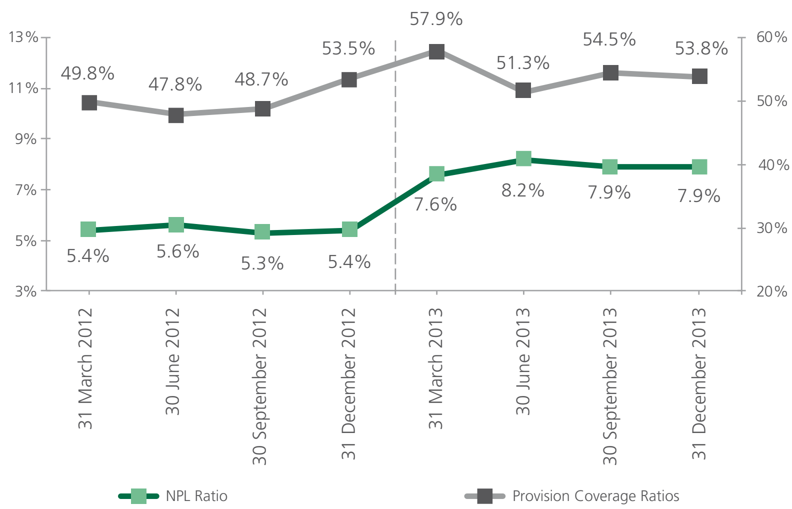
As at 31 December 2013, gross loans and advances to customers amounted to PLN 71,621.9m, up by 73% YoY.

The strongest growth was noted in loans and advances to individuals (+148.3% YoY) which at the end of 2013 amounted to PLN 34,041.4m, increasing their contribution to the total loans and advances from 33% to 47%, the level close to that of loans and advances to enterprises & public sector entities. The growth reported under this line is primarily due to the consolidation of the mortgage loan portfolios of the merged banks. At the end of December 2013, the portfolio amounted to PLN 25,294.8m, increasing three-fold on 31 December 2012. The second major component, i.e. cash loans, increased to PLN 5,646.3m from PLN 4.196.4m at the end of 2012.

The loans and advances to business and public sector customers (PLN 34,478.3m) grew at a slower rate (+35.8% YoY) compared with the personal loans and advances as the former Kredyt Bank S.A. had a relatively low exposure to business customers. In 2013, Bank Zachodni WBK Group carried on its effective credit delivery via all its sales structures, including Branch Banking, Business & Corporate Banking and Global Banking & Markets. A particularly high growth (+111.3% YoY) was achieved in the last of these segments, which includes the largest clients of Bank Zachodni WBK S.A.

As at 31 December 2013, the finance lease receivables totalled PLN 3.052.1m, increasing by 33.3% vs. 31 December 2012 as a result of acquisition of the Kredyt Lease portfolio and the robust sales growth of vehicles and plant & equipment.

Credit Quality Ratios in 2012 and 2013



As at 31 December 2013, non-performing (impaired) loans to customers accounted for 7.9% of the gross portfolio vs. 5.4% at the end of December 2012. The provision cover for the impaired loans was 53.8% compared with 53.5% twelve months before.

EQUITY AND LIABILITIES

The table below presents major developments in key categories of the consolidated equity and liabilities of Bank Zachodni WBK Group as at 31 December 2013 versus 31 December 2012.

PLN m

Liabilities & Equity (condensed presentation for analytical purposes)	31.12.2013	Structure 31.12.2013	31.12.2012	Structure 31.12.2012	Change YoY
	1	2	3[1)]	4[1)]	1/3
Deposits from customers	78 543.0	74.0%	47 077.1	78.4%	66.8%
Deposits from banks	6 278.8	5.9%	1 351.1	2.3%	364.7%
Financial liabilities held for trading and hedging derivatives	1 644.7	1.5%	1 050.8	1.7%	56.5%
Subordinated liabilities	1 384.7	1.3%	409.1	0.7%	238.5%
Debt securities in issue	500.6	0.5%	-	-	-
Other liabilities	3 254.3	3.1%	1 153.4	1.9%	182.1%
Total equity	14 482.9	13.7%	8 977.7	15.0%	61.3%
Total	106 089.0	100.0%	60 019.2	100.0%	76.8%

1) Financial data of BZ WBK Group as at 31.12.2012 prior to the merger with Kredyt Bank S.A. of 4.01.2013.

The consolidated liabilities as at 31 December 2013 show a major growth in deposits from banks (+364.7% YoY), an effect of the Bank's increased activity in the money and repo markets. The subordinated liabilities (+238.5% YoY) were increased by the loans of the former Kredyt Bank S.A. received from KBC NV, Dublin Branch, with a carrying book value of PLN 970.2m.

As the Bank gained control over BZ WBK-Aviva insurance companies and started to consolidate their statements of financial position as at 31 December 2013, the Group's other liabilities increased significantly (+182.1% YoY) due to incorporation of PLN 1.1bn worth of technical and insurance provisions which did not previously occur. The transaction of taking over from Aviva the 16% stake in the Aviva insurance companies involved the grant of a call option, whereby Aviva or another member from Aviva Group that it might indicate was given the right to acquire from the Bank a 17% stake in the share capital of each entity. The Bank's obligation was estimated at PLN 684.3m and also recognised in "Other liabilities" in correspondence with "Other Reserve Capital".

The new obligation in respect of debt securities of PLN 500.6m relates to the bonds of Bank Zachodni WBK S.A. issued on 19 December 2013 in a non-public offer. The bonds are 3-year, unsecured, bearer instruments with a nominal value of PLN 500m and a variable coupon.

The purpose of the issue was to diversify the Bank's funding sources.

Total equity increased by 61.3% YoY mainly as a result of registering the capital increase of Bank Zachodni WBK S.A. following the issue of 18,907,458 J series shares, acquired by the shareholders of the former Kredyt Bank S.A. The nominal value of the shares of PLN 189.1m increased the share capital, while the share premium of PLN 4,354.8m was recognised in the supplementary capital. The equity was also positively affected by the valuation of the non-controlling interests at the time of the Bank's acquisition of control over the BZ WBK-Aviva companies (PLN 525.6m). This however was offset by the adjustment to other reserves resulting from the Group's obligation on account of the call option given to Aviva, as described above.

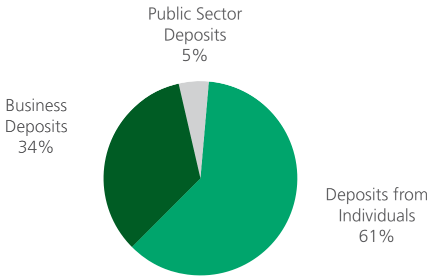
Deposit Base

PLN m

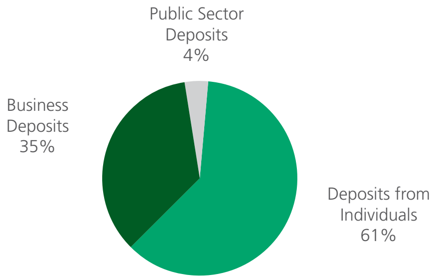
Deposits from Customers	31.12.2013	31.12.2012[1)]	Change YoY
Deposits from individuals	47 999.1	28 636.3	67.6%
Deposits from enterprises and public sector customers	30 543.9	18 440.8	65.6%
Total	**78 543.0**	**47 077.1**	**66.8%**

1) Financial data of BZ WBK Group as at 31.12.2012 prior to the merger with Kredyt Bank S.A. of 4.01.2013.

Structure of Customer Deposits as at 31.12.2013



Structure of Customer Deposits as at 31.12.2012



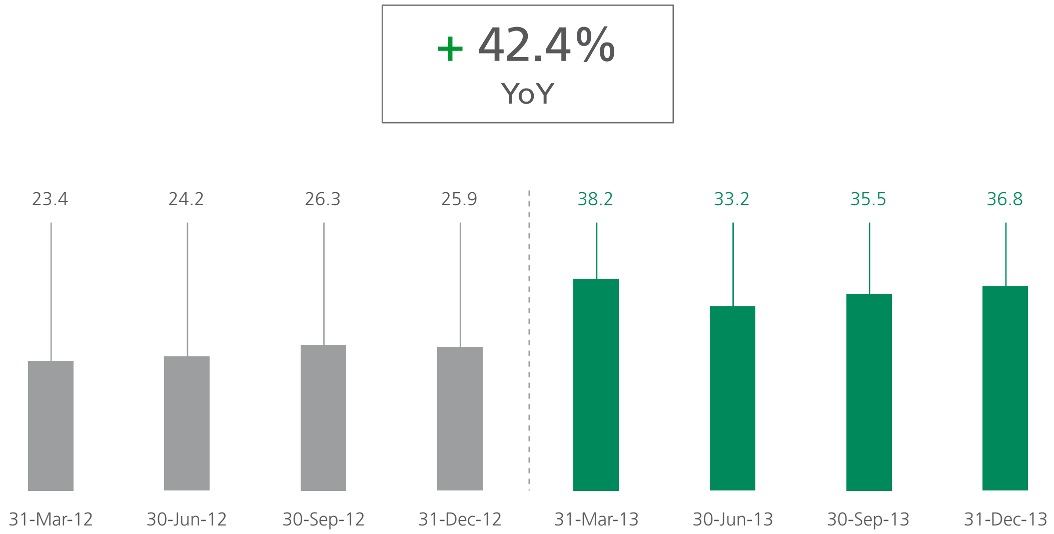
Deposits from customers, which represent 74% of the Group's liabilities, are the primary source of funding its lending business. Compared with the end of December 2012, their value increased by 66.8% to PLN 78,543.0m as at 31 December 2013.

Last year, deposits from individuals increased by 67.6% YoY to PLN 47,999.1m. The balances in savings accounts and in other current accounts saw the highest growth of 103% YoY in total. A slower growth (+39.7% YoY) was observed in term deposits as such products became less attractive in the context of the repeated reductions in the NBP interest rates and the developments in the financial markets that made customers more inclined to use alternative savings and investment products.
To strengthen the stability of its deposit base, the Group took measures to attract long-term deposits by making price adjustments and implementing attractive medium and long-term deposit products. As a result, in the fourth quarter of 2013, the long-term deposit base grew by PLN 2.7bn.

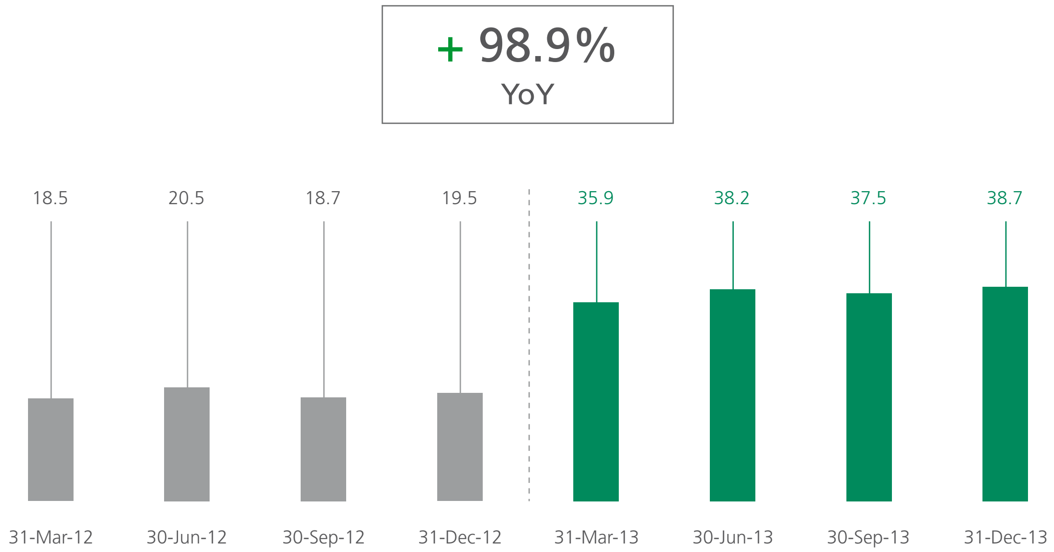
Deposits from enterprises & public sector customers increased by 65.5% YoY to PLN 30,543.9m, mainly as a result of current account balances (+92.4% YoY) and term deposits (+44.7% YoY). At the end of 2013, new money was mainly attracted from small and micro enterprises and the largest corporate customers.

In the total amount of deposits from customers, term deposits amounted to PLN 36,842.3m, up 42.4% YoY, current accounts were worth PLN 38,737.5m, up 98.9% YoY, and other liabilities increased by 70.6% YoY to PLN 2,963m. Other liabilities represent the credit facilities extended by the European Investment Bank to Bank Zachodni WBK S.A. and the former Kredyt Bank S.A. for their lending activity.

Term Deposits at the End of Consecutive Quarters of 2012 and 2013 (PLN bn)

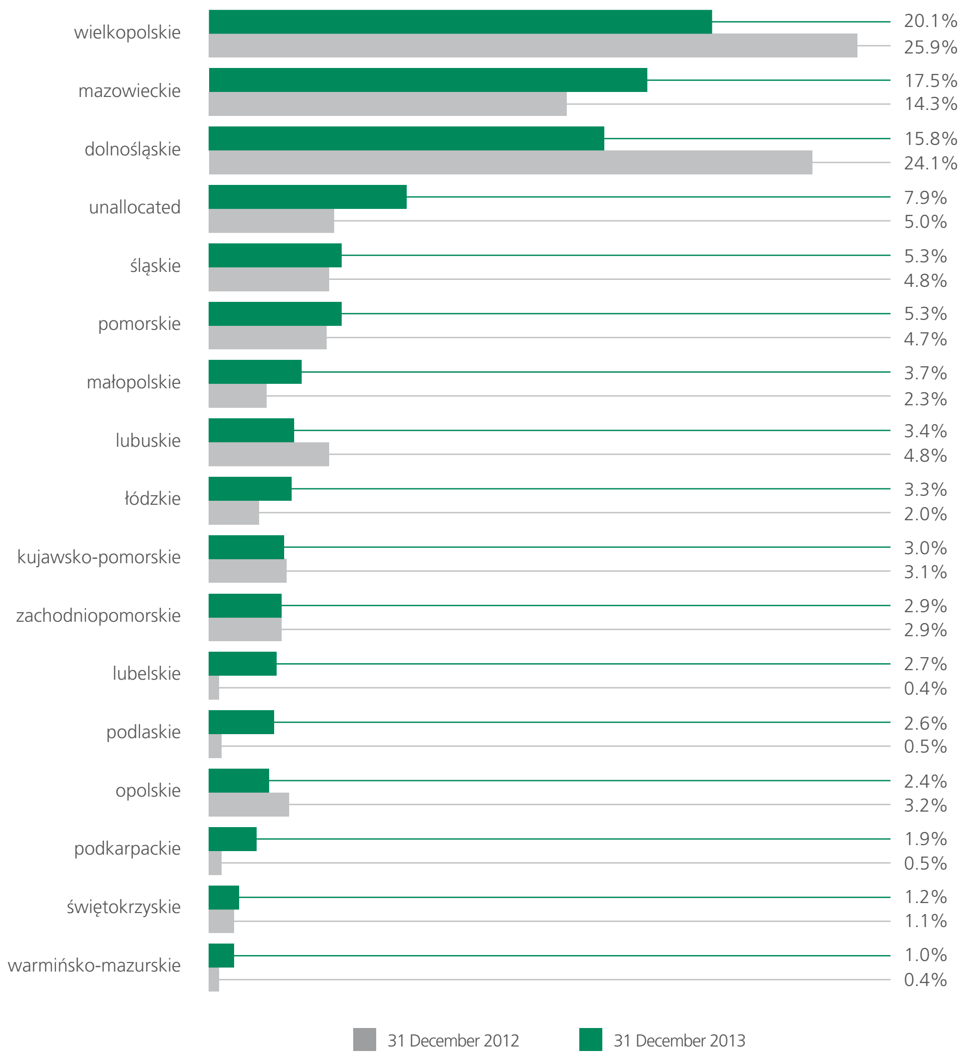


Current Accounts* at the End of Consecutive Quarters of 2012 and 2013 (PLN bn)



* includes savings accounts

GEOGRAPHICAL STRUCTURE OF CUSTOMER DEPOSITS AS AT 31.12.2013 AND 31.12.2012



3. SELECTED RATIOS

Selected Financial Ratios	2013	2012
Total costs/Total income[1)]	47.0%	43.9%
Net interest income/Total income	53.8%	55.6%
Net interest margin[2)]	3.5%	4.3%
Net commission income/Total income	29.2%	33.5%
Customer loans/Customer deposits	86.7%	84.7%
NPL ratio	7.9%	5.4%
NPL coverage ratio	53.8%	53.5%
Credit risk ratio[3)]	1.0%	1.2%
ROE[4)]	16.6%	21.1%
ROA[5)]	1.9%	2.4%
Capital adequacy ratio	13.9%	16.5%
Book value per share (in PLN)	154.8	120.3
Earnings per share (in PLN)[6)]	21.2	19.4

1) Excluding integration costs and the gain/loss on subordinated entities, the adjusted cost-to-income ratio was 45,8% for 2013 and 43% for 2012.

2) Net interest income (including Swap points) to average interest-bearing assets, net of impairment write-down.

3) Impairment losses on loans and advances to average gross loans and advances to customers.

4) Net profit attributable to the shareholders of BZ WBK S.A. to the average equity calculated based on total equity (as at the beginning and end of the reporting period), net of the current period profit and non-controlling interests. In calculations of the ratio for 2013, the pro forma equity as at 31.12.2012 was used as presented in unaudited "Condensed Consolidated Financial Pro Forma Information" published in the current report on 8.01.2013. Due to the change in the calculation methodolgy, effective from Q1 2013, ROE for 2012 differs from the previously announced rate of 20.7%. Excluding the impact of one-offs, adjusted ROE as at 31.12.2013 was 15.6%.

5) Net profit attributable to the shareholders of BZ WBK S.A. to average total assets.

6) Net profit for the period attributable to the shareholders of BZ WBK S.A. divided by the number of ordinary shares.

4. ADDITIONAL FINANCIAL INFORMATION

SELECTED TRANSACTIONS WITH RELATED ENTITIES

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

As at 31 December 2013, the Bank's total exposure on loans to subsidiaries (e.g. BZ WBK Leasing, BZ WBK Faktor, Dom Maklerski BZ WBK S.A.) amounted to PLN 4,947.8m vs. PLN 3,362.7m as at 31 December 2012.

As at 31 December 2013, the deposits held with the Bank by the subsidiaries (e.g. Dom Maklerski BZ WBK S.A., BZ WBK Leasing, BZ WBK Asset Management, BZ WBK Towarzystwo Funduszy Inwestycyjnych, BZ WBK Finanse) totalled PLN 985.2m vs. PLN 905.2m a year before.

Guarantees to subsidiaries amounted to PLN 270.1m versus PLN 310.2m as at 31 December 2012.

These intercompany items have been eliminated from the consolidated accounts.

The Bank's receivables from the parent entity (Santander Group) amounted to PLN 706.2m compared with PLN 283.8m at 31 December 2012, while the liabilities amounted to PLN 71.5m compared with PLN 36.3m as at 31 December 2012.

A full disclosure on related party transactions, including those with senior management, is available in Note 46 of the Consolidated Financial Statements of Bank Zachodni WBK Group for 2013 and in Note 45 of the Financial Statements of Bank Zachodni WBK S.A. for 2013.

SELECTED OFF-BALANCE SHEET ITEMS

Commitments and Derivatives

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

PLN m

Guarantees and Commitments	31.12.2013	31.12.2012
Financial commitments:	17 592.8	10 842.9
– credit lines	15 229.1	9 637.4
– credit cards debits	1 875.8	1 109.4
– import letters of credit	441.5	96.1
– term deposits with future commencement term	46.4	-
Guarantees	3 822.2	2 221.1
Total	21 415.0	13 064.0

PLN m

Nominal Value of Derivatives	31.12.2013	31.12.2012
Derivatives – Forward (hedging)	29 792.1	14 675.6
Derivatives – Forward (trading)	128 272.0	69 595.9
Current FX transactions	2 076.9	1 890.0
Trading in equities	302.4	11.3
Total	160 443.4	86 172.8

Description of Guarantees Issued

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

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

Operating Lease

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

PLN m

Lease payments by maturity	31.12.2013	31.12.2012
less than 1 year	252.0	157.5
between 1 and 5 years	615.4	490.8
over 5 years	373.9	245.7
Total	1 241.3	894.0

WRITS OF EXECUTION AND VALUE OF COLLATERAL

The table below shows the number and value of the writs of execution issued by Bank Zachodni WBK S.A. in 2013 compared with 2012.

PLN m

Facility	31.12.2013		31.12.2012	
	Number	Value	Number	Value
Loans to individuals	66 705	363,8	29 077	179,5
Loans to enterprises	3 987	884,9	2 335	1 130,3
Total	**70 692**	**1 248,7**	**31 412**	**1 309,8**

As at 31 December 2012, the value of collateral on borrowers' accounts, assets or leased objects across the Group amounted to PLN 60,783.1m compared with PLN 33,739.1m as at 31 December 2012.

5. FACTORS WHICH MAY AFFECT FINANCIAL RESULTS IN 2014

The factors which may affect the financial results of Bank Zachodni WKB Group in 2014 include:

- Predicted further improvement of economic growth in the world economy, in particular in the euro zone, which implies improving prospects of Polish exports;
- Improvement in the labour market and rise of real disposable income for households, which can positively affect new consumer and housing loans;
- Further recovery of the domestic demand, both private consumption and investment;
- Interest rate hikes by the MPC in response to an acceleration of economic growth and gradual rise of inflation;
- Changes of assets' financing cost depending on the pace and scale of changes of the main interest rates, changes of the zloty exchange rate, development of liquidity situation of the banking sector and intensity of price competition between the Banks in the area of deposit acquisition;
- Possible increase in volatility of the financial market in case of disappointment about the pace of global economic revival, or actions of the central banks;
- Further developments on the global stock market and their impact on the willingness to purchase investment funds units or keeping savings in safe bank deposits as an alternative.

X. INVESTOR RELATIONS

1. INVESTOR RELATIONS IN BANK ZACHODNI WBK S.A.

Bank Zachodni WBK S.A. is strongly committed to ensuring effective communication with shareholders and investors. The main objective of the Investor Relations Team is to promote and establish communication channels with institutional investors and analysts, informing them proactively of the Group developments and other relevant aspects that may affect them, as well as satisfying their request for information. All this is done with the aim of promoting and improving the image of Bank Zachodni WBK S.A. in equity markets.

In 2013, the Bank continued its standard activities in the scope of investor relations.

Investors, shareholders and stock market analysts had the opportunity to meet the representatives of the Bank's Management Board at numerous conferences in Poland and abroad as well as investor road-shows or individual meetings. In 2013, Bank Zachodni WBK S.A. was present at 8 international conferences. The Investor Relations Team held 76 meetings during the investor road-shows and held more than 200 meetings with investors and analysts during the year.

On 4th February 2013 the Investor Day was organised due to the announcement of the merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A. The Management Board and Supervisory Board representatives set forth the merger plan and long term strategic goals for the newly merged entity.

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

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

2. SHARE CAPITAL, OWNERSHIP STRUCTURE AND SHARE PRICE

SHARE CAPITAL AND CHANGES IN THE OWNERSHIP STRUCTURE OF BANK ZACHODNI WBK S.A.

As at 31 December 2013, the share capital of Bank Zachodni WBK S.A. totalled PLN 935,450,890, divided into 93,545,089 ordinary bearer shares at the nominal value of PLN 10 each. With its stake of 70%, Banco Santander S.A. was the only shareholder with the minimum of 5% voting power at the GM of Bank Zachodni WBK S.A.

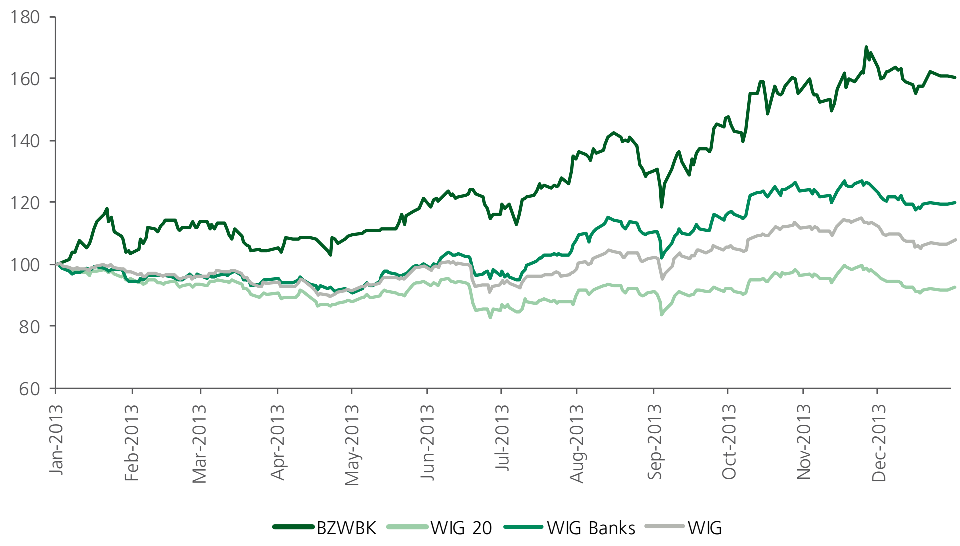
For more details on the share capital of Bank Zachodni WBK S.A. in 2013, please refer to the section “Developments impacting the structure of the share capital following the legal merger” in Chapter IV “Legal Merger and Integration Process”.

See Chapter XII “Statement on Corporate Governance in 2013” for details of the share series as at 31 December 2013.

SHARE PRICE OF BANK ZACHODNI WBK S.A. VS. INDICES

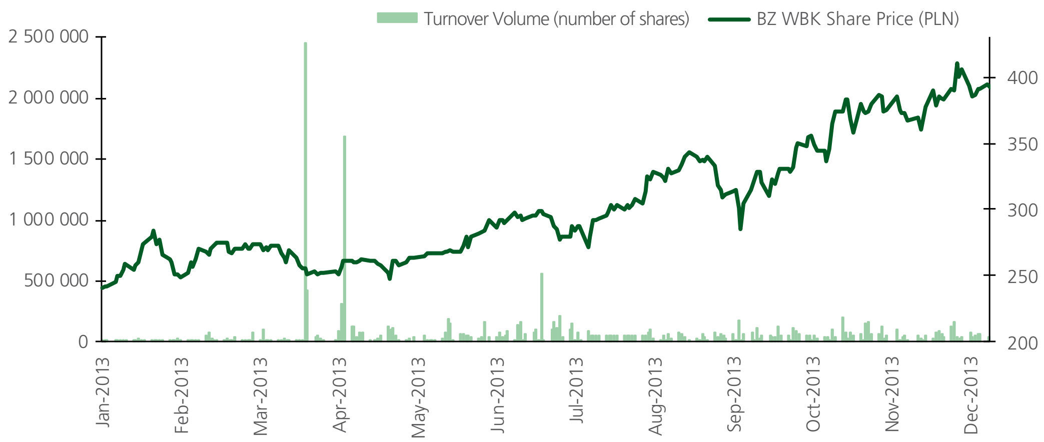
In 2013, the share price of Bank Zachodni WBK S.A. continued the upward trend observed in the previous years. The steady increase in the stock price (from PLN 241.9 as at 28 December 2012 to PLN 387.6 as at 30 December 2013) yielded impressive return of 60.2% p.a. for investors. Pursuant to GM resolution of 17 April 2013, in May the Bank paid out a dividend at PLN 7.6 per share out of the profit earned in 2012, which further enhanced an annual return on investment in the Bank's stock. Over the same period, WIG Banks gained 21%, WIG went up by 8%, while WIG-20 lost 7%.

BZ WBK Share Price vs. Indices
BZ WBK Share Price,WIG 20, WIG and WIG Banks as at 2.01.2013 =100



The Bank's unparalleled stock market performance was not only driven by the overall strong investor sentiment towards the Polish banking sector but also by positive publicity on the operational merger with the former Kredyt Bank S.A. An investment agreement under which the Bank will acquire a 60% stake in Santander Consumer Bank in early 2014 and increase its capitalisation did not go unnoticed as well. Under the impact of this information at the end of November the share price hit an all-time high of PLN 418.

BZ WBK Share Price and their Stock Exchange Trading Volumes in 2013



The strongly rising share price ranked the Bank top among the companies included in the prestigious WIG20 index, which was joined by the Bank after a break. As a result of the secondary offering held in March 2013, with nearly 20 million shares worth PLN 4.9bn put on the market by KBC NV and Santander Bank, the Bank's free-float increased to 30%. Having exceeded the threshold of 10% of the share capital, the Bank was re-admitted to the main stock indices (including MSCI Poland, WIG, WIG Poland, WIG20, WIG 30, WIG Banks, WIGdiv, Respect Index). Previously, i.e. from 1 April 2011, the shares of Bank Zachodni WBK S.A. had not been included in any stock indices on account of its share capital structure.

Key Data on BZ WBK S.A. Shares	2013	2012
Share price at the year-end (in PLN)	387.6	241.9
Maximum closing share price over the year (in PLN)	410.0	242.9
Date of maximum closing share price	27-11-2013	21-12-2012; 27-12-2012
Minimum closing share price over the year (in PLN)	241.0	221.0
Date of minimum closing share price	2-01-2013	17-01-2012
Price per earning ratio (P/E) at the year-end	22.5	13.2
Number of shares at the year-end (items)	93 545 089.0	74 637 631.0
Market capitalisation at the year-end (PLN m)	36 258.1	18 054.8
Average turnover over the year (PLN m)	25.9	0.3
Dividend per share (PLN m)	10.7	7.6

DIVIDEND PER SHARE

The Management Board of Bank Zachodni WBK S.A. will recommend payment of a dividend for 2013 of PLN 10.70 per share. The final decision on the dividend pay-out and its amount will be taken by the General Meeting of Bank Zachodni WBK S.A.

The Annual General Meeting of Shareholders of Bank Zachodni WBK S.A. held on 17 April 2013 resolved on allocation of PLN 710.9m of 2012 net profit for dividend to shareholders. The dividend of PLN 7.60 per share was paid on 17 May 2013.

See the table in Chapter II "Basic Information", section 1 "History and Profile of Bank Zachodni WBK Group" for details of the dividend paid from 2009 to 2013.

3. RATING, SHARE PRICE AND MARKET POSITION OF BANK ZACHODNI WBK S.A.

BANK ZACHODNI WBK S.A. RATING

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

On 10 January 2013, following the completion of the legal merger between Bank Zachodni WBK S.A. and Kredyt Bank S.A., Fitch Ratings affirmed BZ WBK S.A. international ratings of 14 June 2012 and withdrew KB ratings. The Bank's ratings were reaffirmed by Fitch Ratings in its announcement of 4 December 2013. At the same time, in view of the Bank's plans to issue PLN 500m senior unsecured bonds, the agency also assigned the Bank a National Long-term rating of "A+(pol)EXP".

Rating type	International Fitch Ratings of 14.06.2012 affirmed in the announcement of 10.01.2013 and 4.12.2013*	National Fitch Rating of 4.12.2013
Long-term IDR	BBB	
Outlook for the long-term IDR rating	stable	
Short-term IDR	F3	
Viability rating	bbb	
Support rating	2	
National long-term rating		A+(pol)
Senior unsecured debt national long-term rating		A+(pol)
PLN 500m senior unsecured bonds, national long-term rating		A+(pol)EXP

* BZ WBK S.A. rating valid as at 31.12.2012 and 31.12.2013 r.

The rating actions on Bank Zachodni WBK S.A. as at the annual report date (26.02.2014) are summarised below:

BZ WBK's long term IDR is driven by the Bank's intrinsic strength and is underpinned by the support available from its majority owner, Banco Santander S.A. (Santander, BBB+/Stable). The Bank's Viability Rating (VR) reflects its strong franchise, stable performance, adequate liquidity and capitalisation and stable funding structure based on customer deposits. According to Fitch Ratings, the risks arising from the Bank's exposure to commercial real estate and residential mortgages denominated in foreign currencies are adequately cushioned by the Bank's capital position and healthy pre-impairment profitability.
The planned acquisition of a 60% stake in Santander Consumer Bank (SCB) is expected to bring only minor changes in the Group's credit profile.

Affirmation of the Bank's "2" Support Rating reflects the agency's view that Banco Santander S.A. will have a high propensity to provide support to the merged entity if needed, given the strategic importance of the Bank to Santander Group.

In Fitch's view, no upgrade or downgrade of the long-term IDR of Bank Zachodni WBK S.A. is to be expected. Still, a renewed escalation of the eurozone crisis, which could result in increased impairment charges, could put downward pressure on BZ WBK's VR.

XI. RISK MANAGEMENT

1. RISK MANAGEMENT PRINCIPLES AND STRUCTURE IN BANK ZACHODNI WBK GROUP

RISK MANAGEMENT PRINCIPLES

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

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

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

One of the key priorities in 2013 was to ensure smooth merger between Bank Zachodni WBK S.A. and Kredyt Bank S.A. in relation to integration of risk management policies, processes and systems.

RISK MANAGEMENT STRUCTURE IN BANK ZACHODNI WBK GROUP

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

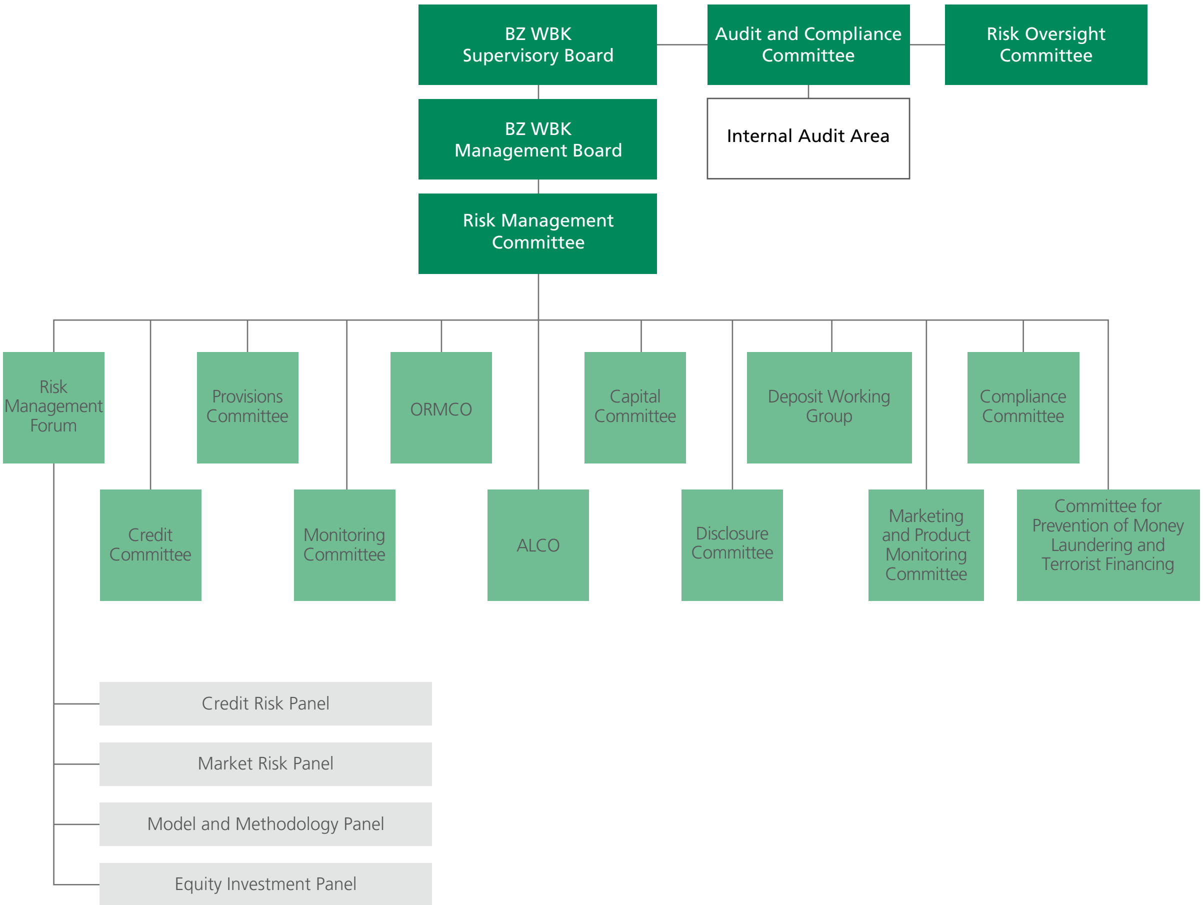
The Management Board fulfils its risk management role through the Risk Management Committee (RMC), which is responsible for the development of the risk management strategy across the Group, including the identification of material risk types, and definition of the risk appetite along with the methods of risk measurement, control, monitoring and reporting.

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

The RMC supervises the following risk committees:

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

CORPORATE GOVERNANCE STRUCTURE FOR RISK SUPERVISION AND MANAGEMENT



2. MATERIAL RISK FACTORS IN 2013

CREDIT RISK

In 2013, the Group continued its conservative credit risk management policy with a focus on ensuring a balanced growth of the high quality credit portfolio. The Group is constantly improving its processes and procedures for measuring, monitoring and managing the Bank's credit risk, ensuring they are in keeping with the amended regulatory requirements, in particular KNF Recommendations. The economic slowdown which continued throughout 2013 led to an increase in the risk charge and caused deterioration in the customers' standing, especially in the corporate segment. The Bank was closely tracking the macroeconomic environment and analysing its credit exposure to particular customer segments and economic sectors to respond with an adequate and prompt action and adjust its credit policy parameters accordingly. The Bank also introduced changes to its pricing policy in response to falling reference rates.

MARKET RISK (INCLUDING LIQUIDITY RISK)

The net interest income was lower than expected due to a faster and more pronounced decline in interest rates in 2013. Sensitivity of the Bank's interest income to interest rate movements was kept within the adopted risk limits. Still, the Bank took measures to reduce the sensitivity of the net interest margin (e.g. by gradual change of credit repricing structure) and increase non-interest income (e.g. through the sale of assets).

On top of that, the Bank actively minimised the adverse impact of deposit outflows on asset funding following the merger with Kredyt Bank S.A. The stability of the deposit base was strengthened by, inter alia, long-term retail deposits and alternative funding (issue of bonds).

In 2013, as in 2012, the Group focused on keeping its loan-to-deposit ratio (which totalled 86.7% as at 31 December 2013) at a comfortable level and controlling key short and long-term liquidity measures. In view of standardisation of the pricing policy upon the merger with Kredyt Bank S.A. and due to the record low interest rate environment, the Group focused on the stability of its deposit base as the main funding source of Bank Zachodni WBK S.A.

In Q4 2013, the Bank issued PLN 500m worth of 3-year bonds, thus enhancing its long-term funding structure.

OPERATIONAL RISK

The key challenge regarding the operational risk management in 2013 were the processes related to the merger between Bank Zachodni WBK S.A. and Kredyt Bank S.A. In order to ensure best practice in operational risk management in the transition period, each consolidated activity and integration project were subject to an in-depth analysis in terms of operational risk. Furthermore, operational risk management standards and tools were harmonised to ensure the uniform process across the organisation.

3. CREDIT RISK MANAGEMENT

CREDIT RISK

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

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

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

CREDIT POLICY

In 2013, the Group continued its credit risk management, ensuring an adequate level of credit risk and sustainable growth of business volumes and market share. In response to a changing macroeconomic environment, the Bank gradually optimised credit policies, keeping them better aligned with the expected economic growth, and monitoring closely the associated risk.

The policy pursued by the Group focuses on a balanced growth of a high quality and profitable loan book. The Group carries out its lending activity taking care to observe applicable prudential regulations and standards. High quality of customer service is also treated as a priority. In 2013, a number of projects were delivered to enhance customer experience.

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

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

The lending activity of the subsidiaries is modelled on the Bank’s credit policies. Credit decision making across Bank Zachodni WBK Group is based on a consistent approach to credit risk, underpinned by a single IT platform used for grading/scoring credit exposures. The subsidiaries have credit risk management procedures in place which have been approved by the Bank.

CREDIT DECISION MAKING PROCESS

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

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

CREDIT GRADING

Intensive work has been undertaken by the Group for further development of the credit risk assessment tools to conform to the regulatory guidelines and regulations, taking account of the best market practice in risk management and accounting. The Group uses credit risk grading models for its key credit portfolios, including corporate customers, SMEs, home loans, income-producing real estates, cash loans, credit cards and personal overdrafts.

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

CREDIT REVIEWS

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

COLLATERAL

The role of the Securities and Credit Documentation 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 collateral as well as ensuring that establishment, monitoring and release of security covers is duly effected. In addition, the Securities and Credit Documentation Centre provides assistance to credit units in credit decision making and development of credit policies with respect to collateral, gathers data on security covers and ensures adequate management information.

CREDIT RISK STRESS TESTING

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

CALCULATION OF IMPAIRMENT

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

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

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

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

PLN m

Loans and Advances to Customers by Impaired and Non-Impaired Loan Portfolios	31.12.2013	31.12.2012
Individually impaired (gross amount)	3 325.2	1 131.3
Allowance for impairment	(1 525.5)	(534.9)
Net amount (individually impaired)	**1 799.7**	**596.4**
Collecively impaired (gross amount)	2 315.4	1 125.2
Allowance for impairment	(1 511.0)	(672.4)
Net amount (collectively impaired)	**804.4**	**452.8**
IBNR portfolio	65 770.5	39 050.5
– non-past due	62 015.6	37 236.0
– past due	3 754.9	1 814.5
IBNR provisions	(453.2)	(336.9)
Net amount (non-impaired)	**65 317.3**	**38 713.6**
Other receivables	210.7	104.8
Total	68 132.1	39 867.6

4. MARKET RISK AND LIQUIDITY RISK MANAGEMENT

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

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

MARKET RISK

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

The Management Board makes its strategic decisions on the basis of recommendations put forward by the Risk Management Forum, to which direct supervision of market risk management has been delegated.

ALCO – supported by the Financial Management Division – is responsible for managing market risk in the banking book, while the market risk in the trading book is managed by the Bank's Global Banking &Markets Division and Dom Maklerski BZ WBK S.A. (primarily with respect to the equity securities repricing risk).

Identification and Assessment of Market Risk

Interest rate and FX risks associated with the banking book are managed by the Financial Management Division, which is also responsible for managing the open positions in interest rate and FX risks of the companies from Bank Zachodni WBK Group. It is only Dom Maklerski BZ WBK S.A. that, due to the scale and profile of its business, applies separate limits for the repricing risk of equity instruments and FX risk.

The Global Banking and Markets Division, which also exercises shareholder oversight over Dom Maklerski WBK S.A., is responsible for managing the market risk on the trading book.

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

With the division of roles, management of the risk in the banking book is fully separate from the management of risk in the trading book, and the risk measurement and reporting functions are separate from the risk managing and taking units.

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

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

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

SENSITIVITY MEASURES FOR 2013

PLN k 1 day holding period	NII Sensitivity		MVE Sensitivity	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Maximum	114	90	94	140
Average	76	48	45	70
As at the end of period	84	90	92	131
Limit	**130**	**75**	**200**	**150**

In 2013, the global NII and MVE limits were not exceeded in the banking book.

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

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

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

RISK MEASURES FOR BANK ZACHODNI WBK S.A. AS AT 31.12.2013

PLN k	Interest Rate Risk VAR		FX Risk VAR	
1 day holding period	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Average	1 958	2 089	534	613
Maximum	4 369	5 261	1 647	1 542
Minimum	547	165	65	142
As at the end of the period	3 741	745	428	382
Limit	**7 530**	**7 749**	**1 506**	**1 550**

RISK MEASURES FOR DOM MAKLERSKI BZ WBK S.A. AS AT 31.12.2013

PLN k 1 day holding period	FX Risk VAR		Equity Securities Risk VAR	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Average	6	4	664	697
Maximum	18	9	2 135	3 074
Minimum	1	1	53	72
As at the end of the period	9	5	312	138
Limit	**104**	**102**	**4 111**	**4 029**

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

- Derivative instruments offered to Bank customers to mitigate market risk or held for trading;
- Other financial instruments, including investments securities held for sale, hedging derivatives and equity instruments.

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

The Group did not use derivative instruments to mitigate credit risk, while FX options, interest rate options and commodity derivatives were executed on the back-to-back basis and therefore did not expose the Group to market risk.

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

- mortgage loans bearing 3M WIBOR rate – the Group uses interest rate swaps to receive fixed interest and pay floating interest thus hedging the risk of movements in cash flows relating to floating interest loans;
- mortgage loans in CHF and EUR – basis swaps are used to hedge the risk of movements in interest rates (CHF LIBOR, EURIBOR) and exchange rates (CHF/PLN and EUR/PLN);
- fixed interest cash loans – the Group uses interest rate swaps to receive floating interest and pay fixed interest, thus hedging the fair value of the positions;
- selected fixed coupon bonds – interest rate swaps are used to hedge the fair value of bonds whereby the Group receives floating interest and pays fixed interest.

LIQUIDITY RISK

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

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

Liquidity Risk Management

ALCO and the Risk Management Forum have overall responsibility for the supervision of liquidity risk on behalf of the Management Board. As part of their roles, they make recommendations to the Management Board on appropriate strategies and policies for strategic liquidity management. Liquidity risk reports and results of stress tests are regularly reviewed by the senior management.

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

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

Identification and Assessment of Liquidity Risk

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

LIQUIDITY GAP ANALYSIS AS AT 31.12.2012 AND 31.12.2013

PLN m

Liquidity Risk	31.12.2013		31.12.2012	
	GAP	Cumulative GAP	GAP	Cumulative GAP
<1T	9 750.4	9 750.4	9 665.5	9 665.5
<1M	392.9	10 143.3	30.3	9 695.8
>1M	(10 143.3)	–	(9 695.8)	–

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

In 2013, the Bank's funds significantly exceeded the level required to cover the expected outflows.

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

In 2013, the Bank met the regulatory quantitative requirements for liquidity. Key regulatory indicators (i.e. short term liquidity ratio and ratio of coverage of non-liquid assets and assets of limited liquidity with own funds and core external funds) comfortably exceeded the required levels.

5. OPERATIONAL RISK MANAGEMENT

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.

Bank Zachodni 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 Bank Zachodni 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.

Bank Zachodni WBK Group has defined the Operational Risk Management Strategy and implemented the Operational Risk Management Policy and Framework. In addition, detailed procedures and guidelines are used to define how risks are identified, estimated, monitored and mitigated.

The Operational Risk Management Committee (ORMCO) established by the Management Board is responsible for setting operational risk management standards for Bank Zachodni WBK 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. The effects of this work are reported to the Risk Management Committee.

Bank Zachodni WBK Group manages operational risk using the following tools:

Identification and assessment of operational risk

In the self-assessment process, Bank Zachodni WBK Group identifies risks it may be exposed to when delivering its functions, assesses inherent and residual risks for 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.

Reporting on operational incidents and lessons learned

Each organisational unit is required to report operational incidents on a monthly basis. The Group runs a database of operational incidents identified across the organisation. The data are used to analyse the root cause and consequences of the incidents, capture lessons learned and take preventive and corrective measures.

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 their 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 and adequate information to the management. Operational risk reports cover, inter alia: operational risk incidents and losses, risk indicators and mitigants.

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

6. MANAGEMENT OF OTHER RISKS

INSURANCE RISK MANAGEMENT

As a result of gaining control over BZ WBK-Aviva TUO (BZ WBK-Aviva General Insurance Company) and BZ WBK-AVIVA TUnŻ (Life Insurance Company) on 20 December 2013, Bank Zachodni WBK Group is exposed to insurance risk.

Insurance risk entails the possibility of a loss or adverse changes in the value of liabilities, resulting from changes in the value, trend or fluctuations of the measures used for the estimation of such liabilities, or from unforeseen/ exceptional circumstances.

Insurance risk is also understood as the risk of materialisation of an insurance event and the related uncertainty about the claim value.

In the process of developing an insurance product and the calculation of insurance premiums, the key risk is seen as the situation where the claims ratio, i.e. the claims paid (including changes in the balance of provisions for unpaid claims) to the premium earned, is higher than the value planned when determining the amount of insurance premiums.

The risk factors affecting accuracy of the estimated claims ratios include the possibility of differences between historical data, which underlie the estimates, and the actual values. Such differences may arise in particular due to the short history of operations of the Insurance Companies and the small insurance portfolio that does not permit the application of the Law of Great Numbers and does not provide sufficient statistical information that might be helpful in managing the insurance risk.

Managing insurance risk, the Insurance Companies mainly focus on increasing their insurance portfolios while using reinsurance to limit the volatility of their risk share.

In 2013, BZ WBK-Aviva companies offered property insurance and casualty products, both in the model of individual and group insurance. Under individual contracts, the customers of both companies can join the investment program, purchase travel insurance or insurance against accidents. Other products are offered under the group contracts with the Bank. Insurance products are delivered to customers through bancassurance channel and directly.

BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ are subject to reinsurance contracts concluded in accordance with their Reinsurance Policy which is designed to limit the exposure to the insurance risk above the internally set limits.

LEGAL & COMPLIANCE RISK

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

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

- Responsibilities of the Legal and Compliance Division relate to the "conduct of business" compliance obligations, including implementation of new products, protection of clients' rights, anti-money laundering, protection of sensitive information and protection of personal data.

- The identification, interpretation and communication roles relating to other legal and regulatory obligations have been assigned to functions with specialist knowledge in those areas. All issues regarding compliance with employment law are assigned to HR Management Division; compliance with taxation law and reporting requirements is the responsibility of Financial Accounting and Control Division, while compliance with prudential regulations is the responsibility of Risk Management Division.

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 with the relevant mandate to support senior managers in effective management of compliance risk. The Compliance Area escalates all issues to the Risk Management Committee and Audit and Compliance Committee of the Supervisory Board.

- The Audit and Compliance Committee regularly reviews key compliance issues identified by the Compliance Area as part of monitoring of new products, regulatory activity, upcoming legislative initiatives and customers' complaints.

- The Risk Management Committee ensures execution of applicable regulations and approves principles of internal control and compliance policy framework. It also ensures independence and sufficient resources of the Compliance Area.

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

- Independent identification, assessment and monitoring of compliance risk the Group is exposed to (with a particular focus on new or modified products and services and the issues connected with inside information, conflict of interest or private account shares dealing by employees);

- Providing advice and reporting to the Risk Management Committee, Bank's Management Board and Audit and Compliance Committee on the effectiveness of the processes established to ensure compliance with laws and regulations within its area of responsibility;

- Providing the management and staff with guidance on compliance risk and adequate risk management policies and procedures;

- Centralisation of contacts with market regulators (KNF, UOKiK, GIIF and GIODO).

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

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

Risk prioritised compliance monitoring plans are prepared based on the risk assessment process. Monitoring is particularly focused on the issues related with MiFID compliance and the requirements in terms of prevention of the use of the financial system for money laundering and terrorist financing.

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

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.

The elements of the reputation risk include customer complaints and claims related to the process of offering banking products, including complaints about insufficient information about products and related risks, complexity of products, improper sales practices or loss of capital.

The owner of the reputation risk is 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:

- Monitoring of local and nationwide media and some international mass media sources;
- Collection and analysis of image-sensitive information by the Press Office;
- Response to information which poses a threat to public perception of the Bank's image;
- Customer satisfaction index;
- Preparation and control by relevant Bank Zachodni WBK S.A. 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;
- Giving opinion on new products, procedures, commercial materials, processes and other Bank initiatives in respect of their compliance with the regulations and the regulators' guidelines;
- Participation in the process of handling customer complaints, especially those addressed to the regulators;
- Supervision of the after-sales control of investment products;
- Mystery shopping surveys for investment products.

CA is responsible for regular monitoring of the reputation risk associated with the products offered by Bank Zachodni WBK Group. To that end, it analyses, inter alia, customer complaints, sales volumes, number of customers, and rate of return, where applicable.

7. 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 the Bank and capital requirements estimated for the unexpected loss is determined in accordance with applicable Polish Banking Law, the provisions of the Financial Supervision Commission and the regulations and directives of the European Parliament and of the Council of the EU prudential requirements.

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). This body is responsible for tracking 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. It also approves capital plans and sets out rules underpinning allocation of capital into individual segments when estimating profitability of the same. However, any ultimate decisions regarding the 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.

CAPITAL POLICY

The Group's capital management policy envisages the minimum level of solvency ratio at 12% (calculated according to the Banking Law and KNF Resolutions) both for the Bank and the Group.

At the same time Tier 1 capital ratio (core equity capital to Risk Weighted Assets for credit, market and operational risk) should be maintained at a minimum level of 9% both for the Bank and the Group.

The regulatory solvency ratio is 8%.

REGULATORY CAPITAL

The capital requirement for Bank Zachodni WBK Group as at 31.12.2013 was determined in accordance with Resolution No. 76/2010 of the Polish Financial Supervision Authority dated March 10, 2010, as amended. Bank Zachodni WBK S.A. used the standardized approach to calculate the capital requirement for credit risk, market risk and operational risk. The most significant being the capital requirement for credit risk.

In standard method, the total capital requirement for credit risk is calculated as the sum of risk-weighted exposure multiplied by 8%. The exposure value for the asset is equal to the balance sheet amount, in the case of off-balance sheet contingent liabilities is equal to the balance sheet equivalent. For the calculation of risk weighted exposure amounts, risk weights in accordance with Annex 4 to Resolution No. 76/2010 of the Polish Financial Supervision Authority on 10 March 2010 have been applied.

THE TABLES BELOW SHOW CAPITAL REQUIREMENT FOR THE GROUP AS OF 31 DECEMBER 2013 AND 2012.

PLN m

		31.12.2013	31.12.2012
I	**Total Capital requirement (Ia+Ib+Ic+Id+Ie), of which:**	**6 693.9**	**4 028.5**
Ia	– due to credit risk	5 763.0	3 473.0
Ib	– due to market risk	51.0	16.0
Ic	– due to settlement / counterparty risk	66.6	42.5
Id	– due to operational risk	761.6	497.0
Ie	– due to other risks	51.3	0.0
II	Total own funds	14 739.5	8 549.4
III	Reductions	3 092.5	223.7
IV	**Own funds after reductions (II-III)**	**11 647.0**	**8 325.7**
V	**CAD [IV/(I*12.5)]**	**13.92%**	**16.53%**

INTERNAL CAPITAL

In addition to the regulatory methods for measuring capital requirements, Bank Zachodni 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 Bank's risk appetite statement.

The Group under the ICAAP process uses assessment model based on the statistical loss estimation models for measurable risks, such as credit risk, operational risk and own assessment of capital requirements for other material risks not covered by the model, e.g. reputation risk, compliance risk or model risk.

The internal capital assessment process uses the risk parameters of probability of not fulfilling the commitments (PD – probability of default) by customers of Bank Zachodni WBK S.A. and the size of potential losses (LGD loss give default) resulting from the lack of fulfillment of obligations.

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.

Bank Zachodni 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

On 13th October 2010, the Bank obtained an approval of KNF for the inclusion into the Group's supplementary funds of the subordinated liabilities arising from the issue of floating debt securities fully paid by the European Bank for Reconstruction and Development on 5th August 2010. Consequently, the amount of EUR 99 000k was taken into account in the calculation of the Group's adequacy ratio.

Following the legal merger with Kredyt Bank S.A., the Bank acquired the right to include into supplementary funds subordinated loans granted by KBC NV. Subordinated liabilities to KBC NV amounted to CHF 265m and PLN 75m.

XII. STATEMENT ON CORPORATE GOVERNANCE IN 2013

1. INTRODUCTION

The Statement on Corporate Governance in 2013 was prepared in accordance with § 91 section 5 point 4 of the Finance Minister's Ordinance of 19 February 2009 on current and financial reports published by the issuers of securities and the rules of equal treatment of the information required by the laws of a non-member state. The information included in this chapter fulfils the requirements of corporate governance report set out in § 29 section 5 of the Terms of Reference of Warsaw Stock Exchange (WSE) and § 1 of the WSE Management Board Resolution no. 1013/2007 of 11 December 2007.

In relation to the above and pursuant to WSE Management Board Resolution no. 718/2009 of 16 December 2009, preparation of this Statement on Corporate Governance in 2013 in line with the foregoing regulations and its incorporation into the annual report ensures fulfilment of the requirement to provide WSE with a corporate governance report.

2. CODE OF BEST PRACTICE

Corporate governance rules applicable to Bank Zachodni WBK S.A. in 2013 are set forth in "Code of Best Practice for WSE Listed Companies" which constitutes an appendix to WSE Supervisory Board Resolution no. 19/130/2012 of 21 November 2012 and is available at WSE website (http://corp-gov.gpw.pl/) and the Bank's website (www.inwestor.bzwbk.pl). It is an updated code of best practice which became effective on 1 January 2013. The changes are related mainly to general meetings held by public companies via electronic channels. The original code was introduced by virtue of WSE Supervisory Board Resolution no. 12/1170/2007 of 4 July 2007 on introduction of "Code of Best Practice for WSE Listed Companies".

The updated code of best practice was approved for use in Bank Zachodni WBK S.A. by virtue of BZ WBK S.A. Management Board Resolution no. 9/2013 of 18 January 2013, and accepted by BZ WBK Supervisory Board.

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

3. MANAGEMENT BOARD'S STATEMENT ON CORPORATE GOVERNANCE

In 2013, Bank Zachodni WBK S.A. duly complied with all the corporate governance rules set forth in the binding version of "Code of Best Practice for WSE Listed Companies". During that period, no corporate governance breaches occurred.

4. EQUITY SECURITIES ISSUED BY THE BANK

OWNERSHIP STRUCTURE OF SHARE CAPITAL

Shareholder	Number of Shares Held		% in the Share Capital & Voting Power at AGM	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Banco Santander S.A.	65 481 563	70 334 512	70.0%	94.2%
Others	28 063 526	4 303 119	30.0%	5.8%
Total	**93 545 089**	**74 637 631**	**100.0%**	**100.0%**

According to the information held by BZ WBK Management Board as at 31 December 2013, the shareholder having minimum 5% of the total number of votes at the BZ WBK General Meeting of Shareholders was Banco Santander S.A. with its registered office in Santander. The company's interest in the share capital and the voting power of Bank Zachodni WBK S.A. was 70.0%, and decreased by 24.2 p.p. YoY as a result of the following events:

- Increasing the share capital of Bank Zachodni WBK S.A. following the merger with Kredyt Bank S.A. (4 January 2013) by a transfer of the entire assets of Kredyt Bank S.A. to Bank Zachodni WBK S.A. in exchange for 18,907,458 newly issued series J shares allotted to all of the existing shareholders of Kredyt Bank S.A. at a stated exchange ratio.
- A secondary offering for the shares of Bank Zachodni WBK S.A. to fulfil the obligations of the "Investment Agreement" concluded on 27 February 2012 between Banco Santander S.A. and KBC Bank NV in anticipation of the merger of Bank Zachodni WBK S.A. with Kredyt Bank S.A. The offering (announced on 22 March 2013) was for 19,978,913 shares representing 21.4% of the Bank's share capital, with 4,852,949 owned by Banco Santander S.A.

Other information on the Bank Zachodni WBK S.A. share capital is presented in section "Changes in the Share Capital Structure After the Legal Merger", Chapter IV "Legal Merger and Integration Process".

RIGHTS AND RESTRICTIONS ATTACHING TO THE ISSUER'S SECURITIES

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

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

THE STRUCTURE OF SHARE CAPITAL OF BANK ZACHODNI WBK S.A. IN 2012 AND 2013.

<table>
<tr><th colspan="3">Date of change</th><th>Series/ issue</th><th>Type of share</th><th>Type of preferences</th><th>Limitation of rights to shares</th><th>Number of shares</th><th>Nominal value of series/issue (in PLN)</th></tr>
<tr><td rowspan="8">until 9.08.2012</td><td rowspan="9">until 4.01.2013</td><td rowspan="10">from 4.01.2013</td><td>A</td><td>bearer</td><td>none</td><td>none</td><td>5 120 000</td><td>51 200 000</td></tr>
<tr><td>B</td><td>bearer</td><td>none</td><td>none</td><td>724 073</td><td>7 240 730</td></tr>
<tr><td>C</td><td>bearer</td><td>none</td><td>none</td><td>22 155 927</td><td>221 559 270</td></tr>
<tr><td>D</td><td>bearer</td><td>none</td><td>none</td><td>1 470 589</td><td>14 705 890</td></tr>
<tr><td>E</td><td>bearer</td><td>none</td><td>none</td><td>980 393</td><td>9 803 930</td></tr>
<tr><td>F</td><td>bearer</td><td>none</td><td>none</td><td>2 500 000</td><td>25 000 000</td></tr>
<tr><td>G</td><td>bearer</td><td>none</td><td>none</td><td>40 009 302</td><td>400 093 020</td></tr>
<tr><td>H</td><td>bearer</td><td>none</td><td>none</td><td>115 729</td><td>1 157 290</td></tr>
<tr><td></td><td>I</td><td>bearer</td><td>none</td><td>none</td><td>1 561 618</td><td>15 616 180</td></tr>
<tr><td></td><td></td><td>J</td><td>bearer</td><td>none</td><td>none</td><td>18 907 458</td><td>189 074 580</td></tr>
<tr><td></td><td></td><td></td><td></td><td>Total</td><td></td><td></td><td>93 545 089</td><td>935 450 890</td></tr>
</table>

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

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

5. GOVERNING BODIES

GENERAL MEETINGS OF SHAREHOLDERS

Extraordinary General Meetings

On 13 February 2013, the Extraordinary General Meeting of Shareholders of Bank Zachodni WBK S.A. appointed two new Supervisory Board members proposed by the shareholders of the European Bank for Reconstruction and Development and KBC Bank NV (see the "Supervisory Board" section for more details).

Annual General Meetings

The Annual General Meeting of Shareholders of Bank Zachodni WBK S.A. held on 17 April 2013 (AGM) approved the 2012 unconsolidated and consolidated financial statements of Bank Zachodni WBK S.A. and Kredyt Bank S.A. and the BZ WBK Supervisory Board report on the activities in 2012, along with the Supervisory Board's assessment of the financial statements of the Bank and the Group. The AGM granted discharge to the Management and Supervisory Board members for the performance of their duties in the previous year and resolved on distribution of the net profit and dividend payment of PLN 7.60 per share. The AGM also amended the Bank's Statutes by defining new independence criteria for Supervisory Board members and extending the Bank's objects to include brokerage services in anticipation of acquisition of Dom Maklerski BZ WBK S.A. The former change was approved by the Polish Financial Supervision Authority (KNF) and entered in the National Court Register on 3 June 2013, while the latter change has not become effective in the absence of the respective KNF's decision.

Organisation and Powers of the General Meeting of Shareholders

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

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

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

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

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

Shareholders' Rights

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

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

- Each shareholder may request that the list of shareholders be e-mailed free-of-charge to the indicated address. Each shareholder may have access to the list of shareholders in the Bank's MB office and request a copy of the list at their expense.

- Shareholders may:
  – a week before the GM, demand copies of requests included in the GM agenda;
  – have access to minutes of the GM and request copies of resolutions confirmed by the Bank's Management Board as true copies;
  – request voting by secret ballot;
  – appeal against resolutions made by the GM in cases permitted in the Commercial Companies Code;
  – seek information from the Management Board on issues on the GM agenda, as provided for by the Commercial Companies Code;
  – exercise their voting rights (each share gives one vote at the GM).

- Shareholders may attend the GM and vote personally or trough proxies. In line with the Terms of Reference, shareholders may also participate in the GM via electronic communication channels.

Method of Changing the Statutes

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

In 2013, the Statutes of Bank Zachodni WBK S.A. were changed by two AGM resolutions of 17 April 2013. The changes included:

- Modification of the independence criteria of Supervisory Board members (§ 25 section 2 of the Statutes), which took effect on 3 June 2013.

- Expansion of the Bank's objects to include brokerage activities (§ 7 section 2, item 7b of the Statutes) – this change has not become effective due to the lack of the respective KNF's decision.

SUPERVISORY BOARD

Below is the composition of the Bank Zachodni WBK Supervisory Board as at 31.12.2013 and 31.12.2012:

Role in the Supervisory Board	Ref.	Composition as at 31.12.2013		Composition as at 31.12.2012
Chairman of the Supervisory Board:	1.	Gerry Byrne	1.	Gerry Byrne
Vice-Chairman of the Supervisory Board:	2.	José Manuel Varela	2.	José Manuel Varela
Members of the Supervisory Board:	3.	José Antonio Alvarez	3.	José Antonio Alvarez
	4.	David R. Hexter	-	-
	5.	Witold Jurcewicz	4.	Witold Jurcewicz
	6.	José Luis de Mora	5.	José Luis de Mora
	7.	John Power	6.	John Power
	8.	Jerzy Surma	7.	Jerzy Surma

In 2013, the membership of the Supervisory Board was changed as follows:

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

- As KBC Bank NV disposed of all its shareholdings in Bank Zachodni WBK S.A. of 2 April 2013, Mr Guy Libot resigned from the Supervisory Board effective from 2 April 2013.

As at 31 December 2013, the following members of the Supervisory Board held an independent status: Mr. David R. Hexter, Mr. Witold Jurcewicz, Mr. John Power and Mr. Jerzy Surma. All of them confirmed in writing their independent status of the Bank and its connected entities.

In the period from 1 January to 31 December 2013, 10 Supervisory Board meetings were held at which 68 resolutions were passed. Average attendance was 94.6%.

Role of the Supervisory Board

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

The Supervisory Board consists of at least five members appointed for a joint, three-year term of office. The Supervisory Board members, including the Chairman of the Supervisory Board, are appointed and removed by the General Meeting of Shareholders. The Management Board notifies the Polish Financial Supervisory Authority about the membership of the Supervisory Board.

Pursuant to the Bank's Statutes, at least half of the Supervisory Board members should have an independent status.

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

Supervisory Board Committees

The Supervisory Board may establish committees and designate individuals responsible for managing the work of such committees. These committees are designed to facilitate the current activities of the Supervisory Board by preparing draft Supervisory Board decisions with regard to their own motions or the motions presented to the Management Board.

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

COMPOSITION OF SUPERVISORY BOARD COMMITTEES AS AT 31.12.2013

Role in the Supervisory Board	Ref.	Composition as at 31.12.2013	Supervisory Board Committees as at 31.12.2013		
			Audit and Compliance Committee	Risk Oversight Committee	Remuneration and Nominations Committee
Chairman of the Supervisory Board:	1.	Gerald Byrne			🟥
Vice-Chairman of the Supervisory Board:	2.	José Manuel Varela	🟩	🟩	
Members of the Supervisory Board:	3.	José Antonio Alvarez			🟩
	4.	David r. Hexter	🟩	🟩	
	5.	Witold Jurcewicz	🟩	🟩	
	6.	José Luis de Mora			🟩
	7.	John Power	🟥	🟥	
	8.	Jerzy Surma	🟩	🟩	

🟥 Chairman

🟩 Members

The Audit and Compliance Committee evaluates the adequacy, scope and effectiveness of the accounting and internal control systems. Together with the Management Board and internal auditors, it reviews the Group's internal controls and the internal control and (financial and non-financial) risk management systems. The Committee monitors the Bank's financial reporting process, ensuring adequate quality of financial reports and disclosure practices and their compliance with the law, KNF requirements and accounting principles. Furthermore, the Committee reviews the work performed by the statutory auditor, ensuring that the entity is independent and effective. Also, it reviews the actions undertaken by the Management Board in terms of their compliance with the legal and regulatory requirements and the Bank's by-laws. The Audit and Compliance Committee is composed of independent Supervisory Board members.

The Risk Oversight Committee presents the Supervisory Board with the conclusions and recommendations on the general risk management framework and the risk appetite, in accordance with the applicable policies and limits. The Committee reviews the Risk Appetite Statement, assesses business strategy in terms of its adequacy for the risk exposure as well as goals and financial plans of the organisation, verifies the risk profile and KPIs, and monitors internal controls. The Committee is composed of independent Supervisory Board members.

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

The Remuneration and Nominations Committee presents the Supervisory Board with recommendations about remuneration policies and practices. It defines the remuneration policy and the individual pay packages for Management Board members and performs annual reviews of the remuneration payable to the Management and Supervisory Board members. The Committee also has oversight over the bonus scheme for Management Board members, and analyses the incentive solutions and other remuneration schemes proposed for implementation in the Bank and subsidiaries.

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

The annual reports on activities of the Supervisory Board and its Committees as well as the Supervisory Board's reports on examination of the Bank's and the Group's annual report along with the assessment of the Group's operations, including internal control and risk management system, are published in current reports which convey the resolutions passed by the AGM of Bank Zachodni WBK S.A.

MANAGEMENT BOARD

The table below presents the composition of Bank Zachodni WBK S.A. Management Board as at 31.12.2012 and 31.12.2013 together with the roles and responsibilities of its members.

Role in the Management Board	L.p.	Composition as at 31.12.2013 i 31.12.2012	Reporting Areas in 2012 and 2013
President	1.	Mateusz Morawiecki	Units reporting directly to the President: Internal Audit Area, Corporate Communications & Marketing Area
Board Members:	2.	Andrzej Burliga	Risk Management Division
	3.	Eamonn Crowley	Financial Management Division
	4.	Michael McCarthy	Business & Corporate Banking Division
	5.	Piotr Partyga	Human Resources Management Division
	6.	Juan de Porras Aguirre	Global Banking & Markets Division
	7.	Marcin Prell	Legal and Compliance Division
	8.	Marco Antonio Silva Rojas	Financial Accounting & Control Division
	9.	Mirosław Skiba	Retail Banking Division
	10.	Feliks Szyszkowiak	Business Support Division

In 2013, no changes were made to the BZ WBK S.A. Management Board.

Appointment and Removal of Executives

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

The Bank's Management Board consists of at least three persons (including the Management Board President) appointed by the Supervisory Board for a joint three-year term of office. At least half of the Management Board members, including the President, should have higher education, be permanent residents of Poland, speak Polish, have good knowledge of the Polish banking market and sufficient experience of the home market to manage the Polish banking institution. Two Management Board members, including the Management Board President, are appointed with the approval of the Polish Financial Supervision Authority (KNF). Management Board members may be removed by the Supervisory Board or the General Meeting at any time.

Powers of Executives

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

The Management Board takes decisions to raise obligations or transfer assets whose total value for one entity exceeds 5% of the Bank's own funds. The Management Board can also, by way of resolution, delegate its powers to take such decisions to other committees or persons in the Bank. The Management Board members run the Bank's affairs jointly, and in particular: define the Bank's mission, set long-term action plans and strategic objectives, prepare assumptions for the Bank's business and financial plans, approve the plans and monitor their performance, regularly report to the Supervisory Board on the Bank's position in the scope and at the dates agreed with the Supervisory Board, appoint permanent and ad hoc committees and designate individuals responsible for managing the work of such committees. The committees are composed of both Management Board members and persons from outside the Management Board.

Permanent committees operative in the Bank include: Risk Management Committee, Credit Committee, Provisions Committee, Risk Management Forum, Credit Policy Forum for Retail Portfolios, Credit Policy Forum for SME Portfolios, Credit Policy Forum for Business and Corporate Portfolios, Assets and Liabilities Committee (ALCO), Operational Risk Management Committee, Deposit Working Group, CRM Committee, Settlement Committee, Anti-Money Laundering and Terrorist Financing Committee, Urban Regeneration Fund Investment Committee, Procurement Investment Forum, Procurement Investment Committee, Compliance Committee, Local Product Marketing and Monitoring Committee, Monitoring Committee and Public Policy Committee.

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

Role of the Management Board

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

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

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

OTHER INFORMATION ON THE MANAGEMENT AND SUPERVISORY BOARDS

Remuneration of the Supervisory and Management Board Members

Pursuant to the Statutes of Bank Zachodni WBK S.A. the remuneration of the Supervisory Board members is set by the General Meeting of Shareholders of Bank Zachodni WBK S.A. As at 31 December 2012, the remuneration for the Supervisory Board of Bank Zachodni WBK S.A. was set by virtue of Resolution no. 35 of the General Meeting of Shareholders of Bank Zachodni WBK S.A. of 20 April 2011.

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

Information on the remuneration of the BZ WBK S.A. Supervisory and Management Board members for 2013 and the comparable period is presented in Note 46 to the Consolidated Financial Statements of Bank Zachodni WBK Group for 2013.

Agreements between Bank Zachodni WBK S.A. and its Executive Directors

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

Shares and Conditional Rights Held by the Supervisory and Management Board Members

As at 31 December 2013 and 31 December 2012, none of the members of the Supervisory Board held any shares of Bank Zachodni WBK S.A.

Under the 1st BZ WBK Performance Share Programme launched in 2006, members of the Management Board were allocated 23,084 out of 115,729 H series shares issued as part of the conditional increase in the share capital. Under the 2nd and 3rd Incentive Scheme, which expired in 2010 and 2011, respectively, no rights were exercised. The Management Board members have conditional rights to acquire shares under the 4th Incentive Scheme.

The table below shows the number of the BZ WBK S.A. shares and the share entitlements held by the Management Board members as at 31 December 2013 and 31 December 2012.

Management Board Members	31.12.2013		31.12.2012	
	No. of BZ WBK S.A. shares	Rights	No. of BZ WBK S.A. shares	Rights
Mateusz Morawiecki	3 591	10 120	3 591	10 120
Andrzej Burliga	606	4 282	1 606	4 282
Eamonn Crowley	–	4 003	–	4 003
Michael McCarthy	–	4 875	–	4 875
Juan de Porras Aguirre	–	-	–	-
Piotr Partyga	–	2 855	–	2 855
Marcin Prell	2 530	3 704	2 530	3 704
Marco Antonio Silva Rojas	-	-	-	-
Mirosław Skiba	1 575	4 282	1 575	4 282
Feliks Szyszkowiak	1 755	4 449	1 755	4 449
Total	**10 057**	**38 570**	**11 057**	**38 570**

6. CONTROL SYSTEM OF FINANCIAL STATEMENTS

INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT

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

The Bank has adopted the Internal Control Policy in Bank Zachodni WBK S.A. which defines, inter alia, the structure, purpose and scope of the internal control and lists the related roles and responsibilities. In particular, the Policy and other regulations describe the Bank's Internal Control Model (ICM), defining the rules and organisation of the process of identifying the risks that are material from the point of view of the control environment, along with their controls. The ICM includes monitoring, testing and reporting to ensure effective control environment, both in terms of design and operation of the controls, and to strengthen the control culture at all levels within the organisation.

The elements of the Internal Control Model include: risk models, controls, sub-processes, processes and activities.

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

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

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

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

Financial data preparation for the purpose of reporting is automated and based on the consolidated General Ledger and Data Warehouse. The underpinning IT systems are strictly controlled in terms of integrity and security of information.

Data inputs in the source systems are subject to formal operational and approval procedures which state responsibilities of individual staff members. Data processing for the purpose of financial reporting is subject to a suite of specialist controls. Any manual corrections or management overrides are under strict control as well. BZ WBK Group has a BCM plan in place, which covers all IT systems used to prepare financial reports. The plan is updated on an ongoing basis.

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

The financial statements are approved by the Disclosure Committee, which is responsible for ensuring that the financial disclosures of BZ WBK Group comply with the legal and regulatory requirements.

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

The effectiveness of controls in financial reporting is additionally assessed by an independent external auditor as part of the annual certification process for compliance with Sarbanes-Oxley Act.

INTERNAL CONTROL COMPLIANT WITH THE SARBANES-OXLEY ACT

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

As agreed with the Internal Control Department of Santander Group and the External Auditor, the certification process for compliance with Sarbanes-Oxley Act in 2013 covered all key business areas of Bank Zachodni WBK S.A. and was carried out using solutions and methodology based on the Santander Group's approach. The scope of testing included risk factors which were particularly significant for the reliability and accuracy of financial statements, taking into account the local control environment, including that of the former Kredyt Bank S.A. The design and effectiveness of controls was tested by a dedicated second line unit. The effectiveness tests covered processes and key controls in the business and IT areas as well as entity level controls (Global Framework). A particular challenge for the assessment of control environment in 2013 was the integration of the two banks in term of organisation, processes and personnel. The assessment did not show any negative impact of the integration on the effectiveness of the Bank's internal control system.

Results of the assessments and tests are the basis for the Bank's management to make representations on the effectiveness of the control environment.

As part of the SOX certification process for 2013, the Bank's management confirmed that no incidents were identified in Bank Zachodni WBK Group which could significantly affect the relevant processes and threaten the effectiveness of the internal control of financial reporting.

SELECTION OF AUDITOR

In accordance with § 32 (10) of the Statutes of Bank Zachodni WBK S.A., applicable regulations and industry practice, on 12 June 2013 the Bank's Supervisory Board passed a resolution appointing Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) as an entity to review and audit the Bank's stand-alone and the Group's consolidated financial statements for H1 2013 and the entire year 2013. The Bank also contracted Deloitte Polska and other companies from Deloitte Group for consulting and tax advisory services. In the Bank's view, the above advisory services do not affect impartiality and independence of the auditor.

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

REMUNERATION OF AUDITOR

The table below shows the remuneration paid to Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) for audit/review of the financial statements of Bank Zachodni WBK Group pursuant to agreements concluded in 2012 and 2013.

PLN k

Remuneration of External Auditors	Reporting year ended on 31.12.2013	Reporting year ended on 31.12.2012
Audit fees in respect of the parent bank[1)]	2 620	927
Audit fees in respect of the subsidiaries	650	386
Audit fees related to assurance services, including the review of the parent bank[2)]	810	1 510
Audit fees related to assurance services, including the review of the subsidiaries	-	74
Fees for non-assurance services[3)]	2 914	1 675

1) Remuneration for the services performed in 2013 based on the agreement on 13 June 2013 on the audit of: 1) interim condensed unconsolidated financial statements for 6 months; 2) unconsolidated and consolidated financial statements for 12 months; 3) consolidation package for 6 and 12 months. Remuneration for the services rendered in 2012 based on the agreement for the audit of: 1) consolidation package for 6 months of 10 May 2012; 2) unconsolidated and consolidated financial statements for 12 months of 12 October 2012.

2) The fee for 2013 contains the remuneration payable for the audit of the internal control system (in particular for SOX purposes) under Annex 1 to the agreement on the audit of the consolidation package. The fee for 2012 contains the remuneration for: 1) agreement on the limited review of the unconsolidated and consolidated financial statements of 10 May 2012; 2) agreement on the limited review of the interim consolidated financial statements for 9 months of 5 November 2012, and 3) review of the disclosure arising from IFRS 3 based on the agreement of 22 January 2012 and 4) review of the internal audit system (in particular for SOX purposes) under Annex 1 to the agreement of 12 October 2012.

3) The table includes an additional line “Remuneration for non-assurance services”, starting from the 2013 financial statements. The fee for 2013 includes, e.g. the agreement on support with the intended acquisition. The fee for 2012 relates to IPO support services.

7. PENDING COURT PROCEEDINGS

As at 31 December 2013, no case were pending before any court or 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.

PLN m

Court Proceedings with BZ WBK Group as a Party	31.12.2013	31.12.2012
Amounts claimed by the Group	79.4	44.4
Claims against the Group	200.2	81.3
Receivables due to bankruptcy or arrangement cases	60.8	9.7
Value of all litigation	**340.4**	**135.4**
Share [%] of all litigation in equity	**2.4%**	**1.5%**
Completed significant court proceedings	91.2	100.0

XIII. REPRESENTATIONS OF THE MANAGEMENT BOARD

TRUE AND FAIR PRESENTATION OF THE FINANCIAL STATEMENTS

According to the Management Board's best knowledge, the financial figures and the comparable data presented in the financial statements incorporated in "Annual Report 2013 of Bank Zachodni WBK Group" were prepared in keeping with the applicable accounting policies and give a true and fair view of the state of affairs and earnings of Bank Zachodni WBK Group. The Management Board's Report contained in this document shows a true picture of the development, achievements and position of Bank Zachodni WBK Group (including the underlying risks) in 2013.

SELECTION OF AUDITOR

The auditing firm responsible for auditing "Consolidated Financial Statements of Bank Zachodni WBK Group for 2013" was selected in compliance with the applicable legislation. The auditing firm and its auditors satisfied the necessary conditions to ensure they provide an unbiased and independent report compliant with Polish law and professional standards.

Signatures of the Management Board Members

Date	Name	Function	Signature
26.02.2014	Mateusz Morawiecki	President of the Board	
26.02.2014	Andrzej Burliga	Member	
26.02.2014	Eamonn Crowley	Member	
26.02.2014	Michael McCarthy	Member	
26.02.2014	Piotr Partyga	Member	
26.02.2014	Juan de Porras Aguirre	Member	
26.02.2014	Marcin Prell	Member	
26.02.2014	Marco Antonio Silva Rojas	Member	
26.02.2014	Mirosław Skiba	Member	
26.02.2014	Feliks Szyszkowiak	Member	

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2013

Bank Zachodni WBK
Grupa Santander

OPINION AND REPORT OF THE INDEPENDENT AUDITOR

BANK ZACHODNI WBK S.A. GROUP
WROCŁAW, RYNEK 9/11

CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE 2013 FINANCIAL YEAR

WITH
AUDITOR'S OPINION
AND
AUDIT REPORT

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AUDITOR'S OPINION

To the Shareholders and Supervisory Board of Bank Zachodni WBK S.A.

We have audited the attached consolidated financial statements of the Bank Zachodni WBK S.A. Group ("Capital Group"), with Bank Zachodni WBK S.A. as the Parent Company ("Parent Company", "Bank"), with its registered office in Wroclaw, at Rynek 9/11, including consolidated statement of financial position prepared as of 31 December 2013, consolidated income statement and consolidated statement of comprehensive income, movements on consolidated equity, consolidated statement of cash flow for the financial year from 1 January 2013 to 31 December 2013 and notes comprising a summary of significant accounting policies and other explanatory information.

Preparation of consolidated financial statements and a report on the activities of the Capital Group in line with the law is the responsibility of the Management Board of the Parent Company.

The Management Board of the Parent Company and members of its Supervisory Board are obliged to ensure that the consolidated financial statements and the report on the activities of the Capital Group meet the requirements of the Accounting Act of 29 September 1994 (Journal of Laws of 2013, item 330, as amended), hereinafter referred to as the "Accounting Act".

Our responsibility was to audit and express an opinion on compliance of the consolidated financial statements with the accounting principles (policy) adopted by the Capital Group and whether the financial statements present fairly and clearly, in all material respects, the financial and economic position as well as the financial result of the Capital Group.

Our audit of the financial statements has been planned and performed in accordance with:

- section 7 of the Accounting Act,
- national auditing standards, issued by the National Council of Statutory Auditors in Poland.

We have planned and performed our audit of the consolidated financial statements in such a way as to obtain reasonable assurance to express an opinion on the consolidated financial statements. Our audit included, in particular, verification of the correctness of the accounting principles (policy) applied by the Parent Company and the subsidiaries, verification – largely on a test basis – of the basis for the amounts and disclosures in the consolidated financial statements, as well as overall evaluation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the audited consolidated financial statements of Bank Zachodni WBK S.A. Group in all material respects:

- present fairly and clearly the information material to evaluate the economic and financial position of the Capital Group as of 31 December 2013 as well as its profit or loss in the financial year from 1 January 2013 to 31 December 2013,
- have been prepared in accordance with the International Accounting Standards, International Financial Reporting Standards and related interpretations published as European Commission regulations, and in all matters not regulated in the standards – in accordance with the provisions of the Accounting Act and secondary legislation to the Act,
- comply with the provisions of law applicable to the Capital Group which affect the contents of the consolidated financial statements.

The Report on the activities of the Capital Group for the 2013 financial year is complete within the meaning of Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non-member (Journal of Laws of 2014, item 133) states and consistent with underlying information disclosed in the audited consolidated financial statements.

Paweł Nowosadko
Key certified auditor
conducting the audit
No. 90119

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Dariusz Szkaradek – Deputy Chairman of the Management Board of Deloitte Polska Sp. z o.o. – which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 26 February 2014

The above audit opinion together with audit report is a translation from the original Polish version. In case of any discrepancies between the Polish and English version, the Polish version shall prevail.

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REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK ZACHODNI WBK S.A. GROUP FOR THE 2013 FINANCIAL YEAR

I. GENERAL INFORMATION

1. Details of the audited Parent Company

The Parent Company of the Capital Group operates under the business name Bank Zachodni WBK S.A. (Parent Company, Bank). The Company's registered office is located in Wroclaw at Rynek 9/11.

The Bank operates as a joint stock company. The Bank was recorded in the District Court in Wroclaw, VI Business Division of the National Court Register, based on the decision of 27 April 2001, under KRS number 00008723.

The Bank's tax identification number NIP is: 896-000-56-73.

The REGON number assigned by the Statistical Office is: 930041341.

The Bank operates based on the provisions of the Code of Commercial Companies and Bank's law.

In accordance with the Bank's by-laws articles of association, the scope of its activities includes:
- accepting term and on demand deposits and keeping their records of transactions; accepting money transfers from domestic and foreign banks,
- operating other bank accounts,
- granting loans,
- granting and confirming bank guarantees as well as opening and confirming letters of credit,
- issuing banking securities,
- financial settlements operations,
- issue of electronic money instrument,
- granting cash advances,
- concluding check and B/E transactions,
- issuing payment cards and processing card operations,
- performing term financial transactions,
- trading in receivables,
- safekeeping of objects and securities as well as providing access to safe deposit boxes,
- providing agency services in international funds transfers and settlements in international trade,
- purchasing, selling and intermediating in trade of receivables and liabilities,
- performing operations related to the issue of securities,
- acting as the representative of bond holders,
- purchase and sale of FX values.

Additionally the Capital Group offers services listed below:
- intermediation in trading securities,
- leasing,
- factoring
- asset/ fund management,
- insurance services,
- trading in stock and shares of commercial companies.

As of 31 December 2013, the Company's share capital amounted to PLN 935,451 thousand and was divided into 93,545,089 ordinary shares with a face value of PLN 10 each.

As of 31 December 2013 the Bank's shareholders included:

- Banco Santander S.A. – 70.00% shares,
- Other shareholders – 30.00% shares.

Changes in the share capital of the Bank during the financial year:

- Increase of share capital by PLN 189,074,580 as a result of merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A. - eligible shareholders of Kredyt Bank S.A. were entitled to acquire shares in accordance with the agreed exchange ratio of 6.96 Merger Shares for every 100 shares of the Kredyt Bank. This represented the total of 18,907,458 merger shares with a nominal value of PLN 10 each.

After the balance-sheet date there were no changes in the Bank's share capital.

Changes in the structure of shareholders during the financial year:

- On 22 March 2013, KBC Bank NV and Banco Santander S.A. announced a secondary offering for the shares of Bank Zachodni WBK S.A. The offering was for 19,978,913 shares representing 21.36% of the Bank's share capital, with 15,125,964 shared owned by KBC Bank NV and 4,852,949 owned by Banco Santander S.A.
- On 28 March 2013, Bank Zachodni WBK S.A. was advised that all of its 15,125,964 shares held by KBC Bank NV, representing 16.17% of the Bank's registered capital had been sold directly. As a result of the transaction, neither KBC Bank NV nor KBC Group NV hold directly or indirectly any shares of Bank Zachodni WBK S.A. and effectively have no voting power at the Bank's General Meeting.
- On 28 March 2013, the Bank received a notice about disposal of 4,852,949 shares of Bank Zachodni WBK S.A. held by Banco Santander S.A. and reduction of the latter's share in the Bank's registered capital and votes at its General Meeting by 5.19 p.p. to 70%.
- On 2 April 2013 Bank Zachodni WBK S.A. was notified by the open-ended pension fund ING OFE that it had purchased the Bank's shares and consequently exceeded 5% of the total number of votes at the Bank's General Meeting. Before the transaction, ING OFE held 903,006 of the Bank's shares carrying 0.97% votes at the General Meeting. Now ING OFE holds 4,966,506 of the Bank's shares, representing 5.31% of the share capital and voting power at the General Meeting of Bank Zachodni WBK S.A.
- On 31 July 2013 Bank Zachodni WBK S.A. was noticed by the open-ended pension fund ING OFE that it had sold part of Bank's shares and carrying after transaction less that 5% of the share capital and voting power at the General Meeting of Bank Zachodni WBK S.A.

During the audited period, the shareholding structure of the Bank's share capital did not undergo changes other than described above, among shareholders possessing at least 5% of the total number of votes at the General Meeting of Shareholders of Bank Zachodni WBK S.A.

As of 31 December 2013, the Capital Group's equity amounted to PLN 14,482,943 thousand.

The Capital Group's financial year is the calendar year.

Composition of the Management Board as of the date of the opinion:

- Mateusz Morawiecki – Chairman of the Management Board,
- Andrzej Burliga – Member of the Management Board,
- Eamonn Crowley – Member of the Management Board,
- Michael McCarthy – Member of the Management Board,
- Piotr Partyga – Member of the Management Board,
- Juan de Porras Aguirre – Member of the Management Board,

– Marcin Prell – Member of the Management Board,
– Marco Antonio Silva Rojas – Member of the Management Board,
– Mirosław Skiba – Member of the Management Board,
– Feliks Szyszkowiak – Member of the Management Board.

In audited period there were no changes in the composition of the Management Board.

Composition of the Capital Group as of 31 December 2013:

- Parent Company – Bank Zachodni WBK S.A. and
- subsidiaries:
  - BZ WBK Inwestycje Sp. z o.o.,
  - BZ WBK Finanse Sp. z o.o.,
  - BZ WBK Faktor Sp. z o.o.,
  - BZ WBK Leasing S.A.,
  - BZ WBK Nieruchomości S.A.,
  - Dom Maklerski BZ WBK S.A.,
  - BZ WBK Asset Management S.A.,
  - BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.,
  - Kredyt Lease S.A. (company was acquired in a merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A. – on 31 January 2014 company changed its name to BZ WBK Lease S.A.),
  - Lizar Sp. z o.o. (company was acquired in a merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A.),
  - BFI Serwis Sp. z o.o. in liquidation (company was acquired in a merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A.),
  - BZ WBK – Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.,
  - BZ WBK – Aviva Towarzystwo Ubezpieczeń na Życie S.A.
- associates:
  - POLFUND – Fundusz Poręczeń Kredytowych S.A.,
  - Metrohouse S.A.,
  - Krynicki Recykling S.A.

The consolidated financial statements as of 31 December 2013 included the following entities:

a) Parent Company – Bank Zachodni WBK S.A.

We have audited the financial statements of Bank Zachodni WBK S.A., the Parent Company, for the period from 1 January to 31 December 2013. As a result of our audit, on 26 February 2014 we issued an unqualified opinion.

b) Companies subject to full consolidation:

Name and address of the Company	Interest in the capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity	Opinion date
BZ WBK Finanse Sp. z o.o. – Poznan	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. No opinion was issued till the date of this report.	31 December 2013	Not applicable
BZ WBK Faktor Sp. z o.o. – Warsaw	100%*	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. Unqualified.	31 December 2013	31 January 2014
BZ WBK Inwestycje Sp. z o.o. – Poznan	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. No opinion was issued till the date of this report.	31 December 2013	Not applicable

Dom Maklerski BZ WBK S.A. – Poznan	99.99%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. Unqualified.	31 December 2013	19 February 2014
Kredyt Lease S.A. (since 31 January 2014 – BZ WBK Lease S.A.) - Warsaw	100%*	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. No opinion was issued till the date of this report.	31 December 2013	Not applicable
BFI Serwis Sp. z o.o. in liquidation - Warsaw	100%	Company is not subject to statutory audit.	31 December 2013	Not applicable
BZ WBK Leasing S.A. – Poznan	100%*	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. Unqualified.	31 December 2013	14 February 2014
BZ WBK Nieruchomości S.A. – Poznan	99.99%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. No opinion was issued till the date of this report.	31 December 2013	Not applicable
BZ WBK Asset Management S.A. – Poznan	50%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. Unqualified.	31 December 2013	31 January 2014
BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. – Poznan	100%**	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. Unqualified.	31 December 2013	31 January 2014
BZ WBK – Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. – Poznan	66%	PricewaterhouseCoopers Sp. z o.o. No opinion was issued till the date of this report.	31 December 2013	Not applicable
BZ WBK – Aviva Towarzystwo Ubezpieczeń na Życie S.A. – Poznan	66%	PricewaterhouseCoopers Sp. z o.o. No opinion was issued till the date of this report.	31 December 2013	Not applicable

* *belongs to BZ WBK Finanse Sp. z o.o.*
** *belongs to BZ WBK Asset Management S.A.*

c) Companies subject to equity method of consolidation:

Name and address of the Company	Interest in the capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity	Opinion date
POLFUND – Fundusz Poręczeń Kredytowych S.A. - Szczecin	50%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. No opinion was issued till the date of this report.	31 December 2013	Not applicable
Metrohouse S.A. – Warszawa	21.23%*	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. No opinion was issued till the date of this report.	31 December 2013	Not applicable
Krynicki Recykling S.A. – Warszawa	22.32%*	HLB M2 Audyt Spółka z ograniczoną odpowiedzialnością Sp. k. No opinion was issued till the date of this report.	31 December 2013	Not applicable

* *Metrohouse S.A. and Krynicki Recykling S.A. are the associates of BZ WBK Inwestycje Sp. z o.o. - Bank's subsidiary.*

The Parent Company preparing the consolidated financial statements did not simplify or alter consolidation principles in relation to the consolidated entities.

In the audited financial year, the Parent Company included in/excluded from consolidation the following entities:

– as a result of acquisition of control over BZ WBK - AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. on 20 December 2013, the above mentioned companies are subsidiaries as of 31 December 2013 and are subject to full consolidation,
– on 29 March 2013 the BZ WBK leasing companies merged – the merger was effected by acquisition of BZ WBK Finanse & Leasing S.A. by BZ WBK Leasing S.A. being the acquiring entity, and by transfer of the whole of the assets of BZ WBK Finanse & Leasing S.A. to BZ WBK Leasing S.A.,
– on 22 August 2013 subsidiary Kredyt Lease in liquidation Sp. z o.o. (company acquired in a merger of BZ WBK S.A. and Kredyt Bank) was deleted from the National Court Register (KRS), as a result as of 31 December was not subject to consolidation.

2. Information about the consolidated financial statements for the prior financial year

The activities of the Capital Group in 2012 resulted in a net profit of PLN 1,462,635 thousand. The consolidated financial statements of the Capital Group for 2012 were audited by a certified auditor. The audit was performed by authorized entity Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. On 7 March 2013 the certified auditor issued an unqualified opinion on those financial statements.

The General Shareholders’ Meeting which approved the consolidated financial statements for the 2012 financial year was held on 17 April 2013.

In accordance with applicable laws, the consolidated financial statements for the 2012 financial year were submitted to the National Court Register (KRS) on 18 April 2013.

3. Details of the authorized entity and the key certified auditor acting on its behalf

The audit of the consolidated financial statements was performed based on the agreement of 13 June 2013 concluded between Bank Zachodni WBK S.A. and Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. with its registered office in Warsaw, al. Jana Pawła II 19, recorded under number 73 on the list of entities authorized to provide audit services kept by the National Council of Statutory Auditors. On behalf of the authorized entity, the audit of the consolidated financial statements was conducted under the supervision of Paweł Nowosadko key certified auditor (No. 90119) in the registered office of the Parent Company from 14 October to 15 November 2013 and from 13 January 2014 to 14 February 2014 as well as outside the Bank’s premises until the date of this opinion.

The entity authorized to audit the financial statements was appointed by the resolution of the Supervisory Board of Bank Zachodni WBK S.A. from 12 June 2013 based on authorization included in Article 32 point 10 of the Parent Company's articles of association.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and Paweł Nowosadko, key certified auditor, confirm that they are authorized to carry out audits and meet the requirements of Article 56 of the Act on statutory auditors and their self-governing body, auditing firms and on public oversight (Journal of Laws of 2009, No. 77, item 649, as amended) to express an unbiased and independent opinion on the consolidated financial statements of the Bank Zachodni WBK S.A. Group.

4. Availability of data and management's representations

The scope of our audit was not limited.

During the audit, all necessary documents and data as well as detailed information and explanations, were provided to the authorized entity and the key certified auditor, as confirmed e.g. in the written representation of the Management Board of the Parent Company of 26 February 2014.

II. ECONOMIC AND FINANCIAL POSITION OF THE CAPITAL GROUP

Presented below are the main items from the consolidated income statement as well as financial ratios describing the financial performance of the Capital Group and its economic and financial position compared to the prior year.
Information for period ended 31 December 2013 includes data after merger of Parent Company and Kredyt Bank S.A. (and subsidiaries: BZ WBK Lease S.A.(before: Kredyt Lease S.A.) and BFI Serwis Sp. z o.o. in liquidation acquired as a result of the merger of Parent Company and Kredyt Bank S.A.) and data after control acquisition over BZ WBK – AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK – AVIVA Towarzystwo Ubezpieczeń na Życie S.A.

Main items from the consolidated statement of financial position (PLN '000)	2013	2012
Total assets	106,089,036	60,019,177
Cash and balances with central banks	5,149,686	4,157,274
Loans and advances to banks	2,212,704	1,458,128
Financial assets held for trading	2,344,901	831,715
Loans and advances to customers	68,132,143	39,867,554
Investments securities	22,090,764	11,716,133
Goodwill	2,542,325	0
Intangible assets	506,792	127,338
Property, plant and equipment	632,642	479,811
Deposits from banks	6,278,797	1,351,050
Financial liabilities held for trading	1,277,162	728,831
Deposits from customers	78,542,982	47,077,094
Other liabilities	3,153,281	998,512
Subordinated liabilities	1,384,719	409,110
Total equity, including:	14,482,943	8,977,714
- share capital	935,451	746,376

Main items from the consolidated income statement and consolidated statement of comprehensive income (PLN '000)	2013	2012
Interest income	5,215,203	3,867,485
Interest expense	(1,938,643)	(1,566,408)
Net fee and commission income	1,778,556	1,384,986
Dividend income	58,738	55,748
Net trading income and revaluation	186,114	164,345
Operating expenses	(2,862,078)	(1,817,194)
Impairment losses on loans and advances	(729,301)	(501,793)
Profit for the period	2,014,611	1,462,635
Total comprehensive income for the period	1,851,124	1,789,724

Effectiveness ratios	2013*	2012
Return on equity ratio	15.20%	17.77%
Return on assets ratio	1.93%	2.44%
Cost to income ratio	50.47%	43.94%
Capital adequacy ratio	13.92%	16.53%
NPL ratio	7.88%	5.45%
Equity ratio	13.65%	14.96%

* Calculation of effectiveness ratios for period ended 31 December 2013 includes in the initial balances fair value of acquired assets and liabilities of Kredyt Bank S.A. as of 4 January 2013, calculated for merger purposes.

An analysis of the above figures and ratios indicated the following trends in 2013:

- return on equity ratio (ROE) as a relation of profit for the period to equity calculated as an average of balances as of the end of two last annual periods decreased at the end of 2013, reaching 15.20% in comparison to 17.77% at the end of 2012,
- return on asset ratio (ROA) as a relation of profit for the period to total assets calculated as an average of balances as of the end of two last annual periods decreased at the end of 2013, reaching 1.93% in comparison to 2.44% at the end of 2012,
- cost to income ratio as a relation of operating expenses to income calculated as sum of net interest income, net fee and commission income, dividend income, net trading income and revaluation, gains (losses) from other financial securities and other operating income increased in 2013, reaching 50.47% in comparison to 43,94% in 2012,
- capital adequacy ratio ratio as a relation of own funds to total capital requirement multiplied by 12.5 at the end of 2013 was 13.92%; at the end of 2012 solvency ratio was 16.53%,
- non-performing loans ratio as a relation of gross loans and advances to customers (individually and collectively impaired) to total gross loans and advances to customers increased at the end of 2013, reaching 7.88% in comparison to 5.45% at the end of 2012,
- equity ratio as a relation of equity to total equity and liabilities at the end of 2013 was 13.65% in comparison to 14.96% at the end of 2012,
- as a result of the merger of Bank Zachodni WBK S.A. with Kredyt Bank the calculation of the fair value of acquired assets and liabilities resulted in the goodwill of PLN 1,688,516 thousand. The settlement of the merger has been described in the note 55 of consolidated financial statements. As a result of acquisition of control over BZ WBK – AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK – AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. the provisional estimation of the fair value of acquired assets and liabilities resulted in the goodwill of PLN 853,809 thousand. The provisional settlement of the acquisition of control has been described in the note 49 of consolidated financial statements. Total amount of goodwill in consolidated financial statement regarding above mentioned transactions is PLN 2,542,325 thousand.

Application of prudence principles

During the audit we did not detect facts indicating that as of 31 December 2013 the Parent Company did not comply with prudence principles defined by provisions of the Banking Law, resolutions of the Management Board of the National Bank of Poland and resolutions of the Polish Financial Supervision Commission.

Capital adequacy ratio

During the audit we did not detect significant irregularities related to the calculation of the capital adequacy ratio as of 31 December 2013 for Bank Zachodni WBK S.A. Capital Group in accordance with resolution No. 76/2010 of the Polish Financial Supervision Commission of 10 March 2010 on the scope and detailed principles for defining capital requirements due to individual types of risks (with subsequent changes).

III. DETAILED INFORMATION

1. Information about the audited consolidated financial statements

The audited consolidated financial statements were prepared as of 31 December 2013 and include:
- consolidated income statement for the period from 1 January 2013 to 31 December 2013, with a net profit of PLN 2,014,611 thousand,
- consolidated statement of comprehensive income for the period from 1 January 2013 to 31 December 2013, with a total comprehensive income of PLN 1,851,124 thousand,
- consolidated statement of financial position prepared as of 31 December 2013, with total assets and liabilities plus equity of PLN 106,089,036 thousand,
- movements on consolidated equity for the period from 1 January 2013 to 31 December 2013, disclosing an increase in equity of PLN 5,505,229 thousand,
- consolidated statement of cash flows for the period from 1 January 2013 to 31 December 2013, showing a cash inflow of PLN 4,595,935 thousand,
- additional notes, comprising a summary of significant accounting policies and other explanatory information.

The structure of assets and liabilities plus equity as well as items affecting the financial profit or loss has been presented in the consolidated financial statements.

The audit covered the period from 1 January 2013 to 31 December 2013 and focused mainly on:
- verification of the correctness and fairness of the consolidated financial statements prepared by the Management Board of the Parent Company,
- verification of the consolidation documentation,
- evaluation of the correctness of the consolidation methods and procedures applied during consolidation,
- review of opinions and reports on audits of financial statements of subsidiaries and associated companies included in consolidation, prepared by other certified auditors.

2. Consolidation documentation

The Parent Company presented the consolidation documentation including:

1) financial statements of entities, included in the consolidated financial statements,
2) consolidation packages of controlled entities included in the consolidated financial statements, adjusted to IFRS rules and the accounting principles (policy) applied of Capital Group,
3) all consolidation adjustments and eliminations necessary for preparation of the consolidated financial statements,
4) calculation of minority interest.

<u>Basis for the preparation of the consolidated financial statements</u>

The consolidated financial statements of the Capital Group for the 2013 financial year have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union.

Entities in the Capital Group

The scope and method of consolidation as well as the relationship between entities in the capital group have been determined based on the criteria specified in the International Financial Reporting Standards.

Financial period

The consolidated financial statements have been prepared as of the same end of the reporting period and for the same financial year as the financial statements of the Parent Company – Bank Zachodni WBK S.A. Subsidiaries and associated companies included in consolidation prepared their financial statements as of the same end of the reporting period as the Parent Company. The financial year of all subsidiaries and associated companies included in consolidation ended on 31 December 2013.

Consolidation method

The financial statements of the subsidiaries were consolidated using the full method, i.e. full amounts of all relevant items of the financial statements of the Parent Company and the subsidiaries included in consolidation were summed up.

Once the values had been summed up, consolidation adjustments and eliminations were applied to:

– the cost of shares held by the Parent Company in subsidiaries and the part of net assets of subsidiaries corresponding to the interest of the Parent Company in these companies,
– mutual receivables and liabilities of entities included in consolidation,
– material revenue and expenses related to transactions between entities included in consolidation.

The equity method was applied with respect to associated entities. The value of the Parent Company's interest in the associated company was adjusted by increases or decreases in the equity of the associated company attributable to the Parent Company, which occurred in the period covered by consolidation, and decreased by dividends due from such companies.

3. Completeness and correctness of drawing up notes and explanations and the report on the activities of the Capital Group

The Parent Company confirmed the validity of the going concern basis in preparation of the consolidated financial statements. The notes to the consolidated financial statements give a correct and complete description of measurement principles regarding assets, liabilities, profit or loss and principles of preparation of the consolidated financial statements.

The Parent Company prepared notes in the form of tables to individual items of the consolidated statement of financial position and statement of comprehensive income as well as narrative descriptions, in line with the requirement of IFRS.

Notes describing property, plant and equipment, intangible assets, investments, liabilities and provisions correctly present increases and decreases as well as their basis during the financial year.

Limitations imposed on individual assets disclosed in the consolidated statement of financial position arising from security granted to creditors have been described.

Individual assets and liabilities as well as revenue and expenses have been correctly presented by the Parent Company in the consolidated financial statements. The consolidated statement of financial position, consolidated statement of comprehensive income, movements on consolidated equity and consolidated statement of cash flows as well as notes which constitute an integral part of the consolidated financial statements include all significant items required for disclosure in the consolidated financial statements under IFRS.

The Management Board prepared and supplemented the consolidated financial statements with a report on the activities of the Capital Group in the 2013 financial year. The report contains all information required under Article 49.2 of the Accounting Act and the Ordinance of the Minister of Finance Ordinance of 19 February 2009 on current and periodic information published by issuers of securities and the rules of equal treatment of the information required by the laws of non--member states (Journal of Laws of 2014, item 133). We have audited the report with respect to the disclosed information derived directly from the audited consolidated financial statements.

IV. CLOSING COMMENTS

Management Board's Representation

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor received a representation letter from the Parent Company's Management Board, in which the Board stated that the Capital Group complied with the laws in force.

Paweł Nowosadko
Key certified auditor
conducting the audit
No. 90119

On behalf of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. – entity authorized to audit financial statements entered under number 73 on the list kept by the National Council of Statutory Auditors:

Dariusz Szkaradek – Deputy Chiarman of the Management Board of Deloitte Polska Sp. z o.o. – which is the General Partner of Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k.

Warsaw, 26 February 2014

CONTENTS

In thousands of PLN

I. CONSOLIDATED INCOME STATEMENT

for reporting period:		01.01.2013 31.12.2013	01.01.2012 31.12.2012
Interest income		5 215 203	3 867 485
Interest expense		(1 938 643)	(1 566 408)
Net interest income	Note 6	**3 276 560**	**2 301 077**
Fee and commission income		2 089 422	1 596 038
Fee and commission expense		(310 866)	(211 052)
Net fee and commission income	Note 7	**1 778 556**	**1 384 986**
Dividend income	Note 8	58 738	55 748
Net gains/(losses) on subordinated entities	Notes 48, 49	418 692	400
Net trading income and revaluation	Note 9	186 114	164 345
Gains (losses) from other financial securities	Note 10	297 594	180 052
Other operating income	Note 11	73 545	49 672
Impairment losses on loans and advances	Note 12	(729 301)	(501 793)
Operating expenses incl.:		(2 862 078)	(1 817 194)
Bank's staff, operating expenses and management costs	Notes 13, 14	(2 607 613)	(1 653 112)
Depreciation/amortisation		(219 321)	(137 940)
Other operating expenses	Note 15	(35 144)	(26 142)
Operating profit		**2 498 420**	**1 817 293**
Share in net profits (loss) of entities accounted for by the equity method		16 297	19 746
Profit before tax		**2 514 717**	**1 837 039**
Corporate income tax	Note 16	(500 106)	(374 404)
Consolidated profit for the period		**2 014 611**	**1 462 635**
of which:			
attributable to owners of BZ WBK S.A.		1 982 328	1 433 847
attributable to non-controlling interests		32 283	28 788
Net earnings per share (PLN/share)	Note 17		
Basic earnings per share		21.24	19.42
Diluted earnings per share		21.17	19.34

In thousands of PLN

II. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for reporting period:	01.01.2013 31.12.2013	01.01.2012 31.12.2012
Consolidated profit for the period	**2 014 611**	**1 462 635**
Other comprehensive income which can be transferred to the profit and loss account:	**(169 702)**	**327 089**
Available-for sale financial assets valuation	(165 896)	384 858
including deferred tax	31 520	(73 123)
Cash flow hedges valuation	(43 611)	18 955
including deferred tax	8 285	(3 601)
Other comprehensive income which can't be transferred to the profit and loss account:	**6 215**	**–**
Provision for retirement allowances – actuarial gains	7 673	–
including deferred tax	(1 458)	–
Other comprehensive income for the period, net of income tax	**(163 487)**	**327 089**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**1 851 124**	**1 789 724**
Attributable to:		
owners of BZ WBK S.A.	1 818 835	1 760 929
non-controlling interests	32 289	28 795

Notes presented on pages 128–222 constitute an integral part of these Financial Statements.

In thousands of PLN

III. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at:		31.12.2013	31.12.2012
ASSETS			
Cash and balances with central banks	Note 18	5 149 686	4 157 274
Loans and advances to banks	Note 19	2 212 704	1 458 128
Financial assets held for trading	Note 20	2 344 901	831 715
Hedging derivatives	Note 21	321 956	253 553
Loans and advances to customers	Note 22	68 132 143	39 867 554
Investment securities	Notes 23, 24	22 090 764	11 716 133
Investments in associates and joint ventures	Note 25	63 444	115 685
Intangible assets	Note 26	506 792	127 338
Goodwill	Notes 49, 55	2 542 325	–
Property, plant and equipment	Note 27	632 642	479 811
Net deferred tax assets	Note 28	476 430	258 037
Assets classified as held for sale	Note 29	3 503	–
Investment property		14 166	–
Other assets	Note 30	1 597 580	753 949
Total assets		**106 089 036**	**60 019 177**
LIABILITIES			
Deposits from banks	Note 31	6 278 797	1 351 050
Hedging derivatives	Note 21	367 524	321 950
Financial liabilities held for trading	Note 20	1 277 162	728 831
Deposits from customers	Note 32	78 542 982	47 077 094
Subordinated liabilities	Note 33	1 384 719	409 110
Debt securities in issue	Note 34	500 645	–
Current income tax liabilities		100 983	154 916
Other liabilities	Note 35	3 153 281	998 512
Total liabilities		**91 606 093**	**51 041 463**
Equity			
Equity attributable to owners of BZ WBK S.A.		**13 872 088**	**8 884 367**
Share capital	Note 36	935 451	746 376
Other reserve funds	Note 37	10 115 745	5 704 680
Revaluation reserve	Note 38	708 907	872 400
Retained earnings		129 657	127 064
Profit of the current period		1 982 328	1 433 847
Non-controlling interests in equity		**610 855**	**93 347**
Total equity		**14 482 943**	**8 977 714**
Total equity and liabilities		**106 089 036**	**60 019 177**

Notes presented on pages 128–222 constitute an integral part of these Financial Statements.

In thousands of PLN

IV. 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 inequity	Total
Note	**36**	**37**	**38**			
Opening balance as at 31.12.2012	**746 376**	**5 704 680**	**872 400**	**1 560 911**	**93 347**	**8 977 714**
Other comprehensive income which can be transferred to the profit and loss account	–	–	(169 708)	1 982 328	32 289	1 844 909
Other comprehensive income which can't be transferred to the profit and loss account	–	–	6 215	–	–	6 215
Issue of shares *	189 075	4 354 766	–	–	–	4 543 841
Transfer to other capital	–	720 311	–	(720 311)	–	–
Dividend relating to 2012	–	–	–	(710 943)	(40 421)	(751 364)
Share purchase mandate adjustment	–	(684 289)	–	–	–	(684 289)
Share scheme charge	–	20 287	–	–	–	20 287
Minority interest recognized on acquisition	–	–	–	–	525 640	525 640
Other	–	(10)	–	–	–	(10)
As at 31.12.2013	**935 451**	**10 115 745**	**708 907**	**2 111 985**	**610 855**	**14 482 943**

* Detailed information on "Issue of shares" in Note 36.

As at the end of the period revaluation reserve in the amount of PLN 708 907 k comprises of debt securities and equity shares classified as available for sale of PLN 102 744 k and PLN 567 982 k respectively and additionally cash flow hedge activities of PLN 31 966 k and provision for retirement allowances – actuarial gains of PLN 6 215 k.

Consolidated statement of changes in equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Non–controlling interests inequity	Total
Note	**36**	**37**	**38**			
Opening balance as at 31.12.2011	**730 760**	**4 698 884**	**545 318**	**1 380 613**	**127 385**	**7 482 960**
Total comprehensive income	–	–	327 082	1 433 847	28 795	1 789 724
Issue of shares	15 616	316 384	–	–	–	332 000
Transfer to other capital	–	668 941	–	(668 941)	–	–
Dividend relating to 2011	–	–	–	(584 608)	(62 833)	(647 441)
Share scheme charge	–	20 471	–	–	–	20 471
As at 31.12.2012	**746 376**	**5 704 680**	**872 400**	**1 560 911**	**93 347**	**8 977 714**

As at the end of the period revaluation reserve in the amount of PLN 872 400 k comprises of debt securities and equity shares classified as available for sale of PLN 402 635 k and PLN 402 475 k respectively and additionally cash flow hedge activities of PLN 67 290 k.

In thousands of PLN

V. CONSOLIDATED STATEMENT OF CASH FLOWS

for reporting period:	01.01.2013 31.12.2013	01.01.2012 31.12.2012
Profit before tax	**2 514 717**	**1 837 039**
Total adjustments:		
Share in net profits (losses) of entities accounted for by the equity method	(16 297)	(19 746)
Depreciation/amortisation	219 321	137 940
Impairment losses	2 468	9 226
Gains (losses) on exchange differences	(6 135)	21 356
(Profit) loss from investing activities	(298 573)	(179 193)
	2 415 501	**1 806 622**
Changes:		
Provisions	(19 053)	(25 690)
Trading portfolio financial instruments	(734 266)	(169 146)
Loans and advances to banks	(615 142)	9 973
Loans and advances to customers	(278 348)	(1 850 381)
Deposits from banks	(376 094)	(1 083 673)
Deposits from customers	465 283	100 117
Other assets and liabilities	(362 754)	(360 777)
	(1 920 374)	**(3 379 577)**
Interests and similar charges	232 090	313 457
Dividend received	(58 738)	(55 748)
Paid income tax	(401 835)	(288 544)
Net cash flow from operating activities	**266 644**	**(1 603 790)**
Inflows	**216 612 615**	**41 919 005**
Sale of shares or interests in subsidiaries, associates and joint ventures	–	4 941
Sale/maturity of investment securities	216 548 514	41 854 760
Sale of intangible assets and property, plant and equipment	5 363	3 556
Dividend received	58 738	55 748
Outflows	**(213 201 832)**	**(39 530 370)**
Purchase of investment securities	(213 028 023)	(39 447 733)
Purchase of intangible assets and property, plant and equipment	(173 809)	(82 637)
Net cash flow from investing activities	**3 410 783**	**2 388 635**
Inflows	**543 535**	**532 946**
Drawing of long-term loans	42 890	200 946
Proceeds from issuing bonds / shares	500 645	332 000
Outflows	**(1 498 668)**	**(870 829)**
Repayment of long-term loans	(580 416)	(136 212)
Dividends and other payments to shareholders	(751 364)	(647 441)
Other financing outflows	(166 888)	(87 176)
Net cash flow from financing activities	**(955 133)**	**(337 883)**
Total net cash flow	**2 722 294**	**446 962**
Cash at the beginning of the accounting period	**7 704 551**	**7 257 589**
Cash acquired in a business combination	**1 873 641**	**–**
Cash at the end of the accounting period*	**12 300 486**	**7 704 551**

* Cash components are presented in Note 45.

VI. 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 the 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.

In thousands of PLN

The Group of Bank Zachodni WBK S.A. consists of the following entities:

Subsidiaries:

	Subsidiaries	Registered office	% of votes on AGM 31.12.2013	% of votes on AGM 31.12.2012
1.	BZ WBK Finanse Sp. z o.o.	Poznań	100	100
2.	BZ WBK Faktor Sp. z o.o.	Warsaw	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 Inwestycje Sp. z o.o.	Poznań	100	100
4.	Dom Maklerski BZ WBK S.A. *****	Poznań	99.99	99.99
5.	Kredyt Lease S.A. **	Warsaw	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.	–
6.	Lizar Sp. z o.o. **	Warsaw	100% of AGM votes are held by Kredyt Lease S.A.	–
7.	BZ WBK Finanse & Leasing S.A. *	Poznań	–	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
8.	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.
9.	BFI Serwis Sp. z o.o. in liquidation **	Warsaw	100	–
10.	BZ WBK Nieruchomości S.A.	Poznań	99.99	99.99
11.	BZ WBK Asset Management S.A. ***	Poznań	50	50
12.	BZ WBK – Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. ****	Poznań	66	–
13.	BZ WBK – Aviva Towarzystwo Ubezpieczeń na Życie S.A. ****	Poznań	66	–
14	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.

Financial statements of the subsidiaries are fully consolidated with financial statements of BZ WBK S.A., excluding Lizar Sp. z o.o., whose financial statements are not consolidated because its business activities and operating results are irrelevant.

*On 29 March 2013, the BZ WBK Leasing S.A. companies merged in accordance with Article 492 (1) (1) of the Code of Companies and Partnerships. The merger was effected by acquisition of BZ WBK Finanse & Leasing S.A. by BZ WBK Leasing S.A., being the acquiring entity, and by transfer of the whole of the assets of BZ WBK Finanse & Leasing S.A. to BZ WBK Leasing S.A. in exchange for shares to be issued by BZ WBK Leasing S.A. to the existing partner in BZ WBK Finanse & Leasing S.A.

**Subsidiaries Kredyt Lease S.A., BFI Serwis Sp. z o.o. in liquidation and Lizar Sp. z o.o. were acquired in a merger of BZ WBK S.A. and Kredyt Bank S.A.

***In case of BZ WBK Asset Management S.A., the Bank is a co-owner of the company together with Banco Santander S.A. Both owners of BZ WBK Asset Management S.A. holds an equal stake of 50% in the company's share capital. In practice, Bank Zachodni WBK S.A. exercises control over the company and its subsidiary, BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., because through it Banco Santander S.A. pursues its policy in Poland. Therefore the company is treated as a subsidiary undertaking.

**** Detailed information on the controlling stake at the companies BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. (General Insurance Company) and BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. (Life Insurance Company) are described in Note 49.

***** As at 8.01.2014 BZ WBK S.A. held 99.99% in the share capital of Dom Maklerski BZ WBK S.A., one share of DM BZWBK S.A. held BZ WBK Finance Sp. z o.o.

Associates:

	Associates	Registered office	% of votes on AGM 31.12.2013	% of votes on AGM 31.12.2012
1.	POLFUND – Fundusz Poręczeń Kredytowych S.A.	Szczecin	50	50
2.	Metrohouse S.A.*	Warsaw	21.23	21.23
3.	Krynicki Recykling S.A.*	Warsaw	22.32	24.54

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

In thousands of PLN

Joint ventures:

Joint ventures		Registered office	% of votes on AGM 31.12.2013	% of votes on AGM 31.12.2012
1.	BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. *	Poznań	–	50
2.	BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. *	Poznań	–	50

*Detailed information on the controlling stake at the companies BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. (General Insurance Company) and BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. (Life Insurance Company) are described in Note 49.

Joint ventures were accounted for using the equity method.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

STATEMENT OF COMPLIANCE

The annual consolidated financial statements of the BZ WBK Group for the year ended 31 December 2013 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 the BZ WBK S.A. Group.

CHANGES IN ACCOUNTING POLICIES

As a result of adoption of the amendments to IAS 19 starting from 2013, the Group changed its approach to the recognition of actuarial gains/losses arising on the revaluation of the provisions for employee benefits. In these financial statements, such changes are reflected in "Other comprehensive income". The Group did not transform its comparative figures (in the comparable period, the related valuations were recognised in the profit and loss account in "Staff costs") due to:

- The relative immateriality of the amount (in the comparable period, the actuarial gains on this account was PLN 2 395k, while the related deferred tax was PLN 455k) and

- As a result of the merger with Kredyt Bank S.A., the presented amount of actuarial losses does not give the true picture of the impact of the change on the comparable period.

Comparability with results of previous periods

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

The consolidated financial statements included in the Annual Report 2013 of Bank Zachodni WBK Group are the first statements prepared for the 12 month-period after the merger with Kredyt Bank S.A. (KB S.A.) on 4 January 2013. Figures for the previous year (prior to the legal merger) are derived from consolidated financial statements of Bank Zachodni WBK S.A. as the acquiring entity, which explains the dynamic year-over-year growth of specific financial items.

Changes in judgments and estimates

Fair value of the investments into the companies from the Aviva Polska Group is determined for all three investments. Valuation was conducted using the peer comparison method as well as discounted cash flow analysis. As at 31.12.2013, current review of fair valuation of the portfolio resulted in a positive upward movement in total amount of PLN 200 950 k. The review included the impact of the final approval of amendments to the Act on Open pension funds and its influence on of PTE Aviva BZ WBK S.A.

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 WERE NOT IMPLEMENTED EARLIER

IFRS	Description of changes	Effective in the European Union from	Impact on the Group
IFRS 9 Financial Instruments, Amendments to IFRS 9	Changes in classification and measurement – the existing categories of financial instruments to be replaced by two measurement categories, i.e. amortised cost and fair value. Changes in hedge accounting.	Date of entry postponed indefinitely	The Group has not completed its analysis of changes.
IAS 32 Financial Instruments: Presentation	IAS clarifies its requirements for offsetting financial instruments.	1 January 2014	Amendments will not have material impact on the financial statements.
Transition Guidance (Amendments to IFRS 10)	The amendments clarify transition guidance in IFRS 10 and also provide additional transition relief in IFRS 10, IFRS 11, IFRS 12.	1 January 2014	Amendments will not have material impact on the financial statements.
Investment entities (amendments to IFRS 10, IFRS 12 and IAS 27)	The amendment exempts from consolidation "investment entities" such as mutual funds.	1 January 2014	Amendments will not have material impact on the financial statements.
Amendments to IAS 36 Impairment of assets	Amendments IAS 36 modified the disclosure requirement regarding measurement of the recoverable amount of impaired non-financial assets as a consequential amendment to IFRS 13.	1 January 2014	Amendments will not have material impact on the financial statements.
IFRIC interpretation 21 Levies	The interpretation clarifies how an entity should account for liabilities to pay levies imposed by governments, other than income taxes.	1 January 2014	Amendments will not have material impact on the financial statements.
IAS 39 Financial Instruments: Recognition and Measurement- amendments	The amendments allow hedge accounting to continue in a situation when hedging relation changes as a result of legislative changes.	1 January 2014	Amendments will not have material impact on the financial statements.
IAS 19 Employee Benefits – amendments	The amendments apply contributions from employees or third parties to defined benefit plans. The objective of amendments is to simplify theaccounting for contributions that are independent of the number of years of	1 January 2015	The Group has not completed its analysis ofchanges.
Annual Improvements to IFRSs cycle 2010-2012	The issues included:IFRS 2 Definition of 'vesting condition';IFRS 3 Accounting for 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 7 Interest paid that is capitalised;IAS 16 / IAS 38 Revaluation method – proportionate;IAS 24 Key management personnel.	1 January 2015	The Group has not completed its analysis of changes.
Annual Improvements to IFRSs cycle 2011-2013	The issues included:IFRS 3: scope exceptions for joint ventures;IFRS 13: scope of paragraph 52 (portfolio exception);IAS 40 Clarifying the interrelationship of IFRS 3 Business Combinationsand IAS 40 Investment Property when classifying property as investment property or owner-occupied property.	1 January 2015	The Group has not completed its analysis of changes.

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 2013

IFRS	Description of changes	Effective in the European Union from	Impact on the Group
IFRS 10 Consolidated Financial Statements	New standard supersedes the previous version of IAS 27 (2008) Consolidated and Separate Financial Statements as far as presentation and preparation of **consolidated** financial statements is concerned.	1 January 2014	The Group analysed the amendments to IFRS 10 and decided to apply the standard earlier. Amendments did not have material impact on the
IFRS 11 Joint Arrangements	Supersedes SIC –13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures.	1 January 2014	The Group analysed theamendments to IFRS 11 and decided to apply the standard earlier. Amendments did not have material impact on thefinancial statements.
IFRS 12 Disclosures of Interests in Other Entities	New standard requires the disclosure of information that enables users of financial statements to evaluate:the nature of, and risks associated with, its interests in other entities;the effects of those interests on its financial position, financial performance and cash flows.	1 January 2014	The Group analysed the amendments to IFRS 12 and decided to apply the standard earlier. Amendments did not have material impact on the financial statements.
IAS 27 Separate Financial Statements	IAS 27 has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate **(non- consolidated)** financial statements.	1 January 2014	The Group analysed the amendments to IAS 27 and decided to apply the standard earlier. Amendments did not have material impact on the financial statements.
IAS 28 Investments in Associates and Joint Ventures	The change prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.	1 January 2014	The Group analysed the amendments to IAS 28 and decided to apply the standard earlier. Amendments did not have material impact on the financial statements.
IFRS 13 Fair Value Measurement	IFRS establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required by other IFRSs.	1 January 2013	Amendments did not have material impact on the financial statements.
IAS 1 Presentation of Financial Statements	The amendments requires preparing presentation of items of other comprehensive income (OCI) in financial statements.	1 January 2013	Amendments did not have material impact on the financial statements.
IFRS 7 Financial instruments: disclosures	The amendments introduce the change in the disclosure requirements with regard to the effects of offsetting of financial assets and financial liabilities.	1 January 2013	Amendments did not have material impact on the financial statements.
Improvments to IFRSs (2009- 2011)	Subject of amendment:IAS 1 Clarification of requirement for comparative information;IAS 16 Classification of servicing equipment;IAS 32 Income tax consequences of distributions to holders of an equity instrument;IAS 34 segment information for total asset.	1 January 2013	Amendments did not have material impact over the financial statements.
IAS 19 Employee Benefits	The standard modifies the rules of settlement of the defined benefits plans and the employment termination benefits. It introduces changes to disclosures.	1 January 2013	Amendments did not have material impact on the financial statements.

BASIS OF PREPARATION

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

The financial statements are prepared on a fair value basis for derivative financial instruments, financial instruments measured at fair value through profit and loss account, and available-for-sale financial assets, except those for which a reliable measure of fair value is not available. Other financial assets and financial liabilities (including loans and advances) are recognized 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 these consolidated financial statements.

The accounting policies have been applied consistently by Group entities.

ACCOUNTING PRINCIPLES
USE OF JUDGMENTS AND ESTIMATES

The preparation of financial statements in conformity with IFRS 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. A provision is made against problem loans when, in the judgement of management, the estimated repayment realizable from the obligor, including the value of any security available, is likely to fall short of the amount of exposure outstanding on the obligor's loan or overdraft account. The amount of provision made in BZ WBK S.A. Group's consolidated financial statements is intended to cover the difference between the assets' carrying value and the present value of estimated future cash flows discounted at the assets' original effective interest rates.

The management process for the identification of loans requiring provision is underpinned by independent tiers of review. Credit quality and loan loss provisioning are independently monitored by head office personnel on a regular basis. A groupwide 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. Credit rating is fundamental to the determination of provisioning in BZ WBK S.A. Group; it triggers the process which results in the creation of provision on individual loans where there is doubt on recoverability.

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 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 recognized 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 has been recognised considering the expected recoverable amounts, and for long term other receivables discounting has been applied.

Asset held for sale are recorded at the lower of its 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.

BASIS OF CONSOLIDATION

Subsidiaries

Subsidiaries are those enterprises which are controlled by BZ WBK S.A. 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:

- has the power over the investee;
- 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:

- recognize 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);
- recognize 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 acquire.

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 at fair value through profit or loss;
- held-to-maturity investments;
- loans and receivables;
- available-for-sale financial assets;
- other financial liabilities.

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

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

- Classified as held for trading.
  A financial asset or financial liability is classified as held for trading if:
  – it is acquired or incurred principally for the purpose of selling or repurchasing in the near term;
  – 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;
  – derivatives are held for trading unless the derivative is a designated and effective hedging instrument.
- Upon initial recognition it is designated by the Group as at fair value through profit or loss. As at the balance sheet date the Group doesn't hold this category of financial instrument.

Held-to-maturity investments

These are non-derivative financial assets with fixed or determinable payments and fixed maturity that the 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 tainted and 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 doesn't 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:

- 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;
- those that the entity upon initial recognition designates as available for sale; or
- 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 S.A. 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:

- loans and receivables,
- held-to-maturity investments or
- financial assets at fair value through profit or loss.

Other financial liabilities

Financial liabilities include financial liabilities not classified as those valued 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 or sale of a financial asset is recognised using settlement date accounting. The method is applied consistently for all purchases and sales of financial assets.

Loans are recognised in the statement of financial position when cash is advanced to the borrowers. At the time of signing the loan agreement, the loans are recognised as off-balance sheet commitments.

Derecognition

Financial assets are derecognised 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:

- loans and receivables which shall be measured at amortised cost using the effective interest method;
- held-to-maturity investments, which are measured at amortised cost using the effective interest rate;
- 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 arms 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:

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

Lease payment receivables of leasing companies are accounted for 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.

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 instrument 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 legally enforceable right to set off the recognised amounts;
- 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 transaction") are not recognised at the statement of financial position at the end of the reporting period. The difference between purchase and resale price is treated as interest income and accrued over the life of the agreement.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are initially recognised at fair value. After their initial recognition, derivatives are subsequently measured at their fair values without any deduction for transactions costs to be incurred on sale or disposal.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price (i.e. the fair value of the consideration given or received).

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

The 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 profit or loss 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 hedged item's fair value.

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:

- it is determined that a derivative is not, or has ceased to be, highly effective as a hedge;
- the derivative expires, or is sold, terminated, or exercised;
- 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 profit or loss.

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:

- 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
- could affect profit or loss.

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:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- 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;
- it becoming probable that the borrower will enter bankruptcy or other financial reorganisation;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- 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 group, including:
  – adverse changes in the payment status of borrowers in the group, or
  – 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 once 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;
- Time that has elapsed from the moment of default, i.e. from identification of an indication of impairment;
- 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) are driven by 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 Group'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 costs associated with provisions for loan impairment.

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 the other comprehensive income shall be removed from that line and recognised in profit or loss. The amount of the cumulative loss that is removed from the 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, letter of credits, etc). The value of the provision is determined as the difference between the estimated amount of available conditional exposure and the current value of expected future cash flows under this exposure.

PROPERTY, PLANT AND EQUIPMENT

Owned assets

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

Leased assets

Leases for which the 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 particular intangible assets. The estimated useful live is 3 years.

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

OTHER ITEMS OF THE STATEMENT OF FINANCIAL POSITION

Other trade and other receivables

Trade and other receivables are stated at their 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 Statute. 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).

The 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.

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.

DIVIDENDS

Dividends for a particular year, which have been declared and approved by the General Meeting of Shareholders but not paid 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 recognized 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 recognized 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 contingent items such as guarantees, letters of credit, and unutilised irrevocable credit facilities are recognised in accordance with this policy.

Technical –insuarance provisions for unpaid claims, banafits 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 conection 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 for adquacy of technical-insurance provisions to ensure 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 INTEREST INCOME

Interest income on financial assets is recognised provided that it is probable that the economic benefits will flow to the Group and the amount of revenue 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 value 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) and points paid or received between parties to the contract that are an integral part of the effective interest rate, 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, Group splits realised income into a portion recognised as interest income according to effective interest rate method and a portion recognised as fee income. 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. In order to determine a portion of the income that is considered integral element of the loan agreement that can be recognised as interest income according to the effective interest method, Group estimates that portion using difference in interest rates and considering intermediary cost for insured and non-insured loans respectively.

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

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

NET COMMISSION INCOME

Fees and commissions are recognised in the income statement at amortised cost using the effective interest rate method described in section "Net interest income".

Fees on overdrafts, revolving loans, credit cards and off balance sheet liabilities are recognized 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.

For the selected loan products, where direct linkage to the insurance product has been identified, Group splits realised income into a portion recognised as interest income according to effective interest rate method and a portion recognised as fee income. 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. In order to determine a part of the income that is considered integral element of the loan agreement that can be recognised as interest income according to the effective interest method, Group estimates that part using difference in interest rates and considering intermediary cost for insured and non-insured loans respectively.

Portion of the income that is considered an agency fee for sales of insurance product linked to loan agreement, Group recognises as a fee income when the fee is charged for sales of 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), Group recognises in the profit and loss account as fee and commission income when the fee is charged.

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 includes 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 costs and incomes 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 recognised as an expense in the income statement 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 or 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.

3. SEGMENT REPORTING

Operational activity of Bank Zachodni WBK Group has been divided into four segments: Retail Banking, Business & Corporate Banking, Global Banking & Markets, and ALM (Assets and Liabilities Management) and Centre. 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.

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 S.A. Group.

RETAIL BANKING

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 micro 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.

BUSINESS & CORPORATE BANKING

Business & 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 BANKING & MARKETS

In the Global Banking & Markets 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;
- underwriting and financing of securities issues, financial advice and brokerage services related to the activities of the Brokerage House.

Through its presence in the wholesale market, Global Banking & Markets 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. The segment's results for 2013 include:

- PLN 299 350 k as a result of the sale of debt securities performed as regular course of liquidity management activities – as at year ended 2012 comparative figure totaled PLN 174 132k, and
- PLN 419 011 k of pre-tax profit on revaluation of the shares in BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A., as described in the note 49 of this Consolidated financial statements of Bank Zachodni WBK Group for 2013.

In thousands of PLN

CONSOLIDATED INCOME STATEMENT (BY BUSINESS SEGMENTS)

01.01.2013-31.12.2013	Retail Banking	Business & Corporate Banking	Global Banking & Markets	ALM and Centre	Total
Net interest income	**2 047 202**	**699 723**	**123 827**	**405 808**	**3 276 560**
incl. internal transactions	7 728	(130 055)	24 787	97 540	–
Other income	**1 359 348**	**244 465**	**360 136**	**790 552**	**2 754 501**
incl. internal transactions	48 681	44 159	(92 054)	(786)	–
Dividend income	–	–	–	**58 738**	**58 738**
Operating costs	**(1 867 493)**	**(293 423)**	**(190 442)**	**(291 399)**	**(2 642 757)**
incl. internal transactions	(2 443)	(6 416)	(4 493)	13 352	–
Depreciation/amortisation	**(155 518)**	**(28 131)**	**(12 750)**	**(22 922)**	**(219 321)**
Impairment losses on loans and advances	**(422 974)**	**(303 432)**	**(15 259)**	**12 364**	**(729 301)**
Share in net profits (loss) of entities accounted for by the equity method	**14 500**	–	**928**	**869**	**16 297**
Profit before tax	**975 065**	**319 202**	**266 440**	**954 010**	**2 514 717**
Corporate income tax					(500 106)
Non-controlling interests					(32 283)
Profit for the period					**1 982 328**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BY BUSINESS SEGMENT)

31.12.2013	Retail Banking	Business & Corporate Banking	Global Banking & Markets	ALM and Centre	Total
Loans and advances to customers	41 661 901	21 610 593	4 626 587	233 062	68 132 143
Investments in associates and joint ventures	–	–	20 842	42 602	63 444
Other assets	5 383 828	1 069 057	3 569 484	27 871 080	37 893 449
Total assets	**47 045 729**	**22 679 650**	**8 216 913**	**28 146 744**	**106 089 036**
Deposits from customers	57 966 899	15 416 837	5 159 246	–	78 542 982
Other liabilities and equity	7 992 752	5 262 362	3 089 250	11 201 690	27 546 054
Total equity and liabilities	**65 959 651**	**20 679 199**	**8 248 496**	**11 201 690**	**106 089 036**

In thousands of PLN

CONSOLIDATED INCOME STATEMENT (BY BUSINESS SEGMENTS)

01.01.2012-31.12.2012	Retail Banking	Business & Corporate Banking	Global Banking & Markets	ALM and Centre	Total
Net interest income	**1 544 222**	**548 992**	**96 243**	**111 620**	**2 301 077**
incl. internal transactions	11 737	(134 604)	37 161	85 706	–
Other income	**1 099 538**	**143 915**	**262 112**	**273 890**	**1 779 455**
incl. internal transactions	44 490	30 228	(56 311)	(18 407)	–
Dividend income	**–**	**–**	**–**	**55 748**	**55 748**
Operating costs	**(1 276 643)**	**(166 206)**	**(167 004)**	**(69 401)**	**(1 679 254)**
incl. internal transactions	(2 520)	(5 244)	(4 418)	12 182	–
Depreciation/amortisation	**(106 610)**	**(14 552)**	**(10 975)**	**(5 803)**	**(137 940)**
Impairment losses on loans and advances	**(215 948)**	**(298 416)**	**14**	**12 557**	**(501 793)**
Share in net profits (loss) of entities accounted for by the equity method	**15 241**	**–**	**1 236**	**3 269**	**19 746**
Profit before tax	**1 059 800**	**213 733**	**181 626**	**381 880**	**1 837 039**
Corporate income tax					(374 404)
Non-controlling interests					(28 788)
Profit for the period					**1 433 847**

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (BY BUSINESS SEGMENT)

31.12.2012	Retail Banking	Business & Corporate Banking	Global Banking & Markets	ALM and Centre	Total
Loans and advances to customers	20 042 900	17 534 167	2 189 673	100 814	39 867 554
Investments in associates and joint ventures	54 039	–	19 913	41 733	115 685
Other assets	1 392 045	528 367	1 274 427	16 841 099	20 035 938
Total assets	**21 488 984**	**18 062 534**	**3 484 013**	**16 983 646**	**60 019 177**
Deposits from customers	34 797 598	9 745 141	2 534 355	–	47 077 094
Other liabilities and equity	3 308 885	4 464 637	2 003 162	3 165 399	12 942 083
Total equity and liabilities	**38 106 483**	**14 209 778**	**4 537 517**	**3 165 399**	**60 019 177**

4. RISK MANAGEMENT

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

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

Risk Management Forum, a body authorised to approve and supervise the risk measurement policy and methodology and to monitor the credit risk, market risk in the banking book, market risk in the trading book, structural balance sheet risk and liquidity risk. The Forum operates through 4 panels:

- Credit Risk Panel;
- Market Risk Panel;
- Models and Methodology Panel;
- Equity Investment and Underwriting 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 S.A. 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 S.A. 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.

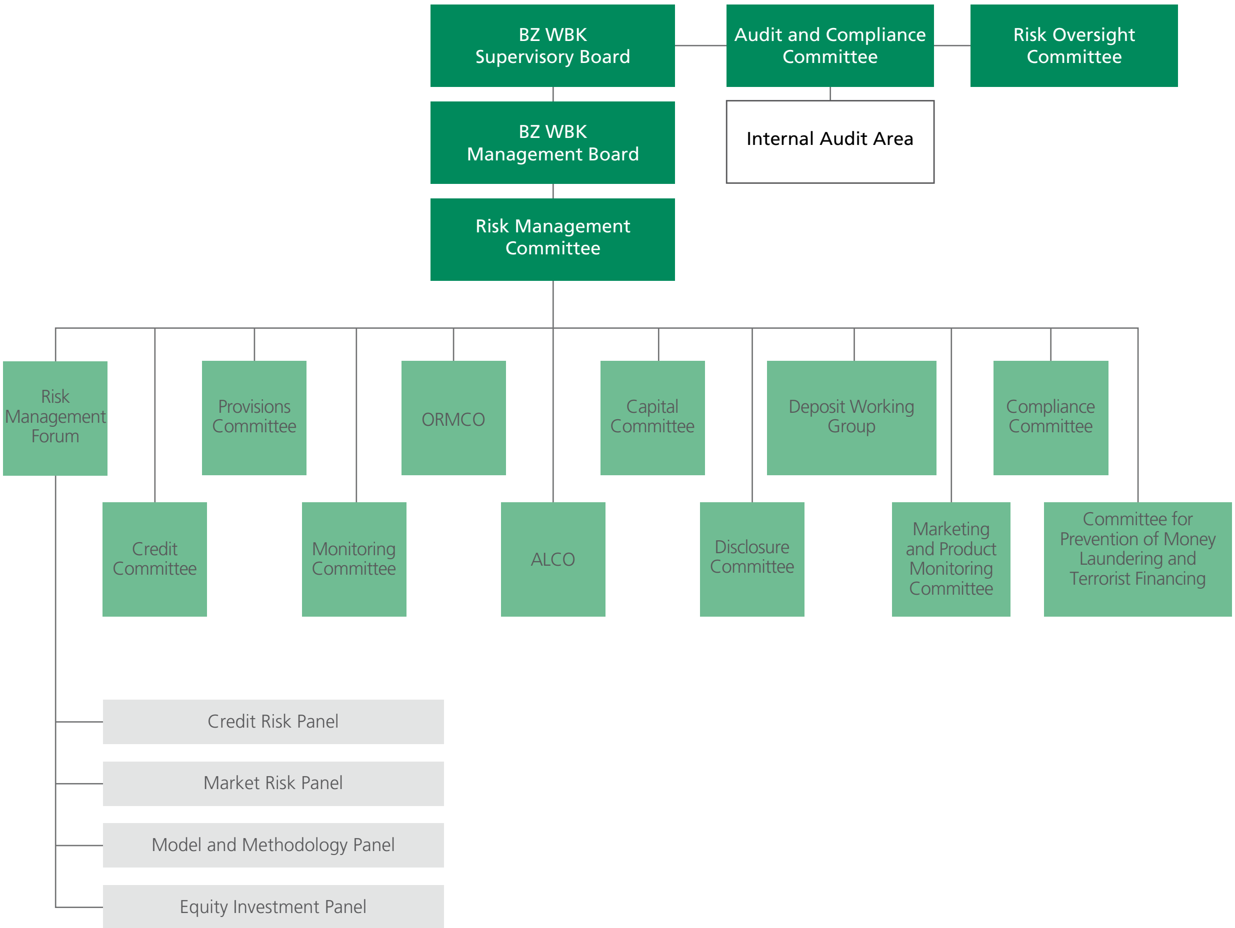
Disclosures Committee verifies the Group's financial information in terms of its compliance with legal and regulatory requirements. Deposit Working Group has a responsibility for ensuring a balanced growth of the savings and investment products portfolio.

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.

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,
- insurance risk,
- 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 S.A. Group.

CREDIT RISK

BZ WBK S.A. 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 significant credit portfolios.

Pro-active credit risk management is recognised as key to BZ WBK S.A. Group's performance in the volatile markets and deteriorating economic growth conditions. In 2013, the Group pursued its risk management policy that focused both on credit risk and business effectiveness. The Group is constantly improving its processes and procedures for measuring, monitoring and managing the Bank's credit risk, ensuring they are in keeping with the amended regulatory requirements, in particular KNF Recommendations. The economic slowdown which continued throughout 2013 led to an increase in the risk charge and caused deterioration in the customers' standing, especially in the corporate segment. The Bank was closely looking at the macroeconomic environment and analysing its credit exposure to particular customer segments and economic sectors to respond with an adequate and prompt action and adjust its credit policy parameters accordingly. The Bank also introduced changes to its pricing policy in response to falling reference rates.

One of the key challenges in 2013 was to ensure smooth integration of credit policy and process following the merger between Bank Zachodni WBK S.A. and Kredyt Bank S.A.

The Group's priorities during the year, and also for 2014, include continuation of the prudential risk management policy while carefully observing the external environment, with a particular focus on ensuring compliance with the regulatory standards and requirements, working on optimisation of credit delivery to make it more efficient and free from human errors, providing smooth customer service and keeping operating costs down.

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	guarantee 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	guarantee 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 S.A. 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 S.A. 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 S.A. Group's maximum exposure to credit risk, for presentation purposes grouped by classes, defined by provisions cover.

31.12.2013	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%	1 895 531	–	–	–
	50% – 70%	528 071	–	–	–
	70% – 85%	532 593	–	–	–
	over 85%	369 007	–	–	–
Gross amount		**3 325 202**	**–**	**–**	**–**
Allowance for impairment		(1 525 523)	–	–	–
Net amount		**1 799 679**	**–**	**–**	**–**
Collectively impaired					
	up to 50%	548 929	–	–	–
	50% – 70%	866 345	–	–	–
	70% – 85%	521 770	–	–	–
	over 85%	378 363	–	–	–
Gross amount		**2 315 407**	**–**	**–**	**–**
Allowance for impairment		(1 511 024)	–	–	–
Net amount		**804 383**	**–**	**–**	**–**
IBNR portfolio (past due&non past due)					
	up to 0.10%	28 102 384	2 212 704	22 090 764	2 344 901
	0.10% – 0.30%	16 796 042	–	–	–
	0.30% – 0.65%	12 535 446	–	–	–
	over 0.65%	8 336 599	–	–	–
Gross amount		**65 770 471**	**2 212 704**	**22 090 764**	**2 344 901**
Allowance for impairment		(453 178)	–	–	–
Net amount		**65 317 293**	**2 212 704**	**22 090 764**	**2 344 901**
Other receivables		**210 788**	**–**	**–**	**–**
Off-balance sheet exposures					
Financing granted		17 636 205	–	–	–
Guarantees		3 874 743	–	–	–
Nominal value of derivatives – purchased		–	–	–	106 021 969
Allowance for impairment		(95 934)	–	–	–
Off-balance sheet exposures – total		**21 415 014**	**–**	**–**	**106 021 969**

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

In thousands of PLN

31.12.2012	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%	552 172	–	–	–
	50% – 70%	314 238	–	–	–
	70% – 85%	139 137	–	–	–
	over 85%	125 776	–	–	–
Gross amount		**1 131 323**	–	–	–
Allowance for impairment		(534 955)	–	–	–
Net amount		**596 368**	–	–	–
Collectively impaired					
	up to 50%	346 584	–	–	–
	50% – 70%	260 096	–	–	–
	70% – 85%	321 353	–	–	–
	over 85%	197 162	–	–	–
Gross amount		**1 125 195**	–	–	–
Allowance for impairment		(672 365)	–	–	–
Net amount		**452 830**	–	–	–
IBNR portfolio (past due&non past due)					
	up to 0.10%	15 893 956	1 458 128	11 716 133	831 715
	0.10% – 0.30%	8 733 853	–	–	–
	0.30% – 0.65%	8 055 863	–	–	–
	over 0.65%	6 366 816	–	–	–
Gross amount		**39 050 488**	**1 458 128**	**11 716 133**	**831 715**
Allowance for impairment		(336 887)	–	–	–
Net amount		**38 713 601**	**1 458 128**	**11 716 133**	**831 715**
Other receivables		**104 755**	–	–	–
Off-balance sheet exposures					
Financing granted		10 858 874	–	–	–
Guarantees		2 221 700	–	–	–
Nominal value of derivatives – urchased			–	–	53 381 852
Allowance for impairment		(16 619)	–	–	–
Off-balance sheet exposures – total		**13 063 955**			**53 381 852**

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

In thousands of PLN

IBNR PORTFOLIO

	Loans and advances to customers	
	31.12.2013	31.12.2012
Non-past due	**62 015 572**	**37 236 020**
Past-due	**3 754 899**	**1 814 468**
1-30 days	3 007 185	1 298 818
31-60 days	488 475	398 948
61-90 days	242 852	105 352
> 90 days	16 387	11 350
Gross amount	**65 770 471**	**39 050 488**

ALLOWANCES FOR IMPAIRMENT BY CLASSES

Provision cover	Loans and advances to customers		Loans and advances to banks	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Individual allowance for impairment				
up to 50%	(403 020)	(110 543)	–	–
50% – 70%	(329 906)	(197 267)	–	–
70% – 85%	(427 568)	(101 400)	–	–
over 85%	(365 029)	(125 745)	–	–
Total individual allowance for impairment	**(1 525 523)**	**(534 955)**	**–**	**–**
Collective allowance for impairment				
up to 50%	(176 947)	(83 818)	–	–
50% – 70%	(558 338)	(153 454)	–	–
70% – 85%	(402 763)	(249 742)	–	–
over 85%	(372 976)	(185 351)	–	–
Total collective allowance for impairment	**(1 511 024)**	**(672 365)**	**–**	**–**
IBNR				
up to 0.10%	(12 688)	(6 195)	–	–
0.10%-0.30%	(25 835)	(15 210)	–	–
0.30%-0.65%	(54 152)	(37 025)	–	–
over 0.65%	(360 503)	(278 457)	–	–
Total IBNR	**(453 178)**	**(336 887)**	**–**	**–**
Total allowance for impairment	**(3 489 725)**	**(1 544 207)**	**–**	**–**

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 31.12.2013, pursuant to art. 71 of the Banking Law Act, the maximum limits for the Group amounted to:

- PLN 2 911 759 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 December 2013, 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 31.12.2013 (including exposures of individual customers towards subsidiaries of BZ WBK S.A.).

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure incl. towards subsidiaries	Committed credit lines, limits and capital
61	TELECOMMUNICATION	1 230 081	1 017 546	212 535
19	RAFINERY	1 106 627	412 182	694 445
06	MINING	1 083 036	73 525	1 009 511
64	FINANCIAL SERVICES	1 030 768	673 155	357 613
35	POWER INDUSTRY	853 792	1 275	852 517
46	WHOLESALE TRADE	835 821	835 811	10
35	POWER INDUSTRY	750 413	299	750 114
68	REAL ESTATE SERVICES	744 981	742 629	2 352
07	MINING	670 257	29 527	640 730
35	POWER INDUSTRY	658 574	7 253	651 321
68	REAL ESTATE SERVICES	537 221	496 311	40 910
68	REAL ESTATE SERVICES	411 437	339 379	72 058
33	MACHINE INDUSTRY	407 062	7 022	400 040
05	TRANSPORT	399 618	359 222	40 396
68	REAL ESTATE SERVICES	398 877	398 877	–
33	MACHINE INDUSTRY	394 445	15 547	378 898
19	RAFINERY	394 302	337 827	56 475
68	REAL ESTATE SERVICES	350 106	296 609	53 497
43	CONSTRUCTION	344 835	257 505	87 330
20	CHEMICAL INDUSTRY	329 000	151 219	177 781
Total gross exposure		**12 931 253**	**6 452 720**	**6 478 533**

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 31.12.2012 (including exposures of individual customers towards subsidiaries of BZ WBK S.A.).

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure incl. towards subsidiaries	Committed credit lines, limits and capital
06	MINING	1 069 820	292 292	777 528
35	POWER INDUSTRY	856 560	3 536	853 024
27	MANUFACTURING	800 818	–	800 818
19	RAFINERY	737 274	323 922	413 352
68	REAL ESTATE SERVICES	732 323	730 033	2 290
35	POWER INDUSTRY	600 485	363	600 122
68	REAL ESTATE SERVICES	569 648	507 660	61 988
46	WHOLESALE TRADE	534 007	534 007	–
68	REAL ESTATE SERVICES	473 900	473 900	–
59	MULTIMEDIA	456 112	333 456	122 656
68	REAL ESTATE SERVICES	395 638	293 325	102 313
56	CATERING	372 921	8 693	364 228
07	MINING	357 136	5 154	351 982
41	CONSTRUCTION	339 034	333 214	5 820
68	REAL ESTATE SERVICES	337 971	292 764	45 207
61	TELECOMMUNICATION	272 144	241 647	30 497
46	WHOLESALE TRADE	261 924	234 904	27 020
10	FOOD INDUSTRY	250 630	–	250 630
05	MINING	249 718	182 648	67 070
68	REAL ESTATE SERVICES	240 741	213 661	27 080
Total gross exposure		**9 908 804**	**5 005 179**	**4 903 625**

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 31.12.2013, the highest concentration level was recorded in the "property" sector (14% of the BZ WBK Group exposure), "distribution" (13%) and "manufacturing" (12%).

Groups of PKD by industries:

		Gross exposure	
	Industry	**31.12.2013**	**31.12.2012**
	Property	9 653 180	9 146 877
	Distribution	9 239 681	5 825 206
	Manufacturing	8 303 052	5 362 394
	Energy	1 696 123	843 660
	Transportation	1 586 970	821 831
	Agriculture	1 530 505	1 143 513
	Construction	1 260 312	1 142 668
	Financial sector	1 028 732	920 673
	Other industries	3 020 920	2 349 797
A	**Total Business Loans**	**37 319 475**	**27 556 619**
B	**Retail (including mortgage loans)**	**34 091 605**	**13 750 387**
A+B	**BZ WBK Group portfolio**	**71 411 080**	**41 307 006**
C	**Other receivables (commercial bonds, reverse repo)**	**210 788**	**104 755**
A+B+C	**Total BZ WBK S.A. Group**	**71 621 868**	**41 411 761**

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 S.A. 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 Banking and Markets Division, which is also responsible for the ownership supervision over Brokerage House. 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.

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 Dom Maklerski BZ WBK S.A. (shares, index-linked securities) is managed by the brokerage house itself and supervised by BZ WBK S.A. 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 House.

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.

In thousands of PLN

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 S.A. 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 2013 and 2012 are presented in the table below.

	NII Sensitivity		MVE Sensitivity	
1 day holding period	**31.12.2013**	**31.12.2012**	**31.12.2013**	**31.12.2012**
Maximum	114	90	94	140
Average	76	48	45	70
as at the end of the period	84	90	92	131
Limit	**130**	**75**	**200**	**150**

Due to the merger with Kredyt Bank S.A. and major change of the balance sheet lines these data are not fully comparable with the 2012 data.

In Q4 2012, the NII limit was exceeded as a result of redevelopment of the investment portfolio structure. The excess was reported to the Bank's Management Board and Supervisory Board. In 2013, the global NIM 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 Banking and Markets Division for trading purposes. The instruments are marked to market each day, and any changes in their value are reflected in the profit and loss.

The key methods of measurement of the interest rate risk in the banking books include the VaR methodology, stop loss, PV01 sensitivity measurement and stress tests.

The VaR is calculated for the open positions of the Global Banking and Markets 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 2013 and 2012 for 1-day position holding period.

Interest rate risk	**VAR**	
1 day holding period	**31.12.2013**	**31.12.2012**
Average	1 958	2 089
Maximum	4 369	5 261
Minimum	547	165
as at the end of the period	3 741	745
Limit	**7 530**	**7 749**

In thousands of PLN

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. 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 (excluding Dom Maklerski BZ WBK S.A. – Brokerage House) are negligible and are not included in the daily risk assessment. Brokerage House has been granted an FX VaR limit, used for managing the open positions linked to the market maker activity.

The table below illustrates the risk measures at the end of December 2013 and 2012.

FX risk	VAR		VAR Brokerage House	
1 day holding period	**31.12.2013**	**31.12.2012**	**31.12.2012**	**31.12.2012**
Average	534	613	6	4
Maximum	1 647	1 542	18	9
Minimum	65	142	1	1
As at the end of the period	428	382	9	5
LIMIT	**1 506**	**1 550**	**104**	**102**

In 2013, 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 (EUR) has been limited and VAR was in the prescribed limit. In 2013, this was the only case of exceeding the VaR limit, which was the reported to the appropriate committees appointed by the Management Board and the Supervisory Board.

FX Balance Sheet

Following the legal merger with Kredyt Bank S.A., the Bank's balance sheet of 2013 included an increased share of CHF loans, which translated into a bigger CHF gap. The gap, alike the mismatch of assets and liabilities in other currencies, was funded mainly from FX swaps, cross-currency swaps and FX repos.

The tables below present the Group's key FX positions as at 31 December 2013 and in the comparable period.

31.12.2013	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	4 802 069	220 124	14 266	113 227	5 149 686
Loans and advances to banks	555 353	801 483	692 408	163 460	2 212 704
Loans and advances to customers	43 102 575	13 301 418	10 729 128	999 022	68 132 143
Investment securities	20 922 127	1 168 637	–	–	22 090 764
Selected assets	**69 382 124**	**15 491 662**	**11 435 802**	**1 275 709**	**97 585 297**
LIABILITIES					
Deposits from banks	3 712 098	164 651	2 360 989	41 059	6 278 797
Deposits from customers	68 051 679	7 152 046	972 603	2 366 654	78 542 982
Subordinated liabilities	74 914	414 525	895 280	–	1 384 719
Selected liabilities	**71 838 691**	**7 731 222**	**4 228 872**	**2 407 713**	**86 206 498**

In thousands of PLN

31.12.2012	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	3 813 867	261 539	6 911	74 957	4 157 274
Loans and advances to banks	177 431	923 101	21 087	336 509	1 458 128
Loans and advances to customers	27 630 869	9 334 513	2 051 604	850 568	39 867 554
Investment securities	11 011 199	704 934	–	–	11 716 133
Selected assets	**42 633 366**	**11 224 087**	**2 079 602**	**1 262 034**	**57 199 089**
LIABILITIES					
Deposits from banks	735 899	587 583	2 771	24 797	1 351 050
Deposits from customers	40 622 210	5 106 393	60 863	1 287 628	47 077 094
Subordinated liabilities	–	409 110	–	–	409 110
Selected liabilities	**41 358 109**	**6 103 086**	**63 634**	**1 312 425**	**48 837 254**

EQUITY INVESTMENT RISK

The entity responsible for equity price risk management is Brokerage House. The source of this risk are transactions conducted on Brokerage House 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 Dom Maklerski BZ WBK S.A. is supervised by BZ WBK S.A. Risk Management Forum. The Forum sets the VaR limit for the brokerage house, approves changes in the risk measurement methodology and oversees the risk management process.

The table below presents the risk measures in 2013 and 2012:

Equity risk	**VAR Brokerage House**	
1 day holding period	**31.12.2013**	**31.12.2012**
Average	664	697
Maximum	2 135	3 074
Minimum	53	72
As at end of the period	312	138
LIMIT	**4 111**	**4 029**

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). 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.

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 thousands of PLN

Contractual gap analysis based on remaining time maturity as at 31.12.2013 and 31.12.2012:

31.12.2013	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	5 149 686	–	–	–	–	–	–	5 149 686
Loans and advances to banks	1 292 772	231 224	9 788	678 920	–	–	–	2 212 704
Financial assets held for trading	335 872	171 459	290 267	807 538	321 801	375 759	42 205	2 344 901
Loans and advances to customers	4 688 415	4 936 123	14 234 989	15 239 967	9 428 255	23 094 119	(3 489 725)	68 132 143
Investment securities	5 599 328	32 884	2 744 448	2 836 390	3 045 375	6 958 951	873 388	22 090 764
Other items	–	–	–	–	–	–	6 158 838	6 158 838
Long position	**17 066 073**	**5 371 690**	**17 279 492**	**19 562 815**	**12 795 431**	**30 428 829**	**3 584 706**	**106 089 036**
Deposits from banks	3 865 482	31 502	10 509	2 371 304	–	–	–	6 278 797
Financial liabilities held for trading	327 913	111 406	266 981	405 122	118 690	47 050	–	1 277 162
Deposits from customers	53 721 394	9 678 251	12 105 823	988 812	1 389 572	659 130	–	78 542 982
Subordinated liabilities	11	4 341	–	–	337 722	1 042 645	–	1 384 719
Other items	–	–	–	–	–	–	18 605 376	18 605 376
Short position	**57 914 800**	**9 825 500**	**12 383 313**	**3 765 238**	**1 845 984**	**1 748 825**	**18 605 376**	**106 089 036**
Gap-balance sheet	**(40 848 727)**	**(4 453 810)**	**4 896 179**	**15 797 577**	**10 949 447**	**28 680 004**	**(15 020 670)**	
Contingent liabilities-sanctioned								
Financing related	459 347	1 156 908	7 102 033	3 758 346	1 822 408	3 337 163	(43 404)	**17 592 801**
Guarantees	425 003	446 383	806 752	1 299 337	500 825	396 443	(52 530)	**3 822 213**
Derivatives settled in gross terms								
Inflows	5 515 514	4 088 062	5 724 707	8 307 758	4 012 287	4 642 178	–	**32 290 506**
Outflows	5 835 638	4 007 754	5 785 174	8 454 647	4 097 401	4 586 251	–	**32 766 865**
Gap – off-balance sheet	**(1 204 474)**	**(1 522 983)**	**(7 969 252)**	**(5 204 572)**	**(2 408 347)**	**(3 677 679)**	**95 934**	

In thousands of PLN

31.12.2012	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	4 157 274	–	–	–	–	–	–	4 157 274
Loans and advances to banks	1 448 023	–	10 101	4	–	–	–	1 458 128
Financial assets held for trading	124 597	67 040	315 953	120 358	97 806	92 260	13 701	831 715
Loans and advances to customers	3 657 446	3 536 697	8 319 223	10 554 442	5 984 488	9 359 465	(1 544 207)	39 867 554
Investment securities	2 099 256	–	2 743 139	1 752 017	3 881 162	572 450	668 109	11 716 133
Other items	–	–	–	–	–	–	1 988 373	1 988 373
Long position	**11 486 596**	**3 603 737**	**11 388 416**	**12 426 821**	**9 963 456**	**10 024 175**	**1 125 976**	**60 019 177**
Deposits from banks	1 032 117	234 192	84 741	–	–	–	–	1 351 050
Financial liabilities held for trading	120 729	77 054	160 611	187 156	114 286	68 995	–	728 831
Deposits from customers	29 403 871	6 477 429	9 718 649	408 507	46 009	1 022 629	–	47 077 094
Subordinated liabilities	4 378	–	–	–	–	404 732	–	409 110
Other items	–	–	–	–	–	–	10 453 092	10 453 092
Short position	**30 561 095**	**6 788 675**	**9 964 001**	**595 663**	**160 295**	**1 496 356**	**10 453 092**	**60 019 177**
Gap-balance sheet	**(19 074 499)**	**(3 184 938)**	**1 424 415**	**11 831 158**	**9 803 161**	**8 527 819**	**(9 327 116)**	
Contingent liabilities-sanctioned								
Financing related	160 468	527 386	3 168 368	2 041 461	1 315 048	3 646 092	(15 960)	**10 842 863**
Guarantees	42 129	111 557	1 117 208	508 840	124 938	317 079	(659)	**2 221 092**
Derivatives settled in gross terms								
Inflows	3 762 151	2 108 001	2 432 156	5 690 297	3 578 758	1 958 704	–	**19 530 067**
Outflows	5 242 802	2 607 920	2 912 675	5 687 380	3 690 862	1 943 246	–	**22 084 885**
Gap – off-balance sheet	**(1 683 248)**	**(1 138 862)**	**(4 766 095)**	**(2 547 384)**	**(1 552 090)**	**(3 947 713)**	**16 619**	

In thousands of PLN

Liquidity Policy Report – Modified Liquidity Gap:

Liquidity risk	**<1W**	**<1M**	**>1M**
31.12.2013			
Qualifying Liquid Assets	16 914 710	3 015 195	5 129 273
Treasury inflows	5 343 774	2 293 687	36 771 121
Other inflows	1 010 072	432 287	63 567 752
Treasury outflows	(7 916 216)	(2 685 750)	(40 556 292)
Other outflows	(5 601 955)	(2 662 544)	(75 055 114)
GAP	**9 750 385**	**392 875**	**(10 143 260)**
Cumulative GAP	**9 750 385**	**10 143 260**	–

Liquidity risk	**<1W**	**<1M**	**>1M**
31.12.2012			
Qualifying Liquid Assets	11 625 907	22 316	2 557 625
Treasury inflows	1 601 209	4 227 328	10 623 160
Other inflows	2 923 994	436 793	37 197 905
Treasury outflows	(1 238 695)	(4 380 125)	(11 211 499)
Other outflows	(5 246 928)	(276 015)	(48 862 975)
GAP	**9 665 487**	**30 297**	**(9 695 784)**
Cumulative GAP	**9 665 487**	**9 695 784**	–

In 2013, as in 2012, BZ WBK Group focused on keeping its loan-to-deposit ratio at a comfortable level (which totalled 86.8% as at 31 December 2013) and controlling key short and long-term liquidity measures. In view of standardisation of the pricing policy upon the merger with Kredyt Bank S.A. and due to the record low interest rate environment, the Group focused on the stability of its deposit base as the main funding source of Bank Zachodni WBK S.A.

In Q4 2013, the Bank issued PLN 500m worth of 3-year bonds, thus enhancing its long-term funding structure.

In 2013 and in the comparable period, all key supervisory measures applicable to the Group were maintained at the required levels.

INSURANCE RISK

Bank Zachodni WBK Group became exposed to insurance risk after it acquired control over the two insurance companies: BZ WBK AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. (BZ WBK AVIVA TUO) and BZ WBK AVIVA Towarzystwo Ubezpieczeń na Życie S.A. (BZ WBK AVIVA TUŻ) on 20 December 2013.

Insurance risk entails the possibility of a loss or adverse changes in the value of liabilities, resulting from changes in the value, trend or fluctuations of the measures used for the estimation of such liabilities, or from unforeseen / exceptional circumstances.

Insurance risk is also understood as the risk of materialisation of an insurance event and the related uncertainty about the claim value.

In the process of development of an insurance product and the calculation of insurance premiums, the key risk is seen as the situation where the claims ratio, i.e. the claims paid (including changes in the balance of provisions for unpaid claims) to the premium earned, is higher than the value planned when determining the amount of insurance premiums.

The risk factors affecting accuracy of the estimated claims ratios include the possibility of differences between historical data, which underlie the estimates, and the actual values. Such differences may arise in particular due to the short history of operations of the Insurance Companies and the small insurance portfolio that does not permit the application of the Law of Large Numbers and does not provide sufficient statistical information that might be helpful in managing the insurance risk.

Managing insurance risk, BZ WBK AVIVA TUO and BZ WBK AVIVA TUŻ mainly focus on increasing their insurance portfolios while using reinsurance to limit the volatility of their risk share. As at 31.12.2013 participation of reinsurance in the technical provision totaled PLN 2 544k.

In 2013, BZ WBK AVIVA Insurance Companies offered property and personal insurance, both in an individual and group models. Insurance products were offered to the customers via bancassurance and direct sales channels.

In thousands of PLN

BZ WBK AVIVA Insurance Companies offer their customers participation in an investment plan and the purchase of a travel insurance and an accident insurance as part of individual agreements. Other products are offered within group agreements with the Bank.

BZ WBK AVIVA TUO and BZ WBK AVIVA TUŻ are parties to the reinsurance agreements concluded in accordance with their Reinsurance Policy, which is designed to limit the exposure to the insurance risk above the internally set limits.

The insurance risk expressed by the value of claims provisions is presented by the groups of risks defined by the Polish Financial Supervision Authority and in accordance with the division into the individual and group sales model.

Concentration of insurance risk expressed in the provision for claims and benefits

Gross Risk	31.12.2013	share %
Casualty	28 171	61%
Financial	7 498	16%
Accident	5 247	11%
Disease	3 078	7%
Damage to property caused by natural disasters	1 381	3%
Other material damages	756	2%
Civil liability	22	0%
Assistance	131	0%
Gross provisions for compensations and benefits	**46 285**	**100%**

Gross risk	31.12.2013	share %
Individual	2 695	6%
Group	43 590	94%
Gross provisions for compensations and benefits	**46 285**	**100%**

Sensitivity analysis of provisions for damages

Due to the adopted method of calculating IBNR reserves for major risks ("Chain Ladder"), total provisions for compensation and benefits together with the costs of liquidation depend on the reported claims and the delay in the notification of claims.

Sensitivity analysis was carried out simultaneously for all insured risks in the portfolio, by changing the value of claims reported and not paid (RBNP) as at 31.12.2013.

The following table reflects the change in the provision for claims when the size RBNP:

Change in RBNP (%)	Change in damage provisions (%)	Value of damage provisions	Change of the value of damage provisions
-20	–16	38 925	(7 360)
-10	–8	42 603	(3 682)
10	8	49 969	3 684
20	16	53 657	7 372

Analysis of the adequacy of reserves

Insurance companies performed an analysis of the adequacy of reserves, which showed that the technical provisions (net of deferred acquisition costs) as at 31 December 2013 have been established at a level sufficient to cover liabilities arising from insurance contracts issued as of 31 December 2013.

In thousands of PLN

Capital Management

The purpose of Insurance companies is to maintain a constant solvency at the level necessary to enable the dynamic of their development.

To fulfill this, Insurance companies continuously monitor the value of equity in relation to the solvency margin and guarantee capital in accordance with the capital requirements imposed by the regulations in force in Poland (Insurance Act and the Act on accounting together with appropriate regulations).

Under these provisions the Association are required to hold own funds in an amount not less than the margin of solvency and not lower than the guarantee capital , the capital guarantee is equal to the greater of: one-third of the solvency margin and the minimum guarantee capital .

The method of calculation of the solvency margin and the minimum guarantee fund defined in the Regulation of the Minister of Finance, which takes into account the need to ensure the solvency of companies engaged in the business of insurance.

Own resources of the company are the assets of the insurance company, excluding assets :

- intended to cover any foreseeable liabilities,
- intangible assets other than DAC (Deferred Acquisition Cost),
- own shares held by the insurance company,
- deferred tax assets.

Insurance companies when calculating solvency margin and the minimum guarantee capital consider only the statutory requirements.

Insurance companies check equity level and its compliance with the law at the end of each month. Throughout the 2013 all the statutory requirements were met.

The following table shows the amount of own resources of insurance companies (BZ WBK AVIVA General Insurance Company and BZ WBK AVIVA Life Insurance Company S.A.) and coverage of the solvency margin and guarantee capital as at December 31, 2013.

	31.12.2013
Own resources	126 704
Margin of solvency	51 140
Minimal guarantee capital	30 097
1/3rd of margin of solvency	17 047
Own resources surplus for coverage of margin of solvency	75 564
Guarantee capital	30 097
Own resources surplus for coverage of guarantee capital	96 607

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 S.A. 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 and implemented the Operational Risk Management Policy and Framework. 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 S.A. 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 S.A. The effects of this work are reported to the Risk Management Committee.

The key challenge regarding operational risk management in 2013 were the processes related to the merger between Bank Zachodni WBK S.A. and Kredyt Bank S.A. In order to ensure best practice in operational risk management in the transition period, each consolidated activity and integration project were subject to an in-depth analysis in terms of operational risk.

Furthermore, in 2013, operational risk management standards and tools were harmonised to ensure the uniform process across the organisation. 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.

- Reporting on operational incidents and lessons learned

Each organisational unit is required to report operational incidents on a monthly basis. The Group runs a database of operational incidents identified across BZ WBK S.A. Group. The data are used to analyse the root cause and consequences of the incidents, capture lessons learned and take preventive and corrective measures.

- 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 & COMPLIANCE RISK

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

Risk Identification and Assessment

In the BZ WBK S.A. Group, individual processes are managed by relevant units.

Responsibilities of the Legal and Compliance Division relate to the "conduct of business" complianceobligations, including implementation of new products, protection of clients' rights, anti-money laundering, protection of sensitive information and protection of personal data.

The identification, interpretation and communication roles relating to other legal and regulatory obligations have been assigned to functions with specialist knowledge in those areas. All issues regarding compliance with employment law are assigned to HR Management Division; compliance with taxation law and reporting requirements is the responsibility of Financial Accounting and Control Division, while compliance with prudential regulations is the responsibility of Risk Management Division.

Risk management and mitigation

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

The Audit and Compliance Committee regularly reviews key compliance issues identified by the Compliance Area as part of monitoring of new products, regulatory activity, upcoming legislative initiatives and customers' complaints.

The Risk Management Committee ensures execution of applicable regulations and approves principles of internal control and compliance policy framework. It also ensures independence and sufficient resources of the Compliance Area.

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

- independent identification, assessment and monitoring of compliance risk the Group is exposed to (with a particular focus on new or modified products and services and the issues connected with inside information, conflict of interest or private account shares dealing by employees);
- providing advice and reporting to the Risk Management Committee, bank's Management Board and Audit and Compliance Committee on the effectiveness of the processes established to ensure compliance with laws and regulations within its area of responsibility;
- providing the management and staff with guidance on compliance risk and adequate risk management policies and procedures;
- centralisation of contacts with market regulators (KNF, UOKiK, GIIF and GIODO).

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

Risk monitoring & reporting

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

Risk prioritised compliance monitoring plans are prepared based on the risk assessment process. Monitoring is particularly focused on the issues related with MiFID compliance and the requirements in terms of prevention of the use of the financial system for money laundering and terrorist financing.

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

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 the Bank and capital requirements estimated for the unexpected loss is determined in accordance with applicable Polish Banking Law, the provisions of the Polish Financial Supervision Commission and the regulations and directives of the European Parliament and of the Council of the EU prudential requirements.

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.

In thousands of PLN

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).

This body is responsible for tracking 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. It also approves capital plans and sets out rules underpinning allocation of capital into individual segments when estimating profitability of the same. However, 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.

Capital Policy

The Group's capital management policy envisages the minimum level of solvency ratio at 12% (calculated according to the Banking Law and the Polish Financial Supervision Commission Resolutions) both for the Bank and the Group.

At the same time Tier 1 capital ratio (core equity capital to Risk Weighted Assets for credit, market and operational risk) should be maintained at a minimum level of 9% both for the Bank and the Group.

The regulatory solvency ratio is 8%.

Regulatory Capital

The capital requirement of BZ WBK Group as at 31.12.2013 was set in accordance with Resolution no. 76/2010 of the Polish Financial Supervision Authority dated March 10, 2010, as amended. BZ WBK S.A. adopted the standardised approach to calculate the capital requirement for credit, market and operational risk. The capital requirement for credit risk is the most significant 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 Appendix 4 to Resolution no. 76/2010 of the Polish Financial Supervision Authority dated 10 March 2010.

The tables below show capital requirement for the Group as of 31 December 2013 and 2012:

		31.12.2013	31.12.2012
I	**Total Capital requirement**	**6 693 866**	**4 028 522**
II	**Own funds after reductions**	**11 647 036**	**8 325 742**
	CAD [II/(I*12.5)]	**13.92%**	**16.53%**

Internal Capital

In addition to 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 – the ICAAP process.

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) and loss given default (LGD).

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.

In thousands of PLN

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

Subordinated liabilities include the amount of issued subordinated debt securities with 10-year maturity term, floating interest rate, fully paid by European Bank of Reconstruction and Development on 5th August 2010.

On 13th October 2010 Bank obtained an approval of KNF for the inclusion of the funds raised through the issue of debt securities dated 5th August 2010 into the Group's supplementary funds. Based on the decision of KNF, the funds raised from this issue amounting to EUR 99 000 k have been included in the calculation of the Group's adequacy ratio.

Following the legal merger with Kredyt Bank S.A. and acquisition of assets and liabilities of Kredyt Bank S.A., the Bank acquired the right to include into supplementary funds subordinated loans granted by KBC NV. Subordinated liabilities to KBC NV amounted to CHF 265 m and 75 m PLN.

Detailed information on subordinated liabilities is presented in Note 33.

6. NET INTEREST INCOME

Interest income	**01.01.2013 –31.12.2013**	**01.01.2012 –31.12.2012**
Loans and advances to enterprises	1 727 968	1 502 167
Loans and advances to individuals, of which:	2 079 419	1 213 859
Home mortgage loans	841 385	420 853
Debt securities incl.:	787 373	676 370
Investment portfolio available for sale	743 718	567 980
Trading portfolio	43 655	108 390
Leasing agreements	163 382	172 509
Loans and advances to banks	106 395	90 463
Public sector	20 736	23 315
Reverse repo transactions	15 200	11 611
Interest recorded on hedging IRS	314 730	177 191
Total	**5 215 203**	**3 867 485**
Interest expense	**01.01.2013 –31.12.2013**	**01.01.2012 –31.12.2012**
Deposits from individuals	(1 142 253)	(903 127)
Deposits from enterprises	(504 426)	(443 642)
Repo transactions	(105 703)	(84 070)
Public sector	(105 436)	(92 795)
Deposits from banks	(25 929)	(22 020)
Subordinated liabilities	(54 896)	(20 754)
Total	**(1 938 643)**	**(1 566 408)**
Net interest income	**3 276 560**	**2 301 077**

As at 31.12.2013 net interest income includes interest on impaired loans of PLN 267 134 k (as at 31.12.2012 – PLN 80 969k).

In thousands of PLN

7. NET FEE AND COMMISSION INCOME

Fee and commission income	01.01.2013 –31.12.2013	01.01.2012 –31.12.2012
eBusiness & payments	613 869	440 379
Current accounts and money transfer	310 721	245 383
Foreign exchange commissions	296 676	233 782
Asset management fees	258 363	220 440
Credit commissions	230 066	154 931
Insurance commissions	105 994	108 401
Brokerage commissions	105 422	85 324
Credit cards	88 138	73 537
Off-balance sheet guarantee commissions	36 025	14 751
Finance lease commissions	5 879	5 146
Issue arrangement	11 834	4 932
Distribution fees	15 099	3 766
Other commissions	11 336	5 266
Total	**2 089 422**	**1 596 038**
Fee and commission expense	**01.01.2013 –31.12.2013**	**01.01.2012 –31.12.2012**
eBusiness & payments	(158 549)	(93 892)
Distribution fees	(32 424)	(29 256)
Brokerage commissions	(16 088)	(19 186)
Commissions paid to credit agents	(12 734)	(11 916)
Credit cards	(14 706)	(10 014)
Finance lease commissions	(11 863)	(9 155)
Asset management fees and other costs	(7 578)	(7 390)
Other	(56 924)	(30 243)
Total	**(310 866)**	**(211 052)**
Net fee and commission income	**1 778 556**	**1 384 986**

Included above is fee and commission income on credits, credits cards, off-balance sheet guarantees and finance leases of PLN 360 108 k (31.12.2012: PLN 248 365 k) and fee and commission expenses on credit cards, finance leases and paid to credit agents of PLN (39 303) k (31.12.2012: PLN (31 085) 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.

In thousands of PLN

8. DIVIDEND INCOME

Dividend income	01.01.2013 –31.12.2013	01.01.2012 –31.12.2012
Dividends from investment portfolio entities	56 597	54 404
Dividends from trading portfolio entities	2 141	1 344
Total	**58 738**	**55 748**

9. NET TRADING INCOME AND REVALUATION

Net trading income and revaluation	01.01.2013 –31.12.2013	01.01.2012 –31.12.2012
Derivative instruments and interbank fx transactions	180 696	147 904
Other FX related income	(3 221)	13 622
Profit on market maker activity	1 845	2 996
Profit on equity instruments	5 706	433
Profit on debt instruments	1 088	(610)
Total	**186 114**	**164 345**

Net trading income and revaluation includes the write-back of adjustments of derivatives resulting from counterparty risk in the amount of PLN 817 k for 2013 (of PLN 3 340 k for 2012).

Net trading income and revaluation includes depreciation of adjustment to the valuation of day 1 profit or lost for start forward CIRS transactions in the amount of PLN (533) k, disclosed in consolidated statement of financial position in line of Hedging derivatives. The initial valuation will be subject to linear depreciation for maturity of CIRS.

10. GAINS (LOSSES) FROM OTHER FINANCIAL SECURITIES

Gains (losses) from other financial securities	01.01.2013 –31.12.2013	01.01.2012 –31.12.2012
Profit on sale of debt securities	299 335	174 105
Profit on sale of equity shares	(1 171)	3 106
Total profit (losses) on financial instruments	**298 164**	**177 211**
Change in fair value of underlying hedged positions	68 709	60 344
Change in fair value of hedging instruments	(69 279)	(57 503)
Total profit (losses) on hedging and hedged instruments	**(570)**	**2 841**
Total	**297 594**	**180 052**

In thousands of PLN

11. OTHER OPERATING INCOME

Other operating income	01.01.2013 –31.12.2013	01.01.2012 –31.12.2012
Income on sale of services	14 823	14 851
Reimbursements of BGF charges	15 732	11 274
Release of provision for legal cases and other assets	13 854	9 542
Recovery of other receivables	857	1 609
Settlements of leasing agreements	2 427	3 072
Insurance indemnity received	846	773
Received compensations, penalties and fines	760	558
Disposal of fixed assets and assets held for sales	5 994	179
Other	18 252	7 814
Total	**73 545**	**49 672**

12. IMPAIRMENT LOSSES ON LOANS AND ADVANCES

Impairment losses on loans and advances	01.01.2013 –31.12.2013	01.01.2012 –31.12.2012
Collective and individual impairment charge	(890 806)	(538 908)
Incurred but not reported losses charge	174 566	19 263
Recoveries of loans previously written off	3 294	13 272
Off balance sheet credit related items	(16 355)	4 580
Total	**(729 301)**	**(501 793)**

13. EMPLOYEE COSTS

Employee costs	01.01.2013 –31.12.2013	01.01.2012 –31.12.2012
Salaries and bonuses	(1 133 340)	(792 309)
Salary related costs	(180 458)	(123 004)
Staff benefits costs	(33 249)	(22 054)
Professional trainings	(18 448)	(16 723)
Retirement fund, holiday provisions and other employee-related costs	(10 010)	966
Total	**(1 375 505)**	**(953 124)**

In thousands of PLN

14. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses	01.01.2013 –31.12.2013	01.01.2012 –31.12.2012
Maintenance and rentals of premises	(383 770)	(226 577)
IT systems costs	(150 908)	(93 537)
Marketing and representation	(125 757)	(77 072)
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities	(86 482)	(49 386)
Consulting fees	(133 706)	(45 711)
Postal and telecommunication costs	(55 608)	(39 721)
Car, transport expenses, carriage of cash	(68 698)	(36 950)
Other external services	(69 266)	(35 914)
Sundry taxes	(26 511)	(19 188)
Stationery, cards, cheques	(32 060)	(18 642)
Data transmission	(22 363)	(13 853)
KIR, SWIFT settlements	(20 864)	(12 430)
Security costs	(21 165)	(10 648)
Costs of repairs	(9 140)	(5 018)
Other	(25 810)	(15 341)
Total	**(1 232 108)**	**(699 988)**

15. OTHER OPERATING EXPENSES

Other operating expenses	01.01.2013 –31.12.2013	01.01.2012 –31.12.2012
Donation paid	(3 711)	(4 634)
Charge of provisions for legal cases and other assets	(12 631)	(2 675)
Costs of purchased services	(2 126)	(1 757)
Paid compensations, penalties and fines	(1 890)	(1 568)
Other memebership fees	(1 072)	(824)
Other	(13 714)	(14 684)
Total	**(35 144)**	**(26 142)**

In thousands of PLN

16. CORPORATE INCOME TAX

Corporate income tax	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Current tax charge	(337 880)	(464 147)
Deferred tax	(162 226)	89 743
Total	**(500 106)**	**(374 404)**

Corporate total tax charge information	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Profit before tax	2 514 717	1 837 039
Tax rate	19%	19%
Tax calculated at the tax rate	(477 796)	(349 037)
Non-deductible expenses	(13 018)	(9 591)
Sale of receivables	(34 842)	(12 587)
Deferred tax of consolidation adjustments	15 120	-
Non-taxable income (dividends)	10 569	9 744
Non-tax deductible bad debt provisions	(8 359)	(7 567)
Technological relief	4 242	-
Other	3 978	(5 366)
Total income tax expense	**(500 106)**	**(374 404)**

Deferred tax recognised directly in equity	31.12.2013	31.12.2012
Relating to equity securities available-for-sale	(133 282)	(94 386)
Relating to debt securities available-for-sale	(24 028)	(94 445)
Relating to cash flow hedging activity	(8 956)	(15 784)
Total	**(166 266)**	**(204 615)**

17. EARNINGS PER SHARE

Net earnings per share (PLN/share)	01.01.2013 –31.12.2013	01.01.2012 –31.12.2012
Profit attributable to ordinary shares	1 982 328	1 433 847
Weighted average number of ordinary shares	93 337 884	73 835 488
Net earnings per share (PLN)	**21.24**	**19.42**
Profit attributable to ordinary shares	1 982 328	1 433 847
Weighted average number of ordinary shares	93 337 884	73 835 488
Weighted average number of potential ordinary shares *	303 156	302 683
Diluted earnings per share (PLN)	**21.17**	**19.34**

* The weighted average number of potential ordinary shares takes into account the number of share options granted under the incentive scheme described in Note 53.

In thousands of PLN

18. CASH AND BALANCES WITH CENTRAL BANKS

Cash and balances with central banks	31.12.2013	31.12.2012
Cash	1 766 257	1 084 108
Current accounts in central banks	3 383 429	3 073 166
Total	**5 149 686**	**4 157 274**

BZ WBK S.A. holds an obligatory reserve on a current account in the National Bank of Poland. The figure is calculated at a fixed percentage of the monthly average balance of the customers' deposits, which in all the covered periods was 3.5%.

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	31.12.2013	31.12.2012
Loans and advances	1 237 751	916 567
Current accounts	798 153	473 748
Buy-sell-back transaction	176 987	67 813
Gross receivables	**2 212 891**	**1 458 128**
Impairment write down	(187)	–
Total	**2 212 704**	**1 458 128**

Fair value of loans and advances to banks is presented in Note 41.

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.

	31.12.2013		31.12.2012	
Financial assets and liabilities held for trading	**Assets**	**Liabilities**	**Assets**	**Liabilities**
Trading derivatives	**1 021 658**	**1 022 029**	**641 051**	**711 669**
Interest rate operations	**632 186**	**632 007**	**365 874**	**371 136**
Options	4 323	4 328	564	564
IRS	614 203	617 986	356 991	358 516
FRA	13 660	9 693	8 319	12 056
Transactions on equity instruments	**2 819**	**717**	**–**	**–**
Options	2 819	717	–	–
FX operations	**386 653**	**389 305**	**275 177**	**340 533**
CIRS	95 304	147 521	75 561	152 711
Forward	28 994	49 144	27 050	22 343
FX Swap	202 087	130 025	142 466	135 140
Spot	792	1 037	901	1 140
Options	59 476	61 578	29 199	29 199
Debt and equity securities	**1 323 243**	**–**	**190 664**	**–**
Debt securities	**1 290 131**	**–**	**176 963**	**–**
Government securities:	1 060 064	–	175 487	–
- bonds	1 060 064	–	175 487	–
Central Bank securities:	199 972	–	–	–
- bills	199 972	–	–	–
Other securities:	30 095	–	1 476	–
- bonds	30 095	–	1 476	–
Equity securities:	**33 112**	**–**	**13 701**	**–**
- listed	33 112	–	13 701	–
Short sale	**–**	**255 133**	**–**	**17 162**
Total financial assets/liabilities	**2 344 901**	**1 277 162**	**831 715**	**728 831**

Financial assets and liabilities held for trading – trading derivatives include value adjustments resulting from counterparty risk in the amount of PLN (1 668) k as at 31.12.2013, PLN (2 298) k as at 31.12.2012.

As at 31.12.2013 financial assets and liabilities held for trading include value adjustments day first profit or loss for transactions between Bank Zachodni WBK S.A. and Aviva Group in the amount of (22 810) k. 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 31.12.2013 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		31.12.2013	31.12.2012
1.	**Term derivatives (hedging)**	**29 792 094**	**14 675 607**
a)	Single-currency interest rate swaps	2 665 000	1 085 000
b)	Macro cash flow hedge -purchased (IRS)	3 229 513	2 213 144
c)	Macro cash flow hedge -purchased (CIRS)	11 847 013	5 585 823
d)	Macro cash flow hedge -sold (CIRS)	12 050 568	5 791 640
2.	**Term derivatives (trading)**	**128 271 971**	**69 595 853**
a)	Interest rate operations	81 693 883	35 333 886
	Single-currency interest rate swaps	57 441 526	27 982 342
	FRA – purchased amounts	23 350 000	6 850 000
	Options	902 357	501 544
b)	FX operations	46 578 088	34 261 967
	FX swap – purchased amounts	10 710 489	8 020 505
	FX swap – sold amounts	10 623 485	8 008 784
	Forward- purchased amounts	2 546 613	1 483 082
	Forward- sold amounts	2 585 261	1 482 429
	Cross-currency interest rate swaps – purchased amounts	5 412 520	4 965 537
	Cross-currency interest rate swaps – sold amounts	5 482 036	5 033 742
	FX options -purchased CALL	2 272 212	1 250 855
	FX options -purchased PUT	2 336 630	1 383 089
	FX options -sold CALL	2 272 212	1 250 855
	FX options -sold PUT	2 336 630	1 383 089
3.	**Currency transactions- spot**	**2 076 924**	**1 889 992**
	Spot-purchased	1 038 347	944 898
	Spot-sold	1 038 577	945 094
4.	**Transactions on equity financial instruments**	**302 358**	**11 300**
	Futures – purchased	11 275	–
	Futures – sold	291 083	11 300
	Total	**160 443 347**	**86 172 752**

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

21. HEDGING DERIVATIVES

Hedging derivatives	31.12.2013		31.12.2012	
	Assets	Liabilities	Assets	Liabilities
IRS hedging fair value	21 566	25 079	–	59 912
IRS hedging cash flow	300 390	342 445	253 553	262 038
Total hedging derivatives	**321 956**	**367 524**	**253 553**	**321 950**

As at 31.12.2013 Hedging derivatives – IRS hedging cash flow include value adjustments day first profit or loss for start forward CIRS transactions in the amount of PLN (10 082) k.

As at 31.12.2013, Net trading income and revaluation includes amortisation of adjustment to the valuation of day 1 profit or lost for start forward CIRS transactions in the amount of PLN (533) k.

In thousands of PLN

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

22. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers	**31.12.2013**	**31.12.2012**
Loans and advances to enterprises	34 252 562	25 280 604
Loans and advances to individuals, of which:	34 041 366	13 708 551
Home mortgage loans	25 294 769	8 080 532
Finance lease receivables	3 052 093	2 289 852
Loans and advances to public sector	225 766	105 366
Buy-sell-back transaction	40 718	15 234
Other	9 363	12 154
Gross receivables	**71 621 868**	**41 411 761**
Impairment write down	(3 489 725)	(1 544 207)
Total	**68 132 143**	**39 867 554**

As at 31.12.2013 the fair value adjustment due to hedged risk on individual loans was PLN 2 279 k (as at 31.12.2012: PLN 0). Finance lease receivables are presented in Note 44. Fair value of loans and advances to customers is presented in Note 41.

Movements on impairment losses on loans and advances to customers	**31.12.2013**	**31.12.2012**
Individual and collective impairment		
As at the beginning of the period	(1 207 321)	(1 069 296)
Individual and collective impairment acquired in a business combination	(1 667 026)	–
Charge/write back of current period	(890 806)	(538 908)
Write off/Sale of receivables	708 113	381 667
Transfer	14 194	16 215
F/X differences	6 297	3 001
Balance at the end of the period	**(3 036 549)**	**(1 207 321)**
IBNR		
As at the beginning of the period	(336 886)	(345 949)
IBNR acquired in a business combination	(198 306)	–
Charge/write back of current period	174 754	19 263
Transfer	(89 862)	(13 018)
F/X differences	(2 876)	2 818
Balance at the end of the period	**(453 176)**	**(336 886)**
Impairment write down	**(3 489 725)**	**(1 544 207)**

In thousands of PLN

23. INVESTMENT SECURITIES AVAILABLE FOR SALE

Investment securities available for sale	**31.12.2013**	**31.12.2012**
Available for sale investments – measured at fair value		
Debt securities	**21 217 376**	**11 048 024**
Government securities:	13 245 914	7 711 424
- bonds	13 245 914	7 711 424
Central Bank securities:	5 599 222	2 099 256
- bills	5 599 222	2 099 256
Commercial securities:	2 372 240	1 237 344
-bonds	2 372 240	1 237 344
Equity securities	**851 603**	**627 180**
- listed	35 980	13 441
- unlisted	815 623	613 739
Investment certificates	**21 785**	**40 929**
Total	**22 090 764**	**11 716 133**

As at 31.12.2013 fixed interest rate debt securities measured at fair value amount to PLN 18 962 241 k, variable interest rate securities amount to PLN 2 254 955 k.

As at 31.12.2012 fixed interest rate debt securities measured at fair value amount to PLN 9 838 570 k, variable interest rate securities amount to PLN 1 209 454 k.

As at 31.12.2013 fair value adjustment resulting from fair value hedge on available for sale bonds totaled PLN (9 151) k (as at 31.12.2012 PLN 62 554 k).

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

Fair value of the investments into the companies from the Aviva Polska Group is reviewed for all three investments. Valuation was conducted using the peer comparison method as well as discounted cash flow analysis. As at 31.12.2013, current review of fair valuation of the portfolio resulted in a positive upward movement in total amount of PLN 200 950 k. The review included the impact of the final approval of amendments to the Act on Open pension funds and its influence on of PTE Aviva BZ WBK S.A.

Fair value of "Investment securities available for sale" is presented in Note 41.

Movements on investment securities available for sale	**Debt securities**	**Financial instruments representing equity rights**	**Total**
As at 1 January 2013	**11 048 024**	**668 109**	**11 716 133**
Investment securities available for sale aquired in a business combination	7 701 195	3 426	7 704 621
Additions	219 046 087	1 000	219 047 087
Disposals (sale and maturity)	(216 231 933)	(17 246)	(216 249 179)
Fair value adjustment	(442 321)	206 015	(236 306)
Movements on interest accrued	(65 202)	-	(65 202)
Allowances for impairment	-	(2 468)	(2 468)
F/X differences	13 509	-	13 509
Transfer	148 017	14 552	162 569
As at 31 December 2013	**21 217 376**	**873 388**	**22 090 764**

In thousands of PLN

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2012	**10 971 561**	**680 634**	**11 652 195**
Additions	41 537 666	9 323	41 546 989
Disposals (sale and maturity)	(41 659 215)	(21 439)	(41 680 654)
Fair value adjustment	448 057	987	449 044
Movements on interest accrued	(226 281)	–	(226 281)
Allowances for impairment	–	(1 386)	(1 386)
F/X differences	(23 764)	(10)	(23 774)
As at 31 December 2012	**11 048 024**	**668 109**	**11 716 133**

24. FINANCIAL ASSETS HELD TO MATURITY

Movements on financial assets held to maturity	31.12.2013	31.12.2012
Balance as at 1 January	**–**	**–**
Financial asset held to maturity aquired in a business combination	**2 518 251**	–
Maturity	(2 467 838)	–
Fair value amortisation	379	–
Movements on interest accrued	(51 318)	–
F/X differences	526	–
As at end of reporting period	**–**	**–**

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures	31.12.2013	31.12.2012
Associates	63 444	61 647
Joint ventures	–	54 038
Total	**63 444**	**115 685**

Movements on investments in associates and joint ventures	31.12.2013	31.12.2012
Balance as at 1 January	**115 685**	**104 512**
Share of profits/(losses)	16 297	19 746
Sale/acquisition	–	(4 541)
Dividends	(5 050)	(4 032)
Other *	(63 488)	–
Balance at the end of the period	**63 444**	**115 685**

* As at 31.12.2013 BZ WBK – Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK – Aviva Towarzystwo Ubezpieczeń na Życie S.A. were subsidiaries.

Fair value of "Investment in associates and joint ventures" is presented in Note 41. Details of sale/acquisition of associates and joint ventures are disclosed in Note 48.

In thousands of PLN

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES AS AT 31.12.2013

Name of entity	POLFUND – Fundusz Poręczeń Kredytowych S.A.*	Metrohouse S.A.*	Krynicki Recykling S.A.**	Total
Registered office	Szczecin	Warsaw	Olsztyn	
Type of connection	Associate	Associate	Associate	
% of holding* **	50.00	21.23	22.32	
Balance sheet value	42 602	4 167	16 675	**63 444**
Total assets	93 102	5 187	156 998	**255 287**
Own funds of entity, of which:	85 204	1 610	53 627	**140 441**
Share capital	16 000	1 083	1 637	**18 720**
Other own funds, of which:	69 204	527	51 990	**121 721**
from previous years	-	(1 600)	10 625	9 025
net profit (loss)	2 819	(722)	3 420	5 517
Liabilities of entity	7 898	3 577	103 371	**114 846**
Revenue	8 473	20 809	35 457	**64 739**
Costs	4 989	21 531	31 396	**57 916**

*selected financial information as at end of November 2013

**selected financial information as at end of September 2013

***states percentage share of associates

As at 31.12.2013 BZ WBK – Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK – Aviva Towarzystwo Ubezpieczeń na Życie S.A. were subsidiaries.

Name of entity	Business
POLFUND – Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management
Metrohouse S.A.	selling and purchasing real estate, mediating in the real property trade, serving financial consultancy
Krynicki Recykling S.A.	waste management

In thousands of PLN

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES AS AT 31.12.2012

Name of entity	POLFUND – Fundusz Poręczeń Kredytowych S.A.*	BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.*	BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.*	Metrohouse & Partnerzy S.A.*	Krynicki Recykling S.A.**	Total
Registered office	Szczecin	Poznań	Poznań	Warsaw	Olsztyn	
Type of connection	Associate	Joint venture	Joint venture	Associate	Associate	
% of holding* **	50.00	50.00	50.00	21.23	24.54	
Balance sheet value	41 733	27 502	26 536	4 506	15 408	**115 685**
Total assets	89 088	1 012 477	273 876	5 187	113 957	**1 494 585**
Own funds of entity, of which:	83 466	53 047	51 183	1 610	43 604	**232 910**
Share capital	16 000	24 250	27 000	1 083	1 488	**69 821**
Other own funds, of which:	67 466	28 797	24 183	527	42 116	**163 089**
from previous years	2 389	–	–	(1 600)	–	789
net profit (loss)	3 697	12 943	14 165	(722)	3 204	33 287
Liabilities of entity	5 622	959 430	222 693	3 577	70 353	**1 261 675**
Revenue	10 316	594 262	103 242	20 809	24 211	**752 840**
Costs	5 895	578 116	85 689	21 531	20 534	**711 765**

*selected financial information as at end of November 2012

**selected financial information as at end of September 2012

***states percentage share of associates or joint venture profits

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 & Partnerzy S.A.	selling and purchasing real estate, mediating in the real property trade, serving financial consultancy
Krynicki Recykling S.A.	waste management

In thousands of PLN

26. INTANGIBLE ASSETS

Intangible assets Year 2013	Licences, patents etc.	Other	Expenditure on intangible assets	Total
Gross value – beginning of the period	**759 305**	**6 019**	**42 634**	**807 958**
Intangible assets acquired in a business combination	**309 849**	**361 248**	**6 772**	**677 869**
Additions from:				
- purchases	–	–	94 834	**94 834**
- intangible assets taken for use	42 712	5	–	**42 717**
- transfers	28 370	–	418	**28 788**
Disposals from:				
- liquidation	(8 524)	–	(104)	**(8 628)**
- intangible assets taken for use	–	–	(42 717)	**(42 717)**
- transfers	(7 781)	(229)	(851)	**(8 861)**
Gross value – end of the period	**1 123 931**	**367 043**	**100 986**	**1 591 960**
Accumulated depreciation – beginning of the period	**(674 601)**	**(6 019)**	**–**	**(680 620)**
Accumulated depreciation acquired in a business combinations	**(290 042)**	**–**	**–**	**(290 042)**
Additions/disposals from:				
- current year	(64 904)	(46 445)	–	**(111 349)**
- liquidation	8 562	–	–	**8 562**
- transfers	(12 080)	–	–	**(12 080)**
Write down/Reversal of impairment write down	361	–	–	**361**
Accumulated depreciation- end of the period	**(1 032 704)**	**(52 464)**	**–**	**(1 085 168)**
Balance sheet value				
Purchase value	1 123 931	367 043	100 986	**1 591 960**
Accumulated depreciation	(1 032 704)	(52 464)	–	**(1 085 168)**
As at 31 December 2013	**91 227**	**314 579**	**100 986**	**506 792**

In thousands of PLN

Intangible assets Year 2012	Licences, patents etc.	Other	Expenditure on intangible assets	Total
Gross value – beginning of the period	**702 328**	**6 019**	**78 089**	**786 436**
Additions from:				
- purchases	–	–	42 717	**42 717**
- intangible assets taken for use	78 013	–	–	**78 013**
- transfers	2	–	4	**6**
Disposals from:				
- liquidation	(551)	–	(26)	**(577)**
- intangible assets taken for use	–	–	(78 013)	**(78 013)**
- transfers	(20 487)	–	(137)	**(20 624)**
Gross value – end of the period	**759 305**	**6 019**	**42 634**	**807 958**
Accumulated depreciation – beginning of the period	**(629 251)**	**(6 019)**	**–**	**(635 270)**
Additions/disposals from:				
- current year	(51 291)	–	–	**(51 291)**
- liquidation	380	–	–	**380**
- transfers	5 561	–	–	**5 561**
Write down/Reversal of impairment write down	–	–	–	**–**
Accumulated depreciation- end of the period	**(674 601)**	**(6 019)**	**–**	**(680 620)**
Balance sheet value				
Purchase value	759 305	6 019	42 634	**807 958**
Accumulated depreciation	(674 601)	(6 019)	–	**(680 620)**
As at 31 December 2012	**84 704**	**–**	**42 634**	**127 338**

In thousands of PLN

27. PROPERTY, PLANT AND EQUIPMENT

Property, plant & equipment Year 2013	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value – beginning of the period	**649 413**	**450 661**	**60 599**	**185 375**	**28 481**	**1 374 529**
Property, plant and equipment acquired in a business combination	**382 007**	**284 146**	**1 533**	**108 604**	**9 087**	**785 377**
Additions from:						
- purchases	–	–	–	–	78 975	**78 975**
- leasing	–	–	3 295	–	–	**3 295**
- fixed assets taken for use	4 551	35 574	588	14 553	–	**55 266**
- transfers	111	2 004	1 367	1 963	139	**5 584**
Disposals from:						
- sale, liquidation, donation	(20 959)	(18 783)	(2 151)	(12 360)	(2 339)	**(56 592)**
- fixed assets taken for use	–	–	–	–	(55 266)	**(55 266)**
- transfers	(12 708)	(23 704)	(8 517)	(697)	(832)	**(46 458)**
Gross value – end of the period	**1 002 415**	**729 898**	**56 714**	**297 438**	**58 245**	**2 144 710**
Accumulated depreciation – beginning of the period	**(367 355)**	**(349 827)**	**(15 925)**	**(161 611)**	**–**	**(894 718)**
Accumulated depreciation acquired in a business combinations	**(237 573)**	**(249 011)**	**(440)**	**(91 240)**	**–**	**(578 264)**
Additions/disposals from:						
- current year	(35 700)	(48 222)	(9 185)	(14 716)	–	**(107 823)**
- sale, liquidation, donation	17 439	18 682	1 352	11 808	–	**49 281**
- transfers	2 180	12 878	5 247	(849)	–	**19 456**
Accumulated depreciation-end of the period	**(621 009)**	**(615 500)**	**(18 951)**	**(256 608)**	**–**	**(1 512 068)**
Balance sheet value						
Purchase value	1 002 415	729 898	56 714	297 438	58 245	**2 144 710**
Accumulated depreciation	(621 009)	(615 500)	(18 951)	(256 608)	–	**(1 512 068)**
As at 31 December 2013	**381 406**	**114 398**	**37 763**	**40 830**	**58 245**	**632 642**

In thousands of PLN

Property, plant & equipment Year 2012	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value – beginning of the period	**652 931**	**270 608**	**67 057**	**335 722**	**22 312**	**1 348 630**
Additions from:						
- purchases	–	–	–	–	39 919	**39 919**
- leasing	–	–	23 301	–	–	**23 301**
- fixed assets taken for use	1 162	23 412	242	8 775	–	**33 591**
- transfers	–	173 522	536	–	97	**174 155**
Disposals from:						
- sale, liquidation, donation	(4 680)	(16 857)	(3 278)	(6 226)	(216)	**(31 257)**
- fixed assets taken for use	–	–	–	–	(33 590)	**(33 590)**
- transfers	–	(24)	(27 259)	(152 896)	(41)	**(180 220)**
Gross value – end of the period	**649 413**	**450 661**	**60 599**	**185 375**	**28 481**	**1 374 529**
Accumulated depreciation – beginning of the period	**(344 977)**	**(222 601)**	**(27 019)**	**(254 240)**	**–**	**(848 837)**
Additions/disposals from:						
- current year	(25 235)	(39 173)	(9 731)	(12 510)	–	**(86 649)**
- sale, liquidation, donation	2 878	16 670	2 562	5 983	–	**28 093**
- transfers	(21)	(104 723)	18 263	99 156	–	**12 675**
Accumulated depreciation-end of the period	**(367 355)**	**(349 827)**	**(15 925)**	**(161 611)**	**–**	**(894 718)**
Balance sheet value						
Purchase value	649 413	450 661	60 599	185 375	28 481	**1 374 529**
Accumulated depreciation	(367 355)	(349 827)	(15 925)	(161 611)	–	**(894 718)**
As at 31 December 2012	**282 058**	**100 834**	**44 674**	**23 764**	**28 481**	**479 811**

In thousands of PLN

28. NET DEFERRED TAX ASSETS

Deferred tax asset	31.12.2013	31.12.2012
Provisions for loans	492 703	168 286
Unrealized liabilities due to derivatives	271 334	214 291
Other provisions which are not yet taxable costs	101 921	56 085
Deferred income	154 024	96 420
Difference between balance sheet and taxable value of leasing portfolio	90 818	69 001
Unrealized interest on credits, loans and securities	46 043	115 773
Revaluation of financial instruments available for sale-cash flow hedges	152	–
Depreciation, amortisation – effects of a change in estimate	–	14 771
Other	6 240	2 882
Total	**1 163 235**	**737 509**

Deferred tax liability	31.12.2013	31.12.2012
Revaluation of financial instruments available for sale*	(158 831)	(188 832)
Unrealised receivables on derivatives	(242 969)	(170 315)
Unrealised interests from loans, securities and interbank deposits	(148 992)	(85 780)
Provision due to application of investment relief	(3 402)	(3 088)
Unrealised FX translation differences from b/s valuation of receivables and liabilities	(3 163)	(3 437)
Difference between balance sheet and taxable value of unfinancial value assets	(1 627)	–
Cash flow hedges valuation*	(7 498)	(15 784)
Valuation of investments in subsidiaries	(106 961)	–
Other	(13 362)	(12 236)
Total	**(686 805)**	**(479 472)**

Net deferred tax assets	476 430	258 037

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

As at 31 December 2013 the calculation of deferred tax assets did not include purchased receivables of PLN 16 614 k and loans that will not be realised of PLN 105 361 k.

As at 31 December 2012 the calculation of deferred tax assets did not include purchased receivables of PLN 14 728 k and loans that will not be realised of PLN 56 485 k.

Movements on net deferred tax	31.12.2013	31.12.2012
As at the beginning of the period	258 037	245 019
Changes on net deferred tax in a business combination	342 272	–
Changes recognised in income statement	(162 226)	89 743
Changes recognised in other net comprehensive income	38 347	(76 725)
Balance at the end of the period	**476 430**	**258 037**

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.

In thousands of PLN

29. ASSETS CLASSIFIED AS HELD FOR SALE

As at 31.12.2013 "Assets classified as held for sale" included property in the amount of PLN 3 503 k.

On 31.12.2012 the Group reclassified assets held for sale of PLN 74 764 k to other assets – repossessed assets. It was a result of not meeting requirements described in IFRS 5.

30. OTHER ASSETS

Other assets	31.12.2013	31.12.2012
Receivables arising from insurance contracts**	770 048	–
Interbank and interbranch settlements	260 445	76 800
Sundry debtors	387 184	512 439
Prepayments	71 446	44 994
Repossessed assets*	60 965	74 764
Settlements of stock exchange transactions	30 989	44 287
Other	16 503	665
Total	**1 597 580**	**753 949**

* On 31.12.2012 the Group reclassified assets held for sale of PLN 74 764 k to other assets – repossessed assets. It was a result of not meeting requirements described in IFRS 5.

** As a result of the controlling stake at over the companies BZ WBK AVIVA TUO S.A. and BZ WBK AVIVA TUŻ S.A. the Group recognized receivables arising from insurance contracts.

31. DEPOSITS FROM BANKS

Deposits from banks	31.12.2013	31.12.2012
Repo/sell-buy-back transactions	4 438 563	668 150
Term deposits, other	1 379 631	331 073
Loans from other banks	–	59 388
Current accounts	460 603	292 439
Total	**6 278 797**	**1 351 050**

As at 31.12.2013 fair value adjustment for hedged deposit totaled PLN nil (as at 31.12.2012 – PLN nil). Fair value of "Deposits from banks" is presented in Note 41.

In thousands of PLN

32. DEPOSITS FROM CUSTOMERS

Deposits from customers	31.12.2013	31.12.2012
Deposits from individuals	**47 999 116**	**28 636 346**
Term deposits	22 345 562	15 991 323
Current accounts	25 590 954	12 605 499
Other	62 600	39 524
Deposits from enterprises	**27 045 417**	**16 538 707**
Term deposits	13 344 322	9 224 568
Current accounts	10 813 018	5 618 926
Sell-buy-back transactions	166 973	205 033
Loans	2 256 907	1 186 187
Other	464 197	303 993
Deposits from public sector	**3 498 449**	**1 902 041**
Term deposits	1 152 427	648 281
Current accounts	2 333 530	1 251 996
Other	12 492	1 764
Total	**78 542 982**	**47 077 094**

As at 31.12.2013 deposits held as collateral totaled PLN 343 645 k (as at 31.12.2012 – PLN 244 389 k).

Fair value of "Deposits from customers" is presented in note 41.

33. SUBORDINATED LIABILITIES

Subordinated liabilities	Redemption date	Currency	Nominal value
Tranche 1	05.08.2020	EUR	100 000
Tranche 2	16.06.2018	CHF	100 000
Tranche 3	29.06.2019	CHF	165 000
Tranche 4	31.01.2019	PLN	75 000

Movements in Subordinated Liabilities	31.12.2013	31.12.2012
As at the beginning of the period	**409 110**	**441 234**
Subordinated liabilities acquired in a business combination	**978 237**	–
Increase (due to):	**54 896**	**20 754**
- interest on subordinated loan	54 896	20 754
Decrease (due to):	**(57 524)**	**(52 878)**
- interest repayment	(54 481)	(19 560)
- FX differences	(3 043)	(33 318)
as at the end of the period	**1 384 719**	**409 110**
Short-term	4 352	4 378
Long-term (over 1 year)	1 380 367	404 732

Other details on these liabilities are disclosed in Note 5.

In thousands of PLN

34. DEBT SECURITIES IN ISSUE

Debt securities in issue	Nominal value	Currency	Redemption date	31.12.2013
Tranche 1	500 000	PLN	19.12.2016	
Debt securities in issue – as at the end of the period				**500 645**

Bank Zachodni WBK S.A. issued bonds in the amount of PLN 500,000,000 (five hundred million PLN) under the Programme of Own Debt Securities Issue. The bonds were issued in a non-public offer, in one series, as unsecured bearer bonds denominated in PLN, with a 3-year maturity following their issuance (19 December 2016), with a variable interest rate (based on 6M WIBOR plus 1.2% margin p.a.) and a half-year interest period. The bonds issued have a Fitch rating of A+(pol).

35. OTHER LIABILITIES

Other liabilities	31.12.2013	31.12.2012
Settlements of stock exchange transactions	32 381	63 490
Interbank and interbranch settlements	250 941	217 711
Provisions:	1 555 371	226 696
Employee provisions	293 962	190 865
Provisions for legal claims	45 104	15 912
Provisions for off balance sheet credit facilities	95 934	16 619
Insurance technical provisions*	1 117 071	–
Other	3 300	3 300
Sundry creditors	248 564	250 671
Other deferred and suspended income	109 395	106 727
Public and law settlements	43 081	43 711
Accrued liabilities	161 646	67 121
Finance lease related settlements	37 158	21 650
Deposits from insurance contracts and other*	30 456	735
Share purchase mandate *	684 288	–
Total	**3 153 281**	**998 512**

* 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 and technical insurance provisions.

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 52.

In thousands of PLN

Change in provisions	31.12.2013	31.12.2012
As at the beginning of the period	**226 696**	**252 387**
Employee provisions	190 865	206 274
Provisions for legal claims	15 912	17 590
Provisions for off balance sheet credit facilities	16 619	21 223
Other	3 300	7 300
Provision acquired in a business combination	**1 304 489**	-
Employee provisions	95 282	-
Provisions for legal claims	28 961	-
Provisions for off balance sheet credit facilities	63 175	-
Insurance technical provisions	1 117 071	-
Other	-	-
Provision charge	**545 803**	**226 677**
Employee provisions	280 953	183 058
Provisions for legal claims	2 449	711
Provisions for off balance sheet credit facilities	262 401	42 908
Other	-	-
Utilization	**(255 718)**	**(185 847)**
Employee provisions	(255 042)	(184 201)
Provisions for legal claims	(460)	(1 622)
Provisions for off balance sheet credit facilities	(216)	(24)
Other	-	-
Write back	**(258 745)**	**(66 521)**
Employee provisions	(10 942)	(14 266)
Provisions for legal claims	(1 758)	(767)
Provisions for off balance sheet credit facilities	(246 045)	(47 488)
Other	-	(4 000)
Other changes	**(7 154)**	-
Employee provisions	(7 154)	-
Provisions for legal claims	-	-
Provisions for off balance sheet credit facilities	-	-
Other	-	-
Balance at the end of the period	**1 555 371**	**226 696**
Employee provisions	**293 962**	**190 865**
Provisions for legal claims	**45 104**	**15 912**
Provisions for off balance sheet credit facilities	**95 934**	**16 619**
Insurance technical provisions	**1 117 071**	-
Other	**3 300**	**3 300**

In thousands of PLN

36. SHARE CAPITAL

31.12.2013

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
				93 545 089	**935 451**

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

The shareholder having a minimum 5% of the total number of votes at the BZWBK Annual General Meeting of Shareholders was Banco Santander S.A. The company's interest in the share capital and the voting power of Bank Zachodni WBK S.A. is 70.00%. The remaining shares are in free float.

CAPITAL INCREASE AND ADMISSION OF NEW SHARES TO TRADING ON THE STOCK EXCHANGE

- Until 4 January 2013 i.e. the date of the merger Banco Santander S.A. held 70,334,512 shares of Bank Zachodni WBK S.A. which represented 94.23% of the share capital and the total number of votes at the general meeting of shareholders of Bank Zachodni WBK S.A. and from 4th January 2013 – due to the merger – the shares of Bank Zachodni WBK S.A. represented 75.19% of the share capital and the total number of voting rights at the annual general meeting of the shareholders of Bank Zachodni WBK S.A.

- Banco Santander S.A.'s subsidiaries do not hold shares of Bank Zachodni WBK S.A.

- The Management Board of Bank Zachodni WBK S.A. announced that on 8 January 2013 it became aware that the management board of the KDPW adopted resolution No. 24/13 on the registration of 18,907,458 series J shares in the Bank, i.e. the shares in the Bank issued in connection with its merger with Kredyt Bank S.A. Pursuant to the KDPW resolution, the registration of the series J shares under code PLBZ00000044 was conditional on the decision of the company operating the regulated market to introduce these shares to trading on the regulated market.

- Furthermore, based on this resolution of the KDPW, the reference date was set at 9 January 2013. The information memorandum prepared by the Bank in connection with the merger defines the reference date as the date at which the number of shares in Kredyt Bank S.A. held by shareholders of Kredyt Bank S.A. will be determined in exchange for which the series J shares in the Bank will be allotted to such shareholders in accordance with an agreed exchange ratio.

- On 24 January 2013 the Management Board of Bank Zachodni WBK S.A. announced that it had received a message from the Operations Department of the National Depository for Securities (Dział Operacyjny Krajowego Depozytu Papierów Wartościowych S.A.) ("KDPW") stating that on 25 January 2013 the KDPW would register 18,907,458 series J shares in the Bank with a nominal value of PLN 10 each, i.e. the merger shares in the Bank issued in connection with its merger with Kredyt Bank S.A. which were assigned the code: PLBZ00000044 in compliance with resolution No. 24/13 of the Management Board of the KDPW dated 8 January 2013.

- On 22 March 2013, KBC Bank NV and Banco Santander S.A. announced a secondary offering for the shares of Bank Zachodni WBK S.A. The offering was for 19,978,913 shares representing 21.4% of the Bank's share capital, with 15.125,964 shares owned by KBC Bank NV, and 4,852,949 owned by Banco Santander S.A. The final price per share was set in a book-building process at PLN 245. The total value of the offering was PLN 4.9bn.

In thousands of PLN

- On 28 March 2013, Bank Zachodni WBK S.A. was advised that all of its 15.125,964 shares held by KBC Bank NV, representing 16.17% of the Bank's registered capital, had been sold directly. As a result of the transaction, neither KBC Bank NV nor KBC Group NV hold directly or indirectly any shares of Bank Zachodni WBK S.A. and effectively have no voting power at the Bank's General Meeting.

- On 28 March 2013, the Bank received a notice about disposal of 4,852,949 shares of Bank Zachodni WBK S.A. held by Banco Santander S.A. and reduction of the latter's share in the Bank's registered capital and votes at its General Meeting by 5.19 p.p. to 70%.

- On 2 April 2013, Bank Zachodni WBK S.A. was notified by the open-ended pension fund ING OFE that it had purchased the Bank's shares and consequently exceeded 5% of the total number of votes at the Bank's General Meeting. Before the transaction, ING OFE held 903,006 of the Bank's shares carrying 0.97% votes at the General Meeting. ING OFE held 4,966,506 of the Bank's shares, representing 5.31% of the share capital and voting power at the General Meeting of Bank Zachodni WBK S.A.

- Bank Zachodni WBK S.A. hereby informs that on 31 July ING Otwarty Fundusz Emerytalny the notification on Company's shares sale and on the percentage share in the total number of votes, i.e. notification that Fund's stake in the share capital of the Company and in the total number of votes at the general meeting decreased below the threshold of 5%.

31.12.2012

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
				74 637 631	**746 376**

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

The shareholder having a minimum 5% of the total number of votes at the BZWBK Annual General Meeting of Shareholders was Banco Santander S.A. The company's interest in the share capital and the voting power of Bank Zachodni WBK S.A. is 94.23%. The remaining shares were in free float.

In thousands of PLN

37. OTHER RESERVE FUNDS

Other reserve funds	31.12.2013	31.12.2012
General banking risk fund	649 810	649 810
Share premium	4 932 848	578 082
Other reserves of which:	4 533 087	4 476 788
Reserve capital	4 882 773	4 236 966
Supplementary capital	334 602	239 822
Share purchase mandate adjustment *	(684 288)	–
Total	**10 115 745**	**5 704 680**

* 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.

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 31.12.2013 includes share scheme charge of PLN 78 936 k and reserve capital as at 31.12.2012 includes share scheme charge of PLN 58 648 k.

Other movements of other reserve funds are presented in "movements on consolidated equity" for 2013 and 2012.

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.

38. REVALUATION RESERVE

Revaluation reserve	31.12.2013	31.12.2012
As at 31 December	872 400	545 318
Change in available for sale investments	133 487	560 432
Gross valuation related to cash flow hedge	(43 612)	18 955
Actuarial gains on retirement allowances	7 673	–
Decrease in revaluation reserve related to sale of investments	(299 390)	(175 581)
Deferred tax adjustment	38 349	(76 724)
Total	**708 907**	**872 400**

In thousands of PLN

39. HEDGE ACCOUNTING

The Group applies hedge accounting in line with the risk management assumptions described in note 4 of the annual consolidated financial statements.

FAIR VALUE HEDGE

Hedging transactions are arranged using interest rate swaps. Their purpose is to mitigate the risk of fair value in hedged instruments stemming from changes in market interest rates. These transactions are not designed to hedge against the effects of fair value changes due to credit risk. BZ WBK Group applies fair value hedge accounting (in current and in comparable period), in relation to the following classes of financial instruments:

- Fixed rate debt securities denominated in PLN, forming a group of assets covered with an interest rate hedge,
- PLN loans.

The hedging items are measured at fair value. Hedged items are measured at amortised cost including fair value adjustment due to hedged risk.

The tables below contain details about individual groups of hedge transactions for 2013 and 2012:

31.12. 2013	**Bonds**	**Loans**
Nominal value of hedging position in PLN k	1 515 000	1 150 000
Fair value adjustment of hedging instrument in PLN k	10 867	(2 842)
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	(9 053)	2 279
Hedged risk	Interest rate risk	
Period over which the instruments have an impact on the Bank's results	up to 2023	up to 2018

31.12. 2012	**Bonds**
Nominal value of hedging position in PLN k	1 085 000
Fair value adjustment of hedging instrument in PLN k	(60 909)
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	62 804
Hedged risk	Interest rate risk
Period over which the instruments have an impact on the Bank's results	up to 2022

In addition, BZ WBK S.A. subsidiaries – BZ WBK Finanse & Leasing S.A. and BZ WBK Leasing S.A. – concluded IRS transactions with the Bank with a view to hedging the fair value of their selected items of the statement of financial position. Details about these transactions are presented in the tables below:

31.12.2013	**BZ WBK Leasing S.A.**
Nominal value of hedging position in PLN k	41 472
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	(2)
Hedged risk	Movements in the fair value resulting form currency risk and interest rate risk
Period over which the instruments have an impact on the companies' results	up to 2014

31.12.2012	**BZ WBK Leasing S.A.**	**BZ WBK Finanse &Leasing S.A.**
Nominal value of hedging position in PLN k	40 882	40 882
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	110	110
Hedged risk	Movements in the fair value resulting form currency risk and interest rate risk	
Period over which the instruments have an impact on the companies' results	up to 2014	up to 2014

In thousands of PLN

CASH FLOW HEDGING

Bank Zachodni WBK Group applies future cash flow hedge accounting. Hedge relationships are created using CIRS. The objective is to hedge against the risk of variability of future cash flow arising from fluctuations in exchange rates and market interest rates. A cash flow hedge is used in respect of foreign currency loans carrying variable interest rate.

Hedged items are measured at amortised cost. Hedging items are measured at fair value. Once effectiveness criteria of hedge accounting are met, a change in the fair value of hedging instruments is recognised in equity.

As of 31 December 2013, the nominal value of the hedging item was PLN 15 280 081 k (31 December 2012 – PLN 8 004 784 k). Adjustment to fair value of the hedging instrument is PLN 39 464 k (31 December 2012 – PLN 83 074 k); the same amount, less deferred tax, is recognised in the Group's equity under revaluation reserve. Hedging instruments have been concluded for a period of time until 2026.

The non-effective portion of measurement of the cash flow hedge was PLN 3 188 k as of 31.12.2013 and PLN 2 057 k as of 31.12.2012. It was taken to the 'Net trading income and revaluation' line of the profit and loss account.

40. 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 (notes and treasury bonds) 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.

	31.12.2013	31.12.2012
	Balance sheet value	**Balance sheet value**
Liabilities valued at amortised cost (contains sell-buy-back):	4 605 535	873 183
Treasury bonds held on the assets side	4 815 019	872 727
Buy-sell-back transactions	217 605	82 947

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 31.12.2013 and 31.12.2012, consolidated statements of financial position contained no financial instruments serving as collateral to repo transactions maturing within a period shorter or equal to that of the main transaction.

41. FAIR VALUE

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

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

In thousands of PLN

Assets	31.12.2013		31.12.2012	
	Book Value	Fair Value	Book Value	Fair Value
Cash and balances with central banks	5 149 686	5 149 686	4 157 274	4 157 274
Loans and advances to banks	2 212 704	2 212 704	1 458 128	1 458 134
Financial assets held for trading	2 344 901	2 344 901	831 715	831 715
Hedging derivatives	321 956	321 956	253 553	253 553
Loans and advances to customers	68 132 143	68 703 474	39 867 554	39 949 936
Investment securities	22 090 764	22 090 764	11 716 133	11 716 133
Investments in associates and joint ventures	63 444	63 444	115 685	115 685
Liabilities				
Deposits from banks	6 278 797	6 278 797	1 351 050	1 350 969
Hedging derivatives	367 524	367 524	321 950	321 950
Financial liabilities held for trading	1 277 162	1 277 162	728 831	728 831
Subordinated liabilities	1 384 719	1 623 024	409 110	509 642
Deposits from customers	78 542 982	78 518 847	47 077 094	47 097 412

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 accounts. The fair value of such instruments is measured using the following methods and assumptions.

Loans and advances to banks:

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

Loans and advances to customers:

Carried at net value after impairment charges. Fair value is calculated as the discounted value of the expected future cash flows in respect of principal and interest payments. It is assumed that loans and advances will be repaid at their contractual maturity date. The estimated fair value of the loans and advances reflects changes in the credit risk from the moment of sanction (margins) and changes in interest rates.

As the reporting date no estimates were made with regard to the fair value of the portfolio of mortgage loans denominated in CHF due to the lack of an active market for similar products, however in case of that part of the portfolio of mortgage loans denominated in CHF acquired from Kredyt Bank S.A., 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 and joint ventures:

The financial assets representing investments in associates and joint ventures 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

FINANCIAL ASSETS AND LIABILITIES CARRIED AT FAIR VALUE IN THE STATEMENT OF FINANCIAL POSITION

As at 31 December 2013 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 and debt securities (commercial and municipal bonds).

As at 31.12.2013 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

31.12.2013	**Level I**	**Level II**	**Level III**	**Total**
Financial assets				
Financial assets held for trading	900 016	1 444 885	–	2 344 901
Hedging derivatives	–	321 956	–	321 956
Financial investment assets – debt securities	10 995 044	10 222 332	–	21 217 376
Financial investment assets – equity securities	34 818	–	838 570	873 388
Total	**11 929 878**	**11 989 173**	**838 570**	**24 757 621**
Financial liabilities				
Financial liabilities held for trading	255 133	1 022 029	–	1 277 162
He dging derivatives	–	367 524	–	367 524
Total	**255 133**	**1 389 553**	**–**	**1 644 686**

31.12.2012	**Level I**	**Level II**	**Level III**	**Total**
Financial assets				
Financial assets held for trading	174 922	478 686	178 107	831 715
Hedging derivatives	–	253 553	–	253 553
Financial investment assets – debt securities	6 501 969	3 308 711	1 237 344	11 048 024
Financial investment assets – equity securities	13 442	–	654 667	668 109
Total	**6 690 333**	**4 040 950**	**2 070 118**	**12 801 401**
Financial liabilities				
Financial liabilities held for trading	17 162	637 487	74 182	728 831
He dging derivatives	–	321 950	–	321 950
Total	**17 162**	**959 437**	**74 182**	**1 050 781**

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	
31.12.2013	**Financial assets held for trading**	**Financial investment assets – debt securities**	**Financial investment assets – equity securities**	**Financial liabilities held for trading**
Beginning of the period	**178 107**	**1 237 344**	**654 667**	**(74 182)**
Profits or losses	–	–	197 387	–
recognised in income statement	–	–	–	–
recognised in equity	–	–	197 387	–
Purchase	–	–	1 000	–
Sale	–	–	(14 302)	–
Matured	–	–	–	–
Impairment	–	–	(2 081)	–
Transfer	(178 107)	(1 237 344)	1 899	74 182
At the period end	**–**	**–**	**838 570**	**–**

In the fourth quarter, the Group made the transfer between the second and third level of the fair value of derivative instruments (financial assets held for trading PLN 178 million, financial liabilities held for trading worth PLN 74 million) and available for sale debt instruments. This change was dictated by the change in approach to valuation model of these instruments. Today, the process of valuation is the same as for instruments concluded with bank counterparties and is based on regularly observed market rates. There were no other transfers between the first, second and third category of fair value.

31.12.2012	Financial assets held for trading	Financial investment assets – debt securities	Financial investment assets – equity securities	Financial liabilities held for trading
Beginning of the period	176 870	77 789	661 157	(46 906)
Profits or losses	17 093	94 675	(6 888)	7 119
recognised in income statement	17 093	10 972	–	7 119
recognised in equity	–	83 703	(6 888)	–
Purchase	–	1 064 880	8 213	–
Sale	–	–	(7 815)	–
Matured	(15 856)	–	–	(34 395)
Impairment	–	–	(2 081)	–
Transfer	(178 107)	(1 237 344)	1 899	74 182
At the period end	**178 107**	**1 237 344**	**654 667**	**(74 182)**

42. CONTINGENT LIABILITIES

SIGNIFICANT COURT PROCEEDINGS

As at 31.12.2013 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 340 392 k, which is ca 2.35% of the Group's equity. This amount includes PLN 79 392 k claimed by the Group, PLN 200 245 k in claims against the Group and PLN 60 788 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 31.12.2013 the amount of significant court proceedings which had been completed amounted to PLN 91 227 k.

In thousands of PLN

As at 31.12.2012 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 135 433 k, which is ca 1.51% of the Group's equity. This amount includes PLN 44 411 k claimed by the Group, PLN 81 318 k in claims against the Group and PLN 9 704 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 31.12.2012 the amount of significant court proceedings which had been completed amounted to PLN 100 002 k.

The Bank raises provisions for legal risk where an internal risk assessment for a particular case indicates a possible outflow of cash. Provisions for cases disputed in court are presented in Note 35.

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	**31.12.2013**	**31.12.2012**
Liabilities sanctioned		
- financial	**17 592 801**	**10 842 863**
- credit lines	15 229 084	9 637 360
- credit cards debits	1 875 786	1 109 436
- import letters of credit	441 505	96 067
- term deposits with future commencement term	46 426	–
- guarantees	**3 822 213**	**2 221 092**
Total	**21 415 014**	**13 063 955**

43. ASSETS AND LIABILITIES PLEDGED AS COLLATERAL

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

Under the Bank Guarantee Fund Act, the Bank calculated this fund using 0.55% (in the year 2012 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 2013 Bank Zachodni WBK S.A. pledged as collateral PLN 448 172 k of debt securieties (PLN 247 176 k as at 31.12.2012).

In 2013 a deposit for PLN 523 973 k was placed with another bank as a collateral for the day-to-day Treasury business (in 2012 it was PLN 386 165 k).

In 2013 BZ WBK S.A. hold a deposit for PLN 317 004 k (in 2012 it was PLN 185 514 k) as a collateral for the day-to-day Treasury business.

Other assets pledged and liabilities accepted as collateral are disclosed in notes 32 and 40.

In thousands of PLN

44. 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 two leasing companies BZ WBK Leasing S.A. and Kredyt Lease S.A. which specialise in funding vehicles, machines and equipment for businesses and personal customers and property.

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

Finance leases gross receivables – maturity	**31.12.2013**	**31.12.2012**
less than 1 year	1 151 423	916 518
between 1 and 5 years	1 894 179	1 402 729
over 5 years	233 814	260 742
Total	**3 279 416**	**2 579 989**
Present value of minimum lease payments – maturity	**31.12.2013**	**31.12.2012**
less than 1 year	1 168 391	909 137
between 1 and 5 years	1 740 307	1 232 240
over 5 years	143 395	148 475
Total	**3 052 093**	**2 289 852**
Reconciliation between the gross investment and the present value of minimum lease payments	**31.12.2013**	**31.12.2012**
Finance lease gross receivables	3 279 416	2 579 989
Unearned finance income	(227 323)	(290 138)
Impairment of finance lease receivables	(106 796)	(87 613)
Present value of minimum lease payments, net	**2 945 297**	**2 202 238**

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 Group 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 2013 and 2012 rentals totalled PLN 267 943 k and PLN 155 664 k, respectively. These payments are presented in the profit and loss account under "operating expenses".

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

Payments – maturity	**31.12.2013**	**31.12.2012**
less than 1 year	251 960	157 480
between 1 and 5 years	615 426	490 823
over 5 years	373 909	245 694
Total	**1 241 295**	**893 997**

In thousands of PLN

45. CONSOLIDATED STATEMENT OF CASH FLOW-ADDITIONAL INFORMATION

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

Cash components	31.12.2013	31.12.2012
Cash and balances with central banks	5 149 686	4 157 274
Deposits in other banks, current account	1 351 606	1 448 021
Debt secutities held for trading	199 972	–
Investment securities	5 599 222	2 099 256
Total	**12 300 486**	**7 704 551**

Bank Zachodni WBK S.A. has restricted cash in the form of a mandatory reserve held on account with the Central Bank.

46. RELATED PARTY DISCLOSURES

The tables below present intercompany transactions. They are effected between subsidiaries, associates, joint ventures 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.

Transactions with associates and joint ventures	31.12.2013	31.12.2012
ASSETS	**–**	**788**
Other assets	–	788
LIABILITIES	**7 168**	**480 770**
Deposits from customers	7 168	480 588
Other liabilities	–	182
INCOME	**130 894**	**114 472**
Interest income	42 033	24 266
Fee and commission income	88 703	89 893
Gains (losses) from other financial securities	–	21
Other operating income	158	292
EXPENSES	**11 645**	**25 787**
Interest expense	6 033	22 439
Fee and commission expense	3 641	1 572
Operating expenses incl.:	1 971	1 776
General and administrative expenses	1 971	1 768

In thousands of PLN

Transactions with:	Santander Group 31.12.2013	Santander Group 31.12.2012
ASSETS	**802 305**	**335 686**
Loans and advances to banks, incl:	706 166	283 789
Deposits	674 579	197 009
Current accounts	31 587	86 780
Financial assets held for trading	93 723	48 729
Hedging derivatives	1 081	3 109
Loans and advances to customers	4	2
Other assets	1 331	57
LIABILITIES	**216 668**	**167 326**
Deposits from banks incl.:	71 485	36 328
Current accounts	71 485	36 328
Hedging derivatives	6 235	–
Financial liabilities held for trading	85 784	121 440
Deposits from customers	48 970	9 089
Other liabilities	4 194	469
INCOME	**(46 459)**	**(24 131)**
Interest income	13 528	14 964
Fee and commission income	5 345	307
Other operating income	814	591
Net trading income and revaluation	(66 146)	(39 993)
EXPENSES	**23 137**	**5 873**
Interest expense	404	319
Fee and commission expense	14 927	–
Operating expenses incl.:	7 806	5 554
Bank's staff, operating expenses and management costs	7 806	5 554
CONTINGENT LIABILITIES	**117**	**259 418**
Sanctioned:	–	158 175
- guarantees	–	158 175
Received:	117	101 243
- guarantees	117	101 243
DERIVATIVES' NOMINAL VALUES	**17 687 584**	**12 330 499**
Cross-currency interest rate swaps – purchased amounts	2 733 296	1 872 728
Cross-currency interest rate swaps – sold amounts	2 764 571	1 909 243
Single-currency interest rate swaps	4 360 662	1 748 351
Options	822 678	468 004
FX swap – purchased amounts	1 592 208	1 808 349
FX swap – sold amounts	1 599 563	1 882 817
FX options -purchased CALL	1 044 075	669 822
FX options -purchased PUT	1 076 295	663 176
FX options -sold CALL	682 163	581 032
FX options -sold PUT	717 682	719 912
Spot-purchased	44 475	3 508
Spot-sold	44 563	3 557
Forward- purchased amounts	100 936	–
Forward- sold amounts	93 727	–
Futures – purchased	10 690	–

In thousands of PLN

TRANSACTIONS WITH MEMBERS OF MANAGEMENT AND SUPERVISORY BOARDS

Remuneration of Bank Zachodni WBK S.A. Management and Supervisory Board Members

31.12.2013

Remuneration of Bank Zachodni WBK S.A. Supervisory Board Members.

First and last name	Position	Period	PLN k
Gerald Byrne	Chairman of the Supervisory Board	01.01.2013-31.12.2013	–
Jose Antonio Alvarez	Member of the Supervisory Board	01.01.2013-31.12.2013	–
Witold Jurcewicz	Member of the Supervisory Board	01.01.2013-31.12.2013	176.0
Jose Luis De Mora	Member of the Supervisory Board	01.01.2013-31.12.2013	–
David Hexter	Member of the Supervisory Board	13.02.2013-31.12.2013	145.2
John Power	Member of the Supervisory Board	01.01.2013-31.12.2013	209.8
Jerzy Surma	Member of the Supervisory Board	01.01.2013-31.12.2013	176.0
Jose Manuel Varela	Member of the Supervisory Board	01.01.2013-31.12.2013	–

Mr John Power received remuneration of PLN 53 k from subsidiaries for his membership in their Supervisory Boards.

In 2013 Mr Gerald Byrne, Mr Jose Manuel Varela, 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 S.A. and Kredyt Bank S.A. on behalf of the Supervisory Board in the amount of PLN 2 498.8 k.

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

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2013-31.12.2013	1 713.68	92.78
Andrzej Burliga	Member of the Managemet Board	01.01.2013-31.12.2013	1 002.78	116.88
Eamonn Crowley	Member of the Managemet Board	01.01.2013-31.12.2013	942.07	52.92
Michael McCarthy	Member of the Managemet Board	01.01.2013-31.12.2013	1 099.07	58.90
Piotr Partyga	Member of the Managemet Board	01.01.2013-31.12.2013	955.48	96.00
Juan de Porras Aguirre	Member of the Managemet Board	01.01.2013-31.12.2013	1 203.49	255.84
Marcin Prell	Member of the Managemet Board	01.01.2013-31.12.2013	909.01	91.78
Marco Antonio Silva Rojas	Member of the Managemet Board	01.01.2013-31.12.2013	1 653.72	397.39
Mirosław Skiba	Member of the Managemet Board	01.01.2013-31.12.2013	1 017.49	103.60
Feliks Szyszkowiak	Member of the Managemet Board	01.01.2013-31.12.2013	1 022.90	94.38

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.

In 2013, none of the Members of the Management Board of Bank Zachodni WBK S.A. received any remuneration from subsidiaries or associated entities.

In thousands of PLN

31.12.2012

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

First and last name	Position	Period	PLN k
Gerald Byrne	Chairman of the Supervisory Board	01.01.2012-31.12.2012	–
Jose Antonio Alvarez	Member of the Supervisory Board	01.01.2012-31.12.2012	–
Witold Jurcewicz	Member of the Supervisory Board	01.01.2012-31.12.2012	176.0
Jose Luis De Mora	Member of the Supervisory Board	01.01.2012-31.12.2012	–
Piotr Partyga	Member of the Supervisory Board	01.01.2012-10.05.2012	81.2
John Power	Member of the Supervisory Board	01.01.2012-31.12.2012	210.2
Jerzy Surma	Member of the Supervisory Board	10.05.2012-31.12.2012	95.1
Jose Manuel Varela	Member of the Supervisory Board	01.01.2012-31.12.2012	–

Mr John Power received remuneration of PLN 47 k from subsidiaries for his membership in their Supervisory Boards.

In 2012 Mr Gerald Byrne, Mr Jose Manuel Varela, 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 S.A. and Kredyt Bank S.A. on behalf of the Supervisory Board in the amount of PLN 746 k.

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

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2012-31.12.2012	1 563.04	74.69
Andrzej Burliga	Member of the Managemet Board	01.01.2012-31.12.2012	951.83	86.50
Eamonn Crowley	Member of the Managemet Board	01.01.2012-31.12.2012	887.29	46.22
Justyn Konieczny	Member of the Managemet Board	01.01.2012-10.05.2012	409.31	30.60
Janusz Krawczyk	Member of the Managemet Board	01.01.2012-10.05.2012	2 586.33	0.00
Michael McCarthy	Member of the Managemet Board	01.01.2012-31.12.2012	1 069.63	331.63
Piotr Partyga	Member of the Managemet Board	10.05.2012-31.12.2012	599.10	30.13
Juan de Porras Aguirre	Member of the Managemet Board	01.01.2012-31.12.2012	1 279.92	300.06
Marcin Prell	Member of the Managemet Board	01.01.2012-31.12.2012	891.88	71.73
Marco Antonio Silva Rojas*	Member of the Managemet Board	01.11.2012-31.12.2012	387.50	50.20
Mirosław Skiba	Member of the Managemet Board	01.01.2012-31.12.2012	951.71	82.06
Feliks Szyszkowiak	Member of the Managemet Board	01.01.2012-31.12.2012	979.33	70.26

*Mr Marco Antonio Silva Rojas was appointed to the Management Board of the Bank with effect from 3 September 2012.

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

In 2012, selected members of the Board were paid holiday equivalent in total amount of PLN 927.05 k.

In 2012, none of the Members of the Management Board of Bank Zachodni WBK S.A. 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.

31.12.2013

Loans and advances made by the Bank to the Members of the Management Board of BZ WBK S.A. and to their relatives as at 31.12.2013 totalled PLN 10 859 k. These facilities have been sanctioned on regular terms and conditions.

As at 31.12.2013, the total finance lease receivable provided to members of the Management Board of BZ WBK S.A. by the subsidiaries and associates totalled nil.

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

31.12.2012

Loans and advances made by the Bank to the Members of the Management Board of Bank Zachodni WBK S.A. and to their relatives as at 31.12.2012 totalled PLN 9 797 k. These facilities have been sanctioned on regular terms and conditions.

As at 31.12.2012, the total finance lease receivable provided to members of the Management Board of Bank Zachodni WBK S.A. 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 52 include respectively amounts related to the Management Board of the Bank Zachodni WBK S.A.

31.12.2013

Provisions for retirement benefits in the amount of PLN 12.6 k, provision for unused holidays in the amount of PLN 996 k.

31.12.2012

Provisions for retirement benefits in the amount of PLN 5 k, provision for unused holidays in the amount of PLN 588 k.

47. INFORMATION OF NUMBER AND VALUE OF BANKING WRITS OF EXECUTIONS

In 2013 Bank issued 70 692 banking writs of execution with total amount of PLN 1 248 656 k.

In 2012 Bank issued 31 412 banking writs of execution with total amount of PLN 1 309 816 k.

48. ACQUISITIONS AND SALES OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

ACQUISITIONS AND SALES OF SUBSIDIARIES AND ASSOCIATES IN 2013

Kredyt Trade

On 29 June 2012, the Extraordinary General Meeting of Kredyt Trade Sp. z o.o. adopted a resolution on dissolution and liquidation of Kredyt Trade Sp. z o.o. (a subsidiary of former Kredyt Bank S.A.). On 22 August 2013, the company was deleted from the National Court Register (KRS).

The Group has finally settled remaining assets and liabilities of the entity.

The liquidation result of PLN (319) k was taken to ‘Net gains /(losses) on subordinated entities’.

Kredyt Trade provided auxiliary administrative services to the former Kredyt Bank S.A., primarily in respect of managing and leasing properties and equipment.

Merger of BZ WBK S.A. leasing companies

On 29 March 2013, the BZ WBK S.A. leasing companies merged in accordance with Article 492 (1) (1) of the Code of Companies and Partnerships. The merger was effected by acquisition of BZ WBK Finanse & Leasing S.A. by BZ WBK Leasing S.A., being the acquiring entity, and by transfer of the whole of the assets of BZ WBK Finanse & Leasing S.A. to BZ WBK Leasing S.A. in exchange for shares to be issued by BZ WBK Leasing S.A. to the existing partner in BZ WBK Finanse & Leasing S.A.

The merger did not have any impact on the structure of the consolidated balance sheet or the financial results, as presented in this report.

Controlling stake at the companies BZ WBK S.A. AVIVA

Controlling stake at the companies BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. has been described in detail in Note 49.

ACQUISITIONS AND SALES OF SUBSIDIARIES AND ASSOCIATES IN 2012

On 21 September 2012, the company BZ WBK Inwestycje Sp. z o.o. signed an agreement to sell all 4 050 000 shares of Holicon Group S.A. at PLN 1.22 per share. The total value of shares sold amounted to PLN 4,941,000.

49. CONTROLLING STAKE AT THE COMPANIES BZ WBK-AVIVA TOWARZYSTWO UBEZPIECZEŃ NA ŻYCIE S.A. AND BZ WBK-AVIVA TOWARZYSTWO UBEZPIECZEŃ OGÓLNYCH S.A.

Transaction description

On 1 August 2013, Bank Zachodni WBK S.A. entered into agreements with Aviva International Insurance Limited (Aviva), BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. (BZ WBK Aviva TUŻ S.A.) and BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. (BZ WBK Aviva TUO S.A.) in order to change and extend the strategic bancassurance co-operation in Poland to 31 December 2033. These agreements also provided for a re-calculation of the parties' contribution to the extended bancassurance co-operation model. In effect, on 20 December 2013 (the control acquisition date), on receipt of the regulatory consents, Bank Zachodni WBK S.A. received from Aviva International Insurance Limited 16% stake in BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. As a result of the transaction, as at 31 December 2013, the Bank has 66% shareholding and 66% voting power in the two insurance companies, while the remaining 34% voting power is held by Aviva.

Assets and liabilities recognised at the acquisition date

At the date of publication of the Annual Report of Bank Zachodni WBK S.A. for the year ended 31 December 2013, the Bank made a preliminary, provisional settlement of the acquisition of control over BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. The financial data of the two insurance companies as at 31 December 2013, which underlie this provisional settlement are being audited by a statutory auditor and as at the date of this report the audit has not been completed yet. For this reason, the financial data might change as a result of the audit. Furthermore, the Bank has not yet completed the process of estimation of the fair value of the selected assets and liabilities of the insurance companies, as at the acquisition date, in particular the receivables and liabilities under insurance agreements. The estimation of the fair value of the intangible assets recognised in relation to the acquisition has not been completed either. Consequently, the value of deferred tax assets and liabilities was also calculated using the best estimates of the Management Board.

In thousands of PLN

The table below shows a preliminary estimation of the fair value of the acquired assets and liabilities.

As at 31.12.2013	BZ WBK Aviva TUO S.A.	BZ WBK Aviva TUŻ S.A.
ASSETS		
Loans and advances to banks	7 015	61 972
Financial assets held for trading	97 921	25 258
Investment securities	81 508	66 509
Intangible assets	128 306	24 974
Property, plant and equipment	671	571
Net deferred tax assets	(2 694)	(4 994)
Other assets	27 330	793 886
Total assets	340 057	968 176
LIABILITIES		
Current income tax liabilities	(2 189)	(1 206)
Other liabilities	(260 995)	(889 512)
Total liabilities	(263 184)	(890 718)
Fair value of identifiable net assets	**76 873**	**77 458**

The item “Intangible assets”, with a fair value of:

- PLN 128,289k for BZ WBK Aviva TUO S.A. and
- PLN 24,974k for BZ WBK Aviva TUŻ S.A.

includes additional assets that meet the criteria of being recognised as intangible fixed assets. The assets originate from revaluation of the insurance agreements existing in the two companies. At the date of preparation of these financial statements, the Bank has not yet completed the process of identification of other potentially acquired intangible fixed assets that might need to be carried in accordance with IFRS 3.

Non-controlling interests

As at 31 December 2013, non-controlling interests were recognised, representing 34% of the share capital and the total number of votes in either insurance company, which remain under control of Aviva International Insurance Limited. The book value of these shares estimated using the fair value method is PLN 525,640k.

Preliminary goodwill calculation

As at	31.12.2013
Goodwill	
Total consideration	–
Balance sheet value a previously owned block of shares	63 489
Revaluation of shares held	419 011
Non-controlling interests	525 640
Less: fair value of identifiable net assets	(154 331)
Total	**853 809**

The goodwill arising on acquisition represents a control premium, and arises from the possibility to generate additional benefits from the expected synergies, increase in revenues and the achieved market share. These benefits were not recognised separately from the goodwill as they did not meet the conditions for being treated as intangible assets.

The goodwill arising on acquisition is not expected to be deducted for tax purposes.

Contingent liabilities

In accordance with Current Report no. 37/2013 of 2 August 2013, Aviva was granted a call option that authorises it or another Aviva Group entity that it might indicate to acquire from the Bank 17% stake in the registered capital of each of the insurance entities, on the terms and conditions specified in the transaction documents.

The terms of the Aviva agreement gave rise to the contingent liabilities described above.

Bank Zachodni WBK S.A. granted Aviva a put option for the 34% stake (i.e. all the remaining shares held by Aviva) in the event of the Bank's negligence in the course of the transaction. Strike price of the option is PLN 1,036,800k. As Bank Zachodni WBK S.A. is going to make all necessary efforts to finalise in accordance with the applicable laws and in a professional manner, the management of Bank Zachodni WBK S.A. is of the opinion that the likelihood of the put option being exercised is close to zero. Accordingly, the option does not need to be recognised in the consolidated financial statements.

Bank Zachodni WBK S.A. also gave Aviva an additional put option for a 34% shareholding, triggered if no regulatory consent is obtained for the call option referred to above. The potential obligation on this account is PLN 684,288k. Although both parties agree they are determined to make every effort to obtain the regulatory consents, the obligation was recognised in the consolidated statement of financial position as the option triggers are beyond the Bank's control and are contingent upon regulatory actions.

Impact of the acquisition on the Group's results

If the acquisition of BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. had taken place on 1 January 2013, the Group's revenue from continuing operations would be PLN 5,961,725k (including net interest income, net fee and commission income, dividend income, sale of investments in associated undertakings, net trading income and revaluation, gains (losses) on other securities, other operating income and the share in profits (losses) of the entities accounted for using the equity method), and the Group's total profit from continuing operations for the whole year would be PLN 1,515,816k (including net interest income, net fee and commission income, dividend income, sale of investments in associated undertakings, net trading income and revaluation, gains (losses) on other securities, other operating income, operating losses on loans and advances, operating costs, the share in profits (losses) of the entities accounted for using the equity method and the income tax charge).

The Management Board believes these provisional values are representative and approximate figures of the performance of the merged entities over the whole year.

For the purpose of a provisional calculation of revenues and profit if the acquisition had taken place at the beginning of the current accounting period, the Management Board:

- has calculated amortisation of the intangible assets identified in the acquisition;
- calculated the value of additional profits attributable to the shareholders of Bank Zachodni WBK S.A. on account of the increased stake in the acquired insurance companies;
- adjusted the combined performance of the Group to account for the impact of the revaluation of the shares in the acquired subsidiaries in the net amount of PLN 334,657k, which includes the tax paid on the transaction.

50. INVESTMENT IN JOINT VENTURES

Controlling stake at the companies BZ WBK S.A. AVIVA

Controlling stake at the companies BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. has been described in detail in Note 49.

As at 31.12.2013 BZ WBK – Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK – Aviva Towarzystwo Ubezpieczeń na Życie S.A. were subsidiaries.

51. EVENTS WHICH OCCURRED SUBSEQUENTLY TO THE END OF THE PERIOD

Introduction to the Catalyst alternative trading system of A series bearer bonds of Bank Zachodni WBK S.A.

On 16 January 2014 the Management Board of Bank Zachodni WBK S.A. announced that it had received a message about adoption of Resolution no. 53 of the Management Board of the Warsaw Stock Exchange of 15 January 2014 regarding introduction to the Catalyst alternative trading system of 500 000 [five hundred thousand] bearer bonds with a nominal value of PLN 1,000 (one thousand PLN) each, issued by Bank Zachodni WBK S.A.

Name change of a subsidiary of Bank Zachodni WBK S.A.

As at 31 January 2014, Kredyt Lease S.A., a subsidiary of Bank Zachodni WBK S.A., was renamed as BZ WBK S.A. Lease S.A. All the other identification details of the company,including its registered office address, NIP, REGON and KRS numbers remained unchanged.

52. 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:

- retirement benefits,
- 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 2013 are as follows:

- the discount rate at the level of 4.4% (4.5% as at 31 December 2012),

In thousands of PLN

- the future salary growth rate at the level of 2.5% (3% as at 31 December 2012),
- 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.

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.

	31.12.2013	31.12.2012
As at the beginning of the period	**38 934**	**42 044**
Provision acquired in a business combination	13 758	–
Current service cost	2 694	2 803
Prior service cost	–	(6 003)
Interest expense	1 820	2 485
Actuarial (gains) and losses	(7 673)	(2 395)
Balance at the end of the period	**49 533**	**38 934**

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 2013.

Defined benefit plan obligations	1 percent increase	1 percent decrease
Discount rate	–11.44%	12.56%
Future salary growth rate	12.76%.	–11.70%

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	31.12.2013	31.12.2012
Provisions for unused holidays	48 780	23 428
Provisions for employee bonuses	186 009	125 334
Provisions for retirement allowances	49 533	38 934
Other staff-related provisions	9 640	3 169
Total	**293 962**	**190 865**

Detailed information about movements on staff-related provisions is available in additional note 35.

In thousands of PLN

Awards for the year 2012 granted in 2013 to the Members of the Management Board of Bank Zachodni WBK S.A.

Awards paid out in the 2013 for the year 2012 included also portion of awards related to 2011 which was conditional and deferred in time.

First and last name	Position	Period	Awards for2012
Mateusz Morawiecki	President of the Management Board	01.01.2013-31.12.2013	2 047.48
Andrzej Burliga	Member of the Management Board	01.01.2013-31.12.2013	757.83
Eamonn Crowley	Member of the Management Board	01.01.2013-31.12.2013	762.23
Michael McCarthy	Member of the Management Board	01.01.2013-31.12.2013	758.96
Piotr Partyga	Member of the Management Board	01.01.2013-31.12.2013	609.39
Juan de Porras Aguirre	Member of the Management Board	01.01.2013-31.12.2013	765.10
Marcin Prell	Member of the Management Board	01.01.2013-31.12.2013	542.41
Marco Antonio Silva Rojas	Member of the Management Board	01.01.2013-31.12.2013	187.85
Mirosław Skiba	Member of the Management Board	01.01.2013-31.12.2013	928.36
Feliks Szyszkowiak	Member of the Management Board	01.01.2013-31.12.2013	833.57

According to the approved remuneration system in the Bank, in case of fulfilling certain criteria, members of the Management Board of the Bank, can be conditionally entitled to receive an award for 2013 that would be paid in 2014. As at the date of preparation of these financial statements, the decision in this regard has not been made by the Supervisory Board of the Bank.

Members of the Management Board received in 2013 an additional, once-off award related to the achievement of particular objectives in the process of acquisition and integration of Kredyt Bank S.A. The award totalled PLN 2 469.3 k.

Awards for the year 2011 granted in 2012 to the Members of the Management Board of Bank Zachodni WBK S.A.

Awards paid out in the 2012 for the year 2011 included also portion of awards related to 2010 which was conditional and deferred in time.

First and last name	Position	Period	Awards for2011
Mateusz Morawiecki	President of the Management Board	01.01.2012-31.12.2012	1 870,00
Andrzej Burliga	Member of the Management Board	01.01.2012-31.12.2012	850,00
Eamonn Crowley	Member of the Management Board	01.01.2012-31.12.2012	777,60
Justyn Konieczny	Member of the Management Board	01.01.2012-10.05.2012	1 026,00
Janusz Krawczyk	Member of the Management Board	01.01.2012-10.05.2012	925,00
Michael McCarthy	Member of the Management Board	01.01.2012-31.12.2012	1 004,40
Piotr Partyga	Member of the Management Board	10.05.2012-31.12.2012	0,00
Juan de Porras Aguirre	Member of the Management Board	01.01.2012-31.12.2012	0,00
Marcin Prell	Member of the Management Board	01.01.2012-31.12.2012	799,20
Marco Antonio Silva Rojas*	Member of the Management Board	01.11.2012-31.12.2012	0,00
Mirosław Skiba	Member of the Management Board	01.01.2012-31.12.2012	850,00
Feliks Szyszkowiak	Member of the Management Board	01.01.2012-31.12.2012	864,00

*Mr Marco Antonio Silva Rojas was appointed to the Management Board of the Bank with effect from 3 September 2012

In thousands of PLN

53. SHARE BASED INCENTIVE SCHEME

On the 20th of April 2011, Annual General Meeting of the Shareholders of Bank Zachodni WBK S.A. implemented three-year Incentive Scheme no. IV which initially addressed 496 key employees of the Bank Zachodni WBK S.A. Group, including Members of the Management Board.

The fourth edition of the BZ WBK S.A. incentive scheme closed as at 31/12/2013. It has been assumes that the incentive scheme vested at the maximum level. Realization through issuance of new shares and their allocation to entitled individuals will be processed in first half of 2014, provided all the formal requirements would be fulfilled.

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 before tax (PBT) growth. The range of the scale requires PBT growth between 8% and 15% in first year and between 15% and 22% in second and third year of duration of scheme.

Following the merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A. as at 04.01.2013 the vesting conditions for annual reward for 2013 have been modified. Concerning the lack of comparative financial information for the purpose of the calculation of the profit growth, the quantitative levels of after tax profit have been established to asses vesting at the level between 25% and 100% also maintaining linear relation between vested rewards and the profit amount in this range.

Additionally, after 3 years cumulative award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on PBT compound annual growth rate in 3 years' time between 12.6% and 19.6%. 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.

On the 17th of May 2011, Supervisory Board of Bank Zachodni WBK S.A. made a resolution confirming that vesting conditions of the Incentive Scheme no. III started in 2008 were not met. Accordingly individuals included in the program did not receive shares of the Bank.

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 2011:

	2011
Number of share based payments	312 755
Number of share based payments allocated after initial grant date	6 312
Share price (PLN)	227.90
Excercise price (PLN)	10
Vesting period	2.75 years
Expected volatility	9.98%
Award life	3 years
Risk free rate	5.19%
Fair value per award	PLN 195.08
Dividend yield	3.51%

In thousands of PLN

The following table summarizes the share based payments activity:

	12 months of 2013 Number of share based payments	12 months of 2012 Number of share based payments
Outstanding at 1 January	315 917	317 971
Granted	-	4 523
Exercised	-	-
Forfeited	(3 928)	(6 577)
Expired	-	-
Outstanding at 31 December	311 989	315 917
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 2013 and 31 December 2012 the average remaining contractual life is approximately 0 years and 1 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 2013 and 2012 increase of equity amounted to PLN 20 288 k, PLN 20 472 k respectively.

The tables below shows details of conditional share rights granted to the Members of the Management Board of BZ WBK S.A. under the Incentive Scheme no. IV. The implementation of these rights depends on certain conditions, the fulfillment of which will be confirmed in future periods.

No. of awards	**2013**
Outstanding at 1 January	38 570
Granted	–
Termination of appointment	–
Expired	–
Outstanding at 31 December	38 570
Exercisable at 31 December	**–**

First and last name	**Total as at 01.01.2013**	**Termination of appointment**	**Granted during 2013**	**Total as at**
Mateusz Morawiecki	10 120	–	–	10 120
Andrzej Burliga	4 282	–	–	4 282
Eamonn Crowley	4 003	–	–	4 003
Michael McCarthy	4 875	–	–	4 875
Piotr Partyga	2 855	–	–	2 855
Juan de Porras Aguirre	–	–	–	–
Marcin Prell	3 704	–	–	3 704
Marco Antonio Silva Rojas	–	–	–	–
Mirosław Skiba	4 282	–	–	4 282
Feliks Szyszkowiak	4 449	–	–	4 449
Total	**38 570**	**–**	**–**	**38 570**

In thousands of PLN

No. of awards	2012
Outstanding at 1 January	44 852
Granted	2 855
Termination of appointment	(9 137)
Expired	–
Outstanding at 31 December	38 570
Exercisable at 31 December	**–**

First and last name	Total as at 01.01.2012	Termination of appointment	Granted during 2012	Total as at
Mateusz Morawiecki	10 120	–	–	10 120
Andrzej Burliga	4 282	–	–	4 282
Eamonn Crowley	4 003	–	–	4 003
Justyn Konieczny	5 283	(5 283)	–	–
Janusz Krawczyk	3 854	(3 854)	–	–
Michael McCarthy	4 875	–	–	4 875
Piotr Partyga	–	–	2 855	2 855
Juan de Porras Aguirre	–	–	–	–
Marcin Prell	3 704	–	–	3 704
Marco Antonio Silva Rojas	–	–	–	–
Mirosław Skiba	4 282	–	–	4 282
Feliks Szyszkowiak	4 449	–	–	4 449
Total	**44 852**	**(9 137)**	**2 855**	**38 570**

54. STAFF LEVEL

As at 31 December 2013 the Bank employed 12 084 persons and 11 917 FTE's.
As at this date, in subsidiaries there were 755 persons employed (incl. 143 persons in the Bank) and 695 FTE's.
In 2013, the average staffing level in Bank Zachodni WBK S.A. was 12 369 FTE's whereas the average staffing level in subsidiaries was 710 FTE's.

As at 31 December 2012 the Bank employed 8 295 persons, and 8 217 FTE's.
As at this date, in subsidiaries there were 665 persons employed (incl. 83 persons in the Bank), and 618 FTE's.
In 2012, the average staffing level in Bank Zachodni WBK S.A. was 8 386 FTE's whereas the average staffing level in subsidiaries was 628 FTE's.

55. MERGER OF BANK ZACHODNI WBK S.A. AND KREDYT BANK S.A.

Transaction

On 4 January 2013 (date of merger) the Bank registered the business combination of Bank Zachodni WBK S.A. and Kredyt Bank S.A. The transaction was settled through the issue of merger shares. As a result, eligible shareholders of Kredyt Bank S.A. were entitled to acquire shares in accordance with the agreed exchange ratio of 6.96 Merger Shares for every 100 shares of Kredyt Bank S.A. This represents a total of 18 907 458 ordinary shares with a nominal value of PLN 10 each, with a total nominal value of PLN 189 074 580. For the purposes of the settlement, the price of the new shares was determined in the amount of PLN 240.32. This price was calculated on the basis of the average Bank Zachodni WBK S.A. share price over the thirty trading days between 21 November 2012 and 8 January 2013, excluding trading days without required turnover. The table below shows the total amount of the consideration transferred in a business combination and its effects on the equity of the combined entity.

In thousands of PLN

As at:	**04.01.2013**
Share capital	189 074
Other reserve funds	4 354 766
Total consideration	**4 543 840**

The merger transaction was designed to implement the strategic objectives of the Bank and its major shareholder Banco Santander S.A. on the Polish market and has positioned the Bank amongst the top three universal banks in Poland. As a result of the merger, there was an increase of the geographical scope of banking distribution network and the complementary businesses of the two banks were integrated. The Bank increased scope of the services offered and expanded the customer base. This provided significant strengthening of the Bank's market penetration potential and with the blended knowledge and experience of the two banks, the merged entity was more effective and achieved a higher quality of its solutions. With the economies of scale and harmonised risk management, the Bank's profitability and effectiveness is increasing. Cost synergies are primarily achieving by improvement of processes, adoption of the most effective operational solutions, merger and optimisation of organisational structures and integration of IT systems. Revenue synergies are result from combination of the complementary offerings, cross-selling of the both banks' products, harmonisation of service styles and an increase in productivity.

Analysis of acquired assets and liabilities on a merger day

As at the date of issuance of the Report of Bank Zachodni WBK Group for 2013 Bank Zachodni WBK Group performed valuation related to the Kredyt Bank S.A. acquisition.

The financial information as of 4 January 2013 of Kredyt Bank S.A. which formed the basis of this settlement were audited by a qualified auditor. Bank Zachodni WBK S.A. has completed the process of fair value estimation for the selected assets and liabilities of Kredyt Bank S.A. such as loans and advances to customers, non-current assets, deposits from customers and contingent liabilities. The Bank has also completed the fair value estimation of intangible assets that can be recognized in transaction. As a result, calculation of the total additional deferred tax asset and liabilities is deemend to be final.

The auditor of Kredyt Bank S.A., Ernst & Young Audit Sp. z o.o., has issued an audit opinion to Kredyt Bank Group consolidated financial statements for the year ended 31 December 2012 which contained the following qualification:

"As described in Note 4 to the attached consolidated financial statements the Management Board of Bank Zachodni WBK S.A. after the merger with Kredyt Bank S.A. has performed the analysis of the credit risk relating to Kredyt Bank S.A. loan portfolio as at 31 December 2012. The analysis has been based on new assumptions towards collection scenarios weighted by their probabilities and significantly discounted collaterals for selected individual exposures as well as changed parameters for the calculation of the collective impairment. As a result of the above analysis the Bank has increased the level of loan impairment allowances in the attached financial statements by approx. PLN 319 million for the loans assessed individually and by approx. PLN 258 million for the loans assessed collectively. We have performed a review of the above analysis and based on such review we concluded that we have not been presented with sufficient evidence supporting approx. PLN 333 million of the above increases of impairment allowances. Therefore, we are not able to give our opinion on the reasonableness of such part of the additional loan impairment allowances as at 31 December 2012, and the corresponding impairment charge in the profit and loss for the year ended 31 December 2012 as well as approx. PLN 61 million of deferred tax asset, which has been recognised in relation to such additional loan impairment allowances and the corresponding tax credit in the profit and loss for 2012. Additionally, PLN 258 million out of the above increase in impairment allowances which relates to IBNR and collective impairment was presented in "Provisions" in the liabilities which is not compliant with the adopted accounting standards."

With regard to the qualification relating to the collective provisions and IBNR of PLN 258m, as at 31.12.2013 the presentation of the above mentioned provisions was amended to meet the requirements arising from the standards. The provisions reduce relevant asset classes.

In thousands of PLN

The following table shows the fair value of acquired assets and liabilities.

As at:	04.01.2013
ASSETS	
Cash and balances with central banks	1 429 283
Loans and advances to banks	680 206
Financial assets held for trading	1 152 738
Hedging derivatives	111 200
Loans and advances to customers	27 568 167
Investment securities	10 377 912
Intangible assets	233 831
Property, plant and equipment	191 063
Net deferred tax assets	352 177
Investment property	16 002
Assets classified as held for sale	5 709
Other assets	77 663
Total assets	**42 195 951**
LIABILITIES	
Deposits from banks	(5 760 512)
Hedging derivatives	(78 970)
Financial liabilities held for trading	(1 130 233)
Deposits from customers	(31 044 324)
Subordinated liabilities	(978 237)
Current income tax liabilities	(7 238)
Other liabilities	(341 113)
Total liabilities	**(39 340 627)**
Fair value of identifiable net assets	**2 855 324**

During the merger the Bank recognized PLN 207 756 k of additional assets that meet the conditions for recognition as intangible assets. These assets resulted from the revaluation of the acquired deposits of individual and business customers as well as customer relationships created in former Kredyt Bank S.A.

Non-controlling interest

Due to the fact that the business combination considered all of the operations of former Kredyt Bank S.A. and the exchange covered 100% of Kredyt Bank S.A. shares, any non-controlling interests were recognized in the consolidated financial statements of combined entity for the transaction.

Calculation of goodwill

As at:	04.01.2013
Goodwill	
Total consideration	4 543 840
Less: fair value of identifiable net assets	(2 855 324)
Total	**1 688 516**

Goodwill arising on the date of the merger basically represents a premium for control, and results from a potential ability to achieve additional benefits resulting from expected synergies, revenue growth, gained market share, combining competences of employees and increase the efficiency of processes as compared to the fair value of the net assets acquired. These benefits were not recognized separate intangible assets as in this instance the conditions for their individual recognition have not been meet.

The Bank does not expect tax deductibility of goodwill in future periods.

In thousands of PLN

56. DIVIDEND PER SHARE

The Management Board of the Bank will propose a dividend payment to the Shareholders in the amount of PLN 10.70 per share from the profit for 2013.

The final decision on dividend payment and amount shall be made by the Annual General Meeting of Bank Zachodni WBK S.A. Shareholders.

On 17 April 2013, the Annual General Meeting of Bank Zachodni WBK S.A. adopted a Resolution allocating PLN 710 943 k to dividend for shareholders, from the profit for 2012, which meant that the dividend was PLN 7.60 per share.

The Bank has issued 18 907 458 shares that are entitled to dividend from 2012 profit.

Signatures of Members of the Management Board

Date	Name	Function	Signature
26.02.2014	Mateusz Morawiecki	President	
26.02.2014	Andrzej Burliga	Member	
26.02.2014	Eamonn Crowley	Member	
26.02.2014	Michael McCarthy	Member	
26.02.2014	Piotr Partyga	Member	
26.02.2014	Juan de Porras Aguirre	Member	
26.02.2014	Marcin Prell	Member	
26.02.2014	Marco Antonio Silva Rojas	Member	
26.02.2014	Mirosław Skiba	Member	
26.02.2014	Feliks Szyszkowiak	Member	

Signature of a person who is responsible for maintaining the books of account

Date	Name	Function	Signature
26.02.2014	Wojciech Skalski	Financial Accounting Area Director	