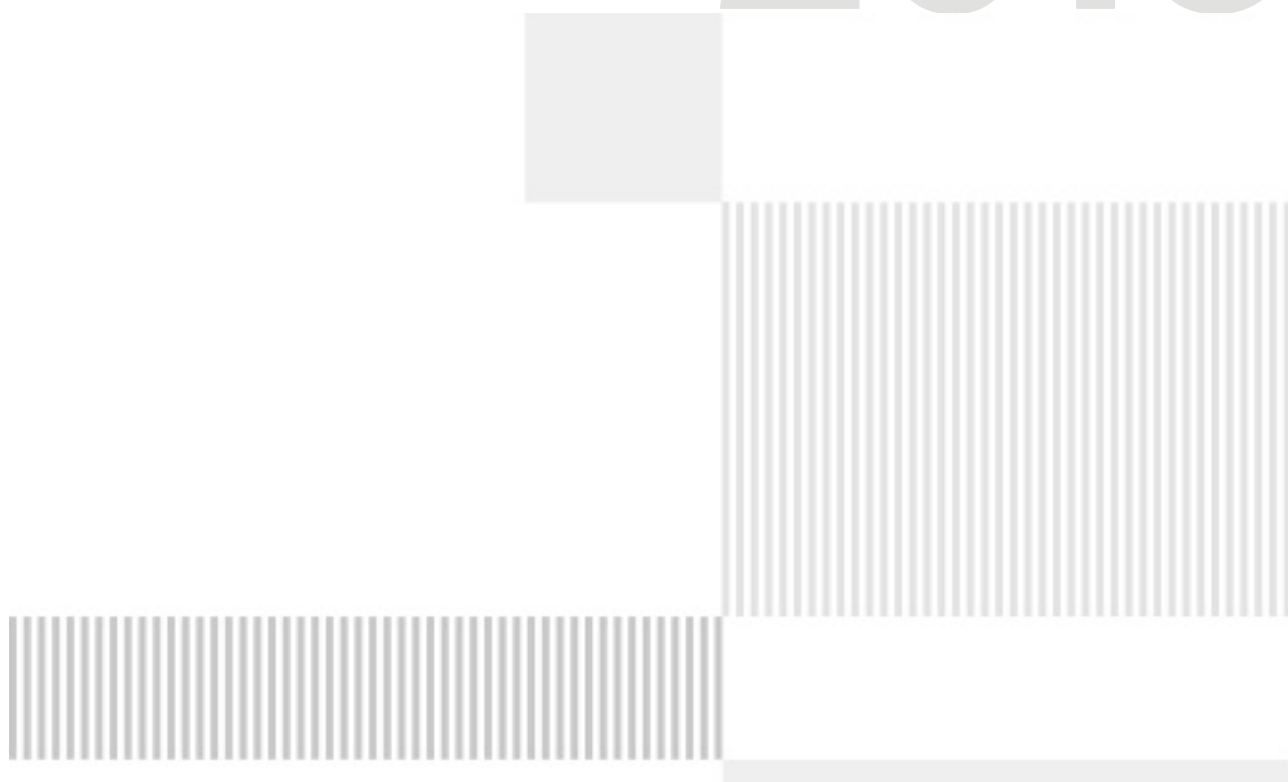


**MANAGEMENT BOARD REPORT  
ON BANK ZACHODNI WBK  
PERFORMANCE IN 2013**

2013



Bank Zachodni WBK

 Grupa Santander

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# I. Overview of Bank Zachodni WBK Performance in 2013

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

## Financial and Business Highlights

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

- Total income of Bank Zachodni WBK increased by 39% YoY to PLN 5,364.2m.
- Total costs grew by 61.7% YoY to PLN 2,693.3m.
- Profit-before-tax was PLN 1,969.4m and up 15.6% YoY.
- Profit for the period was PLN 1,611.5m and 17.8% higher YoY.
- Capital Adequacy Ratio stood at 15.2% for the bank (16.5% as at 31 December 2012) and 13.9% for the Group (16.5% as at 31 December 2012).
- Return on Equity was 13.8% (21.7% as at 31 December 2012), and 16% excluding the cost of integration with Kredyt Bank. The YoY decrease in ROE was driven by significant increase in BZ WBK capital through the issue of 18.9m merger shares.
- Cost to income ratio was 50.2% (43.2% in 2012), and 45.3% excluding the integration costs (42.2% in 2012).
- Net impairment losses on loans and advances amounted to PLN 701.5m compared with PLN 490.5m in 2012.
- NPL ratio was 7.6% (5.1% as at 31 December 2012), while the ratio of impairment losses to the average gross credit volumes was 1.0% (1.2% as at 31 December 2012).
- Loans to deposits ratio was 85.9% as at 31 December 2013 compared with 83.7% as at 31 December 2012.
- Gross loans to customers increased by 73.5% YoY to PLN 70,970.2m due to the expansion of personal loans (+148.5% YoY) and loans to enterprises & public sector (+35.7% YoY) to PLN 34,035.1m and PLN 36,885.1m, respectively.
- Deposits from customers increased by 66.9% YoY to PLN 78,735.7m as a combined effect of the expansion of personal deposits (+69.1% YoY) and deposits from enterprises & public sector (+63.8% YoY) to PLN 47,470.8m and PLN 31,264.9m.
- The number of customers using BZWBK24 and KB24 electronic banking services amounted to 3m (+35.3% YoY), while the BZ WBK payment card base included 3.7m debit cards (+37.7% YoY) and 0.6m credit cards (+52.5% YoY).
- The number of personal and business current accounts was 4.3m as at 31 December 2013.

## Key Developments and Achievements

Review of Major 2013 Corporate Events	
January	<ul style="list-style-type: none"> <li>The legal merger of BZ WBK and Kredyt Bank (KB) was finalised on 4 January 2013.</li> <li>18,907,458 series J merger shares were issued to all eligible shareholders of KB in accordance with the agreed exchange ratio. On 25 January 2013, merger shares were registered in the National Depository for Securities (KDPW) and admitted to trading on the primary market.</li> <li>On 10 January 2013, Fitch Ratings affirmed the international ratings for merged Bank Zachodni WBK based on the bank's intrinsic strength and assessment of the propensity of the majority owner to provide support.</li> </ul>
February	<ul style="list-style-type: none"> <li>BZ WBK Extraordinary General Meeting of Shareholders convened on 13 February 2013 and appointed two new members of the Supervisory Board: Mr. David R. Hexter and Mr. Guy Libot nominated by EBRD and KBC Bank NV, respectively.</li> </ul>
March	<ul style="list-style-type: none"> <li>On 22 March 2013, KBC Bank NV and Banco Santander S.A. announced a secondary offering for 19,978,913 BZ WBK shares, representing 21.4% of the bank's share capital. As a result: <ul style="list-style-type: none"> <li>✓ KBC Bank NV sold 15,125,964 BZ WBK shares and Banco Santander sold 4,852,949 BZ WBK shares.</li> <li>✓ Banco Santander's share in the bank's registered capital and votes at its General Meeting was reduced to 70%.</li> <li>✓ The total number of BZ WBK's shares in free float increased to 30% and consequently the bank was re-admitted to the stock indices.</li> </ul> </li> <li>Mr Guy Libot resigned as a member of the Supervisory Board due to the sale of the bank's shares held by KBC Bank NV.</li> <li>The open-ended pension fund ING OFE purchased the bank's shares and exceeded 5% of the total number of votes at the bank's General Meeting.</li> <li>On 15 March 2013, the proposition was extended to include a new personal account - Account Worth Recommending (Konto Godne Polecenia), the first product launched in the BZ WBK and ex KB network which turned a huge sales success.</li> </ul>
April	<ul style="list-style-type: none"> <li>On 1 April 2013, the marketing campaign was launched to promote the Account Worth Recommending.</li> <li>BZ WBK Annual General Meeting of Shareholders convened on 17 April 2013 approved the proposed dividend pay-out from 2012 profit at PLN 7.6 per share.</li> <li>Improved Branch Banking integration process and operations under a new branch network management system.</li> <li>The structures of Business and Corporate Banking were fully integrated and a new operating model was implemented.</li> </ul>
May	<ul style="list-style-type: none"> <li>On 17 May 2013, the dividend was paid to BZ WBK shareholders pursuant to GM Resolution of 17 April 2013.</li> </ul>
June	<ul style="list-style-type: none"> <li>BZ WBK was re-admitted to WIG 20.</li> </ul>
July	<ul style="list-style-type: none"> <li>On 8 July 2013, the first stage of the migration project was completed, including implementation of a standardised product proposition and uniform central service model in respect of retail, business and corporate customers.</li> <li>On 30 July 2013, Management Board of BZ WBK adopted a resolution giving consent to sell 67,500 privileged, registered shares of BZ WBK Asset Management S.A. (representing 50% share in the total number of votes at the company's GM) to Santander Asset Management Investment Holdings Limited for the total price of PLN 156,750,000 pursuant to an agreement concluded on 30 May 2013 by Banco Santander with Warburg Pincus and General Atlantic.</li> <li>The open-ended pension fund ING OFE sold BZ WBK shares, reducing to below 5% its share in the total number of votes at the bank's GM.</li> </ul>
August	<ul style="list-style-type: none"> <li>On 1 August 2013, BZ WBK AVIVA International Insurance Limited (Aviva) and Aviva Group members, i.e. BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A. (BZ WBK-Aviva TUŃ) and BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A. (BZ WBK-Aviva TUO) entered into agreements to amend and extend their strategic co-operation in the bancassurance business in Poland. The agreement came into force on 20 December 2013.</li> </ul>
September	<ul style="list-style-type: none"> <li>On 9 September 2013, the second stage of the brand migration project was completed: the risk and credit capacity assessment processes were harmonised, and branches and electronic channels were rebranded.</li> <li>The biggest ever BZ WBK advertising campaign was launched to promote products and reinforce the bank's positioning as the third banking institution in Poland, while focusing on such aspects as modernity, innovation, customer comfort and satisfaction.</li> <li>The product proposition was expanded to include 1   2   3 Account.</li> </ul>

Review of Major 2013 Corporate Events (cont.)	
October	<ul style="list-style-type: none"> <li>The bank introduced the Fast Earning Business Deposit (Lokata Biznes Dynamicznie Zarabiająca) which is the first deposit for small companies offering a progressive interest rate.</li> </ul>
November	<ul style="list-style-type: none"> <li>On 27 November 2013, BZ WBK, Santander Consumer Finance S.A. (SCF) and Banco Santander concluded an investment agreement under which the bank agreed to acquire 3,120,000 ordinary and privileged shares in Santander Consumer Bank S.A. (SCB) with a nominal value of PLN 100 each, representing 60% of the share capital of SCB and approximately 67% of the votes at the general meeting of the shareholders of SCB.</li> <li>The bank introduced a new 12-month and 24-month Easy Earning Deposit - New Funds (Lokata Swobodnie Zarabiająca-nowe środki) for personal customers.</li> </ul>
December	<ul style="list-style-type: none"> <li>On 4 December 2013, Fitch Ratings affirmed the international ratings of Bank Zachodni WBK and assigned a National Long-term rating of "A+ (pol)EXP" to the bank's planned issue of senior unsecured bonds.</li> <li>To diversify the sources of funding, on 19 December 2013, the bank issued unsecured bearer bonds in a non-public offer, for the total amount of PLN 500m, with a three year maturity and a variable interest rate. All bonds were acquired by bondholders.</li> <li>On 20 December 2013, Bank Zachodni WBK and Aviva International Insurance Limited ("Aviva") entered into a final transfer agreement (pursuant to the agreement of 1 August 2013) and transferred the ownership of 16% of the shares in BZ WBK-Aviva TUnž and BZ WBK-Aviva TUO, thus increasing the bank's share in the registered capital and voting power in each of the above insurance companies to 66%. The remaining shares are held by Aviva which was granted a call option to purchase 17% of the share capital held by the bank in each of the above-mentioned companies.</li> </ul>

## External Factors Impacting the bank's Activity and Results

- Acceleration of economic growth, resulting both from stronger external demand and recovery of domestic demand (in the second half of the year), including consumption and investment.
- Improvement of growth rates in the industrial as well as construction and assembly sectors' output.
- Rising pace of growth in retail sales and accelerating growth in private consumption. Increase in real income of households.
- Improvement of situation on the labour market. Gradual rise of employment in the corporate sector.
- Strong expansion of Polish exporters. Decline of the current account deficit to 1.5% of the GDP.
- Amendment of the budget bill and slight tightening of the fiscal policy. Changes in the pension system.
- Cut of the NBP interest rate by 175 basis points, with the reference rate declining to the all-time low level of 2.50%.
- FX market volatility – weakening of the zloty at the start of the year and strengthening in the second half of the year amid better macroeconomic data.
- High volatility of yields on the debt market due to swings in market sentiments, substantial inflows and outflows of foreign capital as well as monetary policy prospects.
- Slight improvement in the loan growth, but only in some segments.
- Discontinuation of the downward trend in home prices in most of the main cities, resulting from reduced supply of housing units and some revival in the demand.

## II. Basic Information

### 1. History and Profile of Bank Zachodni WBK

#### History and Profile

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

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

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

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

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

#### Scope of Activities of Bank Zachodni WBK

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

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

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

## Business Model of Bank Zachodni WBK

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

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

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

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

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

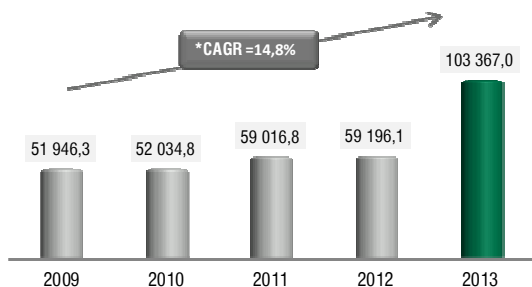
Through its Telephone and Electronic Banking Centre equipped with technologically advanced specialist ITC infrastructure, the bank provides customers with information on its products and services, sells selected products and renders after-sales service.

## Development of Bank Zachodni WBK in Years 2009-2013

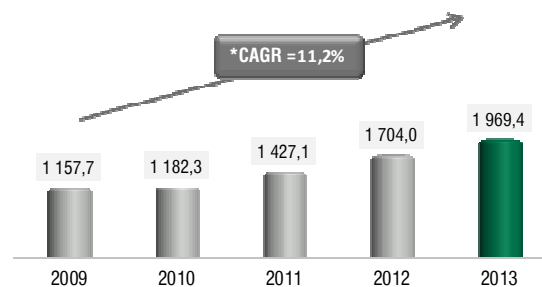
Selected data illustrating performance of Bank Zachodni WBK in years 2009-2013

Selected Financial Data (PLN m)	2013	2012	2011	2010	2009
Total Assets	103 367,0	59 196,1	59 016,8	52 034,8	51 946,3
Loans and Advances to Customers	67 614,5	39 464,7	37 422,2	31 952,7	32 625,0
Deposits from Customers	78 735,7	47 162,2	46 992,1	42 099,2	41 262,2
Total Equity	13 584,4	8 284,1	6 824,1	6 107,8	5 474,5
Profit Before Tax	1 969,4	1 704,0	1 427,1	1 182,3	1 157,7
Profit For the Period	1 611,5	1 367,6	1 158,5	916,9	985,3
Selected Ratios	2013	2012	2011	2010	2009
Cost to Income Ratio	50,2%	43,2%	49,6%	50,8%	47,9%
Capital Adequacy Ratio	15,2%	16,5%	14,6%	15,3%	12,3%
NPL Ratio	7,6%	5,1%	5,3%	6,6%	5,6%
Earnings per Share (PLN)	17,3	18,5	15,9	12,6	13,5
Net Book Value per Share (PLN)	145,2	111,0	93,4	83,6	74,9
Selected Non-Financial Data	2013	2012	2011	2010	2009
Number of Branches	830	519	526	527	512
Number of FTEs	11 917	8 217	8 726	9 163	8 809
Dividend (PLN)	10,7	7,6	8,0	8,0	4,0
Number of Shares at the Year-End	93 545 089	74 637 631	73 076 013	73 076 013	73 076 013
Closing Share Price at the Year-End (PLN)	387,6	241,9	226,0	214,9	190,0

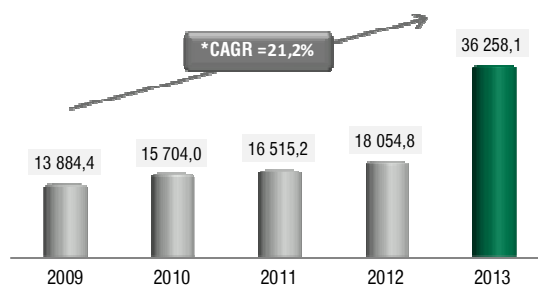
Total Assets of BZ WBK (PLN m) as at 31 Dec. in Years 2009-2013



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



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



\* CAGR – Compound Annual Growth Rate

## Position of Bank Zachodni WBK in the Polish Banking Sector

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

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

## Position of Banco Santander

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



## 2. Entities Related with Bank Zachodni WBK

### Subsidiaries

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

1. BFI Serwis Sp. z o.o. in liquidation
2. BZ WBK Asset Management S.A.
3. BZ WBK Towarzystwo Funduszy Inwestycyjnych S.A. - subsidiary of BZ WBK Asset Management S.A.
4. BZ WBK Inwestycje Sp. z o.o.
5. BZ WBK Faktor Sp. z o.o. - subsidiary of BZ WBK Finanse Sp. z o.o.
6. BZ WBK Finanse Sp. z o.o.
7. BZ WBK Leasing S.A. - subsidiary of BZ WBK Finanse Sp. z o.o.
8. BZ WBK Nieruchomości S.A.
9. Dom Maklerski BZ WBK S.A.
10. Kredyt Lease S.A. - subsidiary of BZ WBK Finanse Sp. z o.o.
11. Lizar Sp. z o.o. - subsidiary of Kredyt Lease S.A.
12. BZ WBK-Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.
13. BZ WBK-Aviva Towarzystwo Ubezpieczeń na Życie S.A.

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

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

- BZ WBK Finanse & Leasing following the merger with BZ WBK Leasing of 29 March 2013 (for more details, see Chapter V "Business Development", the "Business & Corporate Banking" section).
- Kredyt Trade in liquidation, as the entity was struck off the National Court Register on 22 August 2013 by resolution of the company's Extraordinary General Meeting of 29 June 2012.

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

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

### Associates

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

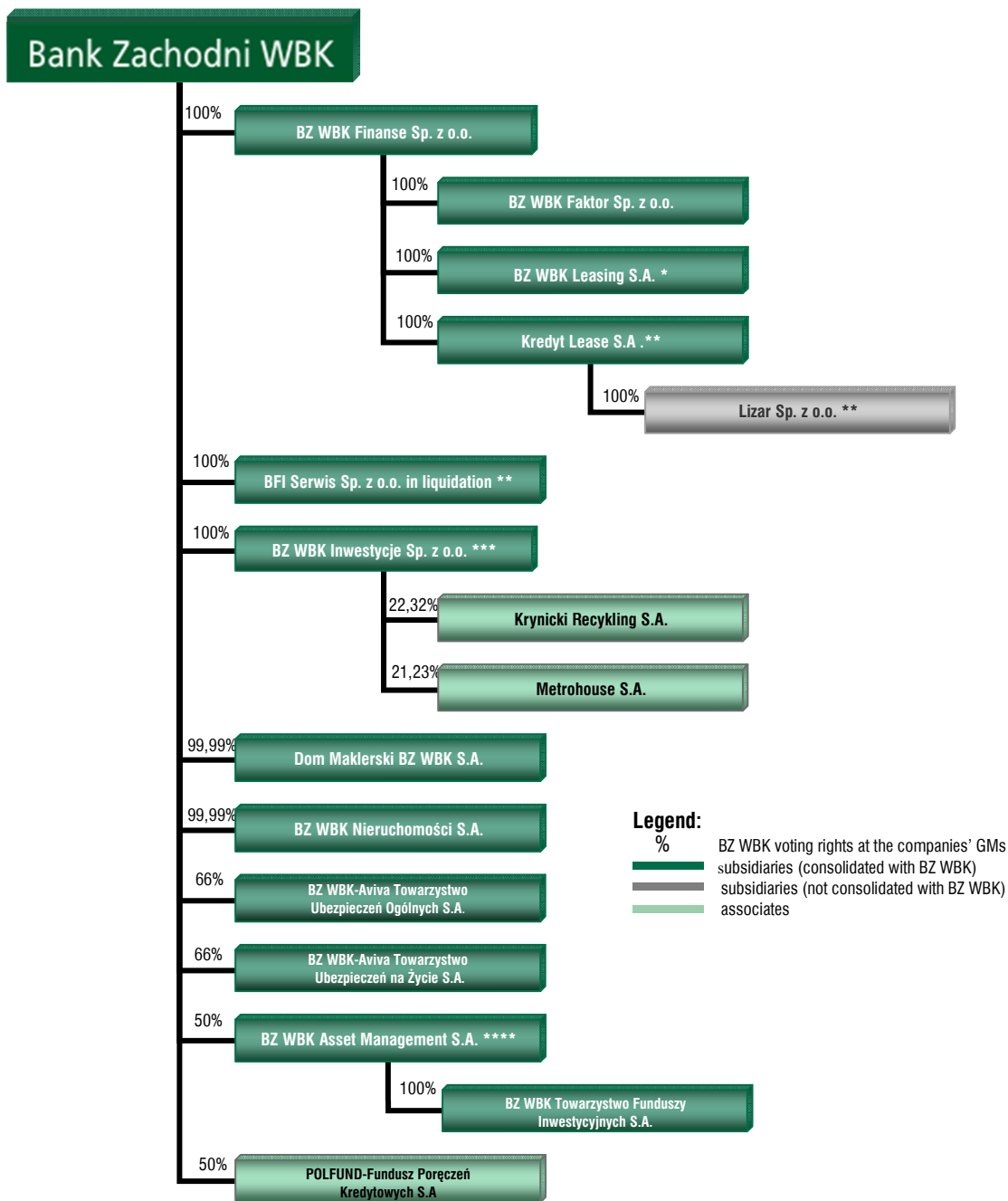
1. Krynicki Recykling S.A. - associated undertaking of BZ WBK Inwestycje Sp. z o.o.
2. Metrohouse S.A. - associated undertaking of BZ WBK Inwestycje Sp. z o.o.
3. POLFUND - Fundusz Poręczeń Kredytowych S.A.

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

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

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

## Organisational Chart of Entities Related with BZ WBK as at 31.12.2013



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

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

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

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

### 3. Other Equity Investments

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

Ref.	Company	% in the Share Capital		Voting Power at AGM	
		31.12.2013	31.12.2012	31.12.2013	31.12.2012
1.	Reliz Sp. z o.o. in liquidation <sup>1)</sup>	100,00%	-	100,00%	-
2.	Zakłady Przemysłu Jedwabniczego DOLWIS S.A. in liquidation <sup>1)</sup>	44,00%	-	44,00%	-
3.	Kuźnia Polska S.A.	16,67%	16,67%	16,67%	16,67%
4.	Chronos Film Sp. z o.o.	16,67%	-	16,67%	-
5.	Krajowa Izba Rozliczeniowa S.A.	14,23%	11,48%	14,23%	11,48%
6.	Agencja Wspierania Rozwoju Infrastruktury Lokalnej Sp. z o.o.	12,00%	-	12,00%	-
7.	Polski Koncern Mięсны DUDA S.A.	10,51%	0,25%	10,51%	0,25%
8.	Aviva Powszechne Towarzystwo Emerytalne Aviva BZ WBK S.A.	10,00%	10,00%	10,00%	10,00%
9.	Aviva Towarzystwo Ubezpieczeń na Życie S.A.	10,00%	10,00%	10,00%	10,00%
10.	Aviva Towarzystwo Ubezpieczeń Ogólnych S.A.	10,00%	10,00%	10,00%	10,00%
11.	Biuro Informacji Kredytowej S.A.	7,71%	5,14%	7,71%	5,14%
12.	AWSA Holland II B.V.	5,44%	5,44%	5,44%	5,44%
13.	Zakłady Remontowe Energetyki KATOWICE S.A.	5,00%	-	5,00%	-

1) Companies under control of a trustee in bankruptcy

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

## III. External Environment

### Economic Growth

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

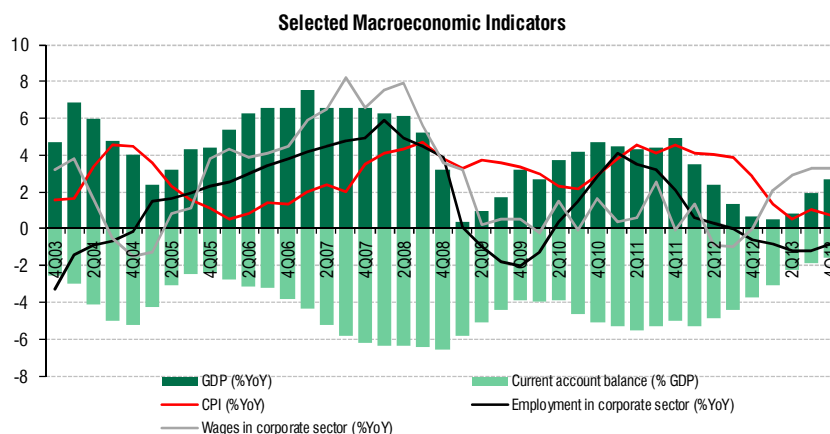
The pace of the GDP growth was accelerating throughout the year – from 0.5% YoY in Q1 to 2.7% in Q4. In due course, the GDP growth amounted to 1.6% in 2013 and was slightly lower than in 2012 (1.9%).

### Labour Market

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

### Inflation

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



## Monetary Policy

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

## Fiscal Policy

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

## Credit Market

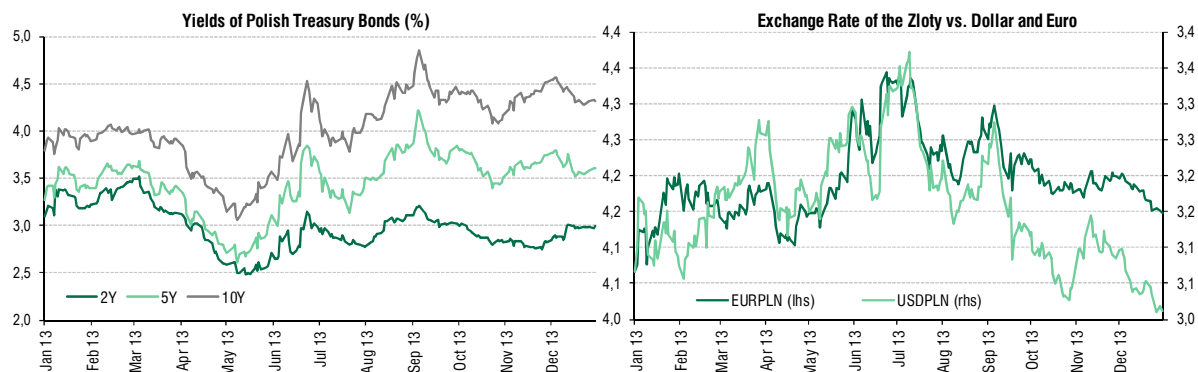
The credit market recorded some improvement of situation in 2013, but it was visible only in some of its segments. The total growth rate of corporate loans (data adjusted for FX fluctuations) declined from 2.1% YoY in January to -0.1% YoY in December. However, a notable improvement was recorded in the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

## Financial Market

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

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

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



## Equity Market

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

## Legal Environment

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

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

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

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

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

## IV. Legal Merger and Integration Process

### 1. Legal Merger and the Issue of Merger Shares

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

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

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

### 2. Changes in the Share Capital Structure After the Legal Merger

#### Secondary Offering for Shares

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

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

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

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



## Changes to the Voting Share of Open-Ended Pension Fund ING OFE

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. As at 27 March 2013, ING OFE held 4,966,506 shares of Bank Zachodni WBK, representing 5.31% of the share capital and the number of votes at the General Meeting of the bank.

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

## Summary of Changes in the Share Capital in 2013

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

Shareholders Holding over 5% of Voting Rights at AGM	Number of Shares and Votes at AGM as at the release dates of consecutive quarterly reports				% in the Share Capital & Voting Power at AGM as at the release dates of consecutive quarterly reports			
	24.10.2013*	25.04.2013	31.01.2013	25.10.2012**	24.10.2013*	25.04.2013	31.01.2013	25.10.2012**
	30.01.2014	30.07.2013			30.01.2014	30.07.2013		
Banco Santander	65 481 563	65 481 563	70 334 512	70 334 512	70,00%	70,00%	75,19%	94,23%
ING OFE		4 966 506				5,31%		
KBC NV			15 125 964				16,17%	
Others	28 063 526	23 097 020	8 084 613	4 303 119	30,00%	24,69%	8,64%	5,77%
<b>Total</b>	<b>93 545 089</b>	<b>93 545 089</b>	<b>93 545 089</b>	<b>74 637 631</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>	<b>100,0%</b>

\* valid as at 31.12.2013

\*\* valid as at 31.12.2012

## 3. Integration of Bank Zachodni WBK with former Kredyt Bank

### Integration Process

#### Stages of the integration process

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



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

## Delivery of the Integration Process in 2013

The legal merger marked the formal integration of the central units of both banks. At the beginning of January a common branch network management system was implemented, which accelerated the full integration of Branch Banking. In April 2013, the implementation of a new operating model for Business & Corporate Banking and integration of its structures were completed.

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

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

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

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

## Impact of the Merger on the Position of Bank Zachodni WBK

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

On a year-on-year basis, the value of the bank's assets went up by 74.6% to PLN 103.4bn, the loan book grew by 73.5% to PLN 71.0bn, and the deposit base increased by 66.9% reaching PLN 78.7bn. The bank has a stable deposit-based structure of funding. Solid capital position provides a buffer against the expanded loan portfolio and supports the dynamic business growth going forward. 12 months after the merger, the bank maintains satisfactory profitability and efficiency ratios. Both return on equity and cost to income ratio place the bank well in the performance league table.

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

## V. Business Development

### 1. Retail Banking

#### Customer Relationship

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

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

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

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

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

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

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

#### Key Business Areas

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

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

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

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

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

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

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

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

## Settlement Products

### Personal Accounts

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

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

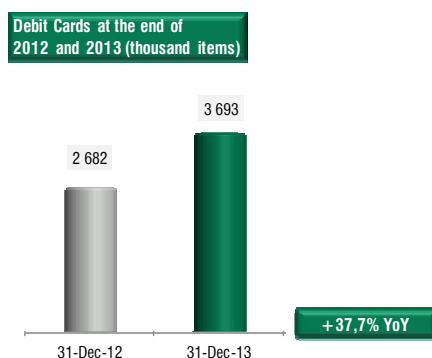
- The Account Worth Recommending is a value-adding product that is unique in the market. The account is maintained free-of-charge, regardless of the amount of monthly inflows. Likewise, no fees are charged for the associated products and services, including: debit card, a sticker for contactless payments,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

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

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

### Supporting Products and Services

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



## Bank Deposits

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

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

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

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

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

## Investment Products

### Structured Deposits

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

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

- 28 subscriptions prepared for all the bank's customers:
  - ✓ In 21 of the subscriptions, the bank offered deposits with the interest rate linked to the EUR/PLN or USD/PLN rate. The customers could choose between three investment strategy options: FX rate increase, decrease or stabilisation.
  - ✓ in 7 subscriptions the yield was linked to movements in stock indices, namely S&P500, WIG 20 and SX5E.
- Two subscriptions were addressed exclusively to VIP personal customers, with interest dependent on the volatility of the USD/PLN exchange rate.
- Two other subscriptions were addressed to the Wealth Management customers with the offered yield linked to stock indices: SPX and SX5E.

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

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

### Investment Funds

#### Introduction of investment products in the acquired branch network

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

#### In Plus Investment Programme

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

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

## Bancassurance

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

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

In co-operation with the BZ WBK-Aviva companies, the bank’s proposition was expanded to include a new insurance product – life insurance “Family Care” (“Opiekun Rodziny”). The business loan insurance offer Biznes Gwarant was streamlined in line with customer expectations. Also, an increased insurance protection was afforded under the “Safe Money” (“Pewne Pieniądze”) Financial Insurance Package and the rules were improved for payment of claims under “Your Safety” (“Twoje Bezpieczeństwo”) insurance for credit card holders. During the year, a number of initiatives were carried out to support the sales of selected insurance products, including the “Worry-Free Loan” (“Spokojny Kredyt”), insurance for cash loan borrowers.

## Wealth Management

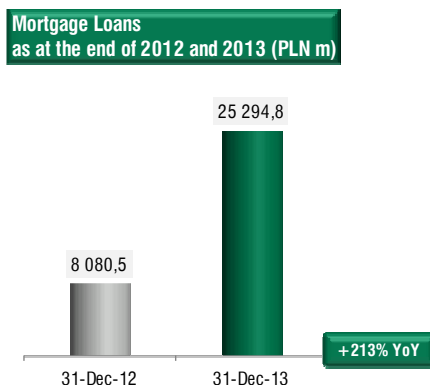
Bank Zachodni WBK renders wealth management services to customers who have signed relevant agreements with the bank. In June 2013, the Wealth Management Department merged with the Private Brokerage team of Dom Maklerski BZ WBK, which apart from ensuring the higher number of advisors and a stronger geographical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

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

## Personal Loans

### Mortgage Loans

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

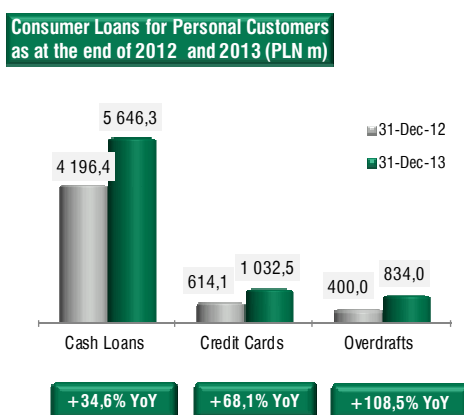




The key highlights of the bank's mortgage business in 2013 are as follows:

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

## Consumer Loans



### Cash Loans and Overdrafts

In February 2013, the bank standardised the cash loan parameters in the branch networks of both banks while in September the credit processes were harmonised.

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

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

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

### Credit Cards

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



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

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

### Development of Offering for Small Firms

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

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

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

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

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

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

## Selected Distribution Channels for Retail Customers

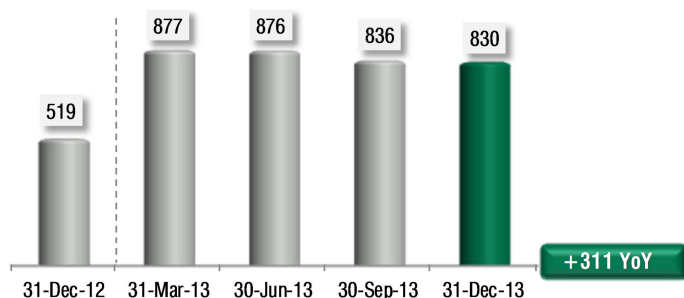
### Branch Network and Complementary Channels

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

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

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

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



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



## ATM network

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

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

## Telephone and Electronic Banking Centre (TEBC)

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

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

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

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

## Mobile Banking

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

- ✓ Transfer to any external account;
- ✓ Transfer to a mobile (phone number);
- ✓ "Scan & Pay" transfer without entering beneficiary's details (by scanning the QR code);
- ✓ Purchase of travel insurance;
- ✓ Mobile purchases – possibility to buy different products and services from Partners;

- ✓ Cash withdrawal from an ATM without a card;
- ✓ Express Elixir transfers in the mobile banking;
- ✓ Mobile banking services for the customers of BZWBK24 Mini Firma.

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

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

### **BZ WBK24 Electronic and Internet Banking for Retail Customers**

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

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

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

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

### **BZ WBK24 Electronic Banking for Business Customers**

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

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

## **Services for Financial Institutions**

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

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

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

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

## 2. Business & Corporate Banking

### Changes in Segmentation, Organisational Structure and Service Model

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

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

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

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

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

### Integration Processes and Product Offer Development

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

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

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

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

## Development of Product Offer and Scope of Services

In parallel with delivery of the integration process, the bank's offer for business customers was extended to include MasterCard Corporate Card (debit and charge card) which facilitates non-cash payments (including online transactions) and ATM withdrawals worldwide. This product gives companies full control over expenses through individual limits and real-time view of transactions in iBiznes24 electronic banking system. MasterCard Corporate Charge cards also have a 21-day non-interest bearing period.

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

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

## International Desk

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

## 3. Global Banking & Markets

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

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

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

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

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

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

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

## Global Transactional Banking

The Global Transactional Banking provides support to the Division's customers in respect of current accounts, deposits and working capital needs. The proposition also includes factoring, guarantees, trade finance, cash management and confirming. In 2013, several financing transactions were finalised, which had a positive impact on the bottom line. Among other things, the bank provided financing to companies from the energy, retail trade, shipbuilding and finance sectors and closed two inventory financing deals.

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

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

## Credit Markets

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

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

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

## Rates

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

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

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

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

## Equity

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

### Corporate Finance Area

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

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

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

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

## VI. Development Strategy

### 1. Delivery of Bank Zachodni WBK Strategy for 2013-2015

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

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

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

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

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

### 2. The Next Generation Bank Programme



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

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



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

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

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

### 3. Forecast Economic Situation in 2014

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

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

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

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

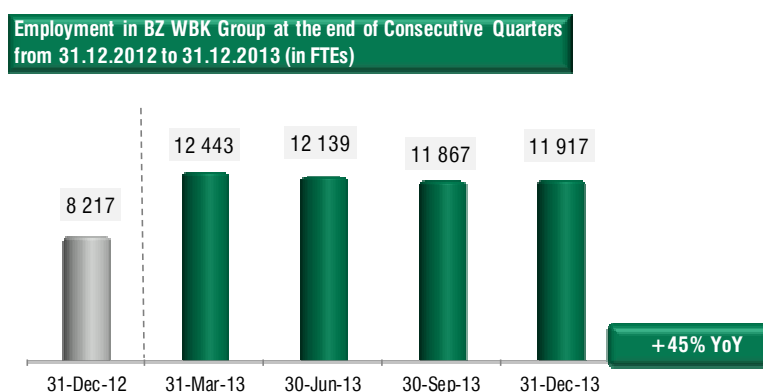
The main interest rates will remain stable at least until the middle of 2014, as declared by the Monetary Policy Council in its forward guidance. In the following months the MPC will start analysing the situation on a "month-to-month" basis. Significant acceleration of economic growth and some rise in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

## VII. Human Resources and Corporate Culture

### 1. Human Resources Management

#### Human Resources

As at 31 December 2013, the number of FTEs in Bank Zachodni WBK was 11,917, i.e. 3,700 higher YoY, as a result of acquisition of Kredyt Bank. In 2013, the bank continued streamlining organisational units in the Business Support Centre and Branch Banking with a view to optimisation targets, current business needs and market environment.



#### HR Initiatives

##### Career Paths

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

##### Management of Employee Relationships

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

##### Staff Performance Management Process

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

## Other HR initiatives

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

## Remuneration System

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

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

## Performance Share Programme

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

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

## Training

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

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

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

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

## 2. Business Ethics

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

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

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

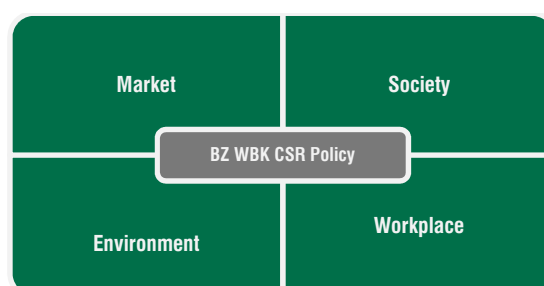
The bank also promotes open and sincere communication, encouraging staff to speak up about any issues of concern. To that end, the bank maintains dedicated communication channels for the staff to raise any matters, such as the breach of ethical standards.

## 3. Corporate Social Responsibility of Bank Zachodni WBK

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

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

Four areas of corporate social responsibility of Bank Zachodni WBK



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

### Financial Education

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

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

## Environmental Protection Initiatives

- “Donate your old mobile phone” (“Komórki do zbiórki”) – an initiative taken together with Our Earth Foundation to collect old mobile phones at the bank’s branches. The proceeds from recycling and sales were used to replace household appliances in the child support institutions.
- Green branches – another 30 branches of Bank Zachodni WBK were certified as Green Branches by the Environmental Partnership Foundation to confirm that they meet ecological standards (33 branches in total as at the end of 2013).
- Ecological workshops for children of BZ WBK employees.

## Barrier-Free Banking

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

- ✓ Architectural barriers were eliminated from 100 branches (as confirmed by the Certificates of Availability issued by the Integration Association).
- ✓ 215 ATMs designed for the visually impaired were made available.
- ✓ BZWBK24 home banking services were certified for accessibility to visually impaired customers.

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

## Patronage of Culture and Arts

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

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

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

## Santander Universidades



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

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

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

## Charity and Educational Activities of Bank Zachodni WBK Foundation

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

- The "Bank of Children's Smiles" initiative launched in 2004 to help children from dysfunctional families. The Foundation offers mini-grants to institutions and organisations for educational projects. In 2013, the financial support was provided to 166 organisations.
- The "Bank of Ambitious Youth" initiative undertaken in 2010 to support the ambitious young people engaged in educational, public and social projects. The purpose of the programme is to unlock the potential of the young creative Poles who cannot turn their ideas into reality without the financial support. In 2013, the Foundation supported 160 projects.
- Furthermore, the Foundation coordinates the corporate volunteering initiatives by providing advice and funding to bank employees who are committed to help others or engage in important social events.

## 4. Customer Relationship

### Quality Management

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

- Customer-centric approach – all actions are aimed to tailor the products and service model to the needs of the customers.
- Two-way communication aimed to receive customer feedback to understand and meet customer expectations (also on the basis of Customer Satisfaction Index surveys).
- Access to all products and services in each contact point.
- Diversification of distribution channels with a particular focus on development of mobile and electronic banking.
- High customer satisfaction index despite the ongoing integration process.

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

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

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

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

## Marketing and Communication Campaigns

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

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

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

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

## 5. Awards, Recognitions, Positions in Rankings



### Bank Zachodni WBK (BZ WBK)

<b>Financial Brand of 2013, in the "Bank" category</b>	Award received from the <i>Gazeta Finansowa</i> weekly. The bank was recognised for the sustainable and coherent development, innovation and friendly relationship with personal and business customers. The smooth delivery of the merger with Kredyt Bank was acknowledged as well.
<b>Socially Devoted</b>	Certificate from Socialbakers (social media analytics platform), in recognition of the top customer communication standards in social media (January 2013).
<b>2012 IT Leader of Financial Institution Awards</b>	An accolade in the 11th edition of the IT Leader of Financial Institution Awards, a competition organised by <i>Gazeta Bankowa</i> , in the "Back-office Systems" category for end-to-end design and implementation of MIS Corpo for the BZ WBK Business and Corporate Banking Division.
<b>Hits of the Year 2013</b>	An award in the 6th edition of the technological competition of <i>Gazeta Bankowa</i> ("Hits of the Year 2013") in the "Products" category for credit products available in the "buy-by-click" formula (March 2013).
<b>Best Bank 2013</b>	Recognition for BZ WBK's effectiveness in the "Large Bank" category in the 21st edition of the 2013 Best Bank contest (May 2013).
<b>Trusted Brand</b>	The Crystal Trusted Brand Emblem and Crystal Trusted Brand Statuette awarded in the "Bank" category, based on consumer surveys organised by <i>Reader's Digest</i> (May 2013).
<b>Company of the Year 2013</b>	At the Economic Forum in Krynica, the bank was named the "Company of the Year 2013" in recognition of sustainable support for Polish companies and effective financing of Polish infrastructure in 2013 (September 2013).
<b>Top Brand Consumer Awards 2013</b>	Top accolade in the "Bank accounts for seniors" category for Konto Aktywni 50+ (Active 50+ Account) in the 9th edition of the Poland-wide ranking "Top Brand Consumer Awards 2013".
<b>"TOP 30" Universum Student Survey</b>	Bank Zachodni WBK was ranked among the best 30 Polish employers in the "business" category of the Universum Student Survey (the largest survey among students in Poland).
<b>BZWBK24 Mobile named the best mobile application</b>	The bank took the 1st position in the bank applications ranking conducted by Puls Biznesu, in recognition of the unparalleled functionalities and ATM/branch locator available in satellite or standard mode (November 2013).
<b>Best in Central &amp; Eastern Europe</b>	The award for the best distributor of structured products in Central in Eastern Europe (November 2013) granted by Incisive Media (international business-to-business information provider).
<b>SUPERCESSIO2013 Award</b>	The bank received the 1st award in the financial creditors category at the 4 <sup>th</sup> Debt Management Conference (November 2013) in recognition of the property bidding procedure.



## VIII. Organisational and Technological Development

### 1. Organisational Changes

#### Branch Banking and Business Support Banking of Bank Zachodni WBK

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

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

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

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

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

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

#### Expected Development of the Structure of Bank Zachodni WBK Group

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

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

On 27 November 2013, Bank Zachodni WBK S.A. entered into an investment agreement with Santander Consumer Finance S.A. (SCF) and Banco Santander S.A., whereby it undertook to buy 3,120,000 ordinary and privileged shares of Santander Consumer Bank S.A. (SCB) seated in Wrocław, with a nominal value of PLN 100 each, representing 60% of share capital of SCB and approximately 67% of votes at the General Meeting of SCB shareholders. Under the agreement, within three months of closing, the parties will use their best endeavours to eliminate the privileged feature of the SCB shares, which will result in the bank holding 60% stake in the SCB share capital and 60% votes at the General Meeting of SCB.

The bank promised to issue new shares to be offered to and acquired solely by SCF in exchange for a non-cash consideration in the form of SCB shares. The value of SCB shares specified in the agreement is PLN 2,156,414,400. The number of new shares to be issued by the bank in exchange for the SCB shares will be determined using a stated formula, after receipt of KNF's decision confirming it does not object to the transaction.

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

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

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

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

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

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

## **2. IT Development**

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

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

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

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

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

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

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

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

### 3. Capital Expenditure

In 2013, Bank Zachodni WBK spent PLN 169.7m (compared to PLN 76.1m in 2012) on the delivery of investment projects, mainly on the ones related to the merger of Bank Zachodni WBK and Kredyt Bank, development and management of IT systems, IT equipment, Branch Banking development, Internet, mobile banking, ATMs and cash-deposit machines.

#### Integration with Kredyt Bank

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

#### IT Systems Development and Management/IT Equipment

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

#### Branch Banking Development

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

#### Development of Internet and Mobile Banking

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

#### ATMs/Cash-Deposit Machines

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

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

**Other**

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

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

## IX. Financial Situation

### 1. Income Statement

#### Profit Earned by Bank Zachodni WBK in 2013

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

PLN m			
Condensed Income Statement (for analytical purposes)	2013	2012*	YoY Change
<b>Total income</b>	<b>5 364,2</b>	<b>3 860,4</b>	<b>39,0%</b>
- Net interest income	3 123,4	2 150,6	45,2%
- Net fee & commission income	1 559,1	1 195,8	30,4%
- Other income	681,7	514,0	32,6%
<b>Total costs</b>	<b>(2 693,3)</b>	<b>(1 665,9)</b>	<b>61,7%</b>
- Staff, general and administrative expenses	(2 456,0)	(1 526,7)	60,9%
- Depreciation/amortisation	(209,5)	(125,9)	66,4%
- Other operating expenses	(27,8)	(13,3)	109,0%
<b>Impairment losses on loans and advances</b>	<b>(701,5)</b>	<b>(490,5)</b>	<b>43,0%</b>
<b>Profit-before-tax</b>	<b>1 969,4</b>	<b>1 704,0</b>	<b>15,6%</b>
Tax charges	(357,9)	(336,4)	6,4%
<b>Net profit for the period</b>	<b>1 611,5</b>	<b>1 367,6</b>	<b>17,8%</b>

\* Financial data for 2012 represent pre-merger BZ WBK performance (excluding former Kredyt Bank)

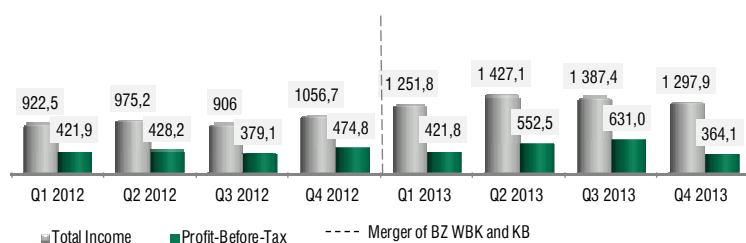
In 2013, Bank Zachodni WBK posted a profit-before-tax of PLN 1,969.4m, up 15.6% YoY. The net profit attributable to Bank Zachodni WBK shareholders was PLN 1,611.5m and higher by 17.8% YoY.

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

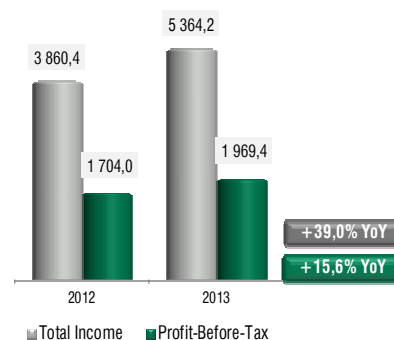
- The bank's earnings in 2013 were primarily affected by the mode of expansion pursued:
  - ✓ On acquisition of Kredyt Bank on 4 January 2013, Bank Zachodni WBK significantly grew in size, which was reflected in the annual growth of its key business volumes and individual income and cost items. As the acquired entity had a similar business profile, the merger did not result in any serious restructure of the bank's statement of financial position or its operating profit. At the level of business portfolios, the biggest change was noted in mortgages due to a considerable value of the acquired mortgage loan-book.
  - ✓ In 2013, expenses were incurred in relation to the continued integration process. The total charge to the income statement was PLN 261.2m vs. PLN 37.8m in 2012.
- The Bank's financial performance was to a large extent influenced by the economic environment and the situation in financial markets.
  - ✓ In 2013, the bank actively managed the structure of its expanded portfolio of the available-for-sale securities, successfully exploiting the market dynamics. Consequently, the gains on debt securities were PLN 125.2m higher than a year before.

- ✓ The downward trend in the NBP interest rates in the first half of the year followed by their stabilisation at record lows, had a moderately negative impact on the net interest margin. Despite the substantial narrowing of the net interest margin at the beginning of the year, in the following quarters it remained in the 3.2%-3.4% band. With higher business volumes and quickly evolving balance sheet structure at the portfolio level, the bank's net interest income increased by PLN 972.8m YoY.
- ✓ The deposit base development was shaped by improving moods in financial markets and downward trends in interest rates, which encouraged customers to put money in current accounts (including savings accounts) or invest in mutual funds, while curbing the growth of term deposits (particularly in the first half of the year). The bank's credit delivery was strongly correlated with the economic developments and the overall investment climate.
- ✓ Volatile financial standing of enterprises, especially from the higher risk sectors, as well as restatements and methodological adjustments arising from the Bank's conservative approach to credit risk management, led to an increase in the credit impairment charges by PLN 211m YoY.

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



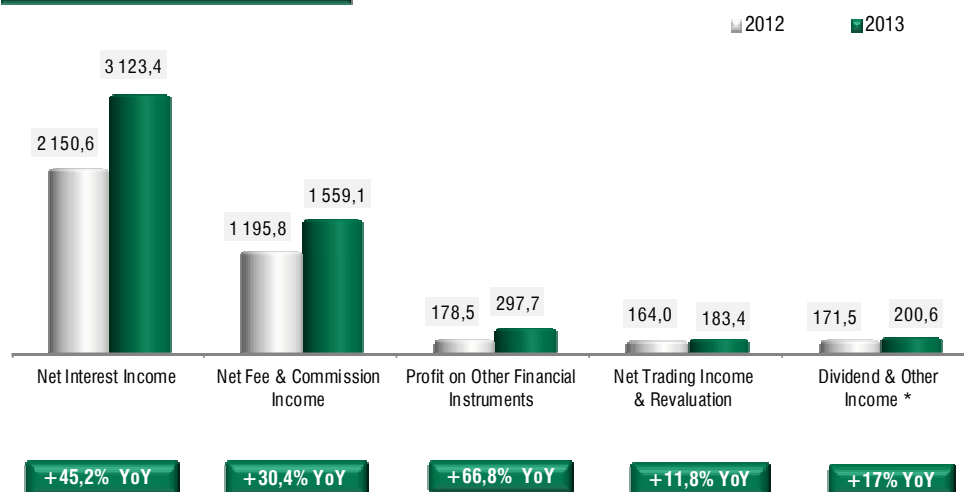
Total Income and Profit-Before-Tax in 2012 and 2013 (PLN m)



## Total Income

The total income reported by Bank Zachodni WBK in 2013 was PLN 5,364.2m and up 39% YoY.

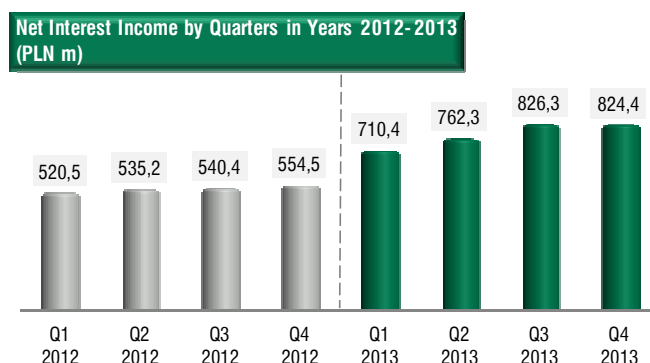
Total Income (PLN m) in Years 2012-2013



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

## Net Interest Income

The net interest income increased by 45.2% YoY to PLN 3,123,4m.



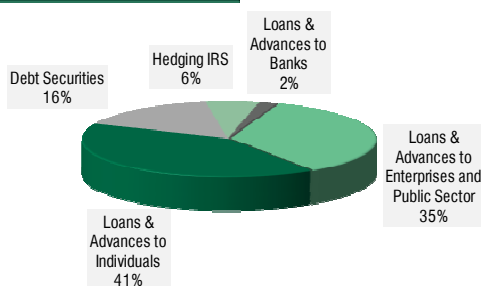
The net interest income includes the interest income of PLN 254.4m (PLN 158.7m in 2012) from CIRS transactions designated as hedging instruments under cash flow hedge accounting. The respective amount was disclosed in the Financial Statements of Bank Zachodni WBK for 2013, in Note 5 "Net interest income" under "Interest income from IRS hedges", which in 2013 amounted to PLN 314.7m compared with PLN 177.2m in 2012.

Taking into account the bank's other non-hedging income from CIRS and IRS transactions (PLN 13.9m for 2013 and PLN 14.9m for 2012), reported under "Net trading income and revaluation", the underlying net interest income increased by 44.9% YoY. In 2013, the Bank conducted a revision of swap points allocation used for calculation of adjusted net interest margin. As a result, the allocation has been limited to derivative instruments dedicated solely for the liquidity management purposes.

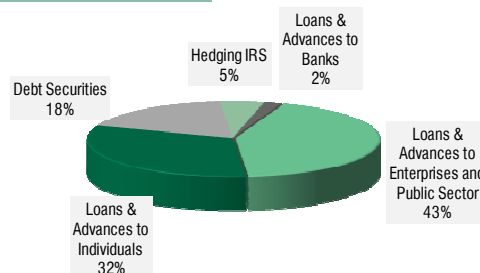
In 2013, interest income was PLN 5,085.8 and increased by 35.6% YoY, exceeding the growth rate of interest expenses which went up 22.7% YoY to PLN 1,962.4m.

The growth of interest income was driven by mortgage loans (+99.9% YoY), other retail loans (+56.3% YoY), IRS hedging transactions (+77.6% YoY) and business loans (+13.1 YoY).

**Structure of Interest Revenues in 2013**

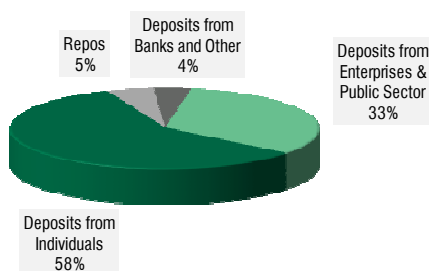


**Structure of Interest Revenues in 2012**

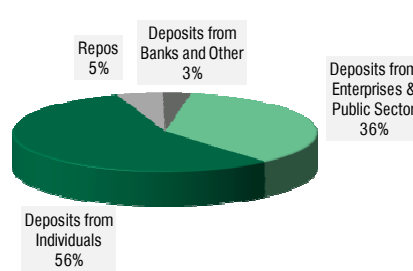


The interest expenses were primarily generated by retail deposits (+27.1% YoY), reverse-repo transactions (+25.7% YoY), business deposits (+9.7% YoY) and subordinated obligations (+164.5% YoY).

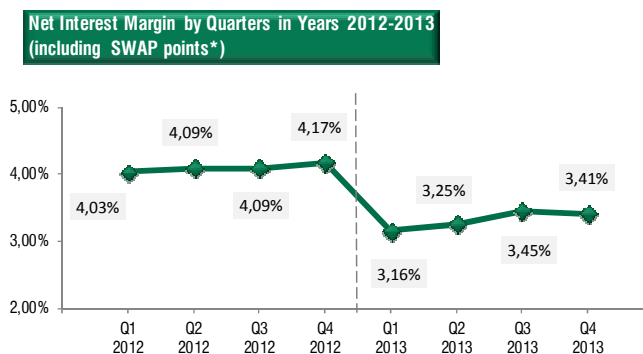
**Structure of Interest Expense in 2013**



**Structure of Interest Expense in 2012**



Despite sharp interest rate reductions (the NBP reference rate cut from 4.0% in January 2013 to 2.5% in July 2013), for most of 2013, the quarterly net interest margin of Bank Zachodni WBK was growing steadily, reaching 3.45% in Q3. It was only in the last quarter of the year that the net interest margin narrowed slightly (by 0.04 p.p.) as a result of the competition in the deposit market, the measures undertaken by the Bank to strengthen its long-term deposit base and changes in the structure of interest-bearing assets (including a growth in the investment securities).



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

In the whole of 2013, the net interest margin was at 3.3% vs. 4.1% in 2012.

Loans to customers brought a yearly average nominal interest income of 5.5% compared with 7.0% in 2012. Customer deposits carried a yearly average nominal interest cost of 2.3% compared with 3.2% a year before.

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



## Net Fee and Commission Income

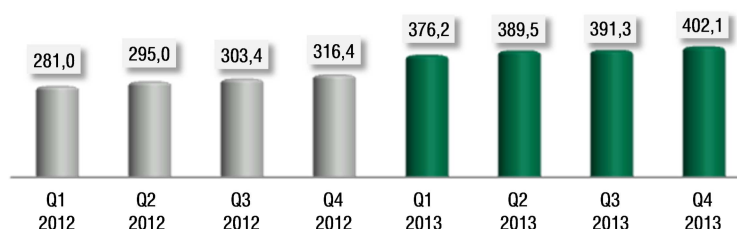
PLN m

Net Fee and Commission Income	2013	2012 <sup>5)</sup>	YoY Change
E-Business & payments <sup>1)</sup>	455,4	346,6	31,4%
Account maintenance & cash transactions <sup>2)</sup>	304,0	244,7	24,2%
FX fees	296,7	233,8	26,9%
Credit fees <sup>3)</sup>	194,6	129,5	50,3%
Mutual fund distribution & asset management	124,4	80,8	54,0%
Insurance fees	91,1	93,9	-3,0%
Credit card fees	73,4	63,5	15,6%
Other <sup>4)</sup>	19,5	3,0	550,0%
<b>Total</b>	<b>1 559,1</b>	<b>1 195,8</b>	<b>30,4%</b>

Includes:

- 1) Fees for foreign and mass payments, Western Union transfers, trade finance, debit cards, services for third parties as well as other electronic & telecommunications services.
- 2) Fee revenues from account maintenance & cash transactions have been reduced by the corresponding costs, which in Note 6 "Fee and Commission Income" are included in the line item "Other Commissions".
- 3) Fees related to lending which are not amortised to interest income.
- 4) Fees related to credit cards, guarantees & sureties, issue arrangement and other services.
- 5) Financial data present BZ WBK performance prior to the legal merger (excl. Kredyt Bank).

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



In 2013, the net fee and commission income was PLN 1,559.1m and higher by 30.4% YoY as a result of the bank's business expansion through the merger and organic growth.

High growth in percentage terms (+54.0% YoY) was noted in the net fee and commission income from distribution of Arka BZ WBK TFI mutual funds and management of KBC TFI assets, mainly on the back of strong inflows of funds to mutual funds amid falling interest rates on bank deposits and generally improved market sentiment.

Higher credit fee income (+50.3% YoY) reflects financing services provided to large corporate clients, especially those from the Global Banking & Markets portfolio.

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

The net fee and commission income from credit cards went up by 15.6% YoY driven by the expanded credit card base and higher turnover on cash transactions and transfers made with such instruments.

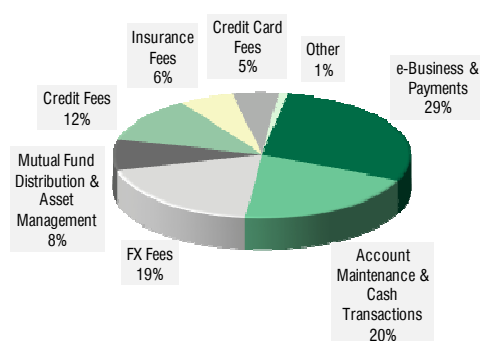
The income from FX fees increased by 26.9% YoY driven by higher customer FX trading volumes in the volatile currency market.

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

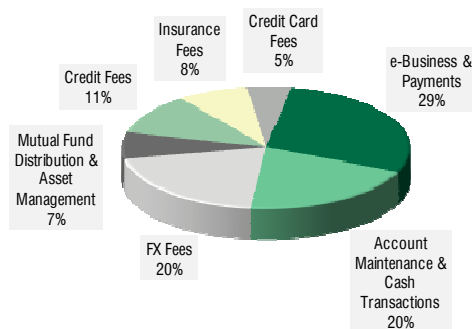
Other fees increased considerably by 550% YoY along with stronger activity in the capital market (equity offerings) and the guarantee business (“de minimis” guarantee scheme), which translated into a rise in fees from issue arrangement (+141.2% YoY) and guarantees (+129.4% YoY).

The slight decrease in the net income from bancassurance business (-3% YoY) results from the lower income achieved from the insurance for cash loan borrowers due to the premium reimbursements on account of loan prepayments.

Net Commission Income Structure 2013



Net Commission Income Structure in 2012



### Gains on Other Financial Instruments

The gains on other financial instruments increased by 66.8% YoY to PLN 297.7m as a result of higher profit on the sale of debt securities (+PLN 125.2m YoY) as part of duration management on the available-for-sale debt securities portfolio, a process which depends on the market conditions and the bank’s risk and liquidity management objectives.

### Net Trading Income and Revaluation

Net trading income and revaluation (“Net trading income”) amounted to PLN 183.4m and increased by 11.8% YoY in line with the market evolution.

The largest element under this line, net income on interbank FX and derivative trading, reached PLN 182.7m vs. PLN 152.2m in the corresponding period. The growth under this line was chiefly supported by the income on FX interbank transactions, which increased four-fold during the year to PLN 72.4m.

The other significant component of the net trading income and revaluation, i.e. other currency transactions reported a loss of PLN 5.7m, while in the comparable period this business line yielded a profit of PLN 12.0m.

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

The result on interbank FX and derivative trading includes interest-related income of PLN 13.9m on non-hedging CIRS and IRS transactions (PLN 14.9m in 2012). It excludes, however, the interest income from the CIRS transactions designated as hedging instruments under the cash flow hedge accounting (PLN 254.4m in 2013 vs. PLN 158.7m in 2012), which is disclosed in the Financial Statements of Bank Zachodni WBK for 2013, in Note 5 “Net interest income” under “Interest income from IRS hedges”.

## Other Income Items

Dividend and other income amounted to PLN 200.6m, of which:

- PLN 132.1m is the dividend income (vs. PLN 120.6m in 2012).  
In 2013, the bank posted higher dividend income from subsidiaries and associates (+PLN 8.6m) as well as non-controlled entities (+PLN 2.9m).
- PLN 69.4m is for other operating income, compared with PLN 50.9m earned in 2012.

## Impairment Charges

	PLN m	
Impairment Losses on Loans and Advances	2013	2012 <sup>1)</sup>
Collective and individual impairment charge	(867,6)	(524,7)
Impaired but not reported losses charge	180,3	17,0
Recoveries of loans previously written off	2,1	12,6
Off-balance sheet credit related facilities	(16,3)	4,6
<b>Total</b>	<b>(701,5)</b>	<b>(490,5)</b>

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

In 2013, the loan impairment charge to the profit and loss account was PLN 701.5m, up 43% YoY. The changes in the value and structure of impairment charges are a result of the bank's prudential approach to credit risk management.

During the year, selected exposures and credit portfolios of the bank were transferred from the portfolio of debts without identified indications of impairment to the impaired portfolio, which resulted in a positive balance of the incurred but not reported (IBNR) charges of PLN 180.3m accompanied by an increase in the negative balance of the collective and individual impairment charges of PLN 867.6m. This transfer was mainly due to revision of the parameters and models used for the calculation of individual and collective impairment while individual impairment charges reflected deterioration of the borrowers' performance, mainly companies operating in higher credit risk sectors.

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

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

As at 31 December 2013, Bank Zachodni WBK's NPL ratio was 7.6% compared with 5.1% at the end of 2012. The cost of risk ratio was 1.0% vs. 1.2% in 2012.

## Total Costs

PLN m			
Total costs	2013	2012 <sup>1)</sup>	YoY Change
Staff, general and administrative expenses, of which:	(2 456,0)	(1 526,7)	60,9%
- Staff expenses	(1 270,0)	(866,3)	46,6%
- General and administrative expenses	(1 186,0)	(660,4)	79,6%
Depreciation/amortisation	(209,5)	(125,9)	66,4%
Other operating expenses	(27,8)	(13,3)	109,0%
<b>Total costs</b>	<b>(2 693,3)</b>	<b>(1 665,9)</b>	<b>61,7%</b>
Integration costs	(261,2)	(37,8)	591,0%
<b>Underlying total costs</b>	<b>(2 432,1)</b>	<b>(1 628,1)</b>	<b>49,4%</b>

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

In 2013, the total costs of Bank Zachodni WBK amounted to PLN 2,693.3m, and were 61.7% higher YoY as a result of the increased business size following the merger and the intensive integration process whose aim is to create a uniform, effective and modern financial organisation. The integration costs of PLN 261.2m incurred in 2013 particularly resulted from:

- continued rationalisation of banking outlets (merging or liquidation of overlapping or loss-making branches to optimise the bank's distribution network);
- consultancy services for the individual stages of the Integration Programme;
- advertising and image-building campaign supporting the bank's new market positioning, and the promotion of selected products (Account Worth Recommending, mobile banking, SME loan and cash loan);
- IT services for the Mass Data Migration Programme;
- fulfilment of the bank's obligations undertaken in the legal merger with Kredyt Bank.

Excluding the integration costs, the underlying cost base increased by 49.4% to PLN 2,432.1m.

As the growth in costs (+61.7% YoY) outpaced the growth in income (+39% YoY), the efficiency (cost-to-income) ratio increased from 43.2% in 2012 to 50.2% in 2013. Excluding the integration costs, the adjusted cost-to-income ratio was 45.3% vs. 42.2% in 2012.

### General and Administrative Expenses

The total general and administrative expenses of Bank Zachodni WBK were PLN 1,186m, up by 79.6% YoY.

The merger along with the integration and development projects had the strongest impact on the following cost lines of the bank: consultancy and advisory services (+215.9% YoY), maintenance and lease of premises (+70.7% YoY), marketing and entertainment (+65.6% YoY) and IT usage (+66.9% YoY).

In 2013, substantially higher fees were paid to the market regulators (+78.1% YoY), which resulted from the higher basis of their calculation in effect of amalgamating the business volumes of the merged entities and implementing the amended Act on the Banking Guarantee Fund (October 2013), which set up a stabilisation fund created from the prudential fees paid by the banks participating in the guarantee system. An increase was also reported in the cost of consumables, cheques and cards (+73.4% YoY), partly attributable to the migration of customers to the cards of Bank Zachodni WBK. The higher postal and telecommunications fees (+44.3% YoY) result from the mass communication campaigns addressed to customers in connection with the modification and harmonisation of products.

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

## Staff Expenses

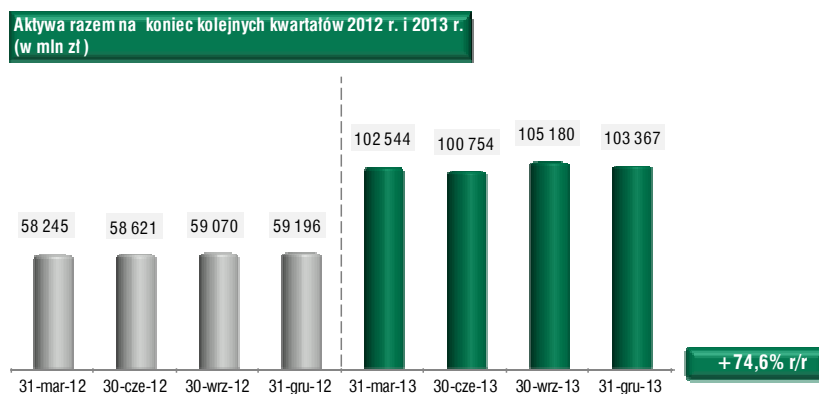
Staff expenses of Bank Zachodni WBK increased by 46.6% YoY to PLN 1,270m as a result of taking over employees of Kredyt Bank. In 2013, employment in the bank increased by 45% YoY to 11,917 FTEs. The staff expenses contain a portion of the integration costs.

The key increases in this cost category were noted in the accruals for unutilised leaves, the cost of social benefits (+53.3% YoY), statutory deductions from salaries (+49.4% YoY) and salaries and bonuses (+44.8% YoY).

## 2. Financial Position

### Assets

As at 31 December 2013, total assets of Bank Zachodni WBK amounted to PLN 103,367.0m, and were higher by 74.6% YoY.



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

Assets (condensed presentation for analytical purposes)	PLN m				
	31.12.2013 1	Structure 31.12.2013 2	31.12.2012 3 <sup>1)</sup>	Structure 31.12.2012 4 <sup>1)</sup>	Change YoY 1/3
Loans and advances to customers <sup>2)</sup>	67 614,5	65,4%	39 464,7	66,7%	71,3%
Investment securities	21 924,5	21,2%	11 697,4	19,8%	87,4%
Cash and operations with Central Banks	5 149,7	5,0%	4 157,3	7,0%	23,9%
Financial assets held for trading and hedging derivatives	2 510,6	2,4%	1 072,1	1,8%	134,2%
Loans and advances to banks	2 165,4	2,1%	1 454,3	2,4%	48,9%
Fixed assets, intangibles and goodwill	2 652,5	2,6%	581,7	1,0%	356,0%
Other assets	1 349,8	1,3%	768,6	1,3%	75,6%
<b>Total</b>	<b>103 367,0</b>	<b>100,0%</b>	<b>59 196,1</b>	<b>100,0%</b>	<b>74,6%</b>

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

2) Includes impairment write-down.

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

The highest increase (+356% YoY) was noted in "Fixed assets, intangibles and goodwill" as a result of the goodwill of PLN 1,688.5m arising on acquisition of Kredyt Bank.

As the bank's balance sheet expanded (both through a legal merger and organic growth), an increase was observed in the volumes used in the process of managing its structure and liquidity, including the financial assets held for trading (+167.4% YoY), investment securities (+87.4% YoY), loans to banks (+48.9% YoY) and cash and operations with central banks (+23.9% YoY).

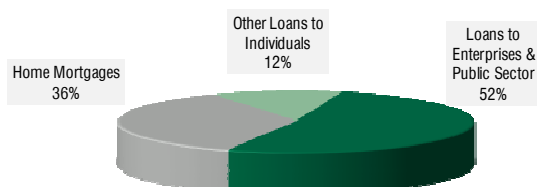
Net loans and advances to customers increased by 71.3% to PLN 67,614.5m, representing 85.9% of the deposits from non-financial entities funding them, as compared with 83.7% at the end of December 2012.

**Credit Portfolio**

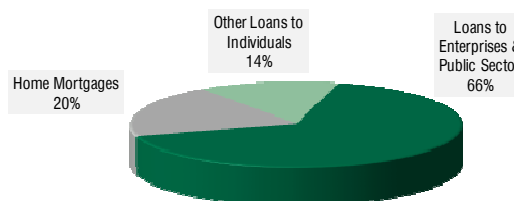
		PLN m		
<b>Gross Loans and Advances to Customers</b>		<b>31.12.2013</b>	<b>31.12.2012<sup>1)</sup></b>	<b>Change YoY</b>
Loans and advances to enterprises and public sector customers		36 885,1	27 185,7	35,7%
Loans and advances to individuals		34 035,1	13 697,3	148,5%
Other		50,0	27,0	85,2%
<b>Total</b>		<b>70 970,2</b>	<b>40 910,0</b>	<b>73,5%</b>

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

**Structure of Loans & Advances to Customers as at 31.12.2013**



**Structure of Loans & Advances to Customers as at 31.12.2012**

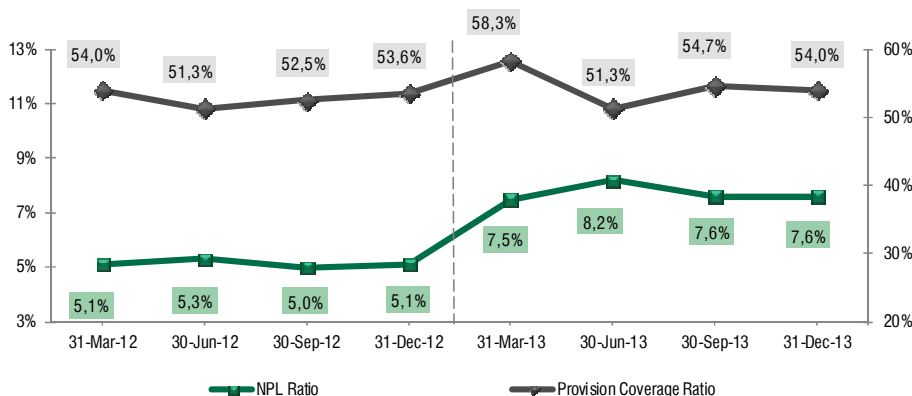


As at 31 December 2013, gross loans and advances to customers amounted to PLN 70,970.2m, up by 73.5% YoY.

The strongest growth was noted in loans and advances to individuals (+148.5% YoY) which at the end of 2013 amounted to PLN 34,035.1m, increasing their contribution to the total loans and advances from 34% to 48%, the level close to that of loans and advances to enterprises & public sector entities. The growth reported under this line is primarily due to the consolidation of the mortgage loan portfolios of the merged banks. At the end of December 2013, the portfolio amounted to PLN 25,294.8m, increasing three-fold on 31 December 2012. The second major component, i.e. cash loans, increased to PLN 5,646.3m from PLN 4,196.4m at the end of 2012.

The loans and advances to business and public sector customers (PLN 36,885.1m) grew at a slower rate (+35.7% YoY) compared with the personal loans and advances as the former Kredyt Bank had a relatively low exposure to business customers. In 2013, Bank Zachodni WBK carried on its effective credit delivery via all its sales structures, including Branch Banking, Business & Corporate Banking and Global Banking & Markets. A particularly high growth was achieved in the last of these segments, which includes the largest clients of Bank Zachodni WBK.

**Credit Quality Ratios in 2012 and 2013**



As at 31 December 2013, non-performing (impaired) loans to customers accounted for 7.6% of the gross portfolio vs. 5.1% at the end of December 2012. The provision cover for the impaired loans was 54.0% compared with 53.6% twelve months before.

## Equity and Liabilities

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

Liabilities & Equity (condensed presentation for analytical purposes)	PLN m				
	31.12.2013	Structure 31.12.2013	31.12.2012	Structure 31.12.2012	Change YoY
	1	2	3 <sup>1)</sup>	4 <sup>1)</sup>	1/3
Deposits from customers	78 735,7	76,2%	47 162,2	79,7%	66,9%
Deposits from banks	6 278,8	6,1%	1 291,7	2,2%	386,1%
Financial liabilities held for trading and hedging derivatives	1 644,8	1,6%	1 051,1	1,7%	56,5%
Subordinated liabilities	1 384,7	1,3%	409,1	0,7%	238,5%
Debt securities in issue	500,7	0,5%	-	-	-
Other liabilities	1 237,9	1,2%	997,9	1,7%	24,1%
Total equity	13 584,4	13,1%	8 284,1	14,0%	64,0%
<b>Total</b>	<b>103 367,0</b>	<b>100,0%</b>	<b>59 196,1</b>	<b>100,0%</b>	<b>74,6%</b>

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

The liabilities as at 31 December 2013 show a major growth in deposits from banks (+386.1% YoY), an effect of the bank's increased activity in the money and repo markets. The subordinated liabilities (+238.5% YoY) were increased by the loans of the former Kredyt Bank received from KBC NV, Dublin Branch, with a book value of PLN 970.2m.

The new obligation in respect of debt securities of PLN 500.6m relates to the bonds of Bank Zachodni WBK issued on 19 December 2013 in a non-public offer. The bonds are 3-year, unsecured, bearer instruments with a nominal value of PLN 500m and a variable coupon. The purpose of the issue was to diversify the bank's funding sources.

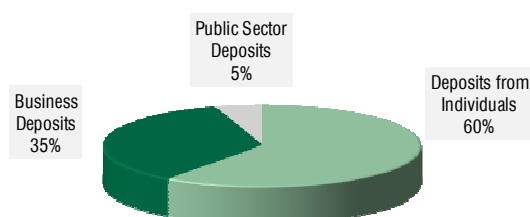
Total equity increased by 64% YoY mainly as a result of registering the capital increase of Bank Zachodni WBK following the issue of 18,907,458 J series shares, acquired by the shareholders of the former Kredyt Bank. The nominal value of the shares of PLN 189.1m increased the share capital, while the share premium of PLN 4,354.8m was recognised in the supplementary capital.

## Deposit Base

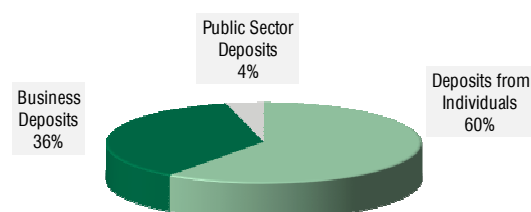
Deposits from Customers	PLN m		
	31.12.2013	31.12.2012 <sup>1)</sup>	Change YoY
Deposits from individuals	47 470,8	28 073,1	69,1%
Deposits from enterprises and public sector customers	31 264,9	19 089,1	63,8%
<b>Total</b>	<b>78 735,7</b>	<b>47 162,2</b>	<b>66,9%</b>

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

Structure of Customer Deposits as at 31.12.2013 r.



Structure of Customer Deposits as at 31.12.2012 r.



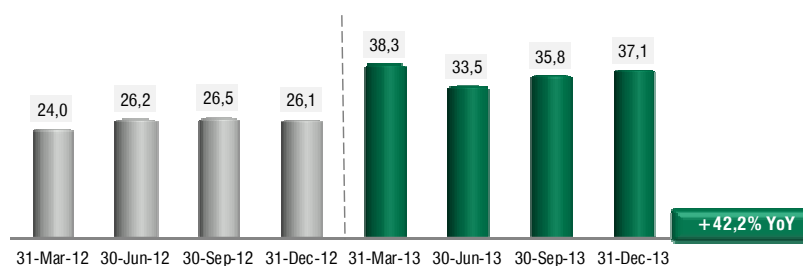
Deposits from customers, which represent 76.2% of the bank's liabilities, are the primary source of funding its lending business. Compared with the end of December 2012, their value increased by 66.9% to PLN 78,735.7m as at 31 December 2013.

Last year, deposits from individuals increased by 69.1% YoY to PLN 47,470.8m. The balances in savings accounts and in other current accounts saw the highest growth of 108% YoY in total. A slower growth (+39.8% YoY) was observed in term deposits as such products became less attractive in the context of the repeated reductions in the NBP interest rates and the developments in the financial markets that made customers more inclined to use alternative savings and investment products. To strengthen the stability of its deposit base, the bank took measures to attract long-term deposits by making price adjustments and implementing attractive medium and long-term deposit products. In effect, in the fourth quarter of 2013, the long-term deposit base grew by PLN 2.7bn.

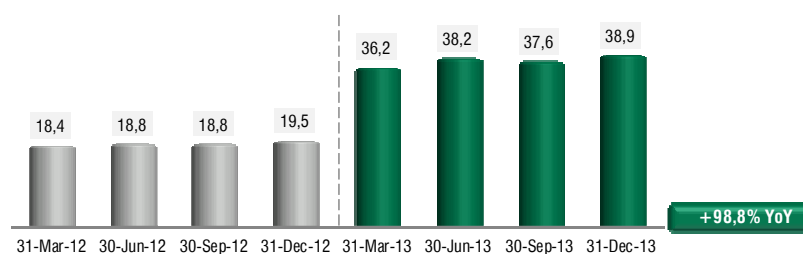
Deposits from enterprises & public sector customers increased by 63.8% YoY to PLN 31,264.9m, mainly as a result of current account balances (+83.5% YoY) and term deposits (+43.9% YoY). At the end of 2013, new money was mainly attracted from small and micro enterprises and the largest corporate customers.

In the total amount of deposits from customers, term deposits amounted to PLN 37,051.7m, up 42.2% YoY, current accounts were worth PLN 38,860.1m, up 98.8% YoY, and other liabilities increased by 80.6% YoY to PLN 2,823.9m. Other liabilities represent the credit facilities extended by the European Investment Bank to Bank Zachodni WBK and former Kredyt Bank for their lending activity.

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



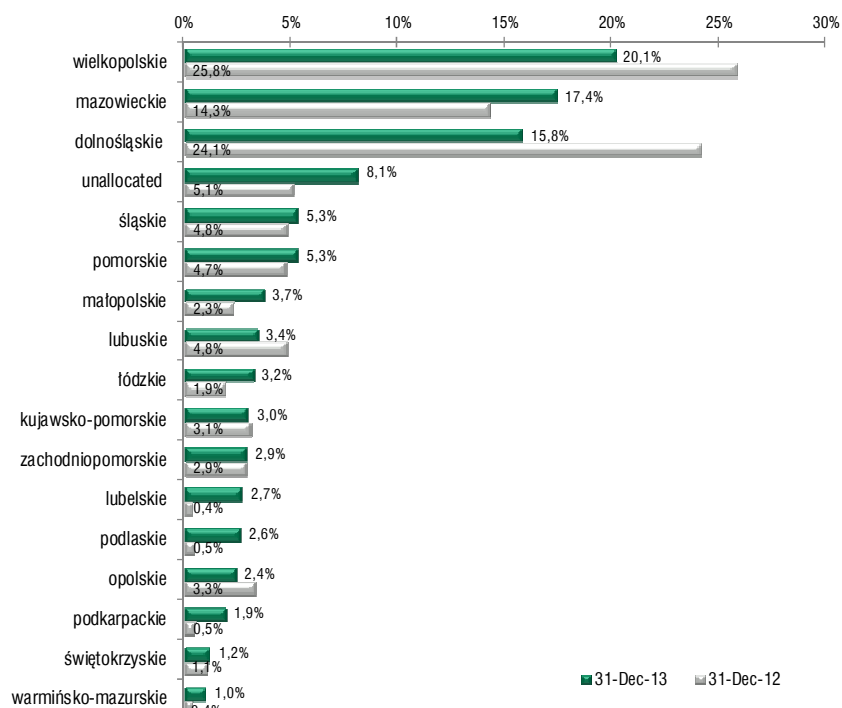
**Current Accounts\* at the End of Consecutive Quarters of 2012 and 2013 (PLN bn)**



\* includes savings accounts



## Geographical Structure of Customer Deposits as at 31.12.2013 and 31.12.2012



## 3. Selected Ratios

Selected Financial Ratios	2013	2012
Total costs/Total income <sup>1)</sup>	50,2%	43,2%
Net interest income/Total income	58,2%	55,7%
Net interest margin <sup>2)</sup>	3,3%	4,1%
Net commission income/Total income	29,1%	31,0%
Customer loans/Customer deposits	85,9%	83,7%
NPL ratio	7,6%	5,1%
NPL coverage ratio	54,0%	53,6%
Credit risk ratio <sup>3)</sup>	1,0%	1,2%
ROE <sup>4)</sup>	13,8%	21,7%
ROA <sup>5)</sup>	1,6%	2,3%
Capital adequacy ratio	15,2%	16,5%
Book value per share (in PLN)	145,2	111,0
Earnings per share (in PLN) <sup>6)</sup>	17,3	18,5

1) Excluding integration costs and the gain/loss on subordinated entities, the adjusted cost-to-income ratio was 45,3% for 2013 and 42,2% for 2012.

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

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

4) Net profit attributable to the shareholders of BZ WBK to average equity calculated based on total equity (as at the beginning and end of the reporting period), net of the current period profit. In calculations of ROE for 2013 "pro forma" equity has been used as at 31.12.2012.

Due to the change in the calculation methodology, effective from Q1 2013, ROE for 2012 differs from the previously announced rate of 21,4%.

Excluding the impact of one-offs, adjusted ROE as at 31.12.2013 and 31.12.2012 was 16% and 22,3%, respectively.

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

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

## 4. Additional Financial Information

### Selected Transactions with Related Entities

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

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

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

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

These intercompany items have been eliminated from the consolidated accounts.

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

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

### Selected Off-Balance Sheet Items

#### Commitments and Derivatives

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

	PLN m	
Guarantees and Commitments	31.12.2013	31.12.2012
<b>Financial commitments:</b>	<b>16 575,4</b>	<b>11 324,3</b>
- credit lines	14 211,7	10 118,5
- credit cards debits	1 875,8	1 109,4
- import letters of credit	441,5	96,4
- term deposits with future commencement term	46,4	-
<b>Guarantees</b>	<b>4 084,3</b>	<b>2 531,3</b>
<b>Total</b>	<b>20 659,7</b>	<b>13 855,6</b>

	PLN m	
Nominal Value of Derivatives	31.12.2013	31.12.2012
Derivatives - Forward (hedging)	29 792,1	14 675,6
Derivatives - Forward (trading)	128 448,0	69 681,7
Current FX transactions	2 076,9	1 890,0
Trading in equities	271,4	-
<b>Total</b>	<b>160 588,4</b>	<b>86 247,3</b>

## Description of Guarantees Issued

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

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

## Operating Lease

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

Lease payments by maturity	PLN m	
	31.12.2013	31.12.2012
less than 1 year	252,0	157,5
between 1 and 5 years	615,4	490,8
over 5 years	373,9	245,7
<b>Total</b>	<b>1 241,3</b>	<b>894,0</b>

## Writs of Execution and Value of Collateral

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

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

As at 31 December 2013, the value of collateral on borrowers' accounts, assets or leased objects across the bank amounted to PLN 56,714.6m compared with PLN 30,681.6m as at 31 December 2012.

## 5. Factors Which May Affect Financial Results in 2014

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

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

## X. Investor Relations

### 1. Investor Relations in Bank Zachodni WBK

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

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

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

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

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

Up-to-date information on the key developments regarding Bank Zachodni WBK is published on [www.inwestor.bzwbk.pl](http://www.inwestor.bzwbk.pl).

### 2. Share Capital, Ownership Structure and Share Price

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

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

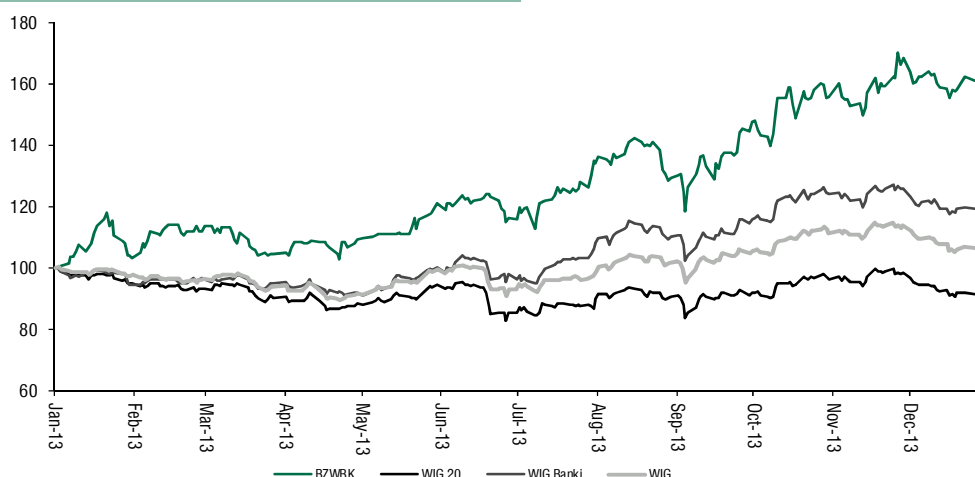
For more details on the share capital of Bank Zachodni WBK in 2013, please refer to the section "Changes in the structure of the share capital following the legal merger" in Chapter IV "Legal Merger and Integration Process".

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

#### Share Price of Bank Zachodni WBK vs. Indices

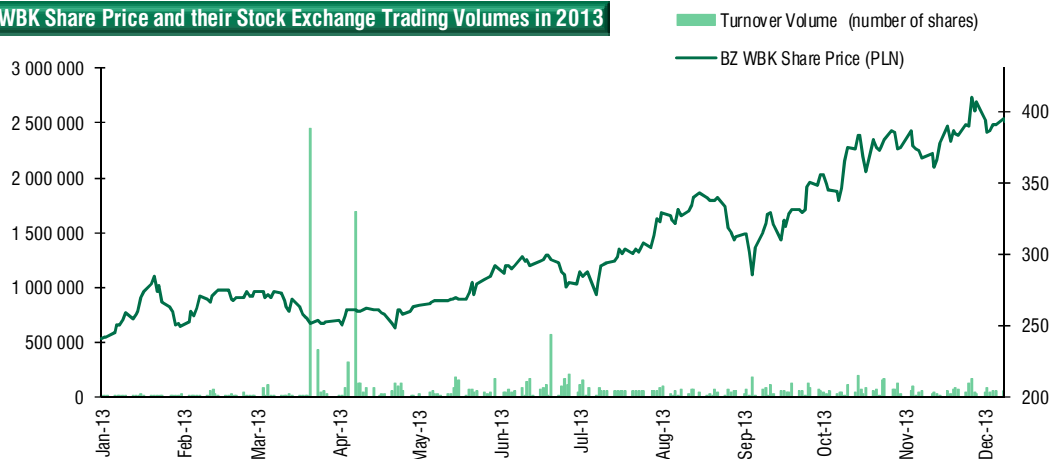
In 2013, the share price of Bank Zachodni WBK continued the upward trend observed in the previous years. The steady increase in the stock price (from PLN 241.9 as at 28 December 2012 to PLN 387.6 as at 30 December 2013) yielded impressive return of 60.2% p.a. for investors. Pursuant to GM resolution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

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



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

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



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

Key Data on BZ WBK Shares	2013	2012
Share price at the year-end (in PLN)	387,6	241,9
Maximum closing share price over the year (in PLN)	410,0	242,9
Date of maximum closing share price	27-11-2013	21-12-2012; 27-12-2012
Minimum closing share price over the year (in PLN)	241,0	221,0
Date of minimum closing share price	2-01-2013	17-01-2012
Price per earning ratio (P/E) at the year-end	22,5	13,2
Number of shares at the year-end (items)	93 545 089,0	74 637 631,0
Market capitalisation at the year-end (PLN m)	36 258,1	18 054,8
Average turnover over the year (PLN m)	25,9	0,3
Dividend per share (PLN m)	10,7	7,6

## Dividend per Share

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

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

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

## 3. Rating, Share Price and Market Position of Bank Zachodni WBK

### Bank Zachodni WBK Rating

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

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

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

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

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

BZ WBK's long term IDR is driven by the bank's intrinsic strength and is underpinned by the support available from its majority owner, Banco Santander (Santander, BBB+/Stable). The bank's Viability Rating (VR) reflects its strong franchise, stable performance, adequate liquidity and capitalisation and stable funding structure based on customer deposits. According to Fitch Ratings, the risks arising from the bank's exposure to commercial real estate and residential mortgages denominated in foreign currencies are adequately cushioned by the bank's capital position and healthy pre-impairment profitability. The planned acquisition of a 60% stake in Santander Consumer Bank (SCB) is expected to bring only minor changes in the bank's credit profile. Affirmation of the bank's "2" Support Rating reflects the agency's view that Banco Santander will have a high propensity to provide support to the merged entity if needed, given the strategic importance of the bank to Santander Group.

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

# XI. Risk Management

## 1. Risk Management Principles and Structure in Bank Zachodni WBK

### Risk Management Principles

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

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

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

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

### Risk Management Structure in Bank Zachodni WBK

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

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

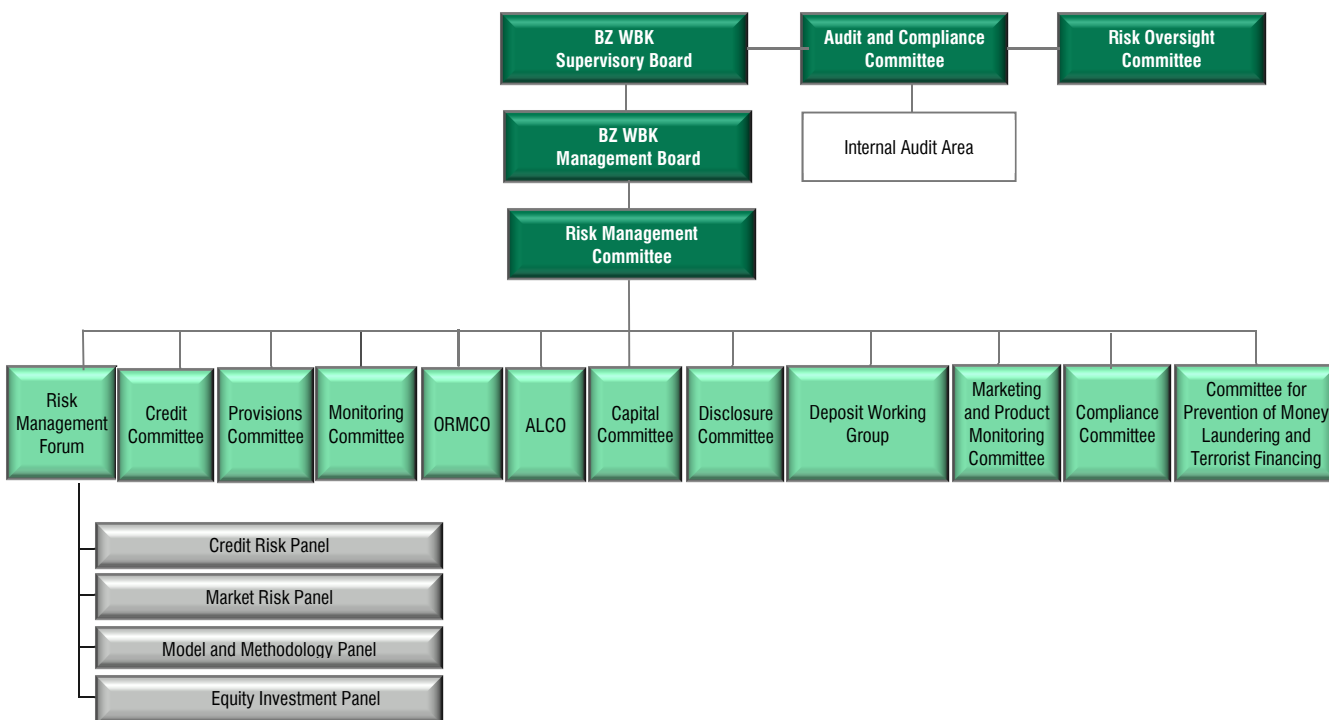
The Risk Management Committee supervises the activities of different risk management committees set up by the bank's Management Board. These committees, acting within the respective remits defined by the Management Board, are directly responsible for developing risk management methods and monitoring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

The RMC supervises the following risk committees:

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



Corporate Governance Structure for Risk Supervision and Management



## 2. Material Risk Factors in 2013

### Credit risk

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

### Market Risk (Including Liquidity Risk)

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

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

In 2013, as in 2012, the Bank focused on keeping its loan-to-deposit ratio (which totalled 85.9% as at 31 December 2013) at a comfortable level and controlling key short and long-term liquidity measures. In view of standardisation of the pricing policy upon the merger with Kredyt Bank and due to the record low interest rate environment, the Bank 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.

## Operational Risk

The key challenge regarding the 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, operational risk management standards and tools were harmonised to ensure the uniform process across the organisation.

## 3. Credit Risk Management

### Credit Risk

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

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

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

### Credit Policy

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

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

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

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

## Credit Decision Making Process

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

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

## Credit Grading

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

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

## Credit Reviews

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

## Collateral

The role of the Securities and Credit Documentation Centre is to ensure that security covers are duly established and held effective in line with the lending policy for all business segments. The unit is also responsible for developing standardised internal procedures with respect to collateral as well as ensuring that establishment, monitoring and release of security covers is duly effected. In addition, the Securities and Credit Documentation Centre provides assistance to credit units in credit decision making and development of credit policies with respect to collateral, gathers data on security covers and ensures adequate management information.

## Credit Risk Stress Testing

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

## Calculation of Impairment

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

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

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

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

		PLN m	
Loans and Advances to Customers by Impaired and Non-Impaired Loan Portfolios	31.12.2013	31.12.2012	
Individually impaired (gross amount)	3 237,2	1 066,2	
Allowance for impairment	(1 489,1)	(514,8)	
<b>Net amount (individually impaired)</b>	<b>1 748,1</b>	<b>551,4</b>	
Collectively impaired (gross amount)	2 170,2	1 026,6	
Allowance for impairment	(1 433,5)	(606,2)	
<b>Net amount (collectively impaired)</b>	<b>736,7</b>	<b>420,4</b>	
IBNR portfolio	65 352,0	38 712,6	
- non-past due	62 185,9	37 343,9	
- past due	3 166,1	1 368,7	
IBNR provisions	(433,0)	(324,4)	
<b>Net amount (non-impaired)</b>	<b>64 919,0</b>	<b>38 388,2</b>	
Other receivables	210,7	104,7	
<b>Total</b>	<b>67 614,5</b>	<b>39 464,7</b>	

## 4. Market Risk and Liquidity Risk Management

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

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

### Market Risk

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

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

ALCO – supported by the Financial Management Division – is responsible for managing market risk in the banking book, while the market risk in the trading book is managed by the bank's Global Banking & Markets Division.

#### Identification and Assessment of Market Risk

Interest rate and FX risks associated with the banking book are managed by the Financial Management Division. The Global Banking & Markets Division is responsible for managing the market risk on the trading book.

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

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

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

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

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

#### Sensitivity measures for 2013

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

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

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

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

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

Risk measures for Bank Zachodni WBK as at 31.12.2013

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

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

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

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

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

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

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

## Liquidity Risk

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

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

### Liquidity Risk Management

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

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

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

### Identification and Assessment of Liquidity Risk

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

Liquidity gap analysis as at 31.12.2012 and 31.12.2013

Liquidity Risk	PLN m			
	31.12.2013		31.12.2012	
	GAP	Cumulative GAP	GAP	Cumulative GAP
<1T	9 750,4	9 750,4	9 665,5	9 665,5
<1M	392,9	10 143,3	30,3	9 695,8
>1M	(10 143,3)	-	(9 695,8)	-

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

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

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

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

## 5. Operational Risk Management

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

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

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

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

The Operational Risk Management Committee (ORMCO) established by the Management Board is responsible for setting operational risk management standards for BZ WBK. ORMCO is the main forum for discussions on operational risk. It sets out the strategic direction for operational risk management, determines and monitors objectives for managing operational risk, including business continuity, information security, outsourcing / insourcing and money laundering risk in all business areas. The effects of this work are reported to the Risk Management Committee.

Bank Zachodni WBK manages operational risk using the following tools:

- **Identification and assessment of operational risk**

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

- **Reporting on operational incidents and lessons learned**

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

- **Analysis of risk indicators**

Bank Zachodni WBK 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 bank.

- **Business continuity management (BCM)**

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

- **Insurance**

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

- **Regular reporting to the Risk Management Committee and Supervisory Board**

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

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

## 6. Management of Other Risks

### 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 as a result of failure to comply with the applicable laws, regulatory recommendations, standards or codes of conduct applicable to its activities.

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

- Responsibilities of the Legal and Compliance Division relate to the “conduct of business” compliance obligations, including implementation of new products, protection of clients' rights, anti-money laundering, protection of sensitive information and protection of personal data.
- The identification, interpretation and communication roles relating to other legal and regulatory obligations have been assigned to functions with specialist knowledge in those areas. All issues regarding compliance with employment law are assigned to HR Management Division; compliance with taxation law and reporting requirements is the responsibility of Financial Accounting and Control Division, while compliance with prudential regulations is the responsibility of Risk Management Division.

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

- The Audit and Compliance Committee regularly reviews key compliance issues identified by the Compliance Area as part of monitoring of new products, regulatory activity, upcoming legislative initiatives and customers' complaints.
- The Risk Management Committee ensures execution of applicable regulations and approves principles of internal control and compliance policy framework. It also ensures independence and sufficient resources of the Compliance Area.

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

- independent identification, assessment and monitoring of compliance risk the bank 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 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 as well as staff of other controlling units acting on behalf of the Compliance Area (for branch network).



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

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

## Reputation Risk Management

Reputation risk is defined as the risk arising from negative perception of the bank by customers, counterparties, shareholders or investors.

The potential sources of the risk are internal and external operational incidents, such as adverse publicity, dissemination of negative feedback from customers, e.g. on the Internet, in social media and other mass media. The elements of the reputation risk include customer complaints and claims related to the process of offering banking products, including complaints about insufficient information about products and related risks, complexity of products, improper sales practices or loss of capital.

The owner of the reputation risk is the Corporate Communication and Marketing Area (CC&MA) and Compliance Area (CA).

The objective of the reputation risk management process is to protect the image of Bank Zachodni WBK and to limit and eliminate negative events which affect the image and financial results of the bank.

Key risk mitigation measures:

- Monitoring of local and nationwide media and some international mass media sources;
- Collection and analysis of image-sensitive information by the Press Office;
- Response to information which poses a threat to public perception of the bank's image;
- Customer satisfaction index;
- Preparation and control by relevant Bank Zachodni WBK units of all important communiqués and reports for the shareholders, the Polish Financial Supervision Authority (KNF) and the Warsaw Stock Exchange; and timely publication of such communiqués and reports;
- Giving opinion on new products, procedures, commercial materials, processes and other bank initiatives in respect of their compliance with the regulations and the regulators' guidelines;
- Participation in the process of handling customer complaints, especially those addressed to the regulators;
- Supervision of the after-sales control of investment products;
- Mystery shopping surveys for investment products.

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

## 7. Capital Management

### Introduction

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

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

The Management Board delegated on-going capital management to Credit Committee. Capital Committee conducts regular assessment of capital adequacy of the Bank, 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. It also approves capital plans and sets out rules underpinning allocation of capital into individual segments when estimating profitability of the same. However, any ultimate decisions regarding the increase or decrease of capital are taken by relevant authorities of the bank in accordance with the applicable law and the Bank's Statutes.

## Capital Policy

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

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%.

The regulatory solvency ratio is 8%.

## Regulatory Capital

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

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

The tables below show capital requirement for the bank as of 31 December 2013 and 31 December 2012.

		PLN m	
		31.12.2013	31.12.2012
<b>I</b>	<b>Total Capital requirement (Ia+Ib+Ic+Id), of which:</b>	<b>6 096,9</b>	<b>3 649,9</b>
Ia	- due to credit risk	5 282,8	3 133,5
Ib	- due to market risk	47,8	14,2
Ic	- due to settlement / counterparty risk	66,6	42,5
Id	- due to operational risk	699,7	459,7
II	Total own funds	13 904,5	7 899,5
III	Reductions	2 308,0	378,2
<b>IV</b>	<b>Own funds after reductions (II-III)</b>	<b>11 596,5</b>	<b>7 521,3</b>
<b>V</b>	<b>CAD [IV/(I*12.5)]</b>	<b>15,22%</b>	<b>16,49%</b>

## Internal Capital

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

Under the ICAAP process, the bank estimates the required level of internal capital to ensure secure conduct of its banking business in accordance with the bank's risk appetite statement.

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

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

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

Bank Zachodni WBK 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 bank's business and to take account of any new risks and the management judgement.

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

## **Subordinated Liabilities**

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

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

## XII. Statement on Corporate Governance in 2013

### 1. Introduction

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

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

### 2. Code of Best Practice

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

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

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

### 3. Management Board's Statement on Corporate Governance

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

### 4. Equity Securities Issued by the Bank

#### Ownership Structure of Share Capital

Shareholder	Number of Shares Held		% in the Share Capital & Voting Power at AGM	
	31.12.2013	31.12.2012	31.12.2013	31.12.2012
Banco Santander S.A.	65 481 563	70 334 512	70,0%	94,2%
Others	28 063 526	4 303 119	30,0%	5,8%
<b>Total</b>	<b>93 545 089</b>	<b>74 637 631</b>	<b>100,0%</b>	<b>100,0%</b>

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

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

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

## Rights and Restrictions Attaching to the Issuer's Securities

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

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

The structure of share capital of Bank Zachodni WBK in 2012 and 2013.

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

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

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

## 5. Governing Bodies

### General Meetings of Shareholders

#### Extraordinary General Meetings

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

#### Annual General Meetings

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

#### Organisation and Powers of the General Meeting of Shareholders

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

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

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

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

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

#### Shareholders' Rights and their Execution

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

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

- Each shareholder may request that the list of shareholders be e-mailed free-of-charge to the indicated address. Each shareholder may have access to the list of shareholders in the bank's MB office and request a copy of the list at their expense.
- Shareholders may:
  - ✓ a week before the GM, demand copies of requests included in the GM agenda;
  - ✓ have access to minutes of the GM and request copies of resolutions confirmed by the bank's Management Board as true copies;
  - ✓ request voting by secret ballot;
  - ✓ appeal against resolutions made by the GM in cases permitted in the Commercial Companies Code;
  - ✓ seek information from the Management Board on issues on the GM agenda, as provided for by the Commercial Companies Code;
  - ✓ exercise their voting rights (each share gives one vote at the GM).
- Shareholders may attend the GM and vote personally or through proxies. In line with the Terms of Reference, shareholders may also participate in the GM via electronic communication channels.

## Method of Changing the Statutes

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

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

- Modification of the independence criteria of Supervisory Board members (§ 25 section 2 of the Statutes), which took effect on 3 June 2013.
- Expansion of the bank's objects to include brokerage activities (§ 7 section 2, item 7b of the Statutes) – this change has not become effective due to the lack of the respective KNF's decision.

## Supervisory Board

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

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

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

- On 13 February 2013, the Extraordinary General Meeting of Shareholders of Bank Zachodni WBK appointed two new Supervisory Board members proposed by the shareholders of the European Bank for Reconstruction and Development and KBC Bank NV: Mr David R. Hexter and Mr Guy Libot.
- As KBC Bank NV disposed of all its shareholdings in Bank Zachodni WBK of 2 April 2013, Mr Guy Libot resigned from the Supervisory Board effective from 2 April 2013.

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

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

## Role of the Supervisory Board

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

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

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

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

### Supervisory Board Committees

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

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

Composition of Supervisory Board Committees as at 31.12.2013

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

● Chairman  
● Members

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

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

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

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



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

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

## Management Board

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

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

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

### Appointment and Removal of Executives

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

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

### Powers of Executives

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

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

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

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

### **Role of the Management Board**

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

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

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

## **Other Information on the Management and Supervisory Boards**

### **Remuneration of the Supervisory and Management Board Members**

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

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

Information on the remuneration of the BZ WBK Supervisory and Management Board members for 2013 and the comparable period is presented in Note 45 to the Financial Statements of Bank Zachodni WBK for 2013.

### **Agreements between Bank Zachodni WBK and its Executive Directors**

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

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

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

Under the 1st BZ WBK Performance Share Programme launched in 2006, members of the Management Board were allocated 23,084 out of 115,729 H series shares issued as part of the conditional increase in the share capital. Under the 2nd and 3rd Incentive Scheme, which expired in 2010 and 2011, respectively, no rights were exercised. The Management Board members have conditional rights to acquire shares under the 4th Incentive Scheme. The table below shows the number of the BZ WBK shares and the share entitlements held by the Management Board members as at 31 December 2013 and 31 December 2012.

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

## 6. Control System of Financial Statements

### Internal Control System and Risk Management

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

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

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

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

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

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

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

Data inputs in the source systems are subject to formal operational and approval procedures which state responsibilities of individual staff members. Data processing for the purpose of financial reporting is subject to a suite of specialist controls. Any manual corrections or management overrides are under strict control as well. BZ WBK has a BCM plan in place, which covers all IT systems used to prepare financial reports. The plan is updated on an ongoing basis.

The bank follows legal and regulatory changes related to reporting and updates its accounting rules and disclosures accordingly.

The financial statements are approved by the Disclosure Committee, which is responsible for ensuring that the financial disclosures of Bank Zachodni WBK comply with the legal and regulatory requirements.

The bank's management confirms that the controls in place effectively mitigate the risk of failure to identify material errors in the financial statements.

The effectiveness of controls in financial reporting is additionally assessed by an independent external auditor as part of the annual certification process for compliance with Sarbanes-Oxley Act.

## Internal Control Compliant with the Sarbanes-Oxley Act

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

As agreed with the Internal Control Department of Santander Group and the External Auditor, the certification process for compliance with Sarbanes-Oxley Act in 2013 covered all key business areas of Bank Zachodni WBK and was carried out using solutions and methodology based on the Santander Group's approach. The scope of testing included risk factors which were particularly significant for the reliability and accuracy of financial statements, taking into account the local control environment, including that of former Kredyt Bank S.A. The design and effectiveness of controls was tested by a dedicated second line unit. The effectiveness tests covered processes and key controls in the business and IT areas as well as entity level controls (Global Framework). A particular challenge for the assessment of control environment in 2013 was the integration of the two banks in term of organisation, processes and personnel. The assessment did not show any negative impact of the integration on the effectiveness of the bank's internal control system.

Results of the assessments and tests are the basis for the bank's management to make representations on the effectiveness of the control environment.

As part of the SOX certification process for 2013, the bank's management confirmed that no incidents were identified in Bank Zachodni WBK which could significantly affect the relevant processes and threaten the effectiveness of the internal control of financial reporting.

## Selection of Auditor

In accordance with § 32 (10) of the Statutes of Bank Zachodni WBK, applicable regulations and industry practice, on 12 June 2013 the bank's Supervisory Board passed a resolution appointing Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) as an entity to review and audit the bank's stand-alone and consolidated financial statements for H1 2013 and the entire year 2013. The bank also contracted Deloitte Polska and other companies from Deloitte Group for consulting and tax advisory services. In the bank's view, the above advisory services do not affect impartiality and independence of the auditor.

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

## Remuneration of Auditor

The table below shows the remuneration paid to Deloitte Polska Spółka z ograniczoną odpowiedzialnością Sp. k. (formerly: Deloitte Audyt Sp. z o.o.) for audit/review of the financial statements of Bank Zachodni WBK pursuant to agreements concluded in 2012 and 2013.

Remuneration of External Auditors	PLN k	
	Reporting Year ended on 31.12.2013	Reporting Year ended on 31.12.2012
Audit fees in respect of the parent bank <sup>1)</sup>	2 620	927
Audit fees related to assurance services, including the review of the parent bank <sup>2)</sup>	810	1 510
Fees for non-assurance services <sup>3)</sup>	2 914	1 675

- 1) Remuneration for the services performed in 2013 based on the agreement on 13 June 2013 on the audit of: 1) interim condensed unconsolidated financial statements for 6 months; 2) unconsolidated and consolidated financial statements for 12 months; 3) consolidation package for 6 and 12 months. Remuneration for the services rendered in 2012 based on the agreement for the audit of: 1) consolidation package for 6 months of 10 May 2012; 2) unconsolidated and consolidated financial statements for 12 months of 12 October 2012.
- 2) The fee for 2013 contains the remuneration payable for the audit of the internal control system (in particular for SOX purposes) under Annex 1 to the agreement on the audit of the consolidation package. The fee for 2012 contains the remuneration for: 1) agreement on the limited review of the unconsolidated and consolidated financial statements of 10 May 2012; 2) agreement on the limited review of the interim consolidated financial statements for 9 months of 5 November 2012, and 3) review of the disclosure arising from IFRS 3 based on the agreement of 22 January 2012 and 4) review of the internal audit system (in particular for SOX purposes) under Annex 1 to the agreement of 12 October 2012.
- 3) The table includes an additional line "Remuneration for non-assurance services", starting from the 2013 financial statements. The fee for 2013 includes, e.g. the agreement on support with the intended acquisition. The fee for 2012 relates to IPO support services.

## 7. Pending Court Proceedings

As at 31 December 2013, no case were pending before any court or state administration agencies with relation to any claims made by or against the bank amounting to a minimum of 10% of the bank's equity.

Court Proceedings with BZ WBK as a Party	PLN m	
	31.12.2013	31.12.2012
Amounts claimed by the Bank	66,5	36,1
Claims against the Bank	197,8	78,0
Receivables due to bankruptcy or arrangement cases	42,2	0,1
<b>Value of all litigation</b>	<b>306,5</b>	<b>114,2</b>
<b>Share [%] of all litigation in equity</b>	<b>2,3%</b>	<b>1,4%</b>
Completed significant court proceedings	64,9	78,0

## XIII. Representations of the Management Board

### True and Fair Presentation of the Financial Statements

According to the Management Board's best knowledge, the financial figures and the comparable data presented in the financial statements incorporated in "Annual Report 2013 of Bank Zachodni WBK" were prepared in keeping with the applicable accounting policies and give a true and fair view of the state of affairs and earnings of Bank Zachodni WBK. The Management Board's Report contained in this document shows a true picture of the development, achievements and position of Bank Zachodni WBK (including the underlying risks) in 2013.

### Selection of Auditor

The auditing firm responsible for auditing "Financial Statements of Bank Zachodni WBK for 2013" was selected in compliance with the applicable legislation. The auditing firm and its auditors satisfied the necessary conditions to ensure they provide an unbiased and independent report compliant with Polish law and professional standards.

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