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2014 ANNUAL REPORT

Bank Zachodni WBK
Grupa Santander

FINANCIAL HIGHLIGHTS

		PLN k		EUR k	
	for reporting period ended:	31.12.2014	31.12.2013	31.12.2014	31.12.2013
	Consolidated financial statements of Bank Zachodni WBK Group				
I	Net interest income	3 996 822	3 276 560	954 055	778 095
II	Net fee and commission income	1 847 761	1 778 556	441 067	422 360
III	Operating profit	2 638 656	2 498 420	629 856	593 308
IV	IProfit before tax	2 640 041	2 514 717	630 187	597 178
V	Net profit attributable to owners of BZ WBK S.A.	1 914 711	1 982 328	457 048	470 750
VI	Total net cash flow	60 496	2 722 294	14 441	646 472
VII	Total assets	134 501 874	106 059 967	31 556 172	25 573 873
VIII	Deposits from banks	8 359 856	6 278 797	1 961 349	1 513 985
IX	Deposits from customers	94 981 809	78 542 982	22 284 168	18 938 798
X	Total liabilities	116 450 180	91 577 024	27 320 972	22 081 651
XI	Total equity	18 051 694	14 482 943	4 235 200	3 492 222
XII	Non-controlling interests in equity	1 520 799	610 855	356 802	147 293
XIII	Profit of the period attributable to non-controlling interests	132 581	32 283	31 648	7 666
XIV	Number of shares	99 234 534	93 545 089	–	–
XV	Net book value per share in PLN/EUR	181.91	154.82	42.68	37.33
XVI	Solvency ratio *	12.91%	13.92%	–	–
XVII	Profit per share in PLN/EUR	19.91	21.24	4.75	5.04
XVIII	Diluted earnings per share in PLN/EUR	19.86	21.17	4.74	5.03
XIX	Declared or paid dividend per share in PLN/EUR**	**	10.70	**	2.58

* In the capital adequacy area, starting from January 1st, 2014, by the decision of the European Parliament and of the EBA the new regulations of the so-called CRD IV/CRR package have come into force. The CRD IV/CRR package consists of two parts, the Directive of CRD IV and the Regulation of CRR. As at December 31th, 2014 the capital ratio is calculated on the basis of own funds and total capital requirement, estimated by applying standard method for particular risks in accordance with the aforementioned recommendations.

** As of the date of publication of this report, the Management Board of Bank Zachodni WBK S.A. has not finalised its analysis in respect of recommendation on dividend payout for 2014.

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

- for balance sheet items – 4.2623 PLN rate to EUR as at 31.12.2014 stated by National Bank of Poland (NBP), 4.1472 PLN rate to EUR as at 31.12.2013
- for profit and loss items – as at 31.12.2014: 4.1893 (an average PLN mid-rate to EUR in NBP on the last day of each month in 2014), as at 31.12.2013: 4.2110 (an average PLN mid-rate to EUR in NBP on the last day of each month in 2013)

As at 31.12.2014, FX denominated balance sheet positions were converted into PLN in line with the NBP FX table no. 252/A/NBP/2014 dd. 31.12.2014.

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DEAR ALL,

2014 was a landmark year for Bank Zachodni WBK during which we completed the operational merger of the former Kredyt Bank into the enlarged Bank Zachodni WBK S.A. We also acquired a 60% shareholding in Santander Consumer Bank and incorporated it into the Group structure. These developments were achieved while the business delivered strong organic growth in a challenging lower interest rate environment.

We continue to execute a focussed organic growth strategy while also leveraging the value of investments and recent acquisitions. In that context, the 2014 performance highlights are noteworthy:

- Total income grew by 16 per cent to PLN 6.58bn.
- Gross profit increased by 5 per cent to PLN 2.64bn, while the net profit rose by 2 per cent to PLN 2.05bn.
- Underlying ongoing costs were reduced by 1.7 per cent y/y. Including the consolidation of our insurance business, the cost of integration related to the Kredyt Bank merger and the impact from the consolidation of Santander Consumer Bank from 1st July 2014 costs grew by 8 per cent.
- We maintained the credit quality of our loan book with the risk charge remaining flat.
- As in the previous years, we remained the leader of the Polish banking sector in terms of the business effectiveness measured by the Return on Equity – excluding integration costs the ratio was 15.5 per cent in 2014 vs. 15.2 per cent in 2013. We also maintained our capital ratios at a very strong level with the Tier 1 ratio at 12.5 per cent and the total capital adequacy ratio at 12.9 per cent.
- The growth of our credit portfolio was also notable. Excluding the consolidation of Santander Consumer Bank, Bank Zachodni WBK's cash loan portfolio increased by 9 per cent, the SME loan portfolio grew by 8 per cent and the Corporate and GBM portfolio also expanded by 8 per cent.

Delivering Our Strategy:

In 2015, we intend to primarily focus on developing the potential of our enlarged franchise. We will continue to focus on improving our customers' experience making Bank Zachodni WBK the first choice for their banking requirements. The Bank is committed to supporting the ongoing prosperity and growth of both Polish businesses and individuals. In addition, the Bank is investing substantially in local community activities while many of our staff are also engaged and give of their free time to these very worthwhile initiatives. Staff loyalty and commitment is a key differentiating factor in the Bank becoming the best in the Polish Market.

Board Changes:

The Supervisory Board was appointed for a new term of office in April 2014. Ms. Danuta Dąbrowska and Ms. Marynika Woroszylska-Sapieha joined as new members of the Supervisory Board at that time and they both bring extensive business experience and leadership skills to the role. The Supervisory Board will continue to review its composition to ensure that it has the necessary skills and succession plans for the changing banking market.

Outlook:

The European economy is starting to show signs of positive change, particularly driven by higher growth from Germany, Spain, the UK and other markets. GDP growth in Poland is expected to reach 3.6% in 2015, up from 3.3% in 2014, driven by investment growth and improving private consumption.

Bank Zachodni WBK is well positioned to benefit from the strengthening in both the local and broader European economies. The Supervisory Board is confident that the management have developed the requisite business plans to successfully achieve the various ambitions set for the Organisation for 2015.

Given the lower interest rate environment, our objective is to optimize our operating model which together with strong risk management, cost and capital management we will continue to deliver growth and enhanced performance to our shareholders going forward.

Finally, on behalf of the Supervisory Board, I would like to congratulate the Management Board and all employees for their great commitment and efforts in achieving the very strong performance in 2014. The enlarged Organisation can look forward in confidence to further growth during 2015 and is well positioned to optimise on the market opportunities that will arise.

GERRY BYRNE
Chairman of the Supervisory Board
Bank Zachodni WBK

DEAR ALL,

2014 was a very good year for Poland and its economy and thus good for Bank Zachodni WBK. The over two-year long integration process was unquestionably one of the most efficiently managed operations of this kind in Poland in recent years. Already now this process is presented as a the market blueprint and evidence that projects like this one can be undertaken and executed with the benefit for the customer and the bank in our country.

Economic success in a challenging environment

During the past year, the financial crisis in Europe gradually transformed into a debate on the future of the euro zone and structural reforms to be implemented in order to support the long-term growth of the European economy. With the new government in Greece, the questions will remain open also in 2015. The recovery of the European economy is slowly becoming a fact and the energy revolution in the United States has a positive bearing on the global growth prospects, although the uncertain international situation and geopolitical tensions may jeopardise the stability.

In 2014, the growth of the Polish economy exceeded all expectations, despite unfavourable factors. Domestic demand replaced exports as a growth engine and did not disappoint. In such an environment, maintenance of the GDP well above 3% should be considered a great success. The economic growth rate of around 1% year on year in the euro zone and in the economies of our main trade partners combined with international tensions in the region negatively affected the situation of Polish exporters. Additionally, the turbulence on FX markets also undermined the foreign trade. Given the context, we were pleased to observe a significant development of Polish exports and positive trends in the key macroeconomic indicators, in particular an over 9% growth in investments. In the second half of the year, attention was focused on significant falls in commodity prices which were an impulse fuelling the economy.

The banking sector in the whirlwind of change

Deflation was the key driver for the banking sector both in the euro zone and in Poland, triggering interest rate cuts expected by the market. In 2015, the entire financial sector of the euro zone will carefully watch the effects of the measures initiated by the European Central Bank in 2014 which are now gaining momentum. Although, unlike in the euro zone and other mature economies, interest rates in Poland have remained positive, their record-low values pose a challenge to banks. A tangible consequence of the low interest rates in Poland was a reduction of the maximum permissible loan interest rate.

In the past year, interest rate cuts were a major factor driving down the revenues of Polish banks, triggering a need for a thorough revision of the existing business models. This was not, the only challenge banks had to face. Another one, were the two cuts of the interchange fees, with the second reduction taking effect as of the end of January 2015. The record-high performance of the sector in 2014, however, shows that banks skilfully aligned their operations to the new, more demanding environment. In 2014, the Polish banking sector successfully accommodated all changes, as confirmed by the satisfactory results of the stress tests carried out by the Polish Financial Supervision Authority last autumn, which evidence the stability and capital safety of the Polish financial sector.

Last year also saw a harmonious collaboration of the largest Polish banks while working on the Polish Payment Standard. Its effect is the implementation of a huge joint project – the BLIK mobile payment system. As a result of the agreement entered into by the banks, Polish customers received a state-of-the-art smartphone payment system. I am proud of Bank Zachodni WBK's significant contribution to the project and believe that it will become an innovation symbol of the Polish banking sector and that customers will use the functionality on a mass scale.

Bank Zachodni WBK as the efficiency leader

In 2014, Bank Zachodni WBK clearly strengthened its position among top Polish financial institutions, posted better financial results than a year before and won the trust of nearly half a million of new customers. Our profit before tax exceeded PLN 2.47bn and was almost 26% higher versus 2013. The value of our assets last year was PLN 121bn, compared to PLN 103bn a year before. Despite a decline in interest rates and interchange fees, we generated a higher interest and fee income relative to the previous year.

Our business results in 2014 were also very strong. The number of newly opened accounts approximated half a million, including nearly 340,000 Accounts Worth Recommending. At the end of the year, our Bank maintained more than 2.9 million personal accounts. In the SME sector, we observed a 16.3% increase in the number of customers with high transactional activity and cross-sell. The business line sanctioned 26% loans more than a year before. Their total value reached the level of close to PLN 5bn excluding renewals of overdrafts. In corporate banking, the credit volumes increased by 14%, significantly outperforming the market growth rate. Moreover, the Bank continued to steadily develop its deposit base by expanding the offer of transactional banking products.

In 2014, Bank Zachodni WBK remained the leader of efficiency measured in terms of the return on equity and one of the leaders with respect to the cost-to-income and capital adequacy ratios.

A socially responsible Bank

It is worth noting that Bank Zachodni WBK not only provides financial services but also makes a valuable contribution to the environment in which it operates. Our big success was the "Here I live, here I make changes" campaign carried out in the second half of 2014 under which we financed over 3,000 projects. In 2014, just like in the previous years, Bank Zachodni WBK actively contributed not only to the development of the Polish economy but also our society and culture. A good example is the Santander Universidades programme which supports education in Poland. Last year we increased the number of our partner universities and issued close to 40,000 Smartcards, student IDs with a payment function. We believe that knowledge is the key to building an efficient economy and a responsible society, therefore we eagerly help students acquire new experience, promote the cooperation between science and business and take an active part in such partnerships.

A multi-channel, modern bank

The robust results delivered in 2014 reflect above all our customers' trust which we have won thanks to the high quality of our services. Therefore, we continue to develop our electronic banking services and our award-winning mobile banking application BZWBK24, whose number of active users already doubled and is close to half a million now. In order to ensure the highest quality of the provided services we consistently implement the Next Generation Bank programme and create a truly modern bank. The many successes of Bank Zachodni WBK are even more valuable when we look at them not only through the prism of last year, but also of our 2015 targets. New challenges lie ahead to prove that we are a bank of satisfied customers and people working with passion.

Mateusz Morawiecki

MATEUSZ MORAWIECKI
President of the Management Board
of Bank Zachodni WBK

MANAGEMENT BOARD REPORT ON BANK ZACHODNI WBK GROUP PERFORMANCE IN 2014

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I. OVERVIEW OF BANK ZACHODNI WBK GROUP PERFORMANCE IN 2014

This section provides an overview of the activity of Bank Zachodni WBK Group (BZ WBK Group) in 2014. It presents the financial, business and organisational performance compared with the previous year, and reports on the internal and external factors affecting the Group's activities.

Financial and Business Highlights

- Total income of Bank Zachodni WBK Group for 2014 increased by 8.0% YoY to PLN 6,579.0m. Excluding gains on investments in subordinate entities, the underlying total income grew by 15.8% YoY.
- Total costs went up by 8.4% YoY to PLN 3,103.8m.
- Profit before tax was PLN 2,640.0m and up 5.0% YoY.
- Profit attributable to the shareholders of Bank Zachodni WBK was PLN 1,914.7m and 3.4% lower YoY.
- Capital ratio stood at 12.91% as per the new calculation methodology defined in CRD IV/CRR package (13.92% as at 31 December 2013 as per the previous methodology laid down in KNF Resolution of 10 March 2010).
- Return on Equity was 14.4% (16.6% as at 31 December 2013), and 15.5% excluding the cost of integration with Kredyt Bank (18.4% as at 31 December 2013). In Q3 2014, the Group's capital base was increased through the issue of two series of Bank Zachodni WBK shares for the total amount of PLN 2,159.5m.
- Cost to income ratio was 47.2% (47.0% in 2013), and 44.5% after exclusion of the cost of integration with Kredyt Bank (42.7% in 2013).
- Net impairment losses on loans and advances amounted to PLN 836.6m compared with PLN 729.3m in 2013.
- NPL ratio was 8.4% (7.9% as at 31 December 2013), while the ratio of impairment losses to the average gross credit volumes was 1% (no changes compared to 31 December 2013).
- Loan to Deposit ratio was 90.4% as at 31 December 2014 compared with 86.7% as at 31 December 2013.
- Gross loans to customers increased by 27.0% YoY to PLN 90,947.1m due to the expansion of personal loans (+40.4% YoY) and loans to enterprises and the public sector (+14.1% YoY) to PLN 47,784.1m and PLN 39,340.7m, respectively.
- Deposits from customers increased by 20.9% YoY to PLN 94,981.8m as a combined effect of the expansion of personal deposits (by 21.4% YoY to PLN 58,257.0m) and enterprises & the public sector (by 20.2% YoY to PLN 36,724.8m).
- Net value of assets in mutual funds and private portfolios grew by 13.6% YoY to PLN 13.2bn.
- The number of customers using BZWBK24 electronic banking services exceeded 3m (+2.7% YoY), the number of customers with access to mobile services stood at 0.5m (+102.1% YoY), while the BZ WBK Group payment card base totalled 4.3m debit cards (+15.8% YoY) and 1m credit cards (+57.3% YoY), including the cards of Santander Consumer Bank customers as at 31 December 2014.
- The Group's banking customer base of 6.3m held 4.6m of personal and business current accounts as at 31 December 2014.

Key Developments and Achievements

Review of Major Corporate Developments in 2014	
January	▪ Introduction of three-year variable-rate bearer bonds with a total value of PLN 500m issued by Bank Zachodni WBK on 19 December 2013 to the Catalyst alternative trading system (28 January 2014).
February	▪ Proposed dividend payment for BZ WBK shareholders of PLN 10.70 per share (27 February 2014).
March	▪ Notice (17 March 2014) of BZ WBK Annual General Meeting (AGM) to be convened on 16 April 2014.
April	▪ Convening of BZ WBK Shareholders' AGM (16 April 2014), which, inter alia, approved the proposed dividend payout from 2013 profit, passed a resolution on an increase in the bank's share capital by way of issue of 305,543 series K ordinary bearer shares (under the 4th Incentive Scheme) and appointed the Supervisory Board for the next term of office.
May	▪ Payment of the dividend to BZ WBK shareholders (16 May 2014) pursuant to AGM Resolution of 16 April 2014. ▪ Registration of amendments to BZ WBK Statutes in the National Court Register (KRS), as approved by the AGM, including extension of the bank's activities (to include, inter alia, brokerage activities). ▪ Completion of the subscription for series K shares (29 May 2014) under the 4th Incentive Scheme pursuant to the resolution of BZ WBK AGM of 16 April 2014 relating to the increase in the bank's share capital.
June	▪ Ratings upgraded for BZ WBK by Fitch Ratings as of 2 June 2014, i.e.: – long-term foreign currency IDR: from „BBB" to „BBB+", outlook stable – short-term foreign currency IDR: from „F3" to „F2" – national long-term rating: from „A+(pol)" to „AA-(pol)", outlook stable ▪ KNF consent for BZ WBK to conduct brokerage activities (10 June 2014). ▪ Notice (3 June 2014) of BZ WBK Extraordinary General Meeting (EGM) to be convened on 30 June 2014 to, inter alia, approve the increase in the bank's share capital through the issue of series L ordinary bearer shares, and to adopt the 5th Incentive Scheme. ▪ Selection of Deloitte Polska to audit and review BZ WBK unconsolidated and consolidated financial statements (11 June 2014).
July	▪ Completion of the acquisition of shares in Santander Consumer Bank (SCB) by BZ WBK (1 July 2014) in connection with the satisfaction of all conditions precedent to the transaction as provided for in the Investment Agreement of 27 November 2013 and signed by BZ WBK, Santander Consumer Finance (SCF) and Banco Santander regarding the acquisition of shares in SCB by BZ WBK representing 60% of share capital and 67% of voting power. ▪ Completion of a private placement of 5,383,902 series L ordinary bearer shares (3 July 2014) with SCF, resulting in SCF's share in the total voting power exceeding 5%. ▪ Registration of amendments to BZ WBK Statutes in the National Court Register (11 July 2014 and 18 July 2014) relating to the increase in the bank's share capital: – by PLN 3,055,430 to PLN 938,506,320 – issue of series K shares – by PLN 53,839,020 to PLN 992,345,340 – issue of series L shares ▪ Decrease in the stake of Banco Santander in the share capital and total number of votes at the General Meeting of BZ WBK to 65.99% as a result of an increase in the bank's share capital through the above-mentioned issues of shares. ▪ Private placement (17 July 2014) of 475k three-year variable-rate bearer bonds with a nominal value of PLN 1k each (PLN 475m in total). ▪ First notification (24 July 2014) of the proposed division of Dom Maklerski BZ WBK (Brokerage House) ("Division Plan of BZ WBK Brokerage House") by way of transfer of its assets to BZ WBK (to the extent related to the provision of brokerage services) and the newly created company – Giełdokracja (to the extent related to the advertising business and communication and educational services).
August	▪ Resolution of the Management Board of the Warsaw Stock Exchange (WSE) on admission (6 August 2014) and introduction (8 August 2014) of series K and series L ordinary bearer shares issued by BZ WBK to trading on the main floor of the Warsaw Stock Exchange. ▪ Increase in the stake of Banco Santander in the share capital and total number of votes at the General Meeting of BZ WBK from 65.99% to 71.41% as a result of the acquisition of shares in BZ WBK from SCF (13 August 2014) representing 5.42% in the bank's share capital and voting power.
September	▪ Disbursement of funds under the agreement of 17 June 2014 between BZ WBK and the European Investment Bank (EIB) regarding a credit line of EUR 100m (8 September 2014). ▪ Notification from Aviva International Insurance Ltd (Aviva) regarding the execution of a call option for the acquisition of a 17% stake in BZ WBK-Aviva TUŻ and BZ WBK-Aviva TUO (18 September 2014), with the completion of the share transfer being subject to the relevant regulatory consents. ▪ Resolution of the EGM of BZ WBK of 30 September 2014 approving the division of BZ WBK Brokerage House pursuant to the "Division Plan" of 24 July 2014.
October	▪ Reduction of Banco Santander's stake in the total number of votes at the General Meeting of BZ WBK from 71.41% to 69.41% (6 October 2014) as a result of the sale of 1,984,691 shares in BZ WBK by way of accelerated book-building. ▪ Acquisition of BZ WBK shares by the open-ended pension fund ING OFE in an amount exceeding 5% of the total number of votes at the bank's General Meeting. ▪ Release (26 October 2014) of the results of the Asset Quality Review (AQR) and stress tests as at the end of 2013, confirming that the bank operates with capital ratios significantly exceeding the requirements of the regulator, is financially stable and has very high resilience to adverse economic conditions. ▪ Completion of the migration of accounts and products from the systems of former Kredyt Bank to the target systems of the merged bank. ▪ Deregistration of BZ WBK Brokerage House from the National Court Register (31 October 2014) and its incorporation into the bank's structure as a separate unit conducting brokerage activity (brokerage office); registration of Giełdokracja.
November	▪ Affirmation of BZ WBK ratings by Fitch Ratings (26 November 2014): long-term foreign currency IDR (BBB+/stable), Viability Rating (bbb), short-term foreign currency IDR (F2) and Support Rating (2).
December	▪ Inclusion of BZ WBK in the Respect Index published on 18 December by the Warsaw Stock Exchange for yet another year in row. ▪ Execution of a credit agreement with a foreign bank (18 December 2014) regarding USD 50m worth of funding with two-year maturity for the bank's working capital purposes (funds disbursed in H2 2015).

External Factors

- The economic slowdown in the euro zone; the Russia-Ukraine conflict and a strong deterioration in the economic growth of both countries.
- Year-on-year increase in the growth rates of industrial output, construction, assembly output and retail sales, losing momentum during the year.
- Favourable trends in the labour market supporting private consumption prospects (a gradual rise of employment in the corporate sector, lower unemployment rate and relatively strong wage growth).
- Low inflationary pressure, inflation rate kept well below the official NBP target (2.5%).
- NBP's cut in interest rates and a narrowing of the interest rate corridor.
- Swings in financial market sentiment amid uncertainty about the policy direction of the main central banks (Federal Reserve and ECB) and upcoming macroeconomic releases as well as concerns over armed conflicts and economic sanctions.
- Volatility of the zloty against the main currencies; a decrease in yields on Polish bonds.
- Visible growth in investment loans vs. a moderate overall increase in lending across the banking sector.

II. BASIC INFORMATION ABOUT BANK ZACHODNI WBK GROUP

1. HISTORY, PROFILE AND COMPETITIVE POSITION

History and Profile

BACKGROUND

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

Both predecessors of Bank Zachodni WBK were spun off the National Bank of Poland in 1989. Subsequently, they were privatised and became members of the AIB Group under the control of the same investor, i.e. AIB European Investments Ltd. from Dublin, a fully-owned subsidiary of Allied Irish Banks, p.l.c.

On 1 April 2011, AIB European Investments Ltd. sold their entire stake in Bank Zachodni WBK (70.36% of share capital and voting power) to Banco Santander with its registered office in Santander, Spain.

BANCO SANTANDER AS THE MAJORITY SHAREHOLDER

On 1 April 2011, Banco Santander finalised the purchase of Bank Zachodni WBK in the tender for 100% of the bank's shares. As a result, Banco Santander acquired an interest representing 95.67% of share capital and voting power in the bank. The stake increased to 96.25% due to the acquisition of additional shares from interested shareholders, and decreased to 94.23% on 9 August 2012 following an increase in the bank's share capital through the issue of series I ordinary shares taken up by EBRD in a private placement.

MERGER OF BANK ZACHODNI WBK AND KREDYT BANK

Pursuant to the Investment Agreement of 27 February 2012 signed by Banco Santander and KBC Bank NV and the plan of merger of Bank Zachodni WBK and Kredyt Bank of 11 May 2012 approved by the Management Boards of both banks upon the receipt of the legally required authorisations and consents, on 4 January 2013, the legal merger of the two banks was recorded in the court register. The merger was effected by way of a transfer of all assets of Kredyt Bank to Bank Zachodni WBK in exchange for newly issued series J shares with a nominal value of PLN 189.1m allotted to all of the existing shareholders of Kredyt Bank at the agreed exchange ratio. As a result of an increase in the share capital of Bank Zachodni WBK, the stake held by Banco Santander dropped to 75.19%.

The operational merger was completed in October 2014 upon full integration of the IT systems.

FURTHER CHANGES IN THE STRUCTURE OF SHARE CAPITAL OF BANK ZACHODNI WBK

As part of a secondary offering announced by KBC Bank NV and Banco Santander on 22 March 2013 for the total amount of PLN 4.9bn, on 28 March 2013 KBC Bank IV ceased to be a shareholder of Bank Zachodni WBK and Banco Santander's stake was reduced to 70%. The total number of BZ WBK shares in free float on WSE increased to 30% and consequently the bank was re– incorporated into the key stock indices.[1)]

In 2014, the share capital of Bank Zachodni WBK was increased twice, i.e. on 11 July 2014 by PLN 3.1m through the issue of series K ordinary bearer shares under the 4th Incentive Scheme and on 18 July 2014 by PLN 53.8m through the issue of series L shares offered to and taken up by Santander Consumer Finance in exchange for an in-kind contribution of ordinary and preferred shares in Santander Consumer Bank representing 60% of share capital and 67% of votes at the General Meeting of Shareholders.

As a result of the above-mentioned issues and acquisition of the entire stake in Bank Zachodni WBK from SCF on 13 August 2014, the shareholding and voting power of Banco Santander in the bank amounted to 71.41%. In order to keep the free float of the bank's shares at a minimum level of 30%, on 6 October 2014, the majority shareholder sold nearly two million shares in Bank Zachodni WBK by way of accelerated book-building and reduced its interest to 69.41%.

EXTENSION OF THE SCOPE OF BUSINESS

On 31 October 2014, an organised part of the enterprise of Dom Maklerski BZ WBK (Brokerage House) connected with the provision of brokerage services was incorporated into the bank's structure.

1) From April 2011 to June 2013 Bank Zachodni WBK was excluded from Stock Exchange indices due to insufficient free float

Scope of Activities of Bank Zachodni WBK Group

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

The bank's own product range is complemented by specialist products offered by its group of related companies, including: BZ WBK Towarzystwo Funduszy Inwestycyjnych, BZ WBK Asset Management, BZ WBK Leasing, BZ WBK Lease, BZ WBK Faktor, BZ WBK– Aviva Towarzystwo Ubezpieczeń Ogólnych and BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie. In co-operation with all these companies, the bank offers its customers access to mutual fund, insurance, leasing and factoring products.

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

As at 31 December 2014, Bank Zachodni WBK Group provided services to 6.3m banking customers, including customers of Santander Consumer Bank.

Business Model of Bank Zachodni WBK Group

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

The operating segments of BZ WBK Group also include the ALM and Central Operations segment which covers funding for other segments, unallocated transactions and management of the Group's strategic investments.

Santander Consumer Bank, which specialises in consumer finance, is the only subsidiary undertaking of Bank Zachodni WBK which forms a separate business segment.

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 2014, Bank Zachodni WBK operated country– wide through 788 outlets (830 as at 31 December 2013). The bank's distribution network also included 115 partner outlets (113 as at 31 December 2013) and 1,365 ATMs (1,385 as at 31 December 2013).

The Wealth Management Department provides services to high net worth customers through dedicated advisers operating from 14 offices located across Poland.

Services to large business customers, local administration units and the public sector are supervised by the Business & Corporate Banking Division and are provided through 12 Corporate Business Centres operating nationwide, and two departments: the Large Corporate Department and the Corporate Property Department (central units operating across Poland).

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

Bank Zachodni WBK offers a modern platform of electronic banking services called BZWBK24, which gives retail and business customers convenient and safe access to their accounts and products via the Internet, telephone or mobile telephone. Mobile banking is provided via mobile web and dedicated applications for key operating systems. The bank also offers 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 Banking Centre equipped with a technologically advanced specialist ITC infrastructure, the bank provides customers with information on its products and services, sells selected products and renders after-sales service.

The fundamental elements of the strategy and business model of Bank Zachodni WBK Group are attractive and competitive products and services, multichannel delivery, a superior customer experience and the development of customer relationships and staff engagement. The Group focuses on diversification of income, expansion in high-margin market segments, maintenance of a solid capital position and effective risk management. This translates into balanced growth in loans and deposits, an increasing presence in the most profitable market segments and strong and stable financial performance.

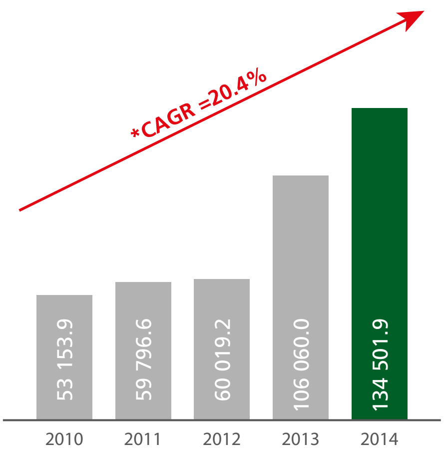
Development of Bank Zachodni WBK Group in Years 2010-2014

Selected data illustrating performance of BZ WBK Group in years 2010-2014

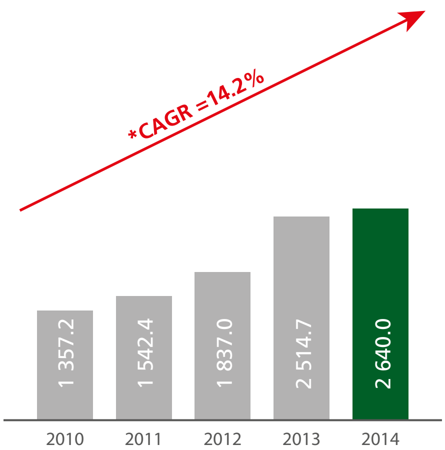
Selected Financial Data (PLN m)	**2014**	**2013**	**2012**	**2011**	**2010**
Total Assets	134 501.9	106 060.0	60 019.2	59 796.6	53 153.9
Loans and Advances to Customers	85 820.6	68 132.1	39 867.6	38 017.2	32 838.4
Deposits from Customers	94 981.8	78 543.0	47 077.1	46 829.5	41 970.5
Total Equity	18 051.7	14 482.9	8 977.7	7 483.0	6 773.6
Profit Before Tax	2 640.0	2 514.7	1 837.0	1 542.4	1 357.2
Profit Attributable to Owners of BZ WBK	1 914.7	1 982.3	1 433.8	1 184.3	974.2
Selected Ratios	**2014**	**2013**	**2012**	**2011**	**2010**
Cost to Income Ratio	47.2 %	47.0%	43.9%	50.2%	49.9%
Capital Adequacy Ratio	12.9%	13.9%	16.5%	15.1%	15.8%
NPL Ratio	8.4%	7.9%	5.4%	5.5%	6.8%
Earnings per Share (PLN)	19.9	21.2	19.4	16.2	13.3
Net Book Value per Share (PLN)	181.9	154.8	12 0.3	102.4	92.7
Selected Non Financial Data	**2014**	**2013**	**2012**	**2011**	**2010**
Number of Branches	788	830	519	526	527
Number of FTEs	14 835	12 612	8 835	9 383	9 840
Dividend (PLN)	n/a [1)]	10.7	7.6	8.0	8.0
Number of Shares at the Year-End	99 234 534	93 545 089	74 637 631	73 076 013	73 076 013
Closing Share Price at the Year-End (PLN)	**375.0**	**387.6**	**241.9**	**226.0**	**214.9**

[1)] As at the release date of this report, the Management Board of Bank Zachodni WBK has not completed the analysis leading to the issuance of recommendation on dividend payout for 2014.

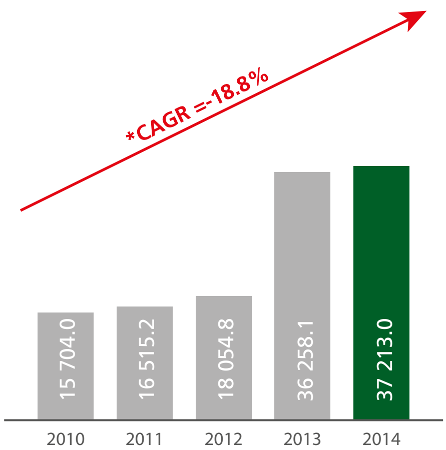
Total Assets of BZ WBK Group
(PLN m) as at 31 Dec.
in Years 2010-2014



Profit Before Tax
of BZ WBK Group
(PLN m) in Years 2010-2014



Capitalisation of BZ WBK
(PLN m) as at 31 Dec.
in Years 2010-2014



* CAGR – Compound Annual Growth Rate

Position of BZ WBK Group in the Polish Banking Sector

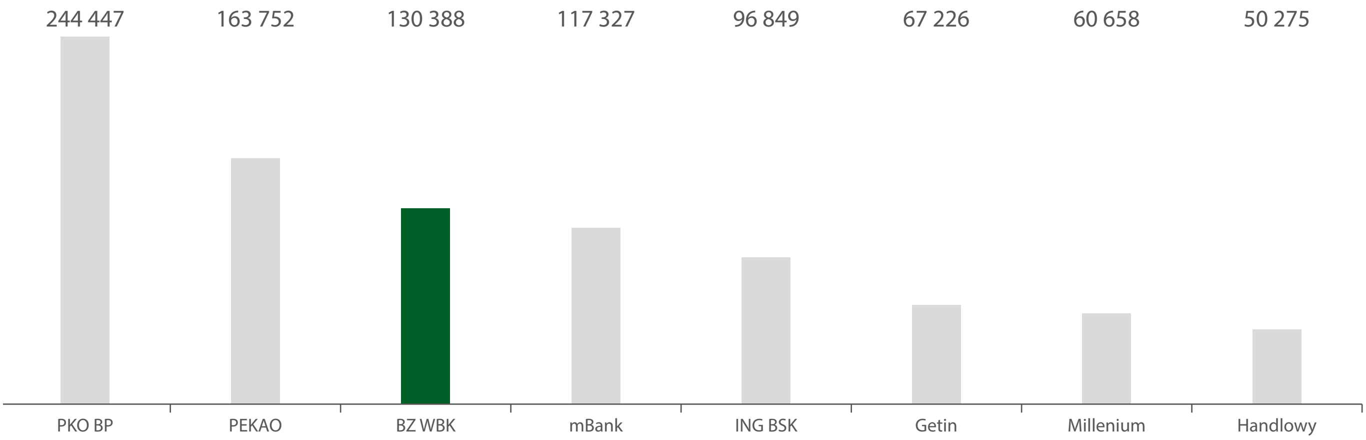
Bank Zachodni WBK Group has stable sources of funding and a solid capital and liquidity position. This strong position has been supported by a clear, coherent and consistent strategic vision, an efficient and straightforward business model, with critical mass gained by integration with Kredyt Bank, as well as benefits and synergies achieved by the bank as a member of Santander Group. A wide array of complementary services for respective customer segments and a large Poland-wide branch network increases the potential for further market penetration. With the extended scale of business, the Group effectively competes with the largest players in the Polish banking market.

According to the financial information as at the end of Q3 2014, which at the date of approval of this Management Board report (5 March 2015) was the most up-to-date source of comparable data on the performance of banks listed on the Warsaw Stock Exchange (WSE), Bank Zachodni WBK – including its subsidiaries and associates – was Poland's third largest banking group in terms of total assets, equity, deposits, loans and PBT as well as being the market leader in terms of consolidated ROE (15.9% as at 30 September 2014).

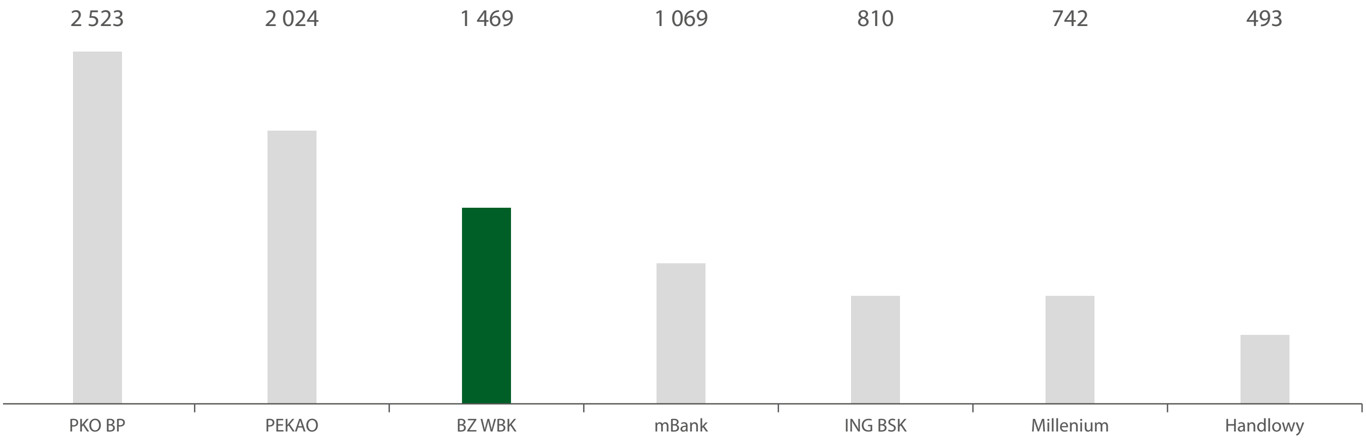
According to NBP statistics, as at the end of December 2014 the Group's share of the market was 8.9% for loans and 9.5% for deposits.

The Group continued to strengthen its presence in the factoring and leasing markets via its subsidiaries, generating 13% and 7.5% of annual sales, respectively (as per 2014 data published by the Polish Factors Association and the Polish Leasing Association). At the same time, the Group's share in the retail mutual fund market was 11.0% (as at 31 December 2014 according to Analizy Online) while in the equity and futures markets it held 6.9% and 8.6%, respectively (according to the Warsaw Stock Exchange).

Total Assets of BZ WBK Group (PLN m) vs. Peers as at 30 September 2014



Profit Attributable to BZ WBK Shareholders for Q1-3 2014 vs. Peers (PLN m)



Position of Banco Santander

Banco Santander – a parent entity of Bank Zachodni WBK – is a commercial bank with a history of nearly 160 years, having its registered office in Santander and operational headquarters in Madrid (Spain). While it specialises in retail banking services, the bank is also active on the corporate, asset management and insurance market. Banco Santander, which is characterised by the geographic diversification of its business, currently focuses on its 10 core markets – both developed and emerging. According to data as at the end of December 2014, it was one of the largest banks in Europe and the second largest bank in terms of capitalisation. On a consolidated basis, the bank managed EUR 1,266.3bn worth of customer assets, provided services to over 100 million customers via a distribution network of 12,951 branches, and employed 185.4 thousand people. In 2014, the net profit attributable to Banco Santander's shareholders came in at EUR 1,455m. Santander is the leading financial group in Spain and South America. It also enjoys a strong market position within selected segments in the UK, the north-eastern coast of the US as well as in Germany and Poland.

On 3 December 2014, Banco Santander debuted on the Warsaw Stock Exchange to fulfil the commitment made to the Polish Financial Supervision Authority (KNF) following the merger of Bank Zachodni WBK and Kredyt Bank. 12,584,414,659 ordinary shares of the bank with a nominal value of EUR 0.50 each were listed. In addition to WSE, Banco Santander shares are traded on stock exchanges in Madrid, Milan, Lisbon, London, New York, Buenos Aires and in other cities.

2. ENTITIES RELATED WITH BANK ZACHODNI WBK

Subsidiaries

As at 31 December 2014, Bank Zachodni WBK formed a Group with the following subsidiaries:

1 Santander Consumer Bank S.A. (SCB S.A.)

2 Santander Consumer Finanse S.A. – subsidiary of SCB S.A.

3 AKB Marketing Services Sp. z o.o. – subsidiary of SCB S.A.

4 Santander Consumer Multirent Sp. z o.o.
– subsidiary of SCB S.A.

5 S.C. Poland 2014-1 Limited – subsidiary of SCB S.A.

6 BZ WBK Asset Management S.A.

7 BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.
– subsidiary of BZ WBK Asset Management S.A.

8 BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.

9 BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.

10 BZ WBK Finanse Sp. z o.o.

11 BZ WBK Faktor Sp. z o.o.
– subsidiary of BZ WBK Finanse Sp. z o.o.

12 BZ WBK Leasing S.A.
– subsidiary of BZ WBK Finanse Sp. z o.o.

13 BZ WBK Lease S.A.
– subsidiary of BZ WBK Finanse Sp. z o.o.

14 Lizar Sp. z o.o.
– subsidiary of BZ WBK Lease S.A.

15 BZ WBK Inwestycje Sp. z o.o.

16 BZ WBK Nieruchomości S.A.

17 Giełdokracja Sp. z o.o.

Compared with 31 December 2013, Bank Zachodni WBK Group now includes four new companies as a result of the following:

- Acquisition by Bank Zachodni WBK of 3,120,000 ordinary and preferred shares in SCB with its registered office in Wrocław and with a nominal value of PLN 100 each, representing 60% of the share capital and approximately 67% of votes at the General Meeting of SCB pursuant to the Investment Agreement of 27 November 2013 between Bank Zachodni WBK, Santander Consumer Finance and Banco Santander on the acquisition of shares in Santander Consumer Bank by way of a private placement and an in-kind contribution.
- Removal of Dom Maklerski BZ WBK (Brokerage House) from the business register (KRS) without a formal liquidation on 31 October 2014 and its division in accordance with the Division Plan of 24 July 2014 through:
  - the transfer to Bank Zachodni WBK of an organised part of the enterprise of the Brokerage House connected with the provision of brokerage services and other services which do not constitute the advertising business;
  - set-up of Giełdokracja, a limited liability company, which took over a part of the enterprise connected with the provision of educational services related to the capital

market, advertising and communication services, and the maintenance of internet portals (all shares were taken up by Bank Zachodni WBK as the sole shareholder of the former Brokerage House).

- Removal of BFI Serwis in liquidation from the business register (KRS) on 20 November 2014.

Detailed information about changes in the structure of Bank Zachodni WBK Group is given in Chapter VII "Organisational and Technological Development", section 1 "Organisational Changes".

As a result of the above-mentioned changes, the Brokerage House is now a unit of the bank which meets the definition of a brokerage office and conducts brokerage activity in accordance with the clearance issued by the Polish Financial Supervision Authority (KNF) on 10 June 2014.

Currently, the largest subsidiary in Bank Zachodni WBK Group is Santander Consumer Bank, which forms the SCB Group with four subsidiaries: Santander Consumer Finanse (investment of cash surpluses and cooperation with BZ WBK and Warta in terms of financial advisory services), AKB Marketing Services (auxiliary banking services), Santander Consumer Multirent (leasing) and S.C. Poland 2014-1 Limited (SPV set up for the purpose of the securitization transactions).

With the exception of one company, all the entities within Bank Zachodni WBK Group are consolidated with the bank in accordance with IAS 27 as at 31 December 2014. Lizar has been excluded from the consolidation given its small business size and immaterial financial performance.

Associates

In the consolidated financial statements of Bank Zachodni WBK for the 12-month period ended 31 December 2014, the following companies are accounted for using the equity method in accordance with IAS 28:

1. Metrohouse Franchise S.A. – associated undertaking of BZ WBK Inwestycje Sp. z o.o.
2. Metrohouse S.A. – subsidiary of Metrohouse Franchise S.A.
3. POLFUND – Fundusz Poręczeń Kredytowych S.A.

As part of organisational changes in Metrohouse Group, in September 2014, BZ WBK Inwestycje transferred all shares of Metrohouse to Metrohouse Franchise (registered on 1 July 2014) in exchange for 41,630k shares in Metrohouse Franchise representing a stake of 20.58% in the share capital and voting power of the company. As a result of another increase in the share capital of Metrohouse Franchise, the share of BZ WBK Inwestycje in the above company was 20.13% as at 31 December 2014.

In December 2014, BZ WBK Inwestycje sold 320,000 shares in Krynicki Recycling, reducing its stake in the share capital to 19.96%. Accordingly, the company was removed from the list of associates as at 31 December 2014.

Organisational Chart of Entities Related with BZ WBK Group as at 31.12.2014

Bank Zachodni WBK

- 100% **BZ WBK Finanse Sp. z o.o.**
  - 100% BZ WBK Faktor Sp. z o.o.
  - 100% BZ WBK Leasing S.A.
  - 100% BZ WBK Lease S.A.
    - 100% Lizar Sp. z o.o.[1)]
- 100% **BZ WBK Inwestycje Sp. z o.o.** [2)]
  - 20.13% Metrohouse Franchise S.A.
    - 100% Metrohouse S.A.
- 100% **Giełdokracja Sp. z o.o.**
- 99.99% **BZ WBK Nieruchomości S.A.**
- 66% **BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.**
- 66% **BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.**
- 60% **Santander Consumer Bank S.A.**
  - 100% Santander Consumer Finanse S.A.
  - 100% Santander Consumer Multirent Sp. z o.o.
  - 100% AKB Marketing Services Sp. z o.o.
  - 0% S.C. Poland Auto 2014-1 Ltd. [3)]
- 50% **BZ WBK Asset Management S.A.** [4)]
  - 100% BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.
- 50% **POLFUND-Fundusz Poręczeń Kredytowych S.A**

LEGEND

- % — BZ WBK voting power at the companies' GMs
- subsidiaries (consolidated with BZ WBK)
- subsidiaries (unconsolidated with BZ WBK)
- associates

1) Lizar is not consolidated with Bank Zachodni WBK given the immaterial nature of its business and financial performance.

2) The subsidiaries of BZ WBK Inwestycje, i.e. Metrohouse Franchise and Metrohouse are 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.

3) S.C. Poland Auto 2014-1 Limited is an SPV set up for the purpose of securitization of part of SCB credit portfolio. Shares in the company are held by foreign individuals who are not connected with the Group. The company is controlled by SCB as it meets the conditions laid down in IFRS 10.7.

4) As at 31.12.2014, Bank Zachodni WBK was a co-owner of BZ WBK Asset Management together with Banco Santander. Both owners are members of Santander Group and each holds a 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 Banco Santander pursues its policy in Poland through it. Consequently, the company is treated as a subsidiary.

3. OTHER EQUITY INVESTMENTS

As at 31 December 2014 and 31 December 2013, Bank Zachodni WBK Group owned more than 5% of share capital or voting power in the following companies:

Ref.	Company	% in the Share	Voting Power at AGM	% in the Share	Voting Power at AGM
		31.12.2014		31.12.2013	
1.	Reliz Sp. z o.o. in liquidation	100.00%	100.00%	100.00%	100.00%
2.	Zakłady Przemysłu Jedwabniczego DOLWIS S.A. in liquidation	44.00%	44.00%	44.00%	44.00%
3.	Invico S.A. 1)	21.09%	12.21%	21.09%	12.21%
4.	Krynicki Recycling S.A.	19.96%	19.96%	22.41%	22.41%
5.	Masterform S.A. 1)	19.88%	11.72%	19.88%	11.72%
6.	Chronos Film Sp. z o.o.	16.67%	16.67%	16.67%	16.67%
7.	Polski Standard Płatności Sp. z o.o.	16.66%	16.66%	–	–
8.	i3D S.A. 1)	15.77%	15.77%	15.77%	15.77%
9.	Krajowa Izba Rozliczeniowa S.A.	14.23%	14.23%	14.23%	14.23%
10.	Zakłady Remontowe Energetyki KATOWICE S.A.	13.08%	13.08%	13.08%	5.00%
11.	Agencja Wspierania Rozwoju Infrastruktury Lokalnej Sp. z o.o.	12.00%	12.00%	12.00%	12.00%
12.	Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK 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.	Aviva Towarzystwo Ubezpieczeń na Życie S.A.	10.00%	10.00%	10.00%	10.00%
15.	Biuro Informacji Kredytowej S.A.	7.72%	7.71%	7.72%	7.71%
16.	Infosystems S.A. 1)	7.50%	7.50%	7.50%	7.50%
17.	Hortico S.A. 1)	6.71%	6.71%	6.71%	6.71%
18.	AWSA Holland II B.V.	5.44%	5.44%	5.44%	5.44%
19.	Gorzowski Rynek Hurtowy S.A. 1)	4.10%	6.53%	4.10%	6.53%

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

III. MACROECONOMIC SITUATION IN 2014

Economic Growth

In 2014, the Polish economy grew by more than 3% YoY, yet economic activity slightly slowed in the second half of the year due to considerable changes in the external economic environment as the euro zone slid into stagnation and Russia introduced counter– sanctions against the European Union. This undermined external demand for Polish products and weighed on the country's economic prospects. It is estimated that the output gap stayed negative over the past year. The main driver of GDP growth was domestic demand. Growth in private consumption improved steadily, supported by the favourable situation in the labour market and decent growth in household incomes, but nevertheless remained at a moderate level. Healthy growth was also recorded in fixed investments, which rose at a nearly double-digit pace. Stronger domestic demand and slower growth in external demand resulted in deterioration of net exports as a contribution to GDP growth, which was most likely negative. However, a further deterioration of economic prospects of Poland's main trade partners negatively affected, among others, domestic exports and industrial output, which significantly slowed in the second half of 2014. Notwithstanding, the Polish external trade imbalance was relatively low – according to the bank's estimation the current account deficit accounted for ca.1.3% of the GDP at the end of 2014, similar to 2013.

Labour Market

In 2014, the labour market continued to enjoy the improvement that had started in the previous year. Average employment in the corporate sector increased gradually, and a greater demand for employees was generated mostly by industrial manufacturing and retail sales. The trend in other sectors remained weak. The official unemployment rate reached 11.5% at the end of the year, i.e. was by 1.9 p.p. lower than a year earlier. It was the most pronounced decline in annual terms since 2008. To date, the pace of improvement in the labour market continues and is even strengthening, but a deterioration of prospects for exports and industrial manufacturing may negatively affect the situation within the labour market. Corporate sector wages increased in nominal terms by 3.7% YoY, which together with very weak growth in consumer prices and a positive increase in employment caused a significant rise in disposable incomes in real terms. According to the Bank's estimation, the real wage bill in the corporate sector increased by ca. 4.5% YoY – the highest pace since 2008.

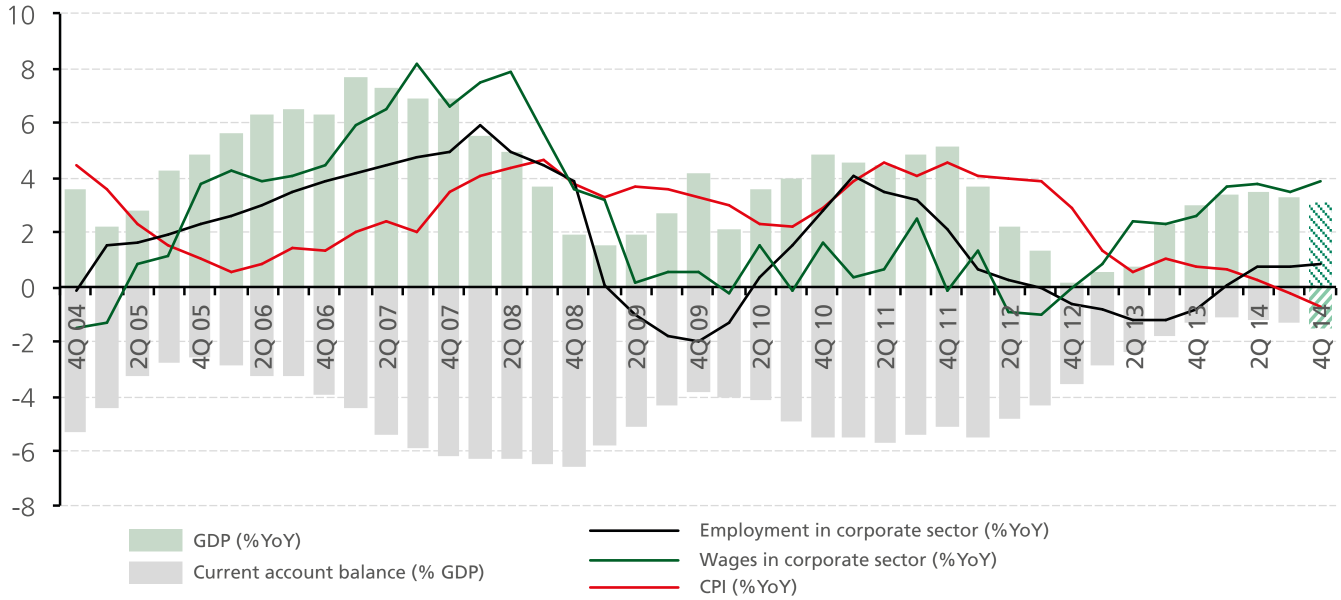
Inflation

Inflationary pressure was very low throughout 2014 due to still relatively weak economic growth and deflationary tendencies outside Poland. A Russian embargo on food from the European Union was another factor supporting a decline in prices, as it caused an oversupply of food products in both the Polish market and the wider EU market. Towards the end of the year oil prices plunged, translating into a decline of fuel prices in the domestic market. In July, CPI inflation fell below zero for the first time since the economic transformation and declined steadily, reaching -0.9% YoY by the year-end. Annual average CPI inflation was equal to 0.0%, while core inflation, excluding food and energy prices, was at 0.6% YoY and PPI inflation at -1.5%YoY.

Monetary Policy

In the first part of 2014, the Monetary Policy Council acted in line with the forward guidance policy started back in 2013, i.e. to keep interest rates flat and stated that they would remain stable until at least the end of Q3 2014. The change in the external economic environment encouraged the MPC to drop this declaration in July and interest rates were cut in October, with the reference rate going down by 50 basis points (to 2.00%), the lombard rate by 100 basis points (to 3.00%) and the deposit rate staying flat. Thus, the MPC decided to narrow the corridor between the NBP's interest rates. In the months that followed the Council suggested that further rate cuts would be possible, but no subsequent changes were made.

Selected Macroeconomic Indicators



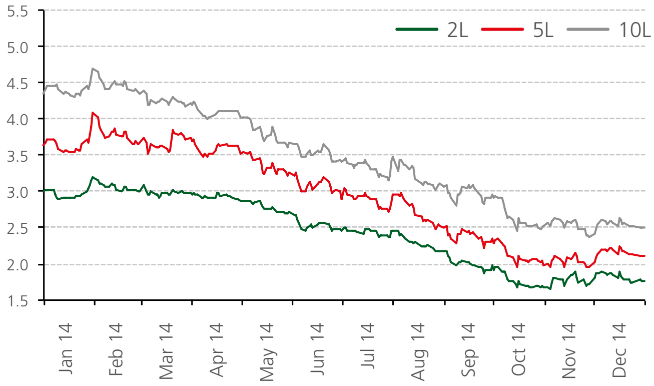
Credit and Deposit Markets

In 2014, the situation on the loan market improved. Companies' investment loans accelerated from 1.6% YoY at the beginning of the year to ca. 6% YoY at the end (after FX adjustment). Investment loans for corporates showed high, double-digit growth, while current loans and real estate loans were underperforming, but showing significant acceleration and a positive growth rate. Loans in the household sector also rebounded quite visibly (increasing by ca. 5% YoY on average), but the pace of growth was slower as compared with corporates. The second half of 2014 brought some termination to the positive trends in this sector, but the pace of growth remained slightly above 4% YoY. The growth rate of households' deposits was relatively slower than in the previous year, but gradually gathered pace over the course of 2014. At the same time the growth rate of corporate deposits was higher than in 2013 and characterized by high volatility. In general, low interest rates in Poland did not really encourage depositors to search for alternative investment opportunities.

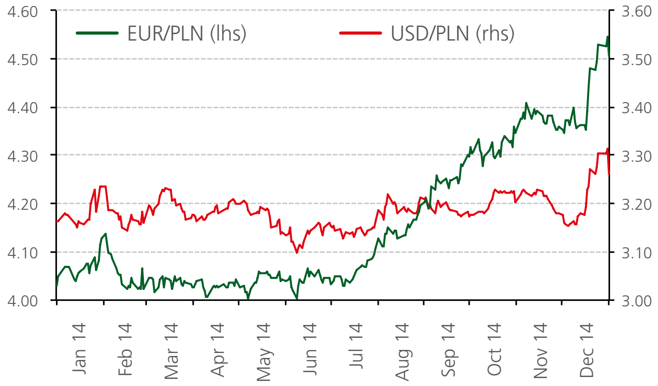
Financial markets

2014 was very turbulent in global financial markets. The Federal Reserve's decision to start tapering its quantitative easing program triggered worries over emerging markets which rely on external financing. This affected asset values in those countries and also in Poland (at the beginning of the year). Consequently, the Polish zloty and bonds weakened. Later, the market was influenced by concerns over the Russia-Ukraine conflict and this too had a negative impact on Polish assets. Over the course of the year, investor moods were also adversely affected by worries over the unstable situation in Iraq and the results of the Scottish independence referendum. However, expectations regarding future ECB and the Federal Reserve policy actions were the main market driver with suggestions that rates in the US could be hiked earlier than the market expected, having a negative impact on investor sentiment. At the same time, markets were supported by ECB monetary policy easing after the asset purchase programme was introduced. In late 2014, market sentiment was further supported by stronger expectations for an extension of the programme to include corporate and government bonds, while worries over the situation in Russia, a significant plunge in oil prices and the ruble's depreciation weighed on emerging market assets.

Yields of Polish Treasury Bonds (%)



Exchange Rate of the Zloty vs. Dollar and Euro



Falling yields in the core markets, dovish rhetoric from the MPC and low inflation were supporting Polish debt and money markets, and consequently interest rates and bond yields reached fresh all-time lows. In early 2014, some uncertainty persisted in the debt market that the transfer of bond holdings of private pension funds (OFE) to the state pension fund (ZUS) would adversely influence liquidity and that this would be reflected in prices. However, these fears proved unfounded. In June Polish assets were temporarily hit by the "tape scandal" fuelling concerns that earlier elections could be called – this had a stronger impact on the FX market than the FI market. At the end of 2014, 2Y bond yields were at 1.77% (123 bp lower than a year ago), 10Y reached 2.51% (181 bp lower than a year earlier).

At the beginning of 2014 the zloty depreciated on the back of concerns regarding the looming monetary policy tightening in the US. EUR/PLN surged to 4.25 from 4.15. Later, after some recovery, the domestic currency depreciated again due to worries over the conflict in Ukraine. Later in the year, the zloty was supported by expectations for the ECB to begin its asset purchases programme and this dragged EUR/PLN down to c.4.09, its lowest level in 2014. As the year-end approached, the zloty came under pressure due to the situation in Russia and EUR/PLN reached 4.34, its highest level over the year. Meanwhile, USD/PLN was relatively stable at around 3.0 in H1 2014 but rose significantly in the following six months amid the euro's depreciation vs. the dollar. It was close to 3.55 at the year-end.

Stock Market

Similarly to the previous year, 2014 did not bring any significant changes on the Warsaw Stock Exchange. At the end of 2014, the main stock indices held fairly steady year-on-year. The mWIG40 mid-cap index performed best (relatively speaking), yielding as much as 4.1%. Blue chips traded much worse, with the WIG20 losing 3.5% per annum. The highest losses were reported by small– cap companies, as confirmed by a 16.8% drop in the WIG250. The WIG broad market index declined slightly by 0.3% as opposed to the world stock indices which continued an upward trend. The situation in the Warsaw stock market was largely impacted by the conflict between Russia and Ukraine and structural changes in the open-end pension fund system. Another reason was the bullish treasury debt market which attracted investments away from the stock exchange. An initially subdued inflow of domestic and foreign capital turned into a slow but stable outflow from the equity market, which gradually resulted in a fall-off in trading, limited volatility and lower activity, in particular among individual investors.

Regulatory Environment of Banking Sector

KEY DEVELOPMENTS IN POLISH LEGISLATION

On 1 January 2014, the amendment to Payment Services Act of 30 August 2013 became effective. It defined the maximum amount of the interchange fee charged by card issuers from merchants via acquirers for the acceptance of domestic payment transactions (0.5% as of 1 July 2014) and set out the obligations and requirements for participants in the domestic payment services market. The law was subsequently amended on 28 November 2014 by reducing the maximum interchange fee to 0.2% for debit cards and 0.3% for credit cards (effective from January 2015).

In order to reinforce the protection of consumer rights, the following legislation was introduced: the amendment of 23 October 2013 to the Act on supervision of the financial market and certain other laws (effective from 17 January 2014) and the Consumer Rights Act of 30 May 2014 (effective from 25 December 2014). In addition, the existing consumer bankruptcy regulations were liberalized by virtue of the amendment of 29 August 2014 to the Bankruptcy and Reorganisation Law, National Court Register Act and Act on court fees in civil lawsuits, which entered into force on 31 December 2014.

Pursuant to the Reverse Mortgage Act of 23 October 2014 (effective from 15 December 2014), a reverse mortgage was introduced into the Polish legal system.

IMPACT OF EU AND THIRD COUNTRIES' LEGISLATION

The banks' operations in 2014 were significantly impacted by EU regulations and the US Foreign Account Tax Compliance Act (FATCA).

On 12 February 2014, the legally binding European Market Infrastructure Regulation (EMIR) became effective, imposing a set of obligations on financial and non-financial counterparties related to the execution of derivative transactions outside the regulated market. The legal entities which conclude such transactions have an obligation to clear them via a central counterparty, report derivatives to a trade repository, and mitigate the associated risk.

On 27 June 2013, the Capital Requirements Regulation (CRR) and the CRD IV Directive applicable from 1 January 2014 were published in the Official Journal of the European Union. The Regulation is directly applicable across EU member states but the Directive must be transposed to the Polish legal system through an amendment to the Banking Law.

The main objective of the CRD IV/CRR package was to reinforce the resilience of the financial system by way of, among other things, an improvement of the quality and value of own funds, expansion of capital requirements to include additional risks, reduction of the leverage ratio, introduction of liquidity requirements, refinement of risk management issues, additional requirements for members of the management body and limitation of variable remuneration components for persons holding managerial positions.

On 7 October 2014, Poland and the United States signed an intergovernmental agreement to expand tax cooperation and implement FATCA in Poland. FATCA requires foreign financial institutions to report to the US Internal Revenue Service certain information about financial accounts held by US taxpayers. Failure to comply with FATCA requirements will result in a 30% withholding tax on financial transfers from the US to foreign financial institutions.

RECOMMENDATIONS OF THE POLISH FINANCIAL SUPERVISION AUTHORITY (KNF)

KNF recommendations which significantly affect the operations of banks include Recommendation S, U and D.

KNF Recommendation S of 18 June 2013 regarding best practice in the management of mortgage-secured credit exposures (effective as of 1 January 2014) promotes sustainable mortgage-backed lending while ensuring its security.
KNF recommended rules that curtailed FX mortgage lending and introduced more stringent requirements relating to the LtV ratio, minimum down payment and lending period.

The objective of Recommendation U issued on 24 June 2014 is to provide regulation to the bancassurance market. The regulation is aimed to prevent conflicts of interest by forbidding banks to combine the role of an intermediary and that of an insuring party. Furthermore, it makes recommendations on fees to be charged by banks for offering insurance products. Focus is also placed on the freedom of customers to choose an insurer and on reliable information to be provided in the process. The Recommendation is set to come into effect on 31 March 2015.

On 31 December 2014, an amendment of 8 January 2013 to KNF Recommendation D on IT management and security of IT infrastructure in banks became effective. The amendment was necessary in view of the advanced development of information technologies and banks' increasing dependence on IT solutions.

IV. DEVELOPMENT STRATEGY

1. STRATEGY OF BANK ZACHODNI WBK GROUP

In 2014, Bank Zachodni WBK Group pursued its strategy for 2013-2015 with the support of the Next Generation Bank Programme, under which new solutions are steadily implemented with the primary focus placed on the needs and expectations of customers and effective cooperation between the bank's units ensuring a superior customer experience.

The existing strategy of Bank Zachodni WBK Group was verified in order to formulate a new three-year concept (2015-2017), taking account of new challenges emerging in the external environment and arising from the evolution of the Group's structure and its development objectives. The new strategy is a continuation of the previous course of action, based on the same values and assumptions. The fundamental element of the strategy is the Next Generation Bank Programme which promotes a customer centric culture in business management.

Vision and Mission

BZ WBK Cultural Framework

MISSION	To help people and businesses to prosper
AIM	To increase market share and to maintain the leadership in terms of profitability
HOW	Simple, personal, fair
VALUES	Customer satisfaction, employee engagement, innovation, strength, leadership, ethics

In line with its vision, Bank Zachodni WBK seeks to increase its market share and maintain its leadership in terms of profitability, while becoming the bank of satisfied customers and people working with passion.

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

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

As part of its strategic vision, the Group intends to:

- provide unparalleled customer service to build customer loyalty and satisfaction, with an increased focus on affluent personal customers
- significantly diversify its income sources, while maintaining a 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
- grow a highly profitable and top quality credit portfolio
- maintain its leadership position in the mobile banking market and continue the development of products and services available via electronic channels
- increase operational synergies within Bank Zachodni WBK Group in connection with the incorporation of Santander Consumer Bank
- set up BZ WBK mortgage bank
- achieve the highest level of employee satisfaction on the basis of robust corporate culture and support from the strong management team.

To deliver its vision, Bank Zachodni WBK Group will pursue the following goals:

- enhance its presence in the Polish banking sector and strengthen its market position as the third largest bank in Poland
- expand the range of products and services offered and improve customer service and the overall customer experience
- maintain strong profitability ratios on the back of diversified income sources, an effective cost management policy and revenue synergies
- gradually improve its total assets, ensure stable funding sources, and maintain a solid capital position, as evidenced by a comfortable capital ratio
- achieve best-in-class efficiency and productivity ratios by leveraging Santander Group's economies of scale
- build a reputation as the best employer in the Polish banking sector by continuously developing staff expertise and engagement
- maintain the loan-to-deposit ratio below 100%
- further reduce the cost-to-income ratio through the active management of revenues and expenses.

The key measures of success for the Group's 2015-2017 strategy are as follows:

- completed transformation of the bank into a customer-centric institution focused on customer needs
- achievement of higher rates of return than the competition
- maintenance of net profit growth on a year-on-year basis from 2015 to 2017
- increase in ROE and continued rigid cost management policy
- delivery of the vision of the bank of satisfied customers and people working with passion.

2. NEXT GENERATION BANK PROGRAMME

Main Assumptions

The Next Generation Bank Programme (NGB) was launched in October 2013 to deliver projects aimed at strengthening the position of Bank Zachodni WBK as the first-choice bank in accordance with the adopted strategy. To that end, intensive efforts had to be taken to transform the Group towards a customer-centric organisation (focused on customer needs) which employs well-motivated, engaged and collaborating people.

The main features of the Programme:

- Dialogue with customers, centred on their needs and concerns, with messages tailored to the customer's personal circumstances; the bank perceived by the customer as a trusted partner.
- Personalised and proactive offers originating from a holistic knowledge of customer needs throughout their lifetime cycle, taking account of their risk profile.
- A customised proposition with simple-to-understand and transparent product features.
- A uniform and personalised customer experience, making it simple to interact with the bank across multiple available channels, at a time and place of the customer's preference.
- A way of pricing that is fair and transparent to the customer, based on the value of the relationship; the proactive communication of alternatives.
- Using knowledge of the customer (consolidated across multiple interactions) to define, meet and exceed expectations, especially in key moments of their lifetime cycle.
- IT solutions designed and optimised around the needs of the customer, making critical processes fast.
- The customer perspective as a key factor in organisational design, by hardwiring customer satisfaction into incentives throughout the organisation.

Initiatives delivered in the key streams of the Next Generation Bank

RETAIL BANKING

The initiatives delivered by Retail Banking in 2014 included modification of retail customer segmentation criteria, expansion of the product proposition and streamlining of the customer service model for VIP and SME customers (dedicated products; set-up of the Affluent Clients Service Centre; specialist branch services for individual segments; access to the SantanderTrade portal for business customers). An important change was the implementation of an innovative measure in the Polish market – "linkage" (strength of relationship) – which looks at the number of products held by customers, their activity and transactions made. As part of the NGB Programme, the bank increased the effectiveness of service quality improvement techniques and tools. An example of this are more diversified forms of service quality assessment and the implementation of new service quality standards and training tools. For the first time in the bank's history, over sixty thousand customers provided their feedback on different products and services, and this was used to modify the bank's offer and procedures.

Changes were introduced to the branch work schedule to focus on the development of long-term customer relationships, customer excellence and multi-channelling, and also to increase the accountability of advisors in all their dealings with customers (in line with the Advisor-Entrepreneur model).

Lastly, the bank implemented changes recommended by branch employees during focus meetings, including centralisation of selected branch processes, optimisation of credit delivery for business customers and new support tools for advisors (over 260 ideas in total).

BUSINESS & CORPORATE BANKING AND GLOBAL BANKING & MARKETS

The Business & Corporate Banking Division delivered a number of initiatives aimed at transforming its services and processes so that they better suit customers' needs. This transformation programme was delivered via four streams: Sales Force Efficiency, Cross-Selling Tools, Service Quality and Incentive Schemes. The first roll-out phase included, inter alia, changes to the work schedule of Corporate Banking Centres, process streamlining, development of cross-selling tools and staff selling skills as well as modification of the incentive schemes to further support business growth and customer acquisition. The second phase focused on process simplification and efficiency based on an end-to-end approach and included, among other things, the facilitation of customer contact with the Business Service Centre, streamlining and harmonising the credit delivery process on the basis of the best practice developed by individual Corporate Banking Centres, simplification of key operational processes (e.g. central management of cash processes, central monitoring of deposits, services to key deposit customers) and launching processes to lay the foundations for the self-learning organisation model (service standard assessment, collection of customer and employee feedback, knowledge database, information management).

The Global Banking & Markets Division focused on an expansion of the collaboration with Retail Banking and Business & Corporate Banking. The divisions agreed on a co-operation model and began regular joint meetings of sales teams. As part of this collaboration with the Business & Corporate Banking Division, a series of meetings were held with customers, which resulted in joint deals. A number of initiatives were also completed with a view to streamlining the processes in the Global Banking & Markets Division.

In the longer term, initiatives delivered as part of the Next Generation Bank Programme should increase service quality, enhance customer experience, support continuous development of processes and staff competencies and boost the efficiency of sales management.

OTHER STREAMS

In 2014, the HR stream focused on the promotion of a culture of dialogue, collaboration and development of staff engagement and competencies. The initiatives implemented by the bank were related to the recruitment and induction of new employees, plus the improvement of training activities and standards for the provision of knowledge regarding products and services.

Particularly noteworthy is the development of a model for the Next Generation leader, introduction of changes in the performance review process and defining the roles of regional and branch directors.

In Q3 2014, as part of the Next Generation Bank Programme, a Multichannel CRM project was launched to develop a business approach and technology to support delivery of the customer-centric strategy of the bank. Some of the ideas include: effective campaign models based on customers' preferences for products and sales channels, automated selection of customers for campaigns and the launch of event-triggered and multi-stage campaigns. Also, solutions are being developed in terms of customer activation and onboarding processes.

3. ECONOMIC OUTLOOK FOR 2015

- The economic slowdown observed in Q4 2014 is likely to continue in Q1 2015. However, it is expected to be both slight and temporary with some pick-up in GDP growth from Q2 onwards. The GDP growth is likely to accelerate from 2.8% YoY in Q1 to 3.5% YoY at the year-end.

- The world economy, and in particular the euro zone, is expected to continue to see a recovery. An improvement in the situation for Poland's main trading partners will positively affect exports to those countries. Nevertheless, there is still a lot of uncertainty regarding the euro zone's economy and the situation in Ukraine and Greece, which may considerably weigh on economic sentiment.

- Domestic demand will continue to be an important driver of growth in 2015. The improvement in the labour market should continue with job creation and significant growth in real wages (supported by productivity increases). Nominal wage growth of ca. 3%-4% should be maintained, but low or negative inflation will support disposable incomes in real terms. At the same time, unit labour costs are expected to increase by a mere 1%-2% in 2015. Household budgets should also enjoy support through favourable rules on indexation for pensioners, higher tax allowances for families with children and low interest rates. Private consumption should be an important driver and stabilizer of the GDP growth in 2015. The biggest question mark concerns investment.

- The zloty may gradually appreciate throughout the year due to an improving economic climate. However, temporary periods of depreciation are possible in times of turbulence in the world's financial markets. At the end of the year the EUR/PLN rate is expected to be close to 4.05. The appreciation of the zloty against the Swiss franc is anticipated with the CHF/PLN rate closing the year 2015 at 3,75.

- 2015 started with deflation nearing -1.5% YoY in the first quarter, caused mainly by low global food and fuel prices. In the months to follow inflation will probably gradually increase. However, it is expected to stay below zero until Q3 or Q4 and much below the NBP target until the end of the year. The output gap remains negative, which is why a strong surge of inflationary pressure should not be expected in the near term. Weak or negative inflation growth will be favoured by sluggish price growth in the world economy and low pressure from commodity prices.

- Decelerating economic growth, negative inflation and an accommodative monetary policy from central banks across the world should encourage the Polish Monetary Policy Council to trim its interest rates by 50bps, bringing the reference rate to a record– low of 1.50%.

V. HUMAN RESOURCES AND CORPORATE CULTURE

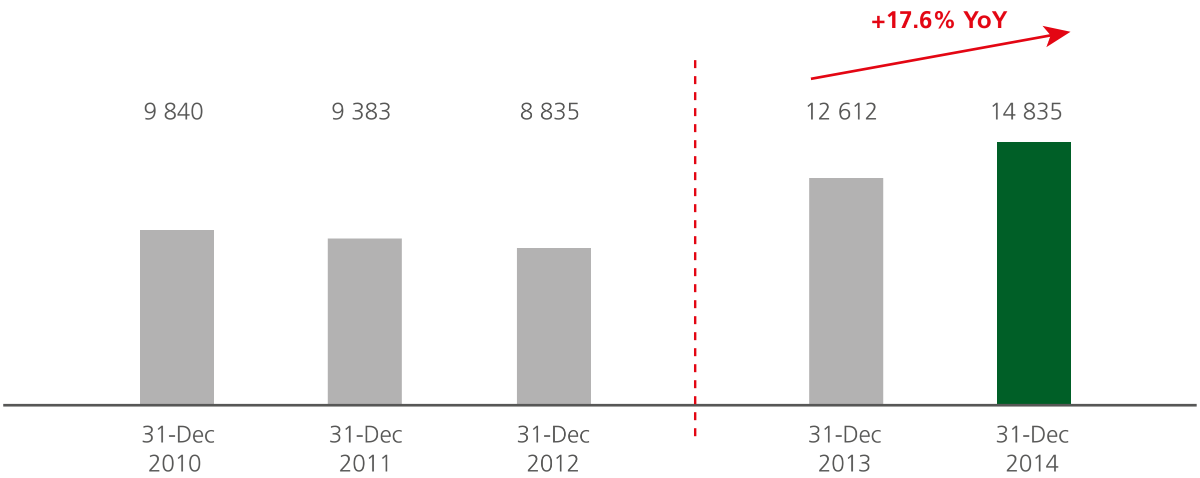
1. HUMAN RESOURCES MANAGEMENT

Human Resources

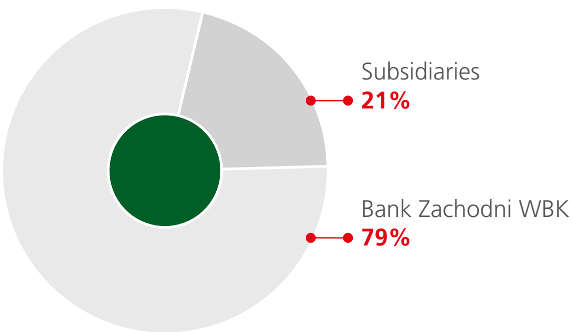
As at 31 December 2014, the number of FTEs in Bank Zachodni WBK Group was 14,835 vs. 12,612 as at 31 December 2013. Excluding 2,720 FTEs of Santander Consumer Bank, the underlying headcount in Bank Zachodni WBK Group (members of the Group prior to the acquisition of shares in Santander Consumer Bank) was 12,115 FTEs, i.e. 497 lower YoY. This decrease is due to the continued optimisation of organisational structures within the Business Support Centre and Branch Banking, taking account of current business needs and prevailing market conditions.

Human capital of Bank Zachodni WBK Group is created by highly-qualified, experienced and committed specialists, experts and managers who successfully deliver on their business goals, with a continuous focus on personal and professional development.

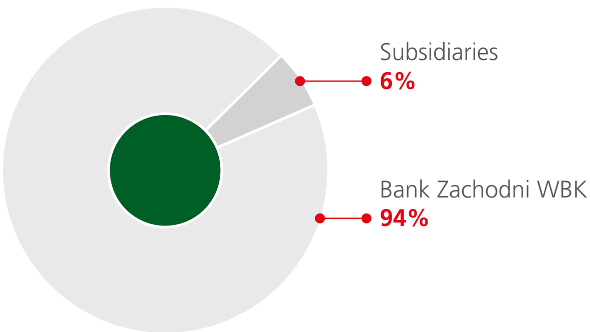
Employment in BZ WBK Group in Years 2010-2014 (in FTEs)



Employment Structure in BZ WBK Group as at 31.12.2014



Employment Structure in BZ WBK Group as at 31.12.2013



HR Policy and Its Delivery

RECRUITMENT

In 2014, a new recruitment model was introduced consisting of proactive recruitment in the labour market based on social media (GoldenLine, Linkedin), career fairs, events organised by universities, science clubs and career services. In 2015, the bank plans to launch its Referral Programme, foster cooperation with universities and high schools and deliver new employer branding initiatives to increase awareness of the Bank Zachodni WBK brand among students, graduates and prospective employees.

In 2014, the Induction Programme for customer and business advisors was revamped to facilitate the induction of new recruits into their job.

REMUNERATION AND INCENTIVE SYSTEM

Bank Zachodni WBK pursues a transparent remuneration policy based on sector best practices 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 bank's strategic objectives and to ensure that staff are adequately motivated, bonus schemes have been put in place. They are linked to the results of respective units as well as the performance and delivery of individual objectives.

Management Board members are covered by a separate bonus system which is related to the financial and operational performance.

In 2014, a new edition of the long-term (three-year) share-based incentive scheme was launched (see below for more details).

PERFORMANCE SHARE PROGRAMME

Awards under the three-year 4th Incentive Scheme

Pursuant to AGM Resolution no. 40 of 16 April 2014, confirming achievement of the stated vesting targets under the three-year 4th Incentive Scheme approved by the AGM of 20 April 2011, the bank's share capital was increased through the issue of 305,543 series K ordinary bearer shares with a nominal value of PLN 10 each. The shares were issued via a private placement and were offered to 468 eligible participants of the 4th Incentive Scheme indicated in the Supervisory Board's resolution. The subscription period was from 18 April 2014 to 19 May 2014 and the shares were allocated on 21 May 2014. The capital increase was registered in the National Court Register on 11 July 2014.

ADOPTION OF THE 5TH INCENTIVE SCHEME

On 30 June 2014, an Extraordinary General Meeting of Bank Zachodni WBK introduced a three-year 5th Incentive Scheme beginning in 2014 and addressed to the bank and subsidiary employees that have a key contribution to the value of the organisation. The main objective of the programme is to retain and motivate the top-performing executives.

The Incentive Scheme covers all Management Board members of the bank and no more than 500 key employees of Bank Zachodni WBK (as at 31 December 2014) indicated by the Management Board and approved by the Supervisory Board. 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 per share provided that certain economic criteria are met. For the award to be granted, the bank must achieve a defined net profit growth rate in 2014-2016. Persons who are covered by the EU's regulations on variable remuneration components and have a significant impact on the risk profile of the Group are additionally required to achieve a defined RoRWA ratio in the respective years of the programme. For the purpose of the scheme, the bank will issue up to 250,000 performance shares.

The three-year long 5th Incentive Scheme is monitored to check if any of employees have lost their participant status. The usual reason for the loss of such status is a termination of employment, either with the bank or another entity of BZ WBK Group. As at 31 December 2014, no participant in the 5th Incentive Scheme lost their participant status.

PERCEPTION OF THE BANK AS AN EMPLOYER

Bank Zachodni WBK was included among Poland's top 30 employers in the "business" category Ideal Employer Ranking based on a global Universum Student Survey. It is the biggest survey among students in Poland of their future career plans and employer expectations. The purpose of the survey is to evaluate how employers are perceived in Poland's labour market and what factors make them attractive to students.

Training and Development Programmes

The Training, Development and HR Communication Area of the Business Partnership Division (formerly the HR Management Division) provides top-quality development programmes and business-as-usual training (both traditional and remote) which support the development of employees and executives of Bank Zachodni WBK and contribute to the delivery of the bank's strategic goals and key business projects.

Compliance with strategic and training objectives is ensured through the central planning and co-ordination of training – a process actively supported by branch banking and key business areas. Training and development processes are delivered in stages, starting from the analysis of the individual needs of employees (in the context of business tasks within particular units) through to planning, delivery and assessment of the results.

Employees have access to a wide variety of tools which help foster professional development, such as remote training (e-learning and webcasts), workshops (internal and external), language courses, postgraduate studies and specialist courses. An important element of staff development is the practical application of acquired skills and knowledge sharing within the team.

STRATEGIC TRAINING PROGRAMMES AND ONGOING TRAINING COURSES

As part of training activities for Branch Banking, 329 initiatives were delivered, including three strategic training programmes:

- "Quality first" – a programme for branch managers focused on the customer centricity strategy and service quality (including "5 Customer Service Principles" formulated to support customer advisors in their day-to-day tasks).
- "Practice makes perfect" – a programme for branch managers giving an insight into sales coaching for advisors as per the New Branch Energy agenda.
- 5 credit training sessions – a programme for branch employees designed to induct them into the SME lending process. The participants received certificates and were granted lending discretions.

The workshops for the Business Support Centre covered such issues as security, accounting and finance, operational risk, audit, sales strategies, law, IT and interpersonal skills development.

The number of training hours came to a total of 443.4k i.e. 37.4 hours or nearly 5 working days on average per each employee. The number of attendees totalled 108.4k, 15% of which accounted for workshops and the remainder for remote training. The bank also continued activities aimed at developing the competencies of BZ WBK Partner outlet agents (66 training groups and 679 attendees).

PERIODIC DEVELOPMENT PROGRAMMES FOR EXISTING AND FUTURE MANAGERS

In 2014, Bank Zachodni WBK continued its development programmes for existing and future managers, including: Leaders of the Future programme designed for employees that will prospectively take on management and expert roles, a support programme for employees who received top performance ratings, a programme for newly appointed managers and local development initiatives responding to the specific needs of divisions and regions.

NEW MANAGEMENT STYLE PROGRAMME

The purpose of the New Management Style Programme is to develop managers' leadership skills so as to enable them not only to deliver business objectives but also to encourage high commitment, co-operation and innovative ideas from employees.

Leadership Styles and Organisational Climate Surveys

In line with programme objectives, in the first half of 2014, leadership styles and organisational climate surveys were carried out in the bank. Managers' skills were evaluated on the basis of feedback provided anonymously by the employees participating in the survey. In addition, the directors in charge of more complex functions took part in a survey designed to see how employees perceive the organisational climate and how it impacts the quality of their work. After the surveys were completed, individual reports on leadership styles and organisational climate were sent to managers. Managers also took part in follow-up sessions where survey results were summarised, enabling the preparation of individual plans for the development of their management skills.

In the second half of 2014, workshops were organised to develop the long-term leadership styles of middle and senior managers (to be continued in 2015). In addition, senior executives were covered by individual coaching schemes.

Engagement Survey

The assessment of leadership styles was supplemented by an engagement survey. All employees of Bank Zachodni WBK with at least six months' service in the organisation could participate in the survey by completing an anonymous questionnaire. The results for the entire organisation and individual units were released in the autumn, providing the leaders, particularly the Management Board members and the Business Partnership Division managers, with feedback on employee engagement in respective organisational units and the basis for setting and prioritising the main directions for Human Resources management.

2. BUSINESS ETHICS

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

For many years, codified ethical standards have been the fundamental element of the Group's corporate culture. Initially, they were included in the Code of Business Ethics. 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 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 2014, new regulations were introduced which supplement and extend the General Code of Conduct. They include the Anti– Corruption Programme designed to eliminate gaps in the bank's controls and promote the Zero Tolerance for Corruption policy applied across Santander Group.

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 all staff to voice any issues of concern. To that end, the bank maintains dedicated communication channels for staff to raise any matters, such as breach of ethical standards.

3. CORPORATE SOCIAL RESPONSIBILITY OF BANK ZACHODNI WBK

For many years now, Bank Zachodni WBK has been pursuing a social responsibility philosophy out of concern for the local environment. 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 business management, long-term commitment and investment for the future.

The bank's commitment to social responsibility is confirmed by its Respect Index membership of the most socially responsible companies.

Areas of corporate social responsibility of Bank Zachodni WBK

Bank Zachodni WBK pursues a policy of corporate social responsibility focusing on:

- support for universities, academic research and entrepreneurship,
- support for local communities,
- environmental protection,
- active two-way communication with stakeholders: customers, employees, business partners, local communities and investors,
- charity initiatives and financial support for socially important projects via Bank Zachodni WBK Foundation.

The overriding goal of all social projects delivered by the bank is to build a civil society which is self-conscious, enterprising and active. In the pursuance of the above objective, the bank delivers initiatives which are mainly aimed at young people. The two major projects dedicated to the above group include:

- School Card – a project aimed at the enhancement of security in schools by preventing unauthorised access. The bank provides schools with an access control system using contactless prepaid cards (known as School Cards) which combine the features of an ID card and electronic key, a library card, a payment card and a public transport pass or ticket. All schools which join the project benefit from a special educational programme, including economics lectures delivered by the bank's experts.
- Santander Universidades – a flagship project dedicated to students, PhD students, academics, administrative staff and graduates. The Santander Universidades Programme was launched in Poland in 2011 as part of the global initiative of Banco Santander delivered over the past 17 years. The idea behind the programme was to invest in the development of communities in the countries in which Banco Santander operates.

A large number of social programmes are delivered via Bank Zachodni WBK Foundation which started some 17 years ago. Particularly noteworthy are the two largest grant programmes:

- The "Bank of Children's Smiles" initiative focuses on organisations which help children from dysfunctional, unemployed or poverty-stricken families, as well as supporting institutions such as NGOs, community centres, local administration units and schools.
- The "Bank of Ambitious Youth" initiative designed to help young people who are in the process of developing their social attitudes to understand the needs of local communities, define objectives, create task forces, solve problems and deliver projects at a local level.

In 2014, Bank Zachodni WBK and BZ WBK Foundation ran a Poland-wide grant project addressed to local communities: "Here I live, here I make changes". Media partners included: TVN and Polskapresse (a nationwide local newspaper publisher). As part of the project, 160 events were held in 160 cities. In all, the bank awarded 305 grants to the winning local initiatives aimed to improve the quality of life in the municipality, district or city.

In May 2014, Bank Zachodni WBK published the first CSR Report for 2013, which had been prepared in accordance with GRI (Global Reporting Initiative) Guidelines including a sector supplement. The report covers four areas which are fundamental from the bank's perspective, namely: employees, market environment, local communities and environment. The report presents in detail the initiatives and projects delivered by Bank Zachodni WBK such as: Santander Universidades, School Card, Barrier-Free Banking programmes, the activity of BZ WBK Foundation and measures taken with regard to environmental protection and improvements to the accessibility of services for customers. The next CSR Report for 2014 will be released in May 2015.

4. RELATIONSHIP WITH CUSTOMERS

Quality Management

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

CUSTOMER EXPECTATIONS AND FEEDBACK

In 2014, the overall customer satisfaction index of Bank Zachodni WBK held steady on 2013. However, contrary to the previous year, it was measured continually from January to October, whereas the results were broken down into the periods of January-May 2014 and June-October 2014. The customer satisfaction survey carried out by the bank is based on quality attributes grouped into the following areas: brand image, customer relationship, service quality, scope and terms of service, main distribution channels and key customer segments. The methodology used by the bank is consistent with the practice adopted across Santander Group.

A significant change in the approach to the management of customer satisfaction and service quality in Bank Zachodni WBK was the implementation and delivery of a customer experience management programme. The programme, which covers both personal and business customers, was designed to assess the customer experience on an ongoing basis, from customer onboarding, the selection of an offer, teller operations, the purchase of services in individual distribution channels, to the assessment of the complaint procedure. Customer opinions are used by the bank to adjust the products and service model accordingly.

The results of customer satisfaction surveys and customer feedback are available in real time. More than 1.3k employees at different organisational levels are authorised to use such information in order to propose improvements and remedial actions. Where a customer is not satisfied with the service received, the issue is promptly investigated.

NEW CUSTOMER SERVICE QUALITY

In 2014, new customer service standards were implemented across the bank's branches, Partner outlets, helpline and VIP and SME segments. The rules were formulated on the basis of best practice and experience of the bank's staff as well as the results of customer surveys. In relation to the above, regular communication initiatives were delivered, a series of training sessions were organised for front-line staff and appropriate tools were provided to employees and managers.

The implementation of these new standards was supported by a team of macroregional service quality managers appointed in February 2014 as part of Branch Banking, who were responsible for delivery of corrective actions in respect of services and satisfaction of branch customers, implementation of the training programme to build up branch staff competence in relation to customer needs analysis and development of sales skills.

In 2014, the bank implemented more than 60 initiatives designed to improve service quality and customer satisfaction in the multi– channel approach.

Barrier-Free Banking

In 2014, the bank continued the "Barrier-free Banking" programme to enhance disabled customers' experience with BZ WBK in all contact channels (branch, phone, Internet or ATM). The bank systematically breaks down barriers and introduces facilities for disabled customers.

The standards of services for disabled customers include the opportunity to arrange an advisor's visit at the customer's home or workplace, and dedicated points in branches certified for accessibility where disabled customers are served first. In 2004, branch employees delivered a number of local initiatives for the disabled, including banking education projects.

In pursuance of the Barrier-Free Banking idea, in 2014 Bank Zachodni WBK adjusted selected advertising and educational contents to the needs of hearing-impaired customers and those using sign language to communicate. BZ WBK was also the first bank in Poland to launch a video chat facility for hearing-disabled individuals who use Polish sign language (September 2014). Lastly, technical audits of branches were carried out in order to improve the accessibility of disabled customers.

Marketing and Communication Campaigns

In 2014, Bank Zachodni WBK reinforced its position as the third most recognised brand in Poland with a spontaneous awareness level of 39%. Effective advertising campaigns enabled the bank to substantially increase the awareness of the bank's ads (from 24% in 2013 to 33% in 2014), securing third position in the market.

Concurrently, Bank Zachodni WBK strengthened its leadership position in social media. At present, BZ WBK is the most-liked Polish bank on Facebook, with more than 194k followers. The bank was also awarded the Socially Devoted certificate by the prestigious analytical company Socialbakers, in recognition of its effective communication on Facebook.

In 2014, Bank Zachodni WBK continued advertising campaigns featuring famous actors to promote personal accounts, SME loans and cash loans.

The bank also took measures to strengthen cooperation with business and corporate customers, including periodic meetings to support sales, build relationships and improve the image of Santander Group as a business partner. Lastly, the bank organised 12 road shows for prospective corporate customers in 12 corporate banking centres.

Moreover, eight dedicated marketing projects were delivered to communicate with a large audience in a non-standard way. They included, in particular, advertisements designed for retail and SME customers published in Interia web portal, as well as periodicals and dailies. The purpose of the projects was to inform customers and promote loans for individuals and SMEs as a way to fulfil one's dreams and gain advantage.

In 2014, as part of the 6th edition of the Poland-wide programme "Entrepreneur Academy" Bank Zachodni WBK continued with the series of free education and information workshops for company owners. The theme of this year's workshops was "Winning strategy on the business battlefield". In the period from February to June 2014, 50 workshops were delivered across Poland and these were attended by nearly six thousand entrepreneurs from SME and corporate sectors.

5. AWARDS, RECOGNITIONS AND POSITION IN RANKINGS

Bank Zachodni WBK (BZ WBK)	
BZWBK24 mobile named the best mobile application of 2014	• Second place in the ranking of Money.pl (February 2014) in recognition of the innovative, unparalleled functionalities of the BZWBK24 mobile app.
Wprost Innovator 2014	• BZ WBK was awarded the Innovator title in the Finance category, in recognition of its mobile banking platform.
WIG20 Company of the Year	• BZ WBK was honoured by the stock market daily Parkiet as Company of the Year from the WIG 20 Index (19 March 2014). The award was given in recognition of a 63% return on the bank's shares and a smooth merger that positioned the bank among the top three banks in Poland with a substantially increased balance sheet total.
Banking Leader	• At the Grand Gala of Banking and Insurance Leaders accompanying the 7th edition of the annual Banking and Insurance Forum (2-3 April 2014), BZ WBK received banking world leader awards in the following categories: Best Large Bank, Fastest Growing Bank, the Manager of the Year 2013 title bestowed on the Management Board President of BZ WBK – Mateusz Morawiecki.
Golden Banker – Personality of the Year 2013	• In the "Golden Banker" competition (March 2014) organised by the Bankier.pl web portal and PayU online payments operator, Mateusz Morawiecki was awarded the title of Personality of the Year 2013 for his instrumental role in the successful merger of Bank Zachodni WBK and Kredyt Bank, creating the third largest bank in Poland and reporting record-high profits and an impressive increase in the bank's share price in 2013.
Eagle Award from Rzeczpospolita daily	• Evidence of a solid and ever stronger market position and trust from investors, customers and economists came when the bank achieved the top position in the Financial Institutions category in a prestigious ranking of Poland's 500 largest institutions.
Large Commercial Bank 2013	• Top position in the Large Commercial Bank ranking published by Gazeta Bankowa in recognition of the best performance results in the banking sector (May 2014).
Rose without a Thorn 2013	• BZ WBK received the main award from Home&Market, in recognition of the smooth handling of the merger and the noticeable growth of fee and interest income.
Golden Share Biznes.pl	• BZ WBK was recognised as the best bank in 2011-2013 (with TSR at 91%) and the best banking company listed on the WSE whose shares have tripled in value over the past 10 years.
Investor Relations Survey	• BZ WBK S.A. ranked second in the prestigious survey of investor relations organised by Parkiet (November 2014).
Responsible Listed Company	• BZ WBK ranked fifth among 18 listed companies recognised by Dziennik Gazeta Prawna, with the top position in the "responsible leadership" and "responsible management" categories.
Marketing Director of the Year – Rebranding of the Year	• The Director of the Corporate Communication and Marketing Area received an award by Mediarun in recognition of outstanding marketing strategies, the smooth merger of the two banks and "rebranding process imperceptible to customers".
Leopard 2014 Award	• Leopard 2014 Award for the most impressive banking brand creation process, was awarded to BZ WBK by professionals from the banking and insurance sector in recognition of successful marketing, creating a customer-friendly image, consistent brand promotion, a clear marketing message and communication with customers, as well as an excellent choice of world-class actors to build a positive reputation.
Best in Sales Award for structured products	• Best in Sales Award for the largest distributor of structured products in Poland in 2013 (with a 20% market share) granted at the 11th Annual European Structured Products Conference (February 2014).
TOP Brand 2014	• The bank was ranked second in a contest held by PRESS monthly and PRESS SERVICE, in the Strongest Polish Brand category.
Best cash loan	• Cash loans offered by Bank Zachodni WBK gained second place in the „Best Cash Loan" category in the fifth edition of the Golden Banker 2013 Awards organised by a web portal, Bankier.pl, and an online payment operator, PayU.
Mobile Banking for Companies 2014	• The BZWBK24 mobile application was awarded third place from the jury at Money.pl, for the functionalities which allow ATM cash withdrawals, money transfers to a mobile phone and invoice payments simply by scanning QR codes.
Crystal Dragon of Success	• Mateusz Morawiecki received the main award from the Polish Market jury in recognition of his modern approach to management, consistent strategy and business success.
Polish Brands in the Banking Sector	• The bank took the third position in the ranking published by Rzeczpospolita daily, in recognition of a 62% rise in brand value.
Innovation 2013 Award for Mobile Shopping Service	• The Mobile Shopping service – available via BZWBK24 mobile – won the Innovation 2013 award granted by representatives of the Business Forum and Technological Science Faculty of the Polish Academy of Sciences (PAN).

Dom Maklerski BZ WBK S.A./Brokerage Office (DM BZ WBK)	
Accolade for analysts	• DM BZ WBK analysts ranked second in the overall ranking of brokerage analysts published by Parkiet daily, and took the first place in the chemical, fuel and financial sectors and second place among technical analysts (January 2014).
Best Analysts Team in 2013	• DM BZ WBK analysts team topped the annual ranking of Parkiet daily published in January 2014, with the highest score achieved in the Corporate Access category.
2nd place in the ranking of the best brokerage accounts for private investors	• DM BZ WBK came second in the ranking of Best Brokerage Accounts published by Puls Biznesu daily in recognition of the high quality of customer service (mobile application, long call centre business hours, availability of customer service points and the AmiBroker program for technical analysis).

Third Top Performance in the Sector	• Third position in the ranking of domestic brokerage houses reporting the highest net profit (Parkiet, April 2014).

BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. (BZ WBK TFI S.A.)	
Alfa 2013	• In 2014, Analizy Online established the Alfa Awards to honour the achievements reported in the mutual funds market in 2013: the manager of Arka Prestiż Obligacji Korporacyjnych (corporate bonds sub-fund) received the Alfa 2013 award for the Best Corporate Bonds Fund.
Four stars for Arka Prestiż Obligacji Korporacyjnych	• The rating of Arka Prestiż Obligacji Korporacyjnych was upgraded to four stars by Analizy Online (August 2014), in recognition of the fund's above-average performance.

BZ WBK AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. BZ WBK AVIVA Towarzystwo Ubezpieczeń na Życie S.A.	
Customer Friendly Company	• BZ WBK-Aviva companies received the Customer Friendly Company award for the fourth time in a row (June 2014) based on the results of an independent audit conducted to reward companies committed to customer satisfaction. BZ WBK-Aviva companies were recommended by customers for their services, short turnaround times and insurance products.

BZ WBK Faktor Sp. z o.o.	
Gold Customer Accolade (Złoty Laur Klienta)	• BZ WBK Faktor again received the Gold Customer Accolade in the Factoring Services category (April 2014), which confirms the top quality of services and popularity of the brand among customers.

Santander Consumer Bank S.A. (SCB)	
Operational Efficiency	• SCB received the main award in the Operational Efficiency category, granted by Bank monthly as part of the ranking of the 50 biggest banks operating in Poland.
Good brand 2014	• SCB was recognised for its cash loan product in a ranking announced by the Rzeczpospolita daily (Biznes Trendy section) and Dziennik Gazeta Prawna (Forum Biznesu section) under the patronage of PAN.
Customer Friendly Company	• SCB was awarded this accolade following an independent customer satisfaction survey organised by the Management Observatory Foundation.

VI. BUSINESS DEVELOPMENT

1. RETAIL BANKING

Personal Customers

NEW SEGMENTATION OF PERSONAL CUSTOMERS

In 2014, Bank Zachodni WBK modified the segmentation criteria for personal customers in line with the objectives of the Next Generation Bank Programme. Apart from the existing Private Banking segment handled by the Wealth Management Department, a VIP segment was created to provide tailored products and services to affluent customers on the basis of a dedicated customer service model. Proactive portfolio management supported by a suite of relevant tools is expected to enhance customer loyalty and brand awareness in this segment.

INITIATIVES AIMED AT STANDARD CUSTOMERS

PERSONAL ACCOUNTS

In 2014, Bank Zachodni WBK attracted new business on the basis of its existing range of personal accounts. Throughout the year, the bank sold 492k PLN and FX accounts, which placed it among the market leaders in terms of new personal accounts opened. The flagship products in the bank's portfolio of personal accounts were the Account Worth Recommending (Konto Godne Polecenia), Account 1|2|3 and Active 50+ Account. In 2014, all of these accounts were covered by marketing campaigns and promotional initiatives.

The Worth Recommending was particularly popular among young people. The account bundled with a student credit card and BZWBK24 mobile services was the core element of the Student Starter package rolled out across Polish universities.

The Account 1|2|3 package continued to be a unique selling proposition within the Polish marketplace thanks to its attractive interest rate and a money back mechanism for bills settled with funds accumulated in the account.

SAVINGS AND INVESTMENT PRODUCTS

Deposits

Bank Zachodni WBK has a comprehensive range of deposit accounts consisting of standard and progressive term deposits, structured deposits and savings accounts.

In 2014, the bank adjusted its products and pricing in response to changing market conditions, and in accordance with its own liquidity management objectives and the target time structure of liabilities. These changes were designed to strengthen and stabilise its deposit base and to expand and add value to the relationship with its deposit customers. A particular focus was placed on an expansion of the deposits supporting cross-selling and linkage.

In the first half of 2014, in order to strengthen the deposit business with loyal customers, the bank implemented a new negotiated deposit model taking account of the strength of each customer relationship. The bank also continued its efforts to increase the average tenors of term deposits and introduced long-term deposit products, such as the attractively priced 12-month Mobile Deposit launched in February 2014 via the BZWBK24 mobile application or the 12-month Deposit with a Card, which supports the sale of credit cards (June 2014).

In Q3 2014, Bank Zachodni WBK undertook intensive efforts to acquire new customers and deposit funds, and to increase the strength of the relationship with its customers. In August 2014, the bank launched an attractively-priced, four-month New Easy Earning Deposit (Nowa Lokata Swobodnie Zarabiająca) for customers who deposit new funds. To enhance its relations with customers, the bank was offering this deposit with selected products under a sales promotion initiative ("4% Guarantee"), rewarding transactional activity of customers. To enhance its relations with depositors, the bank was offering this deposit with selected products under a sales promotion initiative ("4% Guarantee"), rewarding transactional activity of customers. Changes in the deposit offer were accompanied by a marketing campaign delivered by bank branches, and using mesh banners or ATM screens. In effect, in the period from August to October 2014, more than PLN 5bn of new funds and 30k new customers were acquired.

Starting from November 2014, focus turned to the retention of maturing bank deposits and the development of long-standing relationships with customers. Bonus Deposits were added to incentivise customers to actively use BZ WBK products, both settlement and savings/investment products, and earn adequately high interest in return.

Throughout 2014, the total balance of retail deposits increased by PLN 5.5bn or 11.5% YoY to take up a market share of 9.2% at the end of 2014.

STRUCTURED DEPOSITS

In 2014, Bank Zachodni WBK continued to sell structured deposits with a wide variety of tenors and underlying instruments to suit customers' needs. The bank was the first in Poland to introduce structured deposits with yields linked to the FTSE100 stock exchange index and structured deposits whose interest rates depend on EUR/PLN or USD/PLN rates.

The bank maintained its leading position in the Polish market of structured products, both in terms of subscription numbers and acquired cash volumes, which was affirmed by the Best in Sales award received during the European Structured Products Conference (6 February 2015). In 2014, eighty-two subscriptions were held in total, providing customers with 152 products of various tenors (6 to 24 months) and yields linked to currency exchange rates or stock indices. All these products ensured 100% capital protection at the end of the deposit term. These subscriptions brought in more than PLN 1.8bn, including PLN 1.5bn from the segment of standard personal customers.

54 subscriptions were prepared for standard personal customers, including:

- In 24 subscriptions, the bank offered deposits where the interest rate was linked to the EUR/PLN or USD/PLN rate and was also dependent on the investment strategy adopted by the customer: appreciation, depreciation or stabilisation of currency
- In 26 subscriptions, the yield was linked to stock indices: FTSE100, S&P500, SX5E, IBEX35, SX7E and DAX
- 4 subscriptions of FX structured deposits paid interest depending on EUR/PLN or USD/PLN rate.

Other subscriptions were dedicated to the segment of personal VIP customers (24) and the Wealth Management segment(4).

PERSONAL LENDING

Cash Loans

Cash loans offered by Bank Zachodni WBK are individually priced on a case-by-case basis, with a competitive minimum pricing of 7.99% p.a. The bank's cash loan proposition is distinctive by its efficient processes, especially the short turnaround times.

In the Golden Banker Awards 2013, a consumer competition held by Bankier.pl and PayU S.A. in March 2014, the bank's cash loan was ranked second in the Best Cash Loan category.

In 2014, Bank Zachodni WBK optimised its cash loan sales process while strongly focusing on promotional and advertising campaigns.

From February to October 2014, the bank promoted the DUET loan, a seasonal cash loan bearing a dual interest rate (12% p.a. and 6% p.a.) depending on whether it was granted to one borrower or two co-borrowers. Sales of this loan were supported with two multimedia campaigns, taking place between February and March 2014, and between August and September 2014.

The advertising campaign for cash loans held in May and June 2014 was run under the slogan "Cash at High Tide in Summer", emphasising short turnaround times (10 minutes) and promoting cash loans available "by click" in BZWBK24 electronic banking ("0% fee by click loan"). Due to a wider awareness of internet banking functionalities, CRM campaigns and modified process for the construction of pre-approved offers, in 2014 "buy by click" sales of cash loans increased by 56% YoY.

Between November and December 2014, a multimedia Christmas campaign was held, with an advertising message focused on promoting the Christmas Lottery. The campaign was targeted at customers availing of a cash loan with Worry-Free Loan insurance.

With the aid of this campaign, in 2014, Bank Zachodni WBK achieved cash loan sales of PLN 3.7bn, which is 7% higher than a year before.

Mortgage Loans

In accordance with the bank's long-established lending policy (brought in line with the amended KNF Recommendation S on best practice in the management of mortgage-backed credit exposures), mortgage loans are provided exclusively in the currency of the customer's income. In consequence, the bank's mortgage lending proposition includes loans mainly in PLN. 2014 saw the following new products and solutions launched:

- In March, the bank implemented housing loans with subsidies from the National Fund for Environmental Protection and Water Management intended to finance partial repayment of the loan principal; in this way the bank became involved in the efforts designed to support energy-efficient construction.
- In July, the bank's mortgage loans portfolio was expanded to include a loan product offered under the "Home for the Young" programme with down payment subsidies, in line with the provisions of the Act on State aid for first-time home buyers of 27 September 2013.
- Borrowers who have loans denominated in CHF or indexed to the CHF rate were offered a special early repayment option (September-November 2014) or an option of the loan currency conversion into PLN based on the mean NBP rate (from 1 January 2014) with no extra fees.
- In early June 2014, a Mortgage Sales and Service Team was set up in the Telephone Banking Centre as a contact point for existing and prospective customers inquiring about Bank Zachodni WBK mortgage loans or applying for a preliminary credit decision. Thus the range of distribution channels in which customers may get a credit decision without leaving home was expanded.

In 2014, the bank was selling mortgage loans through its own branch network and through credit agents and housing property developers. The adopted sales model combines high customer service standards with an efficient underwriting process characterised by short turnaround times.

Owing to the bank's strong competitive position in the home mortgage market and benefiting from a favourable macroeconomic environment, in 2014, the sale of mortgages, measured by the value of positive credit decisions, was PLN 3.8bn and increased by 27% YoY. In 2014, the bank's share in the home mortgage market was around 7.5%.

INITIATIVES AIMED AT VIP CUSTOMERS

PERSONAL ACCOUNTS

In March 2014, the bank's product range was expanded to include a new VIP Account which is offered free of charge to customers with minimum monthly inflows of PLN 10k. Likewise, no fees are charged for the associated products and services, including: Visa Electron VIP with its Safe Money Financial Insurance Package, cash withdrawals with Visa Electron VIP cards from any ATM in Poland and abroad, transfers to accounts with Bank Zachodni WBK or other banks, and standing orders. VIP Account holders may also avail of other free-of-charge facilities, such as a brokerage account, Gold credit card or a card and ATM withdrawals worldwide available for their children.

SAVINGS AND INVESTMENT PRODUCTS

In order to reinforce the bank's relationships with its deposit customers, in February 2014 the negotiated deposit model was modified to take into account the customer linkage information. In March 2014, Rentier Deposit was launched, allowing customers to earn a regular interest income from quarterly compounding. In June 2014, the bank introduced a Term Deposit with a Card for customers who deposit new funds and actively use their credit card. In the second half of the year, VIP customers were offered the New Easy Earning Deposit account (the main tool in the acquisition campaign started in August 2014), Deposits for Investors and Bonus Deposits available from December 2014 for customers who actively use transactional banking or savings & investment products.

In addition, VIP customers were offered structured deposits (46 products under of 24 subscriptions) with an interest rate linked to movements in USD/PLN and EUR/PLN rates and the 6M WIBOR rate.

In October, the following subfunds with three different strategies and investment risk profiles were made available to VIP customers: Arka Platinum Konserwatywny (Arka Platinum Conservative subfund), Arka Platinum Stabilny (Arka Platinum Stable subfund) and Arka Platinum Dynamiczny (Arka Platinum Dynamic subfund).

To foster long-term relationships with affluent clients, the bank offered them an all-purpose "My Future" Regular Savings Plan, charging reduced distribution fees, provided the monthly contributions are declared at an adequate level. Other investment solutions offered to VIP customers include the In Plus BZ WBK Programme and equity investments via the Brokerage Office.

CONSUMER LOANS

The bank standardised its cash loan offer for affluent customers in terms of an interest rate (now 10.99%). In addition, a fast track credit delivery procedure was introduced for customers with a minimum income of PLN 10k. Furthermore, work was underway to develop a uniform application procedure for all VIP customers.

PRIORITY PASS PROGRAMME

On 15 September 2014, Bank Zachodni WBK started a Priority Pass Programme for the VIP segment, whereby the holders of platinum credit cards (Visa Platinum and Visa Platinum Porsche) received an additional Priority Pass card for access to VIP lounges at airports across the world.

NEW DISTRIBUTION CHANNEL

In April 2014, the bank launched the Affluent Clients Service Centre – a telephone banking unit with a dedicated telephone number, which provides sales and after-sales support to VIP customers.

INITIATIVES AIMED AT PRIVATE BANKING CUSTOMERS

Bank Zachodni WBK renders wealth management services to high net worth customers based on relevant agreements. The Wealth Management Department operates from 14 offices located across Poland and offers comprehensive products and services, including brokerage, mutual funds, asset management, custodian services and a wide array of term deposits. In 2014, the investment proposition was expanded to include over-the-counter traded corporate bonds that meet specific criteria. Term deposits, whose value grew by more than PLN 500m YoY, were the most popular product among Private Banking customers.

At the end of 2014, the Wealth Management Department provided services to more than 3k customers whose investments totalled PLN 8bn. In the structure of assets managed by the Group on behalf of Private Banking customers, equitiesaccounted for 74% of all assets, followed by mutual funds and term deposits.

In 2014, the Wealth Management Department focused on strengthening its cooperation with Bank Zachodni WBK Group members and increasing customer awareness of the Wealth Management offer.

Small and Medium Enterprises

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

In 2014, the bank implemented a comprehensive strategy of building a large base of SME customers with high cross-selling and transaction volumes. The strategy was reflected in the increased activity of the bank in terms of CRM, acquisition and sales, as well as business priorities set for customer advisors. In effect, the number of highly profitable transactional customers increased by 16.3% YoY. Loan sales hit an all-time high, climbing 30% up on 2013. The number of customers effecting currency exchange went up by 26%, with the number of transactions rising by as much as 36% compared to the previous year. This strategy will also be pursued in years to come.

A number of initiatives were implemented in relation to the SME segment, which helped to improve internal lending procedures, increase access to finance (lending and leasing) and enhance the attractiveness of the bank's products and services. In addition, from early March to mid-April 2014, the bank ran a TV campaign to promote credit facilities for SMEs under the banner "We'll advise you on the best ways to finance your company". These commercials presented a wide array of financing solutions for SME customers, including business loans, lease and factoring.

In early 2014, small and medium-sized enterprises were provided with access to iBiznes24 – a high-tech electronic banking platform. The bank also expanded its range of current accounts dedicated to this customer segment:

- Since January 2014, business customers may apply for the Business Package with a Terminal, which includes a PLN account and a merchant services agreement with Elavon, indicating Bank Zachodni WBK as a settlement bank. It also offers bundled products and services such as payment cards and electronic banking services.
- In May 2014, the bank launched the MOBI Business Package for new customers who are sole traders. This includes a current account on promotional terms for a period of 18 months, coming with additional products and services such as access to the electronic banking platform and a Visa Business Electron BZ WBK payment card.

In 2014, the bank made improvements to its internal processes for international settlements, thus contributing to an increase in transaction volumes and the number of active users of trade finance and currency exchange services. In May 2014, BZ WBK provided business customers with access to SantanderTrade.com, a global platform of Santander Group which offers comprehensive information about foreign markets, applicable trade and customs regulations, prospective trade partners and business environments. The portal also allows the bank to establish direct contacts with Santander Group customers from across the world.

In September 2014, the bank was granted a credit line of EUR 100m by the European Investment Bank (EBI) for financing the SME sector (for more details, see section VIII "Financial Performance in 2014", part 2 "Financial Position in 2014". These loans are already very popular among entrepreneurs due to their comparatively low pricing.

At a conference organised on 15 September 2014 by Bank Gospodarstwa Krajowego to sum up the first 18 months of the "de minimis" state guarantee programme, Bank Zachodni WBK received an award for achieving second place in sales of this product in the market. The bank has a 20% share in the number of "de minimis" guarantees and a 15% share in the total value of such guarantees granted to date.

In 2014, the bank organised a series of 50 conferences Poland-wide as part of the Entrepreneur Academy entitled "A Strategy for Success on the Business Battlefield", attracting 6 thousand participants.

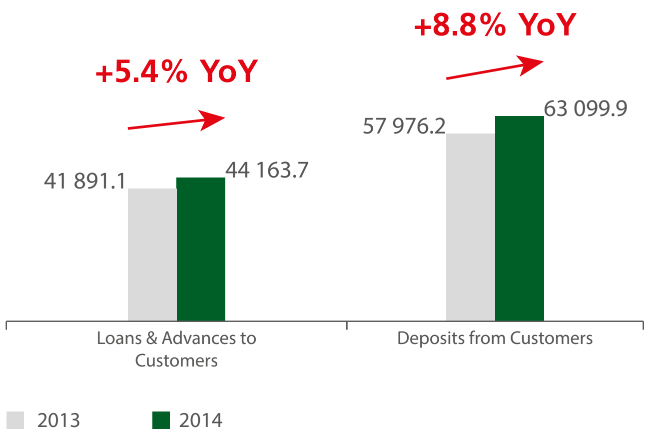
LEASING BUSINESS

Throughout 2014, BZ WBK Leasing and BZ WBK Lease financed PLN 2,825.9m worth of total net assets, which represents a 30% growth YoY and makes the company one of the largest players on the leasing market. A particularly pronounced degree of growth was recorded in the vehicles segment, where the sales of cars, trucks and large vehicles reached PLN 1,315.6m (+41% YoY). Sales of machines and equipment went up by 27% YoY to PLN 1,465.5m, mainly on the back of a very good performance in the agriculture sector (+42% YoY). With this result, the leasing companies kept their leadership position in the segment of financing machines and equipment.

These strong sales were supported by promotional campaigns run by the leasing companies, including a campaign under the slogan "Vehicles are waiting. Take a farming loan", and a special proposal for financing KUBOT and ZETOR-branded equipment.

In November 2014, a new external sales network was launched in cooperation with agents and authorised dealers. Furthermore, the leasing companies started cooperation with the bank to sell selected bank products as part of outsourcing of banking functions.

Loans & Deposits of Retail Banking Customers (PLN m) as at the end of 2014 and 2013



Financial Institutions

Bank Zachodni WBK is a major outsourcing 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. Drawing on its own experience, the bank continues its products and functionalities to suit the requirements of its customers and gradually expands its offering.

In 2014, Bank Zachodni WBK started co-operation with a new bank and expanded the scope of its relationship with its existing partners. As at 31 December 2014, Bank Zachodni WBK co-operated with more than 20 banks, managed a network of over 664 third-party ATMs and handled 3.2m Visa/MasterCard cards for third party institutions. The bank continues to extend the network of POS terminals in co-operation with its partner merchant (Elavon) to foster the growth of the Polish card payment market.

Other Elements of the Retail Banking Offer

INVESTMENT FUNDS

Given the sustained bond market rally, in 2014, customers of BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI) were particularly interested in sub-funds with debt securities component such as treasury bonds and corporate bonds. Consequently, the strongest net sales were posted by the following sub-funds: Arka Prestiż Obligacji Korporacyjnych and Arka BZ WBK Obligacji Korporacyjnych (corporate bond sub-funds), Platinum Konserwatywny (stable growth fund), Arka BZ WBK Obligacji Skarbowych (treasury bond sub-fund) and Arka Prestiż Gotówkowy (money market sub-fund).

As at 31 December 2014, the total net assets managed by BZ WBK TFI were PLN 12.8bn and increased by 14.7% YoY, driven by positive net sales and the growth in value of participation units.

The portfolio of mutual funds managed by BZ WBK TFI as at 31 December 2014 excludes Arka BZ BWK Fundusz Rynku Nieruchomości FIZ in liquidation (closed-end property market fund), which on 29 June 2014 was taken over by the liquidator. Its total net assets as per the last valuation of 30 April 2014 amounted to PLN 219.6m.

On 13 October 2014, changes to the Statutes of Arka BZ WBK FIO, announced on 12 July 2014 became effective. Consequently, three subfunds were renamed (Arka BZ WBK Obligacji Plus to Arka Platinum Konserwatywny, Arka BZ WBK Fundusz Akcji Zagranicznych to Arka Platinum Stabilny, Arka BZ WBK Energii to Arka Platinum Dynamiczny) and their investment policies were modified.

In 2014, TFI managed funds with an equity component improved their performance results. At the end of 2014, the majority of equity and mixed funds reported one-year and three-year rates with a return above the median. Amid an upturn in the Turkish equity market, Arka BZ WBK Akcji Tureckich (Turkish equity sub-fund) was ranked second on the list of top 10 retail funds (by rate of return in the period from January to December 2014) published by Analizy Online on 7 January 2015, with a yield of 34.3% (in PLN). Also, two subfunds of Arka BZ WBK FIO: Arka BZ WBK Zrównoważony (balanced fund) and Arka BZ WBK Stabilnego Wzrostu (stable growth fund) were among the six funds recognised by Analizy Online for their steadily increasing performance (ranking of funds following a review of their November 2014 performance). Both subfunds were placed in the first quartile in terms of 6-month, annual and 10– year results.

PAYMENT CARDS

In 2014, Bank Zachodni WBK incentivised customers to make card transactions through the promotion of non-cash payments among the selected customer groups as well as total population. In addition, the cards' functionality and security was increased. Among other things, the bank offered an option to disable contactless payments on credit and debit cards and implemented other recommendations of the Payment System Council pertaining to the security of contactless cards. Card holders were also given the option of managing their limits, i.e. setting daily and monthly limits for cash, non-cash and online transactions.

DEBIT CARDS

In 2014, Bank Zachodni WBK expanded its debit cards proposal for companies by implementing MasterCard Business PayPass debit and charge cards and Visa Business Electron card as part of the new Business Package with a Terminal.

In July 2014, the bank's proposition was expanded to include MasterCard Smartcard card, i.e. student/PhD student/academic ID card with payment functionality issued at the universities as part of Santander Universidades Programme.

The Santander Universidades Package prepared for Smartcard users includes the Account Worth Recommending with a Smartcard, BZWBK24 Internet electronic banking services and MasterCard Omni card. The MasterCard Smartcard may also be used as a public transport pass or ticket, a library card or a parking card. In addition, it offers access to various bonus programmes.

In Q3 2014, debit cards of retail and business customers of the former Kredyt Bank were replaced with cards fully supported by the target systems of Bank Zachodni WBK.

PREPAID CARDS

In 2014, Bank Zachodni WBK added new prepaid cards to its product range, including "My First Card" for the youth market and the "Holiday Card". The bank continued simplification of its branch sales process and the issuance of electronic Urban cards under the PEKA projects realised in conjunction with the City Transport Office of Poznań. The bank became involved in a number of large highly publicized events (Open'er Festival in Gdynia and Orange Warsaw Festival) as a co-organiser and an issuer of cards used for payments at the events. Pre-paid cards were part of new promotions and cross-sell campaigns. In addition, the bank entered into an agreement with a new partner to issue online cards sold via POS terminals.

The activities described above form part of the bank's strategy in the pre-paid cards market, whereby the bank wishes to increase the recognition of its product and consolidate its position as a leader in innovation.

As at 31 December 2014, the portfolio of Bank Zachodni WBK comprised 968.3k pre-paid cards, up by 42.2% YoY. The total number of active debit cards (including pre-paid cards) reached 4.3m, an increase of 15.8% YoY.

CREDIT CARDS

In 2014, Bank Zachodni WBK ran a number of initiatives (including PAYBACK and Ratio) to encourage greater use of non-cash payments and promote additional credit card features.

In addition, credit card functionality was extended to include new services such as the transfer of part of the credit card limit to any bank account and top-up of the available credit card limit via the Telephone Banking Centre.

The number of Bank Zachodni WBK credit cards increased by 9% YoY to 694.3k.

BANCASSURANCE

In H1 2014, Bank Zachodni WBK focused on the sale of insurance products from the bancassurance offer and higher retention of active insurance policies.

Sales grew from the main lines of insurance products connected with banking facilities, including: "Worry-Free Loan" ("Spokojny Kredyt"), "Safe Money" ("Pewne Pieniądze"), insurance package for debit cards, "Biznes Gwarant" insurance for business borrowers and credit card insurance.

Commercial activities in the bancassurance area were supported by two marketing campaigns launched in cooperation with BZ WBK– Aviva companies (including "Family Care"/"Opiekun Rodziny" life insurance, "Locum" property insurance and "Worry Free Loan" cash loan insurance). In addition, a number of sales campaigns, price promotion initiatives and lotteries were held.

In 2014, Bank Zachodni WBK worked on the finalisation of its merger with Kredyt Bank. Following the the last phase of the migration, in October 2014, all the bank's customers and their insurance products are now supported by one IT system of the merged bank. Measures were also taken to implement Recommendation U for best practice in bancassurance.

2. BUSINESS & CORPORATE BANKING

Development of Business and Banking Offer

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

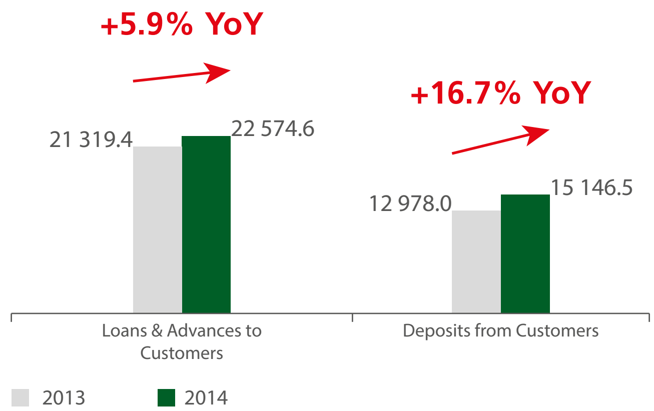
- Corporate segment with turnover of PLN 40m–PLN 500m
- Large corporate segment with turnover over PLN 500m (except for customers meeting the GBM segment definition)
- Property finance segment.

As at the end of December 2014, the Business & Corporate Banking Division provided services to the customer base of 9,000 entities from all the business sectors, supporting them in building and growing their business. Advisors from the Corporate Banking Centres in cooperation with credit partners and product specialists delivered customised solutions to those customers and comprehensive services in the area of loans, deposits, transactional banking, treasury, leasing, factoring and capital markets.

In 2014, the Business & Corporate Banking Division strengthened its market position on the back of strong business growth and an enhanced service quality proposition in line with the customer-centric strategy of the bank.

The bank's ambition is to be perceived by business clients as an institution that delivers the best solutions to them. The bank's main objectives are to achieve a growth across all business lines with a focus on increasing non-interest income, increasing its market share and consolidating its position as the third largest bank in Poland. These objectives are to be achieved by the diversification of credit portfolios and income sources while maintaining the best corporate governance practices, strengthening relations with clients, increasing cross-selling, acquiring customers from high-potential sectors (food processing, retail, healthcare), developing leasing and factoring as preferred financing methods, improving service quality and developing trade finance, deposit and transactional banking business.

Loans and Deposits of Business & Corporate Banking Customers (PLN m) as at the end of 2013 and 2014



TARGET CUSTOMER SEGMENTS

Corporate Customers

In 2014, Business & Corporate Banking continued its endeavours to consolidate the bank's image as a reliable and engaging business partner that provides finance to a wide range of customers' working capital needs and investment projects. The primary focus was on building long-term relationships with customers by supporting their current operations and offering a rich variety of products, both credit and non-credit.

In 2014, loan volumes in Corporate Banking Centres increased by 14%, significantly outperforming the market. At the same time, by expanding its offer of transaction products, the bank systematically increased its deposit base. The deposit portfolio increased by 17% vs. 9.4% market growth in 2014. One of the main focus areas in 2014 was customer acquisition – 469 new corporate customers were attracted with PLN 28.7m in revenue in 2014, 96% up on 2013. A comprehensive range of customer service initiatives were implemented in the following key areas: operational client service, credit process efficiency, quality measurement and management. This was accompanied by a continued investment in people, products and processes. In 2014, Business & Corporate Banking continued to improve cross-sell growth especially in a number of key products with high potential such as foreign trade finance, factoring, leasing and interest rate products.

Property

The bank's Corporate Property Department is a specialised team that manages relationships throughout Poland, additionally acting as product specialist for corporate and GBM clients with property activity. Their strategy focuses on three sectors: residential development, commercial development and commercial investment. Good dynamics in revenue and volume growth result from a number of activities: concentration on balance sheet volumes, new development deals and prime deals (100% success rate in winning targeted prime deals), and increasing visibility in the market (funding projects for the majority of top developers).

Large Corporate

The Large Corporate segment delivers tailor-made solutions through a complete and comprehensive customer proposition covering loans, deposits, transactional banking, treasury, leasing, factoring and capital markets products. The department manages relationships with some of market's key players. A new long-term strategy has been prepared for this segment to ensure further growth in volumes, revenues and market share.

OPTIMISATION PROCESS

The Business & Corporate Banking Division delivered over 300 optimisation initiatives as part of the Next Generation Bank Programme. In the longer term, they are expected to increase service quality, enhance the customer experience, support the continuous development of processes and staff competences and boost efficiency in sales management (for details, see the "Next Generation Bank" section, Chapter IV "Development Strategy").

Furthermore, as part of the constant improvement of the products and systems for business customers, a number of new solutions were implemented, including:

- Implementation of a credit line with capped pricing – an innovative solution that mitigates the risk of higher interest rates through a relevant clause in the credit agreement.
- Increase in the BGK (Bank Gospodarstwa Krajowego) limit for de minimis guarantees (from PLN 1.2bn to PLN 2.2bn)

that can be utilised by the bank in the corporate and SME segments. De minimis guarantees provide security cover for working capital and term loans under the BGK Portfolio Guarantee Line.

- A simplified credit delivery process for existing customers applying for up to PLN 3m, resulting in a reduction of the decision time to one day.
- Expansion of the range of products and services to include a payroll account to handle salary payments for the company's employees in a fast, timely and confidential manner.
- Modification of cash service procedures and processes, including implementation of an "auto-withdrawal" money order service for entities which make frequent cash payments to beneficiaries that do not hold a bank account or opt for cash as a form of payment.
- Increasing the ergonomics and functionality of iBiznes24, mainly in relation to the authorisation processes and transaction batch management. Giving the users of iBiznes24 access to SantanderTrade Portal.
- Introducing after-sales support for documentary credits and collections for SME, corporate and GBM customers.
- Improving the quality of remote distribution channels by implementing an alternative customer identification method in phone banking, introducing remote signatures for non-credit documentation and establishing e-mail as a legitimate communication channel between the bank and its customers.
- Continuing to develop and promote the Business Service Centre as a point of contact for customers in relation to standard and electronic banking products.

ENHANCED IMPORTER/EXPORTER PROPOSITION

In 2014, the trade finance offer was extended in liaison with Banco Santander to include access to a specialist portal – SantanderTrade.com – which is designed to facilitate the growth and trading expansion of customers. In addition, importers and exporters can get expert advice from the bank's Trade Finance Team, apply for multi-purpose and multi-currency credit lines or make operations related to cash collections, letters of credit or guarantees in a fully automated mode via iBiznes24. The enhanced offer, along with Treasury and International Desk services, ensures comprehensive support for companies involved in international trade.

As part of International Desk services, the bank organised a number of meetings (some of them in co-operation with Banco Santander) aimed at helping companies which already operate or seek to invest/find trading partners in Spain or other markets where Santander Group is present.

FACTORING BUSINESS

In 2014, the turnover of BZ WBK Faktor came in at PLN 14,427.9m (including PLN 4.4bn for non-recourse factoring) and increased by 33% YoY, which is much higher than the market, which grew at 17% YoY. The vast majority of factoring turnover was generated by BZ WBK customers. This gave the company a market share of 13% and a stable third position in the ranking of the members of the Polish Association of Factoring Companies. At the end of December 2014, the company's credit exposure was PLN 2,299.6m and higher by 36% YoY.

In view of the dynamic growth of Polish exports, in 2014 BZ WBK Faktor expanded its product proposition by two-factor export factoring including a correspondent factor in a foreign country. In order to facilitate co-operation on the international factoring market, the company joined Factor Chain International (FCI), a global organisation of factoring companies from 75 countries. In addition, BZ WBK Faktor became a member of the International Factors Group (IFG).

3. GLOBAL BANKING & MARKETS

In 2014, as in previous years, the GBM Division focused on providing end-to-end support to the bank's largest customers based on turnover. As at the end of December 2014, the active GBM customer base included nearly 150 largest companies and groups from the energy, financial, FMCG, pharmaceutical, retail, mining, chemical, household appliance and other sectors. The Division had a comprehensive proposal covering a wide range of services and products, including transactional banking, working capital, short– term and long-term financing, guarantees, M&A solutions, liquidity management and custodian services.

In 2014, Bank Zachodni WBK participated in one of the largest club deals of the Polish market, acting as a global coordinator, arranger and bookrunner for a large steel and mining group. The bank also participated in the five-year extension of a bond issue programme for a gas group in Poland, acted as a co-bookrunner in the eurobond issue of a company from the chemical sector and closed several major FX and IR hedging transactions with key clients.

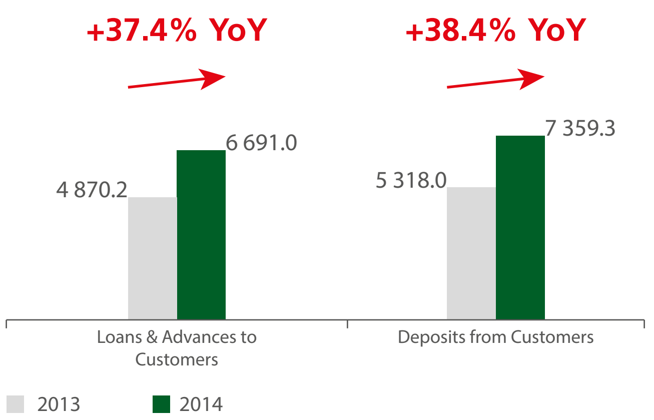
The Division exploited the opportunities coming from the global presence of Santander Group and was offering its customers relevant products available across the Group. In addition, the Division rendered services to corporations within international GBM structures and cooperated with several Santander Group units (Santander Chile, Santander USA, Santander Mexico, Santander UK and Santander Madrid) on large financing projects for groups of companies.

For example, the Division participated in financing a large acquisition in the infrastructure sector undertaken by one of its key customer. Global cooperation with Santander Group also resulted in the bank's participation in the refinancing of working capital loans (in Poland and Mexico) for an international financial services provider.

As a result of the steady expansion of the credit portfolio, as at 31 December 2014, the value of credit receivables increased by 37.4% YoY to 6.7bn while customer deposits were PLN 7.4bn, up 38.4% YoY. The Division's credit delivery was fully financed with customer deposits, with a loan to deposit ratio of 90.9%.

In addition to dealing with customers from its own segment, GBM conducted, on behalf of the bank, activity on financial markets, providing specialist financial products (including brokerage ones) to retail and corporate customers.

Loans & Deposits of Global Banking & Markets Customers (PLN m) at the end of 2013 and 2014



In January 2014, changes were introduced to the organisational structure of GBM and the key business lines. The main organisational structures of the Division include:

- Global Transactional Banking Department
- Financing Solutions and Advisory which comprises GBM Credit Markets and Corporate Finance, including Capital Markets Area and BZ WBK Inwestycje
- Financial Markets which comprises the Treasury Services, the Structured Products Bureau and the Brokerage Office.

Global Transactional Banking

Global Transactional Banking provides support to GBM customers in respect of cash management in current accounts and deposits, and financing of working capital needs. The offer also includes trade finance, guarantees, factoring, leasing and custodian services.

In 2014, the bank provided financing to companies from the energy, pharmaceutical, shipbuilding and financial sectors. It also actively cooperated with companies from the fuel, retail, food, mining and construction sectors in relation to other products and services.

Revenues under this business line grew by 50% YoY.

Financial Solutions and Advisory

The Corporate Finance Department provides advisory and analytical services in the area of mergers and acquisitions and securities issue.

Under an agreement with the European Investment Bank, the Department manages the Urban Regeneration Fund for Greater Szczecin (JESSICA Programme). As at the end of Q4 2014, nearly 66% of the committed credit line was used.

The GBM Credit Markets Department provides funding towards medium and long-term investment projects delivered by GBM customers through loans and debt issue.

In 2014, the Department provided funding for customers from the telecom, mining, power, fuel and financial sectors. The Department also worked closely with other units, both within its Division (e.g. with Global Transactional Banking) and outside it (e.g. with the Business & Corporate Banking Division).

In Q4 2014, the Corporate Finance Department successfully sold shares in Krynicki Recycling. Revenues generated by this business line increased by 31% YoY.

Financial Markets

TREASURY

In 2014, the Treasury continued its income diversification strategy based on the development of interest rate hedges. The range of interest rate hedging instruments offered by the bank was extended to include new solutions for corporate customers. Also, intensive efforts were taken to expand the scope of interest rate hedges for SME customers and mortgage borrowers. Foreign exchange continued to be the main source of revenues. The bank offered a number of new solutions to customers to hedge against currency risk in the long term. Additional tools were also introduced to facilitate foreign currency transactions made in the bank's branches. Additionally, a range of activities were undertaken to promote hedging both among corporate and SME customers.

In 2014, Bank Zachodni WBK acted as a Treasury Securities Dealer.

BROKERAGE OFFICE (FORMERLY DOM MAKLERSKI BZ WBK)

On 31 October 2014, brokerage operations were formally incorporated into the structure of the bank, which formerly acted as an agent for Dom Maklerski BZ WBK (Brokerage House) in respect of brokerage services. As a result, retail, corporate and business customers have been offered a comprehensive range of products and services. Brokerage services are now also available in branches from fully trained and certified VIP Advisors.

In 2014, the Brokerage Office launched the first product targeted at BZ WBK customers, i.e. VIP Investment Account. Particularly noteworthy is the sale of Bank Zachodni WBK shares through accelerated book-building and agency services related to the IPO of Banco Santander on the WSE. The Brokerage House also participated in the IPO of Skarbiec and in the issue of LOTOS share allotment certificates.

In 2014, the BZ WBK Brokerage Office was the third largest player in the equity and futures markets, with a 6.9% and 8.6% shares, respectively.

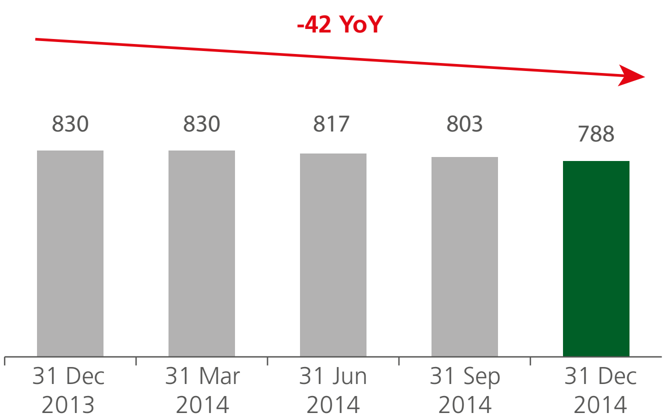
4. SELECTED DISTRIBUTION CHANNELS

Branch Network and Complementary Channels

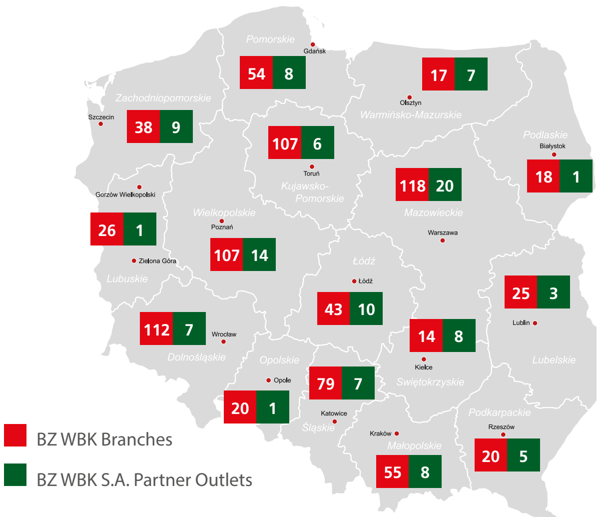
As at 31 December 2014, Bank Zachodni WBK had a network of 788 branches (physical locations), 42 down from last year. The decrease is an effect of the continued optimisation process, involving the relocation or closing of outlets. The management structure of Branch Banking is broken down into 78 regions managed by 12 macroregions.

The bank's branch network was complemented by 115 Partner outlets (113 outlets as at the end of December 2013).

BZ WBK Branch Network as at the End of Successive Quarters from **31.12.2013 to 31.12.2014**



Geographic Location of **BZ WBK Branches** in Poland as at **31.12.2014**



Business & Corporate Banking

The Corporate Banking Area, which provides services to corporate customers, is divided into three regions (North, Central and South) which correspond to respective provinces. It also includes a centralised team for large corporate customers. Each region has four Corporate Banking Centres. Management of the property segment is centralised in the Corporate Property Department in Warsaw.

The distribution network was supported by the Product Development and Operations Department and the newly established Products and Sales Strategy Area which is responsible for the development of cross-selling and the acquisition of new customers.

ATMs/Cash Deposit Machines

As at 31 December 2014, the bank's ATM network included 1,365 machines (1,385 as at 31 December 2013). In 2014, the bank continued its process of the rationalisation of ATMs, mainly through their relocation to busier and more accessible places. The bank also upgraded ATM services for foreign customers, i.e. the number of currencies available for the Dynamic Currency Conversion was increased to nine (CHF, CAD and AUD were added).

In 2014, the BZ WBK network of cash deposit machines was expanded to include an additional 161 machines installed in branches, reaching a total of 204 units by the end of the year.

BZWBK24

MOBILE BANKING

In 2014, Bank Zachodni WBK continued to deliver its strategy of mobile banking development, with the goal of becoming the market leader of this segment in Poland. The bank also contributed to industry-wide efforts to develop and promote mobile banking services and define relevant standards. Together with other signatories of the Polish Payment Standard agreement, in Q1 2015 the bank launched the BLIK mobile payments system, which is independent of international payment systems. The new system allows users to pay for goods and services in stores, make online payments and withdraw cash from ATMs.

In order to develop a distinctive offer, the bank offered upgrades and new features to BZWBK24 mobile customers, namely:

- a travel insurance product ("Na Podróż") which provides medical coverage and covers the risk of lost luggage or sports equipment while abroad
- new solutions offered as part of the Mobile Shopping ("Zakupy Mobilne") service: Sky Cash public transport tickets available in 120 Polish cities, MySafety free-of-charge protection for mobile devices and other commercial protection packages, fast track procedure for purchases via Przelew24 up to PLN 50 (no need to enter NIK or PIN), SkyCash pay and display tickets, and charitable giving via the Siepomaga portal
- new simplified procedure for device registration and log-in using PIN
- access to credit (e.g. cash loans, overdrafts and overdraft limit increases) for customers with a pre-defined credit limit arranged
- Online Advisor services available via the BZWBK24 mobile application for smartphones and tablets – enables contact with a BZ WBK advisor (via video call, audio call or internet chat).

On 23 February 2014, users of BZWBK24 Mini Firma were granted access to BZWBK24 mobile application. Previously, they could use the browser-based version of BZWBK24 mobile (phone with a mobile browser). In early April 2014, the bank introduced a fast track procedure for purchases up to PLN 50 and credit card transfers to Mini Firma users' own accounts. Starting from

14 June 2014, customers with a Moja Firma plus profile can use the dedicated mobile application BZWBK24 Moja Firma plus mobile.

In December 2014, the bank offered the BZWBK24 mobile application for tablets with the Android operating system (the application is downloadable free of charge from Google Play).

In the reporting period, BZWBK24 mobile users could take advantage of a number of special offers and competitions, including a high-paying, non-renewable mobile deposit, MySafety Mobile free-of-charge protection for mobile devices, cash loans with a reduced arrangement fee, plus competitions and special offers for customers using the BZWBK24 mobile application to do mobile shopping or make transactions.

In 2014, BZWBK24 mobile application won a number of prestigious accolades (detailed information is presented in section 5 "Awards, Recognitions, Position in Rankings" in Chapter V "Human Resources and Corporate Culture".

At the end of December 2014, the bank's mobile banking applications had 483.5 thousand users, 102.1% more than the year before.

INTERNET BANKING

In 2014, the bank launched upgraded versions of the BZWBK24 Internet platform with a set of improvements for customers including:

- an optimised transfer procedure and an opportunity to make credit card transfers to the customer's own account
- a faster application procedure for credit facilities available "by click" and an extended period of time (7 days a week from 8.00 a.m. to 8.00 p.m.) during which the facility is sanctioned and disbursed on the application date
- an opportunity to set daily and monthly limits for cash, non-cash and online transactions with debit and credit cards and enable/disable withdrawals from ATMs that are not EMV-compliant (via the reading of data from the card's chip)
- other functional changes and improvements, including a new account history browser and active access to Arka Prestiż registers
- opportunity to unblock a PIN by contacting an advisor in the Telephone Banking Centre (no need to visit the branch)
- a new screen in BZWBK24 internet providing easy access to basic information about a selected account, most frequent operations, easy re-direction to other Group sites, pre-populated forms

- Online Advisor services (also accessible via BZWBK24 mobile).
- video chats in the sign language designed to make the bank's services available to hearing impaired customers.

In 2014, Internet banking customers could avail of a number of special offers, including phone top-ups via electronic banking, Przelew24 services, lower fee on cash loans, seasonal discounts with selected partners (Special Offers) and the Christmas Card Lottery (Losomania).

Telephone Banking Centre (CBT)

In 2014, the Telephone Banking Centre focused on the following initiatives:

- implemented and delivered sales campaigns for selected products based on information about customer payment behaviour patterns
- launched sales processes regarding credit card limit top-ups, mortgage loans and Locum insurance
- promoted business and corporate banking products and services as part of outbound campaigns (information about the offer added to the sales campaigns)
- extended its range of after-sales services available via the 1 9999 helpline including: cash loans, overdrafts, acceptance of direct debit instructions, the option to disable contactless payments, change of credit card limit, repayment of credit card and consumer loans
- ran a campaign supporting the Programme for regular bank customers
- managed instructions placed by sole traders for the management of cash limits, non-cash and online transactions as well as the activation and deactivation of features
- extended the scope of support available to mobile banking customers in view of the upgraded functionality and wider access.

In 2014, the quality of services rendered by BZ WBK Telephone Banking Centre improved, as confirmed by the improvement of our ranking from 12th to 5th place in the banking helpline survey carried out by the ARC Rynek i Opinia polling institution.

5. SANTANDER CONSUMER BANK GROUP

Profile

Santander Consumer Bank is a financial institution with many years' experience and a strong position in the consumer finance sector, focused on providing households with innovative products and banking services, including deposits and insurance products.

The bank's business is based on a tried-and-tested business model with a multi-product and multi-channel approach, addressed to a diverse customer base, as well as a continuous and regular cross-selling and up-selling. The bank's offer is supplemented with car finance through leases provided by Santander Consumer Multirent Sp. z o.o., a wholly-owned subsidiary of Santander Consumer Bank.

Other subsidiaries of Santander Consumer Bank are: Santander Consumer Finanse (investment of cash surpluses and cooperation with BZ WBK and Warta in terms of financial advisory services), AKB Marketing Services (auxiliary banking services) and S.C. Poland 2014-1 Limited (SPV set up for the purpose of securitisation transaction).

The bank is constantly looking to improve its service quality and increase the satisfaction of its customers. The bank operates in pursuit of the sustainable and safe growth of the business, based on transparent procedures and economic analysis. Its strength is underpinned by in-depth knowledge of the market and the optimum use of resources, including different delivery channels, as well as access to the extensive expertise and experience of Santander Group.

Business Development in 2014

During 2014, the key focus of SCB Group was on stability and ongoing improvements in effectiveness as well as compliance with the ever-changing legal and regulatory environment. The Group maintained its strong position in the consumer finance market.

LOANS

Lending Proposition

Santander Consumer Bank offers mainly instalment and cash loans, credit cards and car finance solutions.

Instalment loans, which are an important customer acquisition tool, are available countrywide from Santander Consumer Bank partners. In 2014, Santander Consumer Bank strengthened its position in this segment on the back of its presence in retail chains and stores, winning new business partners and growing online purchases by instalments. Cash loans are offered either as a regular cash loan or a consolidation loan. Santander Consumer Bank is one of the top 10 credit card issuers in

Poland and offers the following cards: Visa Comfort, Visa Comfort Plus, TurboKARTA as well as co-branded cards which enjoy a growing share in the bank's portfolio. The Group is strengthening its position in the car finance market by liaising with car dealers and importers. Its offer includes car loans, asset-backed loans, leases and refinancing solutions as well as BBbusiness loans and guarantees for dealers and importers to foster lending.

Credit Portfolio

As at 31 December 2014, gross loans and advances to Santander Consumer Bank Group amounted to PLN 13,913.9m. H2 2014 saw steady growth in cash loans (+6% QoQ), credit card receivables (+12% QoQ) and instalment loans (+10% QoQ). Increased demand for cash loans is the result of reduced interest rates in the market and an intensive marketing campaign. Credit card receivables increased on the back of co-branded cards, while the increase in instalment loans was driven by stronger activity from the bank's key customers. As the credit portfolio was growing, its structure was improved with a higher share of high-margin products.

DEPOSITS

Deposits from customers increased by PLN 5% QoQ to PLN 6,867.6m, mainly driven by business term deposits.

Retail deposits are the bulk of the bank's deposit base, and mainly include term deposits with a fixed capitalisation rate at the year– end. The remaining portion is made up of business deposits.

With regard to retail deposits, in 2014, the bank continued the process of balance stabilisation while gradually reducing the cost of this source of funding. The bank focused on the sale of deposits for tenors exceeding 1 year, by offering attractive pricing, particularly on 24M and 36M deposits.

DISTRIBUTION NETWORK OF SANTANDER CONSUMER BANK

As at 31 December 2014, Santander Consumer Bank sold its products through the following distribution channels:

- own network of 173 branches (including two Customer Service Points that are being converted into regular branches) and 106 franchise outlets
- a platform for mobile sales of car loans
- a platform for mobile sales of corporate deposits
- remote channels, including a call centre and the Internet
- a network of 588 partners selling the bank's car loans and 14,019 active partners selling the bank's instalment loans and credit cards.

VII. ORGANISATIONAL AND TECHNOLOGICAL DEVELOPMENT

1. ORGANISATIONAL CHANGES

Business Support Centre of Bank Zachodni WBK

A continuation of optimisation processes and delivery of the bank's strategic objectives brought about further organisational changes.

The Human Resources Management Division was renamed Business Partnership Division and took over from Business Support Division units responsible for cost management and organisational developments. The Business Partnership Division now combines tasks related to the professional development of staff with duties to enhance organisational effectiveness, which is consistent with the corporate culture transformation process.

After certain responsibilities of the Change Management, Process and Cost Area in the Business Support Division were taken over by the Business Partnership Division, the Procurement Department, Expense Management Office and Headcount & Organisation Office were removed from the organisational structure. Furthermore, the Change Management, Process and Cost Area was renamed to Change Management and Process Area.

Following the review of the operating model of the Business & Corporate Banking Division in terms of the current needs of customers and the organisation, the Product and Sales Strategy Area was set up in January 2014 and made responsible for the development of the sales and product strategy dedicated to corporate customers.

On 31 October 2014, Dom Maklerski BZ WBK (BZ WBK Brokerage House) was incorporated into the Financial Markets Area of the Global Banking & Markets, where it operates as the Brokerage Office (for more details, please refer to the section "Key Changes to the Structure of Bank Zachodni WBK S.A.").

Key Changes to the Structure of Bank Zachodni WBK Group

ACQUISITION OF 60% OF SHARE CAPITAL IN SANTANDER CONSUMER BANK S.A.

Pursuant to the Investment Agreement of 27 November 2013 between Bank Zachodni WBK, Santander Consumer Finance (SCF) and Banco Santander, and the agreement of 1 July 2014 between Bank Zachodni WBK and SCF on the acquisition of shares in Santander Consumer Bank (SCB), on 1 July 2014 Bank Zachodni WBK acquired 3,120,000 ordinary and preference shares in SCB, registered in Wrocław, with a nominal value of PLN 100 each, representing 60% of the share capital of SCB and 67% of votes at the General Meeting of SCB. In exchange for SCB shares contributed in kind, the bank issued 5,383,902 series L shares with a nominal value of PLN 10 each for the total sum of PLN 2,156,414,268. The share issue price was set at PLN 400.53.

The transaction was concluded following the fulfilment of the conditions precedent as stipulated in the abovementioned Investment Agreement, as presented in current reports published by Bank Zachodni WBK.

The transaction was executed to fulfil the commitment made by Banco Santander to the Polish Financial Supervision Authority (KNF) to use all endeavours to enable SCB to become a subsidiary of the bank.

The acquisition of SCB shares is a long-term investment of the bank which will strengthen the position of BZ WBK as the third largest bank in Poland and a provider of high-quality solutions for diverse segments of the banking market in Poland.

SCB forms a capital group with four subsidiaries referred to in Chapter VI "Business Development", part 5 "Santander Consumer Bank Group" and in Chapter II "Basic Information", part 2 "Entities Related with Bank Zachodni WBK".

INCORPORATION OF DOM MAKLERSKI BZ WBK INTO THE STRUCTURE OF BANK ZACHODNI WBK AND SET-UP OF A NEW COMPANY: GIEŁDOKRACJA

On 30 September 2014, the Extraordinary General Meeting of Shareholders of Bank Zachodni WBK adopted a resolution on the division of Dom Maklerski BZ WBK (Brokerage House), pursuant to the Division Plan of 24 July 2014.

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

On 31 October 2014, the Court deregistered the Brokerage House by removing it from the business register (KRS) without a liquidation procedure and on the same day Giełdokracja was registered.

The Brokerage House is now a unit of the bank which meets the definition of a brokerage office and conducts brokerage activity in accordance with the clearance issued by the Polish Financial Supervision Authority (KNF) on 10 June 2014.

As Bank Zachodni WBK was the sole shareholder of the Brokerage House, the bank's share capital was not increased through the issue and allocation of shares in exchange for the transferred part of the company's assets.

The bank took up all the shares in the newly formed company Giełdokracja, i.e. 1,000 shares with a nominal value of PLN 100 per share and a total nominal value of PLN 100k.

EXERCISE OF A CALL OPTION TO ACQUIRE A 17% STAKE IN BZ WBK-AVIVA TUNŻ AND BZ WBK-AVIVA TUO

Pursuant to the agreement of 1 August 2013 between Bank Zachodni WBK, Aviva International Insurance Limited (Aviva), BZ WBK– Aviva Towarzystwo Ubezpieczeń na Życie (BZ WBK Aviva TUŻ) and BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych (BZ WBK Aviva TUO), on 20 December 2013, Bank Zachodni WBK received from Aviva International Insurance Limited a 16% stake in BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ, respectively. As a result of the transaction, the bank holds a 66% shareholding and 66% voting power in the two insurance companies, while the remaining 34% of votes are held by Aviva. Aviva was granted a call option pursuant to which it was entitled to purchase from the bank 17% of the share capital held by the bank in each of the abovementioned insurance companies.

Pursuant to the agreement, on 18 September 2014, Bank Zachodni WBK received a notification from Aviva regarding the exercise of a call option for the acquisition of 17% of the shares in BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO. Aviva and the bank obtained the required consents from the supervisory authorities for execution of the share transfer.

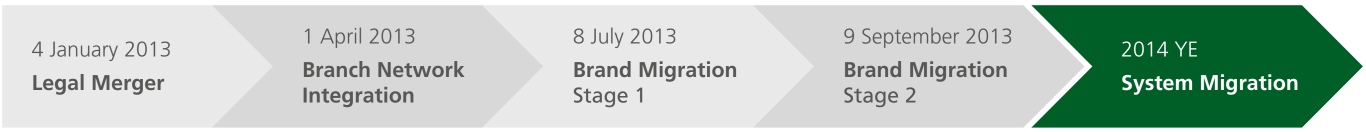
Upon concluding the transaction on 27 February 2015, BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO changed their status from subsidiaries to associates.

2. IT DEVELOPMENT

Completion of Integration with the Former Kredyt Bank

In 2013, the bank successfully implemented the first three stages of the UNO Programme launched in 2012 to integrate Bank Zachodni WBK with Kredyt Bank via legal merger, branch network integration and brand migration. Therefore, in 2014 the bank had fully integrated organisational structures, offered a uniform range of products and services, provided standardised customer service levels in terms of quality and procedures, and placed operations under a single brand of "Bank Zachodni WBK".

Integration process of Bank Zachodni WBK with the former Kredyt Bank



Bank Zachodni WBK became fully integrated with the former Kredyt Bank after completion of the last stage of the UNO Programme planned for 2014, i.e. the merging of IT systems. To that end, the Target Architecture Landscape was devised and migration of data from the Kredyt Bank systems to the operating platform of Bank Zachodni WBK was launched. The process was delivered in streams corresponding to individual customer segments.

The last major stage of the migration process was the migration weekend (25-26 October) during which the final and largest batch of information was transferred, including the portfolio of personal and SME products and customers from the former Kredyt Bank (ca. 1.33m customers and 3m products in total).

As a result, since 27 October 2014, Bank Zachodni WBK has been rendering standardised services in terms of quality and procedures to all the bank's customers enjoying a full array of products and services without the need for any changes. Former Kredyt Bank customers have kept their account numbers unchanged and have been granted access to BZ WBK electronic and mobile banking services (BZWBK24, BZWBK Mini Firma, BZ WBK Moja Firma+ and iBiznes24).

Development of IT Systems

Along with the IT integration, other changes were also implemented in the central IT systems of Bank Zachodni WBK. The bank took adequate measures in response to business needs and external developments, while ensuring uninterrupted business growth. Both the implementation of new business solutions as well as the continuous upgrade of the IT infrastructure and associated software were completed as planned.

DEVELOPMENT OF INFRASTRUCTURE

In 2014, Bank Zachodni WBK was working on extending its IT infrastructure to handle a growing number of transactions and create an environment that will facilitate future system development. The bank increased the capacity and performance of its central systems and expanded its hardware resources, including servers and disc arrays, to ensure better resilience and scalability for its new projects. It also increased its license resources.

Data Centres were extended, network devices were installed and launched in a new server room, and the core infrastructure was upgraded. In addition, Wrocław and Poznań DMZ networks were expanded, ensuring full redundancy, high resilience and accessibility for business applications. The bank also introduced the monitoring of business processes and real traffic in applications.

SELECTED BUSINESS PROJECTS

One of the major projects delivered in 2014 was the set-up of mobile zones across Bank Zachodni WBK's branches and Partner outlets. Infokiosks were put in place to provide customers with access to key information, standard and special offers as well as mobile and online banking applications (BZWBK24 mobile or BZWBK24 Internet). Concurrently, the bank offered free wi-fi in all branches through 800 hotspots – the largest network of its kind provided by a financial institution in Poland.

Bank Zachodni WBK continued a mobile banking development programme, as part of which over half of its 60 projects were completed in 2014.

In line with the strategy adopted by the bank, intensive efforts were taken in relation to the migration of new processes to non-branch service channels. At the same time, research and development works were underway to analyse the possibility of using biometrics for customer authentication purposes.

SELECTED REGULATORY PROJECTS

In 2014, the bank introduced changes arising from KNF Recommendation D on IT infrastructure in banks.

In accordance with Recommendation J on the rules of gathering and processing of real estate information by banks, a database was created to store information about properties mortgaged in favour of the bank (including in respect of mortgage loans, SME loans and commercial loans).

Bank Zachodni WBK also successfully completed preparations for the launch of identification and reporting processes under FATCA (Foreign Account Tax Compliance Act), which shall apply following the relevant implementing acts are introduced into the Polish law.

The bank and its subsidiaries took steps to ensure compliance (to the extent required) with the European Market Infrastructure Regulation on OTC derivatives. In 2014, all regulatory requirements were implemented as regards reporting of the transactions at the dates set by the supervisory body. Works are underway in relation to clearing of transactions in a foreign currency and Polish zloty by the Central Clearing Chamber, which are set to be completed by 31 July 2015. The bank also plans to launch a project related to collateral for derivative transactions.

31 March 2015 is the deadline for banks to implement Recommendation U on best practice in bancassurance. In 2014, measures were taken to adjust the architecture and operations of the underpinning systems.

Bank Zachodni WBK launched a project on liquidity risk monitoring and reporting under the Capital Requirements Regulation which requires banks to conduct a thorough analysis of the stability of the deposit base on a daily basis. This project is delivered in phases.

3. CAPITAL EXPENDITURES

In 2014, Bank Zachodni WBK Group spent PLN 307.8m (compared to PLN 173.8m in 2013) on the delivery of investment projects, mainly on projects related to the integration of Bank Zachodni WBK and Kredyt Bank, development and management of IT systems, IT equipment, Branch Banking development, Internet and mobile banking and ATMs and cash-deposit machines.

In 2014, the bank completed new projects as part of the integration of IT systems, while extending its IT infrastructure (for more details see the “IT Development” section above). Efforts were also underway to harmonize the image of branches under one brand and enhance security by way of the modernisation of security mechanisms.

In the second half of 2014, mobile zones were set up in BZ WBK branches, providing access to free wi-fi, banking products and services as well as BZWBK24 mobile and BZWBK24 Internet applications (for more details see the "IT Development" section above). In order to ensure top customer service, the branch network was subject to major refurbishment, which included replacement of air–conditioning and ventilation systems and the purchase of additional IT hardware and office equipment.

In terms of investments, a special focus was placed on the development of mobile and Internet banking. The functionality of iBiznes24 was further improved to make it more intuitive and user friendly.

To enhance the customer experience, a virtual advisor functionality was introduced, which allows customers to contact an advisor online via audio, video or chat channels.

In 2014, 49 new ATMs and 131 cash deposit machines were acquired to extend the existing network in line with a strategy of migration of cash operations to self-service channels.

In 2014, the bank was working on the development of phone banking (extension of the call centre infrastructure), personnel and payroll systems, risk management systems, credit and financial systems and telecom networks, and implemented a number of obligatory projects related to the amendment or introduction of new legal regulations (for more details see the "IT Development" section above).

VIII. FINANCIAL SITUATION IN 2014

1. INCOME STATEMENT OF BANK ZACHODNI WBK GROUP

The table below illustrates changes in the key items of the Group's consolidated income statement in 2014 compared with the previous year.

PLN m

Condensed Income Statement (for analytical purposes)	2014	2013	YoY Change
Total income	**6 579.0**	**6 089.9**	**8.0%**
– Net interest income	3 996.8	3 276.6	22.0%
– Net fee & commission income	1 847.8	1 778.6	3.9%
– Other income	734.4	1 034.7	-29.0%
Total costs	**(3 103.8)**	**(2 862.1)**	**8.4%**
– Staff, general and administrative expenses	(2 719.5)	(2 607.6)	4.3%
– Depreciation/amortisation	(308.0)	(219.3)	40.4%
– Other operating expenses	(76.3)	(35.2)	116.8%
Impairment losses on loans and advances	**(836.6)**	**(729.3)**	**14.7%**
Profit/loss attributable to the entities accounted for using the equity method	1.4	16.2	-91.4%
Profit before tax	**2 640.0**	**2 514.7**	**5.0%**
Tax charges	(592.7)	(500.1)	18.5%
Net profit for the period	**2 047.3**	**2 014.6**	**1.6%**
– Net profit attributable to BZ WBK shareholders	**1 914.7**	**1 982.3**	**-3.4%**
– Net profit attributable to non-controlling shareholders	132.6	32.3	310.5%

In 2014, Bank Zachodni WBK Group posted a profit before tax of PLN 2,640.0m, up 5.0% YoY. Profit attributable to the shareholders of Bank Zachodni WBK was PLN 1,914.7m and decreased by 3.4% YoY.

Impact of Changes in the Group Structure on Comparability of the Periods Covered by the Income Statement

Bank Zachodni WBK acquired direct control over three new subsidiaries (BZ WBK-Aviva TUO, BZ WBK-Aviva TUnŻ and Santander Consumer Bank) and included them in its consolidated accounts, which resulted in significant increases in the individual income and cost items of the consolidated income statement, with a moderate impact on the profit before tax for 2014.

- The BZ WBK-Aviva insurance companies that have been consolidated in the financial statements since 1 January 2014 in the comparable period met the definition of joint ventures and were recognised using the equity method. Consolidation of the abovementioned entities had an impact on the structure of the income statement through several major items, increasing on the revenue side the other operating income (constituent of "other income" item in the table above) by PLN 178.1m at the cost of the net insurance fee income and adding on the expense side the amortisation from the purchase price allocation of PLN 84.4m. The insurance companies contributed PLN 29.1m to Bank Zachodni WBK Group profit before tax.
- As the Group assumed control over BZ WBK-Aviva companies, in December 2013, the bank's pre-existing shareholding in both entities was restated to fair value, which increased the Group's profit before tax by PLN 419m and caused a high base effect in the consolidated income statement for 2014.

Since 1 July 2014, the consolidated pre-tax profit of Bank Zachodni WBK Group has also contained the results of Santander Consumer Bank and its connected entities (SCB Group), which for the second half of 2014 was PLN 268.6m (after consolidation and intercompany adjustments). SCB Group contributed primarily to the net interest income (PLN 512.3m) and net fee and commission income (PLN 76.2m) of the consolidated income of Bank Zachodni WBK Group. The share of SCB Group in the total costs and impairment losses amounted to PLN 256.8m and PLN 78.5m, respectively.

Key Factors Affecting the Profit of Bank Zachodni WBK Group in 2014

- Increase in net interest income of PLN 720.2m YoY, reflecting growth in the quarterly net interest margin, which increased steadily over three consecutive quarters of the year (from 3.60% in Q1 2014 to 4.07% in Q3 2014) and slid to 3.55% in Q4. The interest margin increased YoY in the lower interest rate environment due to the harmonisation of the post-merger deposit offer, continued optimisation of deposit and credit product parameters, favourable directions in business development, and the first-time consolidation of SCB Group in the financial statements. The decline in the net interest margin in the last quarter of the year is mainly attributable to the interest rate cut in October, which negatively affected interest income on loans, in particular the retail portfolio.

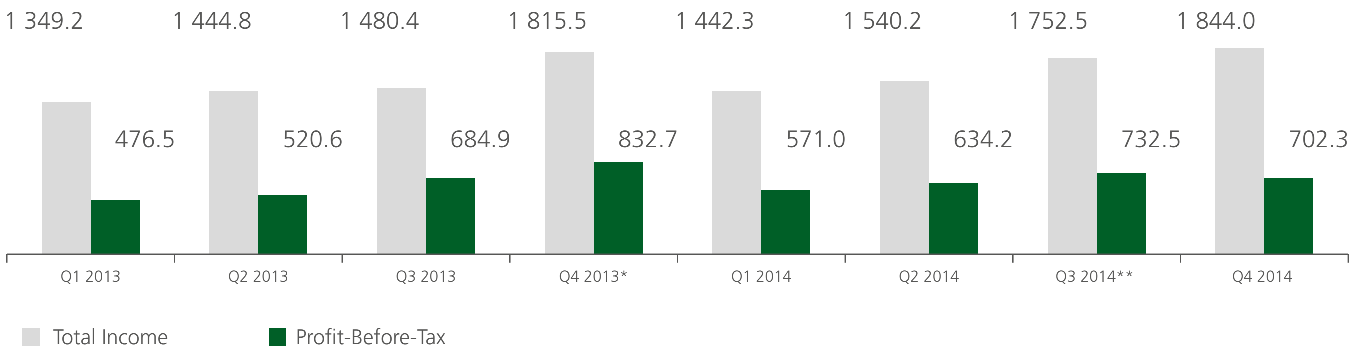
- Moderate growth in fee and commission income (+PLN 69.2m YoY) driven by the development of the Polish economy and financial markets, regulatory changes, competitive pressure and the extended scope of consolidation of Bank Zachodni WBK Group's financial statements. An increase in the fee income from credit facilities, foreign exchange transactions and credit cards was accompanied by a decline in brokerage fees and fees for e-business and payment transactions. The inclusion of SCB in the consolidated accounts resulted in higher fee and commission income of Bank Zachodni WBK Group, mainly in the segment of credit cards and insurance, whereas the consolidation of BZ WBK-Aviva companies triggered a change in the recognition of insurance income generated by the Group, which reduced insurance fee income and expanded other operating income.

- Decrease of PLN 300.3m in other income is due to a high-base effect arising from recognition of the gross profit from restatement to fair value (as at the date of gaining control) of the bank's pre-existing stake in BZ WBK-Aviva companies (PLN 419m) in Q4 2013 and also to the lower gains on the trading portfolio and other financial instruments (-PLN 85.1m and -PLN 72m YoY), realised in the management of the Group's financial assets structure in accordance with the pursued strategic objectives and in view of the conditions prevailing in the bonds, IRS and FX markets. The resulting income decline was partly offset by the net insurance income of PLN 178.1m generated by BZ WBK-Aviva TUO and BZ WBK TUnŻ.

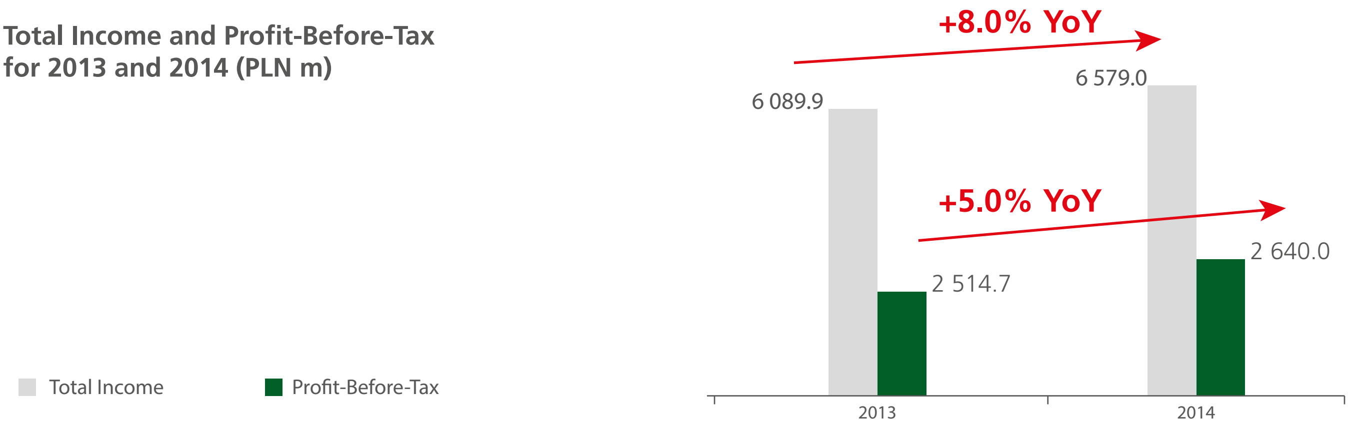
- Increase of PLN 107.3m YoY in loan impairment losses (including SCB Group) as a result of a close monitoring of the credit risk attached to individual credit portfolios of Bank Zachodni WBK Group.

- Effective cost management by Bank Zachodni WBK Group amid the delivery of diverse development projects and continued integration. Excluding the integration and other non-recurring costs, operating expenses of SCB Group and BZ WBK-Aviva companies along with the amortisation arising from allocation of the purchase price of the insurance entities, the underlying cost base of Bank Zachodni WBK Group decreased by 2.8% YoY.

Total Income and Profit-Before-Tax by Quarters in 2013 and 2014 (PLN m)



Total Income and Profit-Before-Tax for 2013 and 2014 (PLN m)



* As Bank Zachodni WBK acquired an additional 16% stake in BZ WBK-Aviva TUO and a 16% stake in BZ WBK-Aviva TUnŻ, its previous shares in both entities (50% in each) were re-stated to fair value as at the acquisition date, which increased the Group's PBT for Q4 2013 by PLN 419m.

** On 1 July 2014, Bank Zachodni WBK acquired ordinary and preference shares in SCB, representing 60% of the share capital and ca. 67% of votes at the General Meeting of SCB. In this way, SCB became a subsidiary and together with its connected entities became a part of Bank Zachodni WBK Group.

Structure of Bank Zachodni WBK Group Profit Before Tax by Contributing Entities

The table below illustrates the profit contribution of respective members of Bank Zachodni WBK Group to the consolidated income statement for 2014 compared with 2013.

PLN m

Components of Bank Zachodni WBK Group Profit Before Tax by contributing entities	2014	2013	YoY Change
Bank Zachodni WBK S.A.	**2 478.4**	**1 969.4**	**25.8%**
Existing subsidiary undertakings:	**500.1**	**186.4**	**168.3%**
Santander Consumer Bank and its subsidiaries [1)]	268.6	-	-
BZ WBK Asset Management S.A. and BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. [2)]	75.4	78.6	-4.1%
BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A., BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. [3)]	29.1	-	-
BZ WBK Leasing S.A., BZ WBK Lease S.A. and Finanse Sp. z o.o. [4)]	72.8	48.4	50.4%
Dom Maklerski BZ WBK S.A. [5)]	24.7	41.2	-40.0%
Faktor Sp. z o.o.	21.2	16.7	26.9%
Other subsidiary undertakings [6)]	8.3	1.5	453.3%
Equity method valuation	**1.4**	**16.2**	**-91.4%**
Elimination of dividends received by BZ WBK [7)]	**(338.7)**	**(75.5)**	**348.6%**
Other intercompany and consolidation adjustments [8)]	**(1.2)**	**418.2**	**-**
Profit before tax	**2 640.0**	**2 514.7**	**5.0%**

1) On 1.07.2014, Bank Zachodni WBK acquired ordinary and preference shares in Santander Consumer Bank (SCB), representing 60% of the share capital of SCB and 67% of votes at the SCB General Meeting. The following SCB subsidiaries are also subject to consolidation: AKB Marketing Services Sp. z o.o., Santander Consumer Multirent Sp. z o.o., Santander Consumer Finanse S.A. and S.C. Poland Auto 2014-1Limited. The amounts provided above represent profit before tax of SCB Group after intercomany and consolidation adjustments.

2) Combined profit before tax of these entities excludes dividend received by BZ WBK Asset Management from BZ WBK Towarzystwo Funduszy Inwestycjnych in the amount of PLN 30.3m in 2014 and PLN 23.2m in 2013.

3) BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ 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 December 2013 only their statements of financial position were consolidated with Bank Zachodni WBK. The amount provided above represents profit before tax of both companies after consolidation adjustments and post-audit profit adjustments.

4) Effective from 31 January 2014, Kredyt Lease changed the company's name to BZ WBK Lease

5) BZ WBK Brokerage House SA was removed from the Court Register on 31.10.2014. Part of the company which had been involved in brokerage activities was incorporated into the structure of BZ WBK S.A., and the rest was transferred to the newly created company Giełdokracja Sp. z o.o which is responsible for advertising and information.

6) The amount for 2014 includes BZ WBK Inwestycje, BZ WBK Nieruchomości and BFI Serwis in liquidation (de-registered on 20 November 2014). In 2013, there was also Kredyt Trade included under this line (de-registered on 22 August 2013).

7) The amount for 2014 includes dividend income of PLN 229.5m received by Bank Zachodni WBK from SCB.

8) Intercompany and consolidation adjustments (other than dividends) for 2013 include the impact of restatement to fair value of the pre-existing BZ WBK shareholding in BZ WBK-Aviva companies as at the date of gaining control over them (PLN 419m).

The unconsolidated PBT of Bank Zachodni WBK increased by 25.8% YoY on the back of higher net interest income (+PLN 191.2m YoY) and net commission income (+PLN 63.2m YoY) and the recognition of much higher dividend income (+PLN 285.9m YoY, including PLN 229.5m from Santander Consumer Bank). The increase in dividend income more than compensated for lower gains on other financial instruments (-PLN 66.2m YoY) and net trading income and revaluation (-PLN 89.8m). The growth in profit before tax was also aided by a reduction in operating expenses (-PLN 114.8m YoY) and net credit impairment losses (-PLN 29.7m YoY).

In 2014, the subsidiaries consolidated by Bank Zachodni WBK reported an increase of 168.3% YoY in their total profit before tax as a result of inclusion in the Group structure of Santander Consumer Bank and BZ WBK-Aviva companies, whose total contribution was PLN 297.7m. On exclusion of these entities, the underlying total profit before tax of the subsidiaries of Bank Zachodni WBK increased by 8.5% YoY, reflecting the higher PBT figures reported by the leasing companies and the factoring company (+50.4% YoY and +26.9% YoY, respectively) as a result of the high growth of the respective business lines throughout 2014.

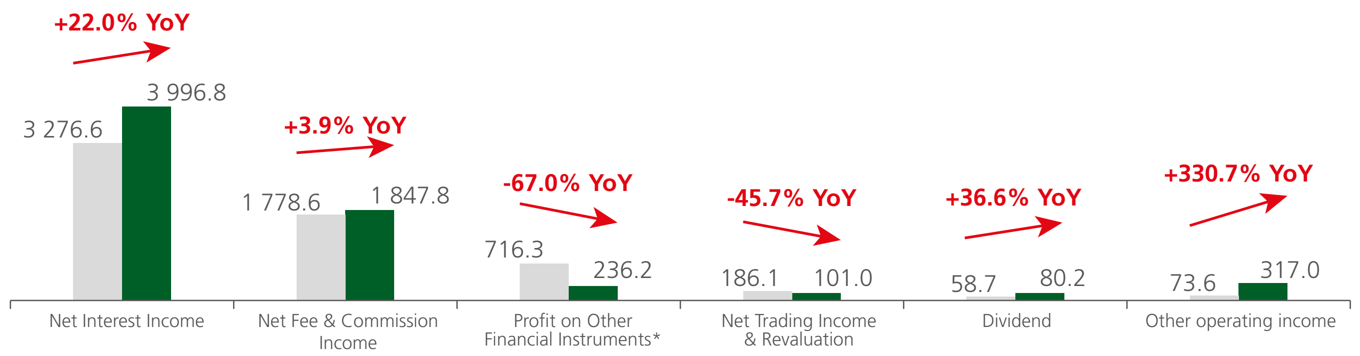
The profit before tax of BZ WBK Asset Management and BZ WBK Towarzystwo Funduszy Inwestycyjnych (BZ WBK TFI) declined by 4.1% YoY despite the reduction of the cost base and an increase in the average value of assets under management. The decrease in profitability is attributed, among other things, to changes in the structure of assets towards lower margin funds/low risk portfolios and increasing funds management costs incurred by BZ WBK TFI (with accompanying income increase). In addition, the income from proprietary investments fell in parallel with interest rates and the value of funds available for placements.

The gain realised by Inwestycje on the partial sale of the stake in Krynicki Recykling substantially increased the profit before tax of companies referred to as "other subsidiaries". The performance of Dom Maklerski BZ WBK is not subject to a comparative analysis as the entity was struck off the register of companies on 31 October 2014.

Total Income

The total income achieved by Bank Zachodni WBK Group in 2014 was PLN 6,579.0m and up 8.0% YoY. Adjusting for the gains on the sale and revaluation of subordinate entities (Krynicki Recykling in 2014 and BZ WBK-Aviva companies in 2013), the respective income went up by 15.8% YoY.

Components of Total Income (PLN m) in 2014 vs. 2013

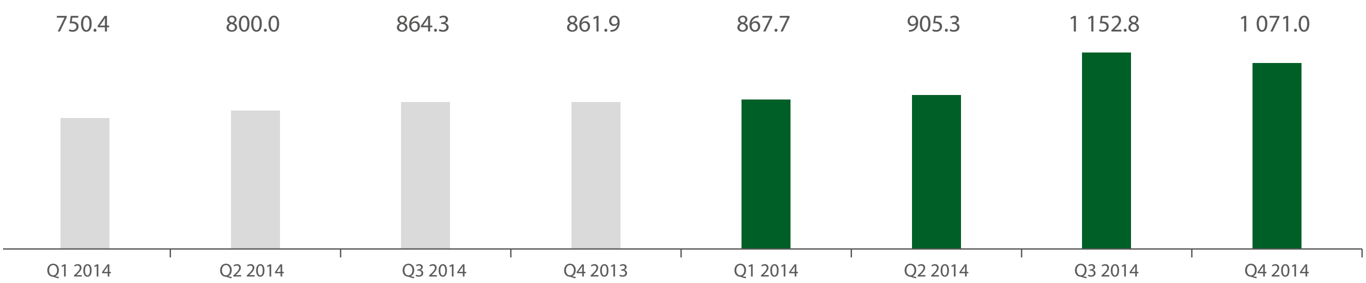


* includes gains on the sale/revaluation of subordinate entities

NET INTEREST INCOME

Net interest income amounted to PLN 3,996.8m, increasing by 22% YoY.

Net Interest Income by Quarters in Years 2013-2014 (PLN m)



The net interest income of Bank Zachodni WBK Group includes the net interest income from CIRS transactions designated as hedging instruments under cash flow hedge accounting, totalling PLN 231.8m in 2014 vs. PLN 254.4m in 2013, which is disclosed in the line item "Interest income from IRS hedges" (Note 6 "Net interest income"), showing PLN 300.6m in 2014 vs. PLN 314.7m in 2013.

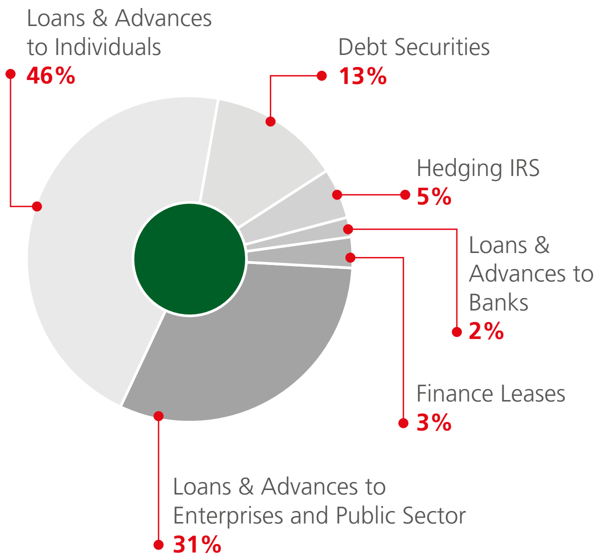
Taking into account the net income from non-hedging CIRS/IRS transactions (PLN 21.5m for 2014 vs. PLN 13.9m for 2013), which are used for the purpose of liquidity management and reported under "Net trading income and revaluation", the underlying net interest income increased by 22.1% YoY.

The YoY increase in the net interest income was achieved in the falling interest rate environment (discounting the expected cuts in the NBP interest rates) as a combined result of:

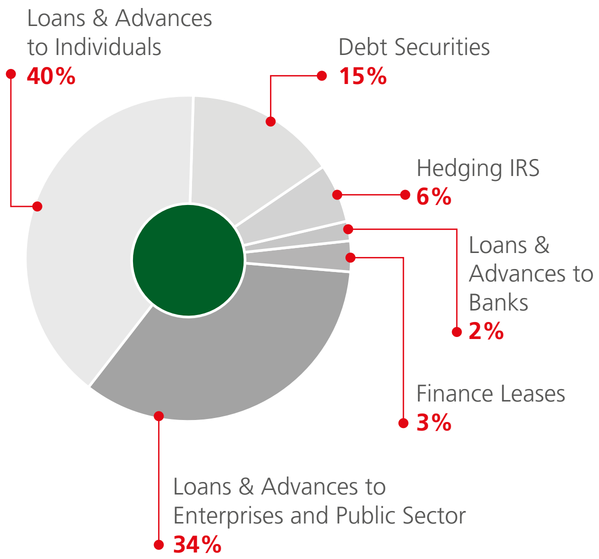
- an increase in the Group's interest income (+9.7% YoY to PLN 5,723.0m) on the back of consolidation of the half-yearly interest income of Santander Consumer Bank S.A., and
- a rapid decrease in interest expenses, which decelerated over the year as a result of incorporation of the SCB expenses and the deposit sales campaign conducted by Bank Zachodni WBK (-11.0% YoY to PLN 1,726.2m).

Loans to customers brought a yearly average nominal interest income of 5.7% compared with 5.6% in 2013. Customer deposits carried a yearly average nominal interest cost of 1.8% compared with 2.3% a year before.

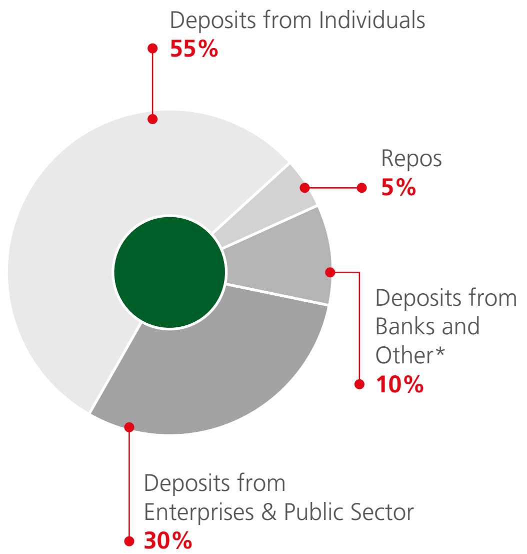
Structure of Interest Revenues in 2014



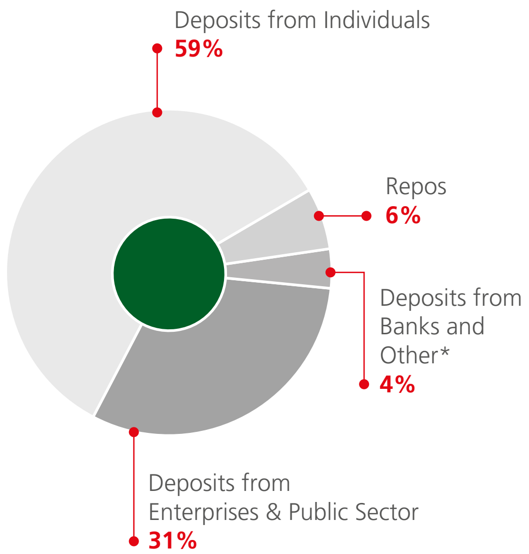
Structure of Interest Revenues in 2013



Structure of Interest Expense in 2014



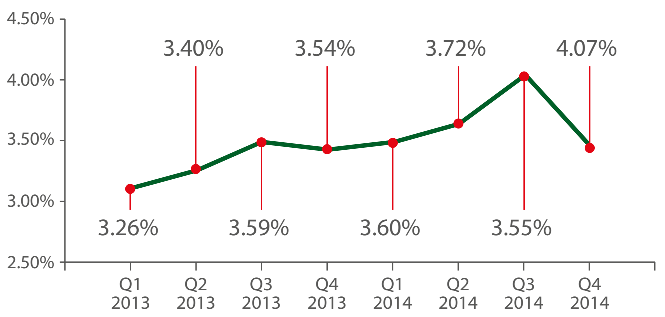
Structure of Interest Expense in 2013



* includes deposits from banks, subordinated liabilities and security issues

Prior to the end of June 2014, the net interest margin of Bank Zachodni WBK Group gradually increased (from 3.26% in Q1 2013 to 3.72% in Q2 2014) amid sharp declines in reference interest rates (ending in July 2013) and their relative stabilisation in the subsequent periods. This upward trend in the net interest margin is a combined effect of the harmonisation of the bank's post– merger offer, effective management of the schedule of interest rates and also expanding business volumes.

Net Interest Margin by Quarters in Years 2013-2014 (including SWAP points*)



* The calculation of adjusted net interest margin of Bank Zachodni WBK takes account of swap points allocation from derivative instruments used for the purpose of liquidity management but excludes interest income from the debt trading portfolio as of Q1 2014.

In Q3 2014, the quarterly net interest margin climbed from 3.72% to 4.07% due to the incorporation of gross credit receivables (PLN 13.5bn) and the net interest income of SCB Group (PLN 259.8m) in the consolidated financial statements. Excluding the contribution of SCB Group, the underlying net interest margin of Bank Zachodni WBK Group declined to 3.59%, reflecting the market expectations of reference rates trends and intensive measures taken by the bank to build a strong and stable deposit base through the acquisition and retention of new deposits. In the reporting period, the New Easy Earning Deposit – with a fixed 4% rate of interest – was a key product in attracting new customers.

Over the final three months of 2014, the net interest margin slid from 4.07% to 3.55% as a result of October's rate cuts, which lowered the cap on the maximum interest rate on consumer loans and exerted a negative pressure on WIBOR rates. This caused erosion of interest income from credit portfolios while constraining the growth of interest expenses generated by the enlarged deposit base. The decline in the net interest income was accompanied by an increasing volume of retail loans, balances in current accounts and loans to the central bank and other banks.

NET FEE AND COMMISSION INCOME

PLN m

Net Fee and Commission Income	2014	2013	YoY Change
E-Business and payments [1)]	436.6	455.3	-4.1%
FX fees	332.6	296.7	12.1%
Account maintenance and cash transactions [2)]	302.2	303.3	-0.4%
Asset management and distribution	2 37.4	233.5	1.7%
Credit fees [3)]	228.1	211.4	7.9%
Insurance fees [4)]	125.1	106.0	18.0%
Credit cards	101.2	73.4	37.9%
Brokerage fees	70.6	89.3	-20.9%
Other [5)]	14.0	9.7	44.3%
Total	**1 847.8**	**1 778.6**	**3.9%**

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

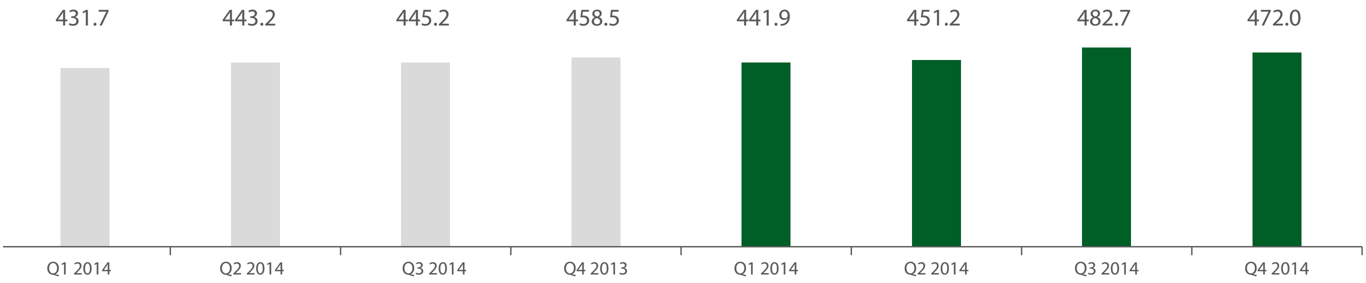
2) Fee income from account maintenance and cash transactions has been reduced by the corresponding expenses which in Note 7 „Net Fee and Commission Income" of the consolidated financial statements are included in the line item „Other".

3) Fees related to lending, leasing and factoring activities which are not amortised to interest income. This stream also includes credit agency costs.

4) Following the acquisition of control over BZ WBK-Aviva companies, the presentation of insurance income has been changed. At present, the major part of income from the insurance business is disclosed in "Other operating income" instead of "Net fee and commission income". In 2014, the respective income contributed PLN 178.1m to the Group's "Other operating income".

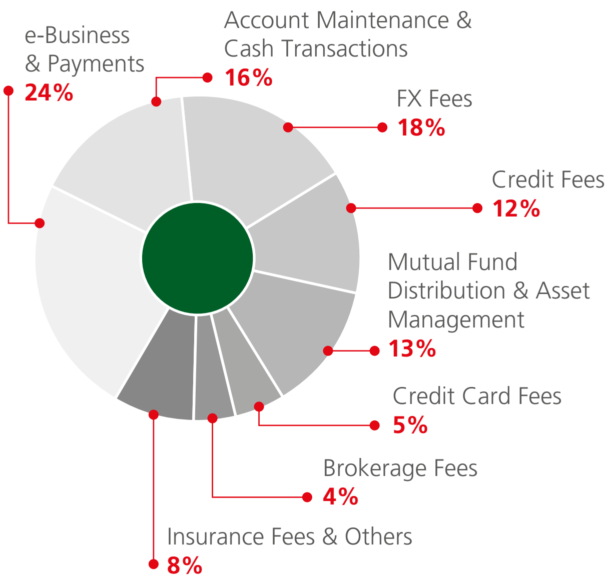
5) Guarantees & sureties, issue arrangement fees and others.

Net Fee & Commission Income by Quarters in Years 2013-2014 (PLN m)

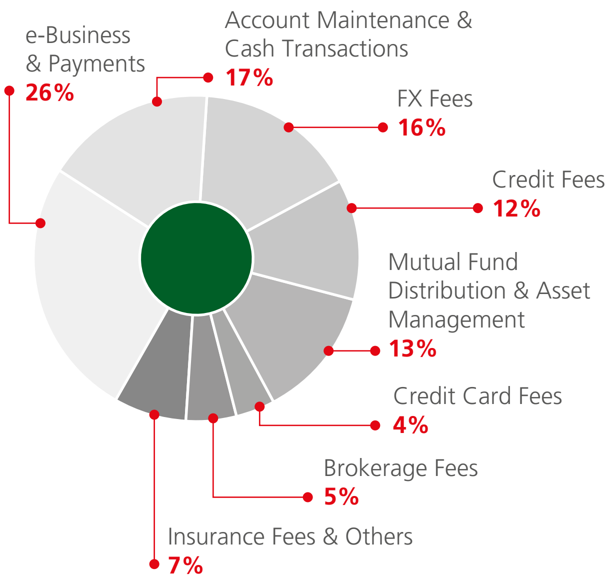


In 2014, the net fee and commission income was PLN 1,847.8m and increased by 3.9% YoY.

Net Commission Income Structure in 2014



Net Commission Income Structure in 2013



The most pronounced growth on a year-on-year basis was noted in net credit card fee income (+37.9% YoY), which was primarily attributed to the developing credit card base, increase in credit card transaction volumes and the revision of selected credit card fees and charges. The growth rate under this product line was accelerated by half yearly net fee and commission income contributed by Santander Consumer Bank.

The rapid increase in net credit fee income, resulting from the robust acquisition of large corporate finance deals as well as the factoring business, slowed down to 7.9% due to credit intermediation costs of Santander Consumer Bank S.A.

The high growth in FX fees (+12.1% YoY) stems from increased FX customer trading volumes and volatility in the currency market.

Bancassurance fee income grew by 18% YoY due to the six-month contribution of PLN 61.9m from Santander Consumer Bank. Excluding the respective amount from the consolidated income statement, underlying net insurance fee income decreased, reflecting a changed presentation of the Group's net insurance income implemented upon gaining control over BZ WBK-Aviva companies. Currently, the majority of the relevant net income (PLN 178.1m for 2014) is disclosed under other operating income. Viewed on a stand-alone basis, the underlying insurance fee income of Bank Zachodni WBK rose by 14.4% YoY, driven mainly by the sale of cash loan and card insurance.

The net fee and commission income aggregated under the "eBusiness and payments" line item decreased by 4.1% YoY. The growth in total net fees as reported in a number of significant areas of this business line was offset by lower income from debit cards driven by statutory reduction of interchange fees (since the beginning of July 2014).

The decline in the net brokerage fees (-20.9% YoY) was due to lower income earned by Dom Maklerski BZ WBK in the secondary market, mainly on account of remuneration recognised in 2013 for the sale of Bank Zachodni WBK shares held by Banco Santander and KBC Bank NV. Net brokerage fee income was also adversely affected by the equity market downturn observed in 2014 and continued pressure on margins across all segments of the domestic stock exchange market.

OTHER NET INCOME

Gains on Other Financial Instruments

In 2014, the gains on other financial instruments plus the gains on the sale and revaluation of subordinate entities decreased by 67% YoY to PLN 236.2m as in 2013 gains of PLN 419m were recognised upon the acquisition of control over BZ WBK-Aviva insurance companies.

Gains on the sale of treasury bonds were PLN 217.9m, down by PLN 81.4m YoY. The measures taken as part of duration management on the available-for-sale debt securities portfolio were kept in line with market conditions and took into account the Group's objectives with regard to risk and liquidity management.

The Group's gains from other financial securities in 2014 also include a realised gain on the sale of the bank's equity investments, including a stake in Kuźnia Polska (PLN 14.1m) and PKM Duda (PLN 2.7m).

The gains on subordinate entities of PLN 10.5m reflect the disposal of 320k shares of Krynicki Recykling by Inwestycje in December

2014, which decreased the indirect shareholding of Bank Zachodni WBK to below 20% and induced re-classification of the company out of the category of associated undertakings.

Net Trading Income and Revaluation

After four quarters of 2014, net trading income and revaluation ("net trading income") was PLN 101.0m, down 45.7% YoY.

The Group generated a profit on derivatives and interbank FX and derivative trading of PLN 31.8m vs. PLN 180.7m a year before, which means a decrease of 82.4% YoY. At the same time, the profit on other FX transactions increased from a loss of PLN 3.2m in 2013 to PLN 62.2m in 2014.

The above-mentioned result on interbank FX and derivative trading includes the net interest-related income of PLN 21.5m on the non– hedging CIRS/IRS transactions vs. PLN 13.9m for 2013. It excludes, however, the net interest income from the CIRS transactions designated as hedging instruments under the cash flow hedge accounting (PLN 231.8m for 2014 vs. PLN 254.4m in 2013), which is disclosed in Note 6 "Net interest income" under "Interest income from IRS hedges".

Debt securities trading brought in a profit of PLN 5.8m for 2014 compared to PLN 6.8m in the previous year.

This performance largely reflects developments on the interest rate and currency markets. In 2014, the yield curves on domestic bonds and IRS rates were trending downwards, causing the spread in the segment of 2-10 years to narrow down YoY. In Q4 2014 alone, these yields/rates hit all-time lows with occasional short-lived rebounds.

In 2014, the situation in the currency market was much more volatile compared to the interest rate market. Movements were particularly strong in December 2014. During the year, the zloty fell against the US dollar (16%), the British pound (10%), the euro (3%) and the Swiss franc (5%).

Other Income Items

In 2014, dividend income reached PLN 80.2m and exceeded the level reported in 2013 by PLN 21.5m due to higher dividend payouts from Aviva Group non-controlled entities.

In 2014, other operating income grew by 330.7% YoY to PLN 317.0m, which mostly resulted from the acquisition of control over BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ and their inclusion in the Group's consolidated income statements starting from 1 January 2014. Consequently, the line incorporates the net income of PLN 178.1m from the insurance activities of the above– mentioned entities, which is composed of the gross premiums written, reinsurers' share of premium written, net claims and benefits, and other net insurance income. The other operating income also comprises PLN 15.2m representing the write-down of the legal risk provision related to interchange fees collected in the past (both by the former Kredyt Bank and Bank Zachodni WBK), PLN 12.4m in respect of a public liabilities refund to BZ WBK Lease, PLN 16.9m of gains on the disposal of Bank Zachodni WBK properties and PLN 15.0m representing the contribution of SCB Group to consolidated other operating income.

Impairment Charges

PLN m

Impairment Losses on Loans and Advances	2014	2013	YoY Change
Collective and individual impairment charge	(975.4)	(890.8)	9.5%
Impaired but not reported losses charge	98.8	174.6	-43.4%
Recoveries of loans previously written off	12.0	3.3	263.6%
Off-balance sheet credit related facilities	28.0	(16.4)	-
Total	**(836.6)**	**(729.3)**	**14.7%**

In 2014, the loan impairment charge to the income statement of Bank Zachodni WBK Group was PLN 836.4m, up 14.7% YoY. The contribution of SCB Group to that figure was PLN 78.5m.

The negative balance of provisions for incurred and reported losses (on individual and collective exposures) was PLN 975.4m and up 9.5% YoY as a result of increased impairment charges on individually and collectively assessed business loans, partly offset by decreased impairment charges on retail exposures.

The decline of 43.4% YoY in the positive balance of charges for the incurred by not reported losses (IBNR) is due to the transfer of selected credit exposures from this category (mainly exposures towards business customers) to the portfolio of evidenced impairment, effected in 2013.

In 2014, Bank Zachodni WBK Group sold overdue personal, mortgage and business receivables in the principal amount of

PLN 698.2m vs. PLN 693.9m in the corresponding period. The net result on this transaction was negative and amounted to PLN 24.4m.

The changes in the value and structure of impairment charges reflect the Group's prudential approach to credit risk management.

As at 31 December 2014, Bank Zachodni WBK Group's NPL ratio was 8.4% compared with 7.9% at the end of December 2013. The cost of risk was 1.0% vs. 1% twelve months before. Excluding the impact of Santander Consumer Bank, the underlying NPL ratio and the cost of credit ratio as at 31 December 2014 were 8.1% and 1.0%, respectively.

Total Costs

PLN m

Total costs	2014	2013	YoY Change
Staff, general and administrative expenses, of which:	(2 719.5)	(2 607.6)	4.3%
– Staff expenses	(1 449.6)	(1 375.5)	5.4%
– General and administrative expenses	(1 269.9)	(1 232.1)	3.1%
Depreciation/amortisation	(308.0)	(219.3)	40.4%
Other operating expenses	(76.3)	(35.2)	116.8%
Total costs	**(3 103.8)**	**(2 862.1)**	**8.4%**
Integration costs and other non-recurring costs [1)]	(205.8)	(264.4)	-22.2%
Underlying costs	**–**	**–**	**–**
Total costs of subsidiaries consolidated effective from 2 014 [2)]	(374.1)	–	–
Underlying total costs	**(2 523.9)**	**(2 597.7)**	**-2.8%**

1) Integration costs are composed of staff, general & administrative expenses (PLN 162.2 m in 2014 and PLN 261.8m in 2013) and amortisation (PLN 15.1m in 2014 and PLN 2.6m in 2013).

2) Costs of BZ WBK-Aviva TUnŻ and BZ WBK-Aviva TUO (including amortisation from purchase price allocation and after intercompany adjustments) and SCB with subsidiaries (after intercompany adjustments).

In 2014, the total expenses of the Group amounted to PLN 3,103.8m, and were 8.4% higher YoY. Excluding the integration and other non-recurring costs (PLN 205.8m in 2014 and PLN 264.4m in the corresponding period), the operating costs of SCB Group, BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ, and the depreciation of PLN 84.4m arising from allocation of the purchase price of the two insurance companies, total underlying costs fell by 2.8% YoY. It should be noted that this result was achieved by continuing intensive development initiatives geared towards the improvement of the

Group's product range, customer service and corporate culture in accordance with the "Next Generation Bank" strategic programme.

As the Group's costs and income grew at a similar pace YoY (+8.4% and +8%, respectively), the Group's cost-to-income ratio was 47.2%, which is nearly the same as the year before (47.0% in 2013). Adjusted for the integration costs, the cost-to-income ratio was 44.5% vs. 42.7% in the corresponding period.

STAFF EXPENSES

The Group's staff expenses increased by 5.4% YoY to PLN 1,449.6m. The growth reported under the "salaries and bonuses", "statutory deductions from salaries" and "training costs" (6.5% YoY, 6.0% YoY and 7.8% YoY, respectively) results from consolidation of Santander Consumer Bank Group and BZ WBK Aviva companies with their staffing levels at 2,720 and 68 FTEs, respectively at the end of December 2014. Excluding the impact of new subsidiaries included in the consolidation scope since 2014, the above line items showed a steady decline resulting from the continued employment optimisation process in Bank Zachodni WBK Group.

Underlying staff expenses (i.e. excluding the subsidiaries incorporated in the consolidated financial statements in 2014 and integration costs) fell by 3.9% YoY.

GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses of the enlarged Bank Zachodni WBK Group increased by 3.1% YoY to PLN 1,269.9m.

A major year-on-year increase was reported under the cost of marketing and entertainment (+63.6% YoY) driven by a larger number of extensive advertising campaigns for the products of Bank Zachodni WBK (e.g. 1|2|3 Account, Duet cash loan, SME lending proposition, Account Worth Recommending, seasonal cash loan, New Easy Earning Deposit – New Funds) and the contribution of SCB Group and BZ WBK-Aviva companies to the expenses incurred for 2014. The costs paid by the Group to market regulators also rose (+26.3% YoY) following the implementation of the revised Banking Guarantee Fund Act in October 2013, which set up a stabilisation fund created from the prudential fees paid by the banks participating in the guarantee system. In 2014, the total fees payable to the Banking Guarantee Fund were PLN 104.3m vs. PLN 82.7m in 2013. A notable increase was also noted in IT usage costs (+19.3% YoY), mainly due to the contribution of subsidiaries. The cost of external services increased by 36.7% YoY as a result of extended outsourcing of selected functions. Costs generated by consumables, cards and cheques accelerated by 8.8% YoY as a result of increased demand for plastic cards arising from higher sales and replacement of debit and credit cards.

At the same time, a decrease was noted in the cost of consultancy and advisory services (-18.1% YoY) due to a high base effect resulting from the launch or acceleration of new development projects in 2013 (including the Next Generation Bank programme, incorporation of Dom Maklerski BZ WBK and the purchase of a controlling stake in Santander Consumer Bank), which required specialist knowledge and independent expert opinions. At the same time, there was a drop in the costs of data transmission (-5.2% YoY) and the costs of maintenance and rental of premises (-1.2% YoY).

Excluding the contribution of SCB Group, BZ WBK-Aviva companies, integration and other non-recurring costs, the underlying consolidated general and administrative expenses decreased by 2.2% YoY.

Effective tax rate

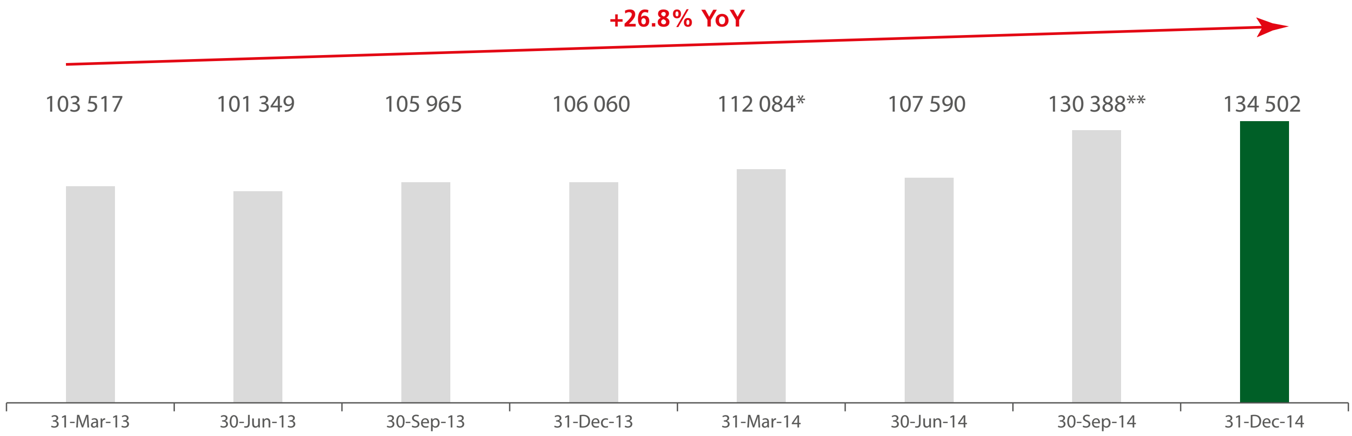
The effective tax rate of the Group (22.5%) was impacted by the sale of receivables and the costs of prudential fees which are not tax deductible.

2. FINANCIAL POSITION

Assets

As at 31 December 2014, total assets of Bank Zachodni WBK Group amounted to PLN 134,501.9m, and increased by 26.8% YoY. The value and structure of the Group's statement of financial position is mainly affected by the parent company, which accounts for 90.4% of the consolidated total assets vs. 97.5% as at 31 December 2013. The lower share of Bank Zachodni WBK reflects the assumption of control over and consolidation of Santander Consumer Bank effective from 1 July 2014.

Total Assets at the End of Consecutive Quarters in Years 2013-2014 (PLN m)



* As at 31 March 2014, the balance sheet total of Bank Zachodni WBK Group takes into account high short– term transactions, including a deal of PLN 2.3bn in the interbank market.

** As at 30 September 2014, the balance sheet total includes for the first time the total assets of SCB Group controlled by Bank Zachodni WBK from 1 July 2014.

The table below presents major developments in the key categories of the consolidated assets of Bank Zachodni WBK Group as at 31 December 2014 vs. 31 December 2013.

PLN m

Assets (condensed presentation for analytical purposes)	31.12.2014	Structure 31.12.2014	31.12.2013	Structure 31.12.2013	YoY Change
	1	2	3	4	1/3
Loans and advances to customers*	85 82 0.6	63.8%	68 132.1	64.2 %	26.0%
Investment securities	27 057.1	20.1%	22 090.8	20.8%	22.5%
Cash and operations with Central Banks	6 806.5	5.1%	5 149.7	4.9%	32.2 %
Fixed assets, intangibles and goodwill	5 477.6	4.1%	2 666.8	2.5%	105.4 %
Financial assets held for trading and hedging derivatives	3 804 .7	2.8%	3 681.8	3.5%	3.3%
Loans and advances to banks	2 523.1	1.9%	2 212.7	2.1%	14.0%
Other assets	3 012.3	2.2 %	2 126.1	2.0%	41.7%
Total	**134 501.9**	**100.0%**	**106 060.0**	**100.0%**	**26.8%**

* Includes impairment write-down.

The movements in the statement of the consolidated financial position of Bank Zachodni WBK Group reflect the business development tendencies, acquisition efforts and the Group's management of its balance sheet structure and liquidity. Another contributing factor was the consolidation of SCB Group (BZ WBK-Aviva TUO and BZ WBK-Aviva TUnŻ have been consolidated in the statement of financial position of Bank Zachodni WBK Group since 31 December 2013).

Compared with the end of December 2013, the fastest growth was noted in the financial assets held for trading and hedging derivatives, which increased by 105.4% YoY. This is due to higher turnover in state treasury bonds from the trading portfolio effected as part of the Group's liquidity management amid reduced yields of treasury securities. The Group's goals in balance sheet management combined with a favourable situation on the debt securities market resulted in an increase in investment securities (+22.5% YoY) following expansion of the portfolio of treasury bonds available for sale (to PLN 20bn), commercial bonds (to PLN 2.2bn), and NBP bills (to PLN 4 bn). SCB contributed PLN 2.2bn to the investment portfolio, mainly in the form of treasury bonds and NBP bills.

Pronounced growth was reported under loans and advances to banks (+32.2% YoY), which takes into account, among others, the mandatory reserve requirements in the context of deposit base growth.

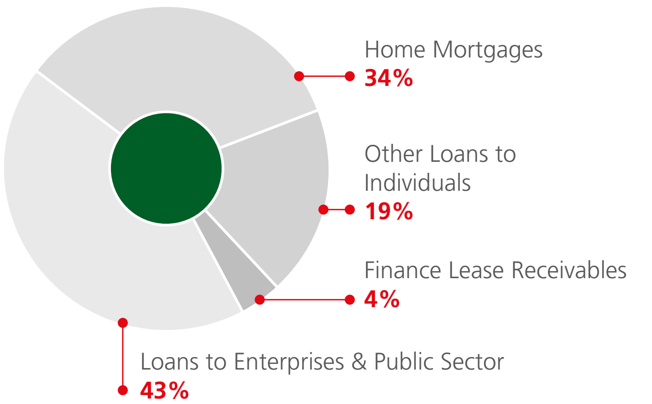
Net loans and advances to customers were PLN 85,820.6m, increasing by 26% YoY. SCB Group contributed PLN 12.3bn to the consolidated net loans and advances to customers (after intercompany adjustments).

CREDIT PORTFOLIO

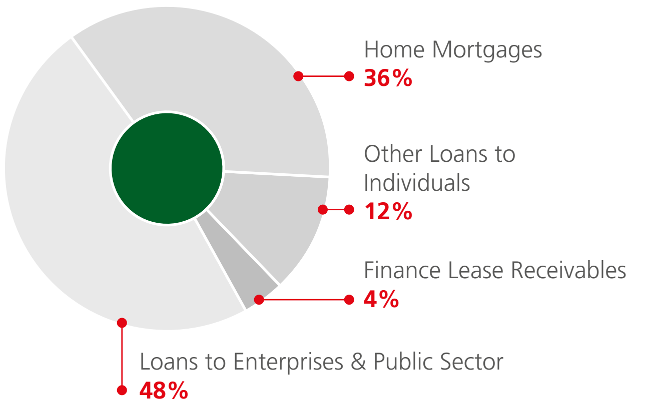
PLN m

Gross Loans and Advances to Customers	31.12.2014 1	31.12.2013 2	YoY Change 1/2
Loans and advances to individuals	47 784.1	34 041.4	40.4%
Loans and advances to enterprises and public sector customers	39 340.7	34 478.3	14.1%
Finance lease receivables	3 815.8	3 052.1	25.0%
Other	6.5	50.1	-87.0%
Total	**90 947.1**	**71 621.9**	**27.0%**

Structure of Loans & Advances to Customers as at 31.12.2014



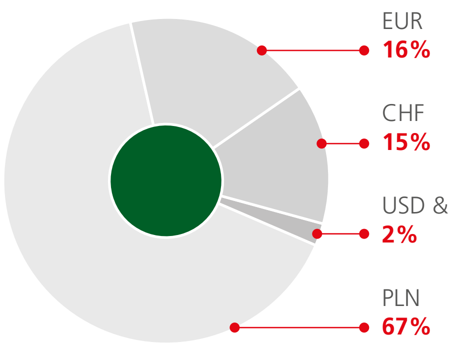
Structure of Loans & Advances to Customers as at 31.12.2014



As at 31 December 2014, gross loans and advances to customers were PLN 90,947.1m, increasing by 27% on the end of 2013.

As a result of the consolidation of SCB Group (a gross credit portfolio of PLN 13.9bn), which specializes in retail banking, the main item in the structure of gross loans and advances of Bank Zachodni WBK Group are loans and advances to individuals, followed by loans and advances to enterprises and public sector customers.

FX Structure of Loans & Advances to Customers as at 31.12.2014

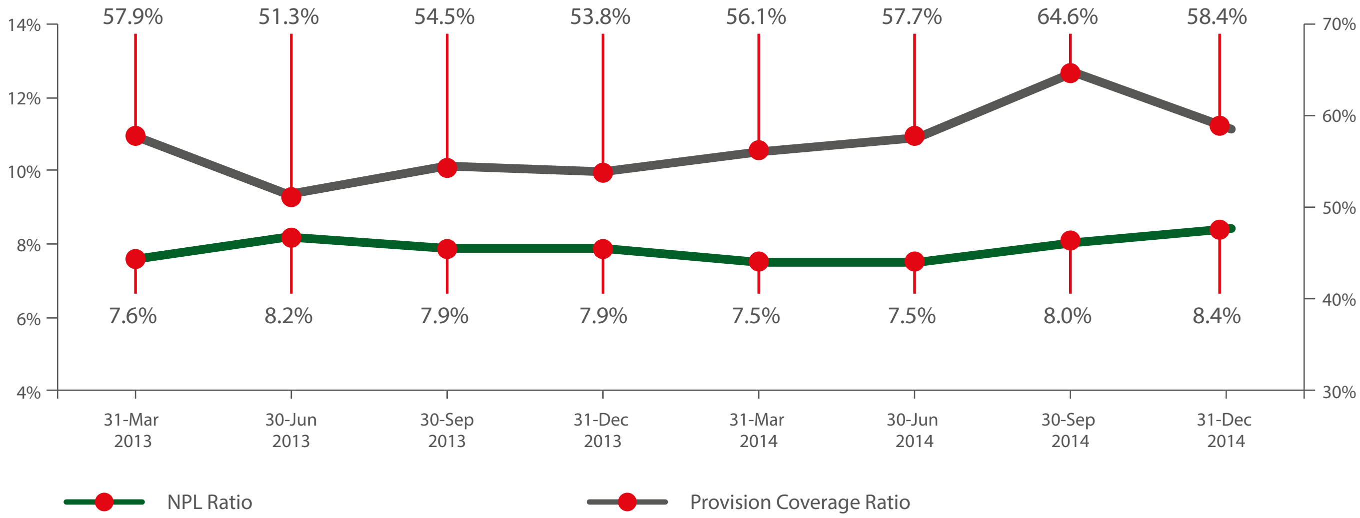


Compared with the end of 2013, loans and advances to individuals increased by 40.4% YoY to PLN 47,784.1m at the end of December 2014, including PLN 12.5bn contributed by SCB Group. Home mortgages, which represent the majority of loans and advances to individuals, increased by 22% YoY to PLN 30,860.8m. The second significant constituent item, i.e. cash loans, grew by 72.5% to PLN 9,741.6m.

Loans and advances to enterprises and public sector companies amounted to PLN 39,340.7m, up 14.1% YoY due to the strong business lending activity of Bank Zachodni WBK, particularly in the segment of corporate and GBM customers.

As at 31 December 2014, finance lease receivables, including among others the portfolio of BZ WBK Leasing and BZ WBK Lease, totalled PLN 3,815.8m, increasing by 25% YoY amid robust sales of vehicles, machines and equipment. Loans granted by the leasing companies to finance machines and vehicles, which totalled PLN 1,207.2m as at 31 December 2014 (vs. PLN 846.2m as at 31 December 2013) are disclosed outside the leasing portfolio as loans and advances to enterprises.

Credit Quality Ratios by Quarters in 2013 and 2014



As at 31 December 2014, non-performing (impaired) loans to customers accounted for 8.4% of the gross portfolio vs. 7.9% twelve months before. The provision coverage for NPLs was 58.4% vs. 53.8% as at 31 December 2013.

Excluding the impact of SCB Group, non-performing loans to customers represented 8.1% of the gross portfolio, while the provision coverage for NPLs was 51.4%.

The Group maintains an appropriately diversified credit portfolio. As at 31 December 2014, the highest concentration level was recorded in "distribution" (12% of BZ WBK Group exposure), "production" (10%) and "property" (10%).

EQUITY AND LIABILITIES

The table below presents major developments in the key categories of the consolidated liabilities and equity of Bank Zachodni WBK Group as at 31 December 2014 vs. 31 December 2013.

PLN m

Liabilities & Equit (condensed presentation for analytical purposes)	31.12.20 14	Structure 31.12.20 14	31.12.20 13	Structure 31.12.20 13	YoY Change
	1	2	5	6	1/5
Deposits from customers	94 981.8	70.6%	78 543.0	74.1%	20.9%
Deposits from banks	8 359.9	6.2 %	6 278.8	5.9%	33.1%
Subordinated liabilities and debt securities in issue	4 913.3	3.7%	1 885.4	1.8%	160.6%
Financial liabilities held for trading and hedging derivatives	4 039.9	3.0%	1 644.7	1.6%	145.6%
Other liabilities	4 155.3	3.1%	3 2 25.2	3.0%	28.8%
Total equity	18 051.7	13.4 %	14 482.9	13.6%	24.6%
Total	**134 50 1.9**	**100.0 %**	**106 060.0**	**100.0%**	**26 .8%**

In the consolidated liabilities and equity as at 31 December 2014, the highest YoY growth was observed in the subordinated liabilities and debt securities in issue (+160.6% YoY), which was due to the latest issue of bonds by Bank Zachodni WBK with a nominal value of PLN 475m and the contribution of SCB Group of PLN 2.5bn made up of the bonds issued as part of the debt securities programme guaranteed by Santander Consumer Finance, and the bonds issued as part of the securitization of the retail loans portfolio of Santander Consumer Bank.

The growth in the portfolio of financial liabilities held for trading and hedging derivatives (+145.6% YoY) was driven by IRS and FX swaps.

An increase in deposits from banks (+33.1% YoY) reflects the Group's stronger trading in the repo market, including the contribution of PLN 1.4bn from SCB Group.

DEPOSIT BASE

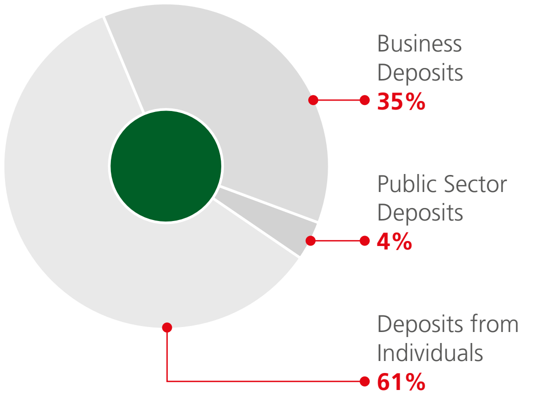
Deposits from customers increased by 20.9% YoY under the impact of higher balances in term deposits of personal and business customers with an accompanying moderate increase in current account balances.

Total equity increased by 24.6% YoY, mainly as a consequence of a two-fold increase in the share capital of Bank Zachodni WBK by a total of PLN 2,159.5m. In Q3 2014, the bank issued 305,543 series K ordinary bearer shares (registered on 11 July 2014) with a nominal value of PLN 3.1m under the 4th Incentive Scheme for the Group employees and 5,383,902 series L ordinary shares totalling PLN 2,156.4m (registered on 18 July 2014), which were placed with Santander Consumer Finance in exchange for an in-kind contribution of shares in Santander Consumer Finance. The nominal value of series L shares of PLN 53.8m increased the share capital, while the share premium of PLN 2,102.6m was recognised in the supplementary capital.

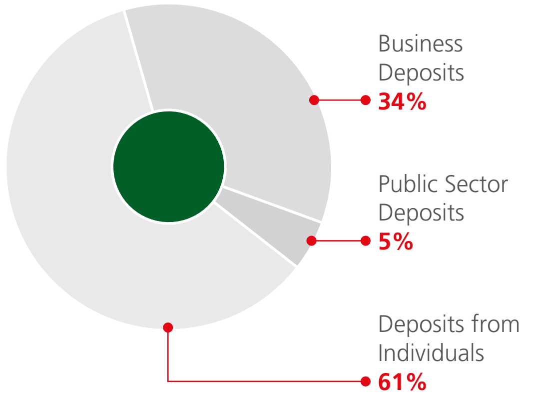
PLN m

Deposits from Customers	31.12.2014	31.12.2013	YoY Change
	1	3	1/3
Deposits from individuals	58 257.0	47 999.1	21.4%
Deposits from enterprises and public sector customers	36 724.8	30 543.9	20.2%
Total	**94 981.8**	**78 543.0**	**20.9%**

Structure of Customer Deposits as at 31.12.2014

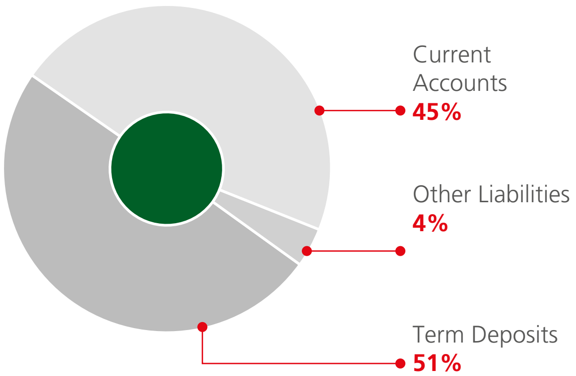


Structure of Customer Deposits as at 31.12.2013

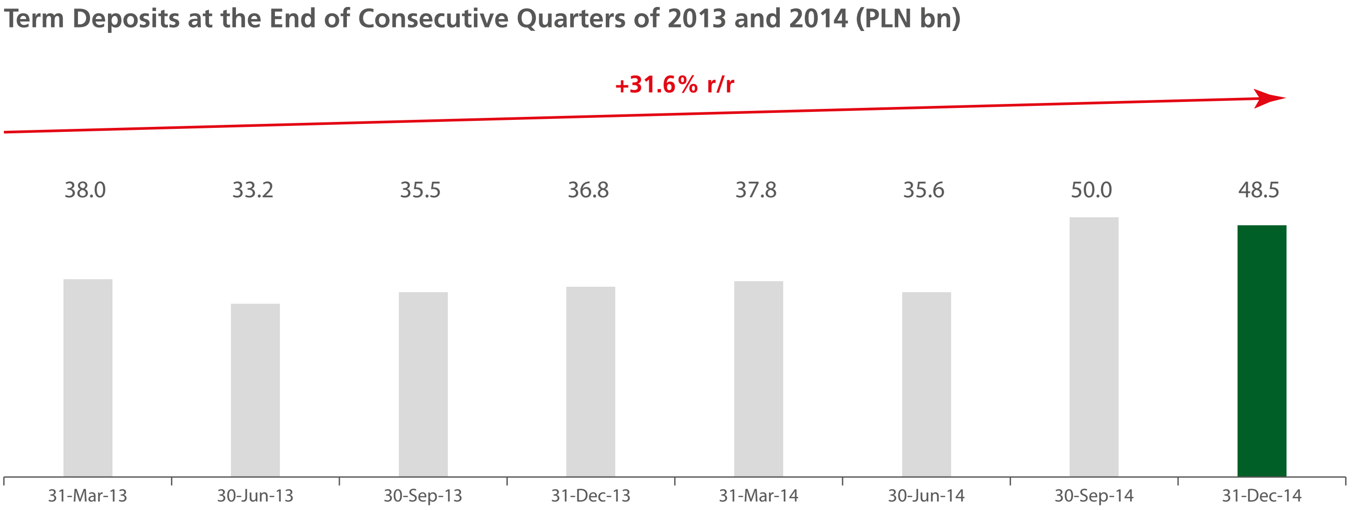


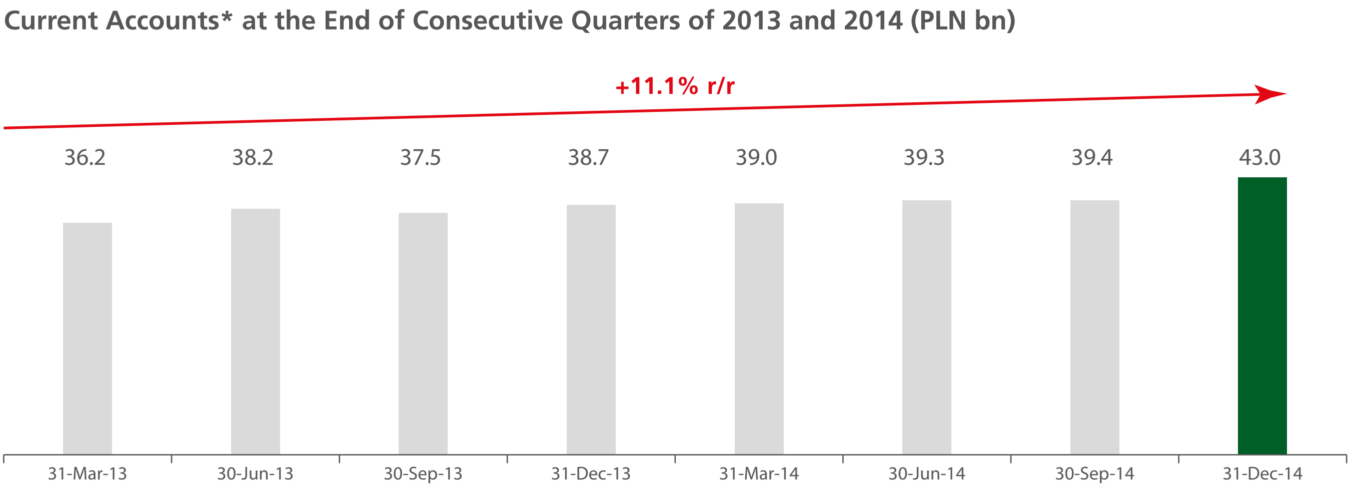
Deposits from customers, which represent 70.6% of the Group's liabilities, are the primary source of funding its lending business. The deposits increased by 20.9% YoY to PLN 94,981.8m at the end of 2014, including a contribution of PLN 6.9bn by SCB Group.

Structure of Customer Deposits as at 31.12.2014



Term deposits from Group customers increased by 31.6% YoY to PLN 48,474.9m; current account balances increased by 11.1% to PLN 43,047.9m, while the Group's other liabilities increased by 16.7% to PLN 3,459.0m. The latter item includes loans from the European Investment Bank (EUR 350m, CHF 256.5m and PLN 196.7m) to finance the bank's lending activity and disclosed as loans and advances under deposits from enterprises. The reported increase results from the disbursement of a new line of EUR 100m in Q3 2014 to finance loans to SME and corporate customers.





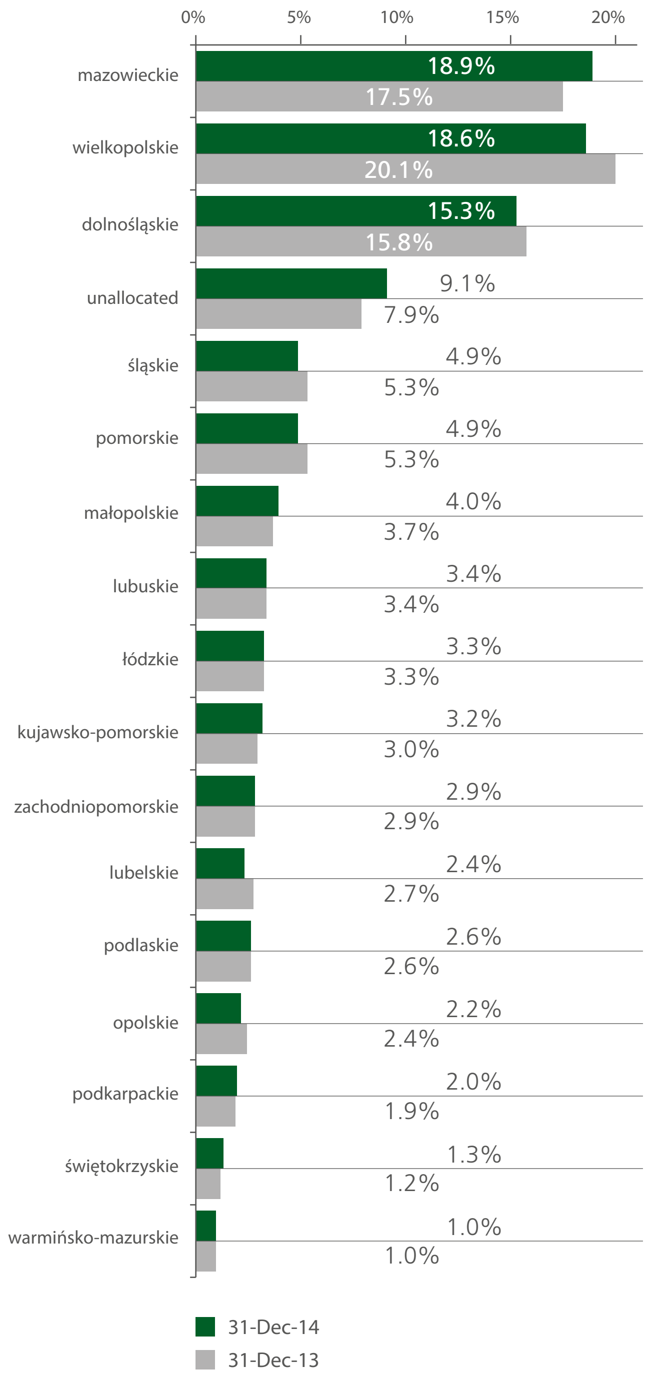
* including savings accounts

The retail deposits base increased by 21.4% YoY to PLN 58,257.0m due to the rapid growth in term deposits from individuals (+38.5% YoY) driven by consolidation of SCB Group and strong acquisition activity pursued by the bank in H2 2014, mainly by means of the competitively priced New Easy Earning Deposit, which attracted ca. PLN 5bn of new funds from its launch in mid– August 2014 to the end of October. In Q4 2014, the focus was placed on strengthening relationships with new customers by offering them deposits combined with other active products, retaining maturing deposits and building long-term co-operation. In effect, the Group stabilised its deposit base when viewed on a quarterly basis.

Similar initiatives were taken with respect to enterprises and public sector customers. In particular, the bank launched new attractive products (e.g. one-month Business Impet Deposit for new funds), increased interest rates on negotiated deposits, enhanced service quality and a strengthened customer relationships. Deposits from this segment grew by 20.2% YoY to PLN 36,724.8m under the impact of higher term deposits (+21.0% YoY) and current accounts balances (+20.5% YoY).

Geographical Structure of Customer Deposits (by province) as at 31.12.2013 and 31.12.2014

Geographical Structure of Customer Deposits (by province)



Diversification of Funding Sources for the Core Business of the Bank and Subsidiaries

BANK ZACHODNI WBK

Issue of Own Bonds

On 17 July 2014, Bank Zachodni WBK issued 475,000 bearer bonds with a nominal value of PLN 1,000 each. The bonds were issued in a private placement with a variable interest rate (WIBOR + 1.0% p.a.) and a 3-year maturity. All the bonds with a total value of PLN 475m were taken up by bondholders.

On 29 July 2014, the Management Board of the Warsaw Stock Exchange adopted Resolution no. 862/2014 on introducing the bonds to the Catalyst alternative trading system.

Agreement with the European Investment Bank

On 8 September 2014, a drawdown was made under the agreement of 17 June 2014 between Bank Zachodni WBK and European Investment Bank (EIB). The agreement provided for a EUR 100m worth of credit line to be used for financing credit delivery to SME and corporate clients. The facility is to be repaid in bullet within seven years.

Credit Agreement

On 18 December 2014, Bank Zachodni WBK signed an agreement with a foreign bank for USD 50m worth of general purpose financing. The funds were disbursed on 16 January 2015. Pursuant to the agreement, the loan bears a variable interest rate based on the 6M Libor and is to be repaid within 728 days of the date of the agreement.

SANTANDER CONSUMER BANK

Issue of Debt Securities of Santander Consumer Bank (SCB)

In 2014, SCB continued its issue of bonds as part of the debt securities issue programme, guaranteed by Santander Consumer Finance.

In the second half of 2014, bonds with a nominal value of PLN 670m were issued, with maturities ranging from 6 months to 5 years. The bonds bear a variable interest rate based on 6M/3M WIBOR, while the interest rate on short-term instruments is fixed. All the securities have been issued in a private placement.

Securitization of SCB assets

In June 2014, SCB completed the securitization of the car and hire purchase loan portfolio of PLN 1,751.4m involving the transfer of securitized receivables to SC Poland Auto 2014-1 Limited (SCV), a special purpose vehicle registered in Ireland. Based on the securitized assets, SPV issued two classes (A, B) of bonds of PLN 1,367m in total secured by a registered pledge on SPV assets. The bonds were taken up by SCB in full and subsequently were sold to third parties in unconditional and repo transactions. As a result of the securitization scheme, SCB acquired funding while giving up future cash flows from the securitized loan portfolio.

3. SELECTED RATIOS

Selected Financial Ratios	2014	2013
Total costs/Total income [1)]	47.2%	47.0%
Net interest income/Total income	60.8%	53.8%
Net interest margin [2)]	3.7%	3.5%
Net commission income/Total income	28.1%	29.2%
Customer loans/Customer deposits	90.4%	86.7%
NPL ratio	8.4%	7.9%
NPL coverage ratio	58.4%	53.8%
Credit risk ratio [3)]	1.0%	1.0%
ROE [4)]	14.4%	16.6%
ROA [5)]	1.6%	1.9%
Capital ratio [6)]	12.9%	13.9%
Book value per share (in PLN)	181.9	154.8
Earnings per share (in PLN) [7)]	**19.9**	**21.2**

1) Excluding integration costs, the adjusted cost-to-income ratio was 44.5% for 2014 and 42.7% for 2013.

2) Net interest income for 4 quarters (excluding interest income from the debt trading portfolio) to average interest-bearing assets (excluding debt trading portfolio), net of impairment write– down.

3) Impairment losses on loans and advances (for 4 quarters) to average gross loans and advances to customers.

4) Net profit attributable to BZ WBK shareholders (for 4 quarters) to 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. Excluding the impact of integration costs, adjusted ROE was 15.5% as at 31.12.2014 and 18.4% as at 31.12.2013.

5) Net profit attributable to the BZ WBK shareholders (for 4 consecutive quarters) to average total assets.

6) The calculation of a capital ratio as at 31.12.2014 takes account of the equity and total capital requirements for relevant risks using the standardised approach in line with CRD IV/CRR package, effective from 1 January 2014 by virtue of the decision of the European Parliament and European Banking Authority. If the total own funds used in the capital ratio calculation included the annual net profit for 2014 (after deducing expected charges and dividends), the respective ratio would be at 13.4%. The calculation of a capital ratio as at 31.12.2013 takes account of the equity and total capital requirements for relevant risks, using the standardised approach in line with KNF (Polish Financial Supervision Authority) Resolution no. 76/2010 of 10 March 2010 (as amended).

7) Net profit for the period attributable to shareholders of BZ WBK divided by the number of ordinary shares. Adjusted for the impact of BZ WBK-Aviva revaluation, the underlying EPS was 17.7%

4. ADDITIONAL FINANCIAL INFORMATION

Selected Transactions with Related Entities

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

As at 31 December 2014, the bank's total exposure on loans to subsidiaries (e.g. BZ WBK Leasing, BZ WBK Lease, BZ WBK Faktor) amounted to PLN 7,938.4m compared with PLN 4,947.8m as at 31 December 2013.

As at 31 December 2014, the deposits held with the bank by subsidiaries (e.g. BZ WBK Faktor, BZ WBK Finanse, BZ WBK Lease, BZ WBK Inwestycje, BZ WBK Asset Management, BZ WBK Towarzystwo Funduszy Inwestycyjnych, Santander Consumer Multirent) totalled PLN 2,127.1m vs. PLN 985.2m as at 31 December 2013.

Guarantees to subsidiaries amounted to PLN 65.1m versus PLN 270.1m as at 31 December 2013. These intercompany items have been eliminated from the consolidated accounts.

The bank's receivables from the parent entity (Santander Group) amounted to PLN 0.7m compared with PLN 706.2m at 31 December 2013, while obligations amounted to PLN 155.5m compared with PLN 71.5m as at 31 December 2013. 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 2014" and in Note 45 of the "Financial Statements of Bank Zachodni WBK for 2014".

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	31.1 2.201 4	31.12.20 13
Financial commitments:	**19 959.9**	**17 592.8**
– credit lines	17 047.1	15 229.8
– credit cards debits	2 367.1	1 875.1
– import letters of credit	413.6	441.5
– term deposits with future commencement term	132.1	46.4
Guarantees	4 383.1	3 822.2
Total	**24 343.0**	**21 415.0**

PLN m

Nominal Value of Derivatives	31.12.2014	31.12.2013
Derivatives – Forward (hedging)	35 207.4	29 792.1
Derivatives – Forward (trading)	178 576.9	128 272.0
Current FX transactions	4 653.2	2 076.9
Trading in equities	934.1	302.3
Total	**219 371.6**	**160 443.3**

DESCRIPTION OF GUARANTEES ISSUED

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

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

OPERATING LEASE

Bank Zachodni WBK and Santander Consumer Bank lease offices in compliance with operating lease agreements. Typically, Bank Zachodni WBK signs its lease agreements for a term of 5-10 years, while the lease agreements of Santander Consumer Bank are concluded for a term of 3-5 years. Total payments of all the irrevocable operating leases (including the value of land in perpetual usufruct) are as below.

PLN m

Lease payments by maturity	31.12 .2014	31.12 .2013
less than 1 year	281.8	252.0
between 1 and 5 years	602.4	615.4
over 5 years	345.4	373.9
Total	**1 229.6**	**1 241.3**

Writs of Execution and Value of Collateral

The table below shows the number and value of the writs of execution issued by Bank Zachodni WBK in 2014 compared with 2013.

PLN m

Facility	31.12.2014		31.12.2013	
	Number	Value	Number	Value
Loans to individuals	47 455	269.1	66 705	363.8
Loans to enterprises	3 570	972.7	3 987	884.9
Total	**51 025**	**1 241.8**	**70 692**	**1 248.7**

As at 31 December 2014, the value of the borrowers' accounts, assets or leased objects pledged as collateral coverage to the Group amounted to PLN 72,817.1m compared with PLN 60,783.1m as at 31 December 2013.

5. FACTORS WHICH MAY AFFECT FINANCIAL RESULTS IN 2015

The following factors are expected to impact the financial performance and operations of the Bank Zachodni WBK Group in 2015:

- Concerns about slower global economic growth, particularly in the euro-zone, meaning a poorer outlook for Polish exports.
- Economic growth slow-down in Poland at the beginning of 2015 with likely acceleration in the subsequent quarters.
- Growth in real disposable income of households on account of low inflation, higher employment and a gradual acceleration of salary growth. Fiscal policy incentives in the form of higher tax allowances for families with children and a minimum indexation rate for old age and disability pensions.
- Notable depreciation of the zloty against the Swiss franc as the Swiss National Bank decided to scrap the EUR/CHF peg of 1.2, and the fall of 3M LIBOR rates for CHF below zero and the related fall of 3M CHF LIBOR interest rates below zero.
- Expected further relaxation of national monetary policy. Low financing costs for households and businesses should stimulate demand for bank debt. At the same time, the low interest rates on deposits may encourage bank customers to seek alternative savings/investment options.
- Changes in the approach taken by the ECB to monetary policy.
- Changes in asset funding costs depending on the pace and degree of changes in base rates, movements in the PLN exchange rate, the liquidity position of the banking sector and the degree of price competition between banks seeking to attract customer deposits.
- A possible increase in volatility in financial markets in the event of a more negative outlook for global economic growth or growing concerns about potential monetary policy tightening by the Federal Reserve.
- Further developments in the global equity markets and their impact on demand for mutual fund units or safe bank deposits.

IX. INVESTOR RELATIONS

1. INVESTOR RELATIONS IN BANK ZACHODNI WBK

Bank Zachodni WBK is strongly committed to ensuring open, effective and high-quality communication with shareholders and investors. The main objective of the Investor Relations Office is to maintain relationships with institutional investors and stock market analysts, informing them proactively of Group developments and other relevant aspects that may affect them, as well as satisfying requests for information. The primary purpose of this is to enhance presentation and improve the image of Bank Zachodni WBK Group in capital markets.

In 2014, the bank continued its standard activities in the area of investor relations. Investors, shareholders and stock market analysts had the opportunity to meet the representatives of the bank's Management Board at numerous brokers' conferences in Poland and abroad as well as investor road-shows and individual meetings. Bank Zachodni WBK was present at eight international conferences. In June 2014, the Investor Relations Office promoted the company at the annual Wall Street Conference held by the Individual Investor Association, the largest event of this type in Poland. In all, the Investor Relations Office held more than 200 meetings with investors and analysts during the year.

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

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

In October 2014, Bank Zachodni WBK came second in Poland's largest Polish investor relations survey of WIG30 companies published by Parkiet daily in liaison with the Chamber of Brokerage Houses. The winning companies recognized for best communication with the market were selected by investors in an online vote.

2. SHARE CAPITAL, OWNERSHIP STRUCTURE AND SHARE PRICE

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

As at 31 December 2014, the share capital of Bank Zachodni WBK totalled PLN 992,345,340, divided into 99,234,534 ordinary bearer shares at a nominal value of PLN 10 each. For details of the share series, please refer to Chapter XI "Statement on Corporate Governance in 2014", section 4 "Equity Securities Issued by the Bank".

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

The table below presents changes in the structure of the share capital of Bank Zachodni WBK in 2014 based on the data registered as at the dates of release of consecutive interim reports starting from the Q4 2013 report published on 30 January 2014. The underlying developments are described in Chapter II "Basic Information on Bank Zachodni WBK Group", section 1 "History, Profile and Competitive Position" and in Chapter XI "Statement on Corporate Governance in 2014", section 4 "Equity Securities Issued by the Bank".

Shareholders Holding over 5% of Voting Rights at AGM	Number of Shares and Votes at AGM as at the Release Dates of Consecutive Periodic Reports			% in the Share Capital & Voting Power at AGM as at the Release Dates of Consecutive Periodic Reports		
	*4.11.2014 3.02.2015	31.07.2014	**30.01.2014 29.04.2014	*4.11.2014 3.02.2015	31.07.2014	**30.01.2014 29.04.2014
Banco Santander	68 880 774	65 481 563	65 481 563	69.41%	65.99%	70.00%
ING OFE	5 110 586	5.15%	–	–	–	–
SCF	–	5 383 902	5.42%	–	–	–
Others	25 243 174	28 369 069	28 063 526	25.44%	28.59%	30.00%
Total	**99 234 534**	**99 234 534**	**93 545 089**	**100.0%**	**100.0%**	**100.0%**

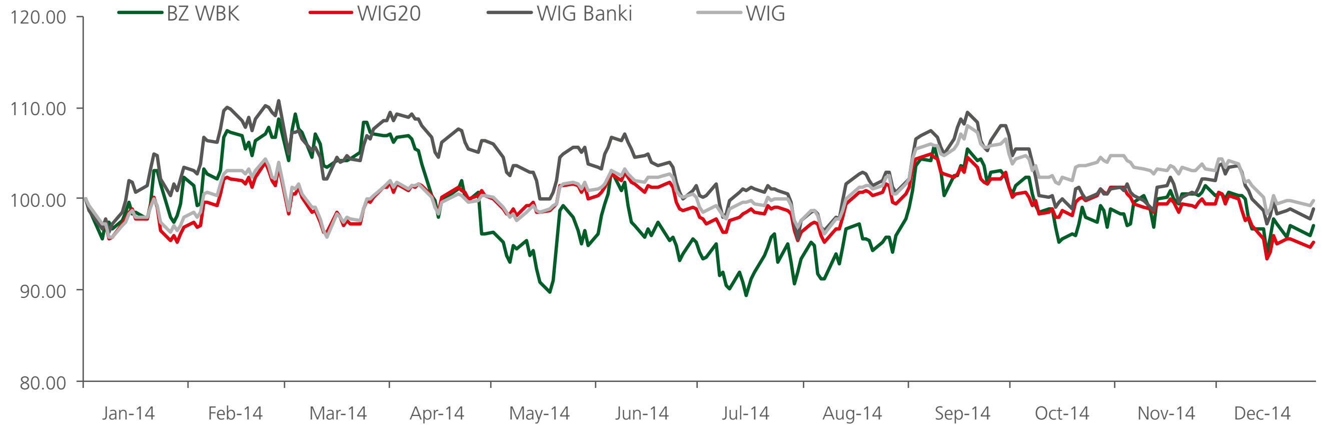
* valid as at 31.12.2014

** valid as at 31.12.2013

Share Price of Bank Zachodni WBK vs. Indices

BZ WBK Share Price vs. Indices

BZ WBK Share Price, WIG20, WIG Banki and WIG as at 02.01.2014 = 100



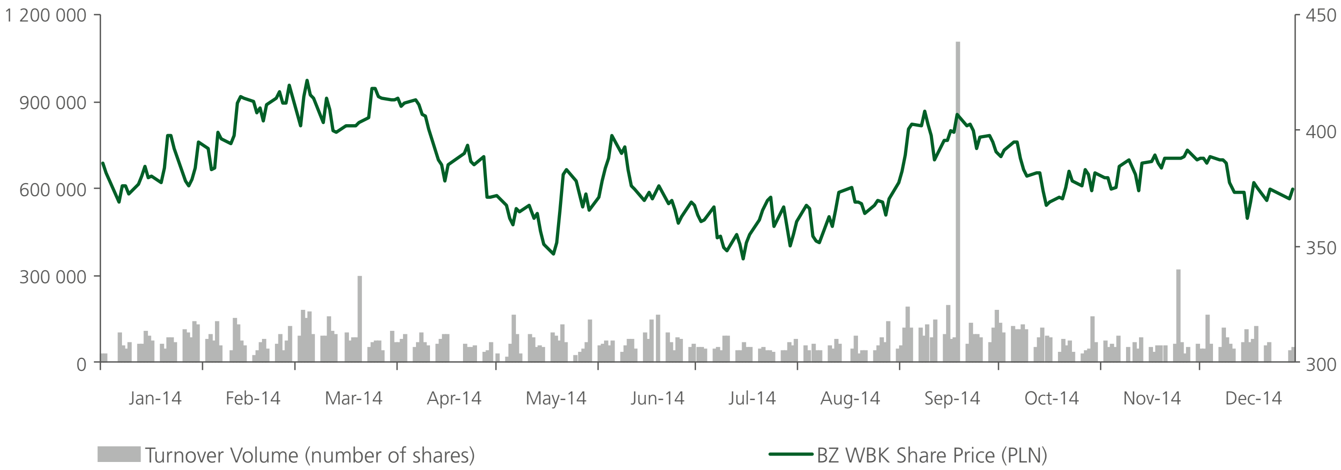
In 2014, the share price of Bank Zachodni WBK continued to trend sideways. Despite considerable fluctuations of up to 20% during the year, the bank's share price closed down 3.4% (from PLN 387.60 as at end-December 2013 to PLN 375.00 as at end-December 2014) in line with the WIG20 (-3.5% YoY). WIG and WIG Banks remained relatively flat YoY.

The upward trend in the share price of Bank Zachodni WBK reported last year reversed on account of factors beyond the bank's control, such as the reform of open-end pension funds, the conflict in Ukraine and interest rate cuts.

In 2014, the closing price ranged from PLN 422 on 5 March to PLN 345 on 16 July. In May, the bank paid out a dividend of PLN 10.70 per share out of the profit earned in 2013.

As at 31 December 2014, market capitalisation of Bank Zachodni WBK was PLN 37,213.0m compared to PLN 36,258.1m a year before, with the number of shares growing by 5,689,445 on account of an increase in the bank's capital occurring twice duringb 2014.

BZ WBK Share Price and their Stock Exchange Trading Volumes in 2014



Key Data on BZ WBK Shares	2014	2013
Share price at the year-end (in PLN)	375.0	387.6
Maximum closing share price over the year (in PLN)	422.0	410.0
Date of maximum closing share price	05-03-2014	27-11-2013
Minimum closing share price over the year (in PLN)	345.0	241.0
Date of minimum closing share price	16-07-2014	2-01-2013
Price per earning ratio (P/E) at the year-end	18.7	22.5
Number of shares at the year-end (items)	99 234 534.0	93 545 089.0
Market capitalisation at the year-end (PLN m)	37 213.0	36 258.1
Average turnover over the year (PLN m)	29.2	25.9
Dividend per share (PLN m)	n/a [1]	10.7

[1] Please r efer to the information pr ovided in the section below.

Dividend per Share

As at the release date of this report, the Management Board of Bank Zachodni WBK has not completed its analysis leading to the issuance of recommendation on dividend payout for 2014.

The Bank Zachodni WBK Annual General Meeting of Shareholders held on 16 April 2014 agreed on the distribution of PLN 1,000.9m from 2013 net profit for dividend to shareholders. A dividend of PLN 10.70 per share was paid on 16 May 2014.

See the table in Chapter II "Basic Information on Bank Zachodni WBK Group", section 1 "History and Profile of Bank Zachodni WBK Group" for details of dividends paid from 2010 to 2014.

3. BANK ZACHODNI WBK RATING

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

On 2 June 2014, Fitch Ratings upgraded the following ratings of Bank Zachodni WBK:

- long-term foreign currency IDR: from „BBB" to „BBB+", outlook stable;
- short-term foreign currency IDR: from „F3" to „F2";
- national long-term rating: from „A+(pol)" to „AA-(pol)", outlook stable.

The support and viability ratings were reaffirmed.

The above rating actions and key drivers were confirmed by Fitch Ratings in its release of 26 November 2014.

The rating actions on IDRs are based on Fitch's view of a high probability that Bank Zachodni WBK would be supported, if required, by its controlling entity. Fitch believes that Poland is a strategically important market for Banco Santander, which ensures a relevant position of Bank Zachodni WBK in the Group.

The agency expects that support from Banco Santander will ensure the affirmation of the bank's long-term IDRs at one notch below that of its majority shareholder.

The VR of the bank reflects its strong standalone credit risk profile, underpinned by healthy internal capital generation, solid performance, good asset quality, strong liquidity and stable funding base.

The agency states that Bank Zachodni WBK VR could be upgraded by one notch, to "bbb+" if it continues to perform strongly after the integration of the other banks, if key financial metrics remain sound and if there is no significant deterioration in Poland's economy.

The rating actions on Bank Zachodni WBK as at 31 December 2014 and 31 December 2013 are summarised below.

Fitch Rating	**Ratings raised/affirmed in the announcement of 2.06.2014 and affirmed in the announcement of 26.11.2014**[1)]	**Ratings raised/affirmed in the announcement of 4.12.2013**[2)]
	International Ratings	
Long-term IDR	BBB+	BBB
Outlook for the long-term IDR rating	stable	stable
Short-term IDR	F2	F3
Viability rating	bbb	bbb
Support rating	2	2
	National Ratings	
National long-term rating	AA-(pol)	A+(pol)
Outlook for the national long-term rating	stable	stable
Senior unsecured debt national long-term rating	AA-(pol)	A+(pol)

[1)] BZ WBK ratings valid as at 31.12.2014

[2)] BZ WBK ratings valid as at 31.12.2013

X. 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 approved risk parameters. Risk management practice is in keeping with the industry benchmark, regulatory guidance and recommendations from supervisory authorities, and covers operational risk, credit risk, market risk and liquidity risk.

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

The integrated risk management structure contains separate units responsible for measurement, monitoring and controlling risks in a way that ensures independence of risk management functions from 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 during 2014 was to finalise the migration of customer data from the former Kredyt Bank in order to fully standardise the policies, procedures and risk management tools. A number of changes were also implemented to optimise processes and tools, with particular focus on the quality of customer service (e.g. improvements to the credit process for SME and corporate customers).

As part of pro-active credit risk management, in 2014 the bank established a Restructuring Committee to further improve the quality of the loan portfolio through the early implementation of debt restructuring actions. The Committee undertook decisions concerning the relationship management strategy for corporate borrowers in distress (whose exposure does not exceed PLN 25m), debt reduction and the sale of receivables. Decisions concerning corporate borrowers in distress (whose exposure exceeds PLN 25m) are left at the discretion of the Credit Committee.

In 2015, the Group will proceed with the development of innovative risk management solutions which support a safe and sustainable growth of business volumes while ensuring compliance with regulatory requirements in the area of advanced methods of risk management.

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 developing a risk management strategy across the Group, including the identification of material risk types, setting the risk appetite and defining the methods of risk measurement, control, monitoring and reporting.

The Risk Management Committee supervises the activities of the 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 risk levels in specific areas. Through these committees, the bank also supervises the risk attached to the operations of subsidiaries.

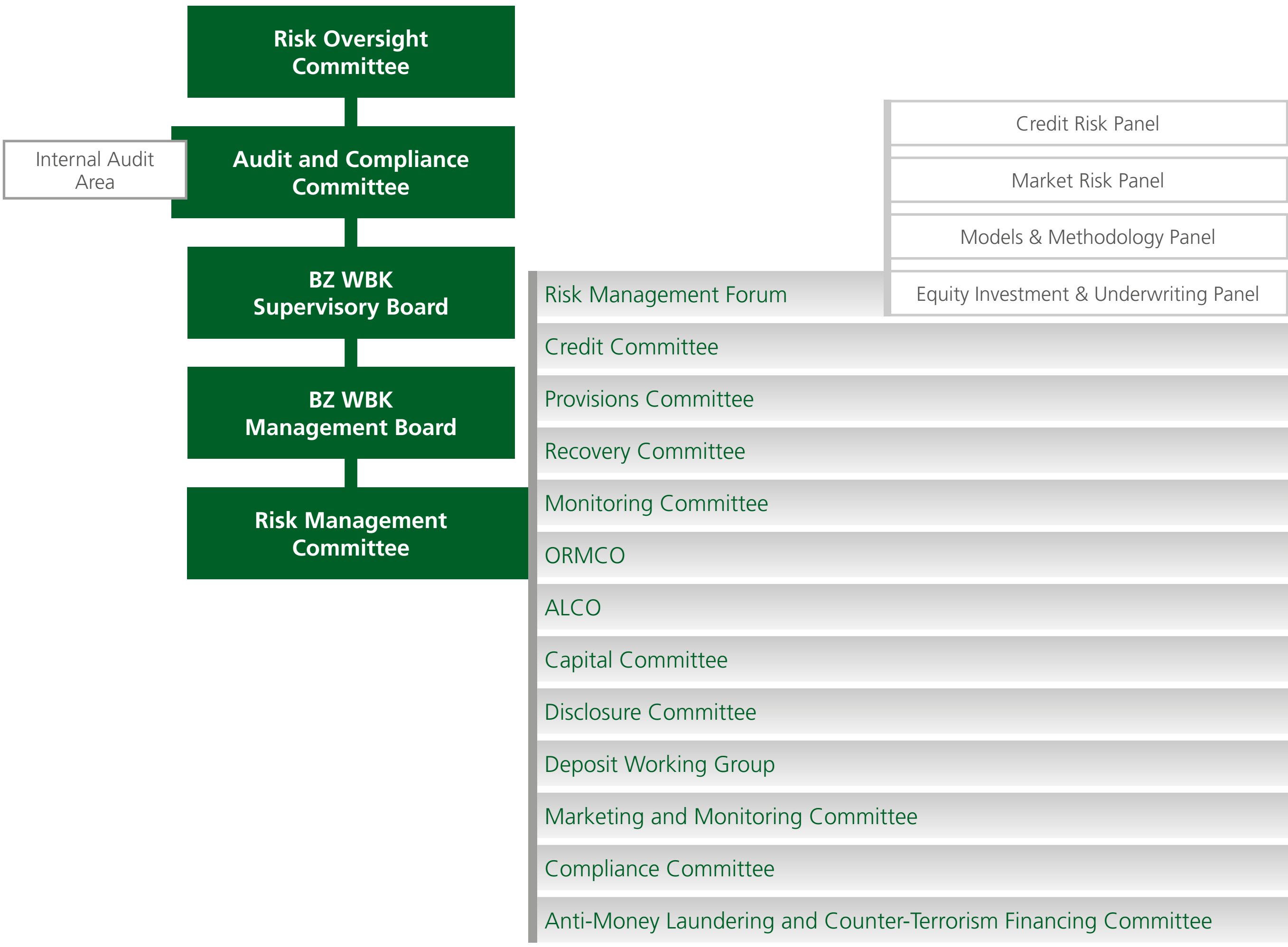
Acting under the applicable law, the bank exercises oversight over risk management in Santander Consumer Bank (SCB) in line with the same oversight rules as applied to other Bank Zachodni WBK Group companies. Bank Zachodni WBK Management Board Members in charge of the Risk Management Division and Financial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

The RMC supervises the following risk committees:

- Risk Management Forum

- Credit Committee
- Restructure Committee
- Provisions Committee
- Monitoring Committee
- Operational Risk Management Committee/ORMCO
- Assets and Liabilities Management Committee/ALCO
- Capital Committee
- Disclosure Committee
- Deposit Working Group
- Marketing and Monitoring Committee
- Compliance Committee
- Anti-Money Laundering and Counter-Terrorism Financing Committee

Corporate Governance Structure for Risk Supervision and Management



2. CREDIT RISK MANAGEMENT

Credit Risk

Credit risk is defined as the possibility of suffering a loss if the borrower fails to meet their credit obligation, including payment of interest and fees. 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 in the event of borrower default.

The Group's credit risk 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 based on applicable credit delivery procedures and discretionary limits. The Group's internal system of credit grading and monitoring allows for the early identification of potential defaults that might impair the loan portfolio. Additionally, 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 ongoing analysis of the macroeconomic environment and internal reviews of particular credit portfolios. These advanced credit risk assessment tools allow quick remedial action to be taken in response to the first signals of any change in the portfolio's quality or structure.

Credit Policy

In 2014, the Group continued its credit risk management policy, keeping credit risk at a safe level while still ensuring the dynamic growth of loan portfolio profitability, business volumes and market share. Credit policies were optimised in response to macroeconomic developments such as interest rate cuts. The Group carries out its lending activity with full regard to applicable prudential regulation. High quality customer service is also treated as a priority.

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 because they facilitate the 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 subsidiaries is modelled on the bank's credit policies. In the decision-making process, Bank Zachodni WBK Group follows a consistent approach to credit risk and uses the same IT platform to assign rating/scoring (this does not apply to Santander Consumer Bank). Subsidiaries have credit risk management procedures in place which have been approved by the bank.

Credit Decision Making Process

Discretionary limits applied across the bank are governed by the guidelines on "Discretionary Limits in Bank Zachodni WBK S.A." The guidelines define the 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 comprised 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 the further development of credit risk assessment tools to conform to 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 the 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, data collection on security covers and ensures adequate management information.

Credit Risk Stress Testing

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

Calculation of Impairment

In Bank Zachodni WBK 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 objective evidence that such amounts cannot be recovered in accordance with a signed loan agreement. Objective indications of impairment were defined in accordance with recommendations made by the Basel Committee and International Accounting Standards (IAS 39).

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

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

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	31.12.2014	31.12.2013
Individually impaired (gross amount)	3 961.4	3 325.2
Allowance for impairment	(1 771.3)	(1 525.5)
Net amount (individually impaired)	**2 190.1**	**1 799.7**
Collecively impaired (gross amount)	3 648.6	2 315.4
Allowance for impairment	(2 675.3)	(1 511.0)
Net amount (collectively impaired)	**973.3**	**804.4**
IBNR portfolio	83 234.0	65 770.5
– non-past due	78 385.4	62 015.6
– past due	4 848.6	3 754.9
IBNR provisions	(679.9)	(453.2)
Net amount (non-impaired)	**82 554.1**	**65 317.3**
Other receivables	103.1	210.7
Total net loans and advances to customers	**85 820.6**	**68 132.1**

3. 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 strictly defined risk limits and to ensure the Group's liquidity.

The market risk associated with the Group's operations results mainly from customer service operations, transactions effected to maintain liquidity on the money market and capital markets as well 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.

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 companies from BZ WBK Group.

The Global Banking & Markets Division, which includes the Brokerage Office, is responsible for managing market risk on the trading book.

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

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

The 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 2014 and 2013

PLN k	NII Sensitivity		MVE Sensitivity	
1 day holding period	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Maximum	109	114	154	94
Average	100	76	99	45
As at the end of period	90	84	154	92
Limit	**130**	**130**	**200**	**200**

In 2014, the global NIM and MVE limits for the banking book were not exceeded.

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 the interest rate risk, FX risk and the repricing risk of equity instruments held by the Brokerage Office;
- 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 the estimated potential losses in the event of the materialisation of adverse market conditions.

Risk Measures for Bank Zachodni WBK as at 31.12.2014 and 31.12.2013

PLN k	Interest Rate Risk VAR		FX Risk VAR	
1 day holding period	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Average	1 402	1 958	646	534
Maximum	4 656	4 369	2 676	1 647
Minimum	285	547	88	65
as at the end of the period	921	3 741	369	428
Limit	**5 261**	**7 530**	**1 754**	**1 506**

Risk Measures for the Brokerage Office as at 31.12.2014 and 31.12.2013

PLN k	FX Risk VAR		Equity Securities Risk VAR	
1 day holding period	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Average	10	6	281	664
Maximum	83	18	1 294	2 135
Minimum	1	1	81	53
as at the end of the period	4	9	810	312
Limit	**104**	**104**	**3 647**	**4 111**

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

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

No derivative instruments to hedge credit risk were used by the Group, while FX options, interest rate options and commodity derivatives were executed on a 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 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 the short term are fully covered by anticipated inflows or liquid assets. In addition, the aim of the policy is to ensure an adequate structure of funding for the Group's operations by maintaining medium– and long-term liquidity ratios at a pre-defined level and monitoring stress testing results. The policy covers all assets and liabilities as well as off-balance sheet items impacting the liquidity level.

LIQUIDITY RISK MANAGEMENT

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

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

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

IDENTIFICATION AND ASSESSMENT OF LIQUIDITY RISK

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

Liquidity gap analysis as at 31.12.2014 and 31.12.2013

PLN m

Liquidity Risk	31.12.2014		31.12.2013	
	GAP	Cumulative GAP	GAP	Cumulative GAP
<1T	14 810.1	14 810.1	9 750.4	9 750.4
<1M	(12 781.7)	2 028.4	392.9	10 143.3
>1M	(3 616.0)	(1 587.6)	(10 143.3)	–

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

In 2014, 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 2014, 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.

4. OPERATIONAL RISK MANAGEMENT

Bank Zachodni WBK Group adopted the operational risk management definition as agreed by the Basel Committee whereby operational risk management is understood as an exposure to losses arising from inadequacy or failure of internal processes, human resources, systems or external factors (this definition recognises the legal risk but does not include the strategic risk or reputational risk).

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

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

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

The Operational Risk Management Committee (ORMCO) established by the Management Board is responsible for setting operational risk management standards for BZ WBK Group. ORMCO is the main forum for discussions on operational risk. It sets out the strategic direction for operational risk management, determines and monitors objectives for managing operational risk, including business continuity, information security, outsourcing/insourcing and money laundering risk in all business areas of Bank Zachodni WBK. The results of ORMCO's 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 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 the efficiency of 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 identified in its area of responsibility. The Group runs a database of operational incidents identified across Bank Zachodni WBK Group with data utilised to analyse the root cause and consequences of incidents, capture lessons learned and take preventive and corrective measures.

ANALYSIS OF RISK INDICATORS

Bank Zachodni WBK Group monitors both financial and operational risk indicators. Risk indicators provide an 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 Bank Zachodni WBK Group that critical business processes may be restored at the required service level and within the agreed timeframe. Bank Zachodni 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, Bank Zachodni WBK Group has an insurance scheme in place which covers various financial risks, plus motor, property and professional indemnity insurance.

The aim of operational risk reporting is to provide up-to-date adequate information to the management team. Operational risk reports record details on operational incidents and losses, information security and IT security incidents, risk ratios and defined mitigants.

The Group's Information Security Management System has a certificate of compliance with the ISO 27001:2013 standard.

5. 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 a 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 the accuracy of 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 operational history of these insurance companies and a relatively small insurance portfolio that does not permit the application of the Law of Large Numbers and that does not provide sufficient statistical information helpful in managing the insurance risk.

When managing the insurance risk, BZ WBK-Aviva companies mainly focus on increasing their insurance portfolios while using reinsurance to limit the volatility of their risk shares.

In 2014, BZ WBK-Aviva companies offered property insurance and casualty products, both in the model of individual and group insurance. Under individual contracts, customers of both companies could join the investment program, purchase travel insurance or insurance against accidents. Other products were offered under group contracts with the bank. Insurance products were delivered to customers through the bancassurance channel and also directly.

The insurance companies performed an analysis of the adequacy of reserves and this indicated that the technical provisions (net of deferred acquisition costs) as at 31 December 2014 have been established at a level sufficient to cover liabilities arising from insurance contracts issued as of 31 December 2014.

The purpose of these insurance companies is to maintain a constant solvency at the level necessary to enable the dynamic of their development. To fulfill this, the 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). Throughout 2014 all statutory requirements were met.

Legal and Compliance Risk

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

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

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

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

Responsibilities of the Legal and Compliance Division relate to "conduct of business" compliance obligations, in particular with regard to: protection of consumer rights, implementation of new products, prevention of money laundering, ethical issues, protection of sensitive information and protection of personal data.

The identification, interpretation and communication roles relating to other legal and regulatory obligations for the bank as a legal entity (non-conduct of business) have been assigned to functions with specialist knowledge in those areas as follows:

- compliance with employment law – the Business Partnership Division;
- compliance with taxation law and reporting requirements – Financial Accounting and Control Division;

- compliance with prudential regulation – Risk Management Division.

The bank's Management Board adopted a policy statement on compliance with its legal and regulatory obligations, which was approved by the Supervisory Board. The policy provides the Compliance Area operating within the Legal and Compliance Division, with the relevant mandate to support senior managers in the 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 which ensures the fulfilment of regulatory obligations and approves internal control principles and compliance policy framework, so that the Compliance Area may operate independently from business units and has relevant resources to perform its tasks.

The Audit and Compliance Committee regularly reviews key compliance issues identified by the Compliance Area.

The Compliance Area's major responsibilities include (subject to the specific responsibility of Financial Accounting and Control Division, Risk Management Division and Business Partnership Division): prevention of legal and compliance risk, maintenance of appropriate relationships with business units and market regulators, providing support to the bank's management and BZ WBK Group companies in the strategic decision-making process regarding compliance, and coordination (under applicable laws) of the implementation of compliance management standards by compliance units operating in Group companies. These tasks are delivered through:

- independent identification, assessment and monitoring of compliance risk that the Group is exposed to (with particular focus on new products and services, prevention of money laundering and terrorist financing, protection of confidential information, conflicts of interest or private account share dealing by employees;

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

- publication of policies and procedures, providing the management and staff with guidance on compliance risk and adequate risk management policies and procedures;

- centralisation of contacts with market regulators (KNF, UOKiK, GIIF, GIODO),

- centralisation of the approval of new products;

- coordination and support for compliance processes regarding a model for the sale of investment products and the MiFID Directive;

- strengthening of the principles regarding ethical business conduct and building the corporate governance culture in the organisation.

Beside the above-mentioned operational units, BZ WBK Group also has specialised committees supporting the management of the compliance risk in specific areas. These committees consist of the representatives of key business units and risk management units who are competent and duly authorised to make informed decisions and provide high-quality advice. The Compliance Area coordinates and supports the work of individual committees which are chaired by the Management Board member in charge of the Legal and Compliance Division. These committees include the Compliance Committee, Product Marketing and Monitoring Committee, Anti-Money Laundering and Counter-Terrorism Financing Committee and Business Ethics Commission.

Reputational Risk Management

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

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

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

The owner of the reputational 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, nationwide and certain international mass media sources (Corporate Communication and Marketing Area);

- Daily monitoring of social media sources (in particular: Facebook, Twitter) in the context of references to BZ WBK (Corporate Communication and Marketing Area);

- Collection and analysis of image-sensitive information by the Press Office (Corporate Communication and Marketing Area);

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

6. CAPITAL MANAGEMENT

It is the policy of 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 any unexpected loss is determined in accordance with the CRD IV / CRR package implemented on 1 January 2014 by the European Parliament and EBA, plus KNF recommendations regarding stricter criteria for mortgage-backed exposures.

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

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

Capital Policy

The capital management policy of BZ WBK Group stipulates a minimum capital ratio at 12% (calculated according to applicable regulations and directives of the European Parliament and of the Council), both for the bank and the Group.

At the same time, the 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 capital ratio is 8%.

Regulatory Capital

The capital requirement for Bank Zachodni WBK Group as at 31.12.2014 was determined in accordance with Regulation no. 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms as well as the KNF recommendation on stricter criteria for mortgage-backed exposures.

The standardised approach was adopted to calculate the capital requirement for credit risk, market risk 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 exposure value for these assets is equal to the balance sheet total, while the value of off-balance sheet liabilities corresponds to their balance sheet equivalent. Risk-weighted exposures are calculated by means of risk weights applied in line with the above-mentioned Regulation.

The tables below illustrate capital requirements for the Group as of 31 December 2014 and 31 December 2013.

PLN m

		31.12.2014[1)]	31.12.2013[2)]
I	**Total Capital requirement (Ia+Ib+Ic+Id+Ie), of which:**	**8 082.4**	**6 693.7**
Ia	– due to credit risk	6 956.3	5 830.0
Ib	– due to market risk	84.5	51.0
Ic	– due to settlement / counterparty risk	101.8	–
Id	– due to operational risk	939.8	761.6
Ie	– due to other risks	–	51.1
II	Total own funds	16 482.6	14 739.5
III	Reductions	3 437.7	3 092.5
IV	**Own funds after reductions (II-III)**	**13 044.9**	**11 647.0**
V	**CAD [IV/(I*12.5)]**	**12.91%**	**13.92%**

1) As at 31 December 2014, the capital ratio was calculated based on own funds and total capital requirements established for individual risk types using the standardised approach, in line with the CRD IV/CRR package (the Capital Requirements Directive IV and Capital Requirements Regulation), which became effective on 1 January 2014 by virtue of the decision of the European Parliament and the European Banking Authority. Total own funds as at 31 December 2014 include part of the current year profit in the amount of PLN 370.9m under KNF consent granted on 30 October 2014. If the annual net profit for 2014 (after deducing expected charges and dividends) were included in the total own funds used in the calculation of the capital ratio for the Group, which is permissible under CRR/CRD IV provided certain formal conditions are met to occur later in the year, the capital ratio would reach 13.4%.

2) The calculation of consolidated capital ratio of Bank Zachodni WBK Group as at 31 December 2013 takes account of the equity and total capital requirements for credit, market and operational risks, using standardised approach in line with Annex no. 4 of the Polish Financial Supervision Authority (KNF) Resolution no. 76/2010 of 10 March 2010 (as amended).

Internal Capital

Independent from 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 – the ICAAP process.

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

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

The internal capital assessment process uses the risk parameters of probability of default of Bank Zachodni WBK customers and the potential loss size given default.

Results of the ICAAP process are an element of the assessment of 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, including under stressed conditions, taking into account different macroeconomic scenarios.

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

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

Subordinated Liabilities

Until 31 December 2013, subordinated liabilities arising from 10-year registered bonds bearing a floating interest rate issued on 5 August 2010 (fully taken up and paid for by the EBRD) were recognised in the Group's own supplementary funds under the Banking Law Act and KNF approval dated 13 October 2010. Since 1 January 2014, these items have been included in the calculations of Bank Zachodni WBK Group's capital ratio as they meet CRR requirements regarding eligible elements of Tier II capital.

Following the legal merger with Kredyt Bank, BZ WBK has acquired the right to include in supplementary funds subordinated loans granted by KBC NV Dublin. Subordinated liabilities to KBC NV amounted to CHF 265m and PLN 75m. The Group did not use the contractual option to repay these liabilities on their effective maturity. Under Art. 490(5) of CRR, the bank excluded the foregoing liabilities from its own funds and calculations of the capital ratio as at 31 December 2014.

XI. STATEMENT ON CORPORATE GOVERNANCE IN 2014

1. INTRODUCTION

The Statement on Corporate Governance in 2014 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, incorporation of this Statement on Corporate Governance in 2014 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 in 2014 are conveyed in the "Code of Best Practice for WSE Listed Companies" which constitutes an appendix to WSE Supervisory Board Resolution no. 19/1307/2012 of 21 November 2012 and is available at the 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 the "Code of Best Practice for WSE Listed Companies".

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

Bank Zachodni WBK has complied with 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 2014, Bank Zachodni WBK duly complied with all the corporate governance rules conveyed in the binding version of the "Code of Best Practice for WSE Listed Companies" and 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	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Banco Santander S.A.	68 880 774	65 481 563	69.41%	70.00%
ING OFE	5 110 586	–	5.15%	–
Others	25 243 174	28 063 526	25.44%	30.00%
Total	**99 234 534**	**93 545 089**	**100.0%**	**100.0%**

According to the information held by BZ WBK Management Board as at 31 December 2014, the shareholders having minimum 5% of the total number of votes at the BZ WBK General Meeting of Shareholders were Banco Santander and ING Otwarty Fundusz Emerytalny (ING OFE) with shareholdings of 69.41% and 5.15%, respectively.

The majority shareholder's interest in the share capital decreased by 0.59 p.p. YoY as a result of the following:

- Increase in the share capital of Bank Zachodni WBK through two issues of ordinary bearer shares with a nominal value of PLN 10.00 each:
  - 305,543 series K shares were offered in a private subscription to eligible participants of the 4th Incentive Scheme for 2011-2013 (the share capital increase was registered on 11 July 2014);
  - 5,383,902 series L ordinary shares were issued pursuant to the Investment Agreement of 27 November 2013 between Bank Zachodni WBK, Santander Consumer Finance (SCF) and Banco Santander. The shares were taken up in full by SCF in exchange for the in-kind contribution of a controlling stake in SCB (the share capital increase was registered on 18 July 2014).
- Acquisition by Banco Santander of the total stake in Bank Zachodni WBK held by SCF, i.e. 5,383,902 shares representing 5.42% of voting power at the bank's General Meeting (13 August 2014).
- Sale of 1,984,691 shares of Bank Zachodni WBK by Banco Santander (6 October 2014) through an accelerated book building in order to fulfil the commitment to the Polish Financial Supervisory Authority (KNF) made in connection with obtaining KNF approval for the merger of Bank Zachodni WBK and Kredyt Bank to keep the free float of the bank's shares at a level not lower than 30%.

The shares offered in the last transaction were taken up, inter alia, by ING OFE, which increased its interest in Bank Zachodni WBK to the total of 5,110,586 shares, exceeding the threshold of 5% of voting power at the bank's General Meeting.

Rights and Restrictions Attached to the Issuer's Securities

The shares of Bank Zachodni WBK are ordinary bearer shares. Each share carries one vote at the General Meeting of Shareholders. The nominal value is PLN 10 per share. All the issued shares have been fully paid up.

The structure of share capital of Bank Zachodni WBK as at 31.12.2014 denoted by share series

<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="10">from 4.01.2013</td><td rowspan="11">from 11.07.2014</td><td rowspan="12">from 18.07.2014</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>I</td><td>bearer</td><td>none</td><td>none</td><td>1 561 618</td><td>15 616 180</td></tr>
<tr><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>K</td><td>bearer</td><td>none</td><td>none</td><td>305 543</td><td>3 055 430</td></tr>
<tr><td>L</td><td>bearer</td><td>none</td><td>none</td><td>5 383 902</td><td>53 839 020</td></tr>
<tr><td></td><td></td><td></td><td></td><td>Total</td><td></td><td></td><td>99 234 534</td><td>992 345 340</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. Neither are there any restrictions on the transfer of title to the issuer's shares.

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

5. GOVERNING BODIES

General Meetings of Shareholders

ANNUAL GENERAL MEETING OF 2014

The Annual General Meeting of Shareholders of Bank Zachodni WBK held on 16 April 2014 (AGM) approved the 2013 reports submitted by the Management Board and Supervisory Board, granted discharge to members of the Management and Supervisory Boards of Bank Zachodni WBK and Kredyt Bank for the performance of their duties in the previous year and agreed on distribution of the net profit for 2013 and a dividend payment of PLN 10.70 per share. In addition, the AGM agreed on changes in the bank's statutes including:

- extension of the scope of the bank's activity to include brokerage services, maintenance of share registers for companies pursuant to the agreements in place and payment agent services for foreign mutual funds;
- an increase in the share capital by PLN 3,055,430 to PLN 938,506,320 through the issue of 305,543 series K ordinary bearer shares under the 4th Incentive Scheme.

The pre-emptive rights of the bank's existing shareholders with respect to series K shares were excluded. The AGM decided that the bank would seek admission and introduction of the shares to trading on the regulated market operated by the Warsaw Stock Exchange. In relation to the upcoming implementation of the Directive of the European Parliament and of the Council 2013/36/EU of 26 June 2013, the AGM resolved that the variable component of the remuneration of persons holding managerial positions shall not exceed 200% of the fixed component of the total remuneration of each person. The AGM appointed the BZ WBK Supervisory Board for the next term of office (full composition shown below in the „Supervisory Board" section) and agreed the remuneration for Supervisory Board members.

EXTRAORDINARY GENERAL MEETING OF 2014

On 30 June 2014, an Extraordinary General Meeting of Bank Zachodni WBK (EGM) was convened to adopt the resolution on an increase in the bank's share capital by PLN 3,839,020 to PLN 992,345,340 through the issue of 5,383,902 series L ordinary bearer shares with the nominal value of PLN 10 each, and the introduction of relevant changes in the bank's Statutes. In view of the purpose of the issue (placement of shares with Santander Consumer Finance in exchange for an in-kind contribution of 3,120,000 of Santander Consumer Bank shares), the EGM excluded the pre-emptive rights of the bank's existing shareholders with respect to the above shares and decided that the bank would seek the admission and introduction of the shares to trading on the regulated market operated by the Warsaw Stock Exchange. In addition, the EGM approved a three-year long 5th Incentive Scheme starting in 2014 and aimed at employees of Bank Zachodni WBK and its subsidiaries who make a material contribution to the organisation's growth in value.

On 30 September 2014, the Extraordinary General Meeting of Shareholders of Bank Zachodni WBK adopted a resolution on the division of Dom Maklerski BZ WBK, pursuant to the Division Plan of 24 July 2014 agreed by the two parties. For more details please refer to chapter VII "Organisational and Technological Development", section 1 "Organisational Changes".

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

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

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

SHAREHOLDERS' RIGHTS

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

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

- Each shareholder may request that a list of shareholders be e-mailed free-of-charge to a valid address. Each shareholder may have access to the list of shareholders in the bank's MB office and request a copy of the list at their own expense.
- Shareholders may:
  - a week before the GM, demand copies of requests included in the GM agenda
  - have access to the GM minutes and request copies of resolutions confirmed by the bank's Management Board as true copies
  - request voting by secret ballot

- appeal against resolutions made by the GM in cases permitted in the Commercial Companies Code
- seek information from the Management Board regarding issues on the GM agenda, as provided for by the Commercial
- Companies Code
- exercise their voting rights (each share gives one vote at the GM).

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

METHOD OF CHANGING THE STATUTES

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

In 2014, three changes to the Statutes of Bank Zachodni WBK were introduced, including two changes by virtue of AGM resolutions of 16 April 2014 and one change by virtue of an EGM resolution of 30 June 2014. The changes were as follows:

- extension of the scope of the bank's activity to include brokerage services, maintenance of share registers for companies pursuant to the bilateral agreements in place and payment agent services for foreign mutual funds (effective as of 16 May 2014);
- increase in the share capital by PLN 3,055,430 to PLN 938,506,320 through the issue of 305,543 series K ordinary bearer shares in relation to the 4th Incentive Scheme (effective as of 11 July 2014);
- increase in the share capital by PLN 53,839,020 to PLN 992,345,340 through the issue of 5,383,902 series L ordinary bearer shares (effective as of 18 July 2014).

Supervisory Board

Below is the composition of the Bank Zachodni WBK Supervisory Board as at 31 December 2014 and 31 December 2013.

Role in the Supervisory Board	Ref.	Composition as at 31.12.2014	Ref.	Composition as at 31.12.2013
Chairman of the Supervisory Board:	1.	Gerald Byrne	1.	Gerald Byrne
Members of the Supervisory Board:	2.	José Antonio Alvarez	2.	José Antonio Alvarez
	3.	Danuta Dąbrowska	3.	–
	4.	David R. Hexter	4.	David R. Hexter
	5.	Witold Jurcewicz	5.	Witold Jurcewicz
	6.	José Luis de Mora	6.	José Luis de Mora
	7.	John Power	7.	John Power
	8.	Jerzy Surma	8.	Jerzy Surma
	9.	Marynika Woroszylska-Sapieha	9.	–
	10.	José Manuel Varela	10.	José Manuel Varela

As at 31 December 2014, the Supervisory Board was appointed for a new term of office by the Annual General Meeting of 16 April 2014. Since the previous composition, two new members were nominated, namely: Ms Danuta Dąbrowska and Ms Marynika Woroszylska-Sapieha.

As at 31 December 2014, the following members of the Supervisory Board held independent status: Danuta Dąbrowska, David R. Hexter, Witold Jurcewicz, Jerzy Surma and Marynika Woroszylska-Sapieha.

Following the period covered by the Annual Report of Bank Zachodni WBK Group for 2014, Mr José Antonio Alvarez resigned as a member of the Supervisory Board with immediate effect on 5 February 2015.

In the period from 1 January to 31 December 2014, 7 Supervisory Board meetings were held at which 59 resolutions were passed. Average attendance was 91%.

ROLE OF THE SUPERVISORY BOARD

The Supervisory Board of Bank Zachodni WBK operates strictly under the Banking Law of 29 August 1997, the Commercial Companies Code of 15 September 2000, the bank's Statutes and the Terms of Reference of the Supervisory Board, available 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 (KNF) about Supervisory Board membership.

Pursuant to the bank's Statutes, at least half the members of the Supervisory Board should be of independent status.

The Supervisory Board exercises ongoing supervision over all aspects of the bank's activities. The Supervisory Board takes decisions in the form of resolutions which are adopted by an absolute majority of votes in open voting. Resolutions are voted upon in a secret ballot in cases stipulated by law, on personal matters or at the request of any Supervisory Board member accepted by the Supervisory Board in a secret voting. The Supervisory Board's meetings are held as needed and at least three times in any financial year. The Supervisory Board's 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 recommendations and decisions with regard to their own motions or the motions presented by the Management Board.

The following Supervisory Board committees operate in Bank Zachodni WBK: Audit and Compliance Committee, Risk Oversight Committee and Remuneration and Nominations Committee. The responsibilities of the Committees are set out in their respective Terms of Reference introduced by virtue of Supervisory Board resolutions.

Composition of Supervisory Board Committees as at 31.12.2014

Role in the Supervisory Board	Ref.	Composition as at 31.12.2014	Supervisory Board Committees as at 31.12.2014		
			Audit and Compliance Committee	Risk Oversight Committee	Nominations and Remuneration Committee
Chairman of the Supervisory Board:	1.	**Gerald Byrne**			Chairman
Members of the Supervisory Board:	2.	**José Antonio Alvarez**			
	3.	**Danuta Dąbrowska**	Member		Member
	4.	**David R. Hexter**	Member	Member	
	5.	**Witold Jurcewicz**		Member	Member
	6.	**José Luis de Mora**			Member
	7.	**John Power**	Chairman	Chairman	
	8.	**Jerzy Surma**	Member		Member
	9.	**Marynika Woroszylska-Sapieha**		Member	
	10.	**José Manuel Varela**		Member	

Chairman Members

The **Audit and Compliance Committee** evaluates the adequacy, scope and effectiveness of the accounting and internal control systems. Together with the Management Board and internal auditors, it reviews the Group's internal financial controls, and the internal control and (financial and non-financial) risk management systems. The Committee monitors the bank's financial reporting process, ensuring the adequate quality of financial reports and 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 legal and regulatory requirements and the bank's by-laws. The majority of the Audit and Compliance Committee is comprised of independent Supervisory Board members.

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

Each year, the Audit and Compliance Committee and Risk Oversight Committee convene at least four times at dates corresponding to the reporting and audit cycle. Additional meetings are held if the Chairman or members consider it necessary.

The **Remuneration and Nominations Committee** presents the Supervisory Board with recommendations 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 incentive solutions and other remuneration schemes proposed for implementation in the bank and its subsidiaries.

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

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

Management Board

The table below presents the composition of the Bank Zachodni WBK Management Board as at 31.12.2014 together with the roles and responsibilities of its members. No changes were made from 31 December 2013.

Role in the Management Board	Ref.	Composition as at 31.12.2014 and 31.12.2013	Reporting Areas as at 31.112.2014
President.	1.	Mateusz Morawiecki	Units reporting directly to the President: Internal Audit Area, Corporate Communications & Marketing Area, Mobile & Internet Banking 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	Business Partnership 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

APPOINTMENT AND REMOVAL OF EXECUTIVES

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

The 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, are required to have completed higher education, be permanent residents of Poland, speak Polish, have good knowledge of the Polish banking market and sufficient experience of the home market to manage 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 Management Board manages and represents the bank. The Management Board has all the 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 proposed plans and monitor their performance, regularly report to the Supervisory Board on the bank's position in the scope and at the dates agreed with the Supervisory Board, appoint permanent 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 functioning in the bank include: Risk Management Committee, Credit Committee, Provisions Committee, Risk Management Forum, Credit Policy Forum for Retail Portfolios, Credit Policy Forum for SME Portfolios, Credit Policy Forum for Business and Corporate Portfolios, Assets and Liabilities Committee (ALCO), Operational Risk Management Committee, Deposit Working Group, CRM Committee, Settlement Committee, Anti-Money Laundering and Counter-Terrorism Financing Committee, Urban Regeneration Fund Investment Committee, Procurement Investment Forum, Procurement Investment Committee, Compliance Committee, Local 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 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 and bind the bank: a) the Management Board President acting individually, and b) two members of the Management Board acting jointly, or a member of the Management Board acting jointly with a commercial representative (proxy), or two commercial representatives acting jointly. Representatives authorized to act severally or jointly with any of the persons listed in 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 an absolute majority of votes in an open voting. Secret ballots may be held in cases stipulated by law, on personal matters or at the request of any Management Board member accepted by the Management Board in a secret voting. Management Board meetings are held as required. Management Board members convene at the same time in a single location or in different locations communicating via telephone or video links.

Other Information on Management and Supervisory Boards

REMUNERATION OF SUPERVISORY AND MANAGEMENT BOARD MEMBERS

Pursuant to the Statutes of Bank Zachodni WBK the remuneration of Supervisory Board members is set by the General Meeting of Shareholders of Bank Zachodni WBK. As at 31 December 2014, the remuneration for the Supervisory Board of Bank Zachodni WBK was set by virtue of Resolution no. 53 of the General Meeting of Shareholders of Bank Zachodni WBK of 16 April 2014.

Pursuant to the Statutes of Bank Zachodni WBK, the remuneration of the President and members of the Management Board is set by the Supervisory Board, having due regard to recommendations of the Remuneration and Nominations Committee. The Remuneration and Nominations Committee defines the remuneration policy in respect of 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.

In relation to the upcoming implementation of Directive no. 2013/36/EU in Poland, the AGM of Bank Zachodni WBK held on 16 April 2014 conditionally agreed that the variable component of the remuneration of persons holding managerial positions shall not exceed 200% of the fixed component of the total remuneration of each person (Resolution no. 41).

Information on remuneration for BZ WBK Supervisory and Management Board members for 2014 and the comparable period is presented in Note 46 to the Consolidated Financial Statements of Bank Zachodni WBK Group for 2014.

AGREEMENTS BETWEEN BANK ZACHODNI WBK AND ITS EXECUTIVE DIRECTORS

Bank Zachodni WBK Management Board members signed agreements prohibiting competition after termination of their role on the Management Board. A Management Board member who is not appointed for a new term of office or is removed from the Board is entitled to a one-off severance payment. The severance payment does not apply if the Management Board member accepts a new role in the bank, is removed due to gross negligence, resigns or is not granted discharge.

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

As at the date of release of the Annual Report of Bank Zachodni WBK Group for 2014 and Annual Report for 2013, none of the members of the Supervisory Board held any shares in Bank Zachodni WBK.

Under the 1st BZ WBK Performance Share Programme launched in 2006, members of the Management Board were allocated 23,084 out of 115,729 series H 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. Pursuant to BZ WBK AGM Resolution no. 40 of 16 April 2014 regarding satisfaction of the criteria for exercising the award under the three-year 4th Incentive Scheme, the bank allotted 38,570 out of 305,543 series K shares to members of the Management Board.

In relation to the launch of the 5th Incentive Scheme for the years 2014-2016, approved by the Extraordinary General Meeting of Shareholders held on 30 June 2014, the Management Board members – as obligatory participants – were vested with conditional rights to buy 24,073 of the total of 250k incentive shares. Below are the shares of Bank Zachodni WBK and attached conditional rights held by the Management Board members as at 31 December 2014, 30 June 2014 and 31 December 2013.

Shares and the attached conditional rights held by Management Board members as at the release date of the reports for the periods ending 31.12.2014and 31.12.2013

Management Board Members	31.12.2013		31.12.2014	
	No. of BZ WBK shares	Rights	No. of BZ WBK shares	Rights
Mateusz Morawiecki	13 711	3 857	3 591	10 120
Andrzej Burliga	4 888	2 204	606	4 282
Eamonn Crowley	1 003	2 094	–	4 003
Michael McCarthy	1 075	2 424	–	4 875
Juan de Porras Aguirre	–	2 217	–	–
Piotr Partyga	2 855	2 094	–	2 855
Marcin Prell	–	1 983	2 530	3 704
Marco Antonio Silva Rojas	–	2 704	–	–
Mirosław Skiba	5 857	2 248	1 575	4 282
Feliks Szyszkowiak	4 704	2 248	1 755	4 449
Total	**34 093**	**24 073**	**10 057**	**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 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 of the internal control and risk management system is exercised by the Audit and Compliance Committee of the Supervisory Board of Bank Zachodni WBK.

The bank has adopted an Internal Control Policy in Bank Zachodni WBK which defines, inter alia, the structure, purpose and scope of the internal control and lists 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 the quality and processing of financial data. The internal control model in place allows for a systematic verification of controls in terms of their effectiveness. The results are regularly escalated to and reviewed by the bank's Management Board and 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 also under strict control. BZ WBK Group has a BCM plan in place, which covers all IT systems used to prepare financial reports. The plan is updated on an ongoing basis.

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 the supervisory boards of individual subsidiaries, exercises oversight of its consolidated subsidiaries.

Financial statements are approved by the Disclosure Committee, which is responsible for ensuring that the financial disclosures of BZ WBK Group comply with all legal and regulatory requirements.

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 the Sarbanes-Oxley Act.

INTERNAL CONTROL COMPLIANT WITH THE SARBANES-OXLEY ACT

In the light of the Sarbanes-Oxley Act, Bank Zachodni WBK Group operates as a material and independent organisation within the structure of Santander Group and as such is required to implement, maintain and assess the effectiveness of the internal control environment pursuant to the abovementioned act.

As agreed with the Internal Control Department of Santander Group and the External Auditor, the certification process for compliance with the Sarbanes-Oxley Act in 2014 covered all key business areas of Bank Zachodni WBK and was carried out using solutions and methodology based on Santander Group's approach. The scope of testing included risk factors which were particularly significant for the reliability and accuracy of financial statements, taking into account the local control environment, including the final integration of IT systems of former Kredyt Bank and incorporation of Dom Maklerski BZ WBK – an independent subsidiary until the end of October 2014 – into the bank's structure. The design and effectiveness of controls were 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 the control environment in 2014 were the abovementioned developments: completion of the integration process (in particular the migration of data of the former Kredyt Bank to BZ WBK's systems) and incorporation of Dom Maklerski into the bank's structure. The assessment did not show any negative impact from these changes 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 2014, 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, applicable regulations and industry practice, on 11 June 2014, the bank's Supervisory Board passed a resolution appointing Deloitte Polska as an entity to review and audit the bank's unconsolidated and consolidated financial statements for H1 2014 and the entire year 2014. The bank signed agreements with Deloitte Polska for the terms required to carry out the specified works.

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 the impartiality and independence of the auditor.

Retaining the same auditor both by Bank Zachodni WBK and Banco Santander ensures a consistent approach to the audit process across Santander Group, including certification for compliance with the American Sarbanes-Oxley Act. Banco Santander selects auditors for a fixed period of time, from three to nine years, starting from the beginning of the first financial year.

Remuneration of the Auditor

The table below shows the remuneration paid to Deloitte Polska for audit/review of the financial statements of Bank Zachodni WBK Group pursuant to agreements concluded in 2014 and 2013.

Remuneration of External Auditors	Reporting Year ended on 31.12.2013	Reporting Year ended on 31.12.2014
Audit fees in respect of the parent bank 1)	1 813	2 620
Audit fees in respect of the subsidiaries 2)	1 069	650
Audit fees related to assurance services, including the review of the parent bank 3)	2 048	920
Audit fees related to assurance services, including the review of the subsidiaries	468	–
Fees for non-assurance services 4)	20	2 804

1) Remuneration for the services performed in 2014 based on the following agreements with Bank Zachodni WBK:
- Agreement on the review and audit of financial statements of 27 June 2014;
- Agreement on the audit of consolidation package of 27 June 2014. Remuneration for the services performed in 2013 based on the following agreements with Bank Zachodni WBK
- Agreement of 13 June 2013 on the audit of interim condensed unconsolidated and consolidated financial statements for 6 months, and unconsolidated and consolidated financial statements for 12 months;
- Agreement of 13 June 2013 on the audit of consolidation package for 6 and 12 months.

2) Includes remuneration for the services performed in 2014 for SCB Group based on Agreement of 19 December 2014 on audit of financial statements and audit/review of the consolidation package.

3) Remuneration for the review and other assurance services performed in 2014 based on:
- Annex of 17 December 2014 regarding the audit of Pillar 3 disclosure report and assets to Agreement on the review and audit of financial statements of 27 June 2014;
- Annex of 12 December 2014 regarding the internal control system to Agreement on the audit of consolidation package of 27 June 2014. The fee for 2013 contains the remuneration for the audit of the internal control system under Annex to the agreement of 13 June 2013 and for the review of Pillar 3 disclosure and assets under Annex agreement dated 13 June 2013.

4) Remuneration for the services rendered in 2014 based on Agreement of 15 December 2014 on execution of the agreed procedures regarding the Jessica Project in 2014. The amount for 2013 refers to the agreement on support of the intended acquisition.

7. PENDING COURT PROCEEDINGS

As at 31 December 2014, no case was 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	**31.12.2014**	**31.12.2013**
Amounts claimed by the Group	176.7	79.4
Claims against the Group	182.3	200.2
Receivables due to bankruptcy or arrangement cases	5.1	60.8
Value of all litigation	**364.1**	**340.4**
Share [%] of all litigation in equity	**2.0%**	**2.4%**
Completed significant court proceedings	187.3	91.2

XII. REPRESENTATIONS OF THE MANAGEMENT BOARD

True and Fair Presentation of the Financial Statements

According to the Management Board's best knowledge, the financial figures and the comparable data presented in the financial statements incorporated in the "Annual Report 2014 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 2014.

Selection of Auditor

The auditing firm responsible for auditing the "Consolidated Financial Statements of Bank Zachodni WBK Group for 2014" 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
5.03.2015	**Mateusz Morawiecki**	President of the Board	
5.03.2015	**Andrzej Burliga**	Member	
5.03.2015	**Eamonn Crowley**	Member	
5.03.2015	**Michael McCarthy**	Member	
5.03.2015	**Piotr Partyga**	Member	
5.03.2015	**Juan de Porras Aguirre**	Member	
5.03.2015	**Marcin Prell**	Member	
5.03.2015	**Marco Antonio Silva Rojas**	Member	
5.03.2015	**Mirosław Skiba**	Member	
5.03.2015	**Feliks Szyszkowiak**	Member	

CONSOLIDATED FINANCIAL STATEMENTS OF BANK ZACHODNI WBK GROUP FOR 2014

BANK ZACHODNI WBK S.A. GROUP
WROCŁAW, RYNEK 9/11

CONSOLIDATED
FINANCIAL STATEMENTS
FOR THE 2014 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 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 2014, 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 2014 to 31 December 2014 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 give a true and fair view of the financial and economic position as well as the financial performance 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 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:

– give a true and fair view of the information material to evaluation of the economic and financial position of the Capital Group as of 31 December 2014 as well as its financial performance in the financial year from 1 January 2014 to 31 December 2014,

– 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 its executory provisions,

– comply with the provisions of law applicable to the Parent Company and Capital Group entities which affect the contents of the consolidated financial statements.

The report on the activities of the Capital Group for the 2014 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 states (Journal of Laws of 2014 item 133) 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, 5 March 2015

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.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS OF THE BANK ZACHODNI WBK S.A. GROUP FOR THE 2014 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 0000008723.

The Bank operates based on the provisions of the Code of Commercial Companies and Bank's law.

As of 31 December 2014, the Parent Company's share capital equaled PLN 992,345 and was divided into 99,234,534 ordinary shares with a face value of PLN 10.00 each.

Composition of the Management Board as of the date of the opinion:
- Mateusz Morawiecki – Chairman of the Management Board,
- Andrzej Burliga – Member of the Board,
- Eamonn Crowley – Member of the Board,
- Michael McCarthy – Member of the Board,
- Piotr Partyga – Member of the Board,
- Juan de Porras Aguirre – Member of the Board,
- Marcin Prell – Member of the Board,
- Marco Antonio Silva Rojas – Member of the Board,
- Mirosław Skiba – Member of the Board,
- Feliks Szyszkowiak – Member of the Board.

In audited period there were no changes in the composition of the Management Board.

2. Structure of the Capital Group

The consolidated financial statements as of 31 December 2014 included the following entities:

a) Parent Company – Bank Zachodni BZ WBK S.A.

We have audited the financial statements of the Parent Company for the period from 1 January to 31 December 2014. As a result of our audit, on 5 March 2015 we issued an unqualified opinion.

BANK ZACHODNI WBK S.A. GROUP

b) Companies subject to full consolidation:

Name and address of the Company	Interest in the share capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity
BZ WBK Finanse Sp. z o.o., Poznań	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., no opinion was issued till the date of this report	31 December 2014
BZ WBK Faktor Sp. z o.o., Warszawa	100%*	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., unqualified opinion	31 December 2014
BZ WBK Leasing S.A., Poznań	100%*	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., unqualified opinion	31 December 2014
BZ WBK Lease S.A. (till the end of 31 January 2014 the entity operates the name Kredyt Lease S.A.), Warszawa	100%*	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., unqualified opinion	31 December 2014
BZ WBK Inwestycje Sp. z o.o., Poznań	100%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., no opinion was issued till the date of this report	31 December 2014
Giełdokracja Sp. z o.o., Poznań	100%	The Company is not subject to audit	31 December 2014
BZ WBK Nieruchomości S.A., Poznań	99,99%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., no opinion was issued till the date of this report	31 December 2014
BZ WBK Asset Management S.A., Poznań	50%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., unqualified opinion	31 December 2014
BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., Poznań	100%**	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., unqualified opinion	31 December 2014
BZ WBK – Aviva Towarzystwo Ubezpieczeń Ogólnych S.A., Poznań	66%	PricewaterhouseCoopers Sp. z o.o., no opinion was issued till the date of this report	31 December 2014
BZ WBK – Aviva Towarzystwo Ubezpieczeń na Życie S.A., Poznań	66%	PricewaterhouseCoopers Sp. z o.o., no opinion was issued till the date of this report	31 December 2014
Santander Consumer Bank S.A., Wrocław	66.67%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., unqualified opinion	31 December 2014
Santander Consumer Finanse S.A., Wrocław	100%***	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., unqualified opinion	31 December 2014
Santander Consumer Multirent S.A., Wrocława	100%***	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., unqualified opinion	31 December 2014
AKB Marketing Services Sp. z o.o., Poznań	100%***	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., unqualified opinion	31 December 2014
S.C. Poland Auto 2014-1 Limited, Dublin	0%****	Deloitte&Touche, Dublin office, no opinion was issued till the date of this report	31 December 2014

* *belongs to BZ WBK Finanse Sp. z o.o.*
** *belongs to BZ WBK Asset Management S.A.*
*** *subsidiary of Santander Consumer Bank S.A.*
**** *the company is controlled by Santander Consumer Bank S.A.*

c) Companies subject to equity method of consolidation:

Name and address of the Company	Interest in the share capital (%)	Name of entity that audited the financial statements and type of opinion issued	Balance sheet date of the consolidated entity
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 2014
Metrohouse S.A., Warszawa	100%*	PTE Profit Sp. z o.o., no opinion was issued till the date of this report	31 December 2014
Metrohouse Franchise S.A., Warszawa	20.13%	Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., no opinion was issued till the date of this report	31 December 2014

* *subsidiary of Metrohouse Franchise S.A.*

In the audited financial year, the Parent Company included in/excluded from consolidation the following entities:

- On 1 July 2014, Bank Zachodni WBK S.A. took control Santader Consumer Bank S.A. Group. The entities of the SCB Group are are subject to full consolidation.
- In November 2014, subsidiary BFI Serwis Sp. z o.o. was deleted from the National Court Register (KRS), as a result as of 31 December was not subject to consolidation.
- On 30 October 2014 Dom Maklerski BZ WBK S.A. was deleted from the National Court Register (KRS) without a liquidation procedure and the company Giełdokracja Sp. z o.o. was registered. Dom Maklerski BZ WBK S.A. is now the unit of the Bank providing stockbroking services and acts as a brokerage office, whereas Giełdokracja Sp. z o.o. is subject to full consolidation.
- On 9 December 2014, sale of shares in Krynicki Recycling S.A. was settled, as a result the company is no longer an associated undertaking of BZ WBK Inwestycje Sp. z o.o. and is not subject to consolidation..

3. Information about the consolidated financial statements for the prior financial year

The activities of the Capital Group in 2013 resulted in a net profit of PLN 2.014.611 thousand. The consolidated financial statements of the Capital Group for 2013 were audited by a certified auditor. The audit was performed by authorized entity Deloitte Polska Spółka z ograniczona odpowiedzialnością Sp. k. The certified auditor issued an unqualified opinion on those financial statements.

The General Shareholders' Meeting which approved the consolidated financial statements for the 2013 financial year was held on 16 April 2014.

In accordance with applicable laws, the consolidated financial statements for the 2013 financial year were submitted to the National Court Register (KRS) on 17 April 2014.

4. Details of the authorized entity and the key certified auditor acting on its behalf

The entity authorized to audit the financial statements was appointed by the by the Supervisory Board. The audit of the consolidated financial statements was performed based on the agreement of 27 June 2014 concluded between the Parent Company 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 13 October to 21 November 2014, from 12 January to 13 February 2015 as well as outside the Company's premises until the date of this opinion.

Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. and the key certified auditor conducting audit 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 Capital Group.

5. Availability of data and management's representations

The scope of our audit was not limited. During the audit, 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 5 March 2015.

II. ECONOMIC AND FINANCIAL POSITION OF THE CAPITAL GROUP

Presented below are the main items from the consolidated income statement, consolidated statement of financial position as well as financial ratios describing the financial performance of the Capital Group and its economic and financial position compared to the prior year.

Main items from the consolidated statement of financial position (PLN '000)	2014	2013
Total assets	134,501,874	106,059,967
Cash and balances with central banks	6,806,521	5,149,686
Loans and advances to banks	2,523,063	2,212,704
Financial assets held for trading	5,238,741	2,344,901
Loans and advances to customers	85,820,571	68,132,143
Investments securities	27,057,093	22,090,764
Goodwill	2,542,325	2,542,325
Intangible assets	505,385	506,792
Property, plant and equipment	756,950	632,642
Deposits from banks	8,359,856	6,278,797
Financial liabilities held for trading	2,781,680	1,277,162
Deposits from customers	94,981,809	78,542,982
Other liabilities	3,531,081	3,124,212
Subordinated liabilities	1,539,967	1,384,719
Total equity, including:	18,051,694	14,482,943
- share capital	992,345	935,451

Main items from the consolidated income statement and consolidated statement of comprehensive income (PLN '000)	2014	2013
Interest income	5,723,043	5,215,203
Interest expense	(1,726,221)	(1,938,643)
Net fee and commission income	1,847,761	1,778,556
Dividend income	80,229	58,738
Net trading income and revaluation	101,043	186,114
Operating expenses	(3,103,832)	(2,862,078)
Impairment losses on loans and advances	(836,555)	(729,301)
Profit for the period	2,047,292	2,014,611
Total comprehensive income for the period	2,291,838	1,851,124

Effectiveness ratios	2014	2013*
Return on equity ratio	12.59%	15.20%
Return on assets ratio	1.70%	1.93%
Cost to income ratio	47.25%	50.47%
Capital adequacy ratio	12.91%	13.92%
NPL ratio	8.37%	7.88%
Equity ratio	13.42%	13,65%

* *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 2014:

– 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 2014, reaching 12.59% in comparison to 15.20% at the end of 2013,
– 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 2014, reaching 1.70% in comparison to 1.93% at the end of 2013,
– 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 decreased in 2014, reaching 47.25% in comparison to 50.47% in 2013,
– capital adequacy ratio ratio as a relation of own funds to total capital requirement multiplied by 12.5 at the end of 2014 was 12.91%; at the end of 2013 solvency ratio was 13.92%,
– 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 2014, reaching 8.37% in comparison to 7.88% at the end of 2013,
– equity ratio as a relation of equity to total equity and liabilities at the end of 2014 was 13.42% in comparison to 13.65% at the end of 2013,
– 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. 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 final estimation of the fair value of acquired assets and liabilities resulted in the goodwill of PLN 853,809 thousand. The settlement of the acquisition of control has been described in the note 50 of consolidated financial statements. Total amount of goodwill in consolidated financial statement regarding above mentioned transactions is PLN 2,542,325 thousand and has not changed comparing to previous year.

Application of prudence principles

During the audit we did not detect facts indicating that as of 31 December 2014 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 our audit we have not identified significant discrepancies in the area of calculation of capital ratio as at 31 December 2014 in accordance with the Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investments firms).

III. DETAILED INFORMATION

1. Information about the audited consolidated financial statements

The audited consolidated financial statements were prepared as at 31 December 2014 and include:

– consolidated statement of financial position prepared as of 31 December 2014, with total assets and liabilities plus equity of PLN 134,501,874 thousand,
– consolidated income statement for the period from 1 January 2014 to 31 December 2014, with a net profit of PLN 2,047,292 thousand,
– consolidated statement of comprehensive income for the period from 1 January 2014 to 31 December 2014, with a total comprehensive income of PLN 2,291,838 thousand,
– consolidated statement of changes in equity for the period from 1 January 2014 to 31 December 2014, disclosing an increase in equity of PLN 3,568,751 thousand,
– consolidated statement of cash flows for the period from 1 January 2014 to 31 December 2014, showing a cash inflow of PLN 1,230,489 thousand
– notes, comprising a summary of significant accounting policies and other explanatory information.

The audit covered the period from 1 January 2014 to 31 December 2014 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.

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

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.

The Parent Company preparing the consolidated financial statements has not applied any material simplifications and exceptions to the consolidation principles with respect to the controlled entities

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 and explanations to the consolidated financial statements gives a description of measurement principles regarding assets, liabilities, financial performance 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.

The Management Board of Parent Company prepared and supplemented the consolidated financial statements with a report on the activities of the Capital Group in the 2014 financial year. The report contains information determined by Article 49 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. FINAL NOTES

Management Board's Representations

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, 5 March 2015

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CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN

I. CONSOLIDATED INCOME STATEMENT

for reporting period:		01.01.2014 31.12.2014	01.01.2013
Interest income		5 723 043	5 215 203
Interest expense		(1 726 221)	(1 938 643)
Net interest income	Note 6	**3 996 822**	**3 276 560**
Fee and commission income		2 211 332	2 089 422
Fee and commission expense		(363 571)	(310 866)
Net fee and commission income	Note 7	**1 847 761**	**1 778 556**
Dividend income	Note 8	80 229	58 738
Net gains/(losses) on subordinated entities	Notes 49-51	10 602	418 692
Net trading income and revaluation	Note 9	101 043	186 114
Gains (losses) from other financial securities	Note 10	225 552	297 594
Other operating income	Note 11	317 034	73 545
Impairment losses on loans and advances	Note 12	(836 555)	(729 301)
Operating expenses incl.:		(3 103 832)	(2 862 078)
Bank's staff, operating expenses and management costs	Notes 13, 14	(2 719 479)	(2 607 613)
Depreciation/amortisation		(308 022)	(219 321)
Other operating expenses	Note 15	(76 331)	(35 144)
Operating profit		**2 638 656**	**2 498 420**
Share in net profits (loss) of entities accounted for by the equity method		1 385	16 297
Profit before tax		**2 640 041**	**2 514 717**
Corporate income tax	Note 16	(592 749)	(500 106)
Consolidated profit for the period		**2 047 292**	**2 014 611**
of which:			
attributable to owners of BZ WBK S.A.		1 914 711	1 982 328
attributable to non-controlling interests		132 581	32 283
Net earnings per share (PLN/share)	Note 17		
Basic earnings per share		19.91	21.24
Diluted earnings per share		19.86	21.17

Notes presented on pages 124-234 constitute an integral part of these Financial Statements.

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

II. CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for reporting period:	01.01.2014 31.12.2014	01.01.2013 31.12.2013
Consolidated profit for the period	**2 047 292**	**2 014 611**
Other comprehensive income which can be transferred to the profit and loss account:	**256 216**	**(169 702)**
Available-for sale financial assets valuation	488 423	(165 896)
including deferred tax	(92 800)	31 520
Cash flow hedges valuation	(172 108)	(43 611)
including deferred tax	32 701	8 285
Other comprehensive income which can't be transferred to the profit and loss account:	**(11 670)**	**6 215**
Provision for retirement allowances – actuarial gains/losses	(14 408)	7 673
including deferred tax	2 738	(1 458)
Other comprehensive income for the period, net of income tax	**244 546**	**(163 487)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**2 291 838**	**1 851 124**
Attributable to:		
owners of BZ WBK S.A.	2 157 350	1 818 835
non-controlling interests	134 488	32 289

Notes presented on pages 124-234 constitute an integral part of these Financial Statements.

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

III. CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	as at:	31.12.2014	31.12.2013
ASSETS			
Cash and balances with central banks	Note 18	6 806 521	5 149 686
Loans and advances to banks	Note 19	2 523 063	2 212 704
Financial assets held for trading	Note 20	5 238 741	2 344 901
Hedging derivatives	Note 21	238 889	321 956
Loans and advances to customers	Note 22	85 820 571	68 132 143
Investment securities	Notes 23, 24	27 057 093	22 090 764
Investments in associates and joint ventures	Note 25	42 792	63 444
Intangible assets	Note 26	505 385	506 792
Goodwill	Notes 50,51	2 542 325	2 542 325
Property, plant and equipment	Note 27	756 950	632 642
Net deferred tax assets	Note 28	1 181 610	476 430
Assets classified as held for sale	Note 29	1 378	3 503
Investment property		–	14 166
Other assets	Note 30	1 786 556	1 568 511
Total assets		**134 501 874**	**106 059 967**
LIABILITIES			
Deposits from banks	Note 31	8 359 856	6 278 797
Hedging derivatives	Note 21	1 258 224	367 524
Financial liabilities held for trading	Note 20	2 781 680	1 277 162
Deposits from customers	Note 32	94 981 809	78 542 982
Subordinated liabilities	Note 33	1 539 967	1 384 719
Debt securities in issue	Note 34	3 373 374	500 645
Current income tax liabilities		624 189	100 983
Other liabilities	Note 35	3 531 081	3 124 212
Total liabilities		**116 450 180**	**91 577 024**
Equity			
Equity attributable to owners of BZ WBK S.A.		**16 530 895**	**13 872 088**
Share capital	Note 36	992 345	935 451
Other reserve funds	Note 37	12 309 424	10 115 745
Revaluation reserve	Note 38	951 546	708 907
Retained earnings		362 869	129 657
Profit of the current period		1 914 711	1 982 328
Non-controlling interests in equity		**1 520 799**	**610 855**
Total equity		**18 051 694**	**14 482 943**
Total equity and liabilities		**134 501 874**	**106 059 967**

Notes presented on pages 124-234 constitute an integral part of these Financial Statements.

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

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 in equity	Total
Note	36	37	38			
Opening balance at at 31.12.2013	**935 451**	**10 115 745**	**708 907**	**2 111 985**	**610 855**	**14 482 943**
Other comprehensive income which can be transferred to the profit and loss account	–	–	254 309	1 914 711	134 488	2 303 508
Other comprehensive income which can't be transferred to the profit and loss account:	–	–	(11 670)	–	–	(11 670)
Issue of shares	56 894	2 102 575	–	–	–	2 159 469
Adjustment to equity from acquisition of controlling interest in Santander Consumer Bank	–	(663 825)	–	–	995 059	331 234
Transfer to other capital	–	750 915	–	(750 915)	–	–
Share scheme charge	–	6 846	–	–	–	6 846
Adjustment to equity from the incorporation of Dom Maklerski BZ WBK (Brokerage House) into the structure of Bank Zachodni WBK	–	(2 832)	–	2 832	–	–
Other		–	–	(101)	–	(101)
Dividends	–	–	–	(1 000 932)	(219 603)	(1 220 535)
As at 31.12.2014	**992 345**	**12 309 424**	**951 546**	**2 277 580**	**1 520 799**	**18 051 694**

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

Detailed information on "Issue of shares" in Note 36.

Notes presented on pages 124-234 constitute an integral part of these Financial Statements.

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

Consolidated statement of changes in equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for theperiod	Non-controlling interests in equity	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**

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.

Notes presented on pages 124-234 constitute an integral part of these Financial Statements.

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

V. CONSOLIDATED STATEMENT OF CASH FLOWS

for the period	31.12.2014	31.12.2013
Profit before tax	**2 640 041**	**2 514 717**
Total adjustments:		
Share in net profits (losses) of entities accounted for by the equity method	(1 385)	(16 297)
Depreciation/amortisation	308 022	219 321
Impairment losses	14 028	2 468
Gains (losses) on exchange differences	(493)	(6 135)
(Profit) loss from investing activities	(244 697)	(298 573)
	2 715 516	**2 415 501**
Changes:		
Provisions	(30 308)	(19 053)
Trading portfolio financial instruments	(415 159)	(734 266)
Loans and advances to banks	(404 211)	(615 142)
Loans and advances to customers	(5 809 053)	(278 348)
Deposits from banks	(124 276)	(376 094)
Deposits from customers	9 322 696	465 283
Liabilities arising from debt securities in issue	(171 366)	–
Other assets and liabilities	(272 828)	(362 754)
	2 095 495	**(1 920 374)**
Interests and similar charges	353 104	232 090
Dividend received	(80 278)	(58 738)
Paid income tax	(567 112)	(401 835)
Net cash flow from operating activities	**4 516 725**	**266 644**
Inflows	**252 427 064**	**216 612 615**
Sale of shares or interests in associates and joint ventures	2 592	–
Sale/maturity of investment securities	252 318 165	216 548 514
Sale of intangible assets and property, plant and equipment	26 029	5 363
Dividend received	80 278	58 738
Outflows	**(257 000 117)**	**(213 201 832)**
Purchase of investment securities	(256 692 323)	(213 028 023)
Purchase of intangible assets and property, plant and equipment	(307 794)	(173 809)
Net cash flow from investing activities	**(4 573 053)**	**3 410 783**
Inflows	**2 729 755**	**543 535**
Debt securities in issue	1 955 600	500 645
Drawing of long-term loans	771 100	42 890
Proceeds from issuing shares	3 055	–
Outflows	**(2 612 931)**	**(1 498 668)**
Debt securities buy out	(902 863)	–
Repayment of long-term loans	(194 952)	(580 416)
Dividends and other payments to shareholders	(1 220 537)	(751 364)
Other financing outflows	(294 579)	(166 888)
Net cash flow from financing activities	**116 824**	**(955 133)**
Total net cash flow	**60 496**	**2 722 294**
Cash at the beginning of the accounting period	**12 300 487**	**7 704 551**
Cash acquired in a business combination	**1 169 992**	**1 873 641**
Cash at the end of the accounting period *	**13 530 975**	**12 300 486**

* Cash components are presented in Note 45.

Notes presented on pages 124-234 constitute an integral part of these Financial Statements.

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.

The consolidated financial statements of Bank Zachodni WBK Group include bank's stand alone financial information as well as information from its subsidiaries (jointly referred to as 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,
- brokerage activity.

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

Bank Zachodni WBK Group consists of the following entities:

Subsidiaries:

Subsidiaries	Registered office	% of votes on AGM 31.12.2014	% of votes on AGM 31.12.2013
1. BZ WBK Finanse Sp. z o.o.	Poznań	100	100
2. BZ WBK Faktor Sp. z o.o.	Warszawa	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
3. BZ WBK Leasing S.A.	Poznań	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
4. BZ WBK Lease S.A. [1)]	Warszawa	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
5. Lizar Sp. z o.o. [2)]	Warszawa	100% of AGM votes are held by BZ WBK Lease S.A.	100% of AGM votes are held by Kredyt Lease S.A.
6. BFI Serwis Sp. z o.o. in liquidation [3)]	Warszawa	–	100
7. BZ WBK Inwestycje Sp. z o.o.	Poznań	100	100
8. Dom Maklerski BZ WBK S.A. [4)]	Poznań	–	99.99
9. Giełdokracja Sp. z o.o. [4)]	Poznań	100	–
10. BZ WBK Nieruchomości S.A.	Poznań	99.99	99.99
11. BZ WBK Asset Management S.A. [5)]	Poznań	50	50
12. 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.
13. BZ WBK – Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. [6)]	Poznań	66	66
14. BZ WBK – Aviva Towarzystwo Ubezpieczeń na Życie S.A. [6)]	Poznań	66	66
15. Santander Consumer Bank S.A. [7)]	Wrocław	66.67	–
16. Santander Consumer Finanse S.A.	Wrocław	100% of AGM votes are held by Santander Consumer Bank S.A.	–
17. Santander Consumer Multirent Sp. z o.o.	Wrocław	100% of AGM votes are held by Santander Consumer Bank S.A.	–
18. AKB Marketing Services Sp. z o.o.	Poznań	100% of AGM votes are held by Santander Consumer Bank S.A.	–
19. S.C. Poland Auto 2014-1 Limited [8)]	Dublin	0% of AGM votes are held by Santander Consumer Bank S.A.	–

[1)] As at 31 January 2014, Kredyt Lease S.A., a subsidiary of Bank Zachodni WBK, was renamed as BZ WBK Lease S.A.. All the other identification details of the company,including its registered office address, NIP, REGON and KRS numbers remained unchanged.

[2)] Lizar Sp. z o.o. – subsidiary unconsolidated due to irrelevance of their business operations and financial data

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

[4)] Incorporation of Dom Maklerski BZ WBK into Bank Zachodni WBK has been described in detail in Note 48.

[5)] As at 31 December 2014, Bank Zachodni WBK was a co-owner of BZ WBK Asset Management S.A., together with Banco Santander S.A. Both owners are members of Santander Group and each holds an equal stake of 50% in the company's share capital. In practice, Bank Zachodni WBK exercises control over the company and its subsidiary, BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., because through it Banco Santander pursues its policy in Poland. Consequently, the company is treated as a subsidiary.

[6)] 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 50.

[7)] On 1 July 2014, Bank Zachodni WBK completed the acquisition of the controlling stake in Santander Consumer Bank S.A. ("Group SCB").

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

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

On 1 July 2014, Bank Zachodni WBK S.A. took control over Santander Consumer Bank S.A. The scope of activities Santander Consumer Bank includes amongst other:

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

Additional SCB subsidiaries activities are:

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

Associates:

Associates	Registered office	% of votes on AGM 31.12.2014	% of votes on AGM 31.12.2013
1. POLFUND – Fundusz Poręczeń Kredytowych S.A.	Szczecin	50	50
2. Metrohouse S.A. 1) *	Warsaw	–	21.23
3. Metrohouse Franchise S.A. 1) *	Warsaw	20.13	–
4. Krynicki Recykling S.A. 2)	Warsaw	19.96	22.32

1) Detailed information on the registration of Metrohouse Franchise S.A. is provided in Note 52.

2) On 9 December 2014, 320,000 ordinary bearer shares in Krynicki Recycling S.A. were sold on the regulated market. As a result, BZ WBK Inwestycje currently holds 3,332,648 shares in the company, representing 19.96% of its share capital. Consequently, as at 31 December 2014, Krynicki Recycling S.A. was no longer an associated undertaking of BZ WBK Inwestycje.

* 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 investments.

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 2014 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 Group.

Changes in accounting policies

The accounting policies applied by the Group in these condensed interim consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2013.

COMPARABILITY WITH RESULTS OF PREVIOUS PERIODS

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

On 1 July 2014, Bank Zachodni WBK took control over Santander Consumer Bank Group ("SCB Group"). The effect of the transaction is for the first time reflected in the consolidated financial statements of Bank Zachodni WBK Group. The comparable data presented in the report were derived from the consolidated financial statements published before acquisition of the control. This to a large extent explains the significant YoY changes in the individual financial items.

The financial statements of Bank Zachodni WBK Group for 2014 is the first financial statements prepared after incorporation of Dom Maklerski BZWBK into the structure of Bank Zachodni WBK. The incorporation has no effect on comparability of the Group's consolidated data, but certain items of the financial statements of Bank Zachodni WBK presented in the current reporting period are not comparable with previous years. See Note 48 for details of the incorporation.

CHANGES IN JUDGMENTS AND ESTIMATES

Compared with the consolidated financial statements for 2013, in 2014 there were no material changes in Bank Zachodni WBK Group's accounting estimates or judgments.

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

New standards and interpretations or changes to existing standards or interpretations which can be applicable to BZ WBK Group and are not yet effective or have not been implemented earlier

IFRS	Description of changes	Effective in the European Union as of	Impact on the Group
IFRIC 21 Interpretation: Levies	The interpretation determines how an entity should account for liabilities to pay levies imposed by governments, other than income taxes, in its financial statements.	The amended IFRIC 21 is to apply to the annual periods starting after 17 June 2014	The change does not have any material impact on the financial statements.
IFRS 9 Financial Instruments, Amendments to IFRS 9	A change in classification and measurements – replacing the existing categories of financial instruments with two measurement categories: amortised cost and fair value. Changes in hedge accounting.	1 January 2018 (the date is preliminarily considered by the IASB)	The Group has not yet analysed the amendments to IFRS 9.
Improvement to IAS 19 Staff Benefits	The improvement applies to the contributions paid under the defined benefit plans paid by employees or third parties. The purpose of the improvement is to simplify the accounting for rules applicable to the contributions paid irrespective of the employment period.	1 January 2015	The change does not have any material impact on the financial statements.
IAS 27 Equity Method in Separate Financial Statements	The amendments will allow entities to use the equity method as one of the optional methods for accounting for investments in subsidiaries, associates and joint ventures in the separate financial statements.	1 January 2016	The change will not have any material impact on the financial statements.
Annual improvements to IFRS, the 2010-2012 cycle	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 restatement of accumulated depreciation; • IAS 24 Key management personnel.	1 January 2015	The change does not have any material impact on the financial statements.
Annual improvements to IFRS, the 2011-2013 cycle	The issues included: • IFRS 3: scope exceptions for joint ventures; • MSSF 13: scope of paragraph 52 (portfolio exception); • IAS 40 Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property when classifying property as investment property or owner-occupied property.	1 January 2015	The change does not have any material impact on the financial statements.
Amendments to IFRS 11 Joint Arrangements	The amendment introduces additional guidelines regarding the method of accounting for acquisitions of interests in joint operations.	1 January 2016	The Group has not yet analysed the amendments.
Amendments to IAS 16 and IAS 38	Amendments to IAS 16 and IAS 38 lay down the rule of consumption of economic benefits with regard to accounting for amortisation and depreciation. The IASB explained that the method based on revenues generated from operating the business should not be used to calculate amortisation/depreciation.	1 January 2016	The Group has not yet analysed the amendments.
Amendments to IFRS 14	Regulatory deferral accounts.	1 January 2016	The Group has not yet analysed the amendments.
Amendments to IFRS 15	Revenue from contracts.	1 January 2017	The Group has not yet analysed the amendments.

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

Standards and interpretations or changes to existing standards or interpretations which were applied for the first time in the accounting year 2014

IFRS	Description of changes	Effective in the European Union from	Impact on the Group
IAS 32 Financial Instruments: Presentation	Defines the rules of netting financial instruments.	1 January 2014	The Group has analysed the amendments to IAS 32. The amendments do not have any material impact on the financial statements.
IFRS 10 Consolidated Financial Statements – Amendments	The amendments lay down the guidance for transition to IFRS 10 and provides additional guidance on exemption from IFRS 10, 11 and 12.	1 January 2014	The Group has analysed the amendments to IFRS 10. The amendments do not have any material impact on the financial statements.
Amendments to IFRS 10, IFRS 12 and IAS 27	The amendments relate to deconsolidation of "investment entities", such as some mutual funds.	1 January 2014	The Group has analysed the amendments. The amendments do not have any material impact on the financial statements.
Amendments to IAS 36 "Impairment of assets"	The amendments to IAS 36 relates to modification of the requirements for disclosure of information relating to the recoverable amount of impaired non-financial assets, and is a consequence of amendments to IFRS 13.	1 January 2014	The Group has analysed the amendments to IAS 36. The amendments do not have any material impact on the financial statements.
Amendments to IAS 39 Financial Instruments: Recognition and Measurement	The amendments relate to the possibility of continuation of hedge accounting in the event of novation of derivatives.	1 January 2014	The amendments do not have any material impact on the financial statements.

Basis of preparation

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

The financial statements are prepared on a fair value basis for derivative financial instruments, financial instruments measured at fair value through profit and loss 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 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 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 the customers of Global Banking & Markets, 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. 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 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;
- probability 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 twice a year.

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

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

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

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

- Internal grade;
- Timeliness;
- 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.

Custody services

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

Dividends

Dividends for a particular year, which have been declared and approved by the General Meeting of Shareholders but not paid at the 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 insurance provisions for unpaid claims, benefits and premiums apply to insurance activity.

Provisions for unpaid claims and benefits are 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 are determined on an individual basis..

Provisions for premiums are 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, provisions are 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.

The 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.

A 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), the 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.

Insurance

INSURANCE INCOME

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

Written premium is understood as premium due under insurance agreement in a reporting period, regardless of whether it was paid or not. Insurance agreements provide for the amount of premiums and dates of payment.

The written premiums are disclosed on net basis, after reinsurance costs provided for in reinsurance agreements.

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

CLAIMS

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

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

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

Claims are recognised after and before reinsurance costs (i.e. in gross and net terms), as per terms and conditions of reinsurance agreements. Gross cost of claims is reduced by reinsurer’s share in claims.

3. SEGMENT REPORTING

Operational activity of Bank Zachodni WBK Group has been divided into five segments: Retail Banking, Business & Corporate Banking, Global Banking & Markets, ALM (Assets and Liabilities Management) and Centre, and Santander Consumer. They were identified based on customers and product types.

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

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

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

Income and cost allocations are regulated by agreements between segments, which are based on single rates for specific services or breakdown of total income and/or cost.

Assets and liabilities of a given segment are used for the operational activity and may be assigned to the segment directly or on a reasonable basis.

There was a change in the methodology of capital and income from capital allocation between business segments in 2014. Additionally, due to organizational changes, there is presentation change of internal transactions with lease companies, between Business & Corporate Banking and Retail Banking. In both cases comparable data are adjusted accordingly.

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

Retail Banking

Retail Banking generates income from the sale of products and services to personal customers and small and micro companies. In the offer for customers of this segment there are a wide range of savings products, consumer and mortgage loans, credit and debit cards, insurance and investment products, clearing services, GSM phones top-ups, foreign payments and Western Union and private-banking services. For small and 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 provided to all the Bank's customers (segment allocates revenues and costs from this activity to other segments, the allocation level may be subject to changes in consecutive years);
- underwriting and financing of securities issues, financial advice and brokerage services related to the activities of the Brokerage House and after the incorporation of Brokerage House into the structure of the Bank as at 31.10.2014, services related to the activities of Brokerage Services Office within Bank Zachodni WBK S.A.

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.

Santander Consumer

Santander Consumer business segment includes activities of the Santander Consumer Group, which was consolidated to the BZ WBK Group from 1 July 2014.

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

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

Consolidated income statement (by business segments)

01.01.2014-31.12.2014	Retail Banking	Business & Corporate Banking	Global Banking & Markets	ALM and Centre	Santander Consumer	Total
Net interest income	**2 169 793**	**594 379**	**165 746**	**559 096**	**507 808**	**3 996 822**
incl. internal transactions	(74 430)	(42 324)	22 736	105 179	(11 161)	–
Other income	**1 502 277**	**278 216**	**357 199**	**267 616**	**96 684**	**2 501 992**
incl. internal transactions	77 741	64 282	(146 535)	121	4 391	–
Dividend income	**–**	**–**	**1 009**	**79 216**	**4**	**80 229**
Operating costs	**(1 822 524)**	**(263 741)**	**(209 229)**	**(263 556)**	**(236 760)**	**(2 795 810)**
incl. internal transactions	(6 803)	(1 097)	(3 604)	11 511	(7)	–
Depreciation/amortisation	**(113 666)**	**(16 004)**	**(14 940)**	**(142 730)**	**(20 682)**	**(308 022)**
Impairment losses on loans and advances	**(435 678)**	**(288 375)**	**(45 828)**	**11 443**	**(78 117)**	**(836 555)**
Share in net profits (loss) of entities accounted for by the equity method	**–**	**–**	**1 195**	**190**	**–**	**1 385**
Profit before tax	**1 300 202**	**304 475**	**255 152**	**511 275**	**268 937**	**2 640 041**
Corporate income tax						(592 749)
Non-controlling interests						(132 581)
Profit for the period						**1 914 711**

Consolidated statement of financial position (by business segment)

31.12.2014	Retail Banking	Business & Corporate Banking	Global Banking & Markets	ALM and Centre	Santander Consumer	Total
Loans and advances to customers	44 163 668	22 574 558	6 690 975	45 711	12 345 659	85 820 571
Investments in associates and joint ventures	14 129	–	–	28 663	–	42 792
Other assets	6 263 979	792 062	7 183 601	31 186 437	3 212 432	48 638 511
Total assets	**50 441 776**	**23 366 620**	**13 874 576**	**31 260 811**	**15 558 091**	**134 501 874**
Deposits from customers	63 099 887	15 146 548	7 359 263	2 508 494	6 867 617	94 981 809
Other liabilities and equity	3 949 528	1 885 700	4 752 568	20 241 795	8 690 474	39 520 065
Total equity and liabilities	**67 049 415**	**17 032 248**	**12 111 831**	**22 750 289**	**15 558 091**	**134 501 874**

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

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	**1 988 339**	**640 695**	**120 956**	**526 570**	**3 276 560**
incl. internal transactions	(89 930)	(32 397)	24 787	97 540	–
Other income	**1 359 293**	**242 191**	**359 382**	**793 635**	**2 754 501**
incl. internal transactions	49 695	41 675	(91 428)	58	–
Dividend income	**–**	**–**	**2 158**	**56 580**	**58 738**
Operating costs	**(1 881 203)**	**(298 378)**	**(191 299)**	**(271 877)**	**(2 642 757)**
incl. internal transactions	(8 462)	(397)	(4 493)	13 352	–
Depreciation/amortisation	**(141 679)**	**(23 079)**	**(11 893)**	**(42 670)**	**(219 321)**
Impairment losses on loans and advances	**(422 974)**	**(303 642)**	**(14 936)**	**12 251**	**(729 301)**
Share in net profits (loss) of entities accounted for by the equity method	**14 500**	**–**	**928**	**869**	**16 297**
Profit before tax	**916 276**	**257 787**	**265 296**	**1 075 358**	**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	41 891 101	21 319 440	4 870 247	51 355	68 132 143
Investments in associates and joint ventures	14 129	–	20 842	28 473	63 444
Other assets	5 435 087	714 409	4 177 308	27 537 576	37 864 380
Total assets	**47 340 317**	**22 033 849**	**9 068 397**	**27 617 404**	**106 059 967**
Deposits from customers	57 976 197	12 978 044	5 317 988	2 270 753	78 542 982
Other liabilities and equity	6 430 096	2 689 623	2 611 046	15 786 220	27 516 985
Total equity and liabilities	**64 406 293**	**15 667 667**	**7 929 034**	**18 056 973**	**106 059 967**

4. RISK MANAGEMENT

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

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

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

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

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

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

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

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

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

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

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

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

Assets and Liabilities Committee (ALCO) supervises the activity on the banking book, manages liquidity interest rate risk in the banking book. It is responsible for the funding and balance sheet management, including for the pricing policy.

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

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

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

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

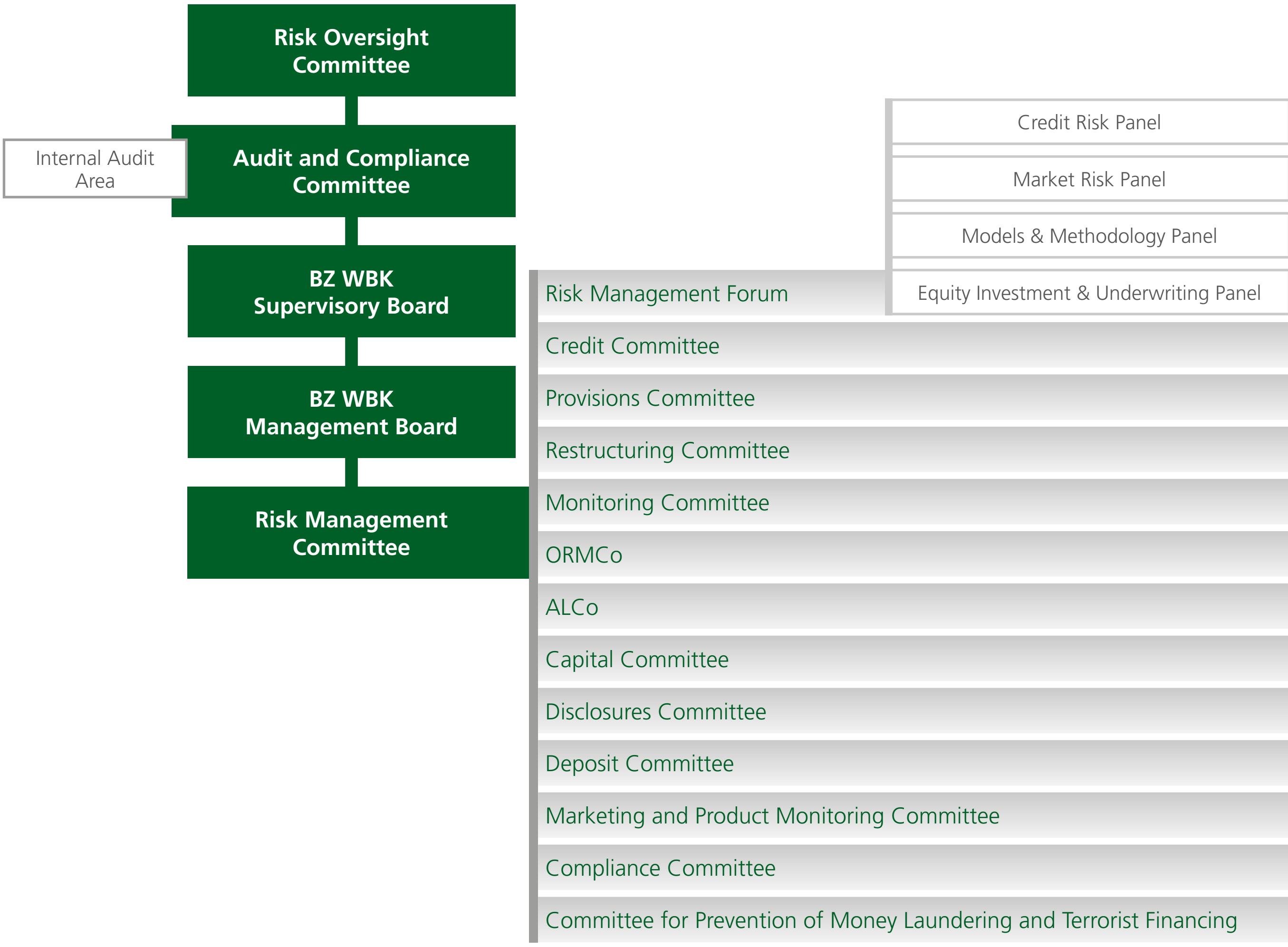
Compliance Committee is responsible for setting standards with respect to the management of compliance risk and the codes of conducts adopted by the Group.

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

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

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

Corporate governance framework 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 Group.

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

Credit risk

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

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

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

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

Pro-active credit risk management is recognised as key to BZ WBK Group's performance in the volatile markets and deteriorating economic growth conditions. In 2014, the Group continued its conservative credit risk management policy with the focus on ensuring a balanced growth of the high quality credit portfolio. The observed dynamic growth of loan portfolio volumes was driven by favourable macroeconomic developments, optimisation of credit policies and processes, development of loan portfolio management tools (in particular, for the SME and corporate portfolios) as well as finalised standardisation of policies and tools after the merger with Kredyt Bank. Credit policies were optimised in response to macroeconomic developments, such as interest rate cuts.

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

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

FORBEARANCE POLICY

In 2014, the Bank established a Restructuring Committee to further improve the quality of the loan portfolio through the early implementation of debt restructuring actions and arrangements to streamline the debt service for corporate borrowers. The Committee takes decisions concerning:

- the relationship management strategy for corporate borrowers in distress whose exposure does not exceed PLN 25m, or
- debt cancellation,
- sale of receivables.

Decisions concerning the exposures of corporate clients in excess of 25m PLN with financial difficulties are taken by the Credit Committee.

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Debt restructuring solutions for corporate borrowers are provided only after an analysis of the borrower's financial standing, identification of the underlying causes for problems with debt service, assessment of repayment capacity under the new conditions and assessment of the collateral in place. The restructuring arrangements depend on the result of the assessment and may include in particular: a grace period, change of the repayment schedule (reduction of loan instalments), capitalisation of interest, extension of the maturity date etc. This applies both to retail and business customers.

From 2014 onwards, each debt restructuring arrangement is accompanied by respective entries to the Bank's IT systems, so that the restructured debt portfolio can be identified. The receivables/customer is treated as a restructured borrower throughout the restructuring period, ie. until it is recognized that the customer's situation has stabilized and the conditions of the restructuring were completed and the customer is creditworthy. The portfolio of restructured debt is monitored on a regular basis. The restructuring process is often a long-term one, therefore the bank assumes that the applied solutions will increase the restructured portfolio in consecutive periods. Classification of customers to the restructuring category is independent from the classification of the performing/non-performing portfolio.

Under the adjustment process to new reporting requirements, solutions were developed to ensure the identification of debt restructuring cases including the project of changes in the ITS standard proposed by EBA. The identification is based on debt restructuring made both in the performing portfolio and the non-performing one, in line with the definition provided in Recommendation R. The basic information considered during the identification of forbearance cases includes: the borrower's current financial standing, observed and expected repayment capacity, willingness to make repayments as well as the nature and frequency of amendments to loan repayment terms for facilities held by a given borrower. Those rules apply both to retail and non-retail.

Forbearance		Gross amount	Allowance for impairment	Net amount
Private persons exposures				
	performing	406 084	(13 379)	392 705
	non-performing	109 219	(45 365)	63 854
		515 303	(58 744)	456 559
Corporate exposures				
	performing	389 538	(24 659)	364 879
	non-performing	2 624 157	(1 010 027)	1 614 130
		3 013 695	**(1 034 686)**	**1 979 009**
TOTAL		**3 528 998**	**(1 093 430)**	**2 435 568**

RISK MANAGEMENT FORUM

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

RISK MANAGEMENT DIVISION

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

CREDIT POLICIES

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

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

CREDIT DECISION MAKING PROCESS

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

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

CREDIT GRADING

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

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

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

CREDIT REVIEWS

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

COLLATERAL

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

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

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

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

RETAIL CUSTOMERS

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

BUSINESS CUSTOMERS

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

COLLATERAL MANAGEMENT PROCESS

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

- verification of the security valuation – assessment of the security value,
- assessment of the legal status of the security,
- assessment of the investment process for the properties,
- seeking legal advises on the proposed securities.

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

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

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

CREDIT RISK STRESS TESTING

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

CALCULATION OF IMPAIRMENT

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

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

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

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The tables below present BZ WBK Group's maximum exposure to credit risk, for presentation purposes grouped by classes, defined by provisions cover.

31.12.2014	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Impaired portfolio					
Individually impaired					
	up to 50%	2 341 427	–	–	–
	50% – 70%	521 469	–	–	–
	70% – 85%	281 069	–	–	–
	over 85%	817 380	–	–	–
Gross amount		**3 961 345**	**–**	**–**	**–**
Allowance for impairment		(1 771 267)	–	–	–
Net amount		**2 190 078**	**–**	**–**	**–**
Collectively impaired					
	up to 50%	780 779	–	–	–
	50% – 70%	576 815	–	–	–
	70% – 85%	844 420	–	–	–
	over 85%	1 446 642	–	–	–
Gross amount		**3 648 656**	**–**	**–**	**–**
Allowance for impairment		(2 675 336)	–	–	–
Net amount		**973 320**	**–**	**–**	**–**
IBNR portfolio (past due&non past due)					
	up to 0,10%	34 253 201	2 523 063	27 057 093	5 238 741
	0,10% – 0,30%	21 091 178	–	–	–
	0,30% – 0,65%	9 950 391	–	–	–
	over 0,65%	17 939 218	–	–	–
Gross amount		**83 233 988**	**2 523 063**	**27 057 093**	**5 238 741**
Allowance for impairment		(679 906)	–	–	–
Net amount		**82 554 082**	**2 523 063**	**27 057 093**	**5 238 741**
Other receivables		**103 091**	**–**	**–**	**–**
Off-balance sheet exposures					
Financing granted		20 009 637	–	–	–
Guarantees		4 420 907	–	–	–
Nominal value of derivatives – purchased		–	–	–	139 414 357
Allowance for impairment		(87 517)	–	–	–
Off-balance sheet exposures – total		**24 343 027**	**–**	**–**	**139 414 357**

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

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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

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IBNR portfolio

	Loans and advances to customers	
	31.12.2014	31.12.2013
Non-past due	**78 385 407**	**62 015 572**
Past-due	**4 848 581**	**3 754 899**
1-30 days	3 829 735	3 007 185
31-60 days	647 857	488 475
61-90 days	359 232	242 852
> 90 days	11 757	16 387
Gross amount	**83 233 988**	**65 770 471**

Allowances for impairment by classes

Provision cover		Loans and advances to customers		Loans and advances to banks	
		31.12.2014	31.12.2013	31.12.2014	31.12.2013
Individual allowance for impairment					
	up to 50%	(477 016)	(403 020)	–	–
	50% – 70%	(309 882)	(329 906)	–	–
	70% – 85%	(212 985)	(427 568)	–	–
	over 85%	(771 384)	(365 029)	–	–
Total individual allowance for impairment		**(1 771 267)**	**(1 525 523)**	**–**	**–**
Collective allowance for impairment					
	up to 50%	(249 820)	(176 947)	–	–
	50% – 70%	(352 230)	(558 338)	–	–
	70% – 85%	(653 518)	(402 763)	–	–
	over 85%	(1 419 768)	(372 976)	–	–
Total collective allowance for impairment		**(2 675 336)**	**(1 511 024)**	**–**	**–**
IBNR					
	up to 0,10%	(11 249)	(12 688)	–	–
	0,10%-0,30%	(33 686)	(25 835)	–	–
	0,30%-0,65%	(46 791)	(54 152)	–	–
	over 0,65%	(588 180)	(360 503)	–	–
Total IBNR		**(679 906)**	**(453 178)**	**–**	**–**
Total allowance for impairment		**(5 126 509)**	**(3 489 725)**	**–**	**–**

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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 31.12.2014, pursuant to art. 71 of the Banking Law Act, the maximum limits for the Group amounted to:

- PLN 3 261 237 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 2014, proved that the Group does not have any exposures in excess of the limits imposed by the regulator.

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

Industry code (PKD)	Industry description	Balance sheet exposure	Total credit exposure including towards subsidiaries	Committed credit lines, guarantees, treasury limits and capital investments
07	MINING	1 297 011	234 317	1 062 694
61	TELECOMMUNICATION	1 294 195	1 090 902	203 293
19	REFINERY	1 201 133	875 135	325 998
35	POWER INDUSTRY	1 197 708	29 579	1 168 129
35	POWER INDUSTRY	751 000	–	751 000
68	REAL ESTATE SERVICES	743 207	742 949	258
47	RETAIL	688 268	668 776	19 492
35	POWER INDUSTRY	652 386	2 386	650 000
64	OTHER FINANCIAL SERVICES	545 430	338 520	206 910
33	MACHINE INDUSTRY	515 030	133 603	381 427
68	REAL ESTATE SERVICES	509 268	505 479	3 789
35	POWER INDUSTRY	459 786	131 486	328 300
19	REFINERY	426 014	382 174	43 840
20	CHEMICAL INDUSTRY	417 248	417 248	–
41	CONSTRUCTION	414 013	357 828	56 185
33	MACHINE INDUSTRY	400 000	–	400 000
68	REAL ESTATE SERVICES	392 310	392 310	–
41	CONSTRUCTION	386 000	–	386 000
16	WOOD INDUSTRY	345 425	336 705	8 720
47	RETAIL	338 247	285 445	52 802
Total gross exposure		**12 973 679**	**6 924 842**	**6 048 837**

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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).

Industry code (PKD)	Industry description	Balance sheet exposure	Total credit exposure including towards subsidiaries	Committed credit lines, guarantees, treasury limits and capital investments
61	TELECOMMUNICATION	1 230 081	1 017 546	212 535
19	REFINERY	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	REFINERY	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**

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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 31.12.2014, the highest concentration level was recorded in the "distribution" sector (12% of the BZ WBK Group exposure), "manufacturing" (10%) and "property" (10%).

GROUPS OF PKD BY INDUSTRIES:

	Industry	Gross exposure 31.12.2014	Gross exposure 31.12.2013
	Distribution	11 092 677	9 239 681
	Manufacturing	9 382 481	8 303 052
	Property	8 998 650	9 653 180
	Agriculture	1 854 129	1 530 505
	Transportation	1 777 227	1 586 970
	Energy	1 717 414	1 696 123
	Construction	1 357 360	1 260 312
	Financial sector	921 974	1 028 732
	Other industries	5 721 356	3 020 920
A	**Total Business Loans**	**42 823 268**	**37 319 475**
B	**Retail (including mortgage loans)**	**48 020 721**	**34 091 605**
A+B	**BZ WBK Group portfolio**	**90 843 989**	**71 411 080**
C	**Other receivables (commercial bonds, reverse repo)**	**103 091**	**210 788**
A+B+C	**Total BZ WBK Group**	**90 947 080**	**71 621 868**

Market risk

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

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

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

GENERAL PRINCIPLES OF MARKET RISK MANAGEMENT

The key objective of the market risk policy pursued by the Group is to reduce the impact of interest and FX rate changes on the Group's profitability and market value as well as to grow income within the strictly defined risk limits while ensuring the Group's liquidity.

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

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

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

The market risk on the trading portfolio is managed by the Global Banking & Markets Division, which is also responsible for the activities of the Brokerage Services Office. The Group's trading activity is subject to a system of measures and limits, including Value at Risk, stop loss, position limits and sensitivity limits. This limits are approved by the Risk Management Forum, the bank's Management Board and the Supervisory Board.

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

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

ASSESSMENT METHODS

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

VaR is determined by means of a statistical modelling process as a difference between the mark-to-market value of positions and the market values based on the most severe movements in market rates from a determined observation window. VaR is calculated separately for interest rate risk, FX risk and the repricing risk of the equity instruments portfolio of Brokerage Office.

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

Interest rate risk in the banking book

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

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

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

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

In 2014, the global NIM and MVE limits for the banking book were not exceeded.

The sensitivity measures for 2014 and 2013 are presented in the table below.

	NII Sensitivity		MVE Sensitivity	
1 day holding period	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Maximum	109	114	154	94
Average	100	76	99	45
as at the end of the period	90	84	154	92
Limit	**130**	**130**	**200**	**200**

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Interest rate risk in the trading book

The trading book contains securities and derivatives held by the Global Banking & 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 & 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 2014 and 2013 for 1-day position holding period.

Interest rate risk	**VAR**	
1 day holding period	**31.12.2014**	**31.12.2013**
Average	1 402	1 958
Maximum	4 656	4 369
Minimum	285	547
as at the end of the period	921	3 741
Limit	**5 261**	**7 530**

FX risk

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

Furthermore, the stop loss mechanism is used for managing the risk of losses on the trading positions.

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

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

The table below illustrates the risk measures at the end of December 2014 and 2013.

FX risk	**VAR**		**VAR Brokerage House**	
1 day holding period	**31.12.2014**	**31.12.2013**	**31.12.2014**	**31.12.2013**
Average	646	534	10	6
Maximum	2 676	1 647	83	18
Minimum	88	65	1	1
as at the end of the period	369	428	4	9
Limit	**1 754**	**1 506**	**104**	**104**

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In 2014, the VAR limit was exceeded. Positions for individual currencies were within established nominal limits, however, were above the VaR limit. The next day, open position (EUR) was reduced and VAR returned to the prescribed limit. In 2014, this was the only case of exceeding the VaR limit, which was the reported to appropriate committees appointed by the Management Board and the Supervisory Board.

FX BALANCE SHEET

In 2014, the share of assets in foreign currencies in the bank's balance sheet remained at the level observed in 2013, alike the mismatch of assets and liabilities in particular currencies. The observed structural FX gap was funded mainly from FX swaps, FX interest rate swaps.

The tables below present the Group's key FX positions as at 31 December 2014 and in the comparable period.

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

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**

Equity investment risk

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

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

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

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The table below presents the risk measures in 2014 and 2013:

Equity risk	**VAR Brokerage House**	
1 day holding period	**31.12.2014**	**31.12.2013**
Average	281	664
Maximum	1 294	2 135
Minimum	81	53
as at end of the period	810	312
Limit	**3 647**	**4 111**

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. ALCO supervises liquidity risk management process in subsidiaries.

RISK MEASUREMENT AND REPORTING

The responsibility for assessment and reporting of the liquidity risk rests on the Risk Management Division, specifically the Financial Risk Department. The role of the Department is to draft liquidity management policies, carry out stress tests and to measure and report on risk.

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

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In 2014, as in 2013, BZ WBK Group focused on keeping its loan-to-deposit ratio at a comfortable level (which totalled 89% as at 31 December 2014) and controlling key short-and long-term liquidity measures.

The Bank continued to enhance its long-term funding structure by issuing in Q3 2014 PLN 475m worth of 3-year bonds.

In 2014 and in the comparable period, all key supervisory measures applicable to the Group were maintained at the required levels.

Contractual gap analysis based on remaining time maturity as at 31.12.2014 and 31.12.2013:

31.12.2014	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	Total months
Cash and balances with central banks	6 806 521	–	–	–	–	–	–	6 806 521
Loans and advances to banks	2 504 808	16 820	1 435	–	–	–	–	2 523 063
Financial assets held for trading	110 929	153 549	403 443	1 617 904	1 982 856	881 522	88 538	5 238 741
Loans and advances to customers	7 715 234	6 643 007	17 333 914	20 250 513	11 875 607	27 128 806	(5 126 510)	85 820 571
Investment securities	4 223 213	–	1 832 043	4 149 671	5 461 532	10 485 722	904 912	27 057 093
Other items	–	–	–	–	–	–	7 055 885	7 055 885
Long position	**21 360 705**	**6 813 376**	**19 570 835**	**26 018 088**	**19 319 995**	**38 496 050**	**2 922 825**	**134 501 874**
Deposits from banks	4 968 383	284 571	253 783	2 502 536	350 583	–	–	8 359 856
Financial liabilities held for trading	578 087	132 000	650 841	763 538	326 575	307 120	23 519	2 781 680
Deposits from customers	59 810 806	13 936 245	15 910 096	3 413 091	1 046 459	865 112	–	94 981 809
Subordinated liabilities	4 323	–	–	100 133	1 013 543	421 968	–	1 539 967
Other items	–	–	–	–	–	–	26 838 562	26 838 562
Short position	**65 361 599**	**14 352 816**	**16 814 720**	**6 779 298**	**2 737 160**	**1 594 200**	**26 862 081**	**134 501 874**
Gap-balance sheet	**(44 000 894)**	**(7 539 440)**	**2 756 115**	**19 238 790**	**16 582 835**	**36 901 850**	**(23 939 256)**	
Contingent liabilities–sanctioned								
Financing related	159 794	1 741 069	10 100 995	4 199 356	1 540 826	2 267 596	(49 693)	19 959 943
Guarantees	5 043	401 480	1 104 482	1 923 618	391 228	595 500	(38 267)	4 383 084
Derivatives settled in gross terms								
Inflows	9 390 648	7 471 142	11 853 267	15 252 833	3 608 289	10 579 290	–	58 155 469
Outflows	9 382 319	7 422 211	12 354 430	16 350 875	3 745 131	10 488 077	–	59 743 043
Gap – off-balance sheet	**(156 508)**	**(2 093 618)**	**(11 706 640)**	**(7 221 016)**	**(2 068 896)**	**(2 771 883)**	**87 960**	

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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 months
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	–	–	–	–	–	–	6 129 769	6 129 769
Long position	**17 066 073**	**5 371 690**	**17 279 492**	**19 562 815**	**12 795 431**	**30 428 829**	**3 555 637**	**106 059 967**
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	–	–	–	–	–	–	18 576 307	18 576 307
Short position	**57 914 800**	**9 825 500**	**12 383 313**	**3 765 238**	**1 845 984**	**1 748 825**	**18 576 307**	**106 059 967**
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**	

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Liquidity Policy Report – Modified Liquidity Gap:

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

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**	**–**

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

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

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 31.12.2014 participation of reinsurance in the technical provision totaled PLN 5 398k.

In 2014, 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.

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.

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Concentration of insurance risk expressed in the provision for claims and benefits

Gross Risk	31.12.2014	share %	participation of reinsurance 31.12.2014	31.12.2013	share %	participation of reinsurance 31.12.2013
Casualty	17 452	57%	570	28 171	61%	165
Financial	5 024	17%	–	7 498	16%	–
Accident	4 074	13%	–	5 247	11%	–
Disease	2 439	8%	364	3 078	7%	469
Damage to property caused by natural disasters	1 192	4%	–	1 381	3%	–
Other material damages	154	1%	–	756	2%	–
Civil liability	48	0%	–	22	0%	–
Assistance	44	0%	–	131	0%	–
Gross provisions for compensations and benefits	**30 427**	**100%**	**934**	**46 285**	**100%**	**634**

Gross risk	31.12.2014	share %	participation of reinsurance 31.12.2014	31.12.2013	share %	participation of reinsurance 31.12.2013
individual	1 418	5%	–	2 695	6%	–
group	29 009	95%	934	43 590	94%	634
Gross provisions for compensations and benefits	**30 427**	**100%**	**934**	**46 285**	**100%**	**634**

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 31.12.2014 and 31.12.2013.

The following table reflects the change in the provision for claims when the size RBNP as at 31.12.2014 and 31.12.2013:

Change in RBNP (%)	Change in damage provisions (%)	Value of damage provisions	Change of the value of damage provisions
-20	-14	26 234	(4 193)
-10	-7	28 330	(2 097)
10	7	32 523	2 097
20	14	34 620	4 193

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

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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 2014 had been established at a level sufficient to cover liabilities arising from insurance contracts issued as of 31 December 2014.

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 insurance companies are required to hold own funds in an amount not lower than the margin of solvency or the guarantee capital, which is equal to the greater of: one-third of the solvency margin or 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.

The company's own resources 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 2014 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) and coverage of the solvency margin and guarantee capital as at December 31, 2014 and comparable period.

	31.12.2014	**31.12.2013**
Own resources	158 228	126 704
Solvency margin	68 782	51 140
Minimum guarantee capital	30 807	30 097
One-third of the solvency margin	22 927	17 047
Own resources surplus for coverage of the solvency margin	89 445	75 564
Guarantee capital	30 807	30 097
Own resources surplus for coverage of guarantee capital	127 421	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 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 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 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. The effects of this work are reported to the Risk Management Committee.

The key challenge regarding operational risk management in 2014 were the integration processes after the merger between Bank Zachodni WBK and Kredyt Bank. 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 2014, operational risk management standards and tools were harmonised to reflect requirements of Recommendation D. Changes in the area of information technology and security of IT environment are implemented in accordance with the best market practice.

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 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 and Compliance Risk

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

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

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

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

Responsibilities of the Legal and Compliance Division relate to the "conduct of business" compliance obligations, in particular with regard to: protection of consumer rights, implementation of new products, prevention of money laundering, ethical issues, protection of sensitive information and protection of personal data.

The identification, interpretation and communication roles relating to other legal and regulatory obligations for the bank as a legal entity (non-conduct of business) have been assigned to functions with specialist knowledge in those areas:

- compliance with employment law – the Business Partnership Division;
- compliance with taxation law and reporting requirements – Financial Accounting and Control Division;
- compliance with prudential regulations – Risk Management Division.

The Bank's Management Board adopted a policy statement on compliance with legal and regulatory obligations, which was approved by the Supervisory Board. The policy provides the Compliance Area operating within the Legal and Compliance Division, with the relevant mandate to support senior managers in effective management of the compliance risk. The Compliance Area escalates all issues to the Risk Management Committee and Audit and Compliance Committee of the Supervisory Board which ensure the fulfilment of regulatory obligations and approve the internal control principles and compliance policy framework, so that the Compliance Area may operate independently from business units and has relevant resources to perform its tasks.

The Audit and Compliance Committee regularly reviews key compliance issues identified by the Compliance Area:

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

The Compliance Area's major responsibilities include (subject to the specific responsibility of Financial Accounting and Control Division, Risk Management Division and Business Partnership Division): prevention of legal and compliance risk, maintenance of appropriate relations with business units and market regulators, providing support to the Bank management and BZ WBK Group companies in the strategic decision-making process regarding compliance, coordination (under the applicable laws) of the implementation of compliance management standards by compliance units operating in the Group companies. These tasks are delivered through:

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

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

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

Reputational Risk Management

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

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

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

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

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

5. CAPITAL MANAGEMENT

INTRODUCTION

It is the policy of the Bank Zachodni WBK Group to maintain the level of capital adequate to the type and scale of operations and the level of risk. The level of own funds required to ensure safe operations of BZ WBK Group and capital requirements estimated for the unexpected loss is determined in accordance with the CRD IV / CRR package implemented on 1 January 2014 by the European Parliament and EBA, plus KNF recommendations regarding stricter criteria for mortgage-backed exposures.

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 ongoing capital management to Capital Committee. The Capital Committee conducts regular capital adequacy assessments 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 Capital Committee is the first body in the bank to define capital policy and rules of 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.

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CAPITAL POLICY

The Group's capital management policy envisages the minimum level of solvency ratio at 12% (calculated according to applicable regulations and directives of the European Parliament and European Council).

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 BZ WBK Group as at 31.12.2014 was determined in accordance with Regulation no. 575/2013 of the European Parliament and the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms as well as KNF recommendation on stricter criteria for mortgage-backed exposures.

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

The tables below show capital requirement for the Group as of 31 December 2014 and 2013:

		31.12.2014**	31.12.2013**
I	**Total Capital requirement (Ia+Ib+Ic+Id+Ie), of which:**	**8 082 444**	**6 693 734**
Ia	– due to credit risk & counterparty credit risk	6 956 272	5 829 962
Ib	– due to market risk	84 493	50 991
Ic	– due to credit valuation ajdustment risk	101 862	–
Id	– due to operational risk	939 817	761 641
Ie	– due to other risks	–	51 140
II	Total own funds*	16 482 586	14 739 530
III	Reductions	3 437 661	3 092 495
IV	**Own funds after reductions (II-III)**	**13 044 925**	**11 647 035**
V	**CAD [IV/(I*12.5)]**	**12.91%**	**13.92%**

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

** As at 31 December 2014, the calculation of a capital adequacy ratio takes account of the equity and total capital requirements for respective risks, using a standardised approach in line with CRD IV/CRR package (CRD IV directive and CRR regulation), which came into force on 1 January 2014 by virtue of the decision of the European Parliament and European Banking Authority. The calculation of a capital adequacy ratio of Bank Zachodni WBK Group as at 31 December 2013 took account of the equity and total capital requirements for credit, market and operational risk using a standardised approach in line with Appendix 4 to KNF Resolution no. 76/2010 of 10 March 2010 (as amended).

INTERNAL CAPITAL

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

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

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

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

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

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

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

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

SUBORDINATED LIABILITIES

Until 31 December 2013, subordinated liabilities arising from the 10-year registered bonds bearing a floating interest rate issued on 5 August 2010 (fully taken up and paid for by the EBRD) were recognised in supplementary own funds under the Banking Law Act and KNF approval dated 13 October 2010.

Since 1 January 2014, these items have been recognised in the calculations of the bank's solvency ratio as they meet CRR requirements regarding eligible elements of Tier II capital.

Following the legal merger with Kredyt Bank, BZ WBK has acquired the subordinated loans granted by KBC NV Dublin to Kredyt Bank for 10 years. Subordinated liabilities to KBC NV amounted to CHF 265m and PLN 75m.

The Bank did not use an early-repayment contract option. As at 31 December 2014, under art. 490(5) of CRR the bank removed the foregoing liabilities from own funds and calculations of the solvency ratio.

Detailed information on subordinated liabilities is presented in Note 33.

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6. NET INTEREST INCOME

Interest income	**01.01.2014-31.12.2014**	**01.01.2013-31.12.2013**
Loans and advances to enterprises	1 725 168	1 727 968
Loans and advances to individuals, of which:	2 621 114	2 079 419
Home mortgage loans	891 251	841 385
Debt securities incl.:	770 291	787 373
Investment portfolio available for sale	719 755	743 718
Trading portfolio	50 536	43 655
Leasing agreements	164 026	163 382
Loans and advances to banks	101 600	106 395
Public sector	14 325	20 736
Reverse repo transactions	25 966	15 200
Interest recorded on hedging IRS	300 553	314 730
Total	**5 723 043**	**5 215 203**
Interest expenses	**01.01.2014-31.12.2014**	**01.01.2013-31.12.2013**
Deposits from individuals	(952 507)	(1 142 253)
Deposits from enterprises	(433 325)	(504 426)
Repo transactions	(79 553)	(105 703)
Deposits from public sector	(85 047)	(105 436)
Deposits from banks	(34 404)	(25 929)
Subordinated liabilities and issue of securities	(141 385)	(54 896)
Total	**(1 726 221)**	**(1 938 643)**
Net interest income	**3 996 822**	**3 276 560**

As at 31.12.2014 net interest income includes interest on impaired loans of PLN 484 014 k (as at 31.12.2013 – PLN 267 134k).

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7. NET FEE AND COMMISSION INCOME

Fee and commission income	01.01.2014-31.12.2014	01.01.2013-31.12.2013
eBusiness & payments	593 815	613 869
Current accounts and money transfer	315 801	310 721
Asset management fees	262 620	258 363
Foreign exchange commissions	332 584	296 676
Credit commissions	292 485	230 066
Insurance commissions	125 094	105 994
Brokerage commissions	84 230	105 422
Credit cards	123 492	88 138
Off-balance sheet guarantee commissions	40 897	36 025
Finance lease commissions	7 091	5 879
Issue arrangement fees	4 607	11 834
Distribution fees	10 653	15 099
Other commissions	17 963	11 336
Total	**2 211 332**	**2 089 422**
Fee and commission expenses	**01.01.2014-31.12.2014**	**01.01.2013-31.12.2013**
eBusiness & payments	(157 211)	(158 549)
Distribution fees	(27 744)	(32 424)
Brokerage commissions	(13 648)	(16 088)
Credit cards	(22 289)	(14 706)
Credit commissions paid	(53 935)	(12 734)
Finance lease commissions	(17 580)	(11 863)
Asset management fees and other costs	(8 115)	(7 578)
Other	(63 049)	(56 924)
Total	**(363 571)**	**(310 866)**
Net fee and commission income	**1 847 761**	**1 778 556**

Included above is fee and commission income on credits, credits cards, off-balance sheet guarantees and finance leases of PLN 463 965 k (31.12.2013: PLN 360 108 k) and fee and commission expenses on credit cards, finance leases and paid to credit agents of PLN (93 804) k (31.12.2013: PLN (39 303) 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.

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8. DIVIDEND INCOME

Dividend income	01.01.2014-31.12.2014	01.01.2013-31.12.2013
Dividends from investment portfolio entities	79 436	56 597
Dividends from trading portfolio entities	793	2 141
Total	**80 229**	**58 738**

9. NET TRADING INCOME AND REVALUATION

Net trading income and revaluation	01.01.2014-31.12.2014	01.01.2013-31.12.2013
Derivative instruments and interbank fx transactions	31 781	180 696
Other FX related income	62 162	(3 221)
Profit on market maker activity	1 278	1 845
Profit on equity instruments	(6 909)	5 706
Profit on debt instruments	12 731	1 088
Total	**101 043**	**186 114**

Net trading income and revaluation includes the write-back of adjustments of derivatives resulting from counterparty risk in the amount of PLN 8,752 k for 2014 and the write-back of adjustments of derivatives resulting from counterparty risk in the amount of PLN 817 k for 2013.

Net trading income and revaluation includes depreciation of adjustment to the valuation of day 1 profit or loss for start forward CIRS transactions in the amount of PLN (918) k disclosed in statement of financial position in line of Hedging derivatives and depreciation of adjustment to the valuation of day 1 profit or loss for capital option related to subsidiary entities in the amount of PLN (22,992) k. disclosed in statement of financial position in line of Financial assets and liabilities held for trading.

The initial valuation will be subject to linear depreciation for maturity.

10. GAINS (LOSSES) FROM OTHER FINANCIAL SECURITIES

Gains (losses) from other financial securities	01.01.2014-31.12.2014	01.01.2013-31.12.2013
Profit on sale of equity shares	16 720	(1 171)
Profit on sale of debt securities	217 897	299 335
Charge due to impairment losses	(6 850)	–
Total profit (losses) on financial instruments	**227 767**	**298 164**
Change in fair value of hedging instruments	(244 820)	(69 279)
Change in fair value of underlying hedged positions	242 605	68 709
Total profit (losses) on hedging and hedged instruments	**(2 215)**	**(570)**
Total	**225 552**	**297 594**

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11. OTHER OPERATING INCOME

Other operating income	01.01.2014-31.12.2014	01.01.2013-31.12.2013
Income on sale of services	18 630	14 823
Insurance indemnity received	1 495	846
Reimbursements of BGF charges	16 949	15 732
Release of provision for legal cases and other assets	40 501	13 854
Settlements of leasing agreements	1 529	2 427
Recovery of other receivables	9 113	857
Income on sales or liquidation of fixed assets, intangible assets and assets for disposal	13 562	5 994
Income from net insurance activities	178 083	–
Received compensations, penalties and fines	1 495	760
Other	35 677	18 252
Total	**317 034**	**73 545**

As a result of acquiring control over the companies BZ WBK-AVIVA TUO S.A. and BZ WBK-AVIVA TUŻ S.A. the Group recognized net income from insurance activities.

Income from net insurance activities.	01.01.2014-31.12.2014
Written premiums	413 864
Reinsurers' share in written premium	(3 217)
Total premiums written and reinsurers' share in written premium	**410 647**
Indemnity payments and insurance benefits paid	(256 506)
Reinsurers' share in indemnity payments and insurance benefits paid	1 853
Change in the balance of premium provisions and unexpired risks provisions	31 431
Change in the balance of provisions for life insurance in respect of deductible	104 259
Change in the balance of provisions for life insurance in respect of deductible – reinsurers' share	4 464
Change in the balance of provisions for life insurance in respect of policyholder's risk	(120 108)
Net insurance benefits and indemnity payments	**(234 607)**
Other net insurance income	**2 043**
Net income from insurance operations	**178 083**

12. IMPAIRMENT LOSSES ON LOANS AND ADVANCES

Impairment losses on loans and advances	01.01.2014-31.12.2014	01.01.2013-31.12.2013
Collective and individual impairment charge	(975 342)	(890 806)
Incurred but not reported losses charge	98 774	174 566
Recoveries of loans previously written off	11 971	3 294
Off-balance sheet credit related facilities	28 042	(16 355)
Total	**(836 555)**	**(729 301)**

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13. EMPLOYEE COSTS

Employee costs	01.01.2014-31.12.2014	01.01.2013-31.12.2013
Salaries and bonuses	(1 138 579)	(1 069 052)
Salary related costs	(187 989)	(177 315)
Staff benefits costs	(35 500)	(33 011)
Professional trainings	(16 119)	(14 951)
Retirement fund, holiday provisions and other employee costs	(2 365)	(10 010)
Integration costs*	(69 030)	(71 166)
Total	**(1 449 582)**	**(1 375 505)**

* In addition to the integration costs included in Notes 13 and 14, the amortization /depreciation related to the cost of integration for 2014 was PLN 15,078 k and PLN 2,576 k for 2013.

14. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses	01.01.2014-31.12.2014	01.01.2013-31.12.2013
Maintenance and rentals of premises	(352 724)	(357 045)
Marketing and representation	(164 729)	(100 698)
IT systems costs	(157 700)	(132 235)
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities	(109 235)	(86 482)
Postal and telecommunication costs	(52 648)	(51 590)
Consulting fees	(30 137)	(36 779)
Cars, transport expenses, carriage of cash	(71 139)	(68 422)
Other external services	(86 279)	(63 107)
Stationery, cards, cheques etc.	(32 691)	(30 040)
Sundry taxes	(26 886)	(26 032)
Data transmission	(20 542)	(21 666)
KIR, SWIFT settlements	(20 937)	(20 828)
Security costs	(20 037)	(18 508)
Costs of repairs	(9 564)	(6 929)
Integration costs*	(93 153)	(190 611)
Other	(21 496)	(21 136)
Total	**(1 269 897)**	**(1 232 108)**

* In addition to the integration costs included in Notes 13 and 14, the amortization /depreciation related to the cost of integration for 2014 was PLN 15,078 k and PLN 2,576 k for 2013.

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15. OTHER OPERATING EXPENSES

Other operating expenses	01.01.2014-31.12.2014	01.01.2013-31.12.2013
Charge of provisions for legal cases and other assets	(41 115)	(12 631)
Costs of purchased services	(3 454)	(2 126)
Other memebership fees	(984)	(1 072)
Paid compensations, penalties and fines	(5 292)	(1 890)
Donation paid	(5 498)	(3 711)
Other	(19 988)	(13 714)
Total	**(76 331)**	**(35 144)**

16. CORPORATE INCOME TAX

Corporate income tax	01.01.2014-31.12.2014	01.01.2013-31.12.2013
Current tax charge	(1 078 849)	(337 880)
Deferred tax	486 100	(162 226)
Total	**(592 749)**	**(500 106)**

Corporate total tax charge information	01.01.2014-31.12.2014	01.01.2013-31.12.2013
Profit before tax	2 640 041	2 514 717
Tax rate	19%	19%
Tax calculated at the tax rate	(501 608)	(477 796)
Non-deductible expenses	(24 609)	(13 018)
Sale of receivables	(61 684)	(34 842)
Non-tax income	15 051	10 569
Non-tax deductible bad debt provisions	(8 527)	(8 359)
Adjustment of prior year tax	(13 274)	4 242
Consolidation adjustments	3 449	15 120
Other	(1 547)	3 978
Total income tax expense	**(592 749)**	**(500 106)**

Deferred tax recognised directly in equity	31.12.2014	31.12.2013
Relating to equity securities available-for-sale	(133 969)	(133 282)
Relating to debt securities available-for-sale	(116 251)	(24 114)
Relating to cash flow hedging activity	25 381	(8 956)
Relating to valuation of defined benefit plans	1 279	–
Total	**(223 560)**	**(166 352)**

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17. EARNINGS PER SHARE

Net earnings per share (PLN/share)	01.01.2014-31.12.2014	01.01.2013-31.12.2013
Profit attributable to ordinary shares	1 914 711	1 982 328
Weighted average number of ordinary shares	96 154 065	93 337 884
Net earnings per share (PLN)	19.91	21.24
Profit attributable to ordinary shares	1 914 711	1 982 328
Weighted average number of ordinary shares	96 154 065	93 337 884
Weighted average number of potential ordinary shares *	235 066	303 156
Diluted earnings per share (PLN)	**19.86**	**21.17**

* The weighted average number of potential ordinary shares takes into account the number of share options granted under the incentive scheme described in Note 55.

18. CASH AND BALANCES WITH CENTRAL BANKS

Cash and balances with central banks	31.12.2014	31.12.2013
Cash	2 455 976	1 766 257
Current accounts in central banks	4 350 545	3 383 429
Total	**6 806 521**	**5 149 686**

Bank Zachodni WBK and Santander Consumer Bank hold an obligatory reserve in a current account in the National Bank of Poland. The figure is calculated at a fixed percentage of the monthly average balance of the customers' deposits, which 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	31.12.2014	31.12.2013
Loans and advances	317 986	1 237 751
Current accounts	1 808 114	798 153
Buy-sell-back transactions	397 017	176 987
Gross receivables	2 523 117	2 212 891
Impairment write down	(54)	(187)
Total	**2 523 063**	**2 212 704**

Fair value of loans and advances to banks is presented in Note 41.

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20. FINANCIAL ASSETS AND LIABILITIES HELD FOR TRADING

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

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

Financial assets and liabilities held for trading	31.12.2014		31.12.2013	
	Assets	Liabilities	Assets	Liabilities
Trading derivatives	**1 919 323**	**2 304 675**	**1 021 659**	**1 022 029**
Interest rate operations	**1 280 091**	**1 635 916**	**632 187**	**632 007**
Forward	–	139	–	–
Options	1 798	1 798	4 323	4 328
IRS	1 270 908	1 626 173	614 204	617 986
FRA	7 385	7 806	13 660	9 693
Transactions on equity instruments	**9 956**	**33 400**	**2 819**	**717**
Options	9 956	33 400	2 819	717
FX operations	**629 276**	**635 359**	**386 653**	**389 305**
CIRS	129 987	169 956	95 304	147 521
Forward	38 428	34 840	28 994	49 144
FX Swap	310 711	287 270	202 087	130 025
Spot	4 731	2 419	792	1 037
Options	140 796	140 798	59 476	61 578
Other	4 623	76	–	–
Debt and equity securities	**3 319 418**	**–**	**1 323 242**	**–**
Debt securities	**3 235 504**	**–**	**1 281 038**	**–**
Government securities:	3 230 890	–	1 076 229	–
– bonds	3 230 890	–	1 076 229	–
Central Bank securities:	–	–	199 972	–
– bills	–	–	199 972	–
Commercial securities:	4 614	–	4 837	–
– bonds	4 614	–	4 837	–
Equity securities:	**83 914**	**–**	**42 204**	**–**
– listed	83 914	–	42 204	–
Short sale	**–**	**477 005**	**–**	**255 133**
Total financial assets/liabilities	**5 238 741**	**2 781 680**	**2 344 901**	**1 277 162**

Financial assets and liabilities held for trading – trading derivatives include the value of adjustments resulting from counterparty risk in the amount of PLN 6,116 k as at 31.12.2014 and PLN (1,668) k as at 31.12.2013.

As at 31.12.2014 financial assets and liabilities held for trading include value adjustments day first profit or loss for transactions between Bank Zachodni WBK and Aviva Group in the amount of (23,443) 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.

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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 31.12.2014 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.

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

Derivatives' nominal values		31.12.2014	31.12.2013
1.	**Term derivatives (hedging)**	**35 207 413**	**29 792 094**
a)	Single-currency interest rate swap	2 988 000	2 665 000
b)	Macro cash flow hedge -purchased (IRS)	2 740 423	3 229 513
c)	Macro cash flow hedge -purchased (CIRS)	14 369 815	11 847 013
d)	Macro cash flow hedge -sold (CIRS)	15 109 175	12 050 568
2.	**Term derivatives (trading)**	**178 576 882**	**128 271 971**
a)	Interest rate operations	94 948 232	81 693 883
	Single-currency interest rate swap	86 269 606	57 441 526
	FRA – purchased amounts	6 450 000	23 350 000
	Options	1 792 126	902 357
	Forward– sold amounts	436 500	–
b)	FX operations	83 628 650	46 578 088
	FX swap – purchased amounts	20 757 332	10 710 489
	FX swap – sold amounts	20 728 416	10 623 485
	Forward– purchased amounts	3 372 360	2 546 613
	Forward– sold amounts	3 394 071	2 585 261
	Cross-currency interest rate swap – purchased amounts	6 331 120	5 412 520
	Cross-currency interest rate swap – sold amounts	6 372 837	5 482 036
	FX options -purchased CALL	5 519 076	2 272 212
	FX options -purchased PUT	5 817 181	2 336 630
	FX options -sold CALL	5 519 076	2 272 212
	FX options -sold PUT	5 817 181	2 336 630
3.	**Currency transactions– spot**	**4 653 161**	**2 076 924**
	Spot-purchased	2 327 749	1 038 347
	Spot-sold	2 325 412	1 038 577
4.	**Transactions on equity financial instruments**	**678 415**	**53 526**
	Derivatives contract – purchased	341 307	11 275
	Derivatives contract – sold	337 108	42 251
5	**Capital options related to subsidiary entities**	**255 738**	**248 832**
	Total	**219 371 609**	**160 443 347**

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

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21. HEDGING DERIVATIVES

Hedging derivatives	31.12.2014		31.12.2013	
	Assets	Liabilities	Assets	Liabilities
Derivatives hedging fair value	–	251 397	21 566	25 079
Derivatives hedging cash flow	238 889	1 006 827	300 390	342 445
Total hedging derivatives	**238 889**	**1 258 224**	**321 956**	**367 524**

As at 31.12.2014 Hedging derivatives – derivatives hedging cash flow include value adjustments day first profit or loss for start forward CIRS transactions in the amount of PLN (12 770) k.

As at 31.12.2014, 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 (918) k.

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

22. LOANS AND ADVANCES TO CUSTOMERS

Loans and advances to customers	**31.12.2014**	**31.12.2013**
Loans and advances to enterprises	39 149 855	34 252 562
Loans and advances to individuals, of which:	47 784 052	34 041 366
Home mortgage loans	30 860 840	25 294 769
Finance lease receivables	3 815 843	3 052 093
Loans and advances to public sector	190 811	225 766
Buy-sell-back transactions	100	40 718
Other	6 420	9 363
Gross receivables	**90 947 081**	**71 621 868**
Impairment write down	(5 126 510)	(3 489 725)
Total	**85 820 571**	**68 132 143**

As at 31.12.2014 the fair value adjustment due to hedged risk on individual loans was PLN 19 539 k (as at 31.12.2013 – PLN 2 279 k).

Finance lease receivables are presented in Note 44. Fair value of loans and advances to customers is presented in Note 41.

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Movements on impairment losses on loans and advances to customers	31.12.2014	31.12.2013
Individual and collective impairment		
As at the beginning of the period	(3 036 549)	(1 207 321)
Individual and collective impairment acquired in a business combination	(1 287 435)	(1 667 026)
Charge/write back of current period	(975 342)	(890 806)
Write off/Sale of receivables	815 289	708 113
Transfer	50 920	14 194
F/X differences	(13 490)	6 297
Balance at the end of the period	**(4 446 607)**	**(3 036 549)**
IBNR		
As at the beginning of the period	(453 176)	(336 886)
combination	(302 550)	(198 306)
Charge/write back of current period	98 636	174 754
Transfer	(19 104)	(89 862)
F/X differences	(3 709)	(2 876)
Balance at the end of the period	**(679 903)**	**(453 176)**
Allowance for impairment	**(5 126 510)**	**(3 489 725)**

In June 2014, Santander Consumer Bank completed the securitisation of a car and hire purchase loan portfolio of PLN 1,751,436,438 as at the transaction date. The transaction was executed as a traditional securitisation scheme involving transfer of securitised receivables to SC Poland Auto 2014-1 Limited (SCV), a special purpose vehicle registered in Ireland.

Based on the securitised assets, SPV issued two classes of bonds of PLN 1,367m in total secured by a registered pledge on SPV assets:

- Class A bonds of PLN 1,158 m rated: AA (Fitch) Aa3 (Moody's),
- Class B bonds of PLN 209 m rated: A (Fitch) Aa3 (Moody's).

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

The transaction was financed from a loan of PLN 411,776,438 granted by SCB to SPV, which is subordinated to senior secured bonds. Interest on the loan is fixed and paid from SPV funds, while the principal will be repaid upon the full redemption of bonds. The value of securitisation bonds held by SCB as at 31.12.2014 was PLN 393,746,775.

The contractual terms of securitisation do not satisfy the criteria for derecognition of securitised assets from SCB financial statements pursuant to IAS 39. Consequently, as at 31.12.2014, SCB recognised the securitised assets of PLN 1,094,737 k net under Loans and advances to customers, and liability of PLN 1,236,631 k under Deposits from customers in respect of cash flows to SPV on account of securitisation.

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

23. INVESTMENT SECURITIES AVAILABLE FOR SALE

Investment securities available for sale	31.12.2014	31.12.2013
Available for sale investments – measured at fair value		
Debt securities	**26 152 181**	**21 217 376**
Government securities:	19 971 450	13 245 914
– bonds	19 971 450	13 245 914
Central Bank securities:	3 959 781	5 599 222
– bills	3 959 781	5 599 222
Commercial securities:	2 220 950	2 372 240
– bonds	2 220 950	2 372 240
Equity securities	**886 937**	**851 603**
– listed	66 406	36 852
– unlisted	820 531	814 751
Investment certificates	**17 975**	**21 785**
Total	**27 057 093**	**22 090 764**

As at 31.12.2014 fixed interest rate debt securities measured at fair value amount to PLN 19,581,097 k, variable interest rate securities amount to PLN 6,571,084 k.

As at 31.12.2013 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 31.12.2014 fair value adjustment resulting from fair value hedge on available for sale bonds totaled PLN 216,207 k (as at 31.12.2013 PLN (9,151) k).

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

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 combined 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. As at 31.12.2014, no changes were introduced to the fair value measurement of investments in Aviva Group companies.

Fair value of "Investment securities available for sale" is presented in Note 41.

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2014	**21 217 376**	**873 388**	**22 090 764**
Investment securities available for sale aquired in abusiness combination	1 793 202	1 111	1 794 313
Additions	256 677 919	44 474	256 722 393
Disposals (sale and maturity)	(254 259 306)	(10 962)	(254 270 268)
Fair value adjustment	710 815	3 752	714 567
Movements on interest accrued	(58 524)	–	(58 524)
Allowances for impairment	–	(6 850)	(6 850)
F/X differences	70 698	–	70 698
As at 31 December 2014	**26 152 180**	**904 913**	**27 057 093**

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 abusiness 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**

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

24. FINANCIAL ASSETS HELD TO MATURITY

Movements on financial assets held to maturity	31.12.2014	31.12.2013
Balance as at 1 January	–	–
Financial asset held to maturity aquired in a businesscombination	–	2 518 251
Maturity	–	(2 467 838)
Fair value amortisation	–	379
Movements on interest accrued	–	(51 318)
F/X differences	–	526
Balance at the end of the period	**–**	**–**

25. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

Investments in associates and joint ventures	31.12.2014	31.12.2013
Associates	42 792	63 444
Joint ventures	–	–
Total	**42 792**	**63 444**

Movements on investments in associates and joint ventures	31.12.2014	31.12.2013
Balance as at 1 January	63 444	115 685
Share of profits/(losses)	1 385	16 297
Dividends	–	(5 050)
Impairment	(4 095)	–
Reclassification*	(17 942)	(63 488)
Balance at the end of the period	**42 792**	**63 444**

* Details have been described in Note 52.

Fair value of "Investment in associates and joint ventures" is presented in Note 41.

Investments in associates and joint ventures as at 31.12.2014

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

* selected financial information as at end of November 2014

** selected financial information as at end of September 2014

*** states percentage share of associates

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

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Investments in associates and joint ventures as at 31.12.2013

Name of entity	POLFUND – Fundusz Poręczeń Kredytowych S.A.*	Metrohouse Franchise 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

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

26. INTANGIBLE ASSETS

Intangible assets Year 2014	Licences, patents etc.	Other	Expenditure on intangible assets	Total
Gross value – beginning of the period	**1 123 931**	**367 043**	**100 986**	**1 591 960**
Intangible assets acquired in a business combination	**3 477**	**192 911**	**22 666**	**219 054**
Additions from:				
– purchases	–	–	160 767	**160 767**
– donation	64	–	–	**64**
– intangible assets taken for use	98 393	2 333	–	**100 726**
– transfers	17 118	125	3 449	**20 692**
Disposals from:				
– liquidation	(19 429)	(1)	(73)	**(19 503)**
– intangible assets taken for use	–	–	(100 726)	**(100 726)**
– transfers	(17 512)	(5)	(1 169)	**(18 686)**
Gross value – end of the period	**1 206 042**	**562 406**	**185 900**	**1 954 348**
Accumulated depreciation – beginning of the period	**(1 032 704)**	**(52 464)**	**–**	**(1 085 168)**
Accumulated depreciation acquired in a business combinations	**(3 280)**	**(172 853)**	**–**	**(176 133)**
Additions/disposals from:				
– current year	(82 152)	(123 034)	–	**(205 186)**
– liquidation	19 264	1	–	**19 265**
– transfers9 298	9 298	(10 095)	–	**(797)**
Write down/Reversal of impairment write down	–	(944)	–	**(944)**
Accumulated depreciation– end of the period	**(1 089 574)**	**(359 389)**	**–**	**(1 448 963)**
Balance sheet value				
Purchase value	1 206 042	562 406	185 900	**1 954 348**
Accumulated depreciation	(1 089 574)	(359 389)	–	**(1 448 963)**
As at 31 December 2014	**116 468**	**203 017**	**185 900**	**505 385**

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN

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**

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

27. PROPERTY, PLANT AND EQUIPMENT

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

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

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**

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28. NET DEFERRED TAX ASSETS

Deferred tax assets	31.12.2014	31.12.2013
Provisions for loans	632 421	492 703
Unrealized liabilities due to derivatives	681 206	271 334
Other provisions which are not taxable costs	104 450	101 921
Deferred income	357 322	154 024
Difference between balance sheet and taxable value of leasing portfolio	148 660	90 818
Unrealised interest expense on loans, deposits and securities	187 002	46 043
Other	**18 131**	**9 506**
Total	**2 129 192**	**1 166 349**
Deferred tax liabilities	**31.12.2014**	**31.12.2013**
Revaluation of financial instruments available for sale*	(223 373)	(166 318)
Unrealised receivables on derivatives	(411 875)	(242 969)
Unrealised interest income on loans, securities and interbank deposits	(201 987)	(148 992)
Provision due to application of investment relief	(3 227)	(3 402)
Unrealised FX translation differences from b/s valuation of receivables and liabilities	(6 228)	(3 163)
Difference between balance sheet and taxable value of unfinancial value assets	(358)	(4 742)
Valuation of shares/interests in subsidiaries	(84 680)	(106 961)
Other	(15 854)	(13 372)
Total	**(947 582)**	**(689 919)**
Net deferred tax assets	**1 181 610**	**476 430**

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

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

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.

Movements on net deferred tax	31.12.2014	31.12.2013
As at the beginning of the period	476 430	258 037
Changes on net deferred tax in a business combination	276 441	342 272
Changes recognised in income statement	486 100	(162 226)
Changes recognised in other net comprehensive income	(57 361)	38 347
Balance at the end of the period	**1 181 610**	**476 430**

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.

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29. ASSETS CLASSIFIED AS HELD FOR SALE

Assets classified as held for sale	31.12.2014	31.12.2013
Land and buildings	1 378	3 503
Total	**1 378**	**3 503**

30. OTHER ASSETS

Other assets	31.12.2014	31.12.2013
Receivables arising from insurance contracts*	749 309	770 048
Interbank and interbranch settlements	456 910	260 445
Sundry debtors	382 925	372 226
Prepayments	125 754	71 446
Repossessed assets	41 425	60 965
Settlements of stock exchange transactions	22 615	30 989
Other	7 618	2 392
Total	**1 786 556**	**1 568 511**

* 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	31.12.2014	31.12.2013
Repo/sell-buy-back transactions	7 045 487	4 438 563
Term deposits	399 402	1 379 631
Loans from other banks	548 545	–
Current accounts	366 422	460 603
Total	**8 359 856**	**6 278 797**

As at 31.12.2014 fair value adjustment for hedged deposit totaled PLN nil (as at 31.12.2013 – PLN nil).

Fair value of "Deposits from banks" is presented in Note 41.

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32. DEPOSITS FROM CUSTOMERS

Deposits from customers	31.12.2014	31.12.2013
Deposits from individuals	**58 257 053**	**47 999 116**
Term deposits	30 938 819	22 345 562
Current accounts	27 204 883	25 590 954
Other	113 351	62 600
Deposits from enterprises	**33 150 169**	**27 045 417**
Term deposits	16 164 448	13 344 322
Current accounts	13 640 292	10 813 018
Sell-buy-back transactions	157 134	166 973
Loans	2 668 541	2 256 907
Other	519 754	464 197
Deposits from public sector	**3 574 587**	**3 498 449**
Term deposits	1 371 671	1 152 427
Current accounts	2 202 706	2 333 530
Other	210	12 492
Total	**94 981 809**	**78 542 982**

As at 31.12.2014 deposits held as collateral totaled PLN 395 164 k (as at 31.12.2013 – PLN 343 645 k).

Fair value of "Deposits from customers" is presented in Note 41.

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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
Tranche 5 *	14.12.2016	PLN	100 000

Movements in subordinated liabilities	31.12.2014	31.12.2013
As at the beginning of the period	**1 384 719**	**409 110**
Subordinated liabilities acquired in a business combination	**100 144**	**978 237**
Increase (due to):	**118 364**	**54 896**
– interest on subordinated loan	63 659	54 896
– FX differences	54 705	–
Decrease (due to):	**(63 260)**	**(57 524)**
– interest repayment	(63 260)	(54 481)
– FX differences	–	(3 043)
Subordinated liabilities – as at the end of the period	**1 539 967**	**1 384 719**
Short-term	4 903	4 352
Long-term (over 1 year)	1 535 064	1 380 367

Tranches 2-4 are excluded from the calculation of Tier 2 capital ratio. Other details on these liabilities are disclosed in Note 5

* Concerns Santander Consumer Bank

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34. DEBT SECURITIES IN ISSUE

Debt securities in issue	ISIN	Nominal value	Currency	Redemption date	31.12.2014
SCBP00320280	not quoted	28 000	PLN	29.01.2015	
SCBB00110150	not quoted	15 000	PLN	04.02.2015	
SCBB00120050	not quoted	5 000	PLN	04.02.2015	
SCBP00350592	not quoted	59 200	PLN	12.02.2015	
SCBX00021500	not quoted	150 000	PLN	13.04.2015	
SCB00020	PLSNTND00075	240 000	PLN	05.06.2015	
SCBP00300111	not quoted	106 000	PLN	15.12.2015	
SCB00021	not quoted	40 000	PLN	24.12.2015	
SCB00013	not quoted	25 000	PLN	27.01.2016	
SCBP00310038	not quoted	38 000	PLN	29.01.2016	
SCBP00330500	not quoted	50 000	PLN	29.01.2016	
SCB00014	not quoted	10 000	PLN	03.02.2016	
SCBP00340050	not quoted	50 000	PLN	12.02.2016	
SCBP00360217	not quoted	21 700	PLN	12.02.2016	
SCB00016	not quoted	50 000	PLN	24.02.2016	
SCB00001	not quoted	60 000	PLN	29.04.2016	
SCB00002	not quoted	10 000	PLN	29.04.2016	
SCB00005	PLSNTND00026	100 000	PLN	08.08.2016	
Series A	PLBZ00000150	500 000	PLN	19.12.2016	
SCB00006	PLSNTND00034	100 000	PLN	07.08.2017	
SCB00008	not quoted	110 000	PLN	30.08.2017	
SCB00010	not quoted	20 000	PLN	30.08.2017	
SCB00012	PLSNTND00042	204 000	PLN	04.10.2017	
SCB00012	PLSNTND00042	11 000	PLN	04.10.2017	
Series B	PLBZ00000168	475 000	PLN	17.07.2017	
SCB00019	not quoted	220 000	PLN	30.10.2017	
SCB00017	PLSNTND00059	50 000	PLN	18.06.2018	
SCB00018	PLSNTND00067	170 000	PLN	12.08.2019	
Securitization Bonds Float – Class A	XS1070423931	430 337	PLN	20.06.2025	
Debt securities in issue– as at the end of the period					**3 373 374**

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35. OTHER LIABILITIES

Other liabilities	31.12.2014	31.12.2013
Settlements of stock exchange transactions	48 377	32 381
Interbank and interbranch settlements	239 148	250 941
Provisions:	1 591 570	1 555 371
Employee provisions	365 083	293 962
Provisions for legal claims	49 504	45 104
Provisions for off-balance sheet credit facilities	87 517	95 934
Technical insurance provisions *	1 074 445	1 117 071
Provisions for restructuring **	11 721	–
Other	3 300	3 300
Sundry creditors	332 202	248 564
Other deferred and suspended income	165 124	109 395
Public and law settlements	58 952	43 081
Accrued liabilities	366 187	161 646
Finance lease related settlements	29 595	37 158
Liabilities from insurance contracts and other*	854	1 387
Share purchase mandate adjustment *	699 072	684 288
Total	**3 531 081**	**3 124 212**

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

** Provision acquired as a result of the acquisition of control on July 1, 2014 in the amount of PLN 15 547 k (as at 31.12.2014 in the amount of PLN 11 721 k) referred to:
– restructuring of employment in the SCB Group PLN 3 323 k (as at 31.12.2014 in the amount of PLN 2 692 k)
– liquidation of branches PLN 12 224 k. (as at 31.12.2014 in the amount of PLN 9 029 k)

The restructuring is related to the business reorganisation plan for Santander Consumer Finance (SCF) in Poland which was adopted by the Group in 2010. The plan was adopted after SCF Group had taken control over AIG Bank Polska S.A. and in the wake of subsequent restructuring actions carried out in the years 2013-2014 (amongst others, restructuring of the business transferred from Santander Consumer Finanse S.A.).

It is expected that most of cash flows related to the raised restructuring provision willmaterialise in the years 2015-2018.

The Group raises provisions for disputable or expected, certain or highly probable, future liabilities that can be reliably estimated.

The liabilities arise from past events and an outflow of resources embodying economic benefits will be required to settle the present obligation.

Employee related provisions and accruals consists of items outlined in Note 54.

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Change in provisions	31.12.2014	31.12.2013
As at the beginning 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
Technical insurance provisions	1 117 071	–
Other	3 300	3 300
Provision acquired in a business combination	**78 730**	**1 304 489**
Employee provisions	36 243	95 282
Provisions for legal claims	8 809	28 961
Provisions for off-balance sheet credit facilities	18 131	63 175
Technical insurance provisions	–	1 117 071
Provisions for restructuring	15 547	–
Other	–	–
Provision charge	**494 159**	**545 803**
Employee provisions	312 857	280 953
Provisions for legal claims	12 403	2 449
Provisions for off-balance sheet credit facilities	167 454	262 401
Technical insurance provisions	–	–
Provisions for restructuring	1 445	–
Other	–	–
Utilization	**(256 263)**	**(255 718)**
Employee provisions	(257 891)	(255 042)
Provisions for legal claims	(254)	(460)
Provisions for off-balance sheet credit facilities	1 882	(216)
Technical insurance provisions	–	–
Provisions for restructuring	–	–
Other	–	–
Write back	**(280 427)**	**(258 745)**
Employee provisions	(20 088)	(10 942)
Provisions for legal claims	(16 558)	(1 758)
Provisions for off-balance sheet credit facilities	(195 884)	(246 045)
Technical insurance provisions	(42 626)	–
Provisions for restructuring	(5 271)	–
Other	–	–
Other changes	**–**	**(7 154)**
Employee provisions	–	(7 154)
Provisions for legal claims	–	–
Provisions for off-balance sheet credit facilities	–	–
Provisions for restructuring	–	–
Other	–	–
Balance at the end of the period	**1 591 570**	**1 555 371**
Employee provisions	**365 083**	**293 962**
Provisions for legal claims	**49 504**	**45 104**
Provisions for off-balance sheet credit facilities	**87 517**	**95 934**
Technical insurance provisions	**1 074 445**	**1 117 071**
Provisions for restructuring	**11 721**	**–**
Other	**3 300**	**3 300**

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36. SHARE CAPITAL

31.12.2014

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

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

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

CAPITAL INCREASE AND ADMISSION OF NEW SHARES TO TRADING ON THE STOCK EXCHANGE

In Q3 2014, the Bank issued 305,543 series K ordinary bearer shares (registered on 11 July 2014) with a nominal value of PLN 3.1 m under the 4th Incentive Scheme for employees of Bank Zachodni WBK Group and 5,383,902 series L ordinary shares totalling PLN 2,156.4 m (registered on 18 July 2014), which were placed with SCF in exchange for in-kind contribution of Santander Consumer Bank shares. The nominal value of series L shares of PLN 53 839 k increased the share capital, while the share premium of PLN 2,102,575 k was recognised in the supplementary capital.

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 BZ WBK 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 is 70.00%.

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 held 70,334,512 shares of Bank Zachodni WBK which represented 94.23% of the share capital and the total number of votes at the general meeting of shareholders of Bank Zachodni WBK and from 4th January 2013 – due to the merger – the shares of Bank Zachodni WBK 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.

  Banco Santander's subsidiaries do not hold shares of Bank Zachodni WBK.

- The Management Board of Bank Zachodni WBK 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. 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 the resolution of the National Depository for Securities (KDPW), the Management Board set the reference date at 9 January 2013. Pursuant to the information memorandum prepared by the bank in connection with the merger, the reference date was defined as the date at which the number of shares in Kredyt Bank held by shareholders of Kredyt Bank was determined in exchange for which series J shares in the bank were allotted to such shareholders in accordance with an agreed exchange ratio.

- On 24 January 2013 the Management Board of Bank Zachodni WBK 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 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 announced a secondary offering for the shares of Bank Zachodni WBK. 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. 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.

- On 28 March 2013, Bank Zachodni WBK 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 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 held by Banco Santander 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 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 on 27 March 2013, 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.

- Bank Zachodni WBK informed that on 31 July 2013 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%.

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37. OTHER RESERVE FUNDS

Other reserve funds	31.12.2014	31.12.2013
General banking risk fund	649 810	649 810
Share premium	7 035 424	4 932 848
Other reserves of which:	4 624 190	4 533 087
Reserve capital	5 618 518	4 882 773
Supplementary capital	353 785	334 602
Adjustment to equity from acquisition of controlling interest in Santander Consumer Bank	(663 825)	–
Share purchase mandate adjustment *	(684 288)	(684 288)
Total	**12 309 424**	**10 115 745**

* 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 31.12.2014 includes share scheme charge of PLN 85 782 k and reserve capital as at 31.12.2013 includes share scheme charge of PLN 78 936 k.

Other movements of other reserve funds are presented in "movements on consolidated equity" for 2014 and 2013.

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	31.12.2014	31.12.2013
As at 31 December	708 907	872 400
Change in available for sale investments	706 961	133 487
Gross valuation related to cash flow hedge	(172 108)	(43 612)
Actuarial gains/losses on retirement allowances	(14 408)	7 673
Decrease in revaluation reserve related to sale of investments	(220 445)	(299 390)
Deferred tax adjustment	(57 361)	38 349
Total	**951 546**	**708 907**

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

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

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

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

Fair value hedges include Interest Rate Swaps, where the bank pays a fixed rate and receives a variable rate. The transactions hedge the risk of changes in the fair value of an instrument or a portfolio as a result of movements in market interest rates. The transactions do not hedge fair value changes on account of credit risk.

Hedging items are measured at fair value. Hedged items are measured at amortised cost taking into account fair value adjustments on account of the risk being hedged.

The tables below contain details about individual groups of hedge transactions for 2014 and 2013:

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

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

In addition, BZ WBK subsidiary – BZ WBK Leasing S.A. – concluded in 2013 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 table below. As at 31.12.2014, the leasing companies did not have any instruments covered by hedge accounting.

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

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Cash flow hedging

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

As of 31 December 2014, the nominal value of the hedging item was PLN 17 849 598 k (31 December 2013 – PLN 15 280 081 k). Adjustment to fair value of the hedging instrument was PLN (133 582) k (31 December 2013 – PLN 39 464 k); the same amount, less deferred tax, is recognised in the Bank's equity under revaluation reserve. Hedging instruments have been concluded for a period of time until 2028.

The non-effective portion of measurement of the cash flow hedge was PLN (12 176) k as of 31.12.2014 and PLN 3 188 k as of 31.12.2013. 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.

	31.12.2014 Balance sheet value	31.12.2013 Balance sheet value
Liabilities valued at amortised cost (contains sell-buy-back):	7 202 621	4 605 536
Treasury bonds held on the assets side	7 195 004	4 815 019
Buy-sell-back transactions	397 017	217 605

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

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

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

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

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

As at 31.12.2014, SCB had financial instruments in place serving as collateral for repo transactions of PLN 263,432k whose maturity period is shorter than that of the underlying transaction.

As at 31.12.2013, 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.

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41. FAIR VALUE

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

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

Assets	31.12.2014		31.12.2013	
	Book Value	Fair Value	Book Value	Fair Value
Cash and balances with central banks	6 806 521	6 806 521	5 149 686	5 149 686
Loans and advances to banks	2 523 063	2 523 063	2 212 704	2 212 704
Financial assets held for trading	5 238 741	5 238 741	2 344 901	2 344 901
Hedging derivatives	238 889	238 889	321 956	321 956
Loans and advances to customers	85 820 571	85 835 391	68 132 143	68 703 474
Investment securities	27 057 093	27 057 093	22 090 764	22 090 764
Investments in associates and joint ventures	42 792	42 792	63 444	63 444
Liabilities				
Deposits from banks	8 359 856	8 359 856	6 278 797	6 278 797
Hedging derivatives	1 258 224	1 258 224	367 524	367 524
Financial liabilities held for trading	2 781 680	2 781 680	1 277 162	1 277 162
Subordinated liabilities	1 539 967	1 789 755	1 384 719	1 623 024
Deposits from customers	94 981 809	94 975 685	78 542 982	78 518 847

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

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

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

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

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

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

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

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

As at 31.12.2014 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 (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.

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As at 31.12.2014 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

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

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	36 852	–	836 536	873 388
Total	**11 931 912**	**11 989 173**	**836 536**	**24 757 621**
Financial liabilities				
Financial liabilities held for trading	255 133	1 022 029	–	1 277 162
Hedging derivatives	–	367 524	–	367 524
Total	**255 133**	**1 389 553**	**–**	**1 644 686**

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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**
31.12.2014	**Financial assets heldfor trading**	**Financial investment assets – debt securities**	**Financial investment assets – equity securities**	**Financial liabilities held for trading**
Beginning of the period	**–**	**–**	**836 536**	**–**
Profits or losses	–	–	–	–
recognised in income statement	–	–	–	–
recognised in equity	–	–	–	–
Purchase	–	–	5 868	–
Sale	–	–	(100)	–
Matured	–	–	–	–
Impairment	–	–	(3 799)	–
Transfer	1 390	–	12 252	–
At the period end	**1 390**	**–**	**850 757**	**–**

Level III	**Financial assets**			**Financial liabilities**
31.12.2013	**Financial assets heldfor 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**	**653 579**	**(74 182)**
Profits or losses	–	–	197 029	–
recognised in income statement	–	–	–	–
recognised in equity	–	–	197 029	–
Purchase	–	–	1 000	–
Sale	–	–	(14 302)	–
Matured	–	–	–	–
Impairment	–	–	(2 081)	–
Transfer	(178 107)	(1 237 344)	1 311	74 182
At the period end	**–**	**–**	**836 536**	**–**

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42. CONTINGENT LIABILITIES

Significant court proceedings

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

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

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

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.

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	**31.12.2014**	**31.12.2013**
Liabilities sanctioned		
– financial	**19 959 943**	**17 592 801**
– credit lines	17 047 109	15 229 838
– credit cards debits	2 367 098	1 875 032
– import letters of credit	413 654	441 505
– term deposits with future commencement term	132 082	46 426
– guarantees	**4 383 084**	**3 822 213**
Total	**24 343 027**	**21 415 014**

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43. ASSETS AND LIABILITIES PLEDGED AS COLLATERAL

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

Under the Bank Guarantee Fund Act, the Bank Zachodni WBK and Santander Consumer Bank calculated this fund using 0.55% (in the year 2013 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 2014 BZ WBK Group pledged as collateral PLN 534 399 k of debt securieties (PLN 448 172 k as at 31.12.2013).

In 2014 a deposit for PLN 1 659 022 k was placed with another financial institutions as a collateral for the day-to-day business (in 2013 it was PLN 523 973 k).

In 2014 BZ WBK Group hold a deposit for PLN 155 363 k (in 2013 it was PLN 317 004 k) as a collateral for the day-to-day business.

Other assets pledged and liabilities accepted as collateral are disclosed in Notes 32 and 40.

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 leasing companies BZ WBK Leasing S.A., BZ WBK Lease SA and Santander Consumer Multirent Sp. z o.o. 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	**31.12.2014**	**31.12.2013**
less than 1 year	1 530 223	1 151 423
between 1 and 5 years	2 488 324	1 894 179
over 5 years	164 766	233 814
Total	**4 183 313**	**3 279 416**
Present value of minimum lease payments – maturity	**31.12.2014**	**31.12.2013**
less than 1 year	1 481 187	1 168 391
between 1 and 5 years	2 233 130	1 740 307
over 5 years	101 526	143 395
Total	**3 815 843**	**3 052 093**
Reconciliation between the gross investment and the present value of minimum lease payments	**31.12.2014**	**31.12.2013**
Finance lease gross receivables	4 183 313	3 279 416
Unearned finance income	(367 470)	(227 323)
Impairment of finance lease receivables	(98 244)	(106 796)
Present value of minimum lease payments, net	**3 717 599**	**2 945 297**

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

LEASE AGREEMENTS WHERE THE GROUP ACTS AS A LESSEE

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

Operating leases

The BZ WBK leases offices in compliance with operational leasing agreements. As a standard, agreements are concluded for 5-10 years. A small part of the offices is subleased outside the Group. In 2014 and 2013 rentals totalled PLN 261 639 k and PLN 267 943 k, respectively. These payments are presented in the profit and loss account under "operating expenses".

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

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

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

Payments – maturity	31.12.2014	31.12.2013
less than 1 year	281 798	251 960
between 1 and 5 years	602 414	615 426
over 5 years	345 356	373 909
Total	**1 229 568**	**1 241 295**

45. CONSOLIDATED STATEMENT OF CASH FLOW– ADDITIONAL INFORMATION

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

Cash components	31.12.2014	31.12.2013
Cash and balances with central banks	6 806 521	5 149 686
Deposits in other banks, current account	2 764 675	1 351 606
Debt secutities held for trading	–	199 972
Investment securities	3 959 779	5 599 222
Total	**13 530 975**	**12 300 486**

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

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46. RELATED PARTY DISCLOSURES

The tables below present intercompany transactions. They are effected between 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	31.12.2014	31.12.2013
Liabilities	**2 931**	**7 168**
Deposits from customers	2 931	7 168
Income	**3**	**130 894**
Interest income	–	42 033
Fee and commission income	3	88 703
Other operating income	–	158
Expenses	**201**	**11 645**
Interest expense	201	6 033
Fee and commission expense	–	3 641
Operating expenses incl.:	–	1 971
General and administrative expenses	–	1 971

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Transactions with Santander Group	31.12.2014	31.12.2013
Assets	**259 377**	**802 305**
Loans and advances to banks, incl:	697	706 166
loans and advances	–	674 579
current accounts	697	31 587
Financial assets held for trading	256 908	93 723
Hedging derivatives	869	1 081
Loans and advances to customers	–	4
Other assets	903	1 331
Liabilities	**410 462**	**216 668**
Deposits from banks incl.:	155 537	71 485
current accounts	155 537	71 485
Hedging derivatives	21 505	6 235
Financial liabilities held for trading	158 907	85 784
Deposits from customers	74 459	48 970
Other liabilities	54	4 194
Income	**219 596**	**(46 459)**
Interest income	7 585	13 528
Fee and commission income	4 911	5 345
Other operating income	–	814
Net trading income and revaluation	207 100	(66 146)
Expenses	**8 309**	**23 137**
Interest expense	1 309	404
Fee and commission expense	204	14 927
Operating expenses incl.:	6 796	7 806
Bank's staff, operating expenses and management costs	6 796	7 806
Contingent liabilities	**725**	**117**
Sanctioned:	725	–
– financing-related	–	–
– guarantees	725	–
Received:	–	117
– guarantees	–	117
Derivatives' nominal values	**32 826 135**	**17 687 584**
Cross-currency interest rate swap – purchased amounts	3 052 808	2 733 296
Cross-currency interest rate swap – sold amounts	2 970 459	2 764 571
Single-currency interest rate swap	7 265 993	4 360 662
Options	1 669 031	822 678
FX swap – purchased amounts	2 920 096	1 592 208
FX swap – sold amounts	2 896 754	1 599 563
FX options -purchased CALL	3 002 819	1 044 075
FX options -purchased PUT	3 116 998	1 076 295
FX options -sold CALL	2 516 257	682 163
FX options -sold PUT	2 700 183	717 682
Spot-purchased	90 068	44 475
Spot-sold	90 297	44 563
Forward– purchased amounts	96 328	93 727
Forward– sold amounts	100 936	100 936
Capital derivatives contract – purchased	337 108	10 690

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Transactions with Members of Management and Supervisory Boards

REMUNERATION OF BANK ZACHODNI WBK MANAGEMENT AND SUPERVISORY BOARD MEMBERS

31.12.2014

Remuneration of Bank Zachodni WBK Supervisory Board Members.

First and last name	Position	Period	PLN k
Gerald Byrne	Chairman of the Supervisory Board	01.01.2014-31.12.2014	–
José Antonio Alvarez	Member of the Supervisory Board	01.01.2014-31.12.2014	–
Danuta Dąbrowska	Member of the Supervisory Board	16.04.2014-31.12.2014	111.0
Witold Jurcewicz	Member of the Supervisory Board	01.01.2014-31.12.2014	177.0
José Luis De Mora	Member of the Supervisory Board	01.01.2014-31.12.2014	–
David Hexter	Member of the Supervisory Board	01.01.2014-31.12.2014	206.0
John Power	Member of the Supervisory Board	01.01.2014-31.12.2014	240.6
Jerzy Surma	Member of the Supervisory Board	01.01.2014-31.12.2014	173.0
Marynika Woroszylska-Sapieha	Member of the Supervisory Board	16.04.2014-31.12.2014	96.0
José Manuel Varela	Member of the Supervisory Board	01.01.2014-31.12.2014	100.2

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

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

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

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

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2014-31.12.2014	1 761.18	92.90
Andrzej Burliga	Member of the Managemet Board	01.01.2014-31.12.2014	1 013.02	121.62
Eamonn Crowley	Member of the Managemet Board	01.01.2014-31.12.2014	954.00	45.63
Michael McCarthy	Member of the Managemet Board	01.01.2014-31.12.2014	1 110.67	58.10
Piotr Partyga	Member of the Managemet Board	01.01.2014-31.12.2014	962.19	100.15
Juan de Porras Aguirre	Member of the Managemet Board	01.01.2014-31.12.2014	1 221.10	110.73
Marcin Prell	Member of the Managemet Board	01.01.2014-31.12.2014	912.07	93.63
Marco Antonio Silva Rojas	Member of the Managemet Board	01.01.2014-31.12.2014	1 653.71	184.08
Mirosław Skiba	Member of the Managemet Board	01.01.2014-31.12.2014	1 032.69	107.40
Feliks Szyszkowiak	Member of the Managemet Board	01.01.2014-31.12.2014	1 032.06	96.37

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

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

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

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31.12.2013

Remuneration of Bank Zachodni WBK Supervisory Board Members.

First and last name	Position	Period	PLN k
Gerald Byrne	Chairman of the Supervisory Board	01.01.2013-31.12.2013	–
José 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
José 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
José 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 José Manuel Varela, Mr José Antonio Alvarez and Mr José Luis De Mora did not receive remuneration for their membership in the Supervisory Board.

Mr John Power received remuneration for the supervision of the merger process of BZ WBK and Kredyt Bank on behalf of the Supervisory Board in the amount of PLN 2 498.8 k.

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

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2013-31.12.2013	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

Additiona 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 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.

31.12.2014

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

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

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

31.12.2013

Loans and advances made by the Bank to the Members of the Management Board of BZ WBK and to their relatives as at 31.12.2013 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 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 54 include respectively amounts related to the Management Board of the Bank Zachodni WBK.

31.12.2014

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

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.

47. INFORMATION OF NUMBER AND VALUE OF BANKING WRITS OF EXECUTIONS

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

In 2013 Bank issued 70 692 banking writs of execution with total amount of PLN 1 248 656 k.

48. INCORPORATION OF DOM MAKLERSKI BZ WBK INTO BANK ZACHODNI WBK

On 10 June 2014, the KNF gave its consent to Bank Zachodni WBK to expand its stockbroking operations, which enabled the bank to work intensively towards division of Dom Maklerski BZ WBK ("Brokerage House"; DM BZ WBK) and incorporation of its organised part into the Bank's structure.

On 30 September 2014, the Extraordinary General Meeting of Shareholders of Bank Zachodni WBK adopted a resolution on division of the Brokerage House, pursuant to the Division Plan of 24 July 2014.

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

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

On 31 October 2014, the Court deregistered the Brokerage House by removing it from the business register (KRS) without a liquidation procedure and on the same day Giełdokracja Sp. z o.o. was registered.

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

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49. ACQUISITION OF CONTROLLING INTEREST IN SANTANDER CONSUMER BANK S.A.

TRANSACTION DETAILS

On 1 July 2014, Bank Zachodni WBK completed the acquisition of the controlling stake in Santander Consumer Bank S.A. ("Group SCB") following the execution of the Investment Agreement ("Purchase Agreement") of 27 November 2013 by Bank Zachodni WBK, Santander Consumer Finance S.A. (SCF) and Banco Santander S.A. (Santander) pursuant to which Bank Zachodni WBK SA agreed to acquire 3 120 000 shares (i.e. 1 040 001 preferred shares and 2 079 999 ordinary shares) with a nominal value of PLN 100 each in Santander Consumer Bank S.A. (SCB) with its registered office in Wrocław, constituting 60% of the share capital of SCB and ca. 67% of the votes at the General Meeting of SCB SA. The shares were acquired by way of a private placement and an in-kind contribution.

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

The value of SCB shares as indicated in the Purchase Agreement is PLN 2 156 414 268,06, which is the purchase price for the SCB Group shares. The issuance of the new shares by way of private placement is addressed exclusively to SCF for the purpose of acquisition of the SCB shares by the Bank.

In addition, pursuant to the Purchase Agreement, following the completion of the transaction, the parties shall use their best endeavours to waive the current privileges with respect to the shares in SCB to cause that the bank will hold 60% of the share capital of SCB and 60% of the votes at its General Meeting.

ASSETS AND LIABILITIES AS AT THE ACQUISITION DATE

The acquisition of SCB Group was preliminarily recognised as at the publication date of the consolidated financial statements of Bank Zachodni WBK Group.

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

Below is a pre-estimate of the carrying value of the acquired assets and liabilities.

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

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NON-CONTROLLING INTEREST

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

PRELIMINARY ESTIMATE OF THE EXCESS OF THE PRICE PAID OVER THE NET ASSETS

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

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

50. ACQUISITION OF CONTROL OVER 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 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 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 had 66% shareholding and 66% voting power in the two insurance companies, while the remaining 34% of votes are held by Aviva.

ASSETS AND LIABILITIES RECOGNISED AT THE ACQUISITION DATE

On 31 December 2014 the Bank made a final 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.

Furthermore, the Bank 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.

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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.

NON-CONTROLLING INTERESTS

As at controlling stake, 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 525,640 k.

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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 following contingent liabilities.

Bank Zachodni WBK 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 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 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 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.

On 18 September 2014, with reference to current report No. 37/2013 dated 2 August 2013, Bank Zachodni WBK S.A. informed that it received a notification from AVIVA regarding the execution of a call option for the acquisition by AVIVA of 17% of the shares in BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A.

The completion of the Bank transfer is conditional upon AVIVA and the Bank obtaining consent from the supervisory authorities for the completion of the share transfer.

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

On 4 January 2013 (date of merger) the Bank registered the business combination of Bank Zachodni WBK and Kredyt Bank. 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 the Kredyt Bank. 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 share price over the thirty trading days between 21 November 2012 and 8 January 2013, excluding trading days without required turnover.

As at the date of publication of the financial statement of Bank Zachodni WBK for 2014, the acquisition of Kredyt Bank was accounted for.

Merger of Bank Zachodni WBK and Kredyt Bank has been described in detail in Report of Bank Zachodni WBK Group for 2013 in Note 55.

52. ACQUISITIONS AND DISPOSALS OF INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

Acquisitions and disposals of investments in subsidiaries, associates and joint ventures in 2014 and in 2013

CHANGES TO THE SHAREHOLDING OF KRYNICKI RECYCLING S.A.

On 9 December 2014, 320,000 ordinary bearer shares in Krynicki Recycling S.A. were sold on the regulated market. As a result, BZ WBK Inwestycje currently holds 3,332,648 shares in the company, representing 19.96% of its share capital. Consequently, as at 31 December 2014, Krynicki Recycling S.A. was no longer an associated undertaking of BZ WBK Inwestycje.

DEREGISTRATION OF BFI SERWIS SP. Z O.O. IN LIQUIDATION

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

INCORPORATION OF DOM MAKLERSKI BZ WBK INTO BANK ZACHODNI WBK

Incorporation of Dom Maklerski BZ WBK into Bank Zachodni WBK and a company Giełdokracja Sp. z o.o has been described in detail in Note 35.

ACQUISITION OF A CONTROLLING INTEREST IN SANTANDER CONSUMER BANK S.A.

Acquisition of a controlling interest in Santander Consumer Bank S.A. has been described in detail in Note 49.

REGISTRATION OF METROHOUSE FRANCHISE S.A.

1 July 2014 the company Metrohouse Franchise S.A. was registered.

In September 2014, the shares of Metrohouse S.A. were contributed to Metrohouse Franchise SA in exchange for the newly issued shares of MHF. As a result, on 30 September 2014, BZ WBK Inwestycje Sp. z o.o. held 20.58% stake in Metrohouse Franchise S.A. Following the registration of an increase in the share capital of MHF, BZ WBK Inwestycje Sp. z o.o. held a 20.13% stake in the share capital and voting power in the company as at 31 December 2014.

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). 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 ‘Profit or loss on sale/liquidation of subsidiaries and associates.’

Kredyt Trade provided auxiliary administrative services to the former Kredyt Bank, primarily in respect of managing and leasing properties and equipment.

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

CONTROLLING STAKES IN BZ WBK-AVIVA COMPANIES

Controlling stakes in BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. are described in detail in Note 50.

MERGER OF BZ WBK LEASING COMPANIES

On 29 March 2013, the BZ WBK 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.

53. EVENTS WHICH OCCURRED SUBSEQUENTLY TO THE END OF THE PERIOD

THE CLOSING OF THE SALE BY THE BANK OF A 17% EQUITY STAKE IN BZ WBK-AVIVA TOWARZYSTWO UBEZPIECZEŃ NA ŻYCIE S.A. AND BZ WBK-AVIVA TOWARZYSTWO UBEZPIECZEŃ OGÓLNYCH S.A. TO AVIVA INTERNATIONAL INSURANCE LIMITED

On 27 February 2015, Bank Zachodni WBK S.A. lost control over insurance entities BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. ("TUnŻ S.A.") and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogolnych S.A. ("TUO S.A.") following the exercise of a call option by Aviva International Insurance Limited ("Aviva Ltd."). After the fulfilment of the conditions precedent, including the obtaining of the European Commission consent and a decision of the Polish Financial Supervision Authority (Komisja Nadzoru Finansowego) confirming the absence of formal grounds for objecting to the direct acquisition by Aviva Ltd. and indirect acquisition by Aviva plc. of 17% of shares in TUnŻ S.A. and 17% of shares in TUO S.A., the ownership transfer of the abovementioned shares has been completed.

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

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

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

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

Total profit before tax on the transaction	as at 27.02.2015
Fair value of considaration received	244 317
Revaluation of retained non-controlling interest	766 360
Non-controlling interests derecognised	540 854
Other adjustments related to loss of controll	35 604
Less: book value of identifiable net assets	(172 105)
Less: derecognition of goodwill	(853 809)
Total	**561 221**

THE IMPACT OF THE NATIONAL SWISS BANK DECISION ON THE FX MORTGAGE LOANS

Pursuant to the decision of the Swiss National Bank, following the end of the reporting period, there occurred a material depreciation of the zloty against the Swiss franc. As at 31 December 2014, the average NBP PLN/CHF exchange rate was 3.5447 vs. 3,8919 as at a 28 February 2015. The exchange rate movement affected the value and the risk profile of assets, liabilities and off-balance sheet financial instruments denominated in the currency under review. The table below presents the estimated impact of the change in the CHF/PLN exchange rate on the PLN equivalent of the mortgage loan-book value of Bank Zachodni WBK Group as at 31 December 2014.

Gross mortgage loans by currency as at 31.12.2014		FX rates as at 31.12.2014	FX rates as at 28.02.2015
CHF denominated mortgage loans, of which:		13 405 583	14 718 647
	Bank Zachodni WBK	10 444 894	11 467 961
	Santander Consumer Bank	2 960 689	3 250 686
Mortgage loans denominated in other currencies		17 455 257	17 391 663
Total		**30 860 840**	**32 110 310**

The above-mentioned volatility of the exchange rate would decrease the CAD ratio by 13 bp.

Bank Zachodni WBK Group actively manages the CHF position using derivative instruments (swaps) and direct financing including loans and repo transactions. As at the end of December 2014, the volume of the above instruments added up to CHF 2.4bn and CHF 1.5bn, respectively.

RISK PROFILE OF CHF-INDEXED/DENOMINATED LOANS

CHF gross mortgage loans as at 31.12.2014	Gross amount	Impairment losses	Coverage ratio
Performing loans	13 233 840	85 249	0.64%
Non-performing loans	171 743	67 794	39.47%
Total	**13 405 583**	**153 043**	

Average LTV ratio and NPL ratio amounted to 112% and 1.3%, respectively. As at the end of 2014, the loans indexed to CHF rate represented 87% of the total portfolio. As at 31 December 2014, 99% of CHF loans were sanctioned before 2009.

SUPERVISORY BOARD MEMBER RESIGNATION

Bank Zachodni WBK S.A. informed that on 5th February 2015 the Bank Management Board received the notice from Mr. José Antonio Alvarez of his resignation as the Bank Supervisory Board member effective immediately.

54. 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 2014 are as follows:

- the discount rate at the level of 2.6% (4.4% as at 31 December 2013),
- the future salary growth rate at the level of 2.5% (2,5% as at 31 December 2013),
- the probable number of leaving employees calculated on the basis of historical data concerning personnel turnover in the Group,
- the mortality adopted in accordance with Life Expectancy Tables for men and women, published by the Central Statistical Office, adequately adjusted on the basis of historical data of the Bank.

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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.

	31.12.2014	31.12.2013
As at the beginning of the period	49 533	38 934
Provision acquired in a business combination	3 640	13 758
Current service cost	148	2 694
Prior service cost	–	–
Interest expense	2 049	1 820
Actuarial (gains) and losses	14 408	(7 673)
Balance at the end of the period	**69 778**	**49 533**

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 2014.

Defined benefit plan obligations	1 percent increase	1 percent decrease
Discount rate	12.89%	-14.26%
Future salary growth rate	-14.19%	12.95%

OTHER STAFF-RELATED PROVISIONS

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

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

Provisions	31.12.2014	31.12.2013
Provisions for unused holidays	61 038	48 780
Provisions for employee bonuses	220 910	186 009
Provisions for retirement allowances	69 778	49 533
Other staff-related provisions	13 357	9 640
Total	**365 083**	**293 962**

Detailed information about movements on staff-related provisions is available in additional Note 35.

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

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

Persons holding managerial positions are paid variable remuneration once a year following the end of the settlement period and release of the bank's results. Variable remuneration is awarded in accordance with applicable bonus regulations and paid in cash and phantom stock. The latter shall represent min. 50% of the total amount of variable remuneration. Payment of min. 40% of variable remuneration referred to above is conditional and deferred for the period of three years (13.3% per annum). Variable remuneration is paid in arrears in equal annual instalments depending on individual performance in the period subject to assessment and the value of the phantom stock.

Awards for 2013 for members of BZ WBK Management Board paid in 2014

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

First and last name	Position	Period	
Mateusz Morawiecki	President of the Management Board	01.01.2014-31.12.2014	1 768.77
Andrzej Burliga	Member of the Management Board	01.01.2014-31.12.2014	789.97
Eamonn Crowley	Member of the Management Board	01.01.2014-31.12.2014	765.70
Michael McCarthy	Member of the Management Board	01.01.2014-31.12.2014	751.04
Piotr Partyga	Member of the Management Board	01.01.2014-31.12.2014	674.33
Juan de Porras Aguirre	Member of the Management Board	01.01.2014-31.12.2014	747.63
Marcin Prell	Member of the Management Board	01.01.2014-31.12.2014	602.53
Marco Antonio Silva Rojas	Member of the Management Board	01.01.2014-31.12.2014	691.04
Mirosław Skiba	Member of the Management Board	01.01.2014-31.12.2014	878.37
Feliks Szyszkowiak	Member of the Management Board	01.01.2014-31.12.2014	910.27

Pursuant to the bank's remuneration system, the Management Board members have a conditional right to a bonus for 2014 which could be paid in part in 2015 and in part thereafter, provided that certain criteria are met. As at the date of this report, a relevant decision has not yet been made by the bank's Supervisory Board.

Awards for the year 2012 granted in 2013 to the Members of the Management Board of Bank Zachodni WBK.

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	
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

In 2013, Management Board members received an additional one-off award of PLN 2 469.3 k for delivery of 2012 objectives related to the integration with Kredyt Bank.

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

55. SHARE BASED INCENTIVE SCHEME

The fourth edition of the BZ WBK incentive scheme closed as at 31/12/2013. It vested at the maximum level and its realization through issuance of new shares and their allocation to entitled individuals was processed in first half of 2014.

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

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

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

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

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

Share based payments granted in 2014:

	2014
Number of share based payments	177 336
Share price (PLN)	363.30
Excercise price (PLN)	10
Vesting period	2.8 years
Expected volatility	26.40%
Award life	3 years
Risk free rate	2.29%
Fair value per award	PLN 322.39
Dividend yield	2.75%

The following table summarizes the share based payments activity:

	12 months of 2014 Number of share based payments	**12 months of 2013 Number of share based payments**
Outstanding at 1 January	311 989	315 917
Granted	177 336	–
Exercised	(305 543)	–
Forfeited	(6 446)	(3 928)
Expired	–	–
Outstanding at 31 December	177 336	311 989
Exercisable at 31 December	**–**	**–**

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

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN CONTENTS

For the share based payments outstanding as at 31 December 2014 and 31 December 2013 the average remaining contractual life is approximately 2.5 years and 0 years 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 2014, 2013 increase of equity amounted to PLN 6 846 k, PLN 20 288 k respectively.

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

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

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

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 31.12.2013
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**

56. STAFF LEVEL

As at 31 December 2014 the Bank employed 11 838 persons and 11 688 FTE's.

As at this date, in subsidiaries there were 3 290 persons employed (incl. 107 persons in the Bank) and 3 147 FTE's.

In 2014, the average staffing level in Bank Zachodni WBK was 11 583 FTE's whereas the average staffing level in subsidiaries was 3 124 FTE's.

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 was 12 369 FTE's whereas the average staffing level in subsidiaries was 710 FTE's.

57. DIVIDEND PER SHARE

As of the date of publication of this report, the Management Board of Bank Zachodni WBK SA has not finalised its analysis in respect of recommendation on dividend payout for 2014.

On 16 April 2014, The Annual General Meeting of Bank Zachodni WBK adopted a Resolution allocating PLN 1 000 932 k to dividend for shareholders, from the net profit for 2013, which meant that the dividend was PLN 10.70 per share.

CONSOLIDATED FINANCIAL STATEMENTS OF BZ WBK GROUP FOR 2014 IN THOUSANDS OF PLN

Signatures of Members of the Management Board

Date	Name	Function	Signature
5.03.2015	**Mateusz Morawiecki**	President	
5.03.2015	**Andrzej Burliga**	Member	
5.03.2015	**Eamonn Crowley**	Member	
5.03.2015	**Michael McCarthy**	Member	
5.03.2015	**Piotr Partyga**	Member	
5.03.2015	**Juan de Porras Aguirre**	Member	
5.03.2015	**Marcin Prell**	Member	
5.03.2015	**Marco Antonio Silva Rojas**	Member	
5.03.2015	**Mirosław Skiba**	Member	
5.03.2015	**Feliks Szyszkowiak**	Member	

Signature of a person who is responsible for maintaining the book of account

Date	Name	Function	Signature
5.03.2015	**Wojciech Skalski**	Financial Accounting Area Director	