Supervisory Board

REPORT OF THE SUPERVISORY BOARD OF
BANK ZACHODNI WBK S.A. ON:

1. **ITS ACTIVITY IN 2013;**
2. **THE EXAMINATION OF:**
   - **THE FINANCIAL STATEMENTS OF BANK ZACHODNI WBK S.A. FOR 2013**
   - **THE MANAGEMENT BOARD REPORT ON BANK ZACHODNI WBK PERFORMANCE IN 2013**
   - **THE CONSOLIDATED FINANCIAL STATEMENTS OF BANK ZACHODNI WBK GROUP FOR 2013**
   - **THE MANAGEMENT BOARD REPORT ON BANK ZACHODNI WBK GROUP PERFORMANCE IN 2013**
3. **AN ASSESSMENT OF BANK ZACHODNI WBK STANDING INCLUDING AN EVALUATION OF THE INTERNAL CONRTOL SYSTEM AND THE SIGNIFICANT RISK MANAGEMENT SYSTEM**

Warsaw, March 2014

I. SUPERVISORY BOARD ACTIVITY IN 2013

1. BOARD COMPOSITION & MANNER OF DISCHARGE FROM DUTIES & RESPONSIBILITIES

1.1. As at 1 January 2013, the Supervisory Board (SB) had the following composition:

▪ Supervisory Board Chairman	- Mr Gerry Byrne
▪ Deputy Chairman of the Supervisory Board	- Mr Jose Manuel Varela
▪ Members of the Supervisory Board:	- Mr Jose Antonio Alvarez
	- Mr Witold Jurcewicz
	- Mr Jose Louis De Mora,
	- Mr John Power
	- Mr Jerzy Surma

1.2. Changes in the Supervisory Board composition:

- On 13 February 2013, the General Meeting of Bank Zachodni WBK Shareholders appointed to the Supervisory Board:
  - Mr David Hexter
  - Mr Guy Libot
- Mr Guy Libot filed a resignation from the function of the Supervisory Board Member effective as of 2 April 2013 in relation to the disposal of the entire BZ WBK stake held by KBC Bank Nv.

1.3. Independence of the Supervisory Board Members

All Members of the Supervisory Board submitted written statements on their independence as well as on their personal, factual and organizational connections with the Bank's shareholders.
In line with the submitted statements, as at 31 December 2013, the status of an independent Supervisory Board Member was held by the following individuals:

- Mr Witold Jurcewicz,
- Mr David Hexter,
- Mr John Power (Chairman of the Audit Committee and Chairman of the Risk Oversight Committee),
- Mr Jerzy Surma.

1.4. The Supervisory Board activities and manner of discharging its duties and responsibilities are governed by the Supervisory Board’s Terms of Reference available on the Bank's Internet site.

2. STATISTICAL DATA ON THE SUPERVISORY BOARD'S ACTIVITY IN 2013

From 1 January until 31 December 2013, the Supervisory Board held 10 meetings and passed 68 resolutions. The Board Members' average attendance rate was 94.6%.

3. LEGAL MERGER AND THE PROCESS OF INTEGRATION WITH KREDYT BANK

- On January 4, 2013, the District Court for Wrocław-Fabryczna, 6th Economic Division of the National Court Register registered the merger of Bank Zachodni WBK with Kredyt Bank. Bank Zachodni WBK (the acquiring bank) assumed all rights and obligations of Kredyt Bank (the acquired bank), which was resolved without liquidation proceedings.

- The Supervisory Board exercised an independent oversight of the merger process of Bank Zachodni WBK and Kredyt Bank, which was put in place given the process scale and significant impact on the combined organization, market, shareholders, including minority shareholders, and employees. The oversight of the merger process was exercised by the independent Board Member, Mr John Power, seconded by the Board to perform this task. While performing the task, Mr John Power informed the Board about the progress in work under the individual stages of the Merger Program and provided the Board Members with full explanation on all matters related to the merger process.

- The Board noted that, in accordance with the approved schedule, by the end of 2013, the Bank successfully completed the first three stages of the integration process (legal merger, integration of the branch network, the brand migration) and fully integrated organizational structures, harmonized portfolio of products and services. Thus the Bank provides consistent customer service in terms of quality and procedures and operates under the common brand of "BZ WBK". At the same time, despite a large number and complexity of the business and IT projects delivered under the integration program, thanks to the adopted approach to planning and implementing changes, any inconvenience to customers arising from the integration work was limited to the minimum. Currently, the Bank delivers the last stage of the integration which provides for the combination of IT systems and will last until the end of 2014.

- The Supervisory Board monitored the process of achieving synergies generated by the standardization of the business model, product offering, operating procedures and technological processes. In particular, the Board monitored the effectiveness and current trends in the area of sales and financial results of the former Kredyt Bank branch network.

4. MAJOR AREAS OF THE SUPERVISORY BOARD'S ACTIVITY IN 2013

In 2013, the Supervisory Board focused both on strategic matters as well as on the supervision of the Bank's day-to-day business. Apart from the abovementioned independent oversight of the Bank Zachodni WBK and Kredyt Bank merger, the key areas of the Supervisory Board’s activity were as follows:

- The Supervisory Board carried out its activities based on the adopted schedule of meetings and the general work plan. The agenda of each meeting was extended (if appropriate) by current business matters, issues submitted by the Bank’s Management Board for consideration and any other issues the Board deemed necessary to be covered by the agenda.

- The Supervisory Board requested and received from the Bank's Management Board comprehensive materials and reports on issues covered by the agenda of meetings as well as those pertaining to other matters important to the Bank's operations.

- In the pursuit of its duties arising from §32 of the Bank's Statutes, the Supervisory Board conducted ongoing assessment of the financial performance of the Bank and BZ WBK Group as well as current projections prepared on that basis, taking account of the business and operational trends in place, opportunities and threats, variances against the Plan and management action taken by the Management Board. The assessment was based on financial reports presented by the Bank’s Management Board.

- The Supervisory Board kept track of current macroeconomic and market forecasts and their impact on the Polish economy as well as operations, financial and business performance of the Bank and BZ WBK Group.

- The Supervisory Board was regularly advised on key trends emerging in the banking sector and the performance of competitive banks as well as on BZ WBK's position versus its' competitors.

- The Supervisory Board requested information and was kept up-to-date by the Bank's Management Board about current priorities and approach to challenges relating to funding, liquidity, capital management, risk management, in particular credit risk management, and cost management.

- In view of the key importance of liquidity and funding for the merged Bank, Supervisory Board was informed by the Management Board about the development of various scenarios and actions taken with respect to raising additional funding. As part of the diversification of the Bank's funding sources, the Supervisory Board approved the request of the Management Board re. the issuance of 3 year unsecured bearer bonds with a variable interest rate in the amount of PLN 500m under a private placement to be fully taken up by bondholders.

- As part of the overall supervision of the internal capital assessment processes, the Supervisory Board approved ICAAP policies and regular reports, based on Audit and Compliance Committee reviews and recommendations. The Supervisory Board approved appropriate changes to internal policies resulting from the adjustment of BZ WBK capital management structure to the new Capital Management Principles introduced by Santander Group, including the establishment of the Capital Committee and Capital Stress Testing Forum, as well as taking responsibility for capital calculation, reporting, planning and performing stress tests by the Accounting and Financial Control Division.

- As part of the supervision exercised over the risk management process, the Supervisory Board undertook reviews of the main risk areas, focusing on the manner of exercising oversight of individual risks, compliance with applicable policies and internal procedures as well as KNF recommendations, relevant risk identification procedure and setting remedial actions adjusted to the needs of the merged Bank.

- Based on the reviews and recommendations of the Audit and Compliance Committee, the Supervisory Board approved the acceptable risk level expressed as limits set out in the "Risk Appetite Statement". The "Risk Appetite Statement" approved by the Management Board and the Supervisory Board in early 2013 for the combined bank due to the lack of complete data was based on preliminary estimates, which were to help in determining the Bank's risk Appetite for the first months of the Bank's activity after the merger. As per the assumption adopted at that time, an additional review of the "Risk Appetite Statement" was performed 2013 to reflect the full risk profile of the combined Bank. In line with the agreed process, the Supervisory Board supervised and monitored the level of internal limit utilization.
  In the Supervisory Board's opinion, the risk appetite defined by the Bank is kept up-to-date and matches the current market environment. The risk analysis is supported by stress testing and scenario analysis which are to ensure that BZ WBK will continue as a stable and well-capitalized bank even amid adverse market conditions.

- As part of the supervision of the credit risk management process, the Supervisory Board was informed about the current lending strategy, progress in product harmonization, credit policies, changes made to the credit policies with a view to adjusting them the needs of the merged Bank and about the key credit risk factors. The Board conducted current reviews of the loan portfolio, also in terms of compliance with the Recommendations of the Banking Supervision. In addition, the Supervisory Board was provided with information about individual loan portfolios broken down by products/ customer segments with a special focus on their quality and profitability. Pursuant to Recommendations T and S, the Supervisory Board, twice a year, assessed current performance against the Personal Lending Policy based on data presented in the Risk Dashboards.

- In line with the applicable "Policy on compliance risk management in Bank Zachodni WBK" the Supervisory Board assessed the effectiveness of the compliance risk management in BZ WBK. On this basis, the Supervisory Board stated that the compliance risk management was effective and adjusted to the scale of operations & requirements and mitigates the risk of the Bank's exposure to sanctions imposed by the supervisory bodies, financial losses or loss of reputation due to a breach of the applicable provisions of law, regulatory guidelines, standards and codes referring to its operations.
  Apart from that, the Board carries out the assessment of the compliance risk management each time the Audit & Compliance Committee presents its report on current operations of the Compliance Area.

- In relation to the merger process, the Supervisory Board approved an updated Financial Plan for 2013 for the merged bank. The assumptions of the Plan are based on the following priorities: generating stable level of profit from various sources, increase in the market share and consistent development of a strong nationwide brand. The figures presented in the Plan have been based on the Bank's strategy for 2013. Macroeconomic forecasts and projected market situation were taken into account while setting the figures, as well as the analysis of the Bank's position against the group of peer banks.
  As part of the 2014 planning process, the Supervisory Board approved the Financial Plan for 2014.

- The Supervisory Board approved Bank Zachodni WBK strategy for 2013-2015, which reflects the change driven by the legal merger of Bank Zachodni WBK and Kredyt Bank of 4 January 2013 and the pending integration process of both banks. The overriding strategic objective of the Bank Zachodni WBK Group for the next 3 years continues to be the strengthening of its leading market position as a universal institution offering a full range of financial services in retail, business and investment banking. The Strategy envisages further monitoring of the Bank's position against the competition to ensure that the target market share will be achieved. To this end, the Bank will monitor its strategy as well as the competitive business activity and domestic economic situation in order to adjust its strategy accordingly.

- The Supervisory Board conducted a review of the Strategy and activities of the Bank's various areas and its subsidiaries, including the activities and delivered projects aimed at improving their functioning, providing opportunities to deliver high and stable income, its diversification and increase in the market shares, including:

  - Approval of the transaction with Aviva International Insurance Limited - the Supervisory Board approved the conclusion by BZ WBK SA, Aviva International Insurance Limited (Aviva) and Aviva Group companies, i.e. BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. of agreements amending and extending by 2033 the strategic cooperation of the parties in the area of bancassurance in Poland.

  - The Strategic Program of Mobile and Internet Banking Development - the program is the Bank's response to challenges stemming from the market growth rate in terms of the development of mobile banking applications and the increasingly tight competition amongst banks in this area. Therefore, one of BZWBK's priorities is the dynamic expansion of the mobile product & service proposition aimed at creating new value added for the existing customers, attracting new customers, generating new income streams as well as keeping the current standards and actively participating in the process of building new mobile payment standards in Poland.

- Program of the Next Generation Bank - the Supervisory Board Members familiarized themselves with the background and objectives of the Program which puts the customer at the center of attention of the entire organization, so that as a result of activities pursued under the Program BZ WBK becomes the first choice bank for customers. The program covers the entire Bank and will have an impact on all aspects of its business representing a key element of the business strategy for the years 2014-2016. The Supervisory Board was kept informed on the progress in work in individual business segments and other areas of the Bank.

- As part of the global restructuring of the asset management business across the Santander Group, Santander Asset Management company approached BZ WBK with a request for disposing of a 50% stake in BZ WBK Asset Management. The remaining 50% of shares are held by Banco Santander. The Supervisory Board Members familiarized themselves with terms & conditions of the new distribution agreement and the valuation of the Asset Management company produced by JP Morgan based on a number of commonly used methodologies that take into account also the financial impact of the new distribution agreement on the value of BZ WBK AM. Given that the transaction is beneficial for the Bank, because now AM company operates locally while as a result of the transaction, the Bank will gain access to advanced products and services which could be offered to its customers, as well as to a global network of expertise, product development model as well as the model of operational control and risk, the Supervisory Board approved the sale of BZ WBK AIB Asset Management shares.

- In relation to the fulfillment of Santander Group's commitment made to KNF under the proceedings re. permit for the merger of Bank Zachodni WBK and Kredyt Bank, as set out in the KNF decision of 4 December 2012 allowing for the merger, the Supervisory Board approved the acquisition of Santander Consumer Bank shares (SCB), as a result of which SCB will become a direct subsidiary of BZ WBK.

  The Supervisory Board analysed and received a full explanation of the steps taken by the Bank's Management Board in order to confirm that the value of SCB shares acquired under the transaction is, from a financial point of view, fair (or adequate) for the Bank. The transaction will further strengthen Bank Zachodni WBK position as the third financial institution in Poland, will bring benefits for both organizations, mainly due to their mutually complementary business models as well as benefits for BZWBK shareholders.

  The process of SCB incorporation to the BZ WBK Group's structure is pursued under a separate project supervised on behalf of the Supervisory Board by the independent Supervisory Board Member, Mr John Power, who will inform the Board about the progress in works on the project.

5. OPERATIONS OF THE SUPERVISORY BOARD COMMITTEES

Independently of the Supervisory Board's meetings, Supervisory Board Members sat on the following Board's committees:

- Nominations and Remuneration Committee
- Audit and Compliance Committee,
- Risk Oversight Committee

The scope and mode of the Committees' operations is set out in their Terms of Reference, introduced by relevant resolutions of the Supervisory Board. The Terms of Reference are available in the Supervisory Board Secretariat.
The Members of individual Committees have knowledge and experience appropriate for their roles and adequate fulfilment of their responsibilities.

The Committees contribute a lot to improving the effectiveness of the Board's work by supporting it in the discharge of its statutory duties as well as by preparing recommendations and proposed decisions relating to the Board's motions as well as those submitted by the Bank's Management Board. In order to enable the Supervisory Board to appraise in full the Committees' work, their Chairmen present relevant reports at the meetings of the Supervisory Board and the Board Members are provided with copies of the minutes of each meeting of the Committees. Individual Committees received sufficient, reliable and timely information from the Management Board allowing them to fulfil their responsibilities in 2013.

- **NOMINATIONS AND REMUNERATION COMMITTEE**

One of the key duties of the Supervisory Board is the introduction of remuneration policies and practices which are both fair and competitive that is highly important given their impact on the effectiveness of the organisation and its capability to recruit, retain and motivate the Management Board Members and senior management. The task of the Nominations and Remuneration Committee is to support the Supervisory Board in attaining these objectives as well as ensuring the consistency of the remuneration policy with the Bank's corporate culture, objectives, strategy, competitive behaviours as well as recommendations of regulators with regard to remuneration in the banking sector. Dealing with such matters, the Committee Members have no personal financial interest other than that of the Bank's shareholders and are driven by the best interest of the Bank and its shareholders.

The Committee assists the Supervisory Board in:

1. succession planning at the Bank's Management Board level;
2. issuing recommendations for the SB with regard to the composition of the Management Board;
3. overall monitoring of the market remuneration practices and levels;
4. preparing recommendations for the Supervisory Board decisions as to fair and competitive Remuneration policies and practices, ensuring adequate motivation for the Management Board Members and senior management to constantly improve the Bank's performance.

The Nominations and Remuneration Committee's composition in 2013 was as follows:

- Mr Gerry Byrne – the Chairman,
- Mr José Antonio Alvarez – the Committee Member,
- Mr José Luis de Mora – the Committee Member.

The Committee usually invites the President of the Management Board, whereas the HR Management Division supports the Committee in preparing materials representing grounds for recommendations submitted to the Supervisory Board and sourcing external reports.

In 2013, the Committee focused on the following issues:

- Preparing a recommendation concerning 2012 bonus payment to Management Board Members based on the adopted bonus regulations and Policy on variable components of remuneration applicable in the Bank.

- Presenting recommended terms and conditions of remuneration for the Management Board Members based on the conducted remuneration review.

- Recommending rules to the Supervisory Board that determine the bonus pool and the bonus payment for 2013 which were to support the achievement of relevant targets set in the Business Plan and Financial Plan for 2013 and which, at the same time, comply with the provisions of KNF Resolution No. 258/2011 as regards the variable components of remuneration for individuals holding managerial positions.

- Presenting to the Supervisory Board a recommendation to adjust the Financial Target for 2013 (the final year of the LTIP IV) in line with the powers granted to the Board by the AGM to reflect the merger with Kredyt Bank. Changes of the economic criteria underlying the Incentive Scheme IV related to the profit for 2013 do not have any impact on the economic criteria related to the profit for 2011 and 2012.

- Presenting to the Supervisory Board recommendations on changes to the Policy on variable components of remuneration for individuals holding managerial positions in BZ WBK Group, based on the conducted review and taking into account information obtained by the Bank's Management Board during a comprehensive inspection of the Polish Financial Supervision Authority (KNF) on the correctness of regulations adopted in the Bank with regard to KNF Resolution no. 258/2011.

- Succession planning for the Management Board functions and senior management positions - as in the previous years, this issue was one of the Committee's and Supervisory Board's priorities in 2013; actions in this area involved the provision of adequate development programs for individuals covered by succession planning, both at the Bank and its subsidiaries.

When preparing recommendations for the Supervisory Board, the Committee used current results of the banking sector's remuneration survey carried out by an independent agency.

- **AUDIT & COMPLIANCE COMMITTEE**

The Audit & Compliance Committee's role is to assist the Board in discharging its oversight responsibilities to shareholders and other stakeholders in relation to:

1. the quality and integrity of the accounting policies, financial statements and disclosure practices and satisfying itself that any significant financial judgements made by management are sound;
2. the monitoring of compliance with relevant laws and regulations, taxation obligations and relevant Codes of Conduct and good business ethics;
3. the monitoring of independence and performance of the internal and external Auditors; and
4. the assessment of the effectiveness of the system of internal controls and management of financial and non-financial risks.
5. The on-going discussions with the Head of Internal Audit, Chief Risk Officer, Head of Legal and Compliance and the External Audit Partner.

The Audit Committee is composed of the following members:
- Mr John Power (Chairman)
- Mr Witold Jurcewicz
- Mr Jose Manuel Varela
- Mr Jerzy Surma
- Mr David Hexter (appointed 2013.02.13)

Attendance

Number of meetings held:	8
- Mr John Power (Chairman)	8
- Mr Vitold Jurcewicz	8
- Mr Varela Jose Manuel	8
- Mr Jurek Surma	8
- Mr David Hexter	7/8

Both the Audit Committee's scope of duties and composition are in accordance with the Polish Chartered Auditors Act of 7 May 2009. The Committee operates under a written Terms of Reference, which was updated and approved by the Supervisory Board' resolution no. 58/2013 dated 31st October 2013. The Committee undertakes its duties in line with an agreed annual work programme that allows the Committee to monitor (and seek assurance on) the management of the financial risks and non-financial risks identified in the company's business plan.

The Chairman reported after each Committee meeting to the Supervisory Board on the main matters discussed in Committee meetings to ensure that all the Supervisory Board members were kept informed of progress with the work programme. The minutes of the Committee were also circulated to all members of the Supervisory Board.

The Audit Committee continued their work programme against the background of the on-going merger of the Bank with Kredyt Bank. The changing regulatory environment also shaped our discussions around internal controls, regulatory compliance and Santander Group regulatory reporting requirements. The Committee members meet privately either before or after the meetings to assess particular issues that individual members may want to further review.

The Committee met 8 times during the course of the 2013 and the members' attendance record is set out above. The Committee reviewed key areas of material controls, including financial, operational, regulatory compliance and risk management systems. On a regular basis it receives reports on risk management, fraud, anti-money laundering, legal, regulatory and corporate governance matters in order to assess the effectiveness of the risk management and control frameworks.

In 2013, these reports included the following:

- material/significant notifications arising under the Group policy on "whistle blowing",
- updates on significant projects in the Bank,
- detailed analysis of capital ratios,
- adequacy of provisioning including IBNR provisions,
- the implementation of EU Directives,
- Basel II compliance, preparation for Basel III,
- IT Risk Framework,
- Internal Capital Adequacy Assessment Process (ICAAP)
- Implementation of the Santander Internal Control Model

Some of the specific matters the Committee reviewed in 2013:

- Technology was an area of specific focus in 2013, particularly in view of a number of integration projects ongoing in the Bank and the publicized IT attacks on individuals and businesses. The Committee received an update on cyber-security developments and the defenses Bank Zachodni WBK has in place against cyber-attacks.

- Specific control environment reviews from some the following businesses:
  - Leasing & Factoring Operations
  - The Aviva joint venture operations
  - Global Banking Markets Division
  - Business Support Division
  - Human Resource Division

- The Committee received a number of updates on Anti Money Laundering and Code of Conduct for Securities markets,

- In reviewing the results for 2013, the Committee critically reviewed the assessments made on the carrying value for goodwill and confirmed, based on management's expectations of future performance of Kredyt Bank, that no goodwill impairment charges were required in 2013.

- Results of the Comprehensive KNF Inspection

The independent Auditors, Deloitte Audyt, the Bank's Internal Auditor, the Chief Risk Officer, the Head of Compliance and the President were invited to attend all meetings. Other members of the Management Board are also invited to attend as appropriate in order to present reports. In addition, the Committee held separate meetings with members of senior management and the external auditors to discuss issues relevant to the committee.

The Committee, through the Group Internal Auditor, receives objective independent reports on the operation of internal controls in the Group. The Committee reviewed the plans and work undertaken during the year, the level of training and skills of the resources of the internal audit function and changes to the internal audit methodology. During 2013 the Group continued its Internal Audit Quality Assurance reporting in accordance with the International Auditing Standards. In particular in 2013, the Institute of Internal Auditors completed an independent assessment of the quality over the function of the Internal Audit in the Bank. Following this independent assessment the Institute of Internal Auditors issued a Quality Assurance Review Certificate which confirms that the internal audit standards used by Bank are in line with the International Standards for the Professional Practice of Internal Auditing.

The Committee has reviewed and discussed the Company's audited financial statements with Management, which has primary responsibility for preparing the financial statements. It placed particular emphasis on their fair presentation and the reasonableness of the judgmental factors in particular the level of IBNR provisions for each loan portfolio and the appropriateness of significant accounting policies used in their preparation. In particular we considered the impact of one-off items that were of a significant nature in the preparation of the year-end financial statements. The Committee also reviewed and discussed with Deloitte Audyt their independent review of the financial statements and issues raised with management.

In addition, the Committee continued its detailed review of the Group's capital, liquidity and risk frameworks against the requirements of the KNF stress test scenarios, Basel II and the future requirements of Basel III. The Committee considered the proposed assumptions, methodology and process followed in determining the amount of capital and liquidity required to support the Group's business plans and the adequacy of its capital resources.

In reliance of these reviews and discussions, the Committee recommended that the Supervisory Board approve the audited financial statements for inclusion in the Company's annual report for the year ended 31st December 2013, and the Board accepted the Committee's recommendations.

The Committee recommended to the Board, subject to shareholder approval, the election of Deloitte Audyt as the Company's independent accountants. There is a process in place by which the Audit & Compliance Committee reviews and, if considered appropriate, approves, within parameters approved by the Supervisory Board, any non-audit services undertaken by the Auditors, and the related fees. This ensures that the objectivity and independence of the Auditors is safeguarded. This was particularly relevant in 2013 given the additional work that Deloitte Audyt had to complete for the merger with Kredyt Bank, the proposed sale of the Asset Management subsidiary and the purchase of the controlling stake in the Aviva joint venture.
In addition, the Group paid Pln 3 270 000 to Deloitte Polska Sp. z o.o. sp.k, for audit services in 2013, relating to the statutory audit of the Group and Company financial statements and the audit of Group subsidiaries and associates pursuant to legislation. The fees for other services which included advice

on accounting, regulatory matters and the fees directly relating to work mentioned above were Pln 3,724,261 giving a total fee to Deloitte Polska Sp. z o.o. sp.k of Pln 6,994,261.
The Committee is satisfied that the Group's external auditor provides effective, independent challenge to management and that their comprehensive management letter provides valuable recommendations for improvement of internal controls. In 2013, Deloitte Audyt provided to the Committee information on the arrangements it has in place to maintain its independence and objectivity.

The Committee conducts a continuous review of its process and performance. The form of the review involved a discussion on the format of the meetings and the effectiveness of the reporting processes. Areas where we could enhance our performance include the form and content of information presented and briefing sessions on industry developments that will impact the scope of work for the Committee.

For 2014 the Committee's areas of focus will be influenced by the changing regulatory environment both in Poland and Europe, the final elements of the integration of Kredyt Bank, and the continuous improvement of the Bank's IT Risk framework.

- **RISK OVERSIGHT COMMITTEE**

The Risk Oversight Committee is appointed by the Supervisory Board of Bank Zachodni WBK to assist the Board in discharging its oversight responsibilities to shareholders and other stakeholders and to protect the Group from future events that impede the sustainable achievement of its performance objectives in relation to:

1. Appropriate Risk philosophy, as articulated in Risk Principles;
2. Risk appetite, as reflected in policies and risk limits;
3. A sharpened focused oversight on the more significant business risks undertaken by the bank and;
4. The appropriateness of the overall risk governance framework

The Risk Oversight Committee is composed of the following members:
- Mr John Power (Chairman)
- Mr Witold Jurcewicz
- Mr Jose Manuel Varela
- Mr Jerzy Surma
- Mr David Hexter (joined 2013.02.13)

The Committee is conscious, when undertaking its duties that the Bank is in the business of taking risk but at a level that is appropriate relative to the Group's scale and type of business undertaken. The Committee focused on the oversight of forward looking risk issues and the key risk management indicators prepared in accordance to the business strategy.
The Committee operates under a written Terms of Reference updated and approved by the Supervisory Board's Resolution no. 38/2013 dated 2013.06.12. The Committee undertakes its duties in line with an agreed annual work programme that allows the committee to review the effectiveness of the risk philosophy and the appropriateness of the overall risk governance framework.

2013 Activities

The Committee met 5 times during the course of the 2013. The key activities reviewed were:
- Reviewed and enhanced the Group's risk appetite framework, policies and principles
- Reviewed the Group's capital and funding plan under the Group and KNF stress testing scenarios
- Reviewed the Internal Capital Adequacy Assessment Process (ICAAP)
- Reviewed the Group's actual risk profile against the Risk Dashboard and addressed limit amendments in light of the growth of the business

- Comprehensive review of risk arising in key divisions including the critical IT infrastructure and systems operated by the Group
- Comprehensive reviews of the credit portfolio including the future of the mortgage market
- Overview of the risk model governance framework
- Assessment of the impact of the pension reform regulations

On a regular basis the Committee receives reports on the Group's risk profile and key performance indicators, particular in relation to (a) the Top 5 risks, (b) performance vs. risk appetite and tolerance, (c) risk trends, (d) risk concentrations.

A key element of the Risk Oversight Committee's work is the oversight of the stress testing undertaken by the bank in accordance with its own assumptions and benchmarked against the requirements set by the KNF. The results of the stress testing are linked closely with the Committee's review of the Group's Risk Appetite Statement and polices appropriate to the overall strategy adopted by the Supervisory Board. As in previous years, the stress testing exercises demonstrated that Bank Zachodni WBK remains well capitalized and profitable in a stress scenario.

The Committee recommended approval to the Supervisory Board, the Group's economic capital framework, the governance over the Internal Capital Adequacy Assessment Process (ICAAP) and the effective implementation of this process by Management.

The independent Auditors, Deloitte Audyt, the Bank's Internal Auditor, the Chief Risk Officer, the Head of Compliance and the President were invited to attend all meetings. Other members of the Supervisory Board and Management Board are also invited to attend as appropriate in order to present reports.

The Committee conducts a continuous review of its process and performance. The form of the review involved a discussion on the format of the meetings and the effectiveness of the reporting processes.

Looking forward to 2014 the acquisition of a controlling shareholding in the insurance JV and the consolidation of Santander Consumer Bank will impact the risk profile of the Group. The Committee will review amendments to the Group Risk Appetite and continue its comprehensive review of the emerging risks in both the core business of the Group and the overall banking industry.

II. REPORT OF THE SUPERVISORY BOARD ON THE EXAMINATION OF BANK ZACHODNI WBK FINANCIAL STATEMENTS AND THE MOTION RELATED TO THE PROFIT DISTRIBUTION

This report was produced based on the conducted examination and includes the opinion of the Supervisory Board on the following documents presented by the Bank's Management Board to the Annual General Meeting of Shareholders of Bank Zachodni WBK, convened for 16th April 2014:

- Financial Statements of Bank Zachodni WBK S.A. for 2013,
- Management Board Report on Bank Zachodni WBK S.A. Performance in 2013,
- Consolidated Financial Statements of Bank Zachodni WBK Group for 2013,
- Management Board Report on Bank Zachodni WBK Group Performance in 2013,
- Management Board motion on the 2013 profit distribution.

The obligation to review the above documents is imposed on the Supervisory Board by § 32 clause 1 and clause 6 of the Bank's Statutes.

1. Examination of Financial Statements and Reports on operations for 2013

By force of resolution no. 39/2013, adopted on 12th June 2013, the Supervisory Board, based on the recommendation of the Audit & Compliance Committee, selected Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. as the Bank's auditor and vested it with a task of auditing the Financial Statements for 2013. The above audit covered the following documents produced by the Bank's Management Board:

1.1. Financial Statements of Bank Zachodni WBK S.A. for 2013:

- Statement of Financial Position as at 31 December 2013,
- Income Statement for the accounting year ended 31 December 2013,
- Statement of Comprehensive Income for the accounting year ended 31 December 2013,
- Movements in Equity for the accounting year ended 31 December 2013,
- Cash Flow Statement for the accounting year ended 31 December 2013,
- Additional Notes.

1.2. Management Board Report on Bank Zachodni WBK S.A. Performance in 2013.

1.3. Consolidated Financial Statements of Bank Zachodni WBK Group for 2013:

- Consolidated Statement of Financial Position as at 31 December 2013,
- Consolidated Income Statement for the accounting year ended 31 December 2013,
- Consolidated Statement of Comprehensive Income for the accounting year ended 31 December 2013,
- Movements in consolidated equity for the accounting year ended 31 December 2013,
- Consolidated Cash Flow Statement for the accounting year ended 31 December 2013,
- Additional Notes.

1.4. Management Board Report on Bank Zachodni WBK Group in 2013.

Based on the findings of the audit conducted by Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k., presented in the following documents:

- Opinion of the Independent Auditor and Report supplementing the Auditor's opinion on the separate Financial Statements of Bank Zachodni WBK S.A. for the financial year ended 31 of December 2013,
- Opinion of the Independent Auditor and Report supplementing the Auditor's opinion on the consolidated Financial Statements of Bank Zachodni WBK Group for the financial year ended 31 of December 2013,

the Supervisory Board stated that the 2013 Financial Statements presented by the Management Board, have been prepared, in all material respects, and give a true and fair view of the financial position of the Bank and the Group as at 31 December 2013 and of their financial performance and their cash flows for the year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union, and are in compliance with the respective regulations that apply to the Bank's unconsolidated financial statements and the consolidated financial statements applicable.

The Supervisory Board decided with resolution no. 10/2014, dated 26h February 2014, to submit to the AGM for approval:

- Financial Statements of Bank Zachodni WBK S.A. for 2013,
- Management Board Report on Bank Zachodni WBK S.A. Performance in 2013,
- Consolidated Financial Statements of Bank Zachodni WBK Group for 2013,
- Management Board Report on Bank Zachodni WBK Group Performance in 2013.

2. Review of the Bank's Management Board motion related to the 2013 profit distribution

The Supervisory Board examined the Bank's Management Board motion related to the 2013 profit distribution, and with resolution no. 13/2014, dated 26th February 2014 decided to recommend approval of the above motion to the Annual General Meeting of Shareholders.

3. Summary

The Supervisory Board stated that it acted with due care with regard to comprehensive examination of the documents presented by the Bank's Management Board and in line with its resolution no. 14/2014, dated 17th March 2014, the Supervisory Board presents this report to the Annual General Meeting of Shareholders of Bank Zachodni WBK.

III. AN ASSESSMENT OF BANK ZACHODNI WBK STANDING INCLUDING AN EVALUATION OF THE INTERNAL CONRTOL SYSTEM AND THE SIGNIFICANT RISK MANAGEMENT SYSTEM

- ***Merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A.***

On 27 February 2012, Banco Santander S.A. and KBC Bank NV signed an investment agreement, in which the parties expressed their intention to merge Bank Zachodni WBK S.A. and Kredyt Bank S.A. On 4 January 2013, the merger between Bank Zachodni WBK S.A. and Kredyt Bank S.A. was entered to the National Court Register. Bank Zachodni WBK S.A. assumed all rights and obligations of Kredyt Bank S.A. which was wound up without a formal liquidation.
The merger was carried out under Article 492 § 1(1) of the Commercial Companies Code, i.e. by transferring all the assets of Kredyt Bank to Bank Zachodni WBK (merger through acquisition) in exchange for the newly issued series J shares allocated to all the shareholders of Kredyt Bank in accordance with the following exchange ratio: 6.96 of merger shares for 100 shares of Kredyt Bank. On 8 January 2013, 18,907,458 merger shares were accepted in the National Depository of Securities (KDPW). The shares were recorded in the KDPW and marked with PLBZ00000044 code on 25January 2013, after the Management Board of the Warsaw Stock Exchange adopted a resolution (22 January 2013) approving their admission and introduction to public trading on the main market under ordinary procedure, effective from 25 January 2013.

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

On 22 March 2013, KBC Bank NV and Banco Santander announced a secondary offering for the shares of Bank Zachodni WBK. The offering was for 19,978,913 shares representing 21.36% of the Bank's share capital, with 15,125,964 shares owned by KBC Bank NV, and 4,852,949 owned by Banco Santander. The final price per share was set in the book-building process at PLN 245. The total value of the offering was PLN 4.9bn. The offering was addressed to selected institutional investors in Poland and abroad, including in the United States.

On 28 March 2013, Bank Zachodni WBK was advised that 15,125,964 shares held by KBC Bank NV, representing 16.17% of the Bank's registered capital, had been sold.. On the same day, the Bank also received a notice about the disposal of 4,852,949 shares of Bank Zachodni WBK held by Banco Santander S.A. and reduction of the latter's share in the Bank's registered capital and votes at the General Meeting by 5.19% to 70%.

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

- ***BZ WBK Group's Financial Standing in 2013***

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

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

Profit and Loss Account

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

Income

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

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

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

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

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

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

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

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

Loans
As at 31 December 2013, gross loans and advances to customers amounted to PLN 71,621.9m, an increase of 73% YoY. The strongest growth was noted in loans and advances to individuals +148.3% YoY which at the end of 2013 amounted to PLN 34,041.4m. Cash loans, increased to PLN 5,646.3m from PLN 4,196.4m at the end of 2012. Loans and advances to business and public sector customers of PLN 34,478.3m grew by 35.8% YoY as the former Kredyt Bank had a lower credit exposure to business customers.
In 2013, the Bank carried on effective lending activity via all its segments, including Branch Banking, Business & Corporate Banking and Global Banking & Markets. A high level of growth (111.3% YoY) was achieved in the Global Banking & Markets segment, which is responsible for the largest corporate clients of the Bank.

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

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

Pursuant to GM resolution of 17 April 2013, in May the Bank paid out a dividend at PLN 7.6 per share out of the profit earned in 2012, which further enhanced an annual return on investment in the Bank's stock. Over the same period, WIG Banks gained 21%, WIG went up by 8%, while WIG-20 lost 7%.
The Bank's stock market performance was not only driven by the overall strong investor sentiment towards the banking sector but also by positive publicity on the operational merger with the former Kredyt Bank and the execution of strategic plans outlined by Management at the time of the merger. An investment agreement under which the Bank will acquire a 60% stake in Santander Consumer Bank in 2014 was announced in November leading the share to increase to an all-time high of PLN 418.

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

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

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

BZ WBK Capital Group in 2014
On 27 November 2013, the Bank entered into an investment agreement with Santander Consumer Finance S.A. (SCF) and Banco Santander S.A., whereby it undertook to buy 3,120,000 ordinary and preference shares of Santander Consumer Bank S.A. (SCB) of Wrocław, with a nominal value of PLN 100 each, representing 60% of share capital of SCB and approximately 67% of votes at the General Meeting of SCB shareholders. Under the agreement, within three months of closing, the parties will use their best endeavours to eliminate the preference feature of the SCB shares, which will result in the bank holding 60% stake in the SCB share capital and 60% votes at the General Meeting of SCB.
The bank promised to issue new shares to be offered to and acquired solely by SCF in exchange for a non-cash consideration in the form of SCB shares. The value of SCB shares specified in the agreement is PLN 2,156,414,400. The number of new shares to be issued by the bank in exchange for the SCB shares will be determined using a stated formula, after receipt of the KNF's decision confirming it does not object to the transaction.

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

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

On 30 July 2013, the Management Board of Bank Zachodni WBK approved the sale of 67,500 preference registered shares of BZ WBK Asset Management S.A. of Poznań (representing 50% of votes at the General Meeting of the company) to Santander Asset Management Investment Holdings Limited of Jersey for a price of PLN 156,750k. The price may be adjusted on the day of closing to take account of changes to the book value of the company. The transaction is conditional on receipt of regulatory approvals, including no objection from the KNF to the acquisition of shares in BZ WBK Asset Management S.A. by SAM Investment Holdings.

- ***Assessment of Internal Control System***

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

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

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

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

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

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

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

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

- ***Assessment of the risk management system***

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

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

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

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

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

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

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

2013 was a year of economic slowdown, paralleled by a deterioration of customers' financial standing, in particular noticeable in the corporate segment, as well as, by the higher cost of risk. The Bank thoroughly analysed the macroeconomic market fluctuations, including the reduction in base interest rates, and closely monitored the risk exposure, thus adjusting, on an on-going basis, the risk management policy parameters to reflect the changing market climate.
The Bank continued its ongoing work aimed at strengthening the risk assessment tools, in particular by introducing innovative data sources in risk analysis. With regard to the lending process, the work optimising the corporate lending process (acceleration and simplification of the process by way of

preparing the launch of: ‘one-day credit decision’), an early warning system and the utilisation of external data sources in risk assessment, should be mentioned.

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

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

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

Summary:

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

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