



ANNUAL REPORT 2013
OF BANK ZACHODNI WBK GROUP

2013



Bank Zachodni WBK

 Grupa Santander

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

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

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

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



**CONSOLIDATED FINANCIAL STATEMENTS
OF BANK ZACHODNI WBK GROUP
FOR 2013**

2013



Bank Zachodni WBK

 Grupa Santander

Dear All,

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

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

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

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

Thanks to the consistent organic growth and the positive effects of the merger, Bank Zachodni WBK Group recorded financial results for 2013 above the average in the entire sector. Our Group generated a profit before tax of PLN 2.5bn, i.e. an increase of 36.9% as compared to 2012. In 2013, sales of cash loans in the Bank increased by 25%, which triggered the portfolio growth by 32%. The number of users of the Bank's electronic banking service amounted to nearly 3 million (+35.3% y/y) whilst BZ WBK payment cards base included 3.7 million debit (37.7% y/y) and 0.6 million credit cards (52.5% y/y). At the end of December 2013, the Bank's share in key areas of the sector according to the NBP statistics was as follows: 7.4% in the case of loans (4.3% at 2012- end) and 8.4% in the case of deposits (5.2%). Return on equity (16.6%) and the cost to income ratio (47%) are among the best on the market.

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

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

As a result of the merger, the Bank operates 12 corporate customer service centers and 12 SMEs service centers located in the largest Polish cities. The Global Banking & Markets Division (GBM), which services the customer portfolio consisting of leading national and international companies and groups of companies, successfully expanded its market activity. At the end of 2013, the base of GBM active customers consisted of ca. 100 groups operating, among others, in the energy, financial, FMCG, pharmaceutical

and shipbuilding sectors. Effective measures were taken leading to the growth in sales of leasing (27.3% y/y) and factoring (159% y/y).

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

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

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

For years, the Bank Zachodni WBK Group has been guided in its activities by social responsibility. After two years of Santander Universidades operations in Poland, we have created the largest program of cooperation between universities and the business world in the country. Already 39 universities participate in the program and 56 specific scholar projects funded by us. In support of these activities, the Bank allocated PLN 1.8m in 2013. The "School Card" program addressed to junior high schools and high schools was joined last year by 71 schools (126 schools participate in the program altogether). In 2013, together with Banco Santander Foundation and the National Museum in Wrocław, Bank Zachodni WBK prepared the exhibition "From Cranach to Picasso. Santander Collection", which within three months was visited by a record number of people (more than 60 thousand). Also the Bank Zachodni WBK Foundation is very active, among others, it delivers such projects as: Bank of Children's Smiles, Bank of the Ambitious Youth, Reading Room with a Smile. Moreover, we fight against the social exclusion of the disabled by "Service without barriers" pioneer program at our branches which serve people with physical disabilities and visual impairments.

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

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

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

I wish Bank Zachodni WBK Group, the whole banking sector and our economy, results and positive surprises in 2014 equivalent to the golden achievements of the Polish Olympic Athletes at the 2014 Winter Olympics.

Mateusz Morawiecki
President of the Management Board

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In thousands of PLN

Consolidated income statement

for reporting period:		01.01.2013 31.12.2013	01.01.2012 31.12.2012
Interest income		5 215 203	3 867 485
Interest expense		(1 938 643)	(1 566 408)
Net interest income	Note 6	3 276 560	2 301 077
Fee and commission income		2 089 422	1 596 038
Fee and commission expense		(310 866)	(211 052)
Net fee and commission income	Note 7	1 778 556	1 384 986
Dividend income	Note 8	58 738	55 748
Net gains/(losses) on subordinated entities	Notes 48, 49	418 692	400
Net trading income and revaluation	Note 9	186 114	164 345
Gains (losses) from other financial securities	Note 10	297 594	180 052
Other operating income	Note 11	73 545	49 672
Impairment losses on loans and advances	Note 12	(729 301)	(501 793)
Operating expenses incl.:		(2 862 078)	(1 817 194)
<i>Bank's staff, operating expenses and management costs</i>	Notes 13, 14	(2 607 613)	(1 653 112)
<i>Depreciation/amortisation</i>		(219 321)	(137 940)
<i>Other operating expenses</i>	Note 15	(35 144)	(26 142)
Operating profit		2 498 420	1 817 293
Share in net profits (loss) of entities accounted for by the equity method		16 297	19 746
Profit before tax		2 514 717	1 837 039
Corporate income tax	Note 16	(500 106)	(374 404)
Consolidated profit for the period		2 014 611	1 462 635
of which:			
<i>attributable to owners of BZ WBK S.A.</i>		1 982 328	1 433 847
<i>attributable to non-controlling interests</i>		32 283	28 788
Net earnings per share (PLN/share)	Note 17		
Basic earnings per share		21.24	19.42
Diluted earnings per share		21.17	19.34

Consolidated statement of comprehensive income

for reporting period:		01.01.2013 31.12.2013	01.01.2012 31.12.2012
Consolidated profit for the period		2 014 611	1 462 635
Other comprehensive income which can be transferred to the profit and loss account:		(169 702)	327 089
Available-for sale financial assets valuation		(165 896)	384 858
<i>including deferred tax</i>		31 520	(73 123)
Cash flow hedges valuation		(43 611)	18 955
<i>including deferred tax</i>		8 285	(3 601)
Other comprehensive income which can't be transferred to the profit and loss account:		6 215	-
Provision for retirement allowances – actuarial gains		7 673	-
<i>including deferred tax</i>		(1 458)	-
Other comprehensive income for the period, net of income tax		(163 487)	327 089
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		1 851 124	1 789 724
Attributable to:			
<i>owners of BZ WBK S.A.</i>		1 818 835	1 760 929
<i>non-controlling interests</i>		32 289	28 795

Notes presented on pages 12 – 104 constitute an integral part of these Financial Statements.

In thousands of PLN

Consolidated statement of financial position

as at:		31.12.2013	31.12.2012
ASSETS			
Cash and balances with central banks	Note 18	5 149 686	4 157 274
Loans and advances to banks	Note 19	2 212 704	1 458 128
Financial assets held for trading	Note 20	2 344 901	831 715
Hedging derivatives	Note 21	321 956	253 553
Loans and advances to customers	Note 22	68 132 143	39 867 554
Investment securities	Notes 23, 24	22 090 764	11 716 133
Investments in associates and joint ventures	Note 25	63 444	115 685
Intangible assets	Note 26	506 792	127 338
Goodwill	Notes 49, 55	2 542 325	-
Property, plant and equipment	Note 27	632 642	479 811
Net deferred tax assets	Note 28	476 430	258 037
Assets classified as held for sale	Note 29	3 503	-
Investment property		14 166	-
Other assets	Note 30	1 597 580	753 949
Total assets		106 089 036	60 019 177
LIABILITIES			
Deposits from banks	Note 31	6 278 797	1 351 050
Hedging derivatives	Note 21	367 524	321 950
Financial liabilities held for trading	Note 20	1 277 162	728 831
Deposits from customers	Note 32	78 542 982	47 077 094
Subordinated liabilities	Note 33	1 384 719	409 110
Debt securities in issue	Note 34	500 645	-
Current income tax liabilities		100 983	154 916
Other liabilities	Note 35	3 153 281	998 512
Total liabilities		91 606 093	51 041 463
Equity			
Equity attributable to owners of BZ WBK S.A.		13 872 088	8 884 367
Share capital	Note 36	935 451	746 376
Other reserve funds	Note 37	10 115 745	5 704 680
Revaluation reserve	Note 38	708 907	872 400
Retained earnings		129 657	127 064
Profit of the current period		1 982 328	1 433 847
Non-controlling interests in equity		610 855	93 347
Total equity		14 482 943	8 977 714
Total equity and liabilities		106 089 036	60 019 177

Notes presented on pages 12 – 104 constitute an integral part of these Financial Statements.

In thousands of PLN

Movements on consolidated equity

Consolidated statement of changes in equity	Share capital	Other reserve funds	Revaluation reserve	Retained earnings and profit for the period	Non-controlling interests in equity	Total
Note	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.

* Detailed information on "Issue of shares" in Note 36.

Movements in consolidated 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 as at 31.12.2011	730 760	4 698 884	545 318	1 380 613	127 385	7 482 960
Total comprehensive income	-	-	327 082	1 433 847	28 795	1 789 724
Issue of shares	15 616	316 384	-	-	-	332 000
Transfer to other capital	-	668 941	-	(668 941)	-	-
Dividend relating to 2011	-	-	-	(584 608)	(62 833)	(647 441)
Share scheme charge	-	20 471	-	-	-	20 471
As at 31.12.2012	746 376	5 704 680	872 400	1 560 911	93 347	8 977 714

As at the end of the period revaluation reserve in the amount of PLN 872 400 k comprises of debt securities and equity shares classified as available for sale of PLN 402 635 k and PLN 402 475 k respectively and additionally cash flow hedge activities of PLN 67 290 k.

Notes presented on pages 12 – 104 constitute an integral part of these Financial Statements.

In thousands of PLN

Consolidated statement of cash flows

	for reporting period:	
	01.01.2013 31.12.2013	01.01.2012 31.12.2012
Profit before tax	2 514 717	1 837 039
Total adjustments:		
Share in net profits (losses) of entities accounted for by the equity method	(16 297)	(19 746)
Depreciation/amortisation	219 321	137 940
Impairment losses	2 468	9 226
Gains (losses) on exchange differences	(6 135)	21 356
(Profit) loss from investing activities	(298 573)	(179 193)
	2 415 501	1 806 622
Changes:		
Provisions	(19 053)	(25 690)
Trading portfolio financial instruments	(734 266)	(169 146)
Loans and advances to banks	(615 142)	9 973
Loans and advances to customers	(278 348)	(1 850 381)
Deposits from banks	(376 094)	(1 083 673)
Deposits from customers	465 283	100 117
Other assets and liabilities	(362 754)	(360 777)
	(1 920 374)	(3 379 577)
Interests and similar charges	232 090	313 457
Dividend received	(58 738)	(55 748)
Paid income tax	(401 835)	(288 544)
Net cash flow from operating activities	266 644	(1 603 790)
Inflows	216 612 615	41 919 005
Sale of shares or interests in subsidiaries, associates and joint ventures	-	4 941
Sale/maturity of investment securities	216 548 514	41 854 760
Sale of intangible assets and property, plant and equipment	5 363	3 556
Dividend received	58 738	55 748
Outflows	(213 201 832)	(39 530 370)
Purchase of investment securities	(213 028 023)	(39 447 733)
Purchase of intangible assets and property, plant and equipment	(173 809)	(82 637)
Net cash flow from investing activities	3 410 783	2 388 635
Inflows	543 535	532 946
Drawing of long-term loans	42 890	200 946
Proceeds from issuing bonds / shares	500 645	332 000
Outflows	(1 498 668)	(870 829)
Repayment of long-term loans	(580 416)	(136 212)
Dividends and other payments to shareholders	(751 364)	(647 441)
Other financing outflows	(166 888)	(87 176)
Net cash flow from financing activities	(955 133)	(337 883)
Total net cash flow	2 722 294	446 962
Cash at the beginning of the accounting period	7 704 551	7 257 589
Cash acquired in a business combination	1 873 641	-
Cash at the end of the accounting period*	12 300 486	7 704 551

* Cash components are presented in Note 45.

Notes presented on pages 12 – 104 constitute an integral part of these Financial Statements.

In thousands of PLN

Additional notes to consolidated financial statements

1. General information about issuer

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

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

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

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

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

Group of Bank Zachodni WBK consists of the following entities:

In thousands of PLN

Subsidiaries:

Subsidiaries	Registered office	% of votes on AGM 31.12.2013	% of votes on AGM 31.12.2012
1. BZ WBK Finanse Sp. z o.o.	Poznań	100	100
2. BZ WBK Faktor Sp. z o.o.	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 Inwestycje Sp. z o.o.	Poznań	100	100
4. Dom Maklerski BZ WBK S.A. *****	Poznań	99.99	99.99
5. Kredyt Lease S.A. **	Warszawa	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.	-
6. Lizar Sp. z o.o. **	Warszawa	100% of AGM votes are held by Kredyt Lease S.A.	-
7. BZ WBK Finanse & Leasing S.A. *	Poznań	-	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
8. BZ WBK Leasing S.A. *	Poznań	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.	100% of AGM votes are held by BZ WBK Finanse Sp. z o.o.
9. BFI Serwis Sp. z o.o. in liquidation **	Warszawa	100	-
10. BZ WBK Nieruchomości S.A.	Poznań	99.99	99.99
11. BZ WBK Asset Management S.A. ***	Poznań	50	50
12. BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. ****	Poznań	66	-
13. BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A. ****	Poznań	66	-
14. BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A.	Poznań	100% of AGM votes are held by BZ WBK Asset Management S.A.	100% of AGM votes are held by BZ WBK Asset Management S.A.

Financial statements of the subsidiaries are fully consolidated with financial statements of BZ WBK S.A., excluding Lizar Sp. z o.o., whose financial statements are not consolidated because its business activities and operating results are irrelevant.

*On 29 March 2013, the BZ WBK leasing companies merged in accordance with Article 492 (1) (1) of the Code of Companies and Partnerships. The merger was effected by acquisition of BZ WBK Finanse & Leasing S.A. by BZ WBK Leasing S.A., being the acquiring entity, and by transfer of the whole of the assets of BZ WBK Finanse & Leasing S.A. to BZ WBK Leasing S.A. in exchange for shares to be issued by BZ WBK Leasing S.A. to the existing partner in BZ WBK Finanse & Leasing S.A.

**Subsidiaries Kredyt Lease S.A., BFI Serwis Sp. z o.o. in liquidation and Lizar Sp. z o.o. were acquired in a merger of BZ WBK and Kredyt Bank

***In case of BZ WBK Asset Management S.A., the Bank is a co-owner of the company together with Banco Santander S.A. Both owners of BZ WBK Asset Management S.A. holds an equal stake of 50% in the company's share capital. In practice, Bank Zachodni WBK S.A. exercises control over the company and its subsidiary, BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A., because through it Banco Santander pursues its policy in Poland. Therefore the company is treated as a subsidiary undertaking.

**** Detailed information on the controlling stake at the companies BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. (General Insurance Company) and BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. (Life Insurance Company) are described in Note 49.

***** As at 8.01.2014 BZ WBK SA held 99,99% in the share capital of Dom Maklerski BZ WBK SA, one share of DM BZWBK S.A. held BZ WBK Finanse Sp. z o.o.

In thousands of PLN

Associates:

Associates	Registered office	% of votes on AGM 31.12.2013	% of votes on AGM 31.12.2012
1. Kredytowych S.A.	Szczecin	50	50
2. Metrohouse S.A.*	Warszawa	21,23	21,23
3. Krynicki Recykling S.A.*	Warszawa	22,32	24,54

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

Joint ventures:

Joint ventures	Registered office	% of votes on AGM 31.12.2013	% of votes on AGM 31.12.2012
1. Ogólnych S.A. *	Poznań	-	50
2. Życie S.A. *	Poznań	-	50

*Detailed information on the controlling stake at the companies BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. (General Insurance Company) and BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. (Life Insurance Company) are described in Note 49.

Joint ventures were accounted for using the equity method.

2. Basis of preparation of consolidated financial statements

Statement of compliance

The annual consolidated financial statements of the BZ WBK Group for the year ended 31 December 2013 have been prepared in accordance with the International Financial Reporting Standards as adopted by the European Union and are in compliance with the respective regulations that apply to the consolidated financial statements, applicable to the BZ WBK Group.

Changes in accounting policies

As a result of adoption of the amendments to IAS 19 starting from 2013, the Group changed its approach to the recognition of actuarial gains/losses arising on the revaluation of the provisions for employee benefits. In these financial statements, such changes are reflected in "Other comprehensive income". The Group did not transform its comparative figures (in the comparable period, the related valuations were recognised in the profit and loss account in "Staff costs") due to:

- The relative immateriality of the amount (in the comparable period, the actuarial gains on this account was PLN 2 395k, while the related deferred tax was PLN 455k) and
- As a result of the merger with Kredyt Bank, the presented amount of actuarial losses does not give the true picture of the impact of the change on the comparable period.

Comparability with results of previous periods

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

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

In thousands of PLN

Changes in judgments and estimates

Fair value of the investments into the companies from the Aviva Polska Group is reviewed for all three investments. Valuation was conducted using the peer comparison method as well as discounted cash flow analysis. As at 31.12.2013, current review of fair valuation of the portfolio resulted in a positive upward movement in total amount of PLN 200 950 k. The review included the impact of the final approval of amendments to the Act on Open pension funds and its influence on of PTE Aviva BZ WBK S.A.

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

IFRS	Description of changes	Effective in the European Union from	Impact on the Group
IFRS 9 Financial Instruments, Amendments to IFRS 9	Changes in classification and measurement - the existing categories of financial instruments to be replaced by two measurement categories, i.e. amortised cost and fair value. Changes in hedge accounting.	Date of entry postponed indefinitely	The Group has not completed its analysis of changes.
IAS 32 Financial Instruments: Presentation	IAS clarifies its requirements for offsetting financial instruments.	1 January 2014	Amendments will not have material impact over the financial statements.
Transition Guidance (Amendments to IFRS 10)	The amendments clarify transition guidance in IFRS 10 and also provide additional transition relief in IFRS 10, IFRS 11, IFRS 12.	1 January 2014	Amendments will not have material impact over the financial statements.
Investment entities (amendments to IFRS 10, IFRS 12 and IAS 27)	The amendment exempts from consolidation "investment entities" such as mutual funds.	1 January 2014	Amendments will not have material impact over the financial statements.
Amendments to IAS 36 Impairment of assets	Amendments IAS 36 modified the disclosure requirement regarding measurement of the recoverable amount of impaired non-financial assets as a consequential amendment to IFRS 13.	1 January 2014	Amendments will not have material impact over the financial statements.
IFRIC interpretation 21 Levies	The interpretation clarifies how an entity should account for liabilities to pay levies imposed by governments, other than income taxes.	1 January 2014	Amendments will not have material impact over the financial statements.
IAS 39 Financial Instruments: Recognition and Measurement - amendments	The amendments allow hedge accounting to continue in a situation when hedging relation changes as a result of legislative changes.	1 January 2014	Amendments will not have material impact over the financial statements.
IAS 19 Employee Benefits - amendments	The amendments apply contributions from employees or third parties to defined benefit plans. The objective of amendments is to simplify the accounting for contributions that are independent of the number of years of employee service.	1 January 2015	The Group has not completed its analysis of changes.
Annual Improvements to IFRSs cycle 2010-2012	The issues included: - IFRS 2 Definition of 'vesting condition'; - IFRS 3 Accounting for contingent consideration in a business combination; - IFRS 8 Aggregation of operating segments and Reconciliation of the total of the reportable segments' assets to the entity's assets; - IFRS 13 Short-term receivables and payables; - IAS 7 Interest paid that is capitalised; - IAS 16 / IAS 38 Revaluation method - proportionate; - IAS 24 Key management personnel.	1 January 2015	The Group has not completed its analysis of changes.
Annual Improvements to IFRSs cycle 2011-2013	The issues included: - IFRS 3: scope exceptions for joint ventures; - IFRS 13: scope of paragraph 52 (portfolio exception); - IAS 40 Clarifying the interrelationship of IFRS 3 Business Combinations and IAS 40 Investment Property when classifying property as investment property or owner-occupied property.	1 January 2015	The Group has not completed its analysis of changes.

In thousands of PLN

Standards and interpretations or changes to existing standards or interpretations which were applied for the first time in the accounting year 2012

IFRS	Description of changes	Effective in the European Union from	Impact on the Group
IFRS 10 Consolidated Financial Statements	New standard supersedes the previous version of IAS 27 (2008) Consolidated and Separate Financial Statements as far as presentation and preparation of consolidated financial statements is concerned.	1 January 2014	The Group analysed the amendments to IFRS 10 and decided to apply the standard earlier. Amendments did not have material impact on the financial statements.
IFRS 11 Joint Arrangements	Supersedes SIC –13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures.	1 January 2014	The Group analysed the amendments to IFRS 11 and decided to apply the standard earlier. Amendments did not have material impact on the financial statements.
IFRS 12 Disclosures of Interests in Other Entities	New standard requires the disclosure of information that enables users of financial statements to evaluate: - the nature of, and risks associated with, its interests in other entities; - the effects of those interests on its financial position, financial performance and cash flows.	1 January 2014	The Group analysed the amendments to IFRS 12 and decided to apply the standard earlier. Amendments did not have material impact on the financial statements.
IAS 27 Separate Financial Statements	IAS 27 has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.	1 January 2014	The Group analysed the amendments to IAS 27 and decided to apply the standard earlier. Amendments did not have material impact on the financial statements.
IAS 28 Investments in Associates and Joint Ventures	The change prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.	1 January 2014	The Group analysed the amendments to IAS 28 and decided to apply the standard earlier. Amendments did not have material impact on the financial statements.
IFRS 13 Fair Value Measurement	IFRS establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. IFRS 13 explains how to measure fair value when it is required by other IFRSs.	1 January 2013	Amendments did not have material impact on the financial statements.
IAS 1 Presentation of Financial Statements	The amendments requires preparing presentation of items of other comprehensive income (OCI) in financial statements.	1 January 2013	Amendments did not have material impact on the financial statements.
IFRS 7 Financial instruments: disclosures	The amendments introduce the change in the disclosure requirements with regard to the effects of offsetting of financial assets and financial liabilities.	1 January 2013	Amendments did not have material impact on the financial statements.
Improvements to IFRSs (2009-2011)	Subject of amendment: - IAS 1 Clarification of requirement for comparative information; - IAS 16 Classification of servicing equipment; - IAS 32 Income tax consequences of distributions to holders of an equity instrument; - IAS 34 segment information for total asset.	1 January 2013	Amendments did not have material impact over the financial statements.
IAS 19 Employee Benefits	The standard modifies the rules of settlement of the defined benefits plans and the employment termination benefits. It introduces changes to disclosures.	1 January 2013	Amendments did not have material impact on the financial statements.

In thousands of PLN

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 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.

In thousands of PLN

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 acquiree.

Joint ventures

Joint ventures are those entities over whose activities the Group has joint control, established by contractual agreement.

The consolidated financial statements include the Group's share of the total recognised gains and losses of joint ventures on an equity accounted basis.

In thousands of PLN

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:

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

In thousands of PLN

Loans and receivables

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

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

Loans and receivables comprise loans and advances to banks and customers including purchased receivables and investments in debt instruments provided that they are not quoted in an active market and receivables due to reverse repo transactions. Loans and receivables also include finance lease receivables of Leasing Companies and factoring receivables of BZ WBK Faktor.

Available-for-sale financial assets

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

- a) loans and receivables,
- b) held-to-maturity investments or
- c) 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.

In thousands of PLN

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

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

The fair values of quoted financial instruments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities) the Group establishes fair value by using valuation techniques which include recent 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:

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

Lease payment receivables of Leasing Companies are accounted for 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) a legally enforceable right to set off the recognised amounts;
- b) and when there is an intention either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In thousands of PLN

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:

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

Fair value hedge

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

In thousands of PLN

- a) is attributable to a particular risk associated with a recognised asset or liability (such as all or some future interest payments on variable rate debt) or a highly probable forecast transaction; and
- b) could affect 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:

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

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

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

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

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

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

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

- Recovery from the operating cash flows / refinancing / capital support;

In thousands of PLN

- 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.

In thousands of PLN

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.

In thousands of PLN

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 life 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.

In thousands of PLN

Equity

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

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

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

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

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

The revaluation reserve is comprised of adjustments relating to the valuation of available-for-sale financial assets and adjustments relating to the valuation of effective cash flow hedges taking into account deferred tax and actuarial gains from estimating provision for retirement.

Revaluation reserve is not distributable.

Non-controlling interests are also recognised in Group capital.

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

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

Dividends

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

Employee benefits

Short-term service benefits

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

Long-term service benefits

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

Share based payments

BZ WBK Group operates a share based compensation plan. For share options after 7 November 2002 (IFRS 2.53), the fair value of the employee services received is measured by reference to the fair value of awards granted on the day of the grant. The cost of the employee services received in exchange for awards granted is recognized in the income statement over the period during which the employees become unconditionally entitled to the share based payments, which is the vesting period. The amount expensed is determined by reference to the fair value of awards granted. The fair value of awards granted is determined using the share based payments pricing models, which take into account the exercise price of the award, the share price at date of grant, the risk free rate, the expected volatility of the share price over the life of the award and other relevant factors. The Group assesses probability of the programme vesting which affects the programme value in the costs of the reporting period.

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

In thousands of PLN

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, banafits and premiums concern insurance activity.

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

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

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

At each reporting period, the Group tests for adequacy 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.

In thousands of PLN

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

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

Net commission income

Fees and commissions are recognised in the income statement at amortised cost using the effective interest rate method described in section "Net interest income".

Fees on overdrafts, revolving loans, credit cards and off balance sheet liabilities are recognized on a straight-line basis in the profit and loss account.

Other fees and charges, which are not settled according to the effective interest rate, are included in profit and loss account in accordance with accrual method.

For the selected loan products, where direct linkage to the insurance product has been identified, Group splits realised income into a portion recognised as interest income according to effective interest rate method and a portion recognised as fee income. Group qualifies distributed insurance products, as linked to loans in particular if the insurance product is offered to the customer only with a loan, i.e. there is no possibility to purchase identical product in the Group, regarding its legal form, terms and conditions or economic substance without purchasing a loan. In order to determine a part of the income that is considered integral element of the loan agreement that can be recognised as interest income according to the effective interest method, Group estimates that part using difference in interest rates and considering intermediary cost for insured and non-insured loans respectively.

Portion of the income that is considered an agency fee for sales of insurance product linked to loan agreement, Group recognises as a fee income when the fee is charged for sales of insurance product.

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

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

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

Net trading income and revaluation

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

Dividend income

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

Profit on disposal of subsidiaries, associates and joint ventures

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

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

Other operating income and costs

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

Operating lease payments

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

In thousands of PLN

Finance lease payments

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

Corporate income tax

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

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted or substantively enacted at the end of the reporting period and any adjustment to tax payable in respect of previous years.

Deferred income tax is provided, using the balance sheet method, on temporary differences between the tax bases of assets and liabilities and their values arising from the statement of financial position. Deferred income tax is determined using tax rates based on legislation enacted or substantively enacted at the end of the reporting period and expected to apply when the deferred tax asset is realised or the deferred tax liability is settled. Deferred tax assets are recognised where it is probable that future taxable profits will be available against which the temporary differences will be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred and current tax assets and liabilities are only offset when they arise in the same tax reporting group and where there is both the legal right and the intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

3. Segment reporting

Operational activity of Bank Zachodni WBK Group has been divided into four segments: Retail Banking, Business & Corporate Banking, Global Banking & Markets, and ALM (Assets and Liabilities Management) and Centre. They were identified based on customers and product types.

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

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

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

Income and cost allocations are regulated by agreements between segments, which are based on single rates for specific services or breakdown of total income and/or cost.

Assets and liabilities of a given segment are used for the operational activity and may be assigned to the segment directly or on a reasonable basis.

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

Retail Banking

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

In thousands of PLN

Business & Corporate Banking

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

Global Banking & Markets

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

- transactional banking with such products as cash management, deposits, leasing, factoring, letters of credit, guarantees, bilateral lending and trade finance;
- lending, including project finance, syndicated facilities and bond issues;
- FX and interest rate risk management products;
- underwriting and financing of securities issues, financial advice and brokerage services related to the activities of the Brokerage House.

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

ALM and Centre

The segment covers central operations such as financing of other Group's segments, including liquidity, interest rate risk and FX risk management. It also includes managing the Bank's strategic investments and transactions generating income and/or costs that cannot be directly or reasonably assigned to a given segment. The segment's results for 2013 include:

- PLN 299 350 k as a result of the sale of debt securities performed as regular course of liquidity management activities - as at year ended 2012 comparative figure totaled PLN 174 132k, and
- PLN 419 011 k of pre-tax profit on revaluation of the shares in BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A., as described in the note 49 of this Consolidated financial statements of Bank Zachodni WBK Group for 2013.

In thousands of PLN

Consolidated income statement (by business segments)

01.01.2013-31.12.2013	Retail Banking	Business & Corporate Banking	Global Banking & Markets	ALM and Centre	Total
Net interest income	2 047 202	699 723	123 827	405 808	3 276 560
incl. internal transactions	7 728	(130 055)	24 787	97 540	-
Other income	1 359 348	244 465	360 136	790 552	2 754 501
incl. internal transactions	48 681	44 159	(92 054)	(786)	-
Dividend income	-	-	-	58 738	58 738
Operating costs	(1 867 493)	(293 423)	(190 442)	(291 399)	(2 642 757)
incl. internal transactions	(2 443)	(6 416)	(4 493)	13 352	-
Depreciation/amortisation	(155 518)	(28 131)	(12 750)	(22 922)	(219 321)
Impairment losses on loans and advances	(422 974)	(303 432)	(15 259)	12 364	(729 301)
Share in net profits (loss) of entities accounted for by the equity method	14 500	-	928	869	16 297
Profit before tax	975 065	319 202	266 440	954 010	2 514 717
Corporate income tax					(500 106)
Non-controlling interests					(32 283)
Profit for the period					1 982 328

Consolidated statement of financial position (by business segment)

31.12.2013	Retail Banking	Business & Corporate Banking	Global Banking & Markets	ALM and Centre	Total
Loans and advances to customers	41 661 901	21 610 593	4 626 587	233 062	68 132 143
Investments in associates and joint ventures	-	-	20 842	42 602	63 444
Other assets	5 383 828	1 069 057	3 569 484	27 871 080	37 893 449
Total assets	47 045 729	22 679 650	8 216 913	28 146 744	106 089 036
Deposits from customers	57 966 899	15 416 837	5 159 246	-	78 542 982
Other liabilities and equity	7 992 752	5 262 362	3 089 250	11 201 690	27 546 054
Total equity and liabilities	65 959 651	20 679 199	8 248 496	11 201 690	106 089 036

In thousands of PLN

Consolidated income statement (by business segments)

01.01.2012-31.12.2012	Retail Banking	Business & Corporate Banking	Global Banking & Markets	ALM and Centre	Total
Net interest income	1 544 222	548 992	96 243	111 620	2 301 077
incl. internal transactions	11 737	(134 604)	37 161	85 706	-
Other income	1 099 538	143 915	262 112	273 890	1 779 455
incl. internal transactions	44 490	30 228	(56 311)	(18 407)	-
Dividend income	-	-	-	55 748	55 748
Operating costs	(1 276 643)	(166 206)	(167 004)	(69 401)	(1 679 254)
incl. internal transactions	(2 520)	(5 244)	(4 418)	12 182	-
Depreciation/amortisation	(106 610)	(14 552)	(10 975)	(5 803)	(137 940)
Impairment losses on loans and advances	(215 948)	(298 416)	14	12 557	(501 793)
Share in net profits (loss) of entities accounted for by the equity method	15 241	-	1 236	3 269	19 746
Profit before tax	1 059 800	213 733	181 626	381 880	1 837 039
Corporate income tax					(374 404)
Non-controlling interests					(28 788)
Profit for the period					1 433 847

Consolidated statement of financial position (by business segment)

31.12.2012	Retail Banking	Business & Corporate Banking	Global Banking & Markets	ALM and Centre	Total
Loans and advances to customers	20 042 900	17 534 167	2 189 673	100 814	39 867 554
Investments in associates and joint ventures	54 039	-	19 913	41 733	115 685
Other assets	1 392 045	528 367	1 274 427	16 841 099	20 035 938
Total assets	21 488 984	18 062 534	3 484 013	16 983 646	60 019 177
Deposits from customers	34 797 598	9 745 141	2 534 355	-	47 077 094
Other liabilities and equity	3 308 885	4 464 637	2 003 162	3 165 399	12 942 083
Total equity and liabilities	38 106 483	14 209 778	4 537 517	3 165 399	60 019 177

In thousands of PLN

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 bank's operations. The comprehensive reporting process ensures that the Committee has a full and consistent picture of the bank's current risk profile.

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

Risk Management Forum, a body authorised to approve and supervise the risk measurement policy and methodology and to monitor the credit risk, market risk in the banking book, market risk in the trading book, structural balance sheet risk and liquidity risk. The Forum operates through 4 panels:

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

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

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

In thousands of PLN

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

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

Assets and Liabilities Committee (ALCO) supervises the activity on the banking book, manages liquidity interest rate risk in the banking book. It is responsible for the funding and balance sheet management, including for the pricing policy.

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

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

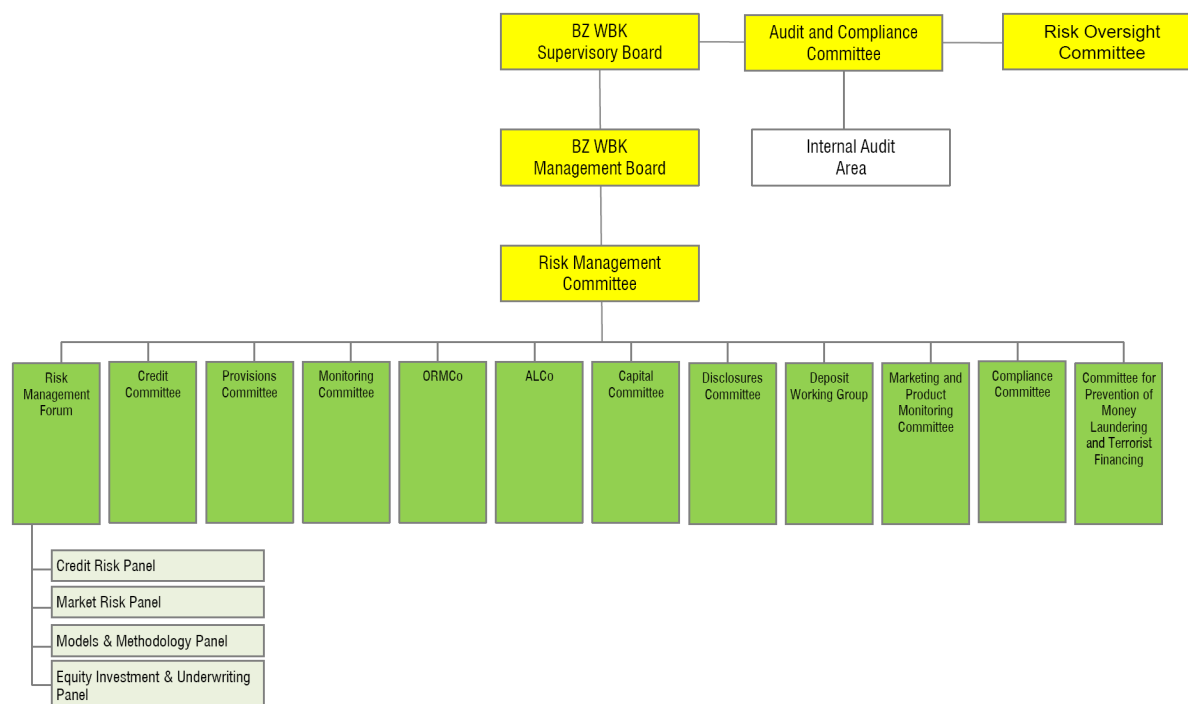
Deposit Working Group has a responsibility for ensuring a balanced growth of the savings and investment products portfolio.

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

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

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

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



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

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

In thousands of PLN

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.

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 2013, the Group pursued its risk management policy that focused both on credit risk and business effectiveness. The Group is constantly improving its processes and procedures for measuring, monitoring and managing the bank's credit risk, ensuring they are in keeping with the amended regulatory requirements, in particular KNF Recommendations. The economic slowdown which continued throughout 2013 led to an increase in the risk charge and caused deterioration in the customers' standing, especially in the corporate segment. The bank was closely looking at the macroeconomic environment and analysing its credit exposure to particular customer segments and economic sectors to respond with an adequate and prompt action and adjust its credit policy parameters accordingly. The bank also introduced changes to its pricing policy in response to falling reference rates.

One of the key challenges in 2013 was to ensure smooth integration of credit policy and process following the merger between Bank Zachodni WBK and Kredyt Bank.

The Group's priorities during the year, and also for 2014, include continuation of the prudential risk management policy while carefully observing the external environment, with a particular focus on ensuring compliance with the regulatory standards and requirements, working on optimisation of credit delivery to make it more efficient and free from human errors, providing smooth customer service and keeping operating costs down.

In thousands of PLN

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.

In thousands of PLN

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

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

Retail customers

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

Business customers

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

Collateral management process

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

- verification of the security valuation – assessment of the security value,
- assessment of the legal status of the security,
- assessment of the investment process for the properties,
- seeking legal advises on the proposed securities.

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

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

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

Credit risk stress testing

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

In thousands of PLN

Calculation of Impairment

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

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

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

In thousands of PLN

The tables below present BZ WBK Group's maximum exposure to credit risk, for presentation purposes grouped by classes, defined by provisions cover.

31.12.2013	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Impaired portfolio					
Individually impaired					
	up to 50%	1 895 531	-	-	-
	50% - 70%	528 071	-	-	-
	70% - 85%	532 593	-	-	-
	over 85%	369 007	-	-	-
Gross amount		3 325 202	-	-	-
Allowance for impairment		(1 525 523)	-	-	-
Net amount		1 799 679	-	-	-
Collectively impaired					
	up to 50%	548 929	-	-	-
	50% - 70%	866 345	-	-	-
	70% - 85%	521 770	-	-	-
	over 85%	378 363	-	-	-
Gross amount		2 315 407	-	-	-
Allowance for impairment		(1 511 024)	-	-	-
Net amount		804 383	-	-	-
IBNR portfolio (past due&non past due)					
	up to 0,10%	28 102 384	2 212 704	22 090 764	2 344 901
	0,10% - 0,30%	16 796 042	-	-	-
	0,30% - 0,65%	12 535 446	-	-	-
	over 0,65%	8 336 599	-	-	-
Gross amount		65 770 471	2 212 704	22 090 764	2 344 901
Allowance for impairment		(453 178)	-	-	-
Net amount		65 317 293	2 212 704	22 090 764	2 344 901
Other receivables		210 788	-	-	-
Off-balance sheet exposures					
Financing granted		17 636 205	-	-	-
Guarantees		3 874 743	-	-	-
Nominal value of derivatives - purchased		-	-	-	106 021 969
Allowance for impairment		(95 934)	-	-	-
Off-balance sheet exposures - total		21 415 014	-	-	106 021 969

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

In thousands of PLN

31.12.2012	Provision cover	Loans and advances to customers	Loans and advances to banks	Investment securities	Financial assets held for trading*
Impaired portfolio					
Individually impaired					
	up to 50%	552 172	-	-	-
	50% - 70%	314 238	-	-	-
	70% - 85%	139 137	-	-	-
	over 85%	125 776	-	-	-
Gross amount		1 131 323	-	-	-
Allowance for impairment		(534 955)	-	-	-
Net amount		596 368	-	-	-
Collectively impaired					
	up to 50%	346 584	-	-	-
	50% - 70%	260 096	-	-	-
	70% - 85%	321 353	-	-	-
	over 85%	197 162	-	-	-
Gross amount		1 125 195	-	-	-
Allowance for impairment		(672 365)	-	-	-
Net amount		452 830	-	-	-
IBNR portfolio (past due&non past due)					
	up to 0,10%	15 893 956	1 458 128	11 716 133	831 715
	0,10% - 0,30%	8 733 853	-	-	-
	0,30% - 0,65%	8 055 863	-	-	-
	over 0,65%	6 366 816	-	-	-
Gross amount		39 050 488	1 458 128	11 716 133	831 715
Allowance for impairment		(336 887)	-	-	-
Net amount		38 713 601	1 458 128	11 716 133	831 715
Other receivables		104 755	-	-	-
Off-balance sheet exposures					
Financing granted		10 858 874	-	-	-
Guarantees		2 221 700	-	-	-
Nominal value of derivatives - purchased		-	-	-	53 381 852
Allowance for impairment		(16 619)	-	-	-
Off-balance sheet exposures - total		13 063 955	-	-	53 381 852

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

In thousands of PLN

IBNR portfolio

	Loans and advances to customers	
	31.12.2013	31.12.2012
Non-past due	62 015 572	37 236 020
Past-due	3 754 899	1 814 468
1-30 days	3 007 185	1 298 818
31-60 days	488 475	398 948
61-90 days	242 852	105 352
> 90 days	16 387	11 350
Gross amount	65 770 471	39 050 488

In thousands of PLN

Allowances for impairment by classes

Provision cover	Loans and advances to customers		Loans and advances to banks	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Individual allowance for impairment				
up to 50%	(403 020)	(110 543)	-	-
50% - 70%	(329 906)	(197 267)	-	-
70% - 85%	(427 568)	(101 400)	-	-
over 85%	(365 029)	(125 745)	-	-
Total individual allowance for impairment	(1 525 523)	(534 955)	-	-
Collective allowance for impairment				
up to 50%	(176 947)	(83 818)	-	-
50% - 70%	(558 338)	(153 454)	-	-
70% - 85%	(402 763)	(249 742)	-	-
over 85%	(372 976)	(185 351)	-	-
Total collective allowance for impairment	(1 511 024)	(672 365)	-	-
IBNR				
up to 0,10%	(12 688)	(6 195)	-	-
0,10%-0,30%	(25 835)	(15 210)	-	-
0,30%-0,65%	(54 152)	(37 025)	-	-
over 0,65%	(360 503)	(278 457)	-	-
Total IBNR	(453 178)	(336 887)	-	-
Total allowance for impairment	(3 489 725)	(1 544 207)	-	-

Credit risk concentration

Bank Zachodni WBK Group adheres to the standards provided for in the Banking Law with regard to the concentration of risk bearing exposures to a single entity or a group of entities connected in terms of capital or organisation. As at 31.12.2013, pursuant to art. 71 of the Banking Law Act, the maximum limits for the Group amounted to:

PLN 2 911 759 k (25% of Group's own funds).

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

The analysis of the Group's exposures in terms of sector concentrations, carried out at the end of December 2013, proved that the Group does not have any exposures in excess of the limits imposed by the regulator.

In thousands of PLN

A list of the 20 largest borrowers (or capital-related group of borrowers) of Bank Zachodni WBK Group (performing loans) as at 31.12.2013 (including exposures of individual customers towards subsidiaries of BZ WBK).

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure incl. towards subsidiaries	Committed credit lines, guarantees, treasury limits and capital investments
61	TELECOMMUNICATION	1 230 081	1 017 546	212 535
19	RAFINERY	1 106 627	412 182	694 445
06	MINING	1 083 036	73 525	1 009 511
64	FINANCIAL SERVICES	1 030 768	673 155	357 613
35	POWER INDUSTRY	853 792	1 275	852 517
46	WHOLESALE TRADE	835 821	835 811	10
35	POWER INDUSTRY	750 413	299	750 114
68	REAL ESTATE SERVICES	744 981	742 629	2 352
07	MINING	670 257	29 527	640 730
35	POWER INDUSTRY	658 574	7 253	651 321
68	REAL ESTATE SERVICES	537 221	496 311	40 910
68	REAL ESTATE SERVICES	411 437	339 379	72 058
33	MACHINE INDUSTRY	407 062	7 022	400 040
05	TRANSPORT	399 618	359 222	40 396
68	REAL ESTATE SERVICES	398 877	398 877	-
33	MACHINE INDUSTRY	394 445	15 547	378 898
19	RAFINERY	394 302	337 827	56 475
68	REAL ESTATE SERVICES	350 106	296 609	53 497
43	CONSTRUCTION	344 835	257 505	87 330
20	CHEMICAL INDUSTRY	329 000	151 219	177 781
Total gross exposure		12 931 253	6 452 720	6 478 533

A list of the 20 largest borrowers (or capital-related group of borrowers) of Bank Zachodni WBK Group (performing loans) as at 31.12.2012 (including exposures of individual customers towards subsidiaries of BZ WBK).

Industry code (PKD)	Industry description	Total credit exposure	Balance sheet exposure incl. towards subsidiaries	Committed credit lines, guarantees, treasury limits and capital investments
06	MINING	1 069 820	292 292	777 528
35	POWER INDUSTRY	856 560	3 536	853 024
27	MANUFACTURING	800 818	-	800 818
19	RAFINERY	737 274	323 922	413 352
68	REAL ESTATE SERVICES	732 323	730 033	2 290
35	POWER INDUSTRY	600 485	363	600 122
68	REAL ESTATE SERVICES	569 648	507 660	61 988
46	WHOLESALE TRADE	534 007	534 007	-
68	REAL ESTATE SERVICES	473 900	473 900	-
59	MULTIMEDIA	456 112	333 456	122 656
68	REAL ESTATE SERVICES	395 638	293 325	102 313
56	CATERING	372 921	8 693	364 228
07	MINING	357 136	5 154	351 982
41	CONSTRUCTION	339 034	333 214	5 820
68	REAL ESTATE SERVICES	337 971	292 764	45 207
61	TELECOMMUNICATION	272 144	241 647	30 497
46	WHOLESALE TRADE	261 924	234 904	27 020
10	FOOD INDUSTRY	250 630	-	250 630
05	MINING	249 718	182 648	67 070
68	REAL ESTATE SERVICES	240 741	213 661	27 080
Total gross exposure		9 908 804	5 005 179	4 903 625

In thousands of PLN

Industry concentration

The credit policy of Bank Zachodni WBK Group assumes diversification of credit exposures. Risk of particular industry affects value of the exposure limit. In order to ensure adequate portfolio diversification and control the risk of overexposure to a single industry, the Group provides funding to sectors and groups or capital units representing a variety of industries. As at 31.12.2013, the highest concentration level was recorded in the "property" sector (14% of the BZ WBK Group exposure), "distribution" (13%) and "manufacturing" (12%).

Groups of PKD by industries:

Industry	Gross exposure		
	31.12.2013	31.12.2012	
Property	9 653 180	9 146 877	
Distribution	9 239 681	5 825 206	
Manufacturing	8 303 052	5 362 394	
Energy	1 696 123	843 660	
Transportation	1 586 970	821 831	
Agriculture	1 530 505	1 143 513	
Construction	1 260 312	1 142 668	
Financial sector	1 028 732	920 673	
Other industries	3 020 920	2 349 797	
A	Total Business Loans	37 319 475	27 556 619
B	Retail (including mortgage loans)	34 091 605	13 750 387
A+B	BZ WBK Group portfolio	71 411 080	41 307 006
C	Other receivables (commercial bonds, reverse repo)	210 788	104 755
A+B+C	Total BZ WBK Group	71 621 868	41 411 761

Market risk

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

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

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

General principles of market risk management

The key objective of the market risk policy pursued by the Group is to reduce the impact of interest and FX rate changes on the Group's profitability and market value as well as to grow income within the strictly defined risk limits while ensuring the Group's liquidity.

BZ WBK 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.

In thousands of PLN

The market risk on the trading portfolio is managed by the Global Banking and Markets Division, which is also responsible for the ownership supervision over Brokerage House. The Group's trading activity is subject to a system of measures and limits, including Value at Risk, stop loss, position limits and sensitivity limits. These limits are approved by the Risk Management Forum, the bank's Management Board and the Supervisory Board.

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

The market risk of equity instruments held by Dom Maklerski BZ WBK (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 House.

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

Interest rate risk in the banking book

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

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

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

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

The sensitivity measures for 2013 and 2012 are presented in the table below.

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

In thousands of PLN

Due to the merger with Kredyt Bank S.A. and major change of the balance sheet lines these data are not fully comparable with the 2012 data.

In Q4 2012, the NII limit was exceeded as a result of redevelopment of the investment portfolio structure. The excess was reported to the bank's Management Board and Supervisory Board. In 2013, the global NIM and MVE limits for the banking book were not exceeded.

Interest rate risk in the trading book

The trading book contains securities and derivatives held by the Global Banking and Markets Division for trading purposes. The instruments are marked to market each day, and any changes in their value are reflected in the profit and loss.

The key methods of measurement of the interest rate risk in the banking books include the VaR methodology, stop loss, PV01 sensitivity measurement and stress tests.

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

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

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

The table below shows risk measures at the end of 2013 and 2012 for 1-day position holding period.

Interest rate risk	VAR	
	31.12.2013	31.12.2012
1 day holding period		
Average	1 958	2 089
Maximum	4 369	5 261
Minimum	547	165
as at the end of the period	3 741	745
Limit	7 530	7 749

FX risk

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

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

Open positions of subsidiaries (excluding Dom Maklerski BZ WBK -Brokerage House) are negligible and are not included in the daily risk assessment. Brokerage House has been granted an FX VaR limit, used for managing the open positions linked to the market maker activity.

In thousands of PLN

The table below illustrates the risk measures at the end of December 2013 and 2012.

FX risk	VAR		VAR Brokerage House	
	31.12.2013	31.12.2012	31.12.2012	31.12.2012
1 day holding period				
Average	534	613	6	4
Maximum	1 647	1 542	18	9
Minimum	65	142	1	1
as at the end of the period	428	382	9	5
LIMIT	1 506	1 550	104	102

In 2013, the VAR limit has been exceeded. Positions for individual currencies were within established nominal limits, however, have exceeded the VaR limit. The next day, open position (EUR) has been limited and VAR was in the prescribed limit. In 2013, this was the only case of exceeding the VaR limit, which was reported to the appropriate committees appointed by the Management Board and the Supervisory Board.

FX Balance Sheet

Following the legal merger with Kredyt Bank, the bank's balance sheet of 2013 included an increased share of CHF loans, which translated into a bigger CHF gap. The gap, alike the mismatch of assets and liabilities in other currencies, was funded mainly from FX swaps, cross-currency swaps and FX repos.

The tables below present the Group's key FX positions as at 31 December 2013 and in the comparable period.

31.12.2013	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	4 802 069	220 124	14 266	113 227	5 149 686
Loans and advances to banks	555 353	801 483	692 408	163 460	2 212 704
Loans and advances to customers	43 102 575	13 301 418	10 729 128	999 022	68 132 143
Investment securities	20 922 127	1 168 637	-	-	22 090 764
Selected assets	69 382 124	15 491 662	11 435 802	1 275 709	97 585 297
LIABILITIES					
Deposits from banks	3 712 098	164 651	2 360 989	41 059	6 278 797
Deposits from customers	68 051 679	7 152 046	972 603	2 366 654	78 542 982
Subordinated liabilities	74 914	414 525	895 280	-	1 384 719
Selected liabilities	71 838 691	7 731 222	4 228 872	2 407 713	86 206 498

31.12.2012	PLN	EUR	CHF	Other	Total
ASSETS					
Cash and balances with central banks	3 813 867	261 539	6 911	74 957	4 157 274
Loans and advances to banks	177 431	923 101	21 087	336 509	1 458 128
Loans and advances to customers	27 630 869	9 334 513	2 051 604	850 568	39 867 554
Investment securities	11 011 199	704 934	-	-	11 716 133
Selected assets	42 633 366	11 224 087	2 079 602	1 262 034	57 199 089
LIABILITIES					
Deposits from banks	735 899	587 583	2 771	24 797	1 351 050
Deposits from customers	40 622 210	5 106 393	60 863	1 287 628	47 077 094
Subordinated liabilities	-	409 110	-	-	409 110
Selected liabilities	41 358 109	6 103 086	63 634	1 312 425	48 837 254

Equity investment risk

The entity responsible for equity price risk management is Brokerage House. The source of this risk are transactions conducted on Brokerage House own account via stock exchanges and MS CTO (shares, futures).

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

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

In thousands of PLN

The table below presents the risk measures in 2013 and 2012:

Equity risk	VAR Brokerage House	
	31.12.2013	31.12.2012
1 day holding period		
Average	664	697
Maximum	2 135	3 074
Minimum	53	72
as at end of the period	312	138
LIMIT	4 111	4 029

Liquidity risk

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

Liquidity Risk Management

The BZ WBK Group Liquidity Management Policy is designed to:

- ensure the ability to finance assets and satisfy claims, both current and future, in a timely manner and at an economic price;
- manage the maturity mismatch between assets and liabilities;
- set a scale of the liquidity risk in the form of various internal limits;
- ensure proper organization of the liquidity management process within the Group;
- prepare the organization for emergence of adverse factors, either external or internal;
- ensure compliance with regulatory requirements, both qualitative and quantitative.

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

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

Management Process

The responsibility for supervision over the liquidity risk management process rests on the Assets and Liabilities Committee (ALCO), which also provides advice to the Management Board. ALCO prepares management strategies and recommends to the Management Board appropriate actions with regard to strategic liquidity management.

Day-to-day management of liquidity is delegated to the Financial Management Division. The Assets and Liabilities Management Department, which is a part of the Division, is responsible for developing and updating the relevant liquidity management strategies.

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

Risk Measurement and Reporting

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

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

In thousands of PLN

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

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

In thousands of PLN

Contractual gap analysis based on remaining time maturity as at 31.12.2013 and 31.12.2012:

31.12.2013	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	Total
Cash and balances with central banks	5 149 686	-	-	-	-	-	-	5 149 686
Loans and advances to banks	1 292 772	231 224	9 788	678 920	-	-	-	2 212 704
Financial assets held for trading	335 872	171 459	290 267	807 538	321 801	375 759	42 205	2 344 901
Loans and advances to customers	4 688 415	4 936 123	14 234 989	15 239 967	9 428 255	23 094 119	(3 489 725)	68 132 143
Investment securities	5 599 328	32 884	2 744 448	2 836 390	3 045 375	6 958 951	873 388	22 090 764
Other items	-	-	-	-	-	-	6 158 838	6 158 838
Long position	17 066 073	5 371 690	17 279 492	19 562 815	12 795 431	30 428 829	3 584 706	106 089 036
Deposits from banks	3 865 482	31 502	10 509	2 371 304	-	-	-	6 278 797
Financial liabilities held for trading	327 913	111 406	266 981	405 122	118 690	47 050	-	1 277 162
Deposits from customers	53 721 394	9 678 251	12 105 823	988 812	1 389 572	659 130	-	78 542 982
Subordinated liabilities	11	4 341	-	-	337 722	1 042 645	-	1 384 719
Other items	-	-	-	-	-	-	18 605 376	18 605 376
Short position	57 914 800	9 825 500	12 383 313	3 765 238	1 845 984	1 748 825	18 605 376	106 089 036
Gap-balance sheet	(40 848 727)	(4 453 810)	4 896 179	15 797 577	10 949 447	28 680 004	(15 020 670)	
Contingent liabilities- sanctioned								
Financing related	459 347	1 156 908	7 102 033	3 758 346	1 822 408	3 337 163	(43 404)	17 592 801
Guarantees	425 003	446 383	806 752	1 299 337	500 825	396 443	(52 530)	3 822 213
Derivatives settled in gross terms								
Inflows	5 515 514	4 088 062	5 724 707	8 307 758	4 012 287	4 642 178	-	32 290 506
Outflows	5 835 638	4 007 754	5 785 174	8 454 647	4 097 401	4 586 251	-	32 766 865
Gap – off-balance sheet	(1 204 474)	(1 522 983)	(7 969 252)	(5 204 572)	(2 408 347)	(3 677 679)	95 934	

In thousands of PLN

31.12.2012	up to 1 month	from 1 to 3 months	from 3 to 12 months	from 1 to 3 years	from 3 to 5 years	over 5 years	rate insensitive	Total
Cash and balances with central banks	4 157 274	-	-	-	-	-	-	4 157 274
Loans and advances to banks	1 448 023	-	10 101	4	-	-	-	1 458 128
Financial assets held for trading	124 597	67 040	315 953	120 358	97 806	92 260	13 701	831 715
Loans and advances to customers	3 657 446	3 536 697	8 319 223	10 554 442	5 984 488	9 359 465	(1 544 207)	39 867 554
Investment securities	2 099 256	-	2 743 139	1 752 017	3 881 162	572 450	668 109	11 716 133
Other items	-	-	-	-	-	-	1 988 373	1 988 373
Long position	11 486 596	3 603 737	11 388 416	12 426 821	9 963 456	10 024 175	1 125 976	60 019 177
Deposits from banks	1 032 117	234 192	84 741	-	-	-	-	1 351 050
Financial liabilities held for trading	120 729	77 054	160 611	187 156	114 286	68 995	-	728 831
Deposits from customers	29 403 871	6 477 429	9 718 649	408 507	46 009	1 022 629	-	47 077 094
Subordinated liabilities	4 378	-	-	-	-	404 732	-	409 110
Other items	-	-	-	-	-	-	10 453 092	10 453 092
Short position	30 561 095	6 788 675	9 964 001	595 663	160 295	1 496 356	10 453 092	60 019 177
Gap-balance sheet	(19 074 499)	(3 184 938)	1 424 415	11 831 158	9 803 161	8 527 819	(9 327 116)	
Contingent liabilities- sanctioned								
Financing related	160 468	527 386	3 168 368	2 041 461	1 315 048	3 646 092	(15 960)	10 842 863
Guarantees	42 129	111 557	1 117 208	508 840	124 938	317 079	(659)	2 221 092
Derivatives settled in gross terms								
Inflows	3 762 151	2 108 001	2 432 156	5 690 297	3 578 758	1 958 704	-	19 530 067
Outflows	5 242 802	2 607 920	2 912 675	5 687 380	3 690 862	1 943 246	-	22 084 885
Gap – off-balance sheet	(1 683 248)	(1 138 862)	(4 766 095)	(2 547 384)	(1 552 090)	(3 947 713)	16 619	

In thousands of PLN

Liquidity Policy Report - Modified Liquidity Gap:

Liquidity risk	<1W	<1M	>1M
31.12.2013			
Qualifying Liquid Assets	16 914 710	3 015 195	5 129 273
Treasury inflows	5 343 774	2 293 687	36 771 121
Other inflows	1 010 072	432 287	63 567 752
Treasury outflows	(7 916 216)	(2 685 750)	(40 556 292)
Other outflows	(5 601 955)	(2 662 544)	(75 055 114)
GAP	9 750 385	392 875	(10 143 260)
Cumulative GAP	9 750 385	10 143 260	-
31.12.2012			
Qualifying Liquid Assets	11 625 907	22 316	2 557 625
Treasury inflows	1 601 209	4 227 328	10 623 160
Other inflows	2 923 994	436 793	37 197 905
Treasury outflows	(1 238 695)	(4 380 125)	(11 211 499)
Other outflows	(5 246 928)	(276 015)	(48 862 975)
GAP	9 665 487	30 297	(9 695 784)
Cumulative GAP	9 665 487	9 695 784	-

In 2013, as in 2012, BZ WBK Group focused on keeping its loan-to-deposit ratio at a comfortable level (which totalled 86.8% as at 31 December 2013) and controlling key short and long-term liquidity measures. In view of standardisation of the pricing policy upon the merger with Kredyt Bank and due to the record low interest rate environment, the Group focused on the stability of its deposit base as the main funding source of Bank Zachodni WBK.

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

In 2013 and in the comparable period, all key supervisory measures applicable to the Group were maintained at the required levels.

Insurance risk

Bank Zachodni WBK Group became exposed to insurance risk after it acquired control over the two insurance companies: BZ WBK AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. (BZ WBK AVIVA TUO) and BZ WBK AVIVA Towarzystwo Ubezpieczeń na Życie S.A. (BZ WBK AVIVA TUŻ) on 20 December 2013.

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

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

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

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

Managing insurance risk, BZ WBK AVIVA TUO and BZ WBK AVIVA TUŻ mainly focus on increasing their insurance portfolios while using reinsurance to limit the volatility of their risk share. As at 31.12.2013 participation of reinsurance in the technical provision totalled PLN 2 544k.

In 2013, BZ WBK AVIVA Insurance Companies offered property and personal insurance, both in an individual and group models. Insurance products were offered to the customers via bancassurance and direct sales channels.

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.

In thousands of PLN

BZ WBK AVIVA TUO and BZ WBK AVIVA TUŽ are parties to the reinsurance agreements concluded in accordance with their Reinsurance Policy, which is designed to limit the exposure to the insurance risk above the internally set limits.

The insurance risk expressed by the value of claims provisions is presented by the groups of risks defined by the Polish Financial Supervision Authority and in accordance with the division into the individual and group sales model.

Concentration of insurance risk expressed in the provision for claims and benefits

Gross Risk	31.12.2013	share %
Casualty	28 171	61%
Financial	7 498	16%
Accident	5 247	11%
Disease	3 078	7%
Damage to property caused by natural disasters	1 381	3%
Other material damages	756	2%
Civil liability	22	0%
Assistance	131	0%
Gross provisions for compensations and benefits	46 285	100%

Gross risk	31.12.2013	share %
Individual	2 695	6%
group	43 590	94%
Gross provisions for compensations and benefits	46 285	100%

Sensitivity analysis of provisions for damages

Due to the adopted method of calculating IBNR reserves for major risks ("Chain Ladder"), total provisions for compensation and benefits together with the costs of liquidation depend on the reported claims and the delay in the notification of claims.

Sensitivity analysis was carried out simultaneously for all insured risks in the portfolio, by changing the value of claims reported and not paid (RBNP) as at 31.12.2013.

The following table reflects the change in the provision for claims when the size RBNP:

Change in RBNP (%)	Change in damage provisions (%)	Value of damage provisions	Change of the value of damage provisions
-20	-16	38 925	(7 360)
-10	-8	42 603	(3 682)
10	8	49 969	3 684
20	16	53 657	7 372

Analysis of the adequacy of reserves

Insurance companies performed an analysis of the adequacy of reserves, which showed that the technical provisions (net of deferred acquisition costs) as at 31 December 2013 have been established at a level sufficient to cover liabilities arising from insurance contracts issued as of 31 December 2013.

Capital Management

The purpose of Insurance companies is to maintain a constant solvency at the level necessary to enable the dynamic of their development.

In thousands of PLN

To fulfill this, Insurance companies continuously monitor the value of equity in relation to the solvency margin and guarantee capital in accordance with the capital requirements imposed by the regulations in force in Poland (Insurance Act and the Act on accounting together with appropriate regulations).

Under these provisions the Association are required to hold own funds in an amount not less than the margin of solvency and not lower than the guarantee capital , the capital guarantee is equal to the greater of: one-third of the solvency margin and the minimum guarantee capital .

The method of calculation of the solvency margin and the minimum guarantee fund defined in the Regulation of the Minister of Finance, which takes into account the need to ensure the solvency of companies engaged in the business of insurance.

Own resources of the company are the assets of the insurance company, excluding assets :

- intended to cover any foreseeable liabilities,
- intangible assets other than DAC (Deferred Acquisition Cost),
- own shares held by the insurance company,
- deferred tax assets.

Insurance companies when calculating solvency margin and the minimum guarantee capital consider only the statutory requirements.

Insurance companies check equity level and its compliance with the law at the end of each month. Throughout the 2013 all the statutory requirements were met.

The following table shows the amount of own resources of insurance companies (BZ WBK AVIVA General Insurance Company and BZ WBK AVIVA Life Insurance Company SA) and coverage of the solvency margin and guarantee capital as at December 31, 2013.

	31.12.2013
Own resources	126 704
Margin of solvency	51 140
Minimal guarantee capital	30 097
1/3rd of margin of solvency	17 047
Own resources surplus for coverage of margin of solvency	75 564
Guarantee capital	30 097
Own resources surplus for coverage of guarantee capital	96 607

Operational Risk

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

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

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

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

In thousands of PLN

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 2013 were the processes related to 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 2013, operational risk management standards and tools were harmonised to ensure the uniform process across the organisation. BZ WBK Group uses the following tools:

- Identification and assessment of operational risk

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

- Reporting on operational incidents and lessons learned

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

- Analysis of risk indicators

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

- Business continuity management (BCM)

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

- Insurance

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

- Regular reporting to the Risk Management Committee and Supervisory Board

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

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

Legal & compliance risk

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

Risk Identification and Assessment

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

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

In thousands of PLN

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

Risk management and mitigation

The Bank's Management Board adopted a policy statement on compliance with legal and regulatory obligations, which was approved by the Supervisory Board. The policy provides the Compliance Area with the relevant mandate to support senior managers in effective management of compliance risk. The Compliance Area escalates all issues to the Risk Management Committee and Audit and Compliance Committee of the Supervisory Board.

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

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

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

- independent identification, assessment and monitoring of compliance risk the Group is exposed to (with a particular focus on new or modified products and services and the issues connected with inside information, conflict of interest or private account shares dealing by employees);
- providing advice and reporting to the Risk Management Committee, bank's Management Board and Audit and Compliance Committee on the effectiveness of the processes established to ensure compliance with laws and regulations within its area of responsibility;
- providing the management and staff with guidance on compliance risk and adequate risk management policies and procedures;
- centralisation of contacts with market regulators (KNF, UOKiK, GIIF and GIODO).

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

Risk monitoring & reporting

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

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

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

5. Capital management

Introduction

It is the policy of the Bank Zachodni WBK Group to maintain the level of capital adequate to the type and scale of operations and the level of risk. The level of own funds required to ensure safe operations of the bank and capital requirements estimated for the unexpected loss is determined in accordance with applicable Polish Banking Law, the provisions of the Polish Financial Supervision Commission and the regulations and directives of the European Parliament and of the Council of the EU prudential requirements.

In thousands of PLN

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

The Management Board delegated on-going capital management to Capital Committee. Capital Committee conducts regular assessment of capital adequacy of the Bank and the Group, also in extreme conditions, monitors the actual and required capital levels and initiates transactions affecting these levels (e.g. by recommending the value of dividends to be paid).

This body is responsible for tracking the actual and required capital levels and initiates transactions affecting these levels (e.g. by recommending the value of dividends to be paid). The Credit Committee is the first body in the bank to define capital policy and rules for assessment of capital adequacy both for the Bank and the Group. It also approves capital plans and sets out rules underpinning allocation of capital into individual segments when estimating profitability of the same. However, any ultimate decisions regarding increase or decrease of capital are taken by relevant authorities of the bank and subsidiaries in accordance with the applicable law and the Bank's Statutes.

Capital Policy

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

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

The regulatory solvency ratio is 8%.

Regulatory Capital

The capital requirement of BZ WBK Group as at 31.12.2013 was set in accordance with Resolution no. 76/2010 of the Polish Financial Supervision Authority dated March 10, 2010, as amended. BZ WBK adopted the standardised approach to calculate the capital requirement for credit, market and operational risk. The capital requirement for credit risk is the most significant one.

According to the standardised approach, the total capital requirement for credit risk is calculated as the sum of risk weighted exposures multiplied by 8%. The value of assets is equal to the balance sheet total, while the value of off-balance sheet liabilities corresponds to their balance sheet equivalent. In order to calculate the risk weighted assets, the bank used risk weights defined in Appendix 4 to Resolution no. 76/2010 of the Polish Financial Supervision Authority dated 10 March 2010.

The tables below show capital requirement for the Group as of 31 December 2013 and 2012:

	31.12.2013	31.12.2012
I Total Capital requirement	6 693 866	4 028 522
II Own funds after reductions	11 647 036	8 325 742
CAD [II/(I*12.5)]	13.92%	16.53%

Internal Capital

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

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

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

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

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

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

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

In thousands of PLN

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

Subordinated liabilities

Subordinated liabilities include the amount of issued subordinated debt securities with 10-year maturity term, floating interest rate, fully paid by European Bank of Reconstruction and Development on 5th August 2010.

On 13th October 2010 Bank obtained an approval of KNF for the inclusion of the funds raised through the issue of debt securities dated 5th August 2010 into the Group's supplementary funds. Based on the decision of KNF, the funds raised from this issue amounting to EUR 99 000 k have been included in the calculation of the Group's adequacy ratio.

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

Detailed information on subordinated liabilities is presented in Note 33.

6. Net interest income

	01.01.2013	01.01.2012
	-31.12.2013	-31.12.2012
Interest income		
Loans and advances to enterprises	1 727 968	1 502 167
Loans and advances to individuals, of which:	2 079 419	1 213 859
<i>Home mortgage loans</i>	841 385	420 853
Debt securities incl.:	787 373	676 370
<i>Investment portfolio available for sale</i>	743 718	567 980
<i>Trading portfolio</i>	43 655	108 390
Leasing agreements	163 382	172 509
Loans and advances to banks	106 395	90 463
Public sector	20 736	23 315
Reverse repo transactions	15 200	11 611
Interest recorded on hedging IRS	314 730	177 191
Total	5 215 203	3 867 485
Interest expense		
Deposits from individuals	(1 142 253)	(903 127)
Deposits from enterprises	(504 426)	(443 642)
Repo transactions	(105 703)	(84 070)
Public sector	(105 436)	(92 795)
Deposits from banks	(25 929)	(22 020)
Subordinated liabilities	(54 896)	(20 754)
Total	(1 938 643)	(1 566 408)
Net interest income	3 276 560	2 301 077

As at 31.12.2013 net interest income includes interest on impaired loans of PLN 267 134 k (as at 31.12.2012 - PLN 80 969k).

In thousands of PLN

7. Net fee and commission income

	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Fee and commission income		
eBusiness & payments	613 869	440 379
Current accounts and money transfer	310 721	245 383
Foreign exchange commissions	296 676	233 782
Asset management fees	258 363	220 440
Credit commissions	230 066	154 931
Insurance commissions	105 994	108 401
Brokerage commissions	105 422	85 324
Credit cards	88 138	73 537
Off-balance sheet guarantee commissions	36 025	14 751
Finance lease commissions	5 879	5 146
Issue arrangement	11 834	4 932
Distribution fees	15 099	3 766
Other commissions	11 336	5 266
Total	2 089 422	1 596 038
Fee and commission expense		
eBusiness & payments	(158 549)	(93 892)
Distribution fees	(32 424)	(29 256)
Brokerage commissions	(16 088)	(19 186)
Commissions paid to credit agents	(12 734)	(11 916)
Credit cards	(14 706)	(10 014)
Finance lease commissions	(11 863)	(9 155)
Asset management fees and other costs	(7 578)	(7 390)
Other	(56 924)	(30 243)
Total	(310 866)	(211 052)
Net fee and commission income	1 778 556	1 384 986

Included above is fee and commission income on credits, credits cards, off-balance sheet guarantees and finance leases of PLN 360 108 k (31.12.2012: PLN 248 365 k) and fee and commission expenses on credit cards, finance leases and paid to credit agents of PLN (39 303) k (31.12.2012: PLN (31 085) k) other than fees included in determining the effective interest rate, relating to financial assets and liabilities not carried at fair value through profit and loss.

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

8. Dividend income

	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Dividend income		
Dividends from investment portfolio entities	56 597	54 404
Dividends from trading portfolio entities	2 141	1 344
Total	58 738	55 748

In thousands of PLN

9. Net trading income and revaluation

	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Net trading income and revaluation		
Derivative instruments and interbank fx transactions	180 696	147 904
Other FX related income	(3 221)	13 622
Profit on market maker activity	1 845	2 996
Profit on equity instruments	5 706	433
Profit on debt instruments	1 088	(610)
Total	186 114	164 345

Net trading income and revaluation includes the write-back of adjustments of derivatives resulting from counterparty risk in the amount of PLN 817 k for 2013 (of PLN 3 340 k for 2012).

Net trading income and revaluation includes depreciation of adjustment to the valuation of day 1 profit or lost for start forward CIRS transactions in the amount of PLN (533) k, disclosed in consolidated statement of financial position in line of Hedging derivatives. The initial valuation will be subject to linear depreciation for maturity of CIRS.

10. Gains (losses) from other financial securities

	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Gains (losses) from other financial securities		
Profit on sale of debt securities	299 335	174 105
Profit on sale of equity shares	(1 171)	3 106
Total profit (losses) on financial instruments	298 164	177 211
Change in fair value of underlying hedged positions	68 709	60 344
Change in fair value of hedging instruments	(69 279)	(57 503)
Total profit (losses) on hedging and hedged instruments	(570)	2 841
Total	297 594	180 052

11. Other operating income

	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Other operating income		
Income on sale of services	14 823	14 851
Reimbursements of BGF charges	15 732	11 274
Release of provision for legal cases and other assets	13 854	9 542
Recovery of other receivables	857	1 609
Settlements of leasing agreements	2 427	3 072
Insurance indemnity received	846	773
Received compensations, penalties and fines	760	558
Income on sales or liquidation of fixed assets, intangible assets and assets for disposal	5 994	179
Other	18 252	7 814
Total	73 545	49 672

12. Impairment losses on loans and advances

	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Impairment losses on loans and advances		
Collective and individual impairment charge	(890 806)	(538 908)
Incurred but not reported losses charge	174 566	19 263
Recoveries of loans previously written off	3 294	13 272
Off balance sheet credit related items	(16 355)	4 580
Total	(729 301)	(501 793)

In thousands of PLN

13. Employee costs

	01.01.2013	01.01.2012
Employee costs	-31.12.2013	-31.12.2012
Salaries and bonuses	(1 133 340)	(792 309)
Salary related costs	(180 458)	(123 004)
Staff benefits costs	(33 249)	(22 054)
Professional trainings	(18 448)	(16 723)
Retirement fund, holiday provisions and other employee-related costs	(10 010)	966
Total	(1 375 505)	(953 124)

14. General and administrative expenses

	01.01.2013	01.01.2012
General and administrative expenses	-31.12.2013	-31.12.2012
Maintenance and rentals of premises	(383 770)	(226 577)
IT systems costs	(150 908)	(93 537)
Marketing and representation	(125 757)	(77 072)
Bank Guarantee Fund, Polish Financial Supervision Authority and National Depository for Securities	(86 482)	(49 386)
Consulting fees	(133 706)	(45 711)
Postal and telecommunication costs	(55 608)	(39 721)
Car, transport expenses, carriage of cash	(68 698)	(36 950)
Other external services	(69 266)	(35 914)
Sundry taxes	(26 511)	(19 188)
Stationery, cards, cheques	(32 060)	(18 642)
Data transmission	(22 363)	(13 853)
KIR, SWIFT settlements	(20 864)	(12 430)
Security costs	(21 165)	(10 648)
Costs of repairs	(9 140)	(5 018)
Other	(25 810)	(15 341)
Total	(1 232 108)	(699 988)

15. Other operating expenses

	01.01.2013	01.01.2012
Other operating expenses	-31.12.2013	-31.12.2012
Donation paid	(3 711)	(4 634)
Charge of provisions for legal cases and other assets	(12 631)	(2 675)
Costs of purchased services	(2 126)	(1 757)
Paid compensations, penalties and fines	(1 890)	(1 568)
Other membership fees	(1 072)	(824)
Other	(13 714)	(14 684)
Total	(35 144)	(26 142)

In thousands of PLN

16. Corporate income tax

	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Corporate income tax		
Current tax charge	(337 880)	(464 147)
Deferred tax	(162 226)	89 743
Total	(500 106)	(374 404)

	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Corporate total tax charge information		
Profit before tax	2 514 717	1 837 039
Tax rate	19%	19%
Tax calculated at the tax rate	(477 796)	(349 037)
Non-deductible expenses	(13 018)	(9 591)
Sale of receivables	(34 842)	(12 587)
Deferred tax of consolidation adjustments	15 120	-
Non-taxable income (dividends)	10 569	9 744
Non-tax deductible bad debt provisions	(8 359)	(7 567)
Technological relief	4 242	-
Other	3 978	(5 366)
Total income tax expense	(500 106)	(374 404)

	31.12.2013	31.12.2012
Deferred tax recognised directly in equity		
Relating to equity securities available-for-sale	(133 282)	(94 386)
Relating to debt securities available-for-sale	(24 028)	(94 445)
Relating to cash flow hedging activity	(8 956)	(15 784)
Total	(166 266)	(204 615)

17. Earnings per share

	01.01.2013 -31.12.2013	01.01.2012 -31.12.2012
Net earnings per share (PLN/share)		
Profit attributable to ordinary shares	1 982 328	1 433 847
Weighted average number of ordinary shares	93 337 884	73 835 488
Net earnings per share (PLN)	21.24	19.42
Profit attributable to ordinary shares	1 982 328	1 433 847
Weighted average number of ordinary shares	93 337 884	73 835 488
Weighted average number of potential ordinary shares *	303 156	302 683
Diluted earnings per share (PLN)	21.17	19.34

* The weighted average number of potential ordinary shares takes into account the number of share options granted under the incentive scheme described in Note 53.

18. Cash and balances with central banks

	31.12.2013	31.12.2012
Cash and balances with central banks		
Cash	1 766 257	1 084 108
Current accounts in central banks	3 383 429	3 073 166
Total	5 149 686	4 157 274

BZ WBK holds an obligatory reserve on a current account in the National Bank of Poland. The figure is calculated at a fixed percentage of the monthly average balance of the customers' deposits, which in all the covered periods was 3.5%.

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

In thousands of PLN

19. Loans and advances to banks

Loans and advances to banks	31.12.2013	31.12.2012
Loans and advances	1 237 751	916 567
Current accounts	798 153	473 748
Buy-sell-back transaction	176 987	67 813
Gross receivables	2 212 891	1 458 128
Impairment write down	(187)	-
Total	2 212 704	1 458 128

Fair value of loans and advances to banks is presented in Note 41.

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	31.12.2013		31.12.2012	
	Assets	Liabilities	Assets	Liabilities
Trading derivatives	1 021 658	1 022 029	641 051	711 669
Interest rate operations	632 186	632 007	365 874	371 136
Options	4 323	4 328	564	564
IRS	614 203	617 986	356 991	358 516
FRA	13 660	9 693	8 319	12 056
Transactions on equity instruments	2 819	717	-	-
Options	2 819	717	-	-
FX operations	386 653	389 305	275 177	340 533
CIRS	95 304	147 521	75 561	152 711
Forward	28 994	49 144	27 050	22 343
FX Swap	202 087	130 025	142 466	135 140
Spot	792	1 037	901	1 140
Options	59 476	61 578	29 199	29 199
Debt and equity securities	1 323 243	-	190 664	-
Debt securities	1 290 131	-	176 963	-
Government securities:	1 060 064	-	175 487	-
- bonds	1 060 064	-	175 487	-
Central Bank securities:	199 972	-	-	-
- bills	199 972	-	-	-
Other securities:	30 095	-	1 476	-
- bonds	30 095	-	1 476	-
Equity securities:	33 112	-	13 701	-
- listed	33 112	-	13 701	-
Short sale	-	255 133	-	17 162
Total financial assets/liabilities	2 344 901	1 277 162	831 715	728 831

Financial assets and liabilities held for trading - trading derivatives include value adjustments resulting from counterparty risk in the amount of PLN (1 668) k as at 31.12.2013, PLN (2 298) k as at 31.12.2012.

As at 31.12.2013 financial assets and liabilities held for trading include value adjustments day first profit or loss for transactions between Bank Zachodni WBK and Aviva Group in the amount of (22 810) k.

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

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

In thousands of PLN

All financial assets measured at fair value through profit and loss are assigned to this category due to the trading character of the transactions. At 31.12.2013 and in comparable period there were no cases of instruments designated to financial assets measured at fair value through profit and loss at initial recognition.

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

Derivatives' nominal values		31.12.2013	31.12.2012
1. Term derivatives (hedging)		29 792 094	14 675 607
a)	Single-currency interest rate swaps	2 665 000	1 085 000
b)	Macro cash flow hedge -purchased (IRS)	3 229 513	2 213 144
c)	Macro cash flow hedge -purchased (CIRS)	11 847 013	5 585 823
d)	Macro cash flow hedge -sold (CIRS)	12 050 568	5 791 640
2. Term derivatives (trading)		128 271 971	69 595 853
a)	Interest rate operations	81 693 883	35 333 886
	Single-currency interest rate swaps	57 441 526	27 982 342
	FRA - purchased amounts	23 350 000	6 850 000
	Options	902 357	501 544
b)	FX operations	46 578 088	34 261 967
	FX swap – purchased amounts	10 710 489	8 020 505
	FX swap – sold amounts	10 623 485	8 008 784
	Forward- purchased amounts	2 546 613	1 483 082
	Forward- sold amounts	2 585 261	1 482 429
	Cross-currency interest rate swaps – purchased amounts	5 412 520	4 965 537
	Cross-currency interest rate swaps – sold amounts	5 482 036	5 033 742
	FX options -purchased CALL	2 272 212	1 250 855
	FX options -purchased PUT	2 336 630	1 383 089
	FX options -sold CALL	2 272 212	1 250 855
	FX options -sold PUT	2 336 630	1 383 089
3. Currency transactions- spot		2 076 924	1 889 992
	Spot-purchased	1 038 347	944 898
	Spot-sold	1 038 577	945 094
4. Transactions on equity financial instruments		302 358	11 300
	Futures - purchased	11 275	-
	Futures - sold	291 083	11 300
Total		160 443 347	86 172 752

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

21. Hedging derivatives

Hedging derivatives	31.12.2013		31.12.2012	
	Assets	Liabilities	Assets	Liabilities
IRS hedging fair value	21 566	25 079	-	59 912
IRS hedging cash flow	300 390	342 445	253 553	262 038
Total hedging derivatives	321 956	367 524	253 553	321 950

As at 31.12.2013 Hedging derivatives - IRS hedging cash flow include value adjustments day first profit or loss for start forward CIRS transactions in the amount of PLN (10 082) k.

As at 31.12.2013, Net trading income and revaluation includes amortisation of adjustment to the valuation of day 1 profit or lost for start forward CIRS transactions in the amount of PLN (533) k.

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

In thousands of PLN

22. Loans and advances to customers

Loans and advances to customers	31.12.2013	31.12.2012
Loans and advances to enterprises	34 252 562	25 280 604
Loans and advances to individuals, of which:	34 041 366	13 708 551
<i>Home mortgage loans</i>	25 294 769	8 080 532
Finance lease receivables	3 052 093	2 289 852
Loans and advances to public sector	225 766	105 366
Buy-sell-back transaction	40 718	15 234
Other	9 363	12 154
Gross receivables	71 621 868	41 411 761
Impairment write down	(3 489 725)	(1 544 207)
Total	68 132 143	39 867 554

As at 31.12.2013 the fair value adjustment due to hedged risk on individual loans was PLN 2 279 k (as at 31.12.2012: PLN 0).

Finance lease receivables are presented in Note 44. Fair value of loans and advances to customers is presented in Note 41.

Movements on impairment losses on loans and advances to customers	31.12.2013	31.12.2012
Individual and collective impairment		
As at the beginning of the period	(1 207 321)	(1 069 296)
Individual and collective impairment acquired in a business combination	(1 667 026)	-
Charge/write back of current period	(890 806)	(538 908)
Write off/Sale of receivables	708 113	381 667
Transfer	14 194	16 215
F/X differences	6 297	3 001
Balance at the end of the period	(3 036 549)	(1 207 321)
IBNR		
As at the beginning of the period	(336 886)	(345 949)
IBNR acquired in a business combination	(198 306)	-
Charge/write back of current period	174 754	19 263
Transfer	(89 862)	(13 018)
F/X differences	(2 876)	2 818
Balance at the end of the period	(453 176)	(336 886)
Impairment write down	(3 489 725)	(1 544 207)

23. Investment securities available for sale

Investment securities available for sale	31.12.2013	31.12.2012
Available for sale investments - measured at fair value		
Debt securities	21 217 376	11 048 024
Government securities:	13 245 914	7 711 424
- bonds	13 245 914	7 711 424
Central Bank securities:	5 599 222	2 099 256
- bills	5 599 222	2 099 256
Commercial securities:	2 372 240	1 237 344
-bonds	2 372 240	1 237 344
Equity securities	851 603	627 180
- listed	35 980	13 441
- unlisted	815 623	613 739
Investment certificates	21 785	40 929
Total	22 090 764	11 716 133

In thousands of PLN

As at 31.12.2013 fixed interest rate debt securities measured at fair value amount to PLN 18 962 241 k, variable interest rate securities amount to PLN 2 254 955 k.

As at 31.12.2012 fixed interest rate debt securities measured at fair value amount to PLN 9 838 570 k, variable interest rate securities amount to PLN 1 209 454 k.

As at 31.12.2013 fair value adjustment resulting from fair value hedge on available for sale bonds totaled PLN (9 151) k (as at 31.12.2012 PLN 62 554 k).

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

Fair value of the investments into the companies from the Aviva Polska Group is reviewed for all three investments. Valuation was conducted using the peer comparison method as well as discounted cash flow analysis. As at 31.12.2013, current review of fair value of the portfolio resulted in a positive upward movement in total amount of PLN 200 950 k. The review included the impact of the final approval of amendments to the Act on Open pension funds and its influence on of PTE Aviva BZ WBK S.A.

Fair value of „Investment securities available for sale” is presented in Note 41.

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2013	11 048 024	668 109	11 716 133
Investment securities available for sale acquired in a business combination	7 701 195	3 426	7 704 621
Additions	219 046 087	1 000	219 047 087
Disposals (sale and maturity)	(216 231 933)	(17 246)	(216 249 179)
Fair value adjustment	(442 321)	206 015	(236 306)
Movements on interest accrued	(65 202)	-	(65 202)
Allowances for impairment	-	(2 468)	(2 468)
F/X differences	13 509	-	13 509
Transfer	148 017	14 552	162 569
As at 31 December 2013	21 217 376	873 388	22 090 764

Movements on investment securities available for sale	Debt securities	Financial instruments representing equity rights	Total
As at 1 January 2012	10 971 561	680 634	11 652 195
Additions	41 537 666	9 323	41 546 989
Disposals (sale and maturity)	(41 659 215)	(21 439)	(41 680 654)
Fair value adjustment	448 057	987	449 044
Movements on interest accrued	(226 281)	-	(226 281)
Allowances for impairment	-	(1 386)	(1 386)
F/X differences	(23 764)	(10)	(23 774)
As at 31 December 2012	11 048 024	668 109	11 716 133

In thousands of PLN

24. Financial assets held to maturity

Movements on financial assets held to maturity	31.12.2013	31.12.2012
Balance as at 1 January	-	-
Financial asset held to maturity acquired in a business combination	2 518 251	-
Maturity	(2 467 838)	-
Fair value amortisation	379	-
Movements on interest accrued	(51 318)	-
F/X differences	526	-
As at end of reporting period	-	-

25. Investments in associates and joint ventures

Investments in associates and joint ventures	31.12.2013	31.12.2012
Associates	63 444	61 647
Joint ventures	-	54 038
Total	63 444	115 685

Movements on investments in associates and joint ventures	31.12.2013	31.12.2012
Balance as at 1 January	115 685	104 512
Share of profits/(losses)	16 297	19 746
Sale/acquisition	-	(4 541)
Dividends	(5 050)	(4 032)
Other *	(63 488)	-
Balance at the end of the period	63 444	115 685

* As at 31.12.2013 BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A. were subsidiaries.

Fair value of "Investment in associates and joint ventures" is presented in Note 41.

Details of sale/acquisition of associates and joint ventures are disclosed in Note 48.

In thousands of PLN

Investments in associates and joint ventures as at 31.12.2013

Name of entity	POLFUND - Fundusz Poręczeń			Total
	Kredytowych S.A.*	Metrohouse S.A.*	Krynicki Recykling S.A.**	
Registered office	Szczecin	Warszawa	Olsztyn	
Type of connection	Associate	Associate	Associate	
% of holding***	50.00	21.23	22.32	
Balance sheet value	42 602	4 167	16 675	63 444
Total assets	93 102	5 187	156 998	255 287
Own funds of entity, of which:	85 204	1 610	53 627	140 441
Share capital	16 000	1 083	1 637	18 720
Other own funds, of which:	69 204	527	51 990	121 721
from previous years	-	(1 600)	10 625	9 025
net profit (loss)	2 819	(722)	3 420	5 517
Liabilities of entity	7 898	3 577	103 371	114 846
Revenue	8 473	20 809	35 457	64 739
Costs	4 989	21 531	31 396	57 916

*selected financial information as at end of November 2013

**selected financial information as at end of September 2013

***states percentage share of associates

As at 31.12.2013 BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A. were subsidiaries.

Name of entity	Business
POLFUND - Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management
Metrohouse S.A.	selling and purchasing real estate, mediating in the real property trade, serving financial consultancy
Krynicki Recykling S.A.	waste management

In thousands of PLN

Investments in associates and joint ventures as at 31.12.2012

Name of entity	POLFUND - Fundusz Poręczeń Kredytowych S.A.*	BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.*	BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.*	Metrohouse & Partnerzy S.A.*	Krynicki Recykling S.A.**	Total
Registered office	Szczecin	Poznań	Poznań	Warszawa	Olsztyn	
Type of connection	Associate	Joint venture	Joint venture	Associate	Associate	
% of holding***	50.00	50.00	50.00	21.23	24.54	
Balance sheet value	41 733	27 502	26 536	4 506	15 408	115 685
Total assets	89 088	1 012 477	273 876	5 187	113 957	1 494 585
Own funds of entity, of which:	83 466	53 047	51 183	1 610	43 604	232 910
Share capital	16 000	24 250	27 000	1 083	1 488	69 821
Other own funds, of which:	67 466	28 797	24 183	527	42 116	163 089
<i>from previous years</i>	2 389	-	-	(1 600)	-	789
<i>net profit (loss)</i>	3 697	12 943	14 165	(722)	3 204	33 287
Liabilities of entity	5 622	959 430	222 693	3 577	70 353	1 261 675
Revenue	10 316	594 262	103 242	20 809	24 211	752 840
Costs	5 895	578 116	85 689	21 531	20 534	711 765

*selected financial information as at end of November 2012

**selected financial information as at end of September 2012

***states percentage share of associates or joint venture profits

Name of entity	Business
POLFUND - Fundusz Poręczeń Kredytowych S.A.	providing lending guarantees, investing and managing funds invested in companies, management
BZ WBK Aviva Towarzystwo Ubezpieczeń na Życie S.A.	life insurance
BZ WBK Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	property and personal insurance
Metrohouse & Partnerzy S.A.	selling and purchasing real estate, mediating in the real property trade, serving financial consultancy
Krynicki Recykling S.A.	waste management

In thousands of PLN

26. Intangible assets

Intangible assets Year 2013	Licences, patents etc.	Other	Expenditure on intangible assets	Total
Gross value - beginning of the period	759 305	6 019	42 634	807 958
Intangible assets acquired in a business combination	309 849	361 248	6 772	677 869
Additions from:				
- purchases	-	-	94 834	94 834
- intangible assets taken for use	42 712	5	-	42 717
- transfers	28 370	-	418	28 788
Disposals from:				
- liquidation	(8 524)	-	(104)	(8 628)
- intangible assets taken for use	-	-	(42 717)	(42 717)
- transfers	(7 781)	(229)	(851)	(8 861)
Gross value - end of the period	1 123 931	367 043	100 986	1 591 960
Accumulated depreciation - beginning of the period	(674 601)	(6 019)	-	(680 620)
Accumulated depreciation acquired in a business combinations	(290 042)	-	-	(290 042)
Additions/disposals from:				
- current year	(64 904)	(46 445)	-	(111 349)
- liquidation	8 562	-	-	8 562
- transfers	(12 080)	-	-	(12 080)
Write down/Reversal of impairment write down	361	-	-	361
Accumulated depreciation- end of the period	(1 032 704)	(52 464)	-	(1 085 168)
Balance sheet value				
Purchase value	1 123 931	367 043	100 986	1 591 960
Accumulated depreciation	(1 032 704)	(52 464)	-	(1 085 168)
As at 31 December 2013	91 227	314 579	100 986	506 792

In thousands of PLN

Intangible assets Year 2012	Licences, patents etc.	Other	Expenditure on intangible assets	Total
Gross value - beginning of the period	702 328	6 019	78 089	786 436
Additions from:				
- purchases	-	-	42 717	42 717
- intangible assets taken for use	78 013	-	-	78 013
- transfers	2	-	4	6
Disposals from:				
- liquidation	(551)	-	(26)	(577)
- intangible assets taken for use	-	-	(78 013)	(78 013)
- transfers	(20 487)	-	(137)	(20 624)
Gross value - end of the period	759 305	6 019	42 634	807 958
Accumulated depreciation - beginning of the period	(629 251)	(6 019)	-	(635 270)
Additions/disposals from:				
- current year	(51 291)	-	-	(51 291)
- liquidation	380	-	-	380
- transfers	5 561	-	-	5 561
Write down/Reversal of impairment write down	-	-	-	-
Accumulated depreciation- end of the period	(674 601)	(6 019)	-	(680 620)
Balance sheet value				
Purchase value	759 305	6 019	42 634	807 958
Accumulated depreciation	(674 601)	(6 019)	-	(680 620)
As at 31 December 2012	84 704	-	42 634	127 338

In thousands of PLN

27. Property, plant and equipment

Property, plant & equipment Year 2013	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value - beginning of the period	649 413	450 661	60 599	185 375	28 481	1 374 529
Property, plant and equipment acquired in a business combination	382 007	284 146	1 533	108 604	9 087	785 377
Additions from:						
- purchases	-	-	-	-	78 975	78 975
- leasing	-	-	3 295	-	-	3 295
- fixed assets taken for use	4 551	35 574	588	14 553	-	55 266
- transfers	111	2 004	1 367	1 963	139	5 584
Disposals from:						
- sale, liquidation, donation	(20 959)	(18 783)	(2 151)	(12 360)	(2 339)	(56 592)
- fixed assets taken for use	-	-	-	-	(55 266)	(55 266)
- transfers	(12 708)	(23 704)	(8 517)	(697)	(832)	(46 458)
Gross value - end of the period	1 002 415	729 898	56 714	297 438	58 245	2 144 710
Accumulated depreciation - beginning of the period	(367 355)	(349 827)	(15 925)	(161 611)	-	(894 718)
Accumulated depreciation acquired in a business combinations	(237 573)	(249 011)	(440)	(91 240)	-	(578 264)
Additions/disposals from:						
- current year	(35 700)	(48 222)	(9 185)	(14 716)	-	(107 823)
- sale, liquidation, donation	17 439	18 682	1 352	11 808	-	49 281
- transfers	2 180	12 878	5 247	(849)	-	19 456
Accumulated depreciation- end of the period	(621 009)	(615 500)	(18 951)	(256 608)	-	(1 512 068)
Balance sheet value						
Purchase value	1 002 415	729 898	56 714	297 438	58 245	2 144 710
Accumulated depreciation	(621 009)	(615 500)	(18 951)	(256 608)	-	(1 512 068)
As at 31 December 2013	381 406	114 398	37 763	40 830	58 245	632 642

In thousands of PLN

Property, plant & equipment Year 2012	Land and buildings	Equipment	Transportation means	Other fixed assets	Capital expenditures	Total
Gross value - beginning of the period	652 931	270 608	67 057	335 722	22 312	1 348 630
Additions from:						
- purchases	-	-	-	-	39 919	39 919
- leasing	-	-	23 301	-	-	23 301
- fixed assets taken for use	1 162	23 412	242	8 775	-	33 591
- transfers	-	173 522	536	-	97	174 155
Disposals from:						
- sale, liquidation, donation	(4 680)	(16 857)	(3 278)	(6 226)	(216)	(31 257)
- fixed assets taken for use	-	-	-	-	(33 590)	(33 590)
- transfers	-	(24)	(27 259)	(152 896)	(41)	(180 220)
Gross value - end of the period	649 413	450 661	60 599	185 375	28 481	1 374 529
Accumulated depreciation - beginning of the period	(344 977)	(222 601)	(27 019)	(254 240)	-	(848 837)
Additions/disposals from:						
- current year	(25 235)	(39 173)	(9 731)	(12 510)	-	(86 649)
- sale, liquidation, donation	2 878	16 670	2 562	5 983	-	28 093
- transfers	(21)	(104 723)	18 263	99 156	-	12 675
Accumulated depreciation - end of the period	(367 355)	(349 827)	(15 925)	(161 611)	-	(894 718)
Balance sheet value						
Purchase value	649 413	450 661	60 599	185 375	28 481	1 374 529
Accumulated depreciation	(367 355)	(349 827)	(15 925)	(161 611)	-	(894 718)
As at 31 December 2012	282 058	100 834	44 674	23 764	28 481	479 811

In thousands of PLN

28. Net deferred tax assets

Deferred tax asset	31.12.2013	31.12.2012
Provisions for loans	492 703	168 286
Unrealized liabilities due to derivatives	271 334	214 291
Other provisions which are not yet taxable costs	101 921	56 085
Deferred income	154 024	96 420
Difference between balance sheet and taxable value of leasing portfolio	90 818	69 001
Unrealized interest on credits, loans and securities	46 043	115 773
Revaluation of financial instruments available for sale-cash flow hedges	152	-
Depreciation, amortisation - effects of a change in estimate	-	14 771
Other	6 240	2 882
Total	1 163 235	737 509

Deferred tax liability	31.12.2013	31.12.2012
Revaluation of financial instruments available for sale*	(158 831)	(188 832)
Unrealised receivables on derivatives	(242 969)	(170 315)
Unrealised interests from loans, securities and interbank deposits	(148 992)	(85 780)
Provision due to application of investment relief	(3 402)	(3 088)
Unrealised FX translation differences from b/s valuation of receivables and liabilities	(3 163)	(3 437)
Difference between balance sheet and taxable value of unfinancial value assets	(1 627)	-
Cash flow hedges valuation*	(7 498)	(15 784)
Valuation of investments in subsidiaries	(106 961)	-
Other	(13 362)	(12 236)
Total	(686 805)	(479 472)

Net deferred tax assets	476 430	258 037
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*Changes in deferred tax liabilities arising of cash flow revaluation were recognised in the consolidated statement of comprehensive income.

As at 31 December 2013 the calculation of deferred tax assets did not include purchased receivables of PLN 16 614 k and loans that will not be realised of PLN 105 361 k.

As at 31 December 2012 the calculation of deferred tax assets did not include purchased receivables of PLN 14 728 k and loans that will not be realised of PLN 56 485 k.

Movements on net deferred tax	31.12.2013	31.12.2012
As at the beginning of the period	258 037	245 019
Changes on net deferred tax in a business combination	342 272	-
Changes recognised in income statement	(162 226)	89 743
Changes recognised in other net comprehensive income	38 347	(76 725)
Balance at the end of the period	476 430	258 037

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

29. Assets classified as held for sale

As at 31.12.2013 "Assets classified as held for sale" included property in the amount of PLN 3 503 k.

On 31.12.2012 the Group reclassified assets held for sale of PLN 74 764 k to other assets - repossessed assets. It was a result of not meeting requirements described in IFRS 5.

In thousands of PLN

30. Other assets

Other assets	31.12.2013	31.12.2012
Receivables arising from insurance contracts**	770 048	-
Interbank and interbranch settlements	260 445	76 800
Sundry debtors	387 184	512 439
Prepayments	71 446	44 994
Repossessed assets*	60 965	74 764
Settlements of stock exchange transactions	30 989	44 287
Other	16 503	665
Total	1 597 580	753 949

* On 31.12.2012 the Group reclassified assets held for sale of PLN 74 764 k to other assets - repossessed assets. It was a result of not meeting requirements described in IFRS 5.

** As a result of the controlling stake at over the companies BZ WBK AVIVA TUO S.A. and BZ WBK AVIVA TUŻ S.A. the Group recognized receivables arising from insurance contracts.

31. Deposits from banks

Deposits from banks	31.12.2013	31.12.2012
Repo/sell-buy-back transactions	4 438 563	668 150
Term deposits, other	1 379 631	331 073
Loans from other banks	-	59 388
Current accounts	460 603	292 439
Total	6 278 797	1 351 050

As at 31.12.2013 fair value adjustment for hedged deposit totaled PLN nil (as at 31.12.2012 – PLN nil).

Fair value of “Deposits from banks” is presented in Note 41.

32. Deposits from customers

Deposits from customers	31.12.2013	31.12.2012
Deposits from individuals	47 999 116	28 636 346
Term deposits	22 345 562	15 991 323
Current accounts	25 590 954	12 605 499
Other	62 600	39 524
Deposits from enterprises	27 045 417	16 538 707
Term deposits	13 344 322	9 224 568
Current accounts	10 813 018	5 618 926
Sell-buy-back transactions	166 973	205 033
Loans	2 256 907	1 186 187
Other	464 197	303 993
Deposits from public sector	3 498 449	1 902 041
Term deposits	1 152 427	648 281
Current accounts	2 333 530	1 251 996
Other	12 492	1 764
Total	78 542 982	47 077 094

As at 31.12.2013 deposits held as collateral totaled PLN 343 645 k (as at 31.12.2012 - PLN 244 389 k).

Fair value of “Deposits from customers” is presented in note 41.

In thousands of PLN

33. Subordinated liabilities

Subordinated liabilities	Redemption date	Currency	Nominal value
Tranche 1	05.08.2020	EUR	100 000
Tranche 2	16.06.2018	CHF	100 000
Tranche 3	29.06.2019	CHF	165 000
Tranche 4	31.01.2019	PLN	75 000

Movements in Subordinated Liabilities	31.12.2013	31.12.2012
As at the beginning of the period	409 110	441 234
Subordinated liabilities acquired in a business combination	978 237	-
Increase (due to):	54 896	20 754
- interest on subordinated loan	54 896	20 754
Decrease (due to):	(57 524)	(52 878)
- interest repayment	(54 481)	(19 560)
- FX differences	(3 043)	(33 318)
as at the end of the period	1 384 719	409 110
Short-term	4 352	4 378
Long-term (over 1 year)	1 380 367	404 732

Other details on these liabilities are disclosed in Note 5.

34. Debt securities in issue

Debt securities in issue	Nominal value	Currency	Redemption date	31.12.2013
Tranche 1	500 000	PLN	19.12.2016	
Debt securities in issue - as at the end of the period				500 645

Bank Zachodni WBK S.A. issued bonds in the amount of PLN 500,000,000 (five hundred million PLN) under the Programme of Own Debt Securities Issue. The bonds were issued in a non-public offer, in one series, as unsecured bearer bonds denominated in PLN, with a 3-year maturity following their issuance (19 December 2016), with a variable interest rate (based on 6M WIBOR plus 1.2% margin p.a.) and a half-year interest period. The bonds issued have a Fitch rating of A+(pol).

In thousands of PLN

35. Other liabilities

Other liabilities	31.12.2013	31.12.2012
Settlements of stock exchange transactions	32 381	63 490
Interbank and interbranch settlements	250 941	217 711
Provisions:	1 555 371	226 696
<i>Employee provisions</i>	293 962	190 865
<i>Provisions for legal claims</i>	45 104	15 912
<i>Provisions for off balance sheet credit facilities</i>	95 934	16 619
<i>Insurance technical provisions*</i>	1 117 071	-
<i>Other</i>	3 300	3 300
Sundry creditors	248 564	250 671
Other deferred and suspended income	109 395	106 727
Public and law settlements	43 081	43 711
Accrued liabilities	161 646	67 121
Finance lease related settlements	37 158	21 650
Deposits from insurance contracts and other*	30 456	735
Share purchase mandate *	684 288	-
Total	3 153 281	998 512

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

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

Employee related provisions and accruals consists of items outlined in Note 52.

In thousands of PLN

Change in provisions	31.12.2013	31.12.2012
As at the beginning of the period	226 696	252 387
Employee provisions	190 865	206 274
Provisions for legal claims	15 912	17 590
Provisions for off balance sheet credit facilities	16 619	21 223
Other	3 300	7 300
Provision acquired in a business combination	1 304 489	-
Employee provisions	95 282	-
Provisions for legal claims	28 961	-
Provisions for off balance sheet credit facilities	63 175	-
Insurance technical provisions	1 117 071	-
Other	-	-
Provision charge	545 803	226 677
Employee provisions	280 953	183 058
Provisions for legal claims	2 449	711
Provisions for off balance sheet credit facilities	262 401	42 908
Other	-	-
Utilization	(255 718)	(185 847)
Employee provisions	(255 042)	(184 201)
Provisions for legal claims	(460)	(1 622)
Provisions for off balance sheet credit facilities	(216)	(24)
Other	-	-
Write back	(258 745)	(66 521)
Employee provisions	(10 942)	(14 266)
Provisions for legal claims	(1 758)	(767)
Provisions for off balance sheet credit facilities	(246 045)	(47 488)
Other	-	(4 000)
Other changes	(7 154)	-
Employee provisions	(7 154)	-
Provisions for legal claims	-	-
Provisions for off balance sheet credit facilities	-	-
Other	-	-
Balance at the end of the period	1 555 371	226 696
Employee provisions	293 962	190 865
Provisions for legal claims	45 104	15 912
Provisions for off balance sheet credit facilities	95 934	16 619
Insurance technical provisions	1 117 071	-
Other	3 300	3 300

In thousands of PLN

36. Share capital

31.12.2013

Series/ issue	Type of share	Type of preferences	Limitation of rights to shares	Number of shares	Nominal value of series/issue in PLN k
A	bearer	none	none	5 120 000	51 200
B	bearer	none	none	724 073	7 241
C	bearer	none	none	22 155 927	221 559
D	bearer	none	none	1 470 589	14 706
E	bearer	none	none	980 393	9 804
F	bearer	none	none	2 500 000	25 000
G	bearer	none	none	40 009 302	400 093
H	bearer	none	none	115 729	1 157
I	bearer	none	none	1 561 618	15 616
J	bearer	none	none	18 907 458	189 075
				93 545 089	935 451

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

The shareholder having a minimum 5% of the total number of votes at the BZWBK Annual General Meeting of Shareholders was Banco Santander S.A. The company's interest in the share capital and the voting power of Bank Zachodni WBK is 70.00%. The remaining shares are in free float.

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

- Until 4 January 2013 i.e. the date of the merger Banco Santander 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 PLBZ0000044 was conditional on the decision of the company operating the regulated market to introduce these shares to trading on the regulated market.

Furthermore, based on this resolution of the KDPW, the reference date was set at 9 January 2013. The information memorandum prepared by the Bank in connection with the merger defines the reference date as the date at which the number of shares in Kredyt Bank held by shareholders of Kredyt Bank will be determined in exchange for which the series J shares in the Bank will be allotted to such shareholders in accordance with an agreed exchange ratio.

- On 24 January 2013 the Management Board of Bank Zachodni WBK 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: PLBZ0000044 in compliance with resolution No. 24/13 of the Management Board of the KDPW dated 8 January 2013.

In thousands of PLN

- On 22 March 2013, KBC Bank NV and Banco Santander S.A. 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 S.A. The final price per share was set in a book-building process at PLN 245. The total value of the offering was PLN 4.9bn.
- 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 S.A. and reduction of the latter's share in the bank's registered capital and votes at its General Meeting by 5.19 p.p. to 70%.
- On 2 April 2013, Bank Zachodni WBK was notified by the open-ended pension fund ING OFE that it had purchased the Bank's shares and consequently exceeded 5% of the total number of votes at the bank's General Meeting. Before the transaction, ING OFE held 903,006 of the Bank's shares carrying 0.97% votes at the General Meeting. ING OFE held 4,966,506 of the bank's shares, representing 5.31% of the share capital and voting power at the General Meeting of Bank Zachodni WBK.
- Bank Zachodni WBK S.A. hereby informs that on 31 July ING Otwarty Fundusz Emerytalny the notification on Company's shares sale and on the percentage share in the total number of votes, i.e. notification that Fund's stake in the share capital of the Company and in the total number of votes at the general meeting decreased below the threshold of 5%.

31.12.2012

Series/ issue	Type of share	Type of preferences	Limitation of rights to shares	Number of shares	#N/D!
A	bearer	none	none	5 120 000	51 200
B	bearer	none	none	724 073	7 241
C	bearer	none	none	22 155 927	221 559
D	bearer	none	none	1 470 589	14 706
E	bearer	none	none	980 393	9 804
F	bearer	none	none	2 500 000	25 000
G	bearer	none	none	40 009 302	400 093
H	bearer	none	none	115 729	1 157
I	bearer	none	none	1 561 618	15 616
				74 637 631	746 376

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

The shareholder having a minimum 5% of the total number of votes at the BZWBK Annual General Meeting of Shareholders was Banco Santander S.A. The company's interest in the share capital and the voting power of Bank Zachodni WBK is 94.23%. The remaining shares were in free float.

In thousands of PLN

37. Other reserve funds

Other reserve funds	31.12.2013	31.12.2012
General banking risk fund	649 810	649 810
Share premium	4 932 848	578 082
Other reserves of which:	4 533 087	4 476 788
<i>Reserve capital</i>	4 882 773	4 236 966
<i>Supplementary capital</i>	334 602	239 822
<i>Share purchase mandate adjustment *</i>	(684 288)	-
Total	10 115 745	5 704 680

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

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

Reserve capital as at 31.12.2013 includes share scheme charge of PLN 78 936 k and reserve capital as at 31.12.2012 includes share scheme charge of PLN 58 648 k.

Other movements of other reserve funds are presented in "movements on consolidated equity" for 2013 and 2012.

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

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

38. Revaluation reserve

Revaluation reserve	31.12.2013	31.12.2012
As at 31 December	872 400	545 318
Change in available for sale investments	133 487	560 432
Gross valuation related to cash flow hedge	(43 612)	18 955
Actuarial gains on retirement allowances	7 673	-
Decrease in revaluation reserve related to sale of investments	(299 390)	(175 581)
Deferred tax adjustment	38 349	(76 724)
Total	708 907	872 400

39. Hedge accounting

The Group applies hedge accounting in line with the risk management assumptions described in note 4 of the annual consolidated financial statements.

Fair value hedge

Hedging transactions are arranged using interest rate swaps. Their purpose is to mitigate the risk of fair value in hedged instruments stemming from changes in market interest rates. These transactions are not designed to hedge against the effects of fair value changes due to credit risk. BZ WBK Group applies fair value hedge accounting (in current and in comparable period), in relation to the following classes of financial instruments:

- Fixed rate debt securities denominated in PLN, forming a group of assets covered with an interest rate hedge,
- PLN loans.

In thousands of PLN

The hedging items are measured at fair value. Hedged items are measured at amortised cost including fair value adjustment due to hedged risk.

The tables below contain details about individual groups of hedge transactions for 2013 and 2012:

31.12. 2013	Bonds	Loans
Nominal value of hedging position in PLN k	1 515 000	1 150 000
Fair value adjustment of hedging instrument in PLN k	10 867	(2 842)
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	(9 053)	2 279
Hedged risk	Interest rate risk	
Period over which the instruments have an impact on the bank's results	up to 2023	up to 2018

31.12. 2012	Bonds
Nominal value of hedging position in PLN k	1 085 000
Fair value adjustment of hedging instrument in PLN k	(60 909)
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	62 804
Hedged risk	Interest rate risk
Period over which the instruments have an impact on the bank's results	up to 2022

In addition, BZ WBK subsidiaries - BZ WBK Finanse & Leasing S.A. and BZ WBK Leasing S.A. - concluded IRS transactions with the bank with a view to hedging the fair value of their selected items of the statement of financial position. Details about these transactions are presented in the tables below:

31.12.2013	BZ WBK Leasing S.A.
Nominal value of hedging position in PLN k	41 472
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	(2)
Hedged risk	Movements in the fair value resulting from currency risk and interest rate risk
Period over which the instruments have an impact on the companies' results	up to 2014

31.12.2012	BZ WBK Leasing S.A.	BZ WBK Finanse&Leasing S.A.
Nominal value of hedging position in PLN k	40 882	40 882
Fair value adjustment of hedged instrument due to hedged risk asset/(liability) in PLN k	110	110
Hedged risk	Movements in the fair value resulting from currency risk and interest rate risk	
Period over which the instruments have an impact on the companies' results	up to 2014	up to 2014

Cash flow hedging

Bank Zachodni WBK Group applies future cash flow hedge accounting. Hedge relationships are created using CIRS. The objective is to hedge against the risk of variability of future cash flow arising from fluctuations in exchange rates and market interest rates. A cash flow hedge is used in respect of foreign currency loans carrying variable interest rate.

Hedged items are measured at amortised cost. Hedging items are measured at fair value. Once effectiveness criteria of hedge accounting are met, a change in the fair value of hedging instruments is recognised in equity.

As of 31 December 2013, the nominal value of the hedging item was PLN 15 280 081 k (31 December 2012 – PLN 8 004 784 k). Adjustment to fair value of the hedging instrument is PLN 39 464 k (31 December 2012 – PLN 83 074 k); the same amount, less deferred tax, is recognised in the Group's equity under revaluation reserve. Hedging instruments have been concluded for a period of time until 2026.

The non-effective portion of measurement of the cash flow hedge was PLN 3 188 k as of 31.12.2013 and PLN 2 057 k as of 31.12.2012. It was taken to the 'Net trading income and revaluation' line of the profit and loss account.

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

The Group raises funds by selling financial instruments under agreements to repurchase these instruments at future dates at a predetermined price.

Repo and sell-buy back transactions may cover securities (notes and treasury bonds) from the Group's balance sheet portfolio.

In thousands of PLN

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

	31.12.2013	31.12.2012
	Balance sheet value	Balance sheet value
Liabilities valued at amortised cost (contains sell-buy-back):	4 605 535	873 183
Treasury bonds held on the assets side	4 815 019	872 727
Buy-sell-back transactions	217 605	82 947

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

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

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

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

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

As at 31.12.2013 and 31.12.2012, consolidated statements of financial position contained no financial instruments serving as collateral to repo transactions maturing within a period shorter or equal to that of the main transaction.

41. Fair value

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

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

Assets	31.12.2013		31.12.2012	
	Book Value	Fair Value	Book Value	Fair Value
Cash and balances with central banks	5 149 686	5 149 686	4 157 274	4 157 274
Loans and advances to banks	2 212 704	2 212 704	1 458 128	1 458 134
Financial assets held for trading	2 344 901	2 344 901	831 715	831 715
Hedging derivatives	321 956	321 956	253 553	253 553
Loans and advances to customers	68 132 143	68 703 474	39 867 554	39 949 936
Investment securities	22 090 764	22 090 764	11 716 133	11 716 133
Investments in associates and joint ventures	63 444	63 444	115 685	115 685
Liabilities				
Deposits from banks	6 278 797	6 278 797	1 351 050	1 350 969
Hedging derivatives	367 524	367 524	321 950	321 950
Financial liabilities held for trading	1 277 162	1 277 162	728 831	728 831
Subordinated liabilities	1 384 719	1 623 024	409 110	509 642
Deposits from customers	78 542 982	78 518 847	47 077 094	47 097 412

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

In thousands of PLN

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

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

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

Loans and advances to customers: Carried at net value after impairment charges. Fair value is calculated as the discounted value of the expected future cash flows in respect of principal and interest payments. It is assumed that loans and advances will be repaid at their contractual maturity date. The estimated fair value of the loans and advances reflects changes in the credit risk from the moment of sanction (margins) and changes in interest rates.

As the reporting date no estimates were made with regard to the fair value of the portfolio of mortgage loans denominated in CHF due to the lack of an active market for similar products, however in case of that part of the portfolio of mortgage loans denominated in CHF acquired from Kredyt Bank, 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.

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

As at 31 December 2013 and in the comparable periods the Group made the following classification of its financial instruments measured at fair value in the statement of financial position:

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

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

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

In thousands of PLN

As at 31.12.2013 and in the comparable periods the Group classified its financial instruments to the following fair value levels:

31.12.2013	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	900 016	1 444 885	-	2 344 901
Hedging derivatives	-	321 956	-	321 956
Financial investment assets - debt securities	10 995 044	10 222 332	-	21 217 376
Financial investment assets - equity securities	34 818	-	838 570	873 388
Total	11 929 878	11 989 173	838 570	24 757 621
Financial liabilities				
Financial liabilities held for trading	255 133	1 022 029	-	1 277 162
Hedging derivatives	-	367 524	-	367 524
Total	255 133	1 389 553	-	1 644 686

31.12.2012	Level I	Level II	Level III	Total
Financial assets				
Financial assets held for trading	174 922	478 686	178 107	831 715
Hedging derivatives	-	253 553	-	253 553
Financial investment assets - debt securities	6 501 969	3 308 711	1 237 344	11 048 024
Financial investment assets - equity securities	13 442	-	654 667	668 109
Total	6 690 333	4 040 950	2 070 118	12 801 401
Financial liabilities				
Financial liabilities held for trading	17 162	637 487	74 182	728 831
Hedging derivatives	-	321 950	-	321 950
Total	17 162	959 437	74 182	1 050 781

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
	Financial assets held for trading	Financial investment assets - debt securities	Financial investment assets - equity securities	Financial liabilities held for trading
31.12.2013				
Beginning of the period	178 107	1 237 344	654 667	(74 182)
Profits or losses	-	-	197 387	-
<i>recognised in income statement</i>	-	-	-	-
<i>recognised in equity</i>	-	-	197 387	-
Purchase	-	-	1 000	-
Sale	-	-	(14 302)	-
Matured	-	-	-	-
Impairment	-	-	(2 081)	-
Transfer	(178 107)	(1 237 344)	1 899	74 182
At the period end	-	-	838 570	-

In the fourth quarter, the Group has made the transfer between the second and third level of the fair value of derivative instruments (financial assets held for trading PLN 178 million, financial liabilities held for trading worth PLN 74 million) and available for sale debt instruments. This change was dictated by the change in approach to valuation model of these instruments. Today, the process of valuation is the same as for instruments concluded with a bank counterparties and is based on regularly observed market rates. There were no other transfers between the first, second and third category of fair value.

In thousands of PLN

Level III 31.12.2012	Financial assets			Financial liabilities
	Financial assets held for trading	Financial investment assets - debt securities	Financial investment assets - equity securities	Financial liabilities held for trading
Beginning of the period	176 870	77 789	661 157	(46 906)
Profits or losses	17 093	94 675	(6 888)	7 119
<i>recognised in income statement</i>	17 093	10 972	-	7 119
<i>recognised in equity</i>	-	83 703	(6 888)	-
Purchase	-	1 064 880	8 213	-
Sale	-	-	(7 815)	-
Matured	(15 856)	-	-	(34 395)
Impairment	-	-	-	-
At the period end	178 107	1 237 344	654 667	(74 182)

42. Contingent liabilities

Significant court proceedings

As at 31.12.2013 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 340 392 k, which is ca 2.35% of the Group's equity. This amount includes PLN 79 392 k claimed by the Group, PLN 200 245 k in claims against the Group and PLN 60 788 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 31.12.2013 the amount of significant court proceedings which had been completed amounted to PLN 91 227 k.

As at 31.12.2012 no proceedings were instituted by court or by state administration agencies with relation to any claims made by or against the Bank or its subsidiaries amounting to a minimum of 10% of the Group's equity.

The value of all litigation amounts to PLN 135 433 k, which is ca 1.51% of the Group's equity. This amount includes PLN 44 411 k claimed by the Group, PLN 81 318 k in claims against the Group and PLN 9 704 k of the Group's receivables due to bankruptcy or arrangement cases.

As at 31.12.2012 the amount of significant court proceedings which had been completed amounted to PLN 100 002 k.

The Bank raises provisions for legal risk where an internal risk assessment for a particular case indicates a possible outflow of cash. Provisions for cases disputed in court are presented in Note 35.

Off balance sheet liabilities

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

Contingent liabilities - sanctioned	31.12.2013	31.12.2012
Liabilities sanctioned		
- financial	17 592 801	10 842 863
- credit lines	15 229 084	9 637 360
- credit cards debits	1 875 786	1 109 436
- import letters of credit	441 505	96 067
- term deposits with future commencement term	46 426	-
- guarantees	3 822 213	2 221 092
Total	21 415 014	13 063 955

In thousands of PLN

43. Assets and liabilities pledged as collateral

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

Under the Bank Guarantee Fund Act, the bank calculated this fund using 0.55% (in the year 2012 the bank calculated this fund using 0.55% rate) of the annual contribution base which is defined the same as for calculating the obligatory reserve.

Accordingly, as at 31 December 2013 Bank Zachodni WBK pledged as collateral PLN 448 172 k of debt securities (PLN 247 176 k as at 31.12.2012).

In 2013 a deposit for PLN 523 973 k was placed with another bank as a collateral for the day-to-day Treasury business (in 2012 it was PLN 386 165 k).

In 2013 BZ WBK hold a deposit for PLN 317 004 k (in 2012 it was PLN 185 514 k) as a collateral for the day-to-day Treasury business.

Other assets pledged and liabilities accepted as collateral are disclosed in notes 32 and 40.

44. Finance and operating leases

Finance leases

Lease agreements where the Group acts as a lessor

Bank Zachodni WBK Group operates on the leasing market through two leasing companies BZ WBK Leasing S.A. and Kredyt Lease SA which specialise in funding vehicles, machines and equipment for businesses and personal customers and property.

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

Finance leases gross receivables - maturity	31.12.2013	31.12.2012
less than 1 year	1 151 423	916 518
between 1 and 5 years	1 894 179	1 402 729
over 5 years	233 814	260 742
Total	3 279 416	2 579 989
Present value of minimum lease payments - maturity	31.12.2013	31.12.2012
less than 1 year	1 168 391	909 137
between 1 and 5 years	1 740 307	1 232 240
over 5 years	143 395	148 475
Total	3 052 093	2 289 852
Reconciliation between the gross investment and the present value of minimum lease payments	31.12.2013	31.12.2012
Finance lease gross receivables	3 279 416	2 579 989
Unearned finance income	(227 323)	(290 138)
Impairment of finance lease receivables	(106 796)	(87 613)
Present value of minimum lease payments, net	2 945 297	2 202 238

Lease agreements where the Group acts as a lessee

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

In thousands of PLN

Operating leases

The BZ WBK Group leases offices in compliance with operational leasing agreements. As a standard, agreements are concluded for 5-10 years. A small part of the offices is subleased outside the Group. In 2013 and 2012 rentals totalled PLN 267 943 k and PLN 155 664 k, respectively. These payments are presented in the profit and loss account under "operating expenses".

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

Payments - maturity	31.12.2013	31.12.2012
less than 1 year	251 960	157 480
between 1 and 5 years	615 426	490 823
over 5 years	373 909	245 694
Total	1 241 295	893 997

45. Consolidated statement of cash flow- additional information

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

Cash components	31.12.2013	31.12.2012
Cash and balances with central banks	5 149 686	4 157 274
Deposits in other banks, current account	1 351 606	1 448 021
Debt securities held for trading	199 972	-
Investment securities	5 599 222	2 099 256
Total	12 300 486	7 704 551

Bank Zachodni WBK has restricted cash in the form of a mandatory reserve held on account with the Central Bank.

46. Related party disclosures

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

Transactions with associates and joint ventures	31.12.2013	31.12.2012
ASSETS	-	788
Other assets	-	788
LIABILITIES	7 168	480 770
Deposits from customers	7 168	480 588
Other liabilities	-	182
INCOME	130 894	114 472
Interest income	42 033	24 266
Fee and commission income	88 703	89 893
Gains (losses) from other financial securities	-	21
Other operating income	158	292
EXPENSES	11 645	25 787
Interest expense	6 033	22 439
Fee and commission expense	3 641	1 572
Operating expenses incl.:	1 971	1 776
<i>General and administrative expenses</i>	<i>1 971</i>	<i>1 768</i>

In thousands of PLN

Transactions with:	Santander Group 31.12.2013	Santander Group 31.12.2012
ASSETS	802 305	335 686
Loans and advances to banks, incl:	706 166	283 789
<i>deposits</i>	674 579	197 009
<i>current accounts</i>	31 587	86 780
Financial assets held for trading	93 723	48 729
Hedging derivatives	1 081	3 109
Loans and advances to customers	4	2
Other assets	1 331	57
LIABILITIES	216 668	167 326
Deposits from banks incl.:	71 485	36 328
<i>current accounts</i>	71 485	36 328
Hedging derivatives	6 235	-
Financial liabilities held for trading	85 784	121 440
Deposits from customers	48 970	9 089
Other liabilities	4 194	469
INCOME	(46 459)	(24 131)
Interest income	13 528	14 964
Fee and commission income	5 345	307
Other operating income	814	591
Net trading income and revaluation	(66 146)	(39 993)
EXPENSES	23 137	5 873
Interest expense	404	319
Fee and commission expense	14 927	-
Operating expenses incl.:	7 806	5 554
<i>Bank's staff, operating expenses and management costs</i>	7 806	5 554
CONTINGENT LIABILITIES	117	259 418
Sanctioned:	-	158 175
- <i>guarantees</i>	-	158 175
Received:	117	101 243
- <i>guarantees</i>	117	101 243
DERIVATIVES' NOMINAL VALUES	17 687 584	12 330 499
Cross-currency interest rate swaps – purchased amounts	2 733 296	1 872 728
Cross-currency interest rate swaps – sold amounts	2 764 571	1 909 243
Single-currency interest rate swaps	4 360 662	1 748 351
Options	822 678	468 004
FX swap – purchased amounts	1 592 208	1 808 349
FX swap – sold amounts	1 599 563	1 882 817
FX options -purchased CALL	1 044 075	669 822
FX options -purchased PUT	1 076 295	663 176
FX options -sold CALL	682 163	581 032
FX options -sold PUT	717 682	719 912
Spot-purchased	44 475	3 508
Spot-sold	44 563	3 557
Forward- purchased amounts	100 936	-
Forward- sold amounts	93 727	-
Futures - purchased	10 690	-

In thousands of PLN

Transactions with Members of Management and Supervisory Boards

Remuneration of Bank Zachodni WBK Management and Supervisory Board Members

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	-
Jose Antonio Alvarez	Member of the Supervisory Board	01.01.2013-31.12.2013	-
Witold Jurcewicz	Member of the Supervisory Board	01.01.2013-31.12.2013	176,0
Jose Luis De Mora	Member of the Supervisory Board	01.01.2013-31.12.2013	-
David Hexter	Member of the Supervisory Board	13.02.2013-31.12.2013	145,2
John Power	Member of the Supervisory Board	01.01.2013-31.12.2013	209,8
Jerzy Surma	Member of the Supervisory Board	01.01.2013-31.12.2013	176,0
Jose Manuel Varela	Member of the Supervisory Board	01.01.2013-31.12.2013	-

Mr John Power received remuneration of PLN 53 k from subsidiaries for his membership in their Supervisory Boards.

In 2013 Mr Gerald Byrne, Mr Jose Manuel Varela, Mr Jose Antonio Alvarez and Mr Jose Luis De Mora did not receive remuneration for their membership in the Supervisory Board.

Mr John Power received remuneration for the supervision of the merger process of BZ WBK 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 Management Board	01.01.2013-31.12.2013	1 002,78	116,88
Eamonn Crowley	Member of the Management Board	01.01.2013-31.12.2013	942,07	52,92
Michael McCarthy	Member of the Management Board	01.01.2013-31.12.2013	1 099,07	58,90
Piotr Partyga	Member of the Management Board	01.01.2013-31.12.2013	955,48	96,00
Juan de Porras Aguirre	Member of the Management Board	01.01.2013-31.12.2013	1 203,49	255,84
Marcin Prell	Member of the Management Board	01.01.2013-31.12.2013	909,01	91,78
Marco Antonio Silva Rojas	Member of the Management Board	01.01.2013-31.12.2013	1 653,72	397,39
Mirosław Skiba	Member of the Management Board	01.01.2013-31.12.2013	1 017,49	103,60
Feliks Szyszkowiak	Member of the Management Board	01.01.2013-31.12.2013	1 022,90	94,38

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

In 2013, none of the Members of the Management Board of Bank Zachodni WBK received any remuneration from subsidiaries or associated entities.

In thousands of PLN

31.12.2012

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

First and last name	Position	Period	PLN k
Gerald Byrne	Chairman of the Supervisory Board	01.01.2012-31.12.2012	-
Jose Antonio Alvarez	Member of the Supervisory Board	01.01.2012-31.12.2012	-
Witold Jurcewicz	Member of the Supervisory Board	01.01.2012-31.12.2012	176,0
Jose Luis De Mora	Member of the Supervisory Board	01.01.2012-31.12.2012	-
Piotr Partyga	Member of the Supervisory Board	01.01.2012-10.05.2012	81,2
John Power	Member of the Supervisory Board	01.01.2012-31.12.2012	210,2
Jerzy Surma	Member of the Supervisory Board	10.05.2012-31.12.2012	95,1
Jose Manuel Varela	Member of the Supervisory Board	01.01.2012-31.12.2012	-

Mr John Power received remuneration of PLN 47 k from subsidiaries for his membership in their Supervisory Boards.

In 2012 Mr Gerald Byrne, Mr Jose Manuel Varela, Mr Jose Antonio Alvarez and Mr Jose Luis De Mora did not receive remuneration for their membership in the Supervisory Board.

Mr John Power received remuneration for the supervision of the merger process of BZ WBK and Kredyt Bank on behalf of the Supervisory Board in the amount of PLN 746 k.

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

First and last name	Position	Period	Remuneration	Additional benefits
Mateusz Morawiecki	President of the Management Board	01.01.2012-31.12.2012	1 563,04	74,69
Andrzej Burliga	Member of the Management Board	01.01.2012-31.12.2012	951,83	86,50
Eamonn Crowley	Member of the Management Board	01.01.2012-31.12.2012	887,29	46,22
Justyn Konieczny	Member of the Management Board	01.01.2012-10.05.2012	409,31	30,60
Janusz Krawczyk	Member of the Management Board	01.01.2012-10.05.2012	2 586,33	0,00
Michael McCarthy	Member of the Management Board	01.01.2012-31.12.2012	1 069,63	331,63
Piotr Partyga	Member of the Management Board	10.05.2012-31.12.2012	599,10	30,13
Juan de Porras Aguirre	Member of the Management Board	01.01.2012-31.12.2012	1 279,92	300,06
Marcin Prell	Member of the Management Board	01.01.2012-31.12.2012	891,88	71,73
Marco Antonio Silva Rojas*	Member of the Management Board	01.11.2012-31.12.2012	387,50	50,20
Mirosław Skiba	Member of the Management Board	01.01.2012-31.12.2012	951,71	82,06
Feliks Szyszkowski	Member of the Management Board	01.01.2012-31.12.2012	979,33	70,26

*Mr Marco Antonio Silva Rojas was appointed to the Management Board of the Bank with effect from 3 September 2012.

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

In 2012, selected members of the Board were paid holiday equivalent in total amount of PLN 927.05 k.

In 2012, none of the Members of the Management Board of Bank Zachodni WBK 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.

In thousands of PLN

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.

31.12.2012

Loans and advances made by the Bank to the Members of the Management Board of Bank Zachodni WBK and to their relatives as at 31.12.2012 totalled PLN 9 797 k. These facilities have been sanctioned on regular terms and conditions.

As at 31.12.2012, the total finance lease receivable provided to members of the Management Board of Bank Zachodni WBK by the subsidiaries and associates totalled nil.

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

Provisions for employee benefits disclosed in the note 52 include respectively amounts related to the Management Board of the Bank Zachodni WBK.

31.12.2013

Provisions for retirement benefits in the amount of PLN 12.6 k, provision for unused holidays in the amount of PLN 996 k.

31.12.2012

Provisions for retirement benefits in the amount of PLN 5 k, provision for unused holidays in the amount of PLN 588 k.

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

In 2013 Bank issued 70 692 banking writs of execution with total amount of PLN 1 248 656 k.

In 2012 Bank issued 31 412 banking writs of execution with total amount of PLN 1 309 816 k.

48. Acquisitions and sales of investments in subsidiaries and associates

Acquisitions and sales of subsidiaries and associates in 2013

Kredyt Trade

On 29 June 2012, the Extraordinary General Meeting of Kredyt Trade Sp. z o.o. adopted a resolution on dissolution and liquidation of Kredyt Trade Sp. z o.o. (a subsidiary of former Kredyt Bank). On 22 August 2013, the company was deleted from the National Court Register (KRS).

The Group has finally settled remaining assets and liabilities of the entity.
The liquidation result of PLN (319) k was taken to 'Net gains/(losses) on subordinated entities'.

Kredyt Trade provided auxiliary administrative services to the former Kredyt Bank, primarily in respect of managing and leasing properties and equipment.

In thousands of PLN

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 Finance & 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 Finance & 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 Finance & Leasing S.A.

The merger did not have any impact on the structure of the consolidated balance sheet or the financial results, as presented in this report.

Controlling stake at the companies BZ WBK AVIVA

Controlling stake at the companies BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. has been described in detail in Note 49.

Acquisitions and sales of subsidiaries and associates in 2012

On 21 September 2012, the company BZ WBK Inwestycje Sp. z o.o. signed an agreement to sell all 4 050 000 shares of Holicon Group S.A. at PLN 1.22 per share. The total value of shares sold amounted to PLN 4,941,000.

49. Controlling stake at the companies BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A.

Transaction description

On 1 August 2013, Bank Zachodni WBK 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 has 66% shareholding and 66% voting power in the two insurance companies, while the remaining 34% voting power is held by Aviva.

Assets and liabilities recognised at the acquisition date

At the date of publication of the Annual Report of Bank Zachodni WBK for the year ended 31 December 2013, the bank made a preliminary, provisional settlement of the acquisition of control over BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. The financial data of the two insurance companies as at 31 December 2013, which underlie this provisional settlement are being audited by a statutory auditor and as at the date of this report the audit has not been completed yet. For this reason, the financial data might change as a result of the audit. Furthermore, the bank has not yet completed the process of estimation of the fair value of the selected assets and liabilities of the insurance companies, as at the acquisition date, in particular the receivables and liabilities under insurance agreements. The estimation of the fair value of the intangible assets recognised in relation to the acquisition has not been completed either. Consequently, the value of deferred tax assets and liabilities was also calculated using the best estimates of the Management Board.

In thousands of PLN

The table below shows a preliminary estimation of the fair value of the acquired assets and liabilities.

	as at 31.12.2013	BZ WBK Aviva TUO S.A.	BZ WBK Aviva TUŻ S.A.
ASSETS			
Loans and advances to banks		7 015	61 972
Financial assets held for trading		97 921	25 258
Investment securities		81 508	66 509
Intangible assets		128 306	24 974
Property, plant and equipment		671	571
Net deferred tax assets		(2 694)	(4 994)
Other assets		27 330	793 886
Total assets		340 057	968 176
LIABILITIES			
Current income tax liabilities		(2 189)	(1 206)
Other liabilities		(260 995)	(889 512)
Total liabilities		(263 184)	(890 718)
Fair value of identifiable net assets		76 873	77 458

The item "Intangible assets", with a fair value of:

- PLN 128,289k for BZ WBK Aviva TUO S.A. and
- PLN 24,974k for BZ WBK Aviva TUŻ S.A.

includes additional assets that meet the criteria of being recognised as intangible fixed assets. The assets originate from revaluation of the insurance agreements existing in the two companies. At the date of preparation of these financial statements, the bank has not yet completed the process of identification of other potentially acquired intangible fixed assets that might need to be carried in accordance with IFRS 3.

Non-controlling interests

As at 31 December 2013, non-controlling interests were recognised, representing 34% of the share capital and the total number of votes in either insurance company, which remain under control of Aviva International Insurance Limited. The book value of these shares estimated using the fair value method is PLN 525,640k.

Preliminary goodwill calculation

	as at	31.12.2013
Goodwill		
Total consideration		-
Balance sheet value a previously owned block of shares		63 489
Revaluation of shares held		419 011
Non-controlling interests		525 640
Less: fair value of identifiable net assets		(154 331)
Total		853 809

The goodwill arising on acquisition represents a control premium, and arises from the possibility to generate additional benefits from the expected synergies, increase in revenues and the achieved market share. These benefits were not recognised separately from the goodwill as they did not meet the conditions for being treated as intangible assets.

The goodwill arising on acquisition is not expected to be deducted for tax purposes.

Contingent liabilities

In accordance with Current Report no. 37/2013 of 2 August 2013, Aviva was granted a call option that authorises it or another Aviva Group entity that it might indicate to acquire from the bank 17% stake in the registered capital of each of the insurance entities, on the terms and conditions specified in the transaction documents.

In thousands of PLN

The terms of the Aviva agreement gave rise to the contingent liabilities described above.

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.

Impact of the acquisition on the Group's results

If the acquisition of BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. had taken place on 1 January 2013, the Group's revenue from continuing operations would be PLN 5,961,725k (including net interest income, net fee and commission income, dividend income, sale of investments in associated undertakings, net trading income and revaluation, gains (losses) on other securities, other operating income and the share in profits (losses) of the entities accounted for using the equity method), and the Group's total profit from continuing operations for the whole year would be PLN 1,515,816k (including net interest income, net fee and commission income, dividend income, sale of investments in associated undertakings, net trading income and revaluation, gains (losses) on other securities, other operating income, operating losses on loans and advances, operating costs, the share in profits (losses) of the entities accounted for using the equity method and the income tax charge).

The Management Board believes these provisional values are representative and approximate figures of the performance of the merged entities over the whole year.

For the purpose of a provisional calculation of revenues and profit if the acquisition had taken place at the beginning of the current accounting period, the Management Board:

- has calculated amortisation of the intangible assets identified in the acquisition;
- calculated the value of additional profits attributable to the shareholders of Bank Zachodni WBK on account of the increased stake in the acquired insurance companies;
- adjusted the combined performance of the Group to account for the impact of the revaluation of the shares in the acquired subsidiaries in the net amount of PLN 334,657k, which includes the tax paid on the transaction.

50. Investment in joint ventures

Controlling stake at the companies BZ WBK AVIVA

Controlling stake at the companies BZ WBK-AVIVA Towarzystwo Ubezpieczeń na Życie S.A. and BZ WBK-AVIVA Towarzystwo Ubezpieczeń Ogólnych S.A. has been described in detail in Note 49.

As at 31.12.2013 BZ WBK - Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. and BZ WBK - Aviva Towarzystwo Ubezpieczeń na Życie S.A. were subsidiaries.

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

Introduction to the Catalyst alternative trading system of A series bearer bonds of Bank Zachodni WBK.

On 16 January 2014 the Management Board of Bank Zachodni WBK announced that it had received a message about adoption of Resolution no. 53 of the Management Board of the Warsaw Stock Exchange of 15 January 2014 regarding introduction to the Catalyst alternative trading system of 500 000 [five hundred thousand] bearer bonds with a nominal value of PLN 1,000 (one thousand PLN) each, issued by Bank Zachodni WBK.

In thousands of PLN

Name change of a subsidiary of Bank Zachodni WBK

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.

52. Employee benefits

Staff benefits include the following categories:

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

Within these categories, the companies of the BZ WBK Group create the following types of provisions:

Provisions for unused holidays

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

Provisions for employee bonuses

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

Provisions for retirement allowances

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

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

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

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

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

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

The principal actuarial assumptions as at 31 December 2013 are as follows:

- the discount rate at the level of 4.4% (4.5% as at 31 December 2012),
- the future salary growth rate at the level of 2.5% (3% as at 31 December 2012),
- the probable number of leaving employees calculated on the basis of historical data concerning personnel rotation in the Group,

In thousands of PLN

- the mortality adopted in accordance with Life Expectancy Tables for men and women, published the Central Statistical Office, adequately adjusted on the basis of historical data of the Bank.

Reconciliation of the present value of defined benefit plans obligations

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

	31.12.2013	31.12.2012
As at the beginning of the period	38 934	42 044
Provision acquired in a business combination	13 758	-
Current service cost	2 694	2 803
Prior service cost	-	(6 003)
Interest expense	1 820	2 485
Actuarial (gains) and losses	(7 673)	(2 395)
Balance at the end of the period	49 533	38 934

Sensitivity analysis

The following table presents how the impact on the defined benefits obligations would have increased (decreased) as a result of a change in the respective actuarial assumptions by one percent as at 31 December 2013.

Defined benefit plan obligations	1 percent increase	1 percent decrease
Discount rate	-11,44%	12,56%
Future salary growth rate	12,76%	-11,70%

Other staff-related provisions

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

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

Provisions	31.12.2013	31.12.2012
Provisions for unused holidays	48 780	23 428
Provisions for employee bonuses	186 009	125 334
Provisions for retirement allowances	49 533	38 934
Other staff-related provisions	9 640	3 169
Total	293 962	190 865

Detailed information about movements on staff-related provisions is available in additional note 35.

In thousands of PLN

Awards for the year 2012 granted in 2013 to the Members of the Management Board of Bank Zachodni WBK.

Awards paid out in the 2013 for the year 2012 included also portion of awards related to 2011 which was conditional and deferred in time.

First and last name	Position	Period	Awards for 2012
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
Miroslaw Skiba	Member of the Management Board	01.01.2013-31.12.2013	928,36
Feliks Szyszkowiak	Member of the Management Board	01.01.2013-31.12.2013	833,57

According to the approved remuneration system in the Bank, in case of fulfilling certain criteria, members of the Management Board of the Bank, can be conditionally entitled to receive an award for 2013 that would be paid in 2014. As at the date of preparation of these financial statements, the decision in this regard has not been made by the Supervisory Board of the Bank.

Members of the Management Board received in 2013 an additional, once-off award related to the achievement of particular objectives in the process of acquisition and integration of Kredyt Bank. The award totalled PLN 2 469.3 k.

Awards for the year 2011 granted in 2012 to the Members of the Management Board of Bank Zachodni WBK.

Awards paid out in the 2012 for the year 2011 included also portion of awards related to 2010 which was conditional and deferred in time.

First and last name	Position	Period	Awards for 2011
Mateusz Morawiecki	President of the Management Board	01.01.2012-31.12.2012	1 870,00
Andrzej Burliga	Member of the Management Board	01.01.2012-31.12.2012	850,00
Eamonn Crowley	Member of the Management Board	01.01.2012-31.12.2012	777,60
Justyn Konieczny	Member of the Management Board	01.01.2012-10.05.2012	1 026,00
Janusz Krawczyk	Member of the Management Board	01.01.2012-10.05.2012	925,00
Michael McCarthy	Member of the Management Board	01.01.2012-31.12.2012	1 004,40
Piotr Partyga	Member of the Management Board	10.05.2012-31.12.2012	0,00
Juan de Porras Aguirre	Member of the Management Board	01.01.2012-31.12.2012	0,00
Marcin Prell	Member of the Management Board	01.01.2012-31.12.2012	799,20
Marco Antonio Silva Rojas*	Member of the Management Board	01.11.2012-31.12.2012	0,00
Miroslaw Skiba	Member of the Management Board	01.01.2012-31.12.2012	850,00
Feliks Szyszkowiak	Member of the Management Board	01.01.2012-31.12.2012	864,00

*Mr Marco Antonio Silva Rojas was appointed to the Management Board of the Bank with effect from 3 September 2012

53. Share based incentive scheme

On the 20th of April 2011, Annual General Meeting of the Shareholders of Bank Zachodni WBK S.A. implemented three-year Incentive Scheme no. IV which initially addressed 496 key employees of the Bank Zachodni WBK Group, including Members of the Management Board.

The fourth edition of the BZWBK incentive scheme closed as at 31/12/2013. It has been assumed that the incentive scheme vested at the maximum level. Realization through issuance of new shares and their allocation to entitled individuals will be processed in first half of 2014, provided all the formal requirements would be fulfilled.

In thousands of PLN

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

In every single year annual award not exceeding one third on total award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on profit before tax (PBT) growth. The range of the scale requires PBT growth between 8% and 15% in first year and between 15% and 22% in second and third year of duration of scheme.

Following the merger of Bank Zachodni WBK and Kredyt Bank as at 04.01.2013 the vesting conditions for annual reward for 2013 have been modified. Concerning the lack of comparative financial information for the purpose of the calculation of the profit growth, the quantitative levels of after tax profit have been established to assess vesting at the level between 25% and 100% also maintaining linear relation between vested rewards and the profit amount in this range.

Additionally, after 3 years cumulative award will be considered. Shares will vest on a linear pattern between 25% and 100% contingent on PBT compound annual growth rate in 3 years' time between 12.6% and 19.6%. If number of shares resulting from cumulative assessment will be higher than sum of annual awards vested to date, additional shares will be allocated to individuals up to the amount resulting from cumulative assessment.

On the 17th of May 2011, Supervisory Board of Bank Zachodni WBK made a resolution confirming that vesting conditions of the Incentive Scheme no. III started in 2008 were not met. Accordingly individuals included in the program did not receive shares of the Bank.

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

Share based payments granted in 2011:

	2011
Number of share based payments	312 755
Number of share based payments allocated after initial grant date	6 312
Share price (PLN)	227,90
Exercise price (PLN)	10
Vesting period	2,75 years
Expected volatility	9,98%
Award life	3 years
Risk free rate	5,19%
Fair value per award	PLN 195,08
Dividend yield	3,51%

The following table summarizes the share based payments activity:

	12 months of 2013	12 months of 2012
	Number of share based payments	Number of share based payments
Outstanding at 1 January	315 917	317 971
Granted	-	4 523
Exercised	-	-
Forfeited	(3 928)	(6 577)
Expired	-	-
Outstanding at 31 December	311 989	315 917
Exercisable at 31 December	-	-

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

For the share based payments outstanding as at 31 December 2013 and 31 December 2012 the average remaining contractual life is approximately 0 years and 1 year respectively.

In thousands of PLN

The total expense is recognized in profit and loss account in correspondence with other reserve capital and settlements with subsidiaries. For 12 months of 2013, 2012 increase of equity amounted to PLN 20 288 k, PLN 20 472 k respectively.

The tables below shows details of conditional share rights granted to the Members of the Management Board of BZ WBK under the Incentive Scheme no. IV. The implementation of these rights depends on certain conditions, the fulfillment of which will be confirmed in future periods.

No. of awards		2013
Outstanding at 1 January		38 570
Granted		-
Termination of appointment		-
Expired		-
Outstanding at 31 December		38 570
Exercisable at 31 December		-

First and last name	Total as at 01.01.2013	Termination of appointment	Granted during 2013	Total as at 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

No. of awards		2012
Outstanding at 1 January		44 852
Granted		2 855
Termination of appointment		(9 137)
Expired		-
Outstanding at 31 December		38 570
Exercisable at 31 December		-

First and last name	Total as at 01.01.2012	Termination of appointment	Granted during 2012	Total as at 31.12.2012
Mateusz Morawiecki	10 120	-	-	10 120
Andrzej Burliga	4 282	-	-	4 282
Eamonn Crowley	4 003	-	-	4 003
Justyn Konieczny	5 283	(5 283)	-	-
Janusz Krawczyk	3 854	(3 854)	-	-
Michael McCarthy	4 875	-	-	4 875
Piotr Partyga	-	-	2 855	2 855
Juan de Porras Aguirre	-	-	-	-
Marcin Prell	3 704	-	-	3 704
Marco Antonio Silva Rojas	-	-	-	-
Mirosław Skiba	4 282	-	-	4 282
Feliks Szyszkowiak	4 449	-	-	4 449
Total	44 852	(9 137)	2 855	38 570

In thousands of PLN

54. Staff level

As at 31 December 2013 the Bank employed 12 084 persons and 11 917 FTE's.

As at this date, in subsidiaries there were 755 persons employed (incl. 143 persons in the Bank) and 695 FTE's.

In 2013, the average staffing level in Bank Zachodni WBK was 12 369 FTE's whereas the average staffing level in subsidiaries was 710 FTE's.

As at 31 December 2012 the Bank employed 8 295 persons, and 8 217 FTE's.

As at this date, in subsidiaries there were 665 persons employed (incl. 83 persons in the Bank), and 618 FTE's.

In 2012, the average staffing level in Bank Zachodni WBK was 8 386 FTE's whereas the average staffing level in subsidiaries was 628 FTE's.

55. Merger of Bank Zachodni WBK S.A. and Kredyt Bank S.A.

Transaction

On 4 January 2013 (date of merger) the Bank registered the business combination of Bank Zachodni WBK 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. The table below shows the total amount of the consideration transferred in a business combination and its effects on the equity of the combined entity.

	as at:	04.01.2013
Share capital		189 074
Other reserve funds		4 354 766
Total consideration		4 543 840

The merger transaction was designed to implement the strategic objectives of the Bank and its major shareholder Banco Santander on the Polish market and has positioned the bank amongst the top three universal banks in Poland. As a result of the merger, there was an increase of the geographical scope of banking distribution network and the complementary businesses of the two banks were integrated. Bank increased scope of the services offered and expanded the customer base. This provided significant strengthening of the bank's market penetration potential and with the blended knowledge and experience of the two banks, the merged entity was more effective and achieved a higher quality of its solutions. With the economies of scale and harmonised risk management, the bank's profitability and effectiveness is increasing. Cost synergies are primarily achieving by improvement of processes, adoption of the most effective operational solutions, merger and optimisation of organisational structures and integration of IT systems. Revenue synergies are result from combination of the complementary offerings, cross-selling of the both banks' products, harmonisation of service styles and an increase in productivity.

Analysis of acquired assets and liabilities on a merger day

As at the date of issuance of the Report of Bank Zachodni WBK Group for 2013 Bank Zachodni WBK Group performed valuation related to the Kredyt Bank acquisition.

The financial information as of 4 January 2013 of Kredyt Bank which formed the basis of this settlement were audited by a qualified auditor. Bank Zachodni WBK has completed the process of fair value estimation for the selected assets and liabilities of the Kredyt Bank S.A. such as loans and advances to customers, non-current assets, deposits from customers and contingent liabilities. Bank has also completed the fair value estimation of intangible assets that can be recognized in transaction. As a result, calculation of the total additional deferred tax asset and liabilities is deemed to be final.

The auditor of Kredyt Bank, Ernst & Young Audit Sp. z o.o., has issued an audit opinion to Kredyt Bank Group consolidated financial statements for the year ended 31 December 2012 which contained the following qualification:

"As described in the note 4 to the attached consolidated financial statements the Management Board of Bank Zachodni WBK S.A. after the merger with Kredyt Bank S.A. has performed the analysis of the credit risk relating to Kredyt Bank S.A. loan portfolio as at 31 December 2012. The analysis has been based on new assumptions towards collection scenarios weighted by their probabilities and significantly discounted collaterals for selected individual exposures as well as changed parameters for the calculation of the collective impairment. As a result of the above analysis the Bank has increased the level of loan impairment allowances in the

In thousands of PLN

attached financial statements by approx. PLN 319 million for the loans assessed individually and by approx. PLN 258 million for the loans assessed collectively. We have performed a review of the above analysis and based on such review we concluded that we have not been presented with sufficient evidence supporting approx. PLN 333 million of the above increases of impairment allowances. Therefore, we are not able to give our opinion on the reasonableness of such part of the additional loan impairment allowances as at 31 December 2012, and the corresponding impairment charge in the profit and loss for the year ended 31 December 2012 as well as approx. PLN 61 million of deferred tax asset, which has been recognised in relation to such additional loan impairment allowances and the corresponding tax credit in the profit and loss for 2012. Additionally, PLN 258 million out of the above increase in impairment allowances which relates to IBNR and collective impairment was presented in "Provisions" in the liabilities which is not compliant with the adopted accounting standards."

With regard to the qualification relating to the collective provisions and IBNR of PLN 258m, as at 31.12.2013 the presentation of the above mentioned provisions was amended to meet the requirements arising from the standards. The provisions reduce relevant asset classes.

The following table shows the fair value of acquired assets and liabilities.

	as at:	04.01.2013
ASSETS		
Cash and balances with central banks		1 429 283
Loans and advances to banks		680 206
Financial assets held for trading		1 152 738
Hedging derivatives		111 200
Loans and advances to customers		27 568 167
Investment securities		10 377 912
Intangible assets		233 831
Property, plant and equipment		191 063
Net deferred tax assets		352 177
Investment property		16 002
Assets classified as held for sale		5 709
Other assets		77 663
Total assets		42 195 951
LIABILITIES		
Deposits from banks		(5 760 512)
Hedging derivatives		(78 970)
Financial liabilities held for trading		(1 130 233)
Deposits from customers		(31 044 324)
Subordinated liabilities		(978 237)
Current income tax liabilities		(7 238)
Other liabilities		(341 113)
Total liabilities		(39 340 627)
Fair value of identifiable net assets		2 855 324

During the merger Bank recognized PLN 207 756 k of additional assets that meet the conditions for recognition as intangible assets. These assets resulted from the revaluation of the acquired deposits of individual and business customers as well as customer relationships created in former Kredyt Bank.

Non-controlling interest

Due to the fact that the business combination considered all of the operations of former Kredyt Bank S.A. and the exchange covered 100% of Kredyt Bank S.A. shares, any non-controlling interests were recognized in the consolidated financial statements of combined entity for the transaction.

In thousands of PLN

Calculation of goodwill

	as at:	04.01.2013
Goodwill		
Total consideration		4 543 840
Less: fair value of identifiable net assets		(2 855 324)
Total		1 688 516

Goodwill arising on the date of the merger basically represents a premium for control, and results from a potential ability to achieve additional benefits resulting from expected synergies, revenue growth, gained market share, combining competences of employees and increase the efficiency of processes as compared to the fair value of the net assets acquired. These benefits were not recognized separate intangible assets as in this instance the conditions for their individual recognition have not been met.

Bank does not expect tax deductibility of goodwill in future periods.

56. Dividend per share

The Management Board of the Bank will propose a dividend payment to the Shareholders in the amount of PLN 10.70 per share from the profit for 2013.

The final decision on dividend payment and amount shall be made by the Annual General Meeting of Bank Zachodni WBK Shareholders.

On 17 April 2013, the Annual General Meeting of Bank Zachodni WBK adopted a Resolution allocating PLN 710 943 k to dividend for shareholders, from the profit for 2012, which meant that the dividend was PLN 7.60 per share.

Bank has issued 18 907 458 shares that are entitled to dividend from 2012 profit.



Signatures of Members of the Management Board			
Date	Name	Function	Signature
26.02.2014	Mateusz Morawiecki	President	
26.02.2014	Andrzej Burliga	Member	
26.02.2014	Eamonn Crowley	Member	
26.02.2014	Michael McCarthy	Member	
26.02.2014	Piotr Partyga	Member	
26.02.2014	Juan de Porrás Aguirre	Member	
26.02.2014	Marcin Prell	Member	
26.02.2014	Marco Antonio Silva Rojas	Member	
26.02.2014	Mirosław Skiba	Member	
26.02.2014	Feliks Szyszkowiak	Member	

Signature of a person who is responsible for maintaining the book of account			
Date	Name	Function	Signature
26.02.2014	Wojciech Skalski	Financial Accounting Area Director	